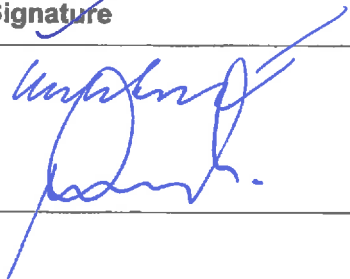


TAMEH Czech s.r.o.

Annual Report 2016

Statutory Body	Signature
Kristina Červenková – Statutory Executive Manfred Wawrzynosek – Statutory Executive	

Introductory Word by the Chief Executive Officer

Ladies and Gentlemen, Dear Representatives of the Company's Owner.

On behalf of the management of TAMEH Czech s.r.o., let me briefly assess the year 2016. The ownership structure of the TAMEH holding is represented by the TAURON group in 50% and by the ArcelorMittal group in 50%. The TAMEH holding represents the use of the synergistic effect of these two strong energy groups, which allows further development, improvement and exchange of experience.

TAMEH Czech s.r.o. continues to fulfil its main strategic goals, particularly in the area of investments in cooperation with its fellow subsidiary TAMEH Polska s.p. z o.o.

The most important area to which the Company continuously and fully pays attention is undoubtedly safety – both of the Company's employees and of its external suppliers. Using effective prevention instruments along with proactive approach of all of the Company's employees, we achieved significant success – as of 31 December 2016, the Company recorded 3,228 days without any work-related injury followed by absence. We want to continue in this trend going forward. In May 2016, we successfully defended the "Safe Enterprise" award granted by the Ministry of Labour and Social Affairs

In October 2016, the Company successfully passed the re-certification audit under EN ISO 9001, EN ISO 14001 and BS OHSAS 18001. In addition, the Company passed the energy management audit under ČSN EN ISO 50001.

We incorporated Regulation No. 1227/2011 of the European Parliament and of the Council on wholesale energy market integrity and transparency (REMIT) into the life of the Company.

In the area of power generation, the Company slightly fell behind the planned volume of generated electric power and achieved the fulfilment level of 97.3%; however, we have to emphasise the fact that energy generation was controlled in cooperation with ArcelorMittal Ostrava a.s. according to the current situation in order to meet the expected goals in line with the business plan. Furthermore, it needs to be said that we fully covered the demand of the customer with all the other generated power products, and in particular the production of compressed air and blast air exceeded expectations.

In terms of investments, the construction of the pulverised coal-fired boiler K14 took place according to plan. The boiler was put into use in August 2016. The second most cost-intensive project – DENOX – was not successfully completed by the supplier within the replacement deadline. For this reason, the Company withdrew from the contract in May 2016. Subsequently, we started working on selecting a new supplier and finishing the project. The DESOX project – low-temperature desulphurisation – was tested in operation in late 2016. However, the test showed technical problems. After they are eliminated, new operating tests are expected to take place in the first quarter of 2017.

Let me thank the representatives of the Company owner for their trust and support and the Company staff for their hard work. In 2017, we will face rather difficult tasks, especially compliance with the limits set out in the business plan, securing efficient power supplies for our customer, and completing investment projects in progress.

Petr Baranek
Chief Executive Officer
TAMEH Czech s.r.o.




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I. Basic Information on the Company

Company Profile

Business Name of the Company: TAMEH Czech s.r.o.

Registered Office of the Company: Ostrava-Kunčice, Vratimovská Street # 689/117,
Zip Code 719 00

Legal Form of the Company: Limited Liability Company

Company ID #: 28615425

Company TAX-ID #: CZ28615425

Core Business Activities of the Company:

- Production, sales and services not specified in Annexes 1 through 3 of the Trades Licensing Act
- Power generation and power distribution
- Heat energy generation

Company incorporation in the Company Register: by the Regional Court of Ostrava, File #: C.34833

Date of Company Establishment: 15 February 2010

The Sole Owner of the Company: TAMEH HOLDING Sp. Z o. o.
Al. Marszałka Józefa Piłsudskiego 92/102A
41-308 Dąbrowa Górnicza
Republic of Poland
Reg. No.: 0000517887

The Company has no organisational branch abroad.

TAMEH Czech s.r.o. (former ArcelorMittal Energy Ostrava s.r.o.) was established after its incorporation in the Company Register of the Regional Court of Ostrava on 15 February 2010 after the payment of the registered capital amounting to CZK 200 thousand.

On 29 March 2010, (under a resolution adopted by the sole Company Member in AMEO and under consent granting by the General Meeting of the Company dated 18 March 2010), the "Contract of the Transfer of one Part of the Company for the Purpose of Monetary Contribution to Registered Capital" came into force and effect, i.e. the Contract made under provisions of S. 59 (5) and under S. 60 (2) in relation to S. 476 et. seq. of Act No. 513/1991 Coll., the Czech Commercial Code, as amended between ArcelorMittal Ostrava a. s. (the Contributor) and ArcelorMittal Energy Ostrava s.r.o. (the Company). The amount of one part of the Company as a non-monetary contribution to the Company was offset for the increase in the Contributor's contribution to the register capital of the Company in the amount of CZK 3,572,000 thousand.

Under a resolution adopted by the Board of Directors of the sole Company Member within the scope of powers of the General Meeting of the Company (ArcelorMittal Energy Ostrava s.r.o.) as of 18 July 2014, the registered capital of the Company was decreased with effect from 24 November 2014. Thus, the registered capital of the Company currently amounts to CZK 2,572,200 thousand.

On 7 August 2014, the Board of Directors of the Parent Company approved the draft of the Agreement of the Company Members on the Establishment of a joint-venture including accession of the Parent Company to a joint-venture along with the strategic partner of the companies Tauron Energia Polska S.A. including a 100% monetary contribution in ArcelorMittal Energy Ostrava s.r.o. to a joint-venture – Polish holding company.

Subsequently, on 28 November 2014, the Board of Directors of the Parent Company as the sole Company Member in ArcelorMittal Energy Ostrava s.r.o. exercising the powers of the General Meeting approved the Amendments to the Founder's Deed under which - among others - the business name of the Company was changed to TAMEH Czech s.r.o.

With effect from 11 December 2014, TAMEH Holding Sp.z o.o has been the sole member of the Company.

Membership of the Statutory Body as of 31 December 2016:

“A” Company Executives

Kristina Červenková
Rafał Zawada

“B” Company Executives

Manfred Wawrzynosek
Tomasz Bożek

Brief Characteristics the Company

TAMEH Czech s.r.o. represents a complex and extensive power generation entity of the industrial power industry being specifically focused on the needs of the steel company. With its performance, in the heat energy branch and the local H.V. distribution system operation, it is fully comparable to single-purpose power generation entities operating on the power market in the Czech Republic.

Power media are supplied from TAMEH Czech s.r.o. to ArcelorMittal Ostrava a. s. Power media are supplied in an extensive range of supplied quantity, particularly we are speaking about blast air and compressed air, electric power, heat, technology steam and chemically-treated water.

Plant 46 – Generation Plant generates high-pressure steam of 9.6 MPa and temperature of 520°C being transformed to electric power, heat, compressed air, blast air and technology steam. The Plant also includes electric power distribution, electro-technical equipment repairs and checks and maintaining and servicing of electric protection for H.V. system.

Plant 49 – Maintaining/Service performs usual and medium-scope repairs of power equipment being of an engineering character, and it participates in major overhauls of basic technology units of the Company. It organises maintaining and servicing L.V. power distribution, checks of electro-technical equipment and I&C equipment.

Core Products

TAMEH Czech s.r.o. generates high-pressure steam of 9.6 MPa and temperature of 520°C in 12 boilers (3 gas boilers, 8 granulated fuel boilers and 1 pulverised coal-fired boiler which is still in trial operation); steam is transformed to electric power, heat, compressed air, blast air and technology steam. Total generating steam capacity of Boiler Plant is 1,435 t/hr.; generating capacity of Power Plant is 254 MW. Further, the Company organises heat generation for the needs of the premises of ArcelorMittal Ostrava a. s. and out of them. Input raw material for heating plant boilers is bituminous coal and blast-furnace gas produced by coke and hot metal production. Other input raw material is de-gazation gas supplied by an outside Supplier. Gaseous fuels (coke gas and blast-furnace gas) are taken-off into the distribution network of the Company directly from sources, i.e. from Plant 10 – Coke-oven Plant and Plant 12 - Blast Furnaces of ArcelorMittal Ostrava a. s.

II. Report of the Statutory Body on the Business Activities and Assets of TAMEH Czech s.r.o.

Activities of the Statutory Body

In 2016, the meetings of the Statutory Body of the Company were held nineteen times. The Statutory Body voted eleven times *per-rollam*.

During 2016, the composition of the statutory body changed – on 12 July 2016, the General Meeting appointed Mr Tomasz Bożek statutory executive, replacing Mr Andrzej Curył.

Minutes were taken of all meetings; they are kept and filed at the CEO's Secretariat.

Results of Operations

In the year 31 December 2016, the Company generated profit before tax in the amount of CZK 276,988 thousand. Total results of operations of the Company for the reporting period represented a profit in the amount of CZK 202,983 thousand.

In the reporting period, the Company generated operating profit amounting to CZK 302,267 thousand and incurred a financial loss amounting to CZK (25,279) thousand.

Total sales of own products and services in the reporting period amounted to CZK 2,237,942 thousand; added value amounted to CZK 828,506 thousand.

As of 31 December 2016, the Company reported total net assets amounting to CZK 5,976,475 thousand as per the financial statements. Fixed assets amount to CZK 4,634,137 thousand, of which tangible fixed assets amount to CZK 4,634,137 thousand.

Liabilities amounted to CZK 5,976,475 thousand. Equity amounted to CZK 3,011,092 thousand.

As of 31 December 2016, the Company recorded a bank loan with Raiffeisenbank a. s.

Production and Sales

In 2016, the Company generated 1,011,447 MWh of electric power and 15,191,492 GJ of steam, 2,332,695,000 cubic meters of blast air and 766,240,721 cubic meters of compressed air.

Most of the generated power is supplied to ArcelorMittal Ostrava a. s.

Environmental Protection

On 27 September 2016, the Czech Environmental Inspection Authority, specifically the Regional Inspectorate in Ostrava, performed a review of the state of operations of stationary combustion sources of air pollution with heating power input of 50 MW and more, which are located in Plant 4 – Energy of the Company; additionally, the review was focused on compliance with the effective integrated permit in terms of air protection, the operation rules, evidencing the emission limits compliance, compliance with emission caps and keeping records on operations.

Conclusion:

In line with the review scope covering the devices in question, the Czech Environmental Inspection Authority did not consider the facts identified to be a violation of Act No. 76/2002 Coll., on Integrated Pollution Prevention, as amended, or Act No. 201/2012 Coll., on Air Protection, as amended.

Capital Investments & Repairs

In the year ended 31 December 2016, the Company's performed the construction of the pulverised coal-fired boiler K14 in accordance with the plan. The boiler was put into use by TAMEH Czech in August 2016.

The second most cost-intensive project, "Elimination of Nitrogen Oxide Emissions" was not successfully completed by the supplier within the replacement deadline. For this reason, the Company withdrew from the contract in May 2016. Subsequently, the Company started working on selecting a new supplier and finishing the project.

The "DESOx – low-temperature desulphurisation" project was tested in operation in late 2016. However, the test showed technical problems. After they are eliminated, new operating tests are expected to take place in the first quarter of 2017.

Minor investments were made in 2016 in the planned financial volumes and in line with the set deadline.

In terms of repair activities, a medium-extent repair of the gas boiler K4 and a repair of the transformer T3 were performed in 2016. A medium-extent repair of turbo-compressor TK 56 no. 2 was initiated and will be completed in March 2017; a medium-extent repair of the distribution point 6kV HRJ Section III was initiated and is due for completion in April 2017. The performance of the above repairs is necessary in order to meet the requirements for the production of electricity and the supply of other media to the individual plants of ArcelorMittal Ostrava a.s.

As part of regular repairs, the 220m smokestack of the heating plant was repaired, including the elimination of safety defects in the reinforced concrete smokestack stands and repair of the safely lighting. In order to ensure compliance with emission limits and the possibility of burning blast furnace gas, repairs of fabric filters of the K3, K5 and K6 boilers were performed, including a complete replacement of filtration pipes.

Research and Development

The Company spends no costs on R&D.

Quality Control

The most important area to which the Company continuously and fully pays attention is undoubtedly safety – both of the Company's employees and of its external suppliers. Using effective prevention instruments along with the proactive approach of all of the Company's employees, we achieved significant success – as of 31 December 2016, the Company recorded 3,228 days without any work-related injury followed by absence. We want to continue in this trend going forward. In May 2016, we successfully defended the "Safe Enterprise" award of the Ministry of Labour and Social Affairs.

In October 2016, the Company successfully passed the re-certification audit under EN ISO 9001, EN ISO 14001 and BS OHSAS 18001. In addition, the Company passed the energy management audit under ČSN EN ISO 50001.

We incorporated Regulation (EU) No 1227/2011 of the European Parliament and of the Council on wholesale energy market integrity and transparency (REMIT) into the life of the Company.

HR Policy

With effect from 1 April 2016, Amendments 1/2016 and 2/2016 to the Collective Agreement for the years 2013-2015 were concluded based on collective negotiations. As of 31 December 2016, the headcount of TAMEH Czech s.r.o. was 348, of which 76 were white-collar employees and 272 were blue-collar employees. The average re-calculated (adjusted) headcount was 348 in 2016.

In 2016, average earnings amounted to CZK 35,293 (in 2015: CZK 34,314), which represents a year-on-year increase of 2.8 %.

Like in the preceding year, in 2016 the educational programme was primarily focused on meeting and increasing the qualifications of employees. The language courses continued in 2016 as well.

In terms of work safety protection, the Company also achieved a success – as of 31 December 2016, a total of 3,228 days without a lost time injury were recorded.

Anticipated Development of the Company

The strategy and principal objective of TAMEH Czech s.r.o. is to efficiently generate safe and environmentally-friendly power using advanced technologies, to secure energy supplies to the Company's customer and to implement the investment projects in progress.

Subsequent Events

No material events occurred subsequent to the balance sheet date.

III. Report on Relations between the Controlling and the Controlled Entity and on Relations between the Controlled Entity and Other Entities Controlled by the Same Controlling Entity under Section 82 of Business Corporations Act No. 90/2012 Coll. for the Year Ended 31 December 2016

Under the provisions of Section 82 of Business Corporations Act No. 90/2012 Coll., the Company prepared the Report on Relations between **ARCELORMITTAL SA**, having the Registered Office at 24-26 Boulevard d'Avranches, L-1160 Luxembourg, the Grand Duchy of Luxembourg (hereinafter referred to as the "Controlling Entity") as the Controlling Entity, and **TAURON Polska Energia S.A.**, having the Registered Office at Ks. Piotra Sciegiennego 3, Katowice, 40 114, Poland, as the Controlling Entity from 11 December 2014, and TAMEH Czech s.r.o., having the Registered Office in Ostrava - Kunčice, Vratimovská Street # 689/117, Zip Code 719 00 (hereinafter referred to as the "Controlled Entity") as the Controlled Entity, and on Relations between the Controlled Entity and Other Entities Controlled by the Same Controlling Entity for the Year Ended 31 December 2016.

TAMEH Holding Sp. z o. o. has been the sole Company Member with effect from 11 December 2014.

In the aforesaid Report, the Company disclosed transactions effected with its related entities included in the ArcelorMittal Group and the TAURON Group in the year ended 31 December 2016.

No Controlling Agreements were made between the Controlling Entity and the Controlled Entity.

For the Company, no disadvantages or risks arise out of the relation with the Controlling Entity and out of the relations with the Entities controlled by the same Controlling Entity. The Agreements made with the Controlling Entity and Entities controlled by the same Controlling Entity respect the terms and conditions of usual business relations, while the Parties deem those Agreements to be bilaterally advantageous.

The role of the Company within the group consists primarily of providing the supply of power media to ArcelorMittal Ostrava a.s.

The Controlling Entity as the sole owner acts in the capacity of the Company's General Meeting.

Based on the efforts made, the Statutory Bodies of the Controlled Entities declare that the list of related entities below, with which the Controlled Entity provided supplies and counter-supplies in the year ended 31 December 2016, shows all entities known to TAMEH Czech s.r.o. as of today's date.

I. Supplies and Counter-supplies Based on the Contracts and Agreements Concluded

The below-listed supplies and counter-supplies were made under Contracts between the Controlled Entity and the Controlling Entity and other Entities controlled by the same Controlling Entity, in the year from 1 January 2016 to 31 December 2016:

ArcelorMittal Ostrava a.s.

In the year from 1 January 2016 to 31 December 2016, TAMEH Czech s.r.o. (formerly ArcelorMittal Energy Ostrava s.r.o.) implemented the following purchases from ArcelorMittal Ostrava a.s. (hereinafter also referred to as "AMO"): inventory in the amount of CZK 30,043 thousand, services in the amount of CZK 296,727 thousand and investments in the amount of CZK (1,050) thousand. Moreover, the sales to ArcelorMittal Ostrava a.s. amounted to CZK 2,200,224 thousand.

The aforesaid relationships were based on the following contracts and agreements:

1. General Cooperation Contract
2. Heat Energy Supplies Contract
3. Raw Materials Supplies and Take-off Contract (from AMO to TAMEH)
4. Raw Materials Supplies and Take-off Contract (from TAMEH to AMO)
5. Power Electricity Supplies Contract
6. Connection Contract
7. Service Agreement
8. Distribution Network Maintenance Contract

ArcelorMittal Engineering Products Ostrava s.r.o.

In 2016, the sales to ArcelorMittal Engineering Products Ostrava s.r.o. amounted to CZK 121 thousand. The purchases from this company included inventory in the amount of CZK 63 thousand and services in the amount of CZK 2,942 thousand in 2016.

ArcelorMittal Poland S.A.

In 2016, the sales to ArcelorMittal Poland S.A. were as follows: inventory in the amount of CZK 191 thousand.

ArcelorMittal Tubular Products Karviná a.s.

In 2016, the sales to ArcelorMittal Tubular Products Karviná a.s. amounted to CZK 7 thousand.

ArcelorMittal Design and Engineering Centre, Ltd.

In 2016, the investments purchased from this entity amounted to CZK (512) thousand (release of an estimated payable).

ArcelorMittal Engineering and Consulting Ostrava s.r.o.

In 2016, the services purchased from this entity amounted to CZK 587 thousand.

ArcelorMittal Shared Service Center Europe Sp. z o.o. Sp k.

In 2016, the services purchased from this entity amounted to CZK 1,470 thousand.

TAMEH Czech s.r.o.
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ArcelorMittal Europe S.A.

In 2016, the services purchased from this entity amounted to CZK 668 thousand.

TAMEH Polska Sp. z o.o.

The services purchased from this entity in 2016 amounted to CZK 202 thousand.

IV. Other Legal Acts and Other Measures

On 22 March 2016 – approval of the financial statements for the year ended 31 December 2015 and allocation of profit.

Based on the decision of the Board of Directors of the sole owner acting as the general Meeting of the Company, the profit for 2015 was allocated on 22 March 2016. As a share in profit, the sole owner was paid CZK 55,445 thousand from the profit for the 2015 reporting period.

The Company performed no other legal acts and adopted no other measures in the interest or at the initiative of the Controlling Entity, or in the interest or at the initiative of other entities controlled by the same Controlling Entity.

The Company suffered no detriment arising from the performance and counter-performance based on the concluded contracts and agreements.

In Ostrava



Statutory Body of
TAMEH Czech s.r.o.

The Report was discussed and approved at the meeting of the Statutory Body of TAMEH Czech s.r.o.

V. Financial Statements for 2016

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Name of the Company: TAMEH Czech s.r.o.
Registered Office: Vratimovská 689/117, 719 00 Ostrava - Kunčice
Legal Status: Limited Liability Company
Corporate ID: 286 15 425

Components of the Financial Statements:

Balance Sheet

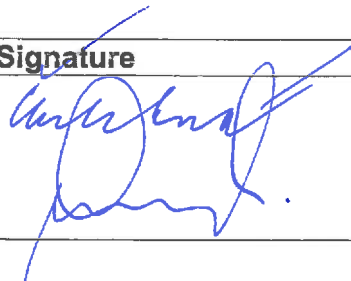
Profit and Loss Account

Statement of Changes in Equity

Cash Flow Statement

Notes to the Financial Statements

These financial statements were prepared on 3 March 2017.

Statutory body of the reporting entity:	Signature
Kristina Červenková – Statutory Executive	
Manfred Wawrzynosek – Statutory Executive	

BALANCE SHEET

full version

TAMEH Czech s.r.o.

Corporate ID 286 15 425

As of
31.12.2016
(in CZK thousand)Vratimovská 689/117
719 00 Ostrava - Kunčice

		31.12.2016			31.12.2015
		Gross	Adjustment	Net	Net
	TOTAL ASSETS	10 464 400	4 487 925	5 976 475	5 480 258
B.	Fixed assets	9 112 066	4 477 929	4 634 137	4 783 155
<i>B.I.</i>	<i>Intangible fixed assets</i>	856	856	0	87 808
<i>B.I.2.</i>	<i>Valuable rights</i>	856	856	0	0
<i>B.I.2.1.</i>	Software	856	856	0	
<i>B.I.4.</i>	Other intangible fixed assets	0		0	87 808
<i>B.II.</i>	<i>Tangible fixed assets</i>	9 111 210	4 477 073	4 634 137	4 695 347
<i>B.II.1.</i>	<i>Land and structures</i>	1 306 228	472 176	834 052	126 194
<i>B.II.1.1.</i>	Land	38 544		38 544	38 544
<i>B.II.1.2.</i>	Structures	1 267 684	472 176	795 508	87 650
<i>B.II.2.</i>	Tangible movable assets and sets of tangible movable assets	4 124 206	2 782 778	1 341 428	315 432
<i>B.II.3.</i>	Valuation difference on acquired assets	2 715 821	1 222 119	1 493 702	1 674 756
<i>B.II.4.</i>	<i>Other tangible fixed assets</i>	8	0	8	8
<i>B.II.4.3.</i>	Other tangible fixed assets	8		8	8
<i>B.II.5.</i>	<i>Prepayments for tangible fixed assets and tangible fixed assets under construction</i>	964 947	0	964 947	2 578 957
<i>B.II.5.1.</i>	Prepayments for tangible fixed assets	103 697		103 697	662 987
<i>B.II.5.2.</i>	Tangible fixed assets under construction	861 250		861 250	1 915 970
C.	Current assets	1 302 771	9 996	1 292 775	644 923
<i>C.I.</i>	<i>Inventories</i>	107 267	9 322	97 945	96 686
<i>C.I.1.</i>	Material	97 771	9 322	88 449	96 685
<i>C.I.2.</i>	Work in progress and semifinished goods	13		13	1
<i>C.I.5.</i>	Prepayments for inventories	9 483		9 483	
<i>C.II.</i>	<i>Receivables</i>	655 729	674	655 055	541 717
<i>C.II.1.</i>	Long-term receivables	413	0	413	683
<i>C.II.1.5.</i>	<i>Receivables - other</i>	413	0	413	683
<i>C.II.1.5.4.</i>	Sundry receivables	413		413	683
<i>C.II.2.</i>	<i>Short-term receivables</i>	655 316	674	654 642	541 034
<i>C.II.2.1.</i>	Trade receivables	432 944	674	432 270	217 654
<i>C.II.2.4.</i>	<i>Receivables - other</i>	222 372	0	222 372	323 380
<i>C.II.2.4.3.</i>	State - tax receivables	41 012		41 012	131 561
<i>C.II.2.4.4.</i>	Short-term prepayments made	19 173		19 173	8
<i>C.II.2.4.5.</i>	Estimated receivables	161 914		161 914	191 485
<i>C.II.2.4.6.</i>	Sundry receivables	273		273	326
<i>C.IV.</i>	<i>Cash</i>	539 775	0	539 775	6 520
<i>C.IV.1.</i>	Cash on hand	313		313	335
<i>C.IV.2.</i>	Cash at bank	539 462		539 462	6 185
D.	Other assets	49 563	0	49 563	52 180
<i>D.1.</i>	Deferred expenses	49 563		49 563	52 180

		31.12.2016	31.12.2015
	TOTAL LIABILITIES & EQUITY	5 976 475	5 480 258
A.	Equity	3 011 092	2 863 554
<i>A.I.</i>	<i>Share capital</i>	2 572 200	2 572 200
A.I.1.	Share capital	2 572 200	2 572 200
<i>A.IV.</i>	<i>Retained earnings (+/-)</i>	235 909	161 458
A.IV.1.	Accumulated profits brought forward	235 909	161 458
A.V.	<i>Profit or loss for the current period (+/-)</i>	202 983	129 896
B.+C.	Liabilities	2 965 383	2 616 704
B.	Reserves	305 281	18 933
B.IV.	Other reserves	305 281	18 933
C.	Payables	2 660 102	2 597 771
<i>C.I.</i>	<i>Long-term payables</i>	2 093 156	1 926 013
C.I.2.	Payables to credit institutions	2 051 613	1 870 000
C.I.8.	Deferred tax liability	41 528	55 998
C.I.9.	<i>Payables - other</i>	15	15
C.I.9.3.	Sundry payables	15	15
<i>C.II.</i>	<i>Short-term payables</i>	566 946	671 758
C.II.2.	Payables to credit institutions	68 387	
C.II.4.	Trade payables	186 659	456 612
<i>C.II.8.</i>	<i>Other payables</i>	311 900	215 146
C.II.8.3.	Payables to employees	8 612	8 408
C.II.8.4.	Social security and health insurance payables	5 549	5 532
C.II.8.5.	State - tax payables and subsidies	10 074	75 424
C.II.8.6.	Estimated payables	279 185	121 752
C.II.8.7.	Sundry payables	8 480	4 030

PROFIT AND LOSS ACCOUNT
structured by the nature of expense method

TAMEH Czech s.r.o.
Corporate ID 286 15 425

Year ended
31.12.2016
(in CZK thousand)

Vratimovská 689/117
719 00 Ostrava - Kunčice

		Year ended 31.12.2016	Year ended 31.12.2015
I.	Sales of products and services	2 237 942	2 178 597
A.	Purchased consumables and services	1 409 436	1 495 685
A.2.	Consumed material and energy	1 076 354	1 178 672
A.3.	Services	333 082	317 013
B.	Change in internally produced inventory (+/-)	-12	1
D.	Staff costs	206 223	200 305
D.1.	Payroll costs	147 622	143 045
D.2.	Social security and health insurance costs and other charges	58 601	57 260
D.2.1.	Social security and health insurance costs	56 100	54 565
D.2.2.	Other charges	2 501	2 695
E.	Adjustments to values in operating activities	267 107	253 252
E.1.	Adjustments to values of intangible and tangible fixed assets	266 738	252 686
E.1.1.	Adjustments to values of intangible and tangible fixed assets - permanent	267 220	252 686
E.1.2.	Adjustments to values of intangible and tangible fixed assets - temporary	-482	
E.2.	Adjustments to values of inventories	-305	566
E.3.	Adjustments to values of receivables	674	
III.	Other operating income	581 415	512 958
III.1.	Sales of fixed assets	1	24
III.2.	Sales of material	2 071	4 240
III.3.	Sundry operating income	579 343	508 694
F.	Other operating expenses	634 336	532 418
F.1.	Net book value of sold fixed assets	29	0
F.2.	Net book value of sold material	764	1 017
F.3.	Taxes and charges	8 129	6 944
F.4.	Reserves relating to operating activities and complex deferred expenses	286 348	3 784
F.5.	Sundry operating expenses	339 066	520 673
*	Operating profit or loss (+/-)	302 267	209 894
VI.	Interest income and similar income	785	14
VI.2.	Other interest income and similar income	785	14
J.	Interest expenses and similar expenses	11 701	0
J.2.	Other interest expenses and similar expenses	11 701	
VII.	Other financial income	187	8 671
K.	Other financial expenses	14 550	15 615
*	Financial profit or loss (+/-)	-25 279	-6 930
**	Profit or loss before tax (+/-)	276 988	202 964
L.	Income tax	74 005	73 068
L.1.	Due income tax	88 475	83 504
L.2.	Deferred income tax (+/-)	-14 470	-10 436
**	Profit or loss net of tax (+/-)	202 983	129 896
***	Profit or loss for the current period (+/-)	202 983	129 896
*	Net turnover for the current period	2 820 329	2 700 240

**STATEMENT OF
CHANGES IN EQUITY**

Year ended
31.12.2016
(in CZK thousand)

TAMEH Czech s.r.o.
Corporate ID 286 15 425

Vratimovská 689/117
719 00 Ostrava - Kunčice

	Share capital	Capital funds	Funds from profit, reserve fund	Accumulated profits brought forward	Accumulated losses brought forward	Profit or loss for the current period	TOTAL EQUITY
Balance at 31 December 2014	2 572 200			19 790		141 668	2 733 658
Distribution of profit or loss				141 668		-141 668	
Profit or loss for the current period						129 896	129 896
Balance at 31 December 2015	2 572 200			161 458		129 896	2 863 554
Distribution of profit or loss				74 451		-74 451	
Profit shares paid						-55 445	-55 445
Profit or loss for the current period						202 983	202 983
Balance at 31 December 2016	2 572 200			235 909		202 983	3 011 092

CASH FLOW STATEMENT

TAMEH Czech s.r.o.
Corporate ID 286 15 425

Year ended
31.12.2016
(in CZK thousand)

Vratimovská 689/117
719 00 Ostrava - Kunčice

		Year ended 31.12.2016	Year ended 31.12.2015
P.	Opening balance of cash and cash equivalents	6 520	209 118
	<i>Cash flows from ordinary activities (operating activities)</i>		
Z.	Profit or loss before tax	276 988	202 964
A.1.	Adjustments for non-cash transactions	564 865	256 809
A.1.1.	Depreciation of fixed assets	267 220	252 686
A.1.2.	Change in provisions and reserves	286 235	4 350
A.1.3.	Profit/(loss) on the sale of fixed assets	28	-24
A.1.4.	Revenues from profit shares	0	0
A.1.5.	Interest expense and interest income	10 916	-14
A.1.6.	Adjustments for other non-cash transactions	466	-189
A.*	Net operating cash flow before changes in working capital	841 853	459 773
A.2.	Change in working capital	-149 957	-43 275
A.2.1.	Change in operating receivables and other assets	-111 397	-174 258
A.2.2.	Change in operating payables and other liabilities	-37 606	110 718
A.2.3.	Change in inventories	-954	20 265
A.2.4.	Change in current financial assets		
A.**	Net cash flow from operations before tax	691 896	416 498
A.3.	Interest paid	-11 701	
A.4.	Interest received	785	27
A.5.	Income tax paid from ordinary operations	-92 287	-78 099
A.6.	Received profit shares		
A.***	Net operating cash flows	588 693	338 426
	<i>Cash flows from investing activities</i>		
B.1.	Fixed assets expenditures	-249 994	-1 511 048
B.2.	Proceeds from fixed assets sold	1	24
B.***	Net investment cash flows	-249 993	-1 511 024
	<i>Cash flow from financial activities</i>		
C.1.	Change in payables from financing	250 000	970 000
C.2.	Impact of changes in equity	-55 445	
C.2.6.	Profit shares paid	-55 445	
C.***	Net financial cash flows	194 555	970 000
F.	Net increase or decrease in cash and cash equivalents	533 255	-202 598
R.	Closing balance of cash and cash equivalents	539 775	6 520

**NOTES TO THE FINAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

Name of the Company:	TAMEH Czech s.r.o.
Registered Office:	Ostrava – Kunčice, Vratimovská 689/117, 719 00
Legal Status:	Limited Liability Company
Corporate ID:	286 15 425

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1. GENERAL INFORMATION

1.1. Establishment and Characteristics of the Company

TAMEH Czech s.r.o. (hereinafter referred to as the "Company") is a legal entity, a limited liability company incorporated in the Company Register of the Regional Court of Ostrava on 15 February 2010. The main subject of the business activities of the Company: electric power generation, heat generation, compressed air production, air blast production and steam generation.

The Registered Office of the Company: Ostrava - Kunčice, Vratimovská 689/117, Zip Code 719 00.

The financial statements of the Company have been prepared as of 31 December 2016.

The Company's issued share capital is CZK 2,572,200 thousand.

The Company's sole shareholder has been TAMEH Holding Sp.z o.o. with effect from 11 December 2014.

1.2. Amendments to the Company Register

On 12 July 2016, a change in the Company's statutory executives was performed: Andrzej Curyło was replaced by Tomasz Bożek.

On 21 October 2016, a right of pledge was recorded in the Register of Companies. Details on the right of pledge are disclosed in Note 5.3.

1.3. Structure of Company Organisation

TAMEH Czech s.r.o. managed by the CEO (Managing Director)

- Production & Capital Investments Dept. – in direct subordination also 46 Dept. – Heating Plant
- Economy & Maintenance – in direct subordination also 49 Dept. directly overseeing 49 – Energetics Maintenance
- Financing
- 4/TK Dept. – Technical Office

1.4. Group Identification

TAMEH Holding Sp. z o. o. is the Parent Company.

1.5. Statutory Body

As of 31 December 2016, the membership of the Statutory Body was as follows:

	Position	Name
Statutory Body	"A" Statutory Executive	Kristina Červenková
	"A" Statutory Executive	Rafal Zawada
	"B" Statutory Executive	Manfred Wawrzynosek
	"B" Statutory Executive	Tomasz Bożek

One statutory executive of Group A along with one statutory executive from Group B always act on behalf of the Company.

2. ACCOUNTING METHODS AND GENERAL ACCOUNTING PRINCIPLES

The Company's accounting books and records are maintained and the Financial Statements were prepared under Accounting Act No. 563/1991 Coll. as amended; under Regulation No. 500/2002 Sb. under which related provisions of Accounting Act No. 563/1991 Coll. as amended are applied to the Accounting Units being the entrepreneurs with double-entry accounting records, as amended; and the Czech Accounting Standards for the entrepreneurs.

The accounting records (books) respect the general accounting principles, specifically the historical cost valuation basis, the accruals principle, the prudence concept and the going concern assumption.

Data shown in the Financial Statements are given in thousands of Czech crowns (CZK).

The calendar year is the Company's fiscal period.

The Financial Statements were prepared for the fiscal period: 1 January 2016 to 31 December 2016.

2.1. Comparative Data

The comparative period for the purposes of the financial statements is the previous period, ie the period starting on 1 January 2015 and ending on 31 December 2015.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Long-term Tangible Fixed Assets (TFA)

Long-term tangible fixed assets include land, buildings, individual movable assets and sets of movable assets showing their service life for longer than one year and the acquisition cost of which exceeds CZK 40 thousand on an individual basis.

Purchased long-term tangible fixed assets are stated at cost less accumulated depreciation and any recognised impairment losses.

Long-term tangible fixed assets developed internally are valued at direct costs and incidental costs directly attributable to the internal production of assets (production overheads).

The following tangible fixed assets are stated at replacement cost: tangible fixed assets acquired through donation, fixed assets recently entered in the accounting records and a contribution of tangible fixed assets. Replacement cost is the cost for which the assets would be acquired in the period of recognition.

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

The valuation of tangible fixed assets is reduced by the undisputable legal claim for the grant relating to the acquisition of these assets.

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

	Number of years
Buildings	30 – 50
Production machinery	4 – 50
Vehicles	6 – 20
Furniture and fixtures	6 – 17

Things made of precious metals are expensed upon disposal.

The Company creates provisions for long-term tangible fixed assets if stock-taking reveals that the valuation of long-term TFA temporarily does not match the actual conditions. The amount of a provision is determined individually in relation to the level of assets impairment.

In addition, the Company records a valuation difference on acquired assets which arose upon the investment of a business part from ArcelorMittal Ostrava a.s. The difference is reported between the net book value of assets invested on 29 March 2010 with the purpose of increasing the Company's share capital balance and the value of the assets determined by an expert appraisal. The valuation difference is depreciated over 15 years.

3.2. Long-term Intangible Fixed Assets (IFA)

Long-term intangible fixed assets include intangible results of research and development, software and valuable rights showing their service life for longer than one year and the acquisition cost of which exceeds CZK 60 thousand on an individual basis, and further, Greenhouse Gas Emission Allowances.

Purchased long-term intangible fixed assets are stated at cost.

Expenditure on research is recognised as an expense in the period which it is incurred in.

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

Amortisation of intangible fixed assets except greenhouse gas emission allowances is recorded on a straight-line basis over their estimated useful lives as follows:

	Number of years
Software	3 - 10
Valuable rights	6

If a right of use is established for a fixed period in respect of intangible fixed assets, the annual amortisation charge is determined as the proportion of the input cost and the contractually agreed period.

The Company creates provisions for long-term intangible fixed assets if stock-taking reveals that the valuation of long-term TFA temporarily does not match the actual conditions. The amount of a provision is determined individually in relation to the level of assets impairment.

3.2.1. Greenhouse Emission Allowances

Greenhouse Emission Allowances are recognised as non-amortisable intangible fixed assets and are stated at cost, or replacement cost when acquired free of charge. An initial free-of-charge acquisition of the allowances is recognised as a grant not reducing the carrying amount. This 'grant' is released into income on a systematic basis as the allowances are used and charged to expenses and/or they are sold.

The use of emission allowances is accounted for using the FIFO method in respect of emission allowances of the same kind at the balance sheet date as a minimum, on the basis of the level of greenhouse emissions estimated to be produced by the Company in the relevant period. Identical emission allowance types include allowances of the same kind (such as EUA, CER, ERU) acquired in the same method (eg free-of-charge allocation or via purchase). The Company ruled that as a first step, emission allowances allocated to the Company free of charge would be consumed, and purchased emission allowances would be used as the next step. After the actual use is ascertained by an independent reviewer, the use is adjusted in the period when the relevant matters were identified.

If the amount of emission allowances recorded at the end of the year is not sufficient for covering the estimated consumption for the relevant year, a reserve for the purchase of missing emission allowances is created in the financial statements. The amount of the reserve is determined based on the market price of emission allowances as of the balance sheet date.

If the Greenhouse Emission Allowances are sold, they are recognised in expenses and the grant is recognised in income at the same time and in the same amount. The sale of greenhouse emission allowances is recognised in income from the sale of fixed assets.

If, at the balance sheet date, the market value of emission allowances allocated free of charge is materially lower than the replacement cost used for valuing these emission allowances upon acquisition, the allowances are measured at market value in the financial statements. Concurrently, the 'grant' is reduced by the same amount and the whole re-measurement is recognised without having any impact on the profit and loss account. In the event of material changes in the market value of purchased emission allowances, these emission allowances are provided for.

3.3. Derivative Financial Instruments

As of the balance sheet date, derivative financial instruments are reported in the balance sheet at fair value. The nominal value of derivative financial instruments is reported off balance sheet. The fair value is calculated as the present value of anticipated cash flows. Changes in the fair value of derivatives held for trading are reported in expenses or income from derivative financial transactions, as appropriate.

3.4. Inventory

Purchased inventory is valued at acquisition costs. Acquisition cost includes the purchase cost and indirect acquisition costs such as customs fees, freight costs and storage fees, commissions, insurance charges and discounts. From intra-company services relating to the acquisition of inventory through purchase and the processing of inventory, only transportation charges and material processing costs are capitalised.

Internally developed inventory (including work in progress, semi-finished products, finished products and goods) is valued at the cost of producing the inventory, which consist of the direct costs of production or any other activity, and/or the portion of indirect costs relating to production or any other activity.

The cost of the valuation of internally developed inventory is determined as actual costs on the basis of the figures for the last month of the reporting period (with respect to the inventory movements).

Inventory is issued out of stock using the cost determined by the weighted arithmetic average method, or predetermined stock prices on the level of calculated own costs that are adjusted at the year-end according to actual costs.

The Company recognised provisions against inventory whose impairment is not deemed permanent by reference to, for instance, its aging analysis and an analysis of idle, redundant or unusable components, taking into account the inventory selling prices that are likely to be achieved, or anticipated selling prices of products that will be produced from these inventories.

3.5. Receivables

Upon origination, receivables are stated at their nominal value as subsequently reduced by appropriate provisions for doubtful and bad amounts. Bad debts are written off only after the completion of the Debtor's bankruptcy proceedings.

Provisions against receivables are recorded based on an aging analysis of receivables and individual assessment of the solvency of debtors. Receivables past due for more than 180 days are provided for in full (100%). As a policy, the Company does not create any provisions against receivables from related parties.

3.6. Reserves

Reserves are intended to cover future risks, obligations or expenditure, the nature of which is clearly defined and which are likely to be incurred, but which are uncertain as to the amount or the date on which they will arise. Such reserves include, for example, a reserve for environmental liabilities, a reserve for commitments arising from legal disputes, business discounts, outstanding vacation days, consumption of emission allowances, bonuses and employee benefits, etc.

3.7. Conversion of Data in Foreign Currencies to CZK

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

At the balance sheet date, financial assets, short-term receivables and payables denominated in a foreign currency are translated using the effective exchange rate promulgated by the Czech National Bank as of that date. Any resulting foreign exchange rate gains and losses are recorded through the current period's financial expenses or revenues as appropriate.

3.8. Taxes

3.8.1. Tax Depreciation of Long-term Fixed Assets

Depreciation of fixed assets is usually calculated using the accelerated method for tax purposes in accordance with the Income Taxes Act.

3.8.2. Tax Due

Tax due for fiscal period is based on taxable profit. Taxable profit differs from net profit shown in the Profit and Loss Account as it does not include any items of revenues or expenses being taxable or deductible in other periods, and, further, it does not include any items being ever taxable and being deductible. The Company's liability arising from tax due is calculated using tax rates valid as of the balance sheet date.

3.8.3. Deferred Tax

Deferred tax calculation is based on applying the balance sheet liability method.

The liability method shall be understood the procedure when the income tax rate is applied for the calculation in the period in which the relevant tax liability is settled or the tax asset is realised, as appropriate.

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.

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

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

3.9. Government Grants / Subsidies

Grants received to offset costs are recognised as other operating and financial income over the period necessary to match them with the related costs. Grants received to acquire tangible and intangible fixed assets and technical improvements, grants for the settlement of interest expenses and other expenses added to the cost are deducted in reporting their cost.

3.10. 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 assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

3.11. Revenue Recognition

Revenue is measured at the value of the consideration received or receivable and represents amounts receivable for goods, products and services provided in the normal course of business, net of discounts, VAT and sales related taxes.

Revenues from the sale of products and goods are recognised when products and goods are delivered and title has passed to the customer on the basis of fulfilment of contractual delivery conditions. Revenues from the provided services are recognised when the services are rendered.

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

3.12. Use of Estimates

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, equity and financial position of the Company at the balance sheet date and the reported amounts of profit and loss during the reporting period. Management of the Company has made estimates and assumptions on the basis of all relevant information available as of the balance sheet date in order to give a true and fair view of the assets, liabilities, equity and financial position of the Company as of the balance sheet date and the results of its operations for the reporting period. Pursuant to the nature of estimates, the actual results and outcomes in the future may differ from these estimates.

3.13. Cash Flow Statement

The cash flow statement is prepared using the indirect method. Cash equivalents include current liquid assets easily convertible into cash in an amount agreed in advance.

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

3.14. Payables to Credit Institutions

A part of a long-term loan being due within one year from the balance sheet date shall be deemed a short-term loan.

Interest on operating loans is recognised in profit or loss for the period. Interest on loans provided for the acquisition of fixed assets is included in the acquisition cost of such assets until capitalisation; once capitalisation has been performed, interest is recognised in interest expenses and other expenses related to securing loans are recognised in deferred expenses.

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

4.1. Intangible Fixed Assets

Other intangible fixed assets as of 31 December 2015 include greenhouse emission allowances (hereinafter referred to as the "Allowances" – refer to Note 3.2.1.). As of 31 December 2016, other intangible fixed assets amounted to CZK 0 thousand.

As of 1 January 2016, the balance of emission allowances included 418,396 EUA allowances that were valued at acquisition cost of CZK 87,808 thousand.

In 2016, free-of-charge allowance allocations were reported in the amounts specified below:

- a) 182,948 EUA allowances – allocated as of 26 February 2016, valued at: CZK 24,510 thousand; and
- b) 1,331,497 EUA allowances – allocated as of 18 October 2016, valued at: CZK 214,783 thousand.

Valuation is made by the market price of EUA Allowance under data provided by the European Energy Exchange, Leipzig, as of the date of Allowances being credited to the Allowances account under applying the rate of exchange EUR/CZK by the Czech National Bank always as of the respective date.

Based on the dioxide emission forecast for 2016, the consumption for 2016 was determined anticipating 2,373,483 emission allowances. Although the Company did not record any emission allowances as of the balance sheet date, a reserve for the purchase of allowances was created in respect of this consumption. The reserve was calculated presuming that a part of the 2016 consumption would be covered by emission allowances for 2016 allocated free of charge as well as emission allowances remaining from 2015 in the aggregate amount of 1,937,224 pieces. A reserve amounting to CZK 77,209 thousand was created for the remaining consumption of 436,259 allowances.

The balance of emission allowances reported as of 31 December 2016 amounts to nil as all emission allowances were recognised in the consumption for covering allowances for 2016.

4.2. Tangible Fixed AssetsCost

	('000 CZK)									
	Balance at 31 Dec 2014	Additions	Disposals	Transfers	Balance at 31 Dec 2015	Additions	Disposals	Transfers	Balance at 31 Dec 2016	
Land	38 544	-	-	-	38 544	-	-	-	38 544	
Buildings	551 422	-	-	-	551 422	-	-75	716 337	1 267 684	
Individual movable assets	3 054 222	-	-35 161	1 433	3 020 494	-	-	- 1 103 712	4 124 206	
Other tangible fixed assets	8	-	-	-	8	-	-	-	8	
Tangible fixed assets under construction	814 812	1 103 073	-	-1 433	1 916 452	764 847	-	-1 820 049	861 250	
Valuation difference on acquired assets	2 715 821	-	-	-	2 715 821	-	-	-	2 715 821	
Paid advances to FTA	263 754	1 383 821	-984 588	-	662 987	1 862 743	-2 422 033	-	103 697	
Total	7 438 583	2 486 894	-1 019 749	-	8 905 728	2 627 590	-2 422 108	-	9 111 210	

Accumulated Depreciation and Provisions

	('000 CZK)						
	Balance at 31 Dec 2014	Additions	Disposals	Balance at 31 Dec 2015	Additions	Disposals	Balance at 31 Dec 2016
Buildings	-458 790	-4 982	-	-463 772	-8 450	46	-472 176
Individual movable assets	-2 673 573	-63 046	31 557	-2 705 062	-77 716	-	-2 782 778
TFA under construction	-482	-	-	-482	-	482	-
Valuation difference on acquired assets	-860 010	-181 055	-	-1 041 065	-181 054	-	-1 222 119
Total	-3 992 855	-249 083	31 557	-4 210 381	-267 220	528	-4 477 073

Net Book Value

	('000 CZK)	
	Balance at 31 Dec 2015	Balance at 31 Dec 2016
Land	38 544	38 544
Buildings	87 650	795 508
Individual movable assets and sets of individual movable assets	315 432	1 341 428
Other tangible fixed assets	8	8
Tangible fixed assets under construction	1 915 970	861 250
Valuation difference on acquired assets	1 674 756	1 493 702
Paid advances to FTA	662 987	103 697
Total	4 695 347	4 634 137

Additions to tangible fixed assets under construction in the reporting period principally include an investment related to the construction of boiler 14 in the aggregate amount of CZK 748,179 thousand. This investment is one of the three investment projects funded by a loan (refer to Note 4.8.5.).

In the year ended 31 December 2016, the Company capitalised interest related to a loan provided for acquiring tangible fixed assets in the amount of CZK 46,758 thousand. Interest is capitalised in assets until the assets have been capitalised. As of 31 December 2016, the aggregate amount of capitalised interest is CZK 84,392 thousand. In the year ended 31 December 2016, a part of the capitalised interest related to boiler K14 was capitalised in the amount of CZK 45,422 thousand.

In the year ended 31 December 2016, the Company did not record any unutilised assets.

The depreciation of assets recognised in expenses in the reporting period amounting to CZK 86,166 thousand was increased by the write-off of the valuation difference on acquired assets recognised in expenses in the reporting period amounting to CZK 181,054 thousand to the total amount of CZK 267,220 thousand. The

depreciation reported in 2015 amounting to CZK 71,631 thousand was increased by the write-off of the valuation difference on acquired assets recognised in expenses in the current reporting period in the amount of CZK 181,055 thousand to the total amount of CZK 252,686 thousand. The valuation difference on acquired assets is depreciated to expenses equally – over 180 months on a monthly basis.

Fixed Assets Pledged as Security

Fixed assets are pledged as security in favour of the Ministry of the Environment of the Czech Republic as the first creditor in terms of securing the debts of the pledger in favour of the pledge creditor, which may arise as a result of violating the Decree on Investment Grant Provision, up to the total amount of CZK 726,910 thousand including fines and default interest, and which may arise in the period of five years from the completion of the project in question. The pledge has also been made in favour of Raiffeisen Bank International AG, being the second creditor in terms of securing the debts of the pledger in favour of the pledge creditor based on an agreement on term and revolving loans, up to the total amount of CZK 3,950,000 thousand and PLN 840,000 thousand, for debt existing as of the date of concluding the pledge agreement or arising within the period of 15 years following the date of conclusion of the pledge agreement and on the basis of the C Term Loan Facility up to the aggregate amount of PLN 530,000 thousand for debt existing as of the date of concluding the pledge agreement or arising within the period of 14 years following the date of conclusion of the pledge agreement.

4.2.1. Assets held under Operating and Finance Leases

Operating Leases

As of 31 December 2016, the Company records assets held under operating leases in the acquisition cost of CZK 3,159 thousand. In the year ended 31 December 2016, lease instalments were made in the amount of CZK 725 thousand. The figures above are net of VAT if input VAT recovery is possible.

Finance Leases

As of 31 December 2016, the Company reports no assets held under finance leases.

4.3. Inventory

Inventory predominantly includes inventory of spare parts and raw material. The valuation of redundant, unusable and slow-moving inventory is decreased to the selling price through provisions which are presented in the 'adjustments' column in the accompanying balance sheet. The provision was determined by the Company's management pursuant to the assessment of usability.

Movements on the provisioning accounts

	('000 CZK)			
Provisions against:	Balance at 31 Dec 2015	Recognition	Release	Balance at 31 Dec 2016
Inventory	9 627	512	-817	9 322

4.4. Receivables

4.4.1. Long-Term Receivables

As of 31 December 2016 and 2015, other long-term receivables principally included loans to employees in the amount of CZK 413 thousand and CZK 683 thousand, respectively. As of 31 December 2016, the Company reported no long-term receivables past due by more than five years.

4.4.2. Short-Term Receivables

As of 31 December 2016, short-term receivables in the amount of CZK 654,643 thousand principally included trade receivables in the amount of CZK 432,270 thousand and estimated receivables in the amount of CZK 161,914 thousand which principally included unbilled electricity supplies. In the year ended 31 December 2015, short-term receivables amounting to CZK 541,034 thousand particularly included trade receivables amounting to CZK 217,654 thousand and estimated receivables amounting to CZK 191,485 thousand.

Aging of Short-term Trade Receivables:

('000 CZK)				
Balance at	Category	Before due date	Past due date	Total
31 Dec. 2016	Gross	195 187	237 757	432 944
	Provisions	-450	-224	-674
	Net	195 187	237 757	432 270
31 Dec. 2015	Gross	215 584	2 070	217 654
	Provisions	-	-	-
	Net	215 584	2 070	217 654

4.4.3. Intercompany Receivables

As of 31 December 2016, receivables from ArcelorMittal Ostrava a.s. included trade receivables in the amount of CZK 431,107 thousand and estimated receivables in the amount of CZK 149,605 thousand.

Receivables from ArcelorMittal Ostrava a.s. as of 31 December 2015 included trade receivables amounting to CZK 217,431 thousand and estimated receivables amounting to CZK 182,862 thousand.

('000 CZK)			
Name of the entity	Relation to the Company	Balance at 31 Dec 2016	Balance at 31 Dec 2015
ArcelorMittal Ostrava a.s.	Related party	580 712	400 293
Receivables to other companies in the group	Related party	13	38
Trade receivables		580 725	400 331
Total		580 725	400 331

4.5. Deferred Expenses

As of 31 December 2016 and 2015, deferred expenses principally include expenses related to a loan provided for the acquisition of fixed assets in the amount of CZK 47,324 thousand and CZK 49,908 thousand, respectively.

4.6. Equity

The Company's registered capital consists of a 100% business share of the Parent Company TAMEH HOLDING Sp. Z o. o. in the amount of CZK 2,572,200 thousand.

Profit for 2015 was distributed based on a decision of 22 March 2016 adopted by the board of directors of the sole shareholder, TAMEH Czech s.r.o., acting in the capacity of the General Meeting. The sole shareholder received a profit share of CZK 55,445 thousand for the 2015 reporting period; CZK 74,451 thousand was transferred to the Company's retained earnings.

The Company has proposed distributing part of the 2016 profit in the form of dividend and transferring the remaining part to retained earnings.

4.7. Reserves

	Balance at 31 Dec 2015	Recognition	Use/ Release	Balance at 31 Dec 2016
Reserve for removal of environmental burdens	5 333	70	-	5 403
Reserve for outstanding vacation days	802	3 974	-3 784	992
Reserve for employee benefits and life jubilees	6 730	-	-310	6 420
Reserve for bonuses	6 068	23 418	-20 251	9 235
Reserve for emission allowances	-	77 209	-	77 209
Reserve for other expenses	-	206 022	-	206 022
Total reserves	18 933	310 693	-24 345	305 281

Reserve for the Removal of Environmental Burdens

The amount of the reserve represents the current value of costs expected to be incurred by the Company in 2024 in the form of a share in clean-up work and removal of legacy environmental burdens under the decision made by the Czech Environmental Inspectorate (ČiŽP). The change in the reserve represents the change in the time value of money for the relevant period.

Reserve for Employee Benefits and Life Jubilees

The reserve consists of a reserve for the costs of life jubilee bonuses, retirement bonuses and bonuses for work jubilees. The amount of the reserve is based on the effective Collective Labour Agreement and includes social security and health insurance.

Reserve for Bonuses

The reserve is recognised for half-year and annual bonuses of the Employees and Company management relating to 2016. The reserve was prepared with regard to the effective Collective Labour Agreement.

Reserve for the Consumption of Emission Allowances

A reserve for the consumption of emission allowances has been created for purchasing the amount of emission allowances necessary for covering the 2016 consumption.

Reserve for Other Costs

A reserve in the aggregate amount of CZK 206 million was created in 2016 to cover risks arising from the realisation of investment projects.

4.8. Payables**4.8.1. Long-Term Payables**

As of 31 December 2016 and 2015, the Company's long-term payables particularly include payables to credit institutions as disclosed in Note 4.8.5 and a deferred tax asset amounting to CZK 41,528 thousand and CZK 55,998 thousand, respectively. As of 31 December 2016, the Company reported no long-term payables maturing within more than 5 years.

4.8.2. Short-Term PayablesAging of Short-term Trade Payables

Balance at	Before due	Past due	Total
31 Dec 2016	173 838	12 821	186 659
31 Dec 2015	406 867	49 745	456 612

('000 CZK)

As of 31 December 2016 and as of 31 December 2015, the Company reported no overdue payables arising from social security and health insurance.

As of 31 December 2016, estimated payables particularly included uninvoiced material supplies in the amount of CZK 27,942 thousand, uninvoiced services supplies in the amount of CZK 111,991 thousand and uninvoiced purchases of long-term tangible fixed assets in the amount of CZK 131,434 thousand. Estimated payables as of 31 December 2015 particularly include uninvoiced material supplies in the amount of CZK 12,963 thousand, uninvoiced services supplies in the amount of CZK 72,534 thousand and uninvoiced purchase of long-term tangible fixed assets in the amount of CZK 30,440 thousand.

A part of a long-term loan falling due within one year from the balance sheet date in the amount of CZK 68,387 thousand as of 31 December 2016 (CZK 0 thousand as of 31 December 2015) is deemed a short-term loan.

4.8.3. State – Tax Payables and Grants / SubsidiesPayables to the State can be analysed as follows:

	Balance at 31 Dec 2016	Balance at 31 Dec 2015
Payable arising from corporate income tax	5 952	9 026
Payable arising from personal income tax	1 416	1 533
Contributions for pension savings scheme	-	13
Payable arising from other taxes	3 444	2 370
Grants for emission allowances	-	62 482
Total	10 812	75 424

('000 CZK)

4.8.4. Intercompany Payables

As of 31 December 2016, payables to ArcelorMittal Ostrava a.s. included trade payables in the amount of CZK 7,479 thousand and estimated payables in the amount of CZK 48,076 thousand. Payables towards ArcelorMittal Ostrava a.s. as of 31 December 2015 included trade payables in the amount of CZK 38,315 thousand and estimated payables in the amount of CZK 22,450 thousand.

Name of the entity	Relation	('000 CZK)	
		Balance at 31 Dec 2016	Balance at 31 Dec 2015
ArcelorMittal Ostrava a.s.	Related party	55 557	60 765
Payables to other companies in the group	Related party	2 757	3 689
Total		58 314	64 454

4.8.5. Payables to Credit Institutions

On 15 May 2015, TAMEH Czech s.r.o. concluded the Term and Revolving Facilities Agreement, as subsequently amended, with Raiffeisen Bank International AG, Raiffeisen Bank Polska S.A. and Raiffeisenbank a.s. in the amount of CZK 2,390,000 thousand for the purpose of financing investment projects. The loan matures on 15 May 2025. As of 31 December 2016, the Company utilised a loan of CZK 2,120,000 thousand. The interest rate for CZK is based on 3M PRIBOR plus a fixed margin. Total interest paid in 2016 amounted to CZK 60,690 thousand.

In 2015 and 2016, the Company concluded derivative transactions – interest rate SWAPs (hereinafter “IRS”) in order to hedge the interest rate carried by the Term and Revolving Facilities Agreement, in line with the obligation arising from the loan documentation. In respect of these derivative transactions, TAMEH Czech s.r.o. is obliged to pay interest to the bank providing the hedging, determined as a fixed interest rate, and accepted a floating 3M PRIBOR interest rate from the hedging bank. As of 31 December 2016, the IRS served to hedge CZK 1,060,000 thousand at a fixed interest rate. As of 31 December 2016, the interest rate swap was revalued at fair value in the amount of CZK 7,800 thousand.

4.9. Income Tax**4.9.1. Deferred Tax**

The deferred tax liability is analysed as follows:

	('000 CZK)	
	Balance at 31 Dec 2016	Balance at 31 Dec 2015
Difference between accounting and tax carrying amounts of fixed assets	-101 303	-61 516
Other temporary differences:		
Provisions against inventory	1 771	1 829
Provisions against fixed assets	-	92
Reserve for environmental liabilities	1 027	1 013
Reserve for outstanding vacation days	189	152
Reserve for employee benefits	650	681
Reserve for bonuses	1 755	1 153
Reserve for life jubilees	570	598
Reserve for the consumption of emission allowances	14 670	-
Other reserves	39 143	-
Total	-41 528	-55 998

4.9.2. Income Tax - Due

The corporate income tax for the years 2016 and 2015 was fixed under the Income Tax Act applying the 19% tax rate. For 2017, the tax rate will amount to 19%.

Calculation of the effective tax rate:

	('000 CZK)	
	Balance at 31 Dec 2016	Balance at 31 Dec 2015
Profit before tax	276 988	202 964
Income tax payable	87 998	83 428
Income tax relating to prior periods	477	76
Deferred tax	- 14 470	- 10 436
Total income tax	74 005	73 068
Effective tax rate	26.72%	36.00%

The amount of the effective tax rate is primarily affected by the fact that the write-off of the valuation difference in the aggregate amount of CZK 181,055 thousand that represents a permanent difference is included in deductible items. This influence is partially eliminated by the fact that the Company was returned the gift tax of CZK 69,839 thousand paid in 2011 and 2012 in respect of emission allowances allocated free of charge which also represents a permanent difference. These facts resulted in an increase in the effective tax rate of 7.65 percentage points. If these items had not been accounted for, the effective rate would have been 19.06%.

4.10. Details of Income by Principal Activity (Revenues)

	Year ended 31 Dec 2016			Year ended 31 Dec 2015		
	In- country	Cross- border	Total	In- country	Cross- border	Total
Sales of goods	-	-	-	-	-	-
Sales of products	-	-	-	-	-	-
Sales of services	2 237 942	-	2 237 942	2 178 562	352 178 597	2 530 749
Total sales of own products and services	2 237 942	-	2 237 942	2 178 562	352 178 597	2 530 749

4.11. Related Party Transactions**4.11.1. Income Generated with Related Parties**

		('000 CZK)	
Entity	Relation to the Company	Year ended 31 Dec 2016	Year ended 31 Dec 2015
ArcelorMittal Ostrava a.s.	Related party	2 200 224	2 141 391
Income from other companies in the group	Related party	128	123
Total income from companies in the group		2 200 352	2 141 514

4.11.2. Related Party Purchases

Of the total purchases volume in 2016 amounting to CZK 325,720 thousand from the related party, ArcelorMittal Ostrava a.s., the related party rebilled transactions in the amount of CZK 20,098 thousand. In 2015, the total purchases from ArcelorMittal Ostrava a.s. amounted to CZK 357,177 thousand, of which transactions were executed in the amount of CZK 40,857 thousand in the form of rebilling.

Entity	Relation to the Company	('000 CZK)	
		Year ended 31 Dec 2016	Year ended 31 Dec 2015
ArcelorMittal Ostrava a.s.	Related party	325 720	357 177
ArcelorMittal Poland S.A.	Related party	191	127 956
Purchases from other companies in the group	Related party	5 420	12 371
Total		331 331	497 504

4.12. Other Significant Items of the Profit and Loss Account

4.12.1. The Year Ended 31 December 2016

Other operating revenues particularly include the release of the subsidy for emission allowances in the amount of CZK 301,775 thousand, contractual penalty of CZK 206,640 thousand and the returned gift tax of CZK 69,839 thousand.

Other operating expenses particularly include the consumption of emission allowances in the amount of CZK 327,101 thousand (refer to Note 4.1) and insurance premium amounting to CZK 11,190 thousand.

Other financial revenues include a foreign exchange rate profit amounting to CZK 187 thousand.

Other financial expenses particularly include foreign exchange rate losses amounting to CZK 1,946 thousand, banking fees in the amount of CZK 6,187 thousand and expenses incurred by the revaluation of interest derivatives of CZK 6,417 thousand.

4.12.2. The Year Ended 31 December 2015

Other operating revenues particularly include the release of the subsidy for emission allowances in the amount of CZK 508,689 thousand.

Other operating expenses particularly include the consumption of emission allowances in the amount of CZK 508,689 thousand (refer to Note 4.1) and insurance premium amounting to CZK 11,467 thousand.

Other financial revenues include a foreign exchange rate profit amounting to CZK 8,671 thousand.

Other financial expenses particularly include foreign exchange rate losses amounting to CZK 2,873 thousand and banking fees in the amount of CZK 8,798 thousand.

4.13. Labour Cost and Headcount

The following tables summarise the average number of the Company's employees and managers for the years ended 31 December 2016 and 2015, respectively:

Year Ended 31 December 2016

	Number of staff	Payroll costs	Social security and health insurance	Other social costs	Total
Staff	338	135 746	53 395	2 489	191 630
Management	10	11 876	2 705	12	14 593
Total	348	147 622	56 100	2 501	206 223

Year Ended 31 December 2015

					('000 CZK)
	Number of staff	Payroll costs	Social security and health insurance	Other social costs	Total
Staff	340	137 945	52 489	2 689	193 123
Management	7	5 100	2 076	6	7 182
Total	347	143 045	54 565	2 695	200 305

4.14. Granted Loans, Facilities and Other Facts

In 2016, the members of the Statutory and Management Bodies received no bonuses or loans.

In 2015, the members of the Statutory and Management Bodies received no bonuses or loans.

4.15. Costs of the Fees Paid to the Statutory Auditor/Audit Company

In the years ended 31 December 2016 and 2015, the Company incurred costs of the fees paid to the statutory auditor in the amounts of CZK 539 thousand and CZK 353 thousand, respectively.

5. OFF-BALANCE SHEET COMMITMENTS AND CONTINGENT LIABILITIES

5.1. Provided and Received Guarantees

As of 31 December 2016 and 31 December 2015, the Company accepted bank guarantees in the total amounts of CZK 383,692 thousand and CZK 1,006,963 thousand, respectively.

5.2. Legal Dispute

On 30 May 2016, ČKD Praha DIZ filed an action against the Company in respect of terminating the contract for realising an investment project. The proceedings regarding this matter have not yet been concluded. Based on a petition filed by one of ČKD's creditor, the relevant insolvency court passed a decision on ČKD's insolvency on 9 September 2016 and the insolvency proceedings related to this matter are in progress.

5.3. Pledge of an Equity Investment in the Company

Two rights of pledge are recorded against the Company:

The right of pledge of 20 May 2015 is as follows:

The shareholder's equity investment has been pledged in favour of Raiffeisen Bank International AG with its registered office at Stadtpark 9, 1030 Vienna, Austria, recorded in the Register of Companies held by the Commercial Court in Vienna under no. FN 122.119m (the "Pledgee"), based on the Agreement on Establishing a Pledge on Equity Investment of 15 May 2015 (the "Pledge Agreement"), in order to secure debts existing when the Pledge Agreement is concluded or within a period of 15 years following the conclusion of the Pledge Agreement. The debts relate to the Company's shareholder, TAMEH POLSKA sp. z o.o., with its registered office at Dąbrowa Górnicza, Marszałka Józefa Piłsudskiego 92 102 B, 41-308 Dąbrowa Górnicza, Poland, recorded in the Register of Companies held by the National Registry Court under KRS no. 0000517891, TAMEH Czech s.r.o., with its registered office at Vratimovská 689/117, Kunčice, 719 00 Ostrava, corporate ID: 28615425 and other "Obligated Entities" as defined in the Pledge Agreement, in relation to the Pledgee arising from the Agreement on Term and Revolving Loans concluded on 15 May 2015 concluded between the Pledgee as the lead arranger, agent and security agent, Raiffeisen Bank Polska S.A., with its registered office at Piękna 20, 00-549, Warsaw, Poland, recorded in the Register of Companies held by the National Registry Court under KRS no. 0000014540, NIP no. 526-020-58-71 and REGON no. 010000854 and Raiffeisenbank a.s., with its registered office at Hvězdova 1716/2b, Prague 4, postal code 140 78, corporate ID: 492 40 901 as lead arrangers, TAMEH Czech s.r.o. and TAMEH POLSKA sp. z o.o. as debtors, the shareholder as the parent company, certain financial institutions as original creditors and other entities, from the Pledge Agreement and other "Financial Documents" as defined in detail in the Pledge Agreement up to the aggregate amount of CZK 3,950,000 thousand and PLN 840,000 thousand (or an equivalent thereof in another currency).

The right of pledge of 21 October 2016 is as follows:

The shareholder's equity investment has been pledged in favour of Raiffeisen Bank International AG with its registered office at Stadtpark 9, 1030 Vienna, Austria, recorded in the Register of Companies held by the Commercial Court in Vienna under no. FN

122.119m (the "Pledgee"), based on the Agreement on Establishing a Pledge on Equity Investment of 15 September 2016 (the "Pledge Agreement"), in order to secure debts existing when the Pledge Agreement is concluded or within a period of 14 years following the conclusion of the Pledge Agreement. The debts relate to the Company's shareholder, TAMEH POLSKA sp. z o.o., with its registered office at Dąbrowa Górnicza, Marszałka Józefa Piłsudskiego 92 102 B, 41-308 Dąbrowa Górnicza, Poland, recorded in the Register of Companies held by the National Registry Court under KRS no. 0000517891, TAMEH Czech s.r.o., with its registered office at Vratimovská 689/117, Kunčice, 719 00 Ostrava, corporate ID: 28615425 and other "Obligated Entities" as defined in the Pledge Agreement, in relation to the Pledgee arising from the provision of Term Loan Facility C as defined in detail in the Pledge Agreement, based on the Agreement on Term and Revolving Loans concluded on 15 May 2015, as amended by the first amendment of 14 October 2015 and the second amendment of 15 September 2015, concluded between the Pledgee as the lead arranger, agent and security agent, the European Bank for Reconstruction and Development (EBRD), with its registered office at One Exchange Square, London, EC2A 2JN, the United Kingdom, and Raiffeisen Bank Polska S.A., with its registered office at Piękna 20, 00-549, Warsaw, Poland, recorded in the Register of Companies held by the National Registry Court under KRS no. 0000014540, NIP no. 526-020-58-71 and REGON no. 010000854 and Raiffeisenbank a.s., with its registered office at Hvězdova 1716/2b, Prague 4, postal code 140 78, corporate ID: 492 40 901 as lead arrangers, TAMEH Czech s.r.o. and TAMEH POLSKA sp. z o.o. as debtors, the shareholder as the parent company, certain financial institutions as original creditors and other entities, from the Pledge Agreement and other "Financial Documents" up to the aggregate amount of PLN 530,000 thousand (or an equivalent thereof in another currency) but in any case with the exception of any existing, future and contingent debt (including interest, default interest, any accrued interest and contractual penalties) of any Obligated Entity towards the Pledgee based on any "Financial Document" as defined in detail in the Agreement on Establishing a Pledge on Equity Investment of 15 May 2015 (the "Existing Pledge Agreement") or in relation thereto and within the scope in which such debts are secured by the Existing Pledge Agreement.

6. POST BALANCE SHEET EVENTS

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

VI. Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT To the Partner of TAMEH Czech s.r.o.

Having its registered office at: Vratimovská 689/117, Kunčice, 719 00 Ostrava

Opinion

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

In our opinion, the accompanying financial statements give a true and fair view of the financial position of TAMEH Czech s.r.o. as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

Basis for Opinion

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

Other Information in the Annual Report

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

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

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

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

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

Responsibilities of the Company's Statutory executives for the Financial Statements

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

In preparing the financial statements, Statutory executives are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Statutory executives either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

In Ostrava on 3 March 2017

Audit firm:

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

Statutory auditor:

Petr Michalík
registration no. 2020