



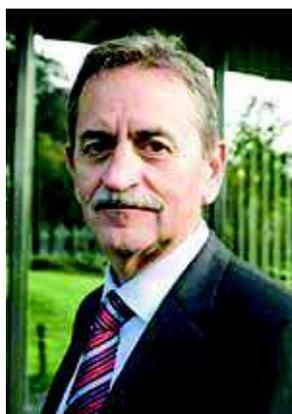
ANNUAL REPORT 2016

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THE BOARD OF DIRECTORS' REPORT ON BUSINESS ACTIVITIES



Dear shareholders,
Dear business partners,
Dear employees,

By way of introduction, I would like to thank to Mr. Jaroslav Přerost for his successful long-lasting acting as the Chairman of the Board of Directors. During that period, Sklopísek Střeleč, a joint stock company, made a significant progress thanks to a good strategy of its shareholders, efficient work of the company's management, and professional attitude of its employees. I firmly believe that the current trend will still continue and the company will also keep developing during my chairmanship.

My activities carried out for Sklopísek are not entirely new for me; I have been a member of the Board of Directors since 2013 and I know the work of the local management and strategy of its shareholders very well.

The management is well versed in the commercial environment in the area of its activities, as recognized by the last year's profit. They correctly estimated market trends and crisis continuation at the final definition of the budget. The profit after tax was higher by more than 6 % against the budget thanks to strict controlling of production costs at lower sales. In spite of that, we can't overlook the fact that, when compared with 2015, we lost a big customer which caused a drop of our sales and the whole turnover and profit. We proceeded implementing principal investment projects that are indispensable for our future development, which is a significant fact. Further, the company's executive management was stabilized and a more open and efficient communication among employees was started.

We still consider improvement of occupational safety of all our employees and our cooperating partners to be the main task. Another necessary thing is a consistent control of production cost while maintenance of high quality of our products and perfect services provided to our customers.

We will use all our abilities to increase efficiency and operating profits in the environment of recovering economy in dominant markets.

We have a highly professional team and we will strive for stabilisation of each of our employees working in favour of our company. We expect that we will jointly develop our company and raise the bar a little bit higher in the near future.

Thank you all for your efforts that allowed us to achieve the defined goals and I look forward to our further cooperation.

A handwritten signature in blue ink, appearing to read 'Pavel Šedlbauer'.

Pavel Šedlbauer, Chairman of the Board of Directors

COMPANY'S PROFILE

The oldest written source of extraction in Střeleč dates back to 1893, in which blocks of sandstone were extracted there for stone-cutting industry. There, they extracted blocks of kaolinic sandstone that was used for socles, facing of buildings, facades of buildings, pavements, stairs, abrasive rings for machines, for glass grinding plants, monuments etc. The sandstone was used at the construction of the Ministry of Trade in Prague, the hospitals in Jilemnice and Jičín and the church in the suburbs of Hradec Králové. Extraction of sand in our current deposit of glass and foundry sands was launched before the 1st World War.

The exceptional qualities of the sands for wide industrial production were discovered by Ing. Dr. Bohuslav Stočes before the 2nd World War, who fully realized their value. Thus, in 1939 the company "První česká úpravna sklářského písku ve Střelči" (First Czech plant for preparation of glass sand in Střeleč) was established.

Sklopísek Střeleč, a.s. is currently a significant company in the Czech and Central European area. In the area of production capacities and volume of sold silica sands it belongs among the leading suppliers in the Central Europe. It is a reliable supplier and respectable partner supplying sands of high-quality suitable for wide purposes.

The company's premises are situated 10 km in the north-west direction from the town of Jičín. Its production plant has been built in the area of the municipality of Újezd pod Troskami in the village of Hrdoňovice and is equipped with state-of-the-art technologies. Modernisation of the technologies and suitable sources of raw materials allows the company to produce silica sands with low content of iron oxide, which is necessary for production of extremely pure glass. They are high-quality glass sands with the content of Fe_2O_3 that does not exceed 100 ppm.

Its mining area of 1.7 km² is located in the territory of the village of Střeleč. The mining area is the largest in the Czech Republic with the best quality place for mining of high-quality sands.

The sands produced by the company are the basic raw material for production of crystal glass, glass packagings, plate glass and glass fibre. They are suitable for wide use in foundry industry. Their chemical purity and favourable graininess are also valued in other industrial areas, particularly in electrical and building industries.



"The company gets ahead in all areas of industry thanks to its unique raw material base."

Application of products ...

Automotive industry

Car glass, mirrors, fibreglass in plastics – abrasion resistance increase, light bulbs, sparking plugs, brake lining, casting moulds - foundry industry, searchlights...

Information technologies and imagine techniques

Semiconductor industry, display screens, components of cements, processors (100% purity is necessary), optical fibres...

Housing development

Glass panels - windows, doors, showcases etc., modern constructional material for cladding of buildings, fibre-cement boards, constructional concrete, insulation, mined sand (not washed) for wide use, optical fibres - building components, mortar mixtures, floor mixtures, chandeliers, lighting fixtures, light bulbs, mirrors, pictures, glassware, crystal glass, spreads on cardboards, artistic decorations, coatings, filtering sand for swimming pools, door glass for automatic washing machines, top dressing of lawns, filling sands (excavations, pavements, winter spreading), solar panels, glazing of wall tiles, floor tiles, roof tiles...

Personal use

Jewels, glass decorations, glasses, astronomic telescopes for professionals and amateurs as well, sighting optics, optics of cameras and projectors, oven-ware glass, glassware, hotel glass, toothpastes, components for dental laboratories, glass figures, water glass - part of detergents.

Sports fields - amusement

Beach volleyball, football pitches, golf courses, optic equipment of hunting weapons, tennis courts, playgrounds, arenas for horses, safety glass in enclosures for animals in ZOOs, terrariums, aquariums...

Foundry operations – moulding compounds and sand cores

Rail transport, military technologies, fittings, structural elements, control elements - wheels, levers, heavy and light industry...

Industry - others

Blasting material, paints, glass industrial pipes, laboratory glass, mining industry - shale gas, protective and noise reducing barriers along roads, components for production of artificial stone, glass packagings, plugs for bottles..

"We create part of your lives."

EVENTS 2016

JANUARY

As usual, the company management has met with important suppliers to discuss the projects that have been implemented and plans for the future.

Since 1 January, Mr Pavel Šedlbauer, become a new Chairman of the Board of Directors.

FEBRUARY

Like every year, a presentation day for the company's employees took place in February. The company presented its results for the past year, goals set for the another year, and new employees were introduced. During the visit of the Mayor of Jičín in our company we had an opportunity to discuss our possible cooperation at the occasion of cultural events in Jičín.

MARCH

An financial audit was carried out in the period from March 7 to 11 by the auditors of KPMG. The management of the company is fully coherent with the Czech accounting principles.

APRIL

A meeting of Asociace sklářského a keramického průmyslu ČR (an association of glass and ceramic industry), of which Sklopísek Střeleč, a.s. is a member, took place in the premises of the company on 5 April. The company's management met with the representatives of Český Ráj Protected Landscape Area. The subject of our negotiations was our mutual cooperation and providing information on hot issues of both companies.

MAY

At the end of May, we organized a bowling tournament for our employees and our company's suppliers and external workers.

JUNE

The company's Board of Directors held a meeting at the beginning of June. It approved important investment projects for further development of the company. Additionally, the constitution of the members of the Board of Directors has changed. Mr. Jiří Mašek left the office of the Chairman of the Supervisory Board and has become a member of the Board of Directors. Mr. Jiří Iša has become the new Chairman of the Supervisory Board. Another new member is Mr. Mark James, who took over for Mr. Bernard Respaut.

The company presented itself at the "Concerto Glassico" exhibition in Toskánský Palace in Prague. The exhibition also included demonstration of life glass-making – glass blowing at a glass furnace, engraving and cutting of glass, manufacturing of glass figures, lampwork beads making, Christmas tree decorations painting and many others.

JULY

A customer audit by FERAMO Brno was executed in our company. Sklopísek Střeleč, a.s. passed the audit without reservations.

AUGUST

We could see our company logo in the RIO Olympic Park in Lipno, where we delivered the sand, which was called "Copacabana" by the volleyball players.

Official certified measurement of seismic activity was carried out by supplier. The results and measured values were 20times lower than prescribed by the respective standard. Blasting works are carried out based on a permission for mining activities and each blast is reported in advance to the respective mining authority (Obvodní báňský úřad Hradec Králové).

SEPTEMBER

The company presented itself at the 3rd Congress of Natives and Friends of the communities of Mladějov, Roveň, Hubojedy, and Střeleč. An exhibition was prepared for the purpose of this event in the premises of school - a sandpit was built for children in the playground.

A trip to the company's premises by a steam train took place on November 11 as a part of "Jičín - The Town of Fairy Tales" event. The excursionists had a chance to see the company's area and sand quarry, and to learn interesting things about sand mining and processing.

OCTOBER

A meeting of the Board of Directors of the joint stock company Sklopísek Střeleč took place in Prague. The plan for 2017 was approved and the issues of occupational safety, business strategies and significant customers were discussed.

Within their recertification audit, the auditors of the company BUREAU VERITAS CZECH REPUBLIC, spol. s r. o. confirmed that the company maintains its management system that complies with the requirements of ISO 9001, ISO 14001, and OHSAS 18001.

Because company cares about its employees, a financial literacy training accessible to all employees was organized.

NOVEMBER

In the pre-Christmas period the company management met with the mayors and vice mayors of surrounding urban areas to discuss their current and future cooperation. The company introduced its news and innovations that had been implemented in the previous year. The company appreciates good relationships with neighbouring villages and it was a pleasure to hear their appraisals related to the attitude to environment and work conditions for employees.

The company presented itself within the 53rd Foundry Days in Brno. Technical lectures and workshops from the area of foundry industry took place during the exhibition.

DECEMBER

A traditional company's Christmas party took place in December. Within that event, new employees were introduced, employees that have been working in the company for more than 30 years were awarded and a symbolic cheque was given to the mother of a handicapped boy. The company gave him a financial amount that would help him in his medical treatment.



Meeting with Mayors and Deputy Mayors of surrounding municipalities

BUSINESS ACTIVITIES

Occupational health and safety (OHS)

OHS register of hazards was updated and assessed by individual foremen of operations and technologies. The main crossroads and following road was repaired, the pavement for pedestrians was separated from the main road. Building of three pedestrian crossings minimized the risk of a job-related injury.

4 near accidents had been identified during annual OHS audits and they were removed by the technical department.

In the Dry preparation plant, a pavement for pedestrians was designated and the whole operation was provided with several safety signs with warnings regarding fork lift trucks. In addition to that, a booth for cleaning dusty clothing was installed.

A job-related injury occurred in October after five years in the Wet preparation plant. Several corrective measures were implemented, e.g. Extraordinary OHD training, practising of emergency situations by individual work shifts in the individual manufacturing plants, inspections of technological and work procedures and for this year we have planned replacement of deblocking cabinets with lockable cabinets.

The supervisory audit that took place in October passed without any noncompliances.



"Occupational safety must come first"

Mining Activities

Excavating works carried out in 2016 continued in selective mining of glass sand and foundry sand by the individual qualitative parameters. The process of overburden removal locations was concentrated into the north part of the deposit, in the so-called closing slope, and thus the glass-making locations for mining in 2017 have been prepared. Mining of raw material under the ground water level took place in accordance with a valid permission. Overburden material formed from the upper overburden and hard clearing locations was deposited on the internal dump. The inner dump in the north-eastern part was partially reclaimed by topsoil and grassed.

Raw material basis

At mining of glass and foundry sands, the company paid attention to optimum utilisation of raw materials according to content of Fe_2O_3 and grain size range. Suitably selected type of raw materials for the given production is the basic factor in the efforts to increase the period of life and use of all glass and foundry sands in deposit. The exploratory activities in Střeleč deposit showed no new hazardous places. The current hazardous zones are monitored and marked with safety signs. The exploration of the dangerous area is very important in terms of safe operation.

Measuring of noise and seismology

Constant monitoring of seismic effects of blasting techniques does not show any exceeding of permissible hygienic regulations determined for the object monitored in accordance with CSN 730040. The company still keeps using the constant INSTANTEL MINIMATE + meter that allows transmission of the values measured over a mobile phone and thus it helps the managers to have a good and up-to-date information on the situation in the deposit. The measured values continued to achieve the limits set only from one tenth.

It was determined, thanks to the year-long measuring of noise values, that the noise level in the environment is not increasing. This way, one of the conditions of the mining activities permission is fulfilled.

Measuring of dustiness

Another precondition for permission of mining activities is fulfilled by regular washing and maintenance of the roads and parking areas in the premises of the plant and the sand pit. Continuous monitoring of dustiness carried out by an authorized agency shows no exceeding of determined limits.

Protection of surface and ground waters

A supplier's company ensures continuous monitoring of surface and underground water in close and wide surrounding of the deposit. The target is the ability to prognosticate the development of ground water in the structures supplying water to public.

The monitoring of 2016 again does not show decrease of water. To the contrary, the water level in the objects monitored are slightly increasing. The permission acquired for reduction of the level in the main pumping station in the sand pit to the dimension of 245.0 metres above sea level was utilized for the extraction under the ground water level.

"We care for environment."

Technical Support

Ensuring a trouble-free and reliable operation of the whole plant is a precondition for fulfilment of production and business plans.

The following projects were crucial for the company in 2016:

Measures for reduction of dust and noise

Ensuring compliance with hygienic standards and continual improvement of working environment create the driving force for implementation of the measures that improve the hygienic parameters every year in small or even big steps. This is particularly proved by our investment projects: "New filter for drying plant", "Utilisation of P5 container for drying circle" and "Air cleaning booth" that again helped to improve the working environment in the Dry preparation plant.

Another significant measure was replacement of 4 pieces of gearboxes of conveyor belts that negatively influence noise level of the production plant.

Measures for reduction of noise and dust burden are also reflected in the investment and repairs plan for 2017.

Repair of in-company communications

Repair of the last section of concrete communications in a bypass one-way circuit for loading of silo tankers was completed in 2016. Another important step during this phase was addition of some pavements, pedestrian crossings and vertical road signs, which is the first step to significant reduction of the risk of accidents and job-related injuries in the in-company road traffic.

Sieve sorter - wet sorting

The implementation of the "Sieve sorter" partly allowed the production division to get a novelty for the wet sorting in its technological portfolio and a possibility to influence manufacturing of products tailored according to the customers' needs and partly it showed the strength of the engineering maintenance and electrical maintenance that ensured implementation of this investment completely. Installation of this sorter is one of the planned steps of renovation of the Wet preparation plant control technology.

The investments in production help the company to stay in the lead in its branch. At the same time, we put great emphasis on optimisation of all processes and searching financial reserves. Numerous tenders and inquiry processes create an inseparable part of these processes. The priority is to preserve an adequate technical and technological quality of our facilities.

"We incessantly increase the level of system thinking as a prevention against occurrence of job-related injuries of our employees and employees of our suppliers."



Production Productivity

Sklopísek Střeleč, a. s. ranks among the most important suppliers in Central Europe in the sphere of production capacity and volumes of silica sand sold. Incessant modernisation allows producing silica sands with low content of iron oxide that create the basic element for production of extremely clear glass.

We were focusing on searching internal economies (savings), just as it was last year. Emphases were put mainly on optimisation of production processes, synchronisation of production times and elimination of idle times. The resulting asset was optimisation of production cost and increased productivity per head.

The same way as in the last year, the company invested considerable funds into modernisation of its technological equipment to increase the utilisation rate of fine sand that has a great financial benefit, but also into improvement of the working environment. It particularly included an expensive investment into dedusting system of the dryer in the dry preparation plant and installation of a personal cleaning booth. In the Wet preparation plant it was an investment into a modern sorter Derrick and its accompanying technological parts. The company's management continues in cooperation with all its employees in implementation of their suggestions for elimination of all, even small, sources of dust and noise, and implementation of all submitted and approved improvement proposals, for which the company provides financial bonuses and the creation of which it maximally supports.

Based on the Sales Department's request, we continued in taking formerly non-standard requests of our existing and new customers for different or very specific quality of our common products into account in our production processes in wet and dry treatment plants. For this purpose we were successfully increasing the flexibility of individual production lines, which in absolute majority of cases resulted in our ability to provide the customers with the products according their requirements.

The company does not perform any research or development on the plant level applicable in accordance with the tax advantages set by the Income Tax Act. It performs research and development in the scope of work of all involved employees focused on constant reduction of cost, increase of performance and optimisation of processes.

„We increase flexibility of our production to be able to accommodate our customers' wishes with maximum efforts to avoid wasting natural resources.“

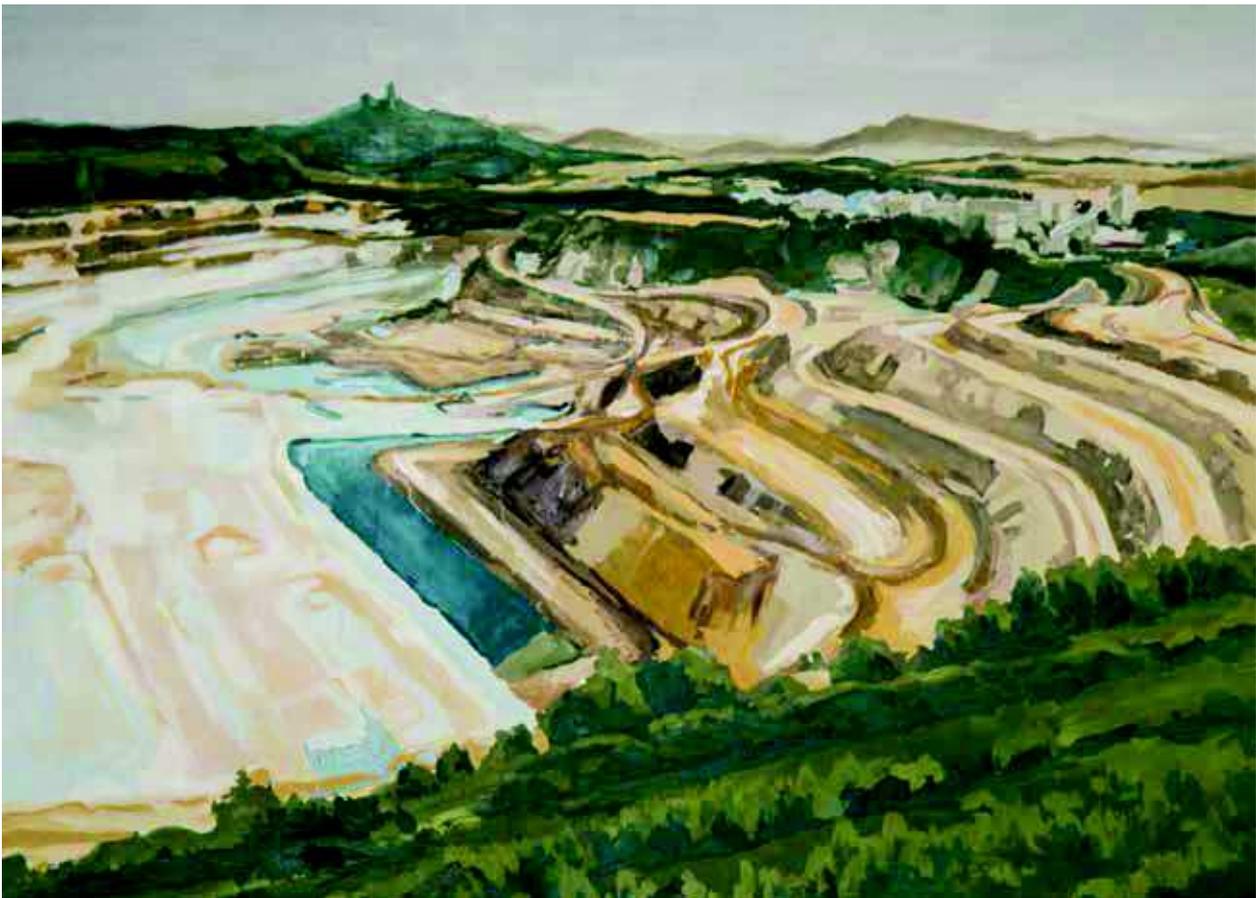
Business Policy

An essential piece of news from the business area is that we succeeded to pick up the threads of our high volumes of sales of previous years. Although, the annual quantity of almost 700 thousand tons of sand sold from one year to another is slightly lower, nevertheless, the portfolio of sold sand and variations of packaging creates for us an excellent position for achieving stable economic results in subsequent years.

Thanks to the ongoing trend of our business policy focused explicitly on our customers' needs and thanks to high and stable quality of our products and development of new products we have strengthened our market position that we have been building up for a long time and created a solid base for continuing growth. Moreover, another contribution to the good results achieved during 2016, in addition to the highly coveted cleanness of our quartz sand, was the total economic output and stable exchange rate.

Positive are new foreign acquisitions, mainly in the German and Polish market, in which the company managed to gain new customers in the area of glass-making and chemical industry. The structure of customers includes branches that require using of silica sands with extremely low content of iron and other oxides.

A significant assessment factor of the company's market position is the fact that it is perceived as a reliable and respectable partner that is able to react flexibly to the customers' needs. Readiness to supply required quantities and quality continues to be our highest priority.



"Customers' satisfaction is our priority."



Awareness of Responsibility

The company pursues sustainable development. The goal of this policy is minimisation of environmental impacts, cooperation with the municipalities in the region and accent put on occupational health and safety.

Thanks to financial supports we implement our long-term vision of interconnection of the company with the life in the region. The company supports cultural and sports life in the company's neighbourhoods and an inseparable part of this support is the aid provided to disabled children and non-profit organisations. One of such acts was also the support provided to a seriously disabled boy, Dominik Ševců. His mother received a symbolic cheque at the company's Christmas party.

In addition to concrete objectives of the company's responsibility the company supported significantly Social services of Jičín, fire departments, neighbouring schools, and the Sports club of Sklopísek Střeleč, a.s. in the last year.

The company's responsibility also integrally includes cost connected with reclamation of a landscape, water monitoring, noise and dustiness. The company has a responsible approach to employees' health protection. The protection includes creation of a team that is responsible for significant reduction of dustiness in the sites under the limits set by state authorities.

"We are incessantly searching for the opportunities for improvement of our environment and we are also involved in the life in our region."

COMPANY'S MANAGEMENT

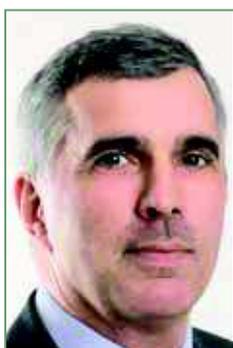
Situation as of 31st December 2016:



Petr Hübner
Managing Director



Jiří Veselka
Financial
Manager



Zdeněk Müller
Technical
Manager



Zdeněk Novotný
Sales
Manager



Pavel Novák
Production
Manager



Lukáš Horák
Mining
Manager

Board of Directors

Chairman: Pavel Šedlbauer
Member: Otto Lorenz Hieber
Member: Felix Moreno Diaz
Member: Jiří Mašek
(from June 2, 2016)
Member: Bernard Respaut
(to June 1, 2016)
Mark Christopher James
(from June 2, 2016)

Advisory Board

Chairman: Jiří Mašek
(to June 1, 2016)
Jiří Iša
(from June 2, 2016)
Member: Ladislav Vostárek
Member: Miloš Daňo

Sklopísek Střeleč, a .s. has no organisational unit abroad.

There were no events as of the date of preparation of the annual report that could significantly affect the financial statements dated December 31, 2016.