Annual Report U. S. Steel Košice, s.r.o.

2016

U. S. Steel Košice

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PRESIDENT'S FOREWORD

Through this 2016 Annual Report we have an opportunity to inform our customers and partners, employees and the general public about our business successes and challenges in a broader context. To ensure development of our business we have made great progress to improve and deliver benefits for our stakeholders. Though conditions have been very difficult, I am proud to announce that we are succeeding.

The situation in the European steel industry was complicated in 2016. Producers were burdened not only with very ambitious environmental and climate regulations set by the European Union, including Best Available Techniques or the even more strict Trading Scheme for CO_2, but also with continued unfair imports from state subsidized economies. Together with the labor unions and our international partner associations we had to protest loudly in Brussels several times against decisions which harm the European steel industry and demand a clear revitalization plan for this sector which is a vital base for many other industries.

While in the international context we only asked for a level playing field for steelmakers, in our divisions we focused on what we had in our hands and those key imperatives that we can control: the safety of our employees, contractors and suppliers, quality services and products for our customers, and continued cost efficiencies. We had to take measures to counter the worsened European market conditions and start the year with a shortened working week. Thanks to continuous efforts by our cross-departmental teams in seeking new procedures and solutions, thanks to the involvement of thousands of our employees and their creative thinking, we contributed 152 million USD through the Carnegie Way transformation process and finished the year with positive results. Satisfaction of our customers has the same importance. We evaluate it daily and improve by providing focused solutions and continuous improvement to our processes.

I am particularly proud of the results which we achieved in our safety. We are closer to the zero injury target with a 2016 frequency rate of 0.17. Several of our divisions were able to work more than 1.5 million employee-hours without injury thanks to their team work. Exchange of experience and proven solutions were included in the program of the World Steel Association Safety and Health Committee meeting, which we co-organized in Košice. There is nothing more important than the safety of our employees.

In the environmental area in 2016 we continued in minimizing the impacts of our production operations on the quality of the environment, mainly air and water. We also paid the same attention to recycling and waste management. The most important investment project was the modernization of the Boiler House and the construction of boiler number 7. Benefits of this investment amounting to 71 million EUR include reduction of emissions and waste in line with our effort to implement the Best Available Techniques. In the energy field we will also achieve better efficiency of heat and electricity generation at reduced costs, which is one of our permanent aims in energy efficiency management.

In the social area we continued in open communication with the labor unions and resolved several complicated situations. Our basis for further cooperation is the Collective Agreement for 2016-2020, which we signed in April. We also continued in partnership with many educational, social and health institutions in the region, we supported charities and volunteering among our employees, and we still act as leaders in business ethics and corporate social responsibility. I continue to be extremely proud of the efforts from USSK employees in their charity and volunteering within the communities we work and live.

We enter 2017 with determination and the knowledge that we need to overcome more obstacles. We must focus on what we can control. First and foremost Safety, making quality steel for modern applications, while working with our customers for their current and future needs. We will continue our Carnegie Way transformation and search for new approaches and solutions. In line with the new requirements of standards for quality and environmental management systems according to ISO 9001 and ISO 14001, we will also concentrate on implementation of changes and further improvement of processes and Company performance. We expect the European Commission to set up level and fair business conditions and implement quick and effective solutions to specified problems. We are ready to work hard and deliver value for ourselves and our stakeholders in the coming years as well.

Scott D. Buckiso,
President U. S. Steel Košice, s.r.o.

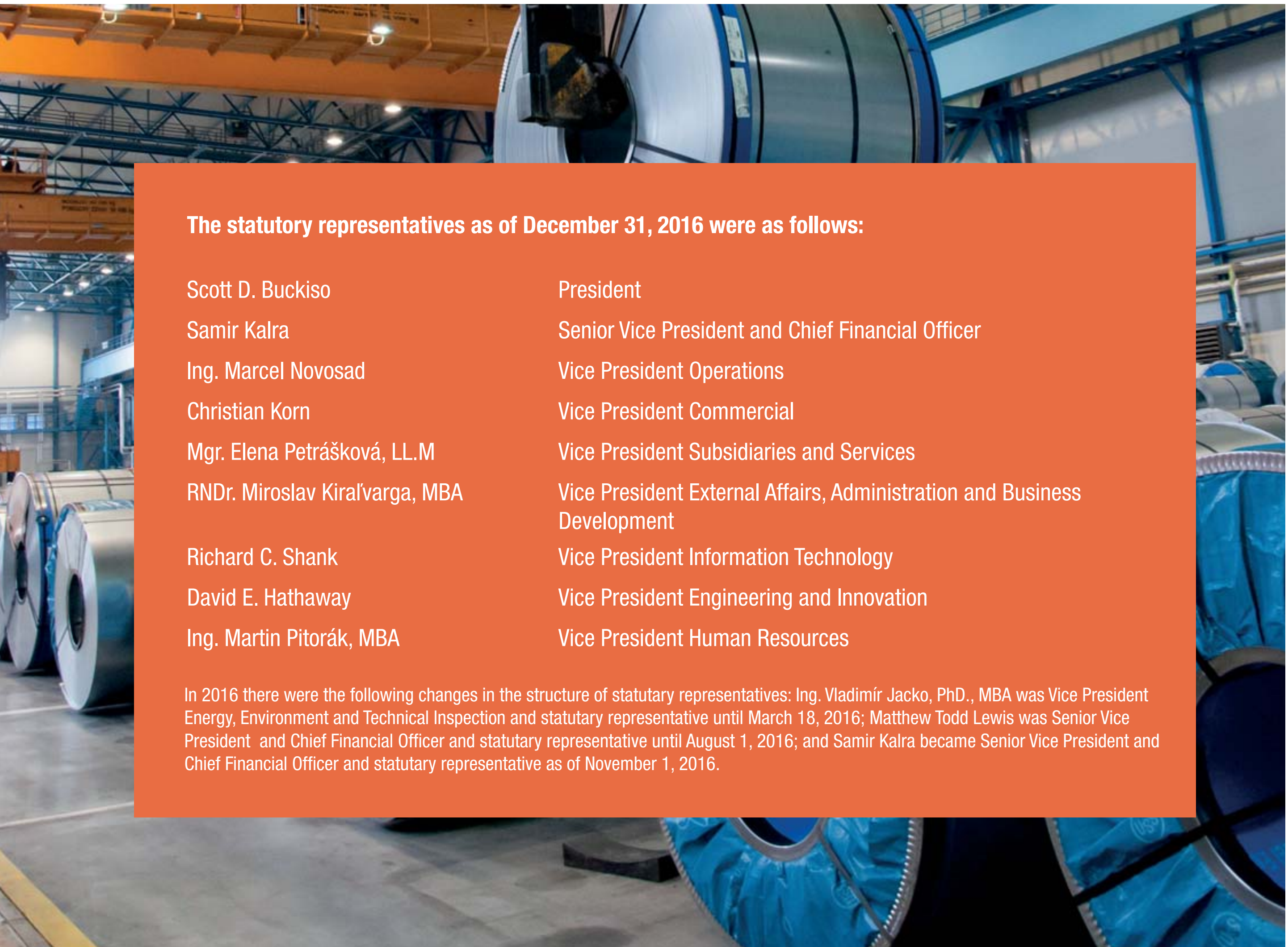
COMPANY PROFILE

U. S. Steel Košice, s.r.o. (also “the Company” or “USSK”) is one of the largest integrated producers of flat-rolled steel products in Central Europe, providing a wide assortment of hot-rolled, cold-rolled and coated products including hot-dip galvanized, color-coated, tinplate and non-grain-oriented sheets. The Company also produces spiral welded pipes and KORAD panel radiators.

USSK has annual raw steel production capability of 4.5 million metric tons. USSK has two coke batteries, four sintering strands, three blast furnaces, four steelmaking vessels, a vacuum degassing unit, two dual strand continuous casters, a hot strip mill, two pickling lines, two cold reduction mills, a batch annealing facility, two continuous annealing lines, a temper mill, a temper/double cold reduction mill, three hot-dip galvanizing lines, two tin-coating lines, three dynamo lines, a color-coating line, two spiral- welded pipe lines and facilities for manufacturing panel steel heating radiators. The Company also has multiple slitting, cutting and other finishing lines for flat products. The research unit runs corporate excellence centers for coal and coke, electrical steels, statistics and mathematical analyses, as well as a center for technical design and instrumentation.

U. S. Steel Košice, s.r.o. was established as a limited liability company in Slovakia on June 7, 2000 and entered in the Commercial Register on June 20, 2000 (Commercial Register of the District Court Košice I in Košice, Section Sro, File 11711/V). The Company’s registered office is at Vstupný areál U. S. Steel, 04454 Košice. As of October 7, 2016 there was a transfer of ownership interest in the Company. The shareholder changed from U. S. Steel Global Holdings I B.V., Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands to U. S. Steel Global Holdings VI B.V., Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands. So, as of December 31, 2016 the only shareholder of the Company became U. S. Steel Global Holdings VI B.V., Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands. The ultimate parent company of USSK is United States Steel Corporation (also U. S. Steel), 600 Grant Street, Pittsburgh, Pennsylvania, USA.

As of December 31, 2016 U. S. Steel Košice, s.r.o. had nine subsidiaries, five of them in Slovakia and four abroad. The Company does not have a branch abroad.



The statutory representatives as of December 31, 2016 were as follows:

Scott D. Buckiso	President
Samir Kalra	Senior Vice President and Chief Financial Officer
Ing. Marcel Novosad	Vice President Operations
Christian Korn	Vice President Commercial
Mgr. Elena Petrášková, LL.M	Vice President Subsidiaries and Services
RNDr. Miroslav Kiraľvarga, MBA	Vice President External Affairs, Administration and Business Development
Richard C. Shank	Vice President Information Technology
David E. Hathaway	Vice President Engineering and Innovation
Ing. Martin Pitorák, MBA	Vice President Human Resources

In 2016 there were the following changes in the structure of statutory representatives: Ing. Vladimír Jacko, PhD., MBA was Vice President Energy, Environment and Technical Inspection and statutory representative until March 18, 2016; Matthew Todd Lewis was Senior Vice President and Chief Financial Officer and statutory representative until August 1, 2016; and Samir Kalra became Senior Vice President and Chief Financial Officer and statutory representative as of November 1, 2016.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Company has implemented a responsible approach in doing business since its establishment in Košice. It develops the message of the first U. S. Steel Board Chairman Elbert Gary and his principles about ethical and transparent business which he defined at the beginning of the 20th century. USSK accepts the responsibility of the biggest company and employer in Eastern Slovakia and regularly informs stakeholders about impacts of its business on social, economic and environmental life in the region. The Company has published four separate corporate responsibility reports covering 2001-2010 and since 2011 CSR has been integrated into the annual reports.

USSK is one of the establishing members of the Business Leaders Forum, which has systematically promoted the CSR approach in Slovakia since 2004. The results of our responsible approach in various fields of our activity in 2016 are described in the following chapters.

THE CARNEGIE WAY

The Carnegie Way was launched in 2013 to transform the way we do business to achieve sustainable short and long term profitability regardless of the business cycles. Lean Six Sigma, change management and leadership training have been blended together into a unique Carnegie Way method to give us the tools to sustain and compete in complicated environment.

As our journey continued in 2016, an exciting team atmosphere and cadence was created to help turn approximately 1,400 employee ideas into real value creation for all of our stakeholders. Employee initiatives exceeded the value of USD 152 million. Additional tools are being made available that will further empower and engage our employees. Our teams are energized by their performance in 2016 and are looking forward to the challenges of 2017 and beyond.

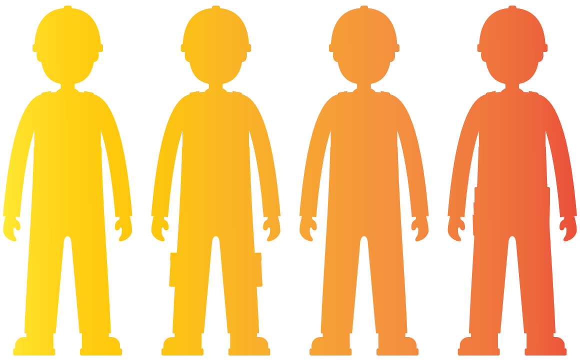
1397 projects / USD 152 million / 5 areas

- *Increasing revenues and cash generation*
- *Cost reduction*
- *Enhancing the quality of products and Customer Service*
- *Innovations*
- *Safety and Environment*

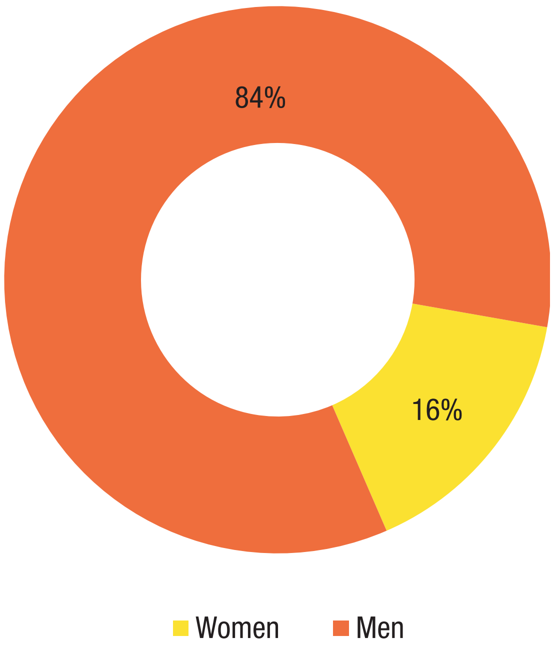
IMPACT OF THE COMPANY IN THE SOCIAL AREA

U. S. Steel Košice, s.r.o. is one of the largest private employers in Slovakia and the largest employer in the East Slovakian region. Several generations of employees with excellent professional knowledge and skills have contributed to the success of the Company. USSK pays constant attention to management and development of its human resources, which include a wide range of activities from supporting students of partner schools as potential employees, through growth of motivation and communication with labor unions to employee training and development. Special focus is put on occupational safety and health protection, which are also promoted as basic values in cooperation of the Company with its partners and the community. Since its establishment, USSK has also been the leader in fostering working and business ethics.

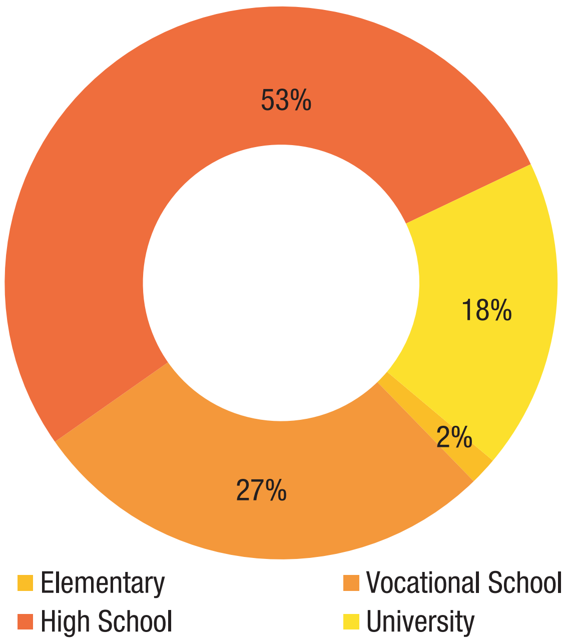
The employees started 2016 with shortened working weeks as a result of measures taken to counter the worsened European market conditions due to unfair imports. Together with thousands of colleagues from EU countries they protested in Brussels demanding a solution to the critical situation in the steel industry. In addition to natural attrition, workforce restructuring which also included the possibility of voluntary redundancy with compensation led to several hundred employees leaving the Company, while on the other hand several hundred young employees were hired to fill positions in operations. As of December 31, 2016 the workforce was 9,974 people, which meant 230 fewer employees in comparison to the previous year.



Number of employees by gender as of 12/31/2016

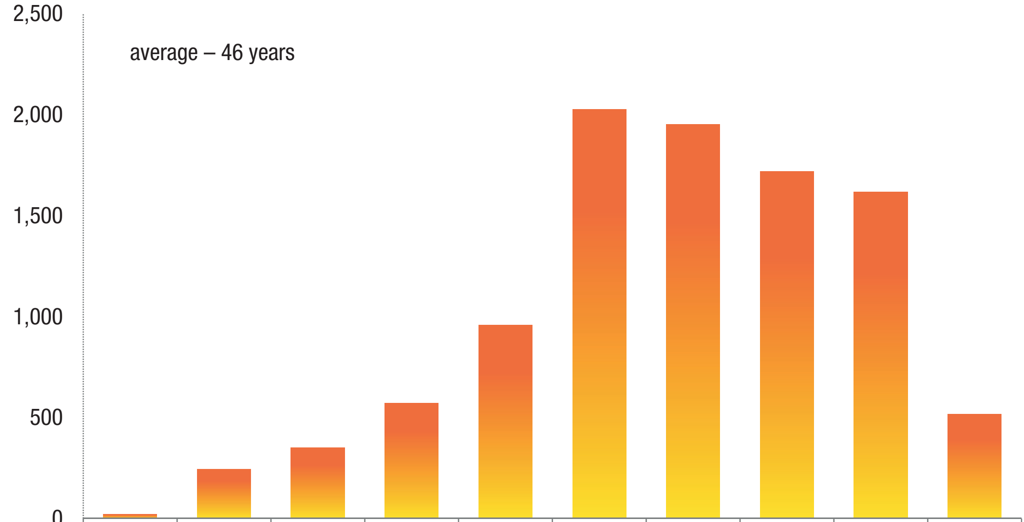


Number of employees by educational background as of 12/31/2016



USSK Active Employees Total: **9,974**

Number of employees by age
as of 12/31/2016

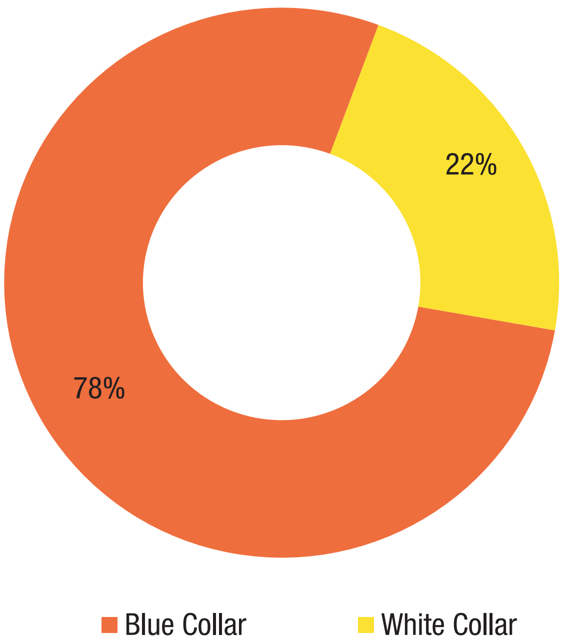


	up 20	20 - 24	25 - 29	30 - 34	35 - 39	40 - 44	45 - 49	50 - 54	55 - 59	over 60
# of employees	22	243	350	572	959	2,026	1,952	1,718	1,616	516

age

USSK Active Employees Total: **9,974**

Number of employees by category
as of 12/31/2016



OCCUPATIONAL SAFETY AND HEALTH PROTECTION

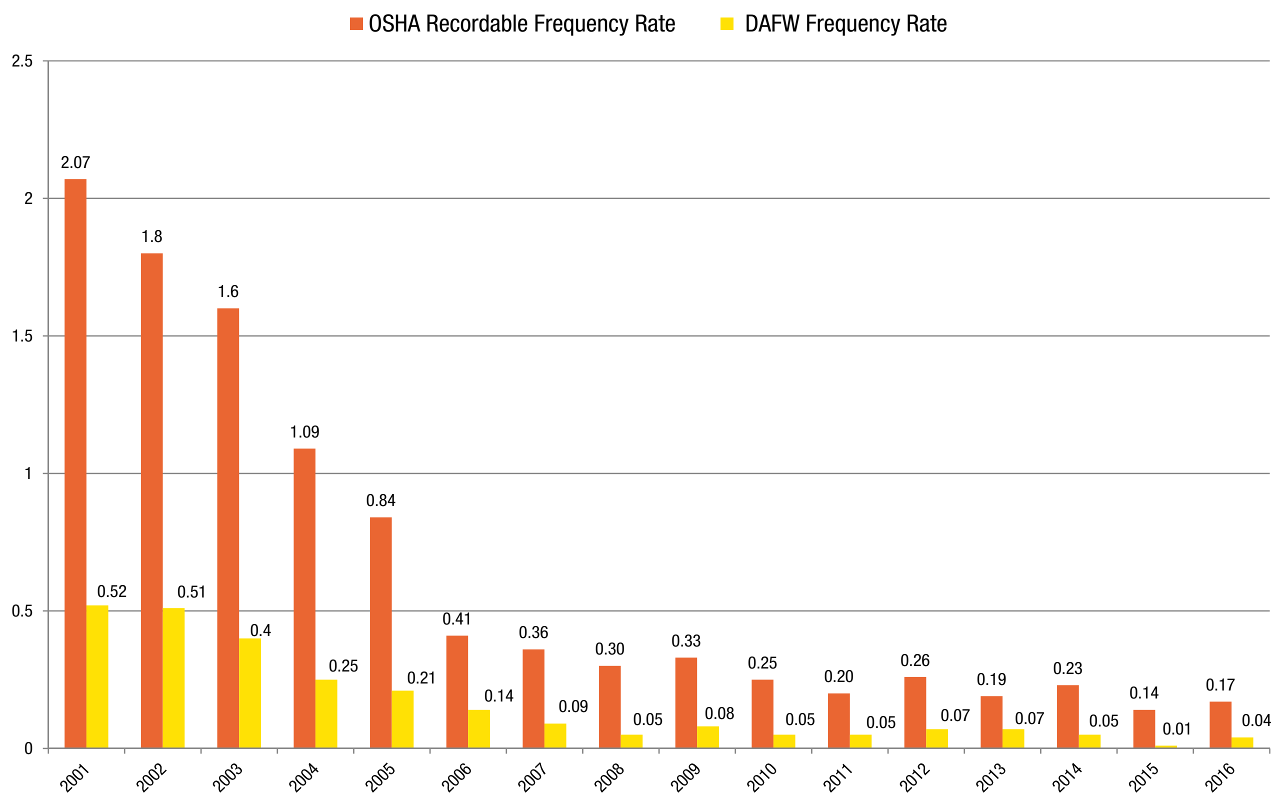
Occupational Safety remains the primary core value at U. S. Steel Košice, s.r.o. Effective engagement of all our employees, contractors, and service organizations is essential to support this value and accomplish our goals.

Many of the individual departments achieved excellent safety results in 2016. Departments surpassing 1.5 million employee-hours (over 2 years) without an occupational injury included Transportation, Coke Plant, Hot Rolling Mill, Cold Rolling Mill, and the subsidiary companies. This was the third time the subsidiaries reached this important milestone. On December 31, 2016, the Transportation Division reached more than 2 million employee-hours without an occupational injury. The Radiator & Pipe Mill and Blast Furnaces departments surpassed 1 million employee-hours without a recordable occupational injury. The Company Management group extended their record to more than 9 million employee-hours (over 3 years) without an occupational injury.

Despite the number of individual milestones achieved by divisions in 2016, U. S. Steel Košice, s.r.o. as a whole incurred four Days Away from Work injuries compared to one in 2015 in accordance with Occupational Safety and Health Administration (OSHA) methodology. OSHA recordable injuries also increased slightly, with the facility incurring 16 compared to 13 the year before. The primary causes of occupational injuries related to human factor failures as well as issues with timely reassessment of hazards under changed conditions.

As shown in the graph below, comparing the years 2001 through 2016, **U. S. Steel Košice, s.r.o. achieved a 94% reduction in OSHA Recordable Injury rate and a 98% reduction in Days Away from Work Injury rate.**

Carnegie Way efforts continued throughout 2016 as we refined the 5S Audit and Hazard Identification, Elimination and Risk Assessment (HIRA) processes. 5S locations were established in all areas of the facility. Each area received an initial and follow up audit during the year. Audit scores improved by approximately 20% over 2016. Our Fatality Prevention Audit Process evaluated Confined Space Entry, Molten Metal, and Fall Hazards/Work at Heights. Cross functional teams comprising Operations, Maintenance, Engineering, Labor Union, and Safety personnel performed 71 audits throughout the operations identifying 78 opportunities for improvement. Through the HIRA process, the workforce resolved 5,494 identified issues or hazards. One key Carnegie Way Safety Project that received recognition as the best safety project of 2016 was Safe Scrap Charging into Converters. This project successfully involved Steel Shop, Safety, Maintenance, Transportation, and Contractor personnel by eliminating closed con-



SAFE SCRAP CHARGING INTO CONVERTERS

the best Carnegie Way project in the Safety and Environment area

tainers from the scrap stream and implementing procedures when wet scrap conditions are encountered to reduce the risk of potential molten metal eruptions.

On June 4th, 2016, we held our fifth annual **Family Safety Day** event entitled Where does my Dad, my Mom work? The event was attended by approximately 5,000 steelmakers and their families. The adult participants and children over 12 years of age had an opportunity to take part in a walk-through tour of the Radiator Shop. A plant bus tour was also available through the Galvanizing Line #3 area. Plenty of entertainment activities were provided for all.

U. S. Steel Košice, s.r.o. had the honor of hosting the **Annual Worldsteel Association Safety Conference** that took place on September 11 – 14, 2016. Conference participants from steel companies and support services throughout the world discussed current topics in occupational safety and health protection and performed a walk-through audit of selected operating areas in the USSK plant.

EDUCATION AND HUMAN RESOURCES DEVELOPMENT

Our r**ecruitment system** is based on long-standing good cooperation with selected partner secondary technical schools and universities. **Cooperation with secondary schools**, especially with the Secondary Vocational School in Košice-Šaca, includes providing training for students in selected production plants of the Company, as well as support for the development of school curricula, and help in their recruitment of elementary school students. In the school year 2015/2016 USSK first entered into the dual education system in cooperation with the Secondary Vocational School for Railway Transport in Košice. This pilot project covered a smaller group of ten students on the electrician course focusing on electrical and signaling devices in railway transport. The Company also has long-term cooperation with the Secondary Vocational School for Electrical Engineering. USSK subsidiary RMS, a.s. Košice actively cooperates with the Secondary Vocational Technical School in Košice, providing professional practice and corporate scholarships for students on the metallurgist bricklayer course.

Cooperation with universities is aimed mainly at the Technical University of Košice and Pavol Jozef Šafárik University in Košice. To extend the practical and professional skills of university students and graduates, we enable them to participate in plant tours and practice at operations, and to work on their dissertations and theses directly in the steelworks environment. Moreover, selected university students increase their theoretical knowledge, practical experience, communication and managerial skills during a summer stay called the **Summer Internship Program**. For 3rd and 4th year university students, at the end of 2016 we started a project called **A Year of Work Experience**. Selected students have the chance to get involved in projects and activities at production facilities and administrative departments.

This proactive approach to working with students has proved its effectiveness. On the one hand, students of secondary schools and universities get the chance to join in the practical activities of the Company in order to gain experience and acquire skills that provide a competitive advantage in the labor market. On the other hand, this approach allows the Company to find talents among students of secondary schools and universities and meet the future Company needs.

The Company supports the **training and development** of its employees as well as employees of the subsidiaries through various programs focusing on language, managerial, professional and vocational skills and knowledge. Lessons were organized in 2016 to ensure legally required safety and vocational requirements as well as requirements reflecting the company´s strategic goals and employees´ individual development needs. Employees from both USSK and subsidiaries who enter operations or maintenance premises attended the annual corporate safety awareness training focused on cardinal rules and life threatening programs.

The key training in 2016 was **Carnegie Way 101 training**, intended for all employees of USSK and subsidiaries for better

understanding of improvement initiatives for processes and procedures. Carnegie Way 101 training continued throughout the year as basic training to help employees understand and ultimately use the Carnegie Way approach in implementing and creating meaningful changes within each of our own work areas. Selected employees participated in 201 or 301 training courses, which prepared them to lead more complex projects.

As part of the Carnegie Way initiatives in 2016 we implemented the **Front Line Leadership Development program** designed to enhance leadership skills of front line managers. These managers were progressively trained in several modules which gave them the opportunity to develop their skills in effective communication, based on the exact terms and visualization of important indicators of production, understanding of best practice, giving constructive feedback, building favorable labor relations and developing their subordinate skills. In 2016, we continued with the **Mentoring Program** focusing on leadership skills of our managers with the aim of transferring the unique experience of mentors to newly-appointed managers or newly-hired graduates. In order to promote professional metallurgy skills, we organized **Practical Academies** for machine operators. Sessions were taken by our internal staff from the Research and Development Department as well as external experts in specific fields. In 2016, we focused on iron and steelmaking.

EMPLOYEE SOCIAL PROGRAM AND COOPERATION WITH LABOR UNIONS

Cooperation with labor unions is an integral part of the Company's social program for employees. In April 2016, collective bargaining resulted in a new **Collective Agreement for 2016 – 2020**. In compliance with legal requirements, the Company fully accepts the role of social partner in each area of its activities, and considers social conciliation as a necessary condition for effective business. At all managerial levels cooperation is used to fulfill the Collective Labor Agreement commitments and resolve labor issues in compliance with relevant legal requirements. In joint committees together with the labor unions, the Company settles employee issues in the fields of safety, salaries and wages, social policy, catering and transportation. Representatives of the labor unions meet USSK management on a regular basis to be informed about production performance and the financial situation.

The Company shows its appreciation to those employees who have worked at the steelworks for a long time by organizing gala dinners with entertainment and gifts. It also **rewards employees** who participate in the achievement of excellent results in various areas through the quality of their work. A significant event in this area was the **President's Award 2016** for the three best projects in five key areas supporting the Carnegie Way initiative. During a festive evening held in February 2017, in the presence of the Company President and top management, awards were extended to 15 projects in which over 200 employees participated. During 2016, quarterly recognition of employees from the best shift team was conducted, rewarding the results achieved while meeting the criteria supporting the Carnegie Way in the form of a financial bonus and presentation of the travelling **Carnegie Trophy**. The Company also regularly acknowledges all employee safety representatives for activities in their respective areas and recognizes the most active ones with contributions to their

recuperation stays. As part of social policy, the Company supports free blood donorship by its active participation in Jansky and Knazovicky Plaque Award Ceremonies and at the same time contributes to relaxation opportunities of those employees who are blood donors.

Various events also help to build team spirit and USSK allegiance, among them the event called **Families Do Sport**, and the **Company Summer and Winter Games** (which include soccer and ice-hockey tournaments for the President's Cup) with several hundred amateur sportspeople participating. Many of these activities are approved in the Collective Labor Agreement, in special policies and Company goals, and we organize them in excess of the legal requirements. The Company continuously informs the employees and general public about its business through the intranet, the website and the company newspaper Oceľ Východu, which has won the national Best Corporate Medium Award several times.

DIVERSITY AND EQUAL OPPORTUNITIES

The company guarantees every employee's rights as derived from their employment contract without restriction, direct or indirect discrimination in compliance with the laws, including those covering personal data protection. U. S. Steel Košice, s.r.o. sets equal conditions for self-realization of different groups of its employees, also from the gender and age point of view, taking into account their education, qualifications and working skills. Although the proportion of women in the total USSK workforce is only 16 percent, these women form an important part of the Company management and hold several top positions.

The Company supports equal opportunities through a special project offering work to people from the Roma minority who have problems with inclusion into public and working lives due to insufficient education and working skills. In 2016, about sixty Roma worked in USSK every month through this project, in addition to those who were hired within the regular selection procedure, as they met the professional and working criteria for the required positions.

BUSINESS ETHICS

The **Code of Ethical Business Conduct** as a fundamental internal regulation of U. S. Steel Košice, s.r.o. constitutes a cornerstone of confidence necessary for the long-term success of our Company. It declares our commitment to developing a culture of honesty, accountability and responsibility. It sets the principles of ethical conduct and puts a special focus on human rights including prohibition of slavery and child labor. It also emphasizes anti-corruption and anti-bribery rules. Through this commitment to acting in an ethical manner, USSK confirms its reputation as a company respecting its employees, shareholders, business partners and the communities which it operates in. USSK's collective undertaking to perform business activity in an ethical manner must be and is fulfilled without reservation.

In compliance with its confidence in corporate social responsibility U. S. Steel Košice, s.r.o. belongs among the leaders in the promotion of business ethics, as well as in the battle against corruption in Slovakia. In 2016, USSK employees were informed on a continuous basis about matters related to reporting of any illegal or unethical conduct via the USSK intranet site, presentations for employees, on-line training courses, and an information campaign in the company newspaper Oceľ Východu.

USSK was one of the first companies in Slovakia to set up an **Ethics Line**, a mechanism available 24 hours a day, seven days a week, where employees, suppliers or other persons can report their suspicions relating to potentially unethical, abusive and/or illegal behavior, including complaints regarding accounting, internal controls and auditing. These reports, which can also be anonymous, may also relate to anti-social activity which meets the requirements laid down by Law No. 307/2014 Coll. on Certain Measures related to Reporting of Anti-Social Activity (the so-called Whisleblowing Law). The details, as well as the legal requirements for mandatory internal regulation, have also been included in internal policy with Reports by Employees of Illegal and Unethical Conduct.

Ethics and compliance with policies are the key priorities of USSK. The fundamental regulations in this area include 13 policies regulating basic areas, such as the rules covering issues of gifts and entertainment, sexual harassment and other forms of discrimination, safety and industrial hygiene, and rules for compliance with competition laws. Also of great importance is the content and application of the Anti-Corruption Policy, which does not deal solely with matters of participation of government officials or of entities that perform their activities in the public sphere in the Company business, but it also introduced a significant new procedure for verification of business partners based on the degree of risk evaluation (so-called Due Diligence process). Selected employees have been personally trained in its content and application.

Between September 19 and 23, 2016, the sixth **Annual Ethics and Compliance Week** took place. Throughout this week employees were reminded of their common commitment to ethical behavior in various ways, e.g. in the form of emails from top representatives of our Company, by means of a brief training course that presented examples of ethical dilemma, as well as via an on-line survey of ethics and compliance with the policy. At the same time, throughout that week several employees within the corporation were acknowledged as having proven through their behavior that they set an example of strong moral character, and they were awarded the title of **Ethics and Compliance Champion**.

Moreover, in 2016 all employees were required to reaffirm their commitment to doing the right thing and complying with the provisions of the above-mentioned internal documents through the annual certification of the Code and certain Policies.

IMPACT OF THE COMPANY IN THE ECONOMIC SPHERE

U. S. Steel Košice, s.r.o. conducts its business primarily in Central and Western Europe. The Company's principal activity is the production and sale of steel products: slabs, hot-rolled, cold-rolled and coated sheets including hot-dip galvanized, color-coated, tinplate and non-grain-oriented sheets. The Company also produces spiral welded pipes and panel radiators. **In 2016, USSK produced 4.51 million metric tons of raw steel slabs.**

USSK serves several steel consuming sectors including the construction, service center, automotive, transportation, container, further processing, and appliance industries. To maintain our competitive position in tough market conditions, the Commercial Department in 2016 continued to focus on continuous improvement projects and activities. Continuous improvement tools helped our managers to make decisions and implement projects which led to improved quality of goods and services, sustainable profitability improvements and better financial and liquidity position of the Company.

INNOVATIONS AND CUSTOMER SOLUTIONS

Cross-functional innovation teams were created early in 2015 and continued to work hard in 2016 in Automotive & Appliance, Color-coated, Electrical Products, and Tinplate areas. The financial benefit delivered by the innovation teams improved by 85% compared to 2015. The main goal of these teams is to coordinate Company innovation activities and processes, as well as focusing on innovations based on customer needs, market requirements and future trends in the steel industry.

Continual innovations and close cooperation with customers in research and testing of new materials with higher added value and qualities customized to suit new designs and requested attributes of final products are the basic prerequisite for success in the steelmaking industry. The research and development activities in 2016 resulted in extension of the product mix with new products in all segments.

For the automotive industry, two new quench-hardenable grades with improved stamping ability for production of precision tubes and components for automotive chassis were developed. Production of high-strength hot-rolled grades was supplemented by two HF (High Formability) grades and by a ferrite-bainite steel grade used for cold stamping. New construction and micro-alloyed grades delivered new solutions for customers who use plasma and/or laser cutting, as well as for automotive wheelmakers. A new hot-dip galvanized grade made from TRIP steel for construction and safety parts of car bodies was also successfully introduced during the year.

Research and development activities in the field of **non-oriented silicon strips for the electrical industry** resulted in addition of four new grades into the Company's product mix. Thanks to their properties these are suitable for high-efficiency electric motors. The newest production technologies are applied during their production.

In the tinplate production area, the Company is amongst the top European producers, offering the whole array of tinplate grades. Last year research activities aimed at current and specific market demands continued. This included mainly increase in steel strength while maintaining or increasing its plastic properties, narrowing the allowed variation intervals of selected properties, as well as corrosion resistance increase. An important part of these activities was implementation and testing of tinplate chrome-free passivation technology in accordance with REACH legislation, as well as international cooperation on the project with other top European tinplate producers.

In order to increase corrosion resistance and specific properties of the Company's products, we continued researching surface treatment methods. Research in **ZINKOMAG®** zinc-alloyed coating resulted in a new product, **ZINKOMAG® Color**, which is intended mostly for the construction industry as it maintains excellent corrosion resistance even under severe deformation.

Innovative surface treatment of galvanized strips using thin organic coating has been a part of the Company's portfolio for two years now. The volume of galvanized material with this surface treatment keeps increasing as it is an excellent alternative for applications requiring increased corrosion resistance and better processing ability during stamping and forming. The Company currently offers transparent thin organic film applications. In 2016, research activities aimed at application of colored thin organic film begun in order to satisfy the esthetic as well as utility requirements of customers.

Another example of research activities aimed at satisfying individual customers' demands is extension of the production program with the addition of a new hot-rolled steel grade

designed for both-side **enameling** with improved guaranteed mechanical qualities. The material is used for production of high-capacity vessels.

Research activities are not focused only on new materials but also on production technologies and processes, such as activities and projects of the Center of Excellence for Design and Instrumentation aimed at increasing production efficiency and reduction of its environmental impact.
In 2016, total research costs amounted to EUR 3 million.

The Company also spent significant amounts on projects aiming to assure our competitiveness and stable position on the market. Several important projects were completed supporting the sales of our products and customer-oriented approach; examples include the Continuous Galvanizing Line 2 Chemical Coater, Camera Inspection System for Electrolytic Tin Line 1 and 2, and the Pickling Line 1 Upgrade. New technical improvements will significantly contribute to the higher added value of our products.

USSK is certificated in accordance with the international EN ISO 9001 and ISO/TS 16949 (automotive industry) standards. **Quality Management System** (QMS) performance is regularly reviewed once a year. In the area of pipes, USSK has maintained the Spec Q1 certificate with American Petroleum Institute. The Company also holds several dozen individual product certificates, and several of its laboratories are accredited in compliance with ISO/IEC 17025. In 2016, the Company successfully passed the QMS surveillance audits according to EN ISO 9001 and ISO/TS 16949, thus proving that the implemented systems are appropriate and effective.

Quality of delivered material was evaluated by USSK customers better than that supplied in the past five years even if the challenging Internal Quality Objectives of 2016 were not achieved. The Reclassified Material (Divert) objective was 1.15% whereas the actual result was 1.29%. The Retreat objective was 0.60% and the year-end result was 0.66%. The main root causes (defects) were Rolled-in Foreign Material and Coiling Quality at the Hot Strip Mill. Two camera inspection systems supplied by Cognex were installed at the Tin Mill in 2016; these detect very small defects caused by Hot Strip Mill finishing rollers rubbing against the exit scrapers.

Record low external quality claim results were achieved in 2016, and the claim rate reached its lowest value since USSK came to Košice, i.e. 0.13%. A similar record was set in terms of financial losses from quality claims. Significant success was achieved in our Customer Satisfaction Survey, where the best results in USSK history were seen. The response rate reached a record value of 96% and the customer satisfaction rating in 2016 reached record value of 1.79 (1-excellent, 5-poor).

PROCUREMENT AND SUPPLIER RELATIONS

Transparent and effective procurement and building of long-term relations with suppliers significantly contribute to fulfilling Company strategy in the economic sphere. Together with suppliers we are finding ways of reducing overall costs of purchasing materials, spare parts, services, repairs and capital assets. We also work together on improving the effectiveness of financial resources usage and on discovering new innovative solutions. The Company expects its supplier to have implemented in their processes standards for quality, ethics, occupational safety and environmental protection. Their performance is regularly assessed, and this long-term partnership is seen as basis for development on both sides. The important influence of USSK activity on regional development is underlined by the fact that out of the total number of suppliers in 2016, local ones made up 63%. At the same time the Company is also involved in public procurement in line with the Law on Public Procurement.

Best Carnegie Way projects

- *WORKING CAPITAL IMPROVEMENT*
  Area of implementation: Increasing Revenues and Cash Generation
- *PRIMARY COMBINED YIELD INCREASE AND FURTHER IMPROVEMENT OVER 2015*
  Area of implementation: Cost Reduction
- *IMPROVEMENT OF THE PRODUCT MIX AND ADDITIONAL VOLUME FOR A KEY CUSTOMER*
  Area of implementation: Enhancing the Quality of Products and Customer Service
- *TOTAL COST OF OWNERSHIP IN PURCHASING OF SPARE PARTS*
  Area of implementation: Innovations

IMPACT OF THE COMPANY IN THE ENVIRONMENTAL AND ENERGY SPHERES

ENVIRONMENTAL PROTECTION

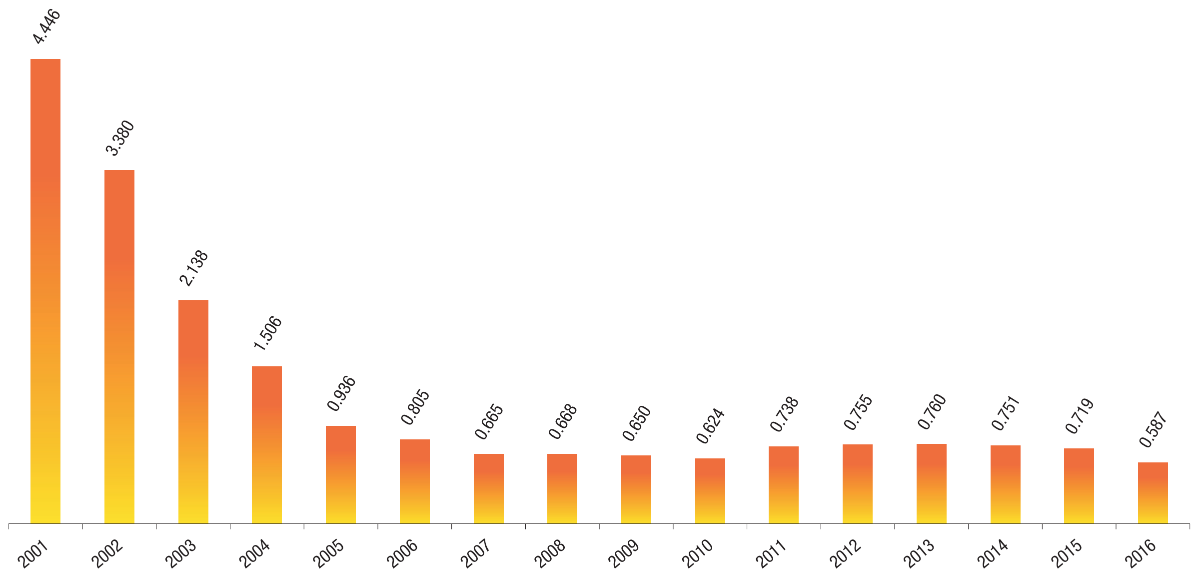
Environmental protection is one of the principal strategic goals of the Company, and the main commitments in this area are stated in the **Quality, Environmental and Energy Policy**. In accordance with these objectives, in November 2016 the company TÜV SÜD Slovakia s.r.o. carried out a supervisory audit of the USSK **Environmental Management System**, which confirmed the very good performance of this system and continuous improvement of processes. Based on the audit results the validity of the Environmental Management System International Certificate for USSK was extended for a further period.

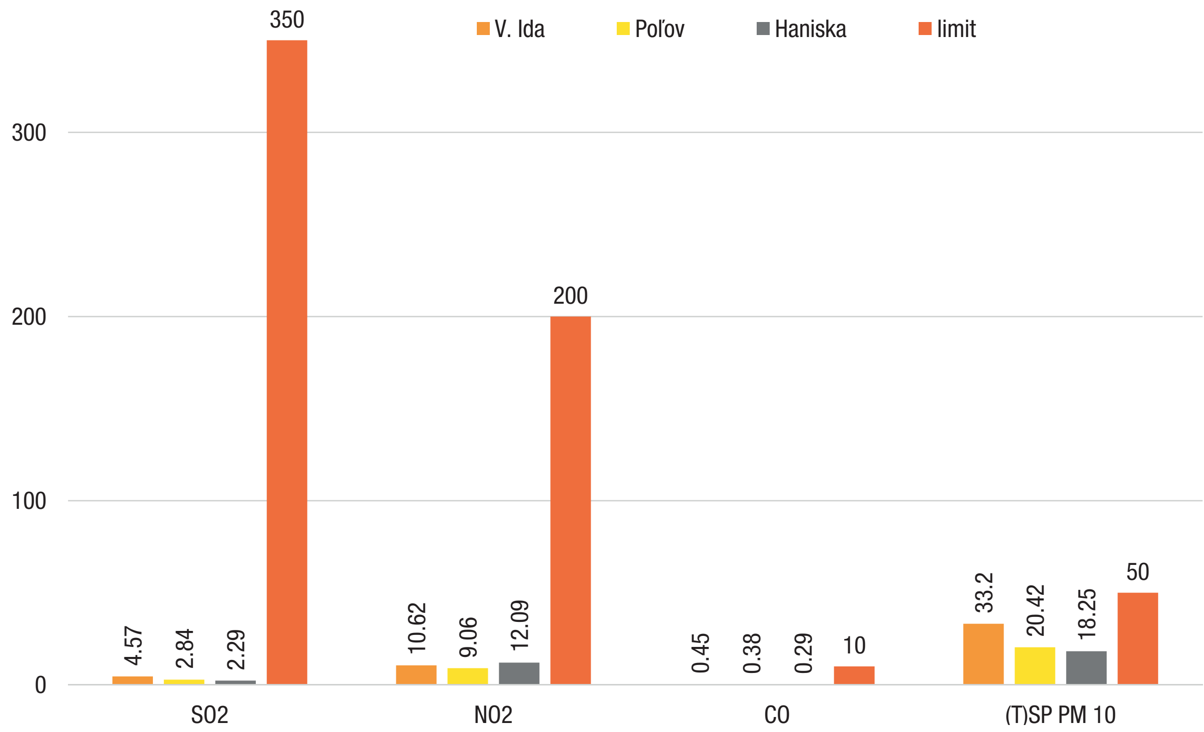
Since 2000, the company has invested more than USD 610 million in dozens of environmental projects. The greatest achievement in the targeted protection of various elements of the environment at USSK is the fact that since 2008 there has been no ecological accident at U. S. Steel Košice, s.r.o. The compliance of Company activities with current legislation is regularly checked by the Slovak Environmental Inspectorate, which carried out a total of twelve inspections in 2016.

In 2016 we continued with the implementation of investment projects aimed at protection of the environment in compliance with the environmental requirements of the European Union. As in the year before, the most important project was ongoing reconstruction and modernization of the Boiler House and the construction of boiler No. 7. The benefits of this investment include reduction of emissions and the amount of generated waste, as well as increased heat and electric power generation efficiency while reducing costs. There were other important projects completed in 2016, such as the reconstruction and modernization of the Quenching Tower at Coke Battery 1, extension and modernization of monitoring stations in the surroundings of USSK, in the municipalities of Haniska, Poľov, and Veľká Ida, and the construction of automatic emissions measuring systems in the Casting Bay of Blast Furnace 1 and Steel Shop 1.

Compared to the previous year, the overall amount of emissions in 2016 fell by 3.5 %. Specific emissions, i.e. the amount of emissions per ton of steel produced, dropped by 10.5 %. Specific emissions of solid pollutants dropped to a historical minimum of 0.587 ton per thousand tons of steel produced.

Specific emissions of solid pollutants
(t/1000 t steel)





In addition to monitoring of emissions (pollutants discharged to air), imissions (pollutants contained in the environment and transferred) occurring in the vicinity of the steelworks are measured at three villages and data from the automatic monitoring systems are also sent to the Slovak Hydrometeorological Institute. Pollution limits and the results of monitoring in 2016 are shown in the graph above in micrograms per m^3 (CO in milligrams per m^3).

Important investments in terms of **water protection** were the construction of the centrifuge at the Cold Rolling Mill Neutralization Station and the construction of the coal bulk weight control at the Cokery Plant. After separation of oil products from oily water in the centrifuge, the separated oil (so far disposed of externally) will be processed and used at the Cokery Plant. Other investments completed in 2016, especially construction of emergency tanks and the phenol-ammonia water tapping point at the Cokery Plant, will significantly reduce the burden on the sewerage system and the biological waste-water treatment plant.

The following constructions have been completed in the area of **waste management**: Hazardous Waste Landfill, Phase II and III, and Non-hazardous Waste Landfill, Phase III. The objective of these projects was to create enough landfill capacity for hazardous waste and non-hazardous waste. The amount of USSK's construction waste used by third parties tripled year-on-year, and USSK will continue in this recycling effort in order to minimize landfilling with this waste.

In addition to the environment, investments to improve the efficiency of energy and raw materials usage also made up a considerable part of our capital expenditure in 2016. Projects included the Additional Powder Coal Storage, Blast Furnace 3 Stove Preheating System, High Pressure Heaters for Boilers 2 and 3, and Hot Strip Mill LED Lights. Investments were also made in the Company infrastructure through projects such as the Bar Coding System for USSK's Material Management, Man Down Alarm Extension to the Ammonia Plant, as well as Fire Truck Procurement. These projects will significantly boost the overall technical condition of our production facilities.

In line with legislative requirements, the Company continuously monitors and regularly informs its employees as well as the expert and general public about environmental performance through the company newspaper Oceľ Východu and on its website www.usske.sk.

By improving electronic processing in administration, we were able to save in one year:

- *1.4 million A4 paper sheets*
- *1000 toner cartridges*
- *324 printers*

EUROPEAN UNION CO_2 EMISSIONS TRADING SYSTEM AND REACH LEGISLATION IMPLEMENTATION

U. S. Steel Košice, s.r.o. is subject to the law on protection of the environment and human health currently valid in the Slovak Republic and the EU. CO_2 emissions are regulated in line with the EU Directive 2003/87/ES concerning the Emissions Trading System (EU ETS), which also includes a cap designed to achieve an overall reduction in greenhouse gases (GHG) for the ETS sectors of 21% by 2020 compared to 2005 emissions. The EU has imposed limitations under the ETS for the period 2013-2020 (Phase III) that are more stringent than those in the 2008 - 2012 period (NAP II), reducing the number of free allowances granted to companies to cover their CO_2 emissions. The EU ETS began to employ centralized allocation, rather than national allocation plans and auctioning as the basic principle for allocating emissions allowances, with some transitional free allocation provided on the basis of benchmarks for manufacturing industries susceptible to transferring their production to other countries with lesser constraints on GHG emissions, commonly referred to as carbon leakage. Manufacturing of sinter, coke oven products, basic iron and steel have all been recognized as exposing companies to significant risk of carbon leakage, but the EU ETS is still expected to lead to additional costs for steel companies in Europe.

International negotiations to supplement and replace the 1997 Kyoto Protocol were concluded in December 2015 in Paris at the Conference of Parties (COP21) summit on global warming, where goals and protocols for global GHG reduction were proposed. The Paris agreement came into effect in November 2016, making those goals legally binding for the signatory parties.

In October 2014, the European Council approved the EU 2030 targets in the areas of GHG reduction, energy efficiency and the use of renewable resources. Those targets are expected to transfer into legislation by 2020. Currently the revision of Directive 2003/87/EC, a crucial legislative instrument for the EU ETS, is ongoing and until its implementation through specific enacting legislation, we cannot reasonably estimate the costs and benefits which might result from the new legislation after 2020. In the future, compliance with EU CO_2 emission requirements for USSK may involve substantial costs for purchasing emission allowances, restriction of production and higher prices for coking coal, natural gas and electricity generated by carbon based systems.

As far as chemicals are concerned, in compliance with the REACH legislation (1907/2006 Registration, Evaluation and Authorization of Chemicals), which requires inter alia that every chemical substance manufactured and placed on the EU market is to be registered with the European Chemicals Agency, since 2007 we have identified and registered 17 substances, and we keep their registrations up to date. USSK became the Lead Registrant for two substances, taking over the leading role in preparing the registration and organizing the other registrants and importers. We cooperate with all our suppliers to make sure all substances and mixtures used in

our production process are registered in the legal timeframes. For our customers, we regularly issue certificates for all of our steel products about (non)content of "substances of very high concern" from the updated Candidate Lists. For substances that require authorization and are necessary for our production process we have prepared and submitted the application for authorization, which will enable us to use these substances in production.

The new classification of substances produced or imported by the Company into EU countries was notified to the European Chemical Agency as required by CLP Regulation (1272/2008 on Classification, Labeling and Packaging of Substances and Mixtures). According to this legislation, from June 2017 onwards only the use of new classification and new labeling will be allowed in the EU, so in 2016 we prepared all the documentation needed for this change and trained all the employees.

ENERGY EFFICIENCY

Energy management is very important for the Company due to both the amount of energy consumed and costs, as well as for environmental protection. In accordance with international standard EN ISO 50001, since 2013 U. S. Steel Košice, s.r.o. has been operating its **Energy Management System**, based on which appropriate conditions were set up for a complete and systematic solution enabling efficient energy management. In April 2016 U. S. Steel Košice, s.r.o. successfully passed the first surveillance audit of the energy management system according to international standard EN ISO 50001:2012. This certificate is valid for three years until March 2019. The auditors pointed out some basic strengths, mainly the management system documentation, energy management and its implementation along with other management systems, and development of action plans in the organizational units concerned with energy efficiency. All these aspects have significant value in terms of planning and monitoring this issue.

To achieve our energy targets in 2016, which were to reduce the cost of each ton of steel produced and to increase the energy efficiency of the entire steelmaking process in accordance with the Action Program for Energy Management, the Carnegie Way continuous improvement program was used as the main tool. In 2016, **we implemented 87 projects with total energy savings of USD 13.2 million**. The annual plan was fulfilled at 117 %, which means USD 1.9 million savings over the plan target.

The main projects with significant energy cost savings were:
- Optimizing Natural Gas Purchase Costs
- Optimizing Electricity Purchase Costs

IMPACT OF THE COMPANY ON THE COMMUNITY AND THE REGION

The Company has been interested in regional needs for a long time and is engaged in resolving them in compliance with its core values and business principles, either directly or through its foundation, the **U. S. Steel Košice Foundation**. The priorities in the area of donations and sponsorship are public-benefit projects for children, and support for health-care, education and science, culture and sport. The Company has become a partner to many non-profit organizations which are active in solving problems and providing innovative solutions for community development and social care for disabled people and seniors.

In support of education, the Company works actively with selected technical secondary schools and colleges in Košice in line with targeted employee recruiting. With the Technical University of Košice and Pavol Jozef Šafárik University in Košice, the Company has also been cooperating in research. The main areas of cooperation are primary operations and ecology, power engineering, mathematical modeling, optimization, metallurgy processes control, development of new materials and control of their properties, as well as education of new specialists.

In 2004, the USSK Foundation started its own **Scholarship Program** to provide access to higher education for talented students from socially disadvantaged families in Eastern Slovakia, and in 2007, this was extended to the children of USSK employees. In the academic year 2015/2016, twelve new scholarships were granted, and eighteen more in 2016/2017.

In support of health care, U. S. Steel Košice, s.r.o. focuses mainly on specialized medical institutions in the region. Thanks to the 2016 pre-Christmas fund-raising, which was supported by 7,642 steelmakers who together collected EUR 39,612, the Department of Child Oncology and Hematology at the University Children's Hospital could get quality positionable electric beds for small patients. Finally, it could spend EUR 79,224 since the Company matched the generosity of its employees and doubled the collected sum. As a traditional partner of the League Against Cancer, USSK jointly organizes the public fund-raising on Daffodil Day, the proceeds from which support public education, research and prevention of oncological diseases, and improve care for oncology patients in the Košice region. In 2016, the collection among employees raised the sum of EUR 5,143.

In support of social care, USSK directs its assistance mainly towards supporting foster homes and their children by organizing activities and experience events for them during the whole year. It also provides long-term support to the Autumn of Life civic association, whose members are retired USSK employees. For many years, the Company has cooperated with the Archdiocesan Charity in Košice, making life easier for people in difficult situations. The Company is a long-term partner of the charity event called Opatovská Rallye – Living at Max Revs, which brings unforgettable experiences to physically-disabled children at the combined school on Opatovská Street in Košice. USSK managers regularly make up two thirds of the drivers in the cars doing the competition course with the children as passengers. Since 2006, during the Advent Market on the Main Street in Košice, the USSK **Christmas Charity Hut** has provided space for many non-profit organizations to present their products and services, and supports them by organizing voluntary public fund-raising. The generosity of steelmakers is also manifested in the **Wishing Trees** project, organized at USSK every year since 2005. In their free time, they buy gifts that will turn the specific wishes of children into reality; in 2016 this meant almost 160 youngsters in the foster homes at Podolínec and Uralská Street in Košice as well as the halfway houses in Košice and Prešov, and children from steelmakers' families in difficult circumstances. Within the special project named **We are with you at the right time**, the Company took care of the latter families during the whole year, inviting them to various corporate events and helping them overcome difficult moments in their life through this solidarity. In addition to the above, these four institutions and ten families also received financial support of EUR 39,000.

In support of culture, the Company has been a long-term supporter of important cultural institutions and events. It is a traditional partner of the State Philharmonic Orchestra and the State Theater in Košice. It also sponsors the Višegrad Days international cultural festival, as well as several events organized by the city of Košice.

Support for sports has been focused on traditional sports and events in the Košice region. For many years the Company has been the main partner of the Košice Peace Marathon, which is the oldest marathon in Europe and very popular among the Company employees and partners as well. The Company is also a long-term partner of the HC Košice ice-hockey club, which has won the Slovakian League several times. U. S. Steel Košice, s.r.o. supports children's sports, and either talented or disadvantaged young sports people. Our own program called **Your Chance to Play** continued in 2016 as well, and provided equal opportunities both for children from socially-disadvantaged and steelmakers' families to play ice-hockey, basketball and soccer. Since 2006, USSK has contributed almost EUR 183,000 towards club membership fees and sports equipment for 512 children.

Voluntary programs are part of the community support. Our largest corporate volunteer event is the **Volunteer Days – U. S. Steel for Košice**, which were held for the tenth time on May 13-14, 2016. Employees of the Company and its subsidiaries helped eleven organizations with public-benefit activities, giving blood in the “Steelmakers’ Drop of Blood” donor drive, collecting used clothing and other requirements for the crisis and community centers and charity house, and improving premises and surroundings of both foster home and a day-care center for disabled youth. They also helped out at the children’s historical railway, the botanical gardens, the zoo and the animal sanctuary. For many years, the employees of the Company have been actively involved in support to their region helping as teachers in educational programs, contributors to public fund-raising and in-kind donations, as well as organizers of community life.

Every year in cooperation with the Carpathian Foundation, the Company runs the **Together for the Region** grant program, which focuses on supporting leisure-time activities for children and teenagers, environmental protection and increasing safe behavior in all activities. In 2016, seven other community projects with active involvement of USSK employees were supported in towns and villages of Eastern Slovakia, and altogether 89 developing initiatives have been supported with EUR 228,000 and implemented since 2008.

The Company has also been helping the region in other ways. In 2016 almost eighty villages accepted the offer of processed blast furnace gravel produced as a by-product, and used more than 40,000 tons for infrastructure development and construction of pavements, roads or parking lots. In addition to the economic effect, the environmental aspect is not negligible either, as the amount of natural stone material which needed to be quarried was reduced by the same volume. USSK has also donated waste wood to several villages, helping their socially disadvantaged citizens mainly in winter. Deliveries to Veľká Ida village alone amounted to 780 tons with a value of EUR 12,400.

“Charity activities are an expression of the responsible attitude of our company and employees to the region where we work and live. We are not able to solve all problems, but together with many other good people we can improve the life around us and help those who have to face more obstacles than others. Every helping hand is welcome and everybody who wants to help can find a way.”

Scott Buckiso, USSK President

SELECTED FINANCIAL INFORMATION

STATEMENT OF FINANCIAL POSITION

Selected items from the Statements of Financial Position for the last three years are:

In EUR million	December 31, 2016	December 31, 2015	December 31, 2014
Property, plant and equipment, incl. investment property	557	382	369
Intangible assets	48	76	87
Long-term receivables	68	-	-
Other non-current assets	49	99	104
Inventories	330	313	376
Short-term receivables	345	260	356
Short-term loans and borrowings	250		-
Cash and cash equivalents	116	249	328
Other current assets	11	4	27
Total Assets	1,774	1,383	1,647
Equity	1,173	940	913
Trade and other payables	389	318	384
Long-term loans and borrowings	-	-	222
Other liabilities	212	125	128
Total Equity and Liabilities	1,774	1,383	1,647

In 2016, the Company invested EUR 85 million (2015: EUR 118 million; 2014: EUR 61 million) into property, plant and equipment. Compared to previous reporting period, the change in impairment of property, plant and equipment and intangible assets amounted to EUR 143 million (2015: EUR 85 million; 2014: EUR 49 million).

Receivables increased in 2016 mainly as a result of improved selling prices at the end of the year compared to 2015, when they were decreasing and reached a 5-year low in early 2016. Change in inventories reflected mainly higher volume of steel inventories in 2016 and lower volume of steel inventories in 2015.

In December 2016, the Company lent EUR 250 million under the unsecured revolving credit agreement with U. S. Steel Holdings, Inc., which is included within Short-term loans and borrowings, and in September 2015, repaid borrowings received from U. S. Steel Global Holdings I B.V., which were the primary reasons for the decrease in cash and cash equivalents. Other liabilities increased in 2016 mainly as a result of increased liabilities relating to government grants.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Selected items from the Statements of Profit and Loss and Other Comprehensive Income for the last three years are:

In million EUR	2016	2015	2014
Revenues and other income	2,060	2,192	2,252
Operating profit	344	67	35
Profit for the Year	271	43	17

The Company had profit of EUR 271 million for the year ended December 31, 2016 compared to profit of EUR 43 million for the year ended December 31, 2015. The increase in the financial result in 2016 compared to 2015 was primarily due to lower raw material costs, reduced costs due to operating efficiencies, lower interest costs, positive impact of foreign exchange gains and due to partial reversal of impairment of property, plant and equipment and intangible assets. These changes were partially offset by lower average realized selling prices as they reached a 5-year low in early 2016. Gross margin for 2016 as compared to 2015 increased primarily due to operating benefits realized from continuous Carnegie Way effort.

The Company had profit of EUR 43 million for the year ended December 31, 2015 compared to profit of EUR 17 million for the year ended December 31, 2014. The increase in the financial result in 2015 compared to 2014 primarily reflects benefits from Carnegie Way initiatives, lower raw material cost, decreased repairs and maintenance cost, decreased foreign exchange losses and increased income from derivative instruments, which were partially offset by increased impairment charges and a decrease in average realized sales prices.

PROPOSAL FOR 2016 PROFIT DISTRIBUTION

In EUR million	2016
Profit for 2016	271
Contribution to legal reserve fund	(14)
Retained earnings	22
Proposal for profit distribution for U. S. Global Holdings VI B.V.	(279)

SIGNIFICANT EVENTS AFTER 2016 REPORTING PERIOD AND EXPECTED DEVELOPMENT IN 2017

Significant events after balance sheet date are disclosed in Note 30 of the Financial Statements.

Steady performance of the EU economy in 2016 was mainly supported by expanding domestic demand, driven by the continued strength of private consumption and further growth in public administration expenditure.

Business indicators are entering 2017 at a high level, and the continuing positive trend in production activity in combination with signs of global economic growth suggest further strengthening of manufacturing activity in the EU. Healthy consumer demand in the EU and improving demand for capital goods should support activity across most industrial sectors. Export-oriented sectors are expected to benefit from strengthening global growth and international trade, with additional support for euro area producers from the weakened euro.

The outlook for the steel market in 2017 is favorable, anticipating growth of production activity in the steel-using sectors. This also indicates continuous growth in steel demand.

U. S. Steel Košice, s.r.o.
Annual Report 2016

Prepared by:
U. S. Steel Košice, s.r.o.
044 54 Košice
Slovak Republic

April 2017

U. S. Steel Košice, s.r.o.

Financial statements
for the year ended December 31, 2016

prepared in accordance with
International Financial Reporting Standards
as adopted by the European Union

Independent Auditor's Report

To the Shareholder and Executives of U. S. Steel Košice, s.r.o.

Our opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of U. S. Steel Košice, s.r.o. (the "Company") as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Company's separate financial statements comprise:

- the separate statement of financial position as at 31 December 2016;
- the separate statement of profit or loss and other comprehensive income for the year then ended;
- the separate statement of changes in equity for the year then ended;
- the separate statement of cash flows for the year then ended; and
- the notes to the separate financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the section *Auditor's responsibilities for the audit of the separate financial statements* of our report.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants issued by the International Federation of Accountants ("Code of Ethics") and other requirements of legislation that are relevant to our audit of the separate financial statements in the Slovak Republic. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

Reporting on other information in the separate annual report

Management is responsible for the separate annual report prepared in accordance with the Slovak Act on Accounting No. 431/2002, as amended (the "Accounting Act"). The separate annual report comprises (a) the separate financial statements and (b) other information.

Our opinion on the separate financial statements does not cover the other information.

In connection with our audit of the separate financial statements, our responsibility is to read the separate annual report and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the separate annual report, we considered whether it includes the disclosures required by the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the separate annual report for the year ended 31 December 2016 is consistent with the separate financial statements; and
- the separate annual report has been prepared in accordance with the Accounting Act.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the separate annual report. We have nothing to report in this respect.

Management's responsibilities for the separate financial statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate 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 International Standards on Auditing 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 separate financial statements.

As part of our audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate 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 management.
- Conclude on the appropriateness of management's 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 separate 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 separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management 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.

PricewaterhouseCoopers Slovensko, s.r.o.

PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No. 161

Bratislava, 20 April 2017

Slovenská komora audítorov
SKAU
Č.licencie 161
PricewaterhouseCoopers Slovensko, s.r.o.

Mgr. Radoslav Náhlik, FCCA
UDVA licence No.: 1078

Our report has been prepared in Slovak and in English languages. In all matters of interpretation of information, views or opinions, the Slovak language version of our report takes precedence over the English language version.

U. S. Steel Košice, s.r.o.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

Financial statements for the year ended December 31, 2016, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, have been approved and authorized for issue by the statutory representatives of U. S. Steel Košice, s.r.o. ("the Company") on April 20, 2017. Neither the Company's shareholder nor the executives have the power to amend the financial statements after issue.

Košice; April 20, 2017

Scott Douglas Buckiso
President
(statutory representative)

Samir Kalra
Senior Vice President and Chief Financial Officer
(statutory representative)

Ing. Adam Dudič, FCCA
General Manager General Accounting and Financial Reporting
(responsible for accounting)

Ing. Eva Bobaľová, ACCA
Director General Accounting and Compliance
(responsible for financial statements preparation)

U. S. Steel Košice, s.r.o.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

Table of Contents

(all amounts are in thousands of EUR)

STATEMENT OF FINANCIAL POSITION

	Note	December 31, 2016	December 31, 2015
ASSETS			
Non-current assets			
Property, plant and equipment	5	**554,434**	378,652
Investment property	6	**2,729**	3,091
Intangible assets	7	**48,471**	75,888
Investments	8	**13,443**	13,507
Financial assets available-for-sale		**259**	259
Long-term receivables	12	**68,401**	-
Deferred income tax asset	9	**27,548**	79,423
Restricted cash	10	**7,289**	5,743
Total non-current assets		**722,574**	**556,563**
Current assets			
Inventories	11	**330,444**	312,913
Trade and other receivables	12	**345,277**	259,808
Derivative financial instruments	13	**8,595**	3,458
Short-term loans provided to related parties	29	**250,328**	-
Restricted cash	10	**66**	57
Prepaid expense		**1,164**	1,137
Cash and cash equivalents	14	**115,773**	248,940
Total current assets		**1,051,647**	**826,313**
TOTAL ASSETS		**1,774,221**	**1,382,876**
EQUITY AND LIABILITIES			
Equity			
Share capital	15	**839,357**	839,357
Reserve funds	15	**40,825**	50,733
Retained earnings / (accumulated losses)		**292,862**	50,109
Total equity		**1,173,044**	**940,199**
Liabilities			
Non-current liabilities			
Long-term provisions for liabilities	17	**11,509**	7,498
Long-term deferred income – Government grants	12	**70,976**	-
Long-term employee benefits payable	18	**31,879**	31,435
Trade and other payables – long-term	19	**4,026**	2,672
Total non-current liabilities		**118,390**	**41,605**
Current liabilities			
Trade and other payables	19	**384,708**	315,499
Current income tax liability		**27,744**	2,159
Derivative financial instruments	13	**158**	911
Deferred income		**4**	1
Short-term borrowings	29	**10,187**	9,439
Short-term provisions for liabilities	17	**58,560**	71,616
Short-term employee benefits payable	18	**1,426**	1,447
Total current liabilities		**482,787**	**401,072**
TOTAL EQUITY AND LIABILITIES		**1,774,221**	**1,382,876**

The accompanying notes on pages F- 9 to F- 53 are an integral part of these financial statements.

U. S. Steel Košice, s.r.o.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(all amounts are in thousands of EUR)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2016	2015
Revenue	20	**2,017,271**	2,079,925
Other income	20	**43,200**	112,538
Materials and energy consumed	21	**(1,141,737)**	(1,311,644)
Salaries and other employees benefits	22	**(294,105)**	(277,264)
Depreciation and amortization	5, 6, 7	**(28,867)**	(29,091)
Repairs and maintenance		**(60,427)**	(65,728)
Transportation services		**(117,953)**	(117,865)
Advisory services		**(18,388)**	(13,098)
Foreign exchange gain / (loss)		**1,391**	(20,992)
Impairment reversal / (loss)	5, 7	**142,809**	(85,194)
Other operating expenses	23	**(199,022)**	(204,679)
Profit from operations		**344,172**	**66,908**
Dividend income		**2,931**	3,276
Interest income		**2,693**	197
Interest expense		**(1,168)**	(10,197)
Profit before tax		**348,628**	**60,184**
Income tax expense	24	**(78,114)**	(16,955)
Profit after tax		**270,514**	**43,229**
Items that will not be reclassified to profit or loss			
Remeasurement of post employment benefit obligations	24	**490**	344
Revaluation of intangible assets	7, 24	**7,512**	4,337
Items that may be subsequently reclassified to profit or loss			
Change in fair value of derivative hedging instruments	24	**2,277**	(15,778)
Other comprehensive income / (loss), net of tax		**10,279**	**(11,097)**
Total comprehensive income for the year		**280,793**	**32,132**

The accompanying notes on pages F- 9 to F- 53 are an integral part of these financial statements.

(all amounts are in thousands of EUR)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve funds	Retained earnings / (accumulated losses)	Total
Balance as of January 1, 2016	**839,357**	**50,733**	**50,109**	**940,199**
Profit for 2016	-	-	270,514	**270,514**
Other comprehensive income	-	9,789	490	**10,279**
Total comprehensive income for the year	-	**9,789**	**271,004**	**280,793**
Release of reserves:				
Release of revaluation reserve – CO_2 Emission allowances	-	(21,858)	21,858	**-**
Total adjustments	**-**	**(21,858)**	**21,858**	**-**
Transactions with owners:				
Dividends	-	-	(47,948)	**(47,948)**
Contribution to legal reserve fund	-	2,161	(2,161)	**-**
Total transactions with owners	**-**	**2,161**	**(50,109)**	**(47,948)**
Balance as of December 31, 2016	**839,357**	**40,825**	**292,862**	**1,173,044**

	Share capital	Reserve funds	Retained earnings / (accumulated losses)	Total
Balance as of January 1, 2015	**839,357**	**61,323**	**12,631**	**913,311**
Profit for 2015	-	-	43,229	**43,229**
Other comprehensive income	-	(4,985)	344	**(4,641)**
Total comprehensive income for the year	**-**	**(4,985)**	**43,573**	**38,588**
Release of reserves:				
Release of revaluation reserve – CO_2 Emission allowances	-	(6,456)	6,456	-
Total adjustments	**-**	**(6,456)**	**6,456**	**-**
Transactions with owners:				
Dividends	-	-	(11,700)	**(11,700)**
Contribution to legal reserve fund	-	851	(851)	**-**
Total transactions with owners	**-**	**851**	**(12,551)**	**(11,700)**
Balance as of December 31, 2015	**839,357**	**50,733**	**50,109**	**940,199**

The accompanying notes on pages F- 9 to F- 53 are an integral part of these financial statements.

U. S. Steel Košice, s.r.o.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(all amounts are in thousands of EUR)

STATEMENT OF CASH FLOWS

	Note	Total	
		2016	**2015**
Profit before tax		**348,628**	**60,184**
Non-cash adjustments for			
Depreciation of property, plant and equipment and investment property	5, 6	**27,807**	27,959
Amortization of intangible assets	7	**1,060**	1,132
Amortization of deferred income from CO_2 emission allowances	20	**(30,075)**	(46,242)
Recognition of government grants	20	**-**	(6,057)
Charge of provision for CO_2 emissions emitted	17, 23	**57,993**	71,075
(Reversal of impairment) / impairment of property, plant and equipment	5	**(139,282)**	84,060
(Reversal of impairment) / impairment of intangible assets	5, 7	**(3,527)**	1,134
(Reversal of impairment) / impairment of investments		**64**	(257)
Loss / (gain) on disposal of property, plant and equipment, intangible assets and investment property	20, 23	**(1,073)**	2,003
Gain from changes in fair value of derivative financial instruments	20	**(5,704)**	(55,950)
Dividend income and distribution of profit		**(2,931)**	(3,276)
Interest income		**(2,693)**	(197)
Interest expense		**1,168**	10,197
Foreign exchange loss on intercompany borrowings		**-**	17,515
Changes in working capital			
(Increase) / decrease in inventories	11	**(17,531)**	63,077
(Increase) / decrease in trade and other receivables and other current assets	12	**(153,891)**	89,827
Increase / (decrease) in trade and other payables and other current liabilities	19	**166,920**	(82,960)
Cash generated from operations		**246,933**	**233,224**
Interest paid		**(273)**	(9,414)
Income taxes paid		**(4,090)**	(16)
Net / receipts from derivative financial instruments		**3,303**	58,122
Net cash generated from operating activities		**245,873**	**281,916**
Cash flows from / (used in) investing activities			
Intercompany loans provided	29	**(350,000)**	-
Intercompany loans repayment	29	**100,000**	-
Purchases of property, plant and equipment	5	**(85,209)**	(117,642)
Proceeds from sale of property, plant and equipment		**1,209**	6,166
Purchases of intangible assets	7	**(1,576)**	(2,607)
Change in restricted cash, net	10	**(1,555)**	(1,011)
Government grants received		**-**	6,038
Interest received		**2,361**	197
Dividends received and distribution of profit		**2,931**	3,276
Net cash used in investing activities		**(331,839)**	**(105,583)**
Cash flows from / (used in) financing activities			
Repayment of intercompany borrowings	16, 29	**-**	(240,010)
Proceeds from borrowings	29	**73,387**	83,471
Repayment of borrowings	26	**(72,640)**	(87,149)
Dividends paid to the Company´s shareholder	15	**(47,948)**	(11,700)
Net cash generated from / (used in) financing activities		**(47,201)**	**(255,388)**
Net increase in cash and cash equivalents		**(133,167)**	**(79,055)**
Cash and cash equivalents at beginning of year	14	**248,940**	327,995
Cash and cash equivalents at end of year	14	**115,773**	**248,940**

The accompanying notes on pages F- 9 to F- 53 are an integral part of these financial statements.

(All amounts are in thousands of EUR if not stated otherwise)

Note 1 General Information

U. S. Steel Košice, s.r.o. (hereinafter also the "Company" or "USSK") was established as a limited liability company on June 7, 2000 and entered in the Commercial Register on June 20, 2000 in Slovakia (Commercial Register of the District Court Košice I in Košice, Section Sro, Insert 11711/V).

The Company's registered office is:

Vstupný areál U. S. Steel
Košice
044 54
Identification No.: 36 199 222

Business activities of the Company

The principal activity of the Company is production and sale of steel products (Note 20).

Liability in other business entities

The Company does not have unlimited liability in other business entities.

Average number of staff

The average number of the Company's employees is presented in Note 22.

The Company's management

Statutory representatives as of December 31, 2016 were as follows:

Scott Douglas Buckiso	President
Samir Kalra	Senior Vice President and Chief Financial Officer
Ing. Marcel Novosad	Vice President Operations
Christian Korn	Vice President Commercial
Mgr. Elena Petrášková, LL.M	Vice President Subsidiaries and Services
RNDr. Miroslav Kiraľvarga, MBA	Vice President External Affairs, Administration and Business Development
Richard Carl Shank	Vice President Information Technology
David Earle Hathaway	Vice President Engineering and Innovation
Ing. Martin Pitorák, MBA	Vice President Human Resources

Emoluments of statutory representatives are disclosed in Note 29.

Shareholder of the Company

As of October 7, 2016, the only shareholder of the Company, U. S. Steel Global Holdings I B.V., Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands, transferred all ownership interests of the Company to U. S. Steel Global Holdings VI B.V., Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands. As of December 31, 2016, the only shareholder of the Company was U. S. Steel Global Holdings VI B.V., Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands. The shareholder owns a 100 percent share of the share capital, representing 100 percent of the voting rights.

On April 14, 2016, the General Meeting approved the Company's financial statements prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") for the previous accounting period.

Consolidated Group

According to the Slovak Accounting Law, the Company is not required to prepare consolidated financial statements in the case that the impact of consolidated subsidiaries is immaterial. Management considers all conditions of the exemption to be met as of December 31, 2016 and therefore the subsidiaries have not been consolidated, but are carried at cost less impairment in these financial statements for U. S. Steel Košice, s.r.o. for the year ended December 31, 2016.

The Company is included in the consolidated financial statements of its ultimate controlling party – United States Steel Corporation, 600 Grant Street, Pittsburgh, Pennsylvania, USA. The consolidated financial statements of the consolidated group are prepared by United States Steel Corporation ("U. S. Steel") in accordance with Generally Accepted Accounting Principles in the United States of America ("US GAAP") and are available at the registered address stated above and internet web page www.ussteel.com.

Note 2 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements (hereinafter the “financial statements”) are set out below.

2.1 Statement of Compliance

These financial statements have been prepared in compliance with IFRS as adopted by the EU, issued as of December 31, 2016 and effective for annual periods then ended.

2.2 Basis of Preparation

The Slovak Accounting Law requires the Company to prepare financial statements for the year ended December 31, 2016 in compliance with IFRS as adopted by the EU.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of intangible assets representing the carbon dioxide emission allowances and by the revaluation of financial assets and financial liabilities at fair value through profit or loss or designated as hedging instruments.

These financial statements have been prepared on the going concern basis.

The preparation of financial statements in compliance with IFRS as adopted by the EU requires management to make judgments, estimates and assumptions in the process of applying the Company’s accounting policies that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the end of reporting period and the reported amounts of revenues and expenses during the year. The actual results may differ from these estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2.3 Changes in Accounting Policies

The accounting policies have been consistently applied to all periods presented.

2.4 Foreign Currency Translations

Functional and presentation currency

Items included in these financial statements are measured in euro (“EUR“) which was determined to be the currency of the primary economic environment in which the Company operates (“the functional currency“). These financial statements are presented in EUR, rounded to thousands, if not stated otherwise.

Transactions and balances

The accounting books and records are kept in functional currency EUR. Transactions in currencies other than the EUR are translated into the EUR using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of transactions in currencies other than the EUR, and from the translation of monetary assets and liabilities denominated in currencies other than the EUR at year-end exchange rates are recognized in profit or loss.

2.5 Property, Plant and Equipment

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the items such as purchase price, including import duties and non-refundable purchase taxes and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including borrowing costs for long-term construction projects if the recognition criteria are met (Note 2.9).

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. All other repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Major spare parts and stand-by equipment qualify as property, plant and equipment when the Company expects to use them during more than one year or if the spare parts and servicing equipment can be used only in connection with a specific item of property, plant and equipment.

Land, art collections and construction in progress are not depreciated. Other property, plant and equipment items are depreciated on a straight-line basis over their estimated useful lives, as follows:

Buildings	35 years
Machinery, equipment and motor vehicles	6 – 15 years

Useful lives of landfills are determined based on their capacity.

Each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. The Company allocates the amount initially recognized in respect of an item of property, plant and equipment proportionally to its significant parts and depreciates separately each such component.

Commencement of depreciation is the date when the asset is first available for its intended use.

When an asset is disposed of or it is determined that no future economic benefits are expected to arise from the continued use of the asset, the cost and accumulated depreciation of the asset are derecognized and any gain or loss resulting from its disposal is recognized in profit or loss.

The residual values and useful lives for assets are reviewed and adjusted, if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

2.6 Investment Properties

Investment properties are measured initially at cost, including related transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and any accumulated impairment losses. Investment properties (excluding land) are depreciated on a straight-line basis over their estimated useful lives. The depreciation period and method are reviewed at the end of each reporting period.

Where the Company uses only an insignificant part of a property it owns, the whole property is classified as investment property.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the income statement in the period of derecognition.

Transfers to or from investment property are made only when there is a change in use.

Fair values are obtained from discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of existing lease contracts and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. The valuation falls within Level 3 of the fair value hierarchy (Notes 2.25 and 6).

2.7 Intangible Assets

Intangible assets are recognized if it is probable that the future economic benefits attributable to the asset will flow to the Company and the cost of the asset can be measured reliably.

Intangible assets other than emission allowances are measured initially at cost. After initial recognition, intangible assets other than emission allowances are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over their estimated useful lives. The amortization period and method are reviewed at the end of each reporting period.

<u>Research and development costs</u>

Research costs are expensed in the period in which they are incurred. The development costs that relate to a clearly defined product or process where the technical feasibility and the possibility of sale or internal use can be demonstrated and the Company has sufficient resources to complete the project, to sell it or to utilize its results internally, are capitalized up to the amount that is expected to be recovered from future economic benefits. If the conditions for capitalization are not fulfilled, development costs are expensed in the period in which they are incurred.

Software

Acquired computer software is measured at cost less accumulated amortization and any accumulated impairment losses and is classified as an intangible asset if it is not an integral part of the related hardware. Software is amortized on a straight-line basis over its estimated useful life (2 – 5 years). Expenditures to enhance or extend the software performance beyond its original specification are capitalized and added to the original cost of the software.

Costs associated with maintaining computer software are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Company which will probably generate economic benefits exceeding costs beyond one year are recognized as intangible assets.

Computer software development costs recognized as assets are amortized using the straight-line method over their estimated useful lives (2 – 5 years).

The average useful life of the Company's software is 5 years.

Emission allowances

Purchases, sales or swaps of emission allowances are recognized on the trade-date. Purchased emission allowances are recognized as intangible assets at cost. When emission allowances are swapped, the purchase and sale transactions are recognized separately. When emission allowances are sold, the intangible asset is derecognized and the gain or loss is recognized in profit or loss.

Carbon dioxide emission allowances which are allocated to emitting facilities annually free of charge by the Slovak Government, are recognized as an intangible asset as of the date the allowances are credited to the National Registry of Emission Rights (hereinafter "NRER"). The allowances are initially measured at fair value. The fair value of allowances issued represents their market price on European Climate Exchange as of the date they are credited to the NRER. Emission allowances that are not yet received from the government, but for which there is reasonable assurance that the emission allowance grant will be received and the Company will comply with the conditions attaching to the grant, are recognized as emission allowances receivable at fair value when the above-mentioned conditions are met.

As no amount is paid to acquire this intangible asset, the fair value is recognized in compliance with *IAS 20 Accounting for Government Grants and Disclosure of Government Assistance* as deferred income on the acquisition date and subsequently recognized as income in the period for which the emission allowances have been allocated.

As emissions are produced, a provision is recognized for the obligation to deliver the emission allowances equal to emissions that have been produced. The provision is disclosed under short-term provisions for liabilities. The provision is measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, which represents the market price of the number of allowances required to cover emissions produced by the end of reporting period.

The intangible asset representing the emission allowances is carried at fair value with any revaluation surplus recorded in other comprehensive income. Revaluation decreases are recorded as an impairment loss in the profit or loss to the extent they exceed the revaluation surplus previously recorded in other comprehensive income and accumulated in equity. Revaluations are based on market prices published by European Climate Exchange. The above mentioned fair value valuation falls within Level 1 of the fair value hierarchy (Note 2.25 and 7).

The revaluation reserve is transferred to retained earnings as the surplus is realized. Realisation of the entire surplus may occur on the retirement or disposal of the asset.

2.8 Impairment of Non-Financial Assets

Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets not yet available for use are not subject to amortization but are tested annually for impairment. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets that have been impaired are reviewed for possible reversal of the impairment at the end of each reporting period.

2.9 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until the time the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.10 Accounting for Leases

Leases of assets are classified as:

- finance leases when substantially all the risks and rewards of ownership are transferred to the lessee, or
- operating leases when substantially all the risks and rewards of ownership are effectively retained by the lessor.

Asset items acquired under finance leases are recognized as assets at the commencement date of the lease at the lower of their fair value and the present value of the minimum lease payments.

Each lease payment is allocated between the lease obligation liability and finance charges so as to achieve a constant rate of interest on the remaining liability balance. The interest element is charged to profit or loss as finance cost over the lease period. The asset acquired under finance lease is depreciated over the shorter of the useful life of the asset or the lease term. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Rental income or lease payments under an operating lease (net of any incentives received from the lessor) are recognized as revenue or expense on a straight-line basis over the lease term.

2.11 Investments

<u>Subsidiaries</u>

Subsidiaries are those investees (including structured entities) that the Company controls because the Company (i) has the power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use power over the investees to affect the amount of the investor's returns. In these financial statements, investments in subsidiaries are measured at cost less any accumulated impairment losses in accordance with *IAS 27 Separate Financial Statements*. Impairment losses are recognized using a provision account to their recoverable value which is the higher of the value in use and fair value less costs of disposal.

2.12 Financial Assets

Financial assets include cash and cash equivalents, receivables, loans and borrowings, quoted and unquoted financial instruments and derivative financial instruments.

The Company classifies its financial assets in the following categories: loans and receivables, financial assets at fair value through profit or loss, hedging derivatives and financial assets available-for-sale. The classification depends on the purpose for which the financial assets were acquired and whether the assets are quoted in an active market. Management determines the classification of its financial assets at initial recognition.

Purchases and sales of financial assets are recognized on trade-date which is the date on which the Company commits to purchase or sell the asset. Financial assets not carried at fair value through profit or loss are initially measured at their fair value plus transaction costs that are incremental and directly attributable to the acquisition or origination.

<u>Loans and receivables</u>

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for loans and receivables with maturities greater than 12 months after the end of reporting period, which are classified as non-current assets.

After initial measurement, loans and receivables are measured at amortized cost using the effective interest method, net of any provision made for impairment, if applicable.

A provision for impairment to loans and receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the originally agreed terms. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization and payments outstanding for more than 180 days after agreed due date are considered to be indicators the loan or the receivable is impaired. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the instrument's original effective interest rate. The carrying amount of the asset is reduced using a provision account, and the amount of the impairment loss is recognized in profit or loss. When the asset is uncollectible, it is written off against related provision account.

<u>Financial assets at fair value through profit and loss</u>

This asset category has two sub-categories: financial assets held for trading, and those assets designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

<u>Hedging derivatives</u>

Derivatives are categorized as held for trading unless they qualify for hedge accounting (Note 2.24). Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months after the end of reporting period.

<u>Financial assets available-for-sale</u>

Financial assets available-for-sale are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the end of reporting period.

<u>Derecognition of financial assets</u>

Financial assets are derecognized when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

2.13 Inventories

Inventories are measured at the lower of cost and net realizable value. The cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

The cost of raw material inventories is assigned by using the first-in, first-out (FIFO) cost formula. The cost of work in progress, semi-finished production and finished products comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Work in progress, semi-finished production and finished products are valued at standard cost throughout the year and revalued to actual costs only at the end of the year.

2.14 Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, money deposited with financial institutions that can be withdrawn without notice and other short-term highly liquid investments that are subject to insignificant risk of changes in value and have maturity of three months or less from the date of acquisition. Cash and cash equivalents are measured at amortized cost.

2.15 Equity and Reserves

Equity and liabilities

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement at initial recognition.

Interest, dividends, gains and losses related to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. When the rights and obligations regarding the manner of settlement of financial instruments depend on the occurrence or non-occurrence of uncertain future events, or on the outcome of uncertain circumstances that are beyond the control of both the issuer and the holder, financial instruments are classified as a liability unless the possibility of the issuer being required to settle in cash or another financial asset is not genuine at the time of issuance or settlement is required only in case of the issuer's liquidation, in which case the instrument is classified as equity.

Reserve funds

a) Legal reserve fund

The legal reserve fund is set up in compliance with the Commercial Code. Contributions to the legal reserve fund of the Company are made in a minimum amount of 5 percent from profit after tax, for a total reserve fund balance of up to 10 percent of the share capital. A legal reserve fund is not distributable and may be used only to cover losses of the Company.

b) Revaluation Reserves

Revaluation reserves include the cumulative net change in fair value of derivative instruments, which meet criteria for application of hedge accounting and the cumulative net change in fair value of intangible assets carried at revalued amounts. Upon disposal of the financial derivative instruments (Note 2.24), the cumulative revaluation reserves are released through profit or loss of the current period. Upon disposal of the intangible assets, the cumulative revaluation reserves are transferred to retained earnings. The transfer is not made through profit or loss of the current period.

2.16 Financial Liabilities

Financial liabilities include loans and borrowings, trade payables and accruals and derivative financial instruments.

The Company classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss, hedging derivatives or other financial liabilities.

Loans and borrowings

Loans and borrowings are initially measured at fair value, net of transaction costs incurred. They are subsequently measured at amortized cost; any difference between the amount at initial recognition and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method, except for a portion that is capitalized.

Loans and borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of reporting period.

Trade and other payables

Trade and other payables are recognized when the counterparty has performed its obligations under the contract and are carried at amortized cost.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

2.17 Dividends and profit distribution

Dividends are recognized in the Company's accounts in the period in which they are approved by shareholders. Dividend liability is initially measured at fair value and subsequently at amortized cost.

2.18 Government Grants

Government grants are recognized only if there is a reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received. Non-monetary grants are recognized at the fair value of the asset received. Grants are treated as deferred income and released on a systematic basis into income over the period necessary to match them with the related costs that they are intended to compensate. Income related to government grants is recognized in Other income

2.19 Provisions

Provisions are recognized when, and only when, the Company has a present legal or constructive obligation as a result of a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are not recognized for future operating losses.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. When discounting is used, the increase in the provision related to the passage of time is recognized in interest expense.

When some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. The expense related to any provision is presented in profit or loss net of any reimbursement.

2.20 Current and Deferred Income Tax

Income tax expense comprises current and deferred tax expense. Current and deferred tax expenses are recognized in profit or loss, except when related to items recognized in other comprehensive income, in which case the tax is also recognized in other comprehensive income.

The current income tax charge is calculated based on taxable income for the year. Taxable income differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in different years, and items that are never taxable or deductible. The current income tax liability is calculated using tax rates (and tax laws) that have been enacted, or substantively enacted, at the end of the reporting period, and any adjustment to taxes payable with respect to previous years. The Company is obliged to pay minimum income tax (tax license), in accordance with valid legislation of Slovak Republic, in value of EUR 3 thousands if current income tax for related period would be lower than the tax license. The management of the Company periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. Where appropriate, management establishes provisions on the basis of amounts expected to be paid to the tax authorities.

In the statement of financial position, deferred income tax is calculated by using the liability method based on temporary differences between the tax basis of assets and liabilities and their carrying amounts in these financial statements. However, deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantively enacted, by the end of the reporting period and are expected to apply when the related asset is realized or the liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the unused tax losses and other temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for the cases where timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

2.21 Employee Benefits

Defined contribution pension plan

The Company makes contributions to the mandatory government and private defined contribution plans at the statutory rates in force during the year based on gross salary payments. The cost of these payments is charged to profit or loss in the same period as the related salary cost.

For employees of the Company who choose to participate in a supplementary pension savings scheme, the Company makes monthly contributions to the supplementary pension savings scheme in amounts determined in the Collective Labor Agreement.

Employee retirement obligation

The Company is committed to make payments to the employees upon retirement in accordance with Slovak legislation and the Collective Labor Agreement.

Upon first termination of labor contract and reaching the entitlement to disability retirement, if the employee's long-term health condition results in a reduced ability to perform earning activity by more than 40 percent compared to healthy individuals, the employee is entitled to a retirement benefit corresponding to his/her average monthly wage.

Upon first termination of labor contract and reaching the entitlement to old-age retirement, the employee is entitled to a retirement benefit corresponding to a summary of his/her average monthly wage plus an amount up to EUR 1,830 based on years worked for the Company, if the employee terminated the labor contract in the month in which he/she becomes entitled to the old-age retirement. In other cases, the retirement benefit corresponds to his/her average monthly wage.

Upon first termination of labor contract and reaching the entitlement to premature old-age retirement, the employee is entitled to a retirement benefit in the amount of his/her average monthly wage, if premature old-age retirement was conceded to the employee based on application filled prior to termination of the labor contract or within 10 days afterwards.

The liability in respect to this employee benefit represents the present value of the defined benefit obligation at the end of a reporting period, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by U. S. Steel actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds in the European market which have terms to maturity approximating the terms of the related liability and subsequently attributing such present value to employees' years of service.

Remeasurements of the net defined benefit liability arising from changes in actuarial assumptions are charged to other comprehensive income and will not be reclassified to profit or loss in a subsequent period. Amendments to the benefit plan are charged to profit or loss. Past service cost is recognized as expense at the earlier of the following dates: a) when the plan amendment or curtailment occurs; and b) when the entity recognizes related restructuring cost or termination benefits.

Work and life jubilee benefits

The Company also pays certain work and life jubilee benefits. Employees of the Company are entitled to work and life jubilee benefits upon reaching a specific age and/or reaching a specific period of employment in accordance with the Collective Labor Agreement.

The liability in respect of the work and life jubilee benefits plan represents the present value of the defined benefit obligation at the end of a reporting period and is calculated annually by U. S. Steel actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds in the European market which have terms to maturity approximating the terms of the related liability and subsequently attributing such present value to employees' years of service.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged to profit or loss when incurred. Amendments to the work and life jubilees benefit plan are charged to profit or loss immediately.

Termination benefits

Termination benefits are payable either when employment is terminated by the Company as a result of specific organizational reasons or employee health reasons, or whenever an employee accepts voluntary redundancy in exchange for termination or similar benefits. The Company recognizes these benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination or similar benefits in exchange for an offer made to encourage voluntary redundancy. In case of an offer made to encourage voluntary redundancy, the measurement of these benefits is determined based on the number of employees who are expected to accept the offer. Termination benefits due more than 12 months after the end of the reporting period are discounted to present value.

Profit sharing and bonus plans

A liability for employee benefits in the form of profit sharing and bonus plans is recognized in line item Liability to employees and social security. Liabilities for profit sharing and bonus plans are measured at the amounts expected to be paid when they are settled.

2.22 Revenue Recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably. Revenue is shown net of value-added tax, returns, rebates and discounts.

Sale of own production and goods

Revenue from the sales of own production and goods is recognized when the Company transfers significant risks and rewards of ownership to the buyer and retains neither continuing managerial involvement nor effective control over the own production and goods sold.

Rendering of services

Revenue from the sale of services is recognized in the period in which the services are rendered by reference to the stage of completion. The stage of completion is measured by reference to the actual service provided as a proportion of the total service to be provided.

Interest income

Interest income is recognized using the effective interest method. Interest income is included in finance income in profit or loss for the current period.

Dividend income and distribution of profit

Dividend income and distribution of profit are recognized in profit or loss when the shareholder's right to receive payment is established.

2.23 Contingent Liabilities and Contingent Assets

Contingent liabilities are not recognized in the financial statements. They are disclosed in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements. They are disclosed in the notes to the financial statements when an inflow of economic benefits is probable.

2.24 Accounting for Derivative Financial Instruments

Derivative financial instruments are initially recognized in the statement of financial position at fair value (excluding transaction costs) and subsequently are re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivatives held for trading are included in profit or loss for the current period.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss for the current period.

Forward foreign exchange contracts embedded in the host raw material purchase contracts denominated in U.S. dollars are considered to be closely related to the host contracts because raw material prices are routinely denominated in U.S. dollars in commercial transactions in the economic environment in which the Company operates, and therefore are not separately accounted for.

<u>Hedge accounting</u>

The Company utilizes derivatives forward transactions to hedge future cash flows. The criteria to meet the application of hedge accounting are: (a) the hedging relationship between the hedged item and the hedging instrument is clearly documented and (b) the hedge is highly effective. The hedging instruments are measured at fair value. Gains or losses relating to the effective portion of the derivatives are initially recognized in other comprehensive income. If a hedge of forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, then the Company reclassifies the associated gains and losses that were recognized directly in other comprehensive income into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. To the extent that the hedge is ineffective, changes in fair value are recognized in profit or loss.

The Company has documented a strategy of financial risk management. Hedging targets are determined in compliance with this strategy. The Company documents the relationship between the hedged item and the hedging instrument at the inception of the transaction, as well as at the end of reporting period and at settlement date of the trade to assess whether the derivatives which are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then the hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in equity is subsequently recognized in the profit or loss.

<u>Forward physical purchase contracts for commodities</u>

The company utilizes forward physical purchase contracts for certain commodities. These contracts are entered into and continue to be held for the purpose of the receipt or delivery of commodities in accordance with Company’s expected usage requirements. These contracts do not meet the definition of financial instruments and are accounted for as normal purchase contracts.

2.25 Fair Value Estimation

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

Financial and non-financial instruments, which are measured at fair value, are classified into three categories depending on how the data for measurement was obtained (Note 27):

- Level 1 represents quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 represents inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 are those derived from valuation techniques that include inputs that are not based on observable market data.

The classification of financial and non-financial instruments into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period in which they occur.

The carrying amounts of financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate being used by the Company for similar financial instruments.

The Company measures or discloses a number of items at fair value:

- Emission allowances (Note 2.7 and 7)

- Derivative financial instruments (Note 2.24, 13 and 27)
- Fair value disclosures for investment properties measured using the cost model (Note 2.6 and 6)
- Fair value disclosures for financial instruments measured at amortised cost (Note 27)
- Impairment of property, plant and equipment, intangible assets and investment properties (Note 5)

More detailed information in relation to the fair value measurement is disclosed in the applicable notes.

2.26 Events After the Reporting Period

Events after the reporting period that provide evidence of the condition that existed at the end of the reporting period (adjusting events) are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

Note 3 Significant Accounting Estimates and Judgments

Estimates and judgments made by the Company are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year as well as certain significant judgments made by the Company in applying its accounting policies are outlined below.

<u>Estimated useful life of property, plant and equipment and investment property</u>

The average useful life of depreciable property, plant and equipment and investment property as of December 31, 2016 is approximately 20 years (as of December 31, 2015: 20 years). If estimated average useful life of these assets would increase by 1 year, the annual depreciation charge would have been lower by EUR 1.8 million (2015: EUR 1.9 million). If estimated average useful life of these assets would decrease by 1 year, the annual depreciation charge would have been higher by EUR 1.9 million (2015: EUR 0.9 million).

<u>Impairment of property, plant and equipment, intangible assets and investment properties</u>

The Company evaluates impairment of its property, plant and equipment, intangible assets and investment properties whenever circumstances indicate that the carrying amount exceeds its recoverable amount or there are indicators of reversal of impairment loss.

Since the economic crisis in 2008, European economies have struggled to recover, particularly in the steel consuming sectors such as the construction industry which lead to a significant overcapacity in the European steel market and intense competition for tonnage amongst the steel mills. In addition, the Company and the EU steel industry are facing an unprecedented level of imports. This puts downward pressure on steel pricing and adds additional uncertainty to the Company's cash flow projections.

In 2013, there were deemed to be impairment indicators and the Company recorded significant impairment charges. The impairment test was performed again in 2014 through 2016 and resulted in further impairment loss in 2015 and partial reversal of impairment in 2016. As part of the impairment evaluation the Company was divided into two cash-generating units and their recoverable amounts have been determined. The recoverable amount is the higher of fair value less costs of disposal or value in use. As the fair value less costs of disposal was higher than the value in use, the recoverable amounts of relevant cash-generating units have been determined on the basis of fair value calculation. Due to interdependence between individual Division Plants, the determination of cash-generating units was made based on two main steel product categories from which a sufficient volume of steel production is sold on active markets, specifically hot-rolled products on one side and cold-rolled, coated products and spiral welded pipes and panel radiators on the other side. Thus, the first cash-generating unit is represented by production process from coke-making to hot rolled products. The second cash-generating unit is represented by production process from cold rolled products through further processing into hot dip galvanized, color coated, tinplate and non grain-oriented sheets, pipes and radiators, up to shipments to customers. The fair value calculation uses cash flow projections based on actual operating results, the most recent business plans approved by management and appropriate discount rate which reflects the time value of money and risks associated with future economic and operating conditions. Projected cash flows also reflect assumptions the market participants would use in estimating the fair value.

The following key assumptions and estimates were used by management in the calculation:

- Cash flow projections based on business plans cover a period of 5 years, which assume slow but steady economic recovery across the EU with a corresponding improvement in steel consumption.
- Cash flow projections beyond the five-year period have been extrapolated taking into account a terminal growth rate of 2.9 percent for sales and production costs and reflect the best estimates for stable perpetual growth of the Company. This percentage is in line with long-term average growth rates for countries in which the Company sells the majority of its production and it is applicable both for 2016 and 2015. If terminal growth rate would increase by 1 percent, the carrying value of the assets would have been higher by EUR 19 million. If terminal growth rate would decrease by 1 percent, the carrying value of the assets would have been lower by EUR 8 million.
- Cash flow projections also reflect the initiated shareholder value creation strategy: earn the right to grow, and drive and sustain profitable growth. Through a disciplined approach, now referred to as “The Carnegie Way”, the Company is working to strengthen its financial situation, with more intense focus on cash flow, and launched a series of initiatives that are believed to enable the Company to add value, get leaner, faster, right-sized, and improve performance in core business process capabilities, including commercial, supply chain, manufacturing, procurement, innovation, and operational and functional support.
- Cash flow projections were prepared in nominal terms.
- The discount rate was estimated in nominal terms based on risk-adjusted post-tax weighted average cost of capital of 20 percent and it is applicable both for year 2016 and year 2015. The discount rate remained the same as in 2015. It reflects uncertainty inherent in the Company’s cash flow projections arising from geopolitical situation in Ukraine, which may affect raw materials and gas supplies, higher political risks resulting from increased uncertainty in the EU relating to BREXIT and upcoming elections in major EU countries, the ongoing sluggish recovery of European steel consumption and level of imports into the EU, many of which we believe to be unfairly traded. If discount rate would increase by 1 percent, the carrying value of the assets would have been lower by EUR 14 million. If discount rate would decrease by 1 percent, the carrying value of the assets would have been higher by EUR 26 million.

Impairment loss attributable to each cash-generating unit is allocated to assets in the cash-generating unit on pro rata basis based on the carrying amount of each asset. Carrying amount of an individual asset is reduced only to the highest of asset´s individual fair value less cost of disposal or zero. The fair value less cost of disposal for individual assets, comprising of land, office buildings, mobile equipment, is determined using the market approach using market multiples derived from comparable transactions. Due to the nature of the assets, the fair value of those assets is largely based on comparable transactions since in management’s view the necessary adjustments to the comparable transactions had insignificant impact. For these specific assets the valuation was within Level 2 of the fair value hierarchy.

The valuation for other assets falls within Level 3 of the fair value hierarchy.

<u>Income taxes</u>

Certain areas of Slovak tax law have not been sufficiently tested in practice. As a result, there is some uncertainty as to how the tax authorities would apply them. The extent of this uncertainty cannot be quantified. The uncertainty will be reduced only if legal precedents or official interpretations become available. The Company’s management is not aware of any circumstances that may give rise to a future material expense in this respect.

At the end of each reporting period, unrecognized deferred tax assets and the carrying amount of deferred tax assets are re-assessed by the Company. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Company conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or the entire deferred tax asset to be utilized. Management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Litigation

The Company is party to a number of litigations, proceedings and civil actions arising in the ordinary course of business. Management uses its own judgment to assess the most likely outcome of these and a provision is recognized when necessary (Note 17).

Employee benefits

The present value of employee benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used for employee benefits include the discount rate, annual wage and salary increases and staff turnover. The appropriate assumptions are determined by U. S. Steel actuaries at the end of each year. Any changes in these assumptions will impact the carrying amount of employee benefits obligations (Note 2.21 and Note 18).

Landfill provision

A provision for landfill restoration is measured at the net present value of the estimated future expenditure required to settle the Company's restoration and aftercare obligations. Restoration and aftercare expenditures are determined by an external professional company (Note 17).

Note 4 New Accounting Pronouncements

4.1 Standards, amendments and interpretations to published standards effective for the first time for periods on or after January 1, 2016

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after January 1, 2016 that had a material impact on the Company.

4.2 Standards, amendments and interpretations issued but not effective until the financial year beginning January 1, 2017 or later and not early adopted

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after January 1, 2018).

Key features of the new standard are as follows:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortized cost, those to be measured subsequently at fair value through other comprehensive income and those to be measured subsequently at fair value through profit or loss.
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as fair value through other comprehensive income. Financial assets that do not contain cash flows that are SPPI must be measured at fair value through profit or loss (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses ("ECL") model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the

hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The standard expectedly could have impact on the Company's hedge accounting. The Company is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2014-2016 cycle (issued on December 8, 2016 and effective for annual periods beginning on or after January 1, 2017 for amendments to IFRS 12, and on or after January 1, 2018 for amendments to IFRS 1 and IAS 28). The improvements impact three standards. The amendments clarify the scope of the disclosure requirements in IFRS 12 by specifying that the disclosure requirements in IFRS 12 (other than those relating to summarised financial information for subsidiaries, joint ventures and associates) apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. The Company is currently assessing the impact of the amendments on its financial statements. The Amendments to the standard have not yet been endorsed by the EU.

IFRS 15 "Revenue from Contracts with Customers" (issued on May 28, 2014 and effective for the periods beginning on or after January 1, 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The impact of the new standard on the Company's financial statements is being assessed on the Corporate level and has not been completed yet.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on April 12, 2016 and effective for annual periods beginning on or after January 1, 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The Company is currently assessing the impact of the amendments on its financial statements. The amendment has not yet been endorsed by the EU.

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after January 1, 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The standard has not yet been endorsed by the EU. The Company is currently assessing the impact of the standard on its financial statements.

Disclosure Initiative - Amendments to IAS 7 (issued on January 29, 2016 and effective for annual periods beginning on or after January 1, 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The amendment has not yet been endorsed by the EU. The Company is currently assessing the impact of the amendment on its financial statements.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued on December 8, 2016 and effective for annual periods beginning on or after January 1, 2018). The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgment in determining whether an item is monetary or non-monetary. The Company is currently assessing the impact of the amendments on its financial statements. The standard has not yet been endorsed by the EU.

Transfers of Investment Property - Amendments to IAS 40 (issued on December 8, 2016 and effective for annual periods beginning on or after January 1, 2018). The amendments clarify the requirements on transfers to, or from, investment property in respect of properties under construction. Prior to the amendments, there was no specific guidance on transfers into, or out of, investment properties under construction in IAS 40. The amendment clarifies that there was no intention to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use. IAS 40 was amended to reinforce the principle of transfers into, or out of, investment property in IAS 40 to specify that a transfer into, or out of investment property should only be made when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. Such a change in use should be supported by evidence. The Company is currently assessing the impact of the amendments on its financial statements. The amendments have not yet been endorsed by the EU.

Unless otherwise described above, the new standards, amendments and interpretations are not expected to have a material impact on the Company's financial statements.

(All amounts are in thousands of EUR if not stated otherwise)

Note 5 Property, Plant and Equipment

Movements in property, plant and equipment during 2016 are as follows:

	Land and buildings	Machinery, equipment and motor vehicles	Other tangible assets	Construction in progress	Total
Cost					
January 1, 2016	**445,737**	**1,111,401**	**15,214**	**113,302**	**1,685,654**
Additions	-	-	3,680	61,238	**64,918**
Disposals	(136)	(13,047)	-	(52)	**(13,235)**
Transfer to / from investment property	(170)	-	-	-	**(170)**
Transfers to base	30,421	112,314	1	(142,736)	**-**
December 31, 2016	**475,852**	**1,210,668**	**18,895**	**31,752**	**1,737,167**
Accumulated Depreciation and Impairment of Assets					
January 1, 2016	**(288,248)**	**(935,461)**	**(14,843)**	**(68,450)**	**(1,307,002)**
Depreciation for the year	(4,304)	(23,406)	-	-	**(27,710)**
Disposals	9	12,585	-	-	**12,594**
Transfer to / from investment property	103	-	-	-	**103**
Reversal of Impairment / (Impairment losses)	27,350	47,434	(3,952)	68,450	**139,282**
December 31, 2016	**(265,090)**	**(898,848)**	**(18,795)**	**-**	**(1,182,733)**
Carrying amount	**210,762**	**311,820**	**100**	**31,752**	**554,434**

Movements in property, plant and equipment during 2015 are as follows:

	Land and buildings	Machinery, equipment and motor vehicles	Other tangible assets	Construction in progress	Total
Cost					
January 1, 2015	**440,147**	**1,083,164**	**12,835**	**48,848**	**1,584,994**
Additions	-	-	2,381	130,712	**133,093**
Disposals	(710)	(31,061)	(2)	(578)	**(32,351)**
Transfer to / from investment property	(82)	-	-	-	**(82)**
Transfers to base	6,382	59,298	-	(65,680)	**-**
December 31, 2015	**445,737**	**1,111,401**	**15,214**	**113,302**	**1,685,654**
Accumulated Depreciation and Impairment of Assets					
January 1, 2015	**(278,646)**	**(897,899)**	**(12,452)**	**(29,685)**	**(1,218,682)**
Depreciation for the year	(5,149)	(22,690)	(15)	-	**(27,854)**
Disposals	1,547	22,047	-	-	**23,594**
Transfer to / from investment property	-	-	-	-	**-**
Impairment losses	(6,000)	(36,919)	(2,376)	(38,765)	**(84,060)**
December 31, 2015	**(288,248)**	**(935,461)**	**(14,843)**	**(68,450)**	**(1,307,002)**
Carrying amount	**157,489**	**175,940**	**371**	**44,852**	**378,652**

No interest was capitalized in 2016. Additions to property, plant and equipment include EUR 1,969 thousand in 2015 of interest capitalized at an average borrowing rate of 6.80 percent. Interest was capitalized until September 3, 2015, when all borrowings were repaid (Note 16).

No property, plant and equipment was pledged in favor of a creditor or restricted in its use as of December 31, 2016 or December 31, 2015.

Additionally, purchases of plant, property and equipment in the Statement of Cash Flows excludes a non-cash change in accrued capital expenditures and a change in unpaid capital expenditures in the amount of EUR 24 million for the year ended December 31, 2016 and EUR 13 million for the year ended December 31, 2015.

(All amounts are in thousands of EUR if not stated otherwise)

Balance of impairment as of December 31, 2016:

	Cash-generating unit 1	Cash-generating unit 2
Carrying amount of plant, property and equipment, investment properties and intangible assets (before impairment)	**733,972**	**327,244**
Impairment loss – property, plant and equipment	(452,870)	-
Impairment loss – intangible assets	(2,712)	-
Revised carrying amount	**278,390**	**327,244**

Balance of impairment as of December 31, 2015:

	Cash-generating unit 1	Cash-generating unit 2
Carrying amount of plant, property and equipment, investment properties and intangible assets (before impairment)	**727,408**	**328,614**
Impairment loss – property, plant and equipment	(592,152)	-
Impairment loss – intangible assets	(6,239)	-
Revised carrying amount	**129,017**	**328,614**

No impairment of property, plant and equipment, investment properties and intangible assets was recognized in relation to the second cash generating unit as the recoverable amount is higher than carrying amount of the unit, excluding the annual revaluation of emission allowances.

Impairment in the first cash generating unit recognized in 2015 and previous years was primarily driven by lower margins on hot-rolled coils compared to products with higher added value. This commodity is highly exposed to imports from other countries and more sensitive to changes in market prices. The fair value less cost of disposal for land, selected buildings and mobile equipment exceed their carrying amounts, therefore no impairment was allocated to these assets. The impairment loss could not be recognized in full amount as it could be allocated to individual assets to the extent of their individual recoverable amounts only.

Partial impairment loss reversal in 2016 is caused primarily by improved margins on hot-rolled coils prices of which started to grow significantly in the second half of 2016. The growth was driven mainly by a rise in raw material costs and tightened supply in the EU market caused by limited third country import volumes due to trade defense measures. The increase in impairment loss recognized in 2015 was caused mainly due to additions of newly acquired non-current assets in the first cash-generating unit.

The sensitivity of a change in key assumptions of the calculated recoverable amount is disclosed in Note 3.

<u>Insurance</u>

Property, plant and equipment are insured by KOOPERATIVA poisťovňa, a.s. Vienna Insurance Group. The insurance covers damage caused by theft, disaster and other causes of machinery and equipment failure while maximum insurance compensation for one insurance claim is USD 500 million i.e. EUR 474 million using the exchange rate at the end of reporting period (2015: USD 750 million i.e. EUR 689 million using the exchange rate as of December 31, 2015). Compensation sublimits for individual risks are specified in the insurance contract. Self insurance is USD 25 million, i.e. EUR 24 million using the exchange rate at the end of reporting period, per claim.

(All amounts are in thousands of EUR if not stated otherwise)

Property, Plant and Equipment acquired using Government Grant

In 2016 the Company did not acquire Property, Plant and Equipment using Government grant. In 2015 the Company invested EUR 19,422 thousand in Property, Plant and Equipment related to Casthouse Emissions Efficiency improvement projects at Blast Furnaces No. 2 and 3. The Government Grant related to the projects was EUR 6,057 thousand in 2015. The Government Grant was recognized in Other Income in 2015 as the related assets were fully impaired in year 2015.

	2016	2015
Deferred income – Government Grant	-	6,057
Less: Other income	-	6,057
Deferred income balance at year end	-	-

Note 6 Investment Properties

Movements in investment properties during 2016 and 2015 are as follows:

	2016	2015
Cost		
Opening balance as of January 1	**4,329**	**4,247**
Transfers to / from property, plant and equipment	**170**	82
Disposals	**(485)**	-
Closing balance as of December 31	**4,014**	**4,329**
Accumulated Depreciation and Impairment Losses		
Opening balance as of January 1	**(1,238)**	**(1,148)**
Depreciation for the year	**(97)**	(105)
Transfers to / from property, plant and equipment	**(103)**	15
Disposals	**153**	-
Closing balance as of December 31	**(1,285)**	**(1,238)**
Carrying amount	**2,729**	**3,091**

Direct operating expenses (including repair and maintenance) arising from investment properties that generated rental income and direct operating expenses (including repair and maintenance) arising from investment properties that did not generate rental income are considered to be immaterial.

Investment properties of the Company are carried at historical cost less accumulated depreciation and accumulated impairment loss.

The fair value of the investment properties totaled EUR 5,964 thousand as of December 31, 2016 (December 31, 2015: EUR 6,743 thousand).

The fair value of the properties has not been determined on transactions observable in the market because of the nature of the property and lack of comparable data nor has been evaluated by an accredited external independent valuer. Instead, the fair values are determined by management using discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of existing lease contracts and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. The valuation falls within Level 3 of the fair value hierarchy.

The Company has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

(All amounts are in thousands of EUR if not stated otherwise)

Note 7 Intangible Assets

Movements in intangible assets during 2016 are as follows:

	Software	Emission allowances	Other intangible assets	Intangible assets not yet available for use	Total
Cost					
January 1, 2016	**31,964**	**71,664**	**602**	**1,614**	**105,844**
Additions	-	30,075	-	1,576	**31,651**
Disposals	(164)	(71,651)	-	-	**(71,815)**
Revaluation surplus	-	10,116	-	-	**10,116**
Transfers to base	2,040	-	41	(2,081)	**-**
December 31, 2016	**33,840**	**40,204**	**643**	**1,109**	**75,796**
Accumulated Amortization and Impairment of Assets					
January 1, 2016	**(28,641)**	**-**	**(467)**	**(848)**	**(29,956)**
Amortization for the year	(1,033)	-	(27)	-	**(1,060)**
Disposals	164	-	-	-	**164**
Reversal of Impairment (Note 5)	2,552	-	127	848	**3,527**
December 31, 2016	**(26,958)**	**-**	**(367)**	**-**	**(27,325)**
Carrying amount	**6,882**	**40,204**	**276**	**1,109**	**48,471**

Movements in intangible assets during 2015 are as follows:

	Software	Emission allowances	Other intangible assets	Intangible assets not yet available for use	Total
Cost					
January 1, 2015	**30,229**	**83,192**	**571**	**1,032**	**115,024**
Additions	-	46,242	-	2,607	**48,849**
Disposals	(255)	(58,434)	(4)	-	**(58,693)**
Revaluation surplus	-	664	-	-	**664**
Transfers to base	1,990	-	35	(2,025)	**-**
December 31, 2015	**31,964**	**71,664**	**602**	**1,614**	**105,844**
Accumulated Amortization and Impairment of Assets					
January 1, 2015	**(26,866)**	**-**	**(444)**	**(624)**	**(27,934)**
Amortization for the year	(1,106)	-	(26)	-	**(1,132)**
Disposals	240	-	4	-	**244**
Impairment losses	(909)	-	(1)	(224)	**(1,134)**
December 31, 2015	**(28,641)**	**-**	**(467)**	**(848)**	**(29,956)**
Carrying amount	**3,323**	**71,664**	**135**	**766**	**75,888**

No interest was capitalized in 2016. In 2015 additions to intangible assets include EUR one thousand of interest capitalized at an average borrowing rate of 6.80 percent. Interest was capitalized until September 3, 2015, when all borrowings were repaid (Note 16).

No intangible assets were pledged in favor of a creditor or restricted in their use as of December 31, 2016 or December 31, 2015.

Insurance

Intangible assets are not insured.

(All amounts are in thousands of EUR if not stated otherwise)

Emission allowances

The Company received free of charge allocations of CO_2 emission allowances from the Slovak Government. The allowances were initially measured at fair value as of the allocation date at EUR 4.95 per allowance (2015: EUR 7.47 per allowance). The allowances are revalued at the end of reporting period. The European Climate Exchange is used to obtain the fair value of the emission allowances. The liability for the obligation to deliver the emission allowances is settled within a few months after the end of reporting period in accordance with applicable legislation.

The balances included in the statement of financial position in respect to emission allowances are as follows:

	December 31, 2016	December 31, 2015
Emission allowances (intangible asset)	**40,204**	71,664
Liability from the obligation to deliver allowances (provision) (Note 17)	**57,993**	71,075

Fair value of intangible assets

The following table provides an analysis of intangible assets that are measured at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

December 31, 2016	Level 1	Level 2	Level 3	Total
Assets				
Emission allowances	40,204	-	-	40,204
Total	**40,204**	**-**	**-**	**40,204**

December 31, 2015	Level 1	Level 2	Level 3	Total
Assets				
Emission allowances	71,664	-	-	71,664
Total	**71,664**	**-**	**-**	**71,664**

During the year 2016 and 2015, there were no transfers between Level 1 and Level 2 of fair value measurements and no transfers into and out of Level 3 of fair value measurements.

If a cost model had been used, the carrying amount of emissions allowances net of impairment would have totaled EUR 30,087 thousand as of December 31, 2016 (December 31, 2015: EUR 49,230 thousand).

Note 8 Investments

The structure of the Company's interest in subsidiaries is as follows:

Entity, Country of incorporation, Principal activities		2016	2015
U. S. Steel Košice – Labortest, s.r.o., Slovakia, Testing laboratory			
	Ownership interest (%)	**99.97**	99.97
	Carrying amount	**2,250**	2,250
	Profit / (loss)	**341**	383
	Equity	**4,194**	4,217
U.S. Steel Košice – SBS, s.r.o., Slovakia, Security services			
	Ownership interest (%)	**98.00**	98.00
	Carrying amount	**34**	34
	Profit / (loss)	**67**	113
	Equity	**349**	395
RMS, a.s. Košice, Slovakia, Maintenance and vulcanization services, Refractory production			
	Ownership interest (%)	**76.01**	76.01
	Carrying amount	**1,995**	1,995
	Profit / (loss)	**769**	1,312
	Equity	**16,677**	17,408

(All amounts are in thousands of EUR if not stated otherwise)

U. S. Steel Services s.r.o., Slovakia, Various services			
	Ownership interest (%)	**99.96**	99.96
	Carrying amount	**1,804**	1,804
	Profit / (loss)	**273**	381
	Equity	**2,849**	2,938
OBAL-SERVIS, a.s. Košice, Slovakia, Packaging			
	Ownership interest (%)	**100.00**	100.00
	Carrying amount	**6,106**	6,106
	Profit / (loss)	**669**	925
	Equity	**6,705**	6,868
U. S. Steel Europe – Bohemia a.s. , Czech Republic, Sales Agent			
	Ownership interest (%)	**100.00**	100.00
	Carrying amount	**420**	452
	Profit / (loss)	**(68)**	60
	Equity	**1,488**	1,616
U. S. Steel Europe – France S.A. (1), France, Sales Agent			
	Ownership interest (%)	**99.94**	99.94
	Carrying amount	**212**	212
	Profit / (loss)	**14**	14
	Equity	**183**	183
U. S. Steel Europe – Germany GmbH(1), Germany, Sales Agent			
	Ownership interest (%)	**100.00**	100.00
	Carrying amount	**512**	544
	Profit / (loss)	**20**	45
	Equity	**1,245**	1,270
U. S. Steel Europe – Italy S.r.l. (1), Italy, Sales Agent			
	Ownership interest (%)	**100.00**	100.00
	Carrying amount	**110**	110
	Profit / (loss)	**1**	13
	Equity	**113**	146
Total carrying amount of investments		**13,443**	**13,507**

Profit / (loss) and equity of subsidiaries are presented under local accounting standards.

(1) Financial information for the year 2016 is unaudited.

The change in carrying amounts of investments in U. S. Steel Europe – Germany GmbH and U. S. Steel Europe – Bohemia a.s. as of December 31, 2016 relates to adjustments made in the provisions for impairment to the investments.

The activities of the subsidiaries are closely connected with the principal activity of the Company. None of the subsidiaries are listed on any stock exchange.

None of the Company’s ownership interests in subsidiaries were pledged as of December 31, 2016 or December 31, 2015.

There are no significant restrictions on the subsidiaries’ ability to transfer funds to the parent company in the form of cash, dividends or otherwise.

Note 9 Deferred Income Tax

Differences between IFRS, as adopted by the EU and Slovak tax laws give rise to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is recorded at the rate of 21 percent as of December 31, 2016 (2015: 22 percent).

(All amounts are in thousands of EUR if not stated otherwise)

The tax effect of the movements in the temporary differences during year 2016 is as follows:

	January 1, 2016	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2016
Property, plant and equipment	**61,652**	(48,248)	-	**13,404**
Inventories	**2,993**	(1,227)	-	**1,766**
Employee benefits	**7,216**	(55)	(197)	**6,964**
Deferred charges	**118**	638	-	**756**
Provision for impairment of receivables	**237**	(132)	-	**105**
Unused tax loss 2012 and 2013	**5,999**	(3,136)	-	**2,863**
Emission allowances transactions	**(277)**	2,192	(2,028)	**(113)**
Derivative financial instruments	**(560)**	(1)	(1,211)	**(1,772)**
Other items	**2,045**	1,530	-	**3,575**
Total	**79,423**	**(48,439)**	**(3,436)**	**27,548**
Deferred tax asset/(liability)	**79,423**			**27,548**

The tax effect of the movements in the temporary differences during year 2015 is as follows:

	January 1, 2015	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2015
Property, plant and equipment	**66,285**	(4,633)	-	**61,652**
Inventories	**3,997**	(1,004)	-	**2,993**
Employee benefits	**6,547**	766	(97)	**7,216**
Deferred charges	**93**	25	-	**118**
Provision for impairment of receivables	**3,504**	(3,267)	-	**237**
Unused tax loss 2012 and 2013	**8,480**	(2,481)	-	**5,999**
Emission allowances transactions	**(588)**	(3,362)	3,673	**(277)**
Derivative financial instruments	**(5,623)**	-	5,063	**(560)**
Other items	**2,871**	(826)	-	**2,045**
Total	**85,566**	**(14,782)**	**8,639**	**79,423**
Deferred tax asset/(liability)	**85,566**			**79,423**

The expected timing of the reversal of temporary differences is as follows:

	December 31, 2016	December 31, 2015
Deferred tax to be realized within 12 months	**13,337**	11,606
Deferred tax to be realized after 12 months	**14,211**	67,817

The Company has unrecognized potential deferred tax assets of EUR 799 thousand related to subsidiaries as of December 31, 2016 (December 31, 2015: EUR 271 thousand).

Tax loss carryforward

The Company recognized a deferred tax asset for the tax losses in accordance with *IAS 12 Income taxes.* The 2016 cumulative tax loss amounted to EUR 13,641 thousand (December 31, 2015: EUR 27,269 thousand). The Company believes that it is probable that taxable profits will be available against which the deferred tax asset can be utilized. Furthermore, the Company has available tax planning opportunities which it intends to use.

Effective January 1, 2014, the Slovak Government enacted new tax legislation requiring that the accumulated tax losses for the years 2010 through 2013 be used proportionately in each of the following four years, 2014 through 2017. Also, beginning with 2014, any tax losses generated in one year must be used proportionately over the four years following the year in which they are generated.

(All amounts are in thousands of EUR if not stated otherwise)

Impairment of property, plant and equipment

By the end of 2016 and 2015, the Company recognized a deferred tax asset for the impairment of property, plant and equipment in accordance with *IAS 12 Income taxes.* The Company believes that it is probable that taxable profits will be available against which the deferred tax asset can be utilized. Furthermore, the Company has available tax planning opportunities which it intends to use.

Note 10 Restricted Cash

	December 31, 2016	December 31, 2015
Cash restricted in its use - long-term portion	**7,289**	5,743
Cash restricted in its use - short-term portion	**66**	57
Total (Notes 26 and 27)	**7,355**	**5,800**

Cash restricted in its use represents mainly cash deposits made by the Company which can be used only for closure, reclamation and monitoring of landfills after their closure (Note 17). The effective interest rate on restricted cash in bank is disclosed in Note 14.

Credit risk of cash restricted in its use is disclosed in Note 26.

Note 11 Inventories

	December 31, 2016	December 31, 2015
Raw materials	**154,265**	154,203
Work-in-progress	**41,802**	30,658
Semi-finished production	**41,725**	51,669
Finished products	**92,652**	76,383
Total	**330,444**	**312,913**

No inventories were pledged in favor of a creditor or restricted in their use as of December 31, 2016 or December 31, 2015.

Inventory as of December 31, 2016 is shown net of write-down allowances resulting from lower net realizable values totaling EUR 3,094 thousand (December 31, 2015: EUR 4,920 thousand).

Movements of write-down allowances for inventories were as follows:

	Raw materials	Work in progress	Semi-finished production	Finished products	Total
January 1, 2016	**345**	**1,125**	**1,716**	**1,734**	**4,920**
Allowance made	254	393	885	(354)	**1,178**
Allowance used	(54)	(509)	(1,312)	(83)	**(1,958)**
Allowance reversed	(65)	(276)	(302)	(403)	**(1,046)**
December 31, 2016	**480**	**733**	**987**	**894**	**3,094**

	Raw materials	Work in progress	Semi-finished production	Finished products	Total
January 1, 2015	**1,673**	**505**	**829**	**769**	**3,776**
Allowance made	2,664	906	1,463	1,466	**6,499**
Allowance used	(3,672)	(268)	(569)	(451)	**(4,960)**
Allowance reversed	(320)	(18)	(7)	(50)	**(395)**
December 31, 2015	**345**	**1,125**	**1,716**	**1,734**	**4,920**

(All amounts are in thousands of EUR if not stated otherwise)

Note 12 Trade and Other Receivables

	December 31, 2016	December 31, 2015
Trade receivables	**321,864**	241,804
Related party accounts receivable (Note 29)	**616**	1,304
Total trade receivables (Note 29)	**322,480**	**243,108**
Advance payments made	**5,731**	6,135
VAT receivable	**33,323**	29,762
Other receivables – government grants	**70,976**	20
Other receivables	**1,220**	512
Trade and other receivables (gross)	**433,730**	**279,537**
Provision for impairment of trade receivables	**(20,047)**	(19,711)
Provision for impairment of other receivables	**(5)**	(18)
Trade and other receivables (net)	**413,678**	**259,808**
Long-term receivables	**68,401**	-
Short-term receivables	**345,277**	259,808

No receivables of the Company were pledged in favor of a bank or other entities as of December 31, 2016 or December 31, 2015. The maximum credit risk exposure at the end of reporting period is the carrying amount of each class of receivable mentioned above. Information about collateral or other credit enhancements and the overall credit risk of the Company is disclosed in Note 26.

Government grants

In the year 2016, the Ministry of Environment of the Slovak Republic approved the Company's application for ten EU grants from Operational Program Environment Quality for the purpose of Dedusting of Secondary metallurgy of Steel Plant No.1, Dedusting of Steel Plant No.2 – Desulphurization, Emission control for ore bridges of Blast Furnace No.1, Dedusting of Sinter Plant at belts No. 1 - 4, Dedusting of Sinter Belts No.1&2, and 3&4, Emission control for ore bridges of Blast Furnace No.3. The approved amount of these grants was 55 - 90 percent of the identified eligible costs of these projects, which represent the amount of EUR 71 million as of December 31, 2016, out of which EUR 68 million is relating to the year 2018 and later.

The government grant receivable was denominated in Euro and was neither subject to substantial credit risk nor currency risk.

The carrying amount of trade receivables, including related party accounts receivable, is denominated in the following currencies:

	December 31, 2016	December 31, 2015
EUR	**303,125**	233,235
USD	**5,877**	3,581
CZK	**13,478**	6,292
Total	**322,480**	**243,108**

The structure of trade receivables is as follows:

	December 31, 2016	December 31, 2015
Receivables not yet due and not impaired	**293,481**	215,521
Receivables past due but not impaired	**8,374**	6,609
Receivables impaired	**20,009**	19,674
Trade receivables	**321,864**	**241,804**
Receivables not yet due and not impaired	**578**	1,267
Receivables impaired	**38**	37
Related party accounts receivable	**616**	**1,304**
Total	**322,480**	**243,108**

(All amounts are in thousands of EUR if not stated otherwise)

Receivables not yet due and not impaired can be analyzed based on internal credit ratings as follows:

	December 31, 2016	December 31, 2015
No or low-risk counterparties	**172,118**	104,727
Increased or high-risk counterparties	**121,363**	110,794
Trade receivables	**293,481**	**215,521**
No or low-risk counterparties	**575**	1,267
Increased or high-risk counterparties	**3**	-
Related party accounts receivable	**578**	**1,267**
Total	**294,059**	**216,788**

No or low-risk counterparties are customers with prompt payment discipline supported by requested credit enhancement endorsement.

Increased or high-risk counterparties are customers in high risk locations with inconsistent payment discipline and limited credit enhancement endorsement.

Aging structure of trade receivables past due but not impaired is as follows:

	December 31, 2016	December 31, 2015
Past due 0 – 30 days	**8,218**	6,212
Past due 30 – 90 days	**155**	284
Past due 90 – 180 days	**1**	100
Past due more than 180 days	**-**	13
Trade receivables	**8,374**	**6,609**
Related party accounts receivable	**-**	**-**
Total	**8,374**	**6,609**

Discounted present value of receivables past due is not materially different from their book values as of December 31, 2016 and 2015.

Ageing structure of trade receivables individually impaired is as follows:

	December 31, 2016	December 31, 2015
Not yet due	**-**	-
Past due 0 – 30 days	**-**	-
Past due 30 – 90 days	**518**	-
Past due 90 – 180 days	**62**	1
Past due 180 – 365 days	**59**	817
Past due over 365 days	**19,370**	18,856
Trade receivables	**20,009**	**19,674**
Not yet due	**-**	-
Past due 0 – 30 days	**-**	-
Past due 30 – 90 days	**-**	-
Past due 90 – 180 days	**-**	-
Past due 180 – 365 days	**-**	25
Past due over 365 days	**38**	12
Related party accounts receivable	**38**	**37**
Total	**20,047**	**19,711**

(All amounts are in thousands of EUR if not stated otherwise)

The movement of provision for impairment of accounts receivable was as follows:

	Trade receivables	Related party accounts receivable	Other receivables	Advance payments made	Total
January 1, 2016	**19,674**	**37**	**18**	**-**	**19,729**
Provision made	939	1	-	-	**940**
Receivables written-off	(291)	-	(13)	-	**(304)**
Provision reversed	(313)	-	-	-	**(313)**
December 31, 2016	**20,009**	**38**	**5**	**-**	**20,052**

	Trade receivables	Related party accounts receivable	Other receivables	Advance payments made	Total
January 1, 2015	**19,453**	**14**	**32**	**-**	**19,499**
Provision made	858	26	-	-	**884**
Receivables written-off	(354)	(3)	(13)	-	**(370)**
Provision reversed	(283)	-	(1)	-	**(284)**
December 31, 2015	**19,674**	**37**	**18**	**-**	**19,729**

Accounts receivable totaling EUR 304 thousand were written off in 2016 (2015: EUR 370 thousand).

Note 13 Derivative Financial Instruments

The Company has entered into forward foreign exchange contracts which are not traded and are agreed with the banks on specific contractual terms and conditions. These derivative instruments have potentially favorable (assets) or unfavorable (liabilities) conditions as a result of fluctuations in market foreign exchange rates.

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses on forward foreign exchange contracts recognized in other comprehensive income and accumulated in revaluation reserves in equity (Note 15) as of December 31, 2016 will be recognized in the profit or loss in the period(s) during which the hedged forecast transaction affects the profit or loss. This is generally within 12 months after the end of reporting period. Gains and losses from revaluation of forward exchange contracts as of December 31, 2016 and December 31, 2015 recognized in other comprehensive income and accumulated in revaluation reserves in equity were reclassified into profit or loss in 2016, respectively 2015. The actual value recognized in Other operating expenses in 2016 amounts to a loss of EUR 2 million (2015: loss of EUR 2 million).

The aggregate fair values of derivative financial instruments can fluctuate significantly from time to time. Fair value of hedging derivatives is determined using valuation techniques that utilize observable market data. The fair value of these forward foreign exchange contracts is determined using market forward exchange rates at the end of reporting period calculated from data obtained from Bloomberg and European Central Bank. The table below sets out fair values, at the end of the reporting period, of the Company's forward foreign exchange contracts:

	December 31, 2016		December 31, 2015	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Foreign exchange forwards – cash flow hedges	**8,595**	**158**	3,458	911
Total	**8,595**	**158**	**3,458**	**911**

Balances as of December 31, 2016 and December 31, 2015 were not past due. The risk of concentration of counterparty credit risk is mitigated by purchasing forward foreign exchange contracts from several counterparties. The Company has entered into forward foreign exchange contracts with ING Bank N.V., Citibank Europe plc, Commerzbank and The Bank of Nova Scotia as of December 31, 2016 and with ING Bank N.V., Citibank Europe plc, PNC Bank, Commerzbank and The Bank of Nova Scotia as of December 31, 2015. The financial asset for each counterparty represents less than 40 percent of total financial assets. The ratings of the banks are BBB+ and higher (according to Standard & Poor's) as of December 31, 2016 (December 31, 2015: A- and higher). Information about the fair value hierarchy as of December 31, 2016 is disclosed in Note 27.

(All amounts are in thousands of EUR if not stated otherwise)

The table below reflects gross positions before the netting of any counterparty positions towards counterparties and covers the contracts with settlement dates after the respective end of the reporting period. The contracts are short term in nature:

	December 31, 2016	December 31, 2015
Payable on settlement in EUR thousand	**(157,377)**	(240,549)
Receivable on settlement in USD thousand	**176,250**	266,200

The Company is exposed to a fluctuation of Iron Ore, Zinc and Tin prices. In order to eliminate the Company's exposure to Iron Ore, Zinc and Tin prices fluctuation, the Company entered into commodity forwards to protect its profit margin. All commodity forwards commenced in 2016 matured in 2016, resulting in an overall gain of 2,728 thousand EUR (in 2015: gain of 683 thousand EUR).

Note 14 Cash and Cash Equivalents

	December 31, 2016	December 31, 2015
Cash on hand	**49**	49
Cash at bank	**115,724**	248,891
Total (Note 27)	**115,773**	**248,940**

Interest rates on bank accounts were approximately 0.15 percent per annum for EUR deposits, 0.60 percent per annum for USD deposits and 0.07 percent per annum for CZK deposits as of December 31, 2016 (December 31, 2015: 0.11 percent per annum for EUR deposits, 0.04 percent per annum for USD deposits and 0.07 percent per annum for CZK deposits). Interest rates at bank accounts denominated in other currencies are not disclosed as the balances in these accounts are not material.

Cash restricted in its use is presented in Note 10.

All balances are neither past due nor impaired. The credit risk of cash and cash equivalents is disclosed in Note 26.

Note 15 Equity

Share capital

The Company’s registered and fully paid in capital is EUR 839,357 thousand. The Company does not have unregistered increased share capital as of December 31, 2016.

Reserve funds

The movement in reserve funds is as follows:

	Other capital funds	Legal reserve fund	Derivative hedging instruments	CO2 emission allowances	Total
January 1, 2016	**44**	**24,949**	**4,422**	**21,318**	**50,733**
Changes in fair value of derivative hedging instruments	-	-	2,277	-	**2,277**
Changes in fair value of CO_2 emission allowances	-	-	-	7,512	**7,512**
Realisation of revaluation surplus	-	-	-	(21,858)	**(21,858)**
Contribution to legal reserve fund	-	2,161	-	-	**2,161**
December 31, 2016	**44**	**27,110**	**6,699**	**6,972**	**40,825**

(All amounts are in thousands of EUR if not stated otherwise)

	Other capital funds	Legal reserve fund	Derivative hedging instruments	CO2 emission allowances	Total
January 1, 2015	**44**	**24,098**	**20,200**	**16,981**	**61,323**
Changes in fair value of derivative hedging instruments	-	-	(15,778)	-	**(15,778)**
Changes in fair value of CO_2 emission allowances	-	-	-	4,337	**4,337**
Loss settlement from legal reserve fund	-	851	-	-	**851**
December 31, 2015	**44**	**24,949**	**4,422**	**21,318**	**50,733**

As of December 31, 2016 the closing balance of revaluation reserves consisted of the revaluation reserve for derivative hedging instruments in the amount of EUR 6,699 and the revaluation reserve for CO_2 emission allowances in the amount of EUR 6,972 (December 31, 2015: the closing balance of the revaluation reserves consisted of revaluation reserve for derivative hedging instruments in the amount of EUR 4,422 and the revaluation reserve for CO_2 emission allowances in the amount of EUR 21,318). The remeasurements of post employment benefit obligations in 2016 and 2015 are recognized in Retained Earnings / Accumulated Losses.

Dividends

In April 2016, dividends totaling EUR 47,948 thousand were approved for distribution and paid to U.S. Steel Global Holdings I B.V. There were no declared but unpaid dividends as of December 31, 2016 (December 31, 2015: no declared but unpaid dividends).

Note 16 Long-Term Loans and Borrowings

On March 23, 2010, the Company entered into a EUR 300 million seven-year revolving unsecured credit facility with U. S. Steel Global Holdings I B.V, the Company's parent entity at the time. Interest on borrowings under the facility is based on a fixed rate of 6.80 percent per annum and the agreement contains customary terms and conditions. As of June 16, 2010, the amount of this credit facility was increased by EUR 100 million. As of April 1, 2012 the EUR 400 million credit facility was changed to USD 500 million credit facility. This credit facility was set to expire in March 2017. As of September 3, 2015, all borrowings totaling of USD 270 million were repaid (i.e. EUR 240 million using the exchange rate valid at transaction day. No borrowings were drawn against this credit facility as of December 31, 2016 and December 31, 2015.

On February 22, 2016 the Company entered into a EUR 200 million revolving unsecured credit facility that replaced original credit facility which was set to expire in July 2016. The facility bears interest at the applicable inter-bank offer rate plus a margin and the agreement contains customary terms and conditions. The new credit facility may be used until July 15, 2019. As of December 31, 2016, there were no borrowings against this credit facility (December 31, 2015: there were no borrowings against this credit facility).

On December 14, 2015, the Company entered into the supplemental agreement no.5 to its EUR 20 million credit facility that was scheduled to expire in December 2015. The amount of the credit facility increased to EUR 40 million and may be used until December 2018 for working capital financing, drawing bank overdraft, and issuing of bank guarantees and letters of credit. As of December 31, 2016, the credit facility has been used in the amount of EUR 133 thousand for bank guarantees (December 31, 2015: EUR 133 thousand).

On November 2, 2016 USSK entered into an amendment no.2 to its Bilateral Loan Agreement in the amount of EUR 10 million between the Company and Commerzbank to extend the agreement's final maturity date from December 2016 to December 2017. The amendment also permits up to two additional one-year extensions to the final maturity date at the mutual consent of USSK and its lender. As of December 31, 2016, the credit facility has been used in the amount of EUR 2,116 thousand for bank guarantees (December 31, 2015: EUR 2,016 thousand).

Within available credit facilities, the Company can draw loans with terms of not more than six months with interest fixed for each particular loan at the applicable inter-bank offer rate plus margin. The credit facilities contain customary terms and conditions. The Company is the sole obligor on each of these credit facilities and is obliged to pay a commitment fee on the undrawn portion of the facilities.

During 2016 and 2015 the Company did not draw any loans against these credit facilities.

(All amounts are in thousands of EUR if not stated otherwise)

Management of capital is disclosed in Note 25 and information about credit facilities available to the Company and interest rate risk exposure is disclosed in Note 26.

Note 17 Provisions for Liabilities

Movements in provisions for liabilities were as follows:

	Landfill	Litigation	CO_2 emissions	Other	Total
January 1, 2016	**7,552**	**411**	**71,075**	**76**	**79,114**
Provision made	3,977	126	57,993	151	**62,247**
Provision used / reversed	(10)	(70)	(71,075)	(137)	**(71,292)**
December 31, 2016	**11,519**	**467**	**57,993**	**90**	**70,069**
Long-term provisions	11,509	-	-	-	**11,509**
Short-term provisions	10	467	57,993	90	**58,560**

	Landfill	Litigation	CO_2 emissions	Other	Total
January 1, 2015	**4,920**	**2,392**	**64,890**	**241**	**72,443**
Provision made	2,633	1,326	71,075	74	**75,108**
Provision used / reversed	(1)	(3,307)	(64,890)	(239)	**(68,437)**
December 31, 2015	**7,552**	**411**	**71,075**	**76**	**79,114**
Long-term provisions	7,498	-	-	-	**7,498**
Short-term provisions	54	411	71,075	76	**71,616**

The movement of provisions caused by the passage of time (i.e. accretion expense) in 2016 and 2015 was considered to be immaterial.

Provision reversals for the year 2016 and 2015 were considered to be immaterial.

Landfill

The provision for closing, reclamation and after-close monitoring of landfills is recognized based on the Law on Waste. In 2016, the Company had four operating landfills; two for non-hazardous waste and two for hazardous waste. Reclamation of one non-hazardous and one hazardous landfill was completed and landfills were closed in 2012 and 2013. One non-hazardous waste landfill was closed in July 2009 and one hazardous waste landfill was closed in November 2010. Reclamation cost was charged against the provision. The short-term portion of the provision represents expenditures that are expected to be settled within 12 months.

Litigation

The Company uses external legal counsel to act in some legal proceedings and internal legal counsel in other proceedings. These proceedings are at different stages and some may proceed for undeterminable periods of time. The Company's management has made its best estimate of the probabilities and the contingent loss amounts associated with all legal proceedings in both Slovak and foreign jurisdictions and had recorded provisions accordingly. The provisions are considered immaterial to the Company's financial statements. Based on facts currently available, management believes that the disposition of these other matters that are pending or asserted will not have a material adverse effect, individually or in the aggregate, on the financial position of the Company.

CO_2 emissions

A provision was recognized for CO_2 emissions emitted in 2016. The provision is calculated as a multiple of the final volume of CO_2 emitted for the calendar year and the fair value of CO_2 emission allowances on the European Climate Exchange as of December 31, 2016. The provision was charged to Other operating expenses (Note 23). Amortization of related deferred income from assigned CO_2 emission allowances is recognized in Other income (Note 20).

Other

Other provisions include provisions for warranty.

(All amounts are in thousands of EUR if not stated otherwise)

Note 18 Employee Benefits Obligations

Employee retirement obligation

The Company is committed to make payments to employees upon retirement in accordance with the Labor Code and Collective Labor Agreement. The defined benefit obligation is calculated annually by U. S. Steel actuaries using the projected unit credit method.

Work and life jubilee benefits

The Company also pays certain work and life jubilee benefits. The liability is calculated consistently with the employee retirement obligation except that actuarial gains and losses and past services costs are recognized immediately in profit or loss for the current period.

The movement in the accrued liability over the years is as follows:

	2016	2015
January 1	**32,882**	**33,394**
Total expense charged in profit or loss – pension	**1,512**	1,547
Total expense charged in profit or loss – jubilee	**501**	528
Total expense charged in profit or loss – termination	**4,591**	-
Remeasurements of post employment benefit obligations	**(335)**	(441)
Benefits paid	**(5,846)**	(2,146)
December 31	**33,305**	**32,882**
Long-term employee benefits payable	**31,879**	31,435
Short-term employee benefits payable	**1,426**	1,447

The amounts recognized in the statement of financial position are determined as follows:

	December 31, 2016	December 31, 2015
Present value of the obligation – pension	**19,913**	18,813
Present value of the obligation – jubilee	**8,787**	8,872
Present value of the obligation – termination	**95**	-
Remeasurements of post employment benefit obligations	**4,510**	5,197
Unrecognized past service costs	**-**	-
Total liability in the statement of financial position	**33,305**	**32,882**

The amounts recognized in the comprehensive income are determined as follows:

	2016	2015
Current service costs – pension	**1,043**	1,127
Current service costs – jubilee	**374**	388
Current service costs – termination	**4,591**	-
Interest costs	**597**	539
Net actuarial losses / (gains)	**351**	21
Remeasurements of post employment benefit obligations	**(687)**	(441)
Total	**6,269**	**1,634**

Current service cost and net actuarial losses are presented in salaries and other employee benefits (Note 22) and interest costs are reflected in finance costs.

Principal actuarial assumptions used to determine employee benefits obligations as of December 31, were as follows:

	2016	2015
Discount rate	**1.50%**	**2.00%**
Annual wage and salary increases	**5.00%**	**5.00%**
Staff turnover [(1)]	**5.00%**	**5.00%**

[(1)] Staff turnover is replaced by termination table that varies by employee's age and years of service but does not exceed 5 percent annually.

For calculating the discount rate for euro-denominated pension and postretirement obligations in accordance with *IAS 19 Employee benefits* the Company used a suitable bond yield curve. The yield curve used was a Euro bond yield as of December 31, 2016 developed by Buck Consultants. The curve plots yield rates as a function of time. Each point on the curve represents a spot rate that can be used to discount a benefit amount expected to be paid at that time. The curve is constructed by examining the yields on selected highly rated corporate bonds.

(All amounts are in thousands of EUR if not stated otherwise)

Profit sharing and bonus plans

A liability for employee benefits in the form of profit sharing and bonus plans is recognized in other liabilities. Liabilities for profit sharing and bonus plans are measured at the amounts expected to be paid when they are settled.

Defined contribution pension plan

Throughout the year, the Company made contributions to the mandatory government and private defined contribution plans representing 24.5 percent (2015: 24.9 percent) of total salaries and other employee benefits up to a monthly salary ceiling of EUR 4,290 (2015: EUR 4,120). The amount of contributions for social security is presented in Note 22.

In addition, with respect to employees who have chosen to participate in a supplementary pension scheme, the Company made contributions to the supplementary scheme amounting to 1.6 percent of the monthly accounted wage in 2016 (2015: 1.7 percent).

Information for pension plans with an accumulated benefit obligation:

	2016	2015
Accumulated benefit obligation (ABO)	**25,984**	25,722
Effects of Future Compensation	**7,226**	7,160
Projected benefit obligation (PBO)	**33,210**	**32,882**
Termination	**95**	-
Total liability in the statement of financial position	**33,305**	**32,882**

Note 19 Trade and Other Payables

	December 31, 2016	December 31, 2015
Trade payables	**209,856**	144,508
Related party accounts payable (Note 29)	**12,261**	20,855
Assigned trade payables	**35,282**	47,698
Uninvoiced deliveries and other accrued expenses	**84,344**	67,922
Trade payables and accruals (Note 26)	**341,743**	**280,983**
Advance payments received	**3,636**	2,011
Liability to employees and social security institutions	**34,781**	26,813
VAT and other taxes and fees	**4,627**	4,547
Other payables	**3,947**	3,817
Total	**388,734**	**318,171**

Trade payables also include liability for discounts and rebates the Company will provide to the customers which fulfilled all requirements stated in sale contracts as of December 31, 2016.

	December 31, 2016	December 31, 2015
Short-term trade and other payables	**384,708**	315,499
Long-term trade and other payables	**4,026**	2,672
Total	**388,734**	**318,171**

Long-term trade and other payables represents the retention portion of capital expenditures for which different due dates were agreed upon in trade contracts, longer than 12 months.

(All amounts are in thousands of EUR if not stated otherwise)

The aging structure of trade and other payables is presented in the table below:

	December 31, 2016	December 31, 2015
Trade and other payables not yet due	**380,953**	312,705
Trade and other payables past due	**7,781**	5,466
Total	**388,734**	**318,171**

The carrying amount of trade payables and accruals is denominated in the following currencies:

	December 31, 2016	December 31, 2015
EUR	**275,643**	221,410
USD	**65,939**	57,694
Other	**161**	1,879
Total	**341,743**	**280,983**

Contributions to and withdrawals from the social fund during the accounting period are shown in the following table:

	2016	2015
Opening balance as of January 1	**100**	**97**
Company contribution (company costs)	**1,548**	1,542
Employees contribution (repayments)	**103**	162
Withdrawals	**(1,679)**	(1,701)
Closing balance as of December 31	**72**	**100**

The social fund is used for social, medical, relaxing and similar needs of the Company's employees in accordance with social fund law. The balances are included in the liability to employees and social security institutions caption of the table above.

Note 20 Revenue and Other Income

The main activities of the Company are the production and sale of steel products, which include slabs, sheet, strip mill plate, tin mill products, spiral welded pipes and panel radiators. In addition, the Company also produces and distributes electricity, heat and gas. The Company also produces coke which is primarily used in the steel making process. The Company also provides certain functional support services to its subsidiaries and parent company.

Revenue consists of the following:

	2016	2015
Sales of own production	**1,994,163**	2,055,581
Sales of merchandise	**3,183**	4,461
Rendering of services	**19,925**	19,883
Total	**2,017,271**	**2,079,925**

In 2016 and 2015, sales of merchandise represent primarily sales of electricity.

<u>Other income</u>

Other income consists of the following:

	2016	2015
Amortization of deferred income - CO_2 emission allowances	**30,075**	46,242
Recognition of deferred income - Government Grant (Note 5)	**-**	6,057
Gain on disposal of property, plant and equipment, investment property and intangible assets	**1,073**	-
Gain on derivative financial instruments	**5,704**	55,950
Rental income	**1,811**	1,854
Income from contractual penalties	**624**	405
Other income	**3,913**	2,030
Total	**43,200**	**112,538**

(All amounts are in thousands of EUR if not stated otherwise)

Note 21 Materials and Energy Consumed

Materials and energy consumed is comprised of the following:

	2016	2015
Materials consumed	**(1,034,178)**	(1,133,797)
Energy consumed	**(121,708)**	(124,972)
Costs of merchandise sold	**(3,182)**	(4,324)
Changes in internally produced inventory	**17,463**	(42,447)
Inventory write-down allowance (Note 11)	**(132)**	(6,104)
Total	**(1,141,737)**	**(1,311,644)**

Note 22 Salaries and Other Employee Benefits

Salaries and employee benefits are comprised of the following:

	2016	2015
Wages and salaries	**(196,346)**	(191,300)
Profit sharing expense	**(7,375)**	(3,795)
Termination benefits (Note 18)	**(4,591)**	-
Mandatory social and health insurance to all insurance funds (Note 18)	**(72,110)**	(68,918)
Other social expenses	**(11,915)**	(11,715)
Pension expenses – retirement and work and life jubilees (Note 18)	**(1,768)**	(1,536)
Total	**(294,105)**	**(277,264)**

The average number of the Company's employees for 2016 was 10,092 (2015: 10,196).

Note 23 Other Operating Expenses

Other operating expenses during 2016 are as follows:

	2016	2015
Packaging	**(13,192)**	(14,231)
Cleaning and waste disposal	**(8,609)**	(8,443)
Rent	**(1,933)**	(2,334)
Advertising and promotion	**(2,609)**	(2,847)
Intermediary fees	**(2,746)**	(3,020)
Training	**(819)**	(1,070)
Charge for provision for CO_2 emissions (Note 17)	**(57,993)**	(71,075)
Impairment of receivables – (loss) and receivables written-off (Note 12)	**(641)**	(704)
Loss on disposal on property, plant and equipment and intangible assets	**-**	(2,003)
Real estate tax and other taxes	**(5,468)**	(6,025)
Intangible assets, licences, trade marks, licence support	**(10,112)**	(3,131)
Laboratory and heat tests	**(6,083)**	(6,116)
External processing	**(14,639)**	(8,161)
Costs of processing of steel slag, sludge and dust	**(5,070)**	(4,955)
Audit fees	**(598)**	(661)
Other services provided by the auditor	**(12)**	(12)
Other operating expenses [(1)]	**(68,498)**	(69,891)
Total	**(199,022)**	**(204,679)**

[(1)] Other operating expenses include various types of services not exceeding EUR 5 million individually.

(All amounts are in thousands of EUR if not stated otherwise)

Note 24 Income Tax

The income tax (expense) / credit consists of following:

	2016	2015
Current tax	**(29,675)**	(2,173)
Deferred tax (Note 9)	**(48,439)**	(14,782)
Total	**(78,114)**	**(16,955)**

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to the Company as follows:

	2016	2015
Profit before tax	**348,628**	60,184
Tax calculated at 22% tax rate	**(76,698)**	(13,240)
Non-deductible expenses	**197**	270
Impact on deferred tax from a change in a tax rate (22% to 21%)	**(1,448)**	-
Other	**(165)**	(3,985)
Tax (charge) / credit	**(78,114)**	**(16,955)**

The effective tax rate was 23 percent (2015: 28 percent).

The tax (charge) / credit relating to components of other comprehensive income is as follows:

	2016			2015		
	Before tax	Tax (charge) / credit	After tax	Before tax	Tax (charge) / credit	After tax
Changes in fair value of derivative hedging instruments	**3,488**	**(1,211)**	**2,277**	(20,841)	5,063	(15,778)
Changes in actuarial gains and losses	**687**	**(197)**	**490**	441	(97)	344
Changes in revaluation reserve	**9,540**	**(2,028)**	**7,512**	664	3,673	4,337
Other comprehensive income	**13,715**	**(3,436)**	**10,279**	**(19,736)**	**8,639**	**(11,097)**
Current tax	**-**	**-**	**-**	-	-	-
Deferred tax (Note 9)	**-**	**(3,436)**	**-**	-	8,639	-
	-	**(3,436)**	**-**	**-**	**8,639**	**-**

Note 25 Capital Management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns for the shareholder and to pay obligations as they come due. The Company's overall strategy did not change from 2015.

The capital structure of the Company consists of debt (Note 16 and Note 29) totaling EUR 10,187 thousand as of December 31, 2016 (December 31, 2015: EUR 9,439 thousand) and equity (Note 15) totaling EUR 1,173,044 thousand as of December 31, 2016 (December 31, 2015: EUR 940,199 thousand) that includes share capital, reserve funds and retained earnings.

The externally imposed capital requirements for a limited liability company established in the Slovak Republic include a minimum level of share capital totaling EUR 5 thousand. The Company complied with the regulatory capital requirements as of December 31, 2016 and December 31, 2015.

Note 26 Financial Risk Management

Financial risk is managed in compliance with policies and procedures established by U. S. Steel. The use of risk management instruments is controlled by U. S. Steel management which has authorized the use of futures, forwards, swaps and options to manage exposure to price fluctuations of certain commodities and foreign currency transactions. The use of derivative instruments could materially affect the Company's results of operations in particular accounting periods; however, management believes that the use of these instruments will not have a material adverse effect on the financial position or liquidity of the Company.

(All amounts are in thousands of EUR if not stated otherwise)

The Company is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, foreign exchange rate risk and other price risk). The overall financial risk management process focuses on the unpredictability of financial markets and aims to minimize potential adverse effects on the company's financial performance.

Credit risk

The Company is exposed to credit risk in the event of non-payment by customers principally within the construction, service center, transportation (including automotive), container, further conversion, and appliance industries. Changes in these industries may significantly affect management's estimates and the Company's financial performance.

Credit risk is managed by the Receivables Management Department. All customers of the Company are assigned an internal risk rating in accordance with approved internal policies and procedures. A customer's credit rating is determined by considering its financial situation, payment behavior, past experience and other factors. Individual credit limits are established based on internal ratings and the amounts and utilization of the limits are periodically re-evaluated and monitored. Company management carefully monitors the impact of the current economic situation on the customers and adjusts the ratings and related credit limits accordingly. Trade receivables are monitored on a daily basis for individual customers and groups of customers under common control. Overdue receivables are handled in accordance with established collection management practices such as reminders, phone contact, suspension of orders and shipments, customers visit and likewise.

The Company uses Letter of Credits, Bank Guarantees and Documentary Collections to minimize the Credit Risk arising from Customers. Internal policy establishes a minimum acceptable credit rating for financial institutions. The ratings of banks are monitored on a monthly basis or if circumstances change. The ratings of the banks are BBB- and higher (according to Standard & Poor's or equivalent of it per other rating agencies).

The Company is exposed to overall credit risk arising from financial assets as summarized below:

December 31, 2016	Derivative financial instruments	Loans and receivables
Trade and other receivables (Note 12)		
Trade receivables (net)	-	301,817
Related party accounts receivables (net)	-	616
Other receivables – government grants	-	70,976
Derivative financial instruments (Note 13)		
Forward foreign exchange	8,595	-
Short-term loans (Note 29)		
Short-term loans provided	-	250,328
Cash and cash equivalents (Note 14)		
ING Bank N.V.	-	31,282
COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky	-	34,449
Citibank (Slovakia) a.s.	-	22,711
Slovenská sporiteľňa, a.s.	-	24,414
Komerční Banka, a.s.	-	2,781
Other banks	-	87
Cash on hand	-	49
Cash restricted in its use (Note 10)		
Slovenská sporiteľňa, a.s.	-	832
Všeobecná úverová banka, a.s.	-	5,460
COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky	-	1,044
ING Bank N.V.	-	19
Total	**8,595**	**746,865**

(All amounts are in thousands of EUR if not stated otherwise)

December 31, 2015

	Derivative financial instruments	Loans and receivables
Trade and other receivables (Note 12)		
Trade receivables (net)	-	222,093
Related party accounts receivables (net)	-	1,304
Other receivables – government grants	-	20
Derivative financial instruments (Note 13)		
Forward foreign exchange	3,458	-
Cash and cash equivalents (Note 14)		
ING Bank N.V.	-	31,296
COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky	-	35,262
Citibank (Slovakia) a.s.	-	70,149
Slovenská sporiteľňa, a.s.	-	48,827
Komerční Banka, a.s.	-	63,297
Other banks	-	61
Cash on hand	-	48
Cash restricted in its use (Note 10)		
Slovenská sporiteľňa, a.s.	-	839
Všeobecná úverová banka,a.s.	-	4,195
COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky	-	763
ING Bank N.V.	-	3
Total	**3,458**	**478,157**

The maximum exposure to credit risk at the reporting date is the carrying value of the above mentioned financial assets before consideration of collateral and other credit enhancements. The Company mitigates credit risk for approximately 69 percent (2015: 72 percent) of its revenues by requiring credit insurance, letters of credit, bank guarantees, prepayments or other collateral. Information about collateral or other credit enhancements is as follows:

	2016	2015
Credit insurance	**57%**	56%
Letters of credit and documentary collection	**6%**	4%
Bank guarantees	**2%**	3%
Other credit enhancements	**3%**	9%
Credit enhanced sales	**69%**	**72%**
Unsecured sales	**31%**	28%
Total	**100%**	**100%**

The majority of the Company's customers are located in Central and Western Europe. No single customer accounts for more than 10 percent of gross annual revenues.

<u>Liquidity risk</u>

The Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of credit facilities to cover the liquidity risk in accordance with its financing strategy. Company management monitors expected and actual cash flows and the cash position of the Company on a daily basis in accordance with approved internal policies and procedures. Excess funds are invested to liquid financial assets and time deposits not to exceed USD 125 million or equivalent in other currency for sole obligor. The investment exposure by country is also closely monitored.

During 2016, the Company drew short-term borrowings as a part of the Company's cash pooling strategy of EUR 73.3 million and repaid EUR 72.6 million. During 2015, the Company under this strategy drew amount of EUR 83 million from which EUR 87 million was repaid. Borrowings drawn within the cash pooling strategy bear interest rate spread over EUR LIBOR plus margin. Borrowing contracts contain customary terms and conditions and are valid until May 31, 2017 with the option to be prolonged.

(All amounts are in thousands of EUR if not stated otherwise)

Long-term borrowings are disclosed in Note 16.

The table below summarizes the expected undiscounted cash flows in relation to agreed maturities of financial assets and financial liabilities.

December 31, 2016

	0 – 1 year	1 – 5 years	over 5 years	Total
Assets				
Cash and cash equivalents	115,773	-	-	**115,773**
Restricted cash	66	-	7,289	**7,355**
Trade receivables (net)	302,433	-	-	**302,433**
Other receivables – government grants	2,575	68,401	-	**70,976**
Derivative financial instruments	167,204	-	-	**167,204**
Intercompany loans provided	250,328	-	-	**250,328**
Total	**838,379**	**68,401**	**7,289**	**914,069**
Liabilities				
Trade payables and accruals	337,717	4,026	-	**341,743**
Derivative financial instruments	157,377	-	-	**157,377**
Loans and borrowings	10,187	-	-	**10,187**
Total	**505,281**	**4,026**	**-**	**509,307**

December 31, 2015

	0 – 1 year	1 – 5 years	over 5 years	Total
Assets				
Cash and cash equivalents	248,940	-	-	**248,940**
Restricted cash	57	-	5,743	**5,800**
Trade receivables (net)	223,397	-	-	**223,397**
Other receivables – government grants	20	-	-	**20**
Derivative financial instruments	244,512	-	-	**244,512**
Total	**716,926**	**-**	**5,743**	**722,669**
Liabilities				
Trade payables and accruals	278,311	2,672	-	**280,983**
Derivative financial instruments	240,549	-	-	**240,549**
Loans and borrowings	9,439	-	-	**9,439**
Total	**528,299**	**2,672**	**-**	**530,971**

<u>Market risk</u>

a) Interest rate risk

The Company is subject to the effects of interest rate fluctuations on borrowings drawn against revolving credit facilities (Note 16). As the Company did not draw any variable interest rate borrowings in 2016 and in 2015, operating cash flow was not affected by changes in market interest rates.

The Company’s income is substantially independent of changes in market interest rates. The Company had accrued interest income from intercompany loan (Note 29) and had no significant interest income other than that arising from short term bank deposits and cash at bank accounts as of December 31, 2016 and December 31, 2015.

b) Currency risk

The Company is exposed to the risk of price fluctuations due to the effects of foreign exchange rates on revenues and operating costs, capital expenditures and existing assets or liabilities denominated in currencies other than the EUR, particularly the U. S. dollar. The fluctuation of exchange rates represents significant risk as the majority of sales are denominated in EUR, while purchases of strategic raw materials are mainly in USD.

(All amounts are in thousands of EUR if not stated otherwise)

The structure of cash and cash equivalents and cash restricted in its use by currency is as follows:

December 31, 2016

	Cash and cash equivalents	Cash restricted in its use
EUR	55,701	7,355
USD	56,841	-
CZK	3,128	-
Other	103	-
Total	**115,773**	**7,355**

December 31, 2015

	Cash and cash equivalents	Cash restricted in its use
EUR	189,175	5,800
USD	8,907	-
CZK	50,750	-
Other	108	-
Total	**248,940**	**5,800**

The Company manages its exposure to certain currency price fluctuations in cooperation with U. S. Steel's Corporate Finance Group, using a limited number of forward foreign exchange contracts. Derivative hedging instruments are carried out in compliance with an approved hedging strategy and internal policy. Financial instruments are used exclusively for hedging of financial risk. Trading for speculative purposes is prohibited. The risk exposure, as determined by the analysis of income and expense structured by foreign currency, is hedged on the basis of highly probable cash flow forecast transactions. These cash flows are planned in the form of the annual business plan for the next 12 months and updated in line with quarterly short range forecasts or whenever new business circumstances occur. Management monitors the open positions on a monthly basis.

As of December 31, 2016, the Company had open USD forward purchase contracts for Euros (total notional value of approximately EUR 157 million; December 31, 2015: EUR 241 million). The Company changed its EUR 400 million credit facility to a USD 500 million credit facility as of April 1, 2012. As of September 3, 2015, all borrowings totaling of USD 270 million were repaid (i.e. EUR 240 million using the exchange rate valid at transaction day). As of December 31, 2016 and December 31, 2015, there were no new borrowings against this credit facility (Note 16).

As of December 31, 2016, if the EUR had weakened/strengthened by 20 percent against the U.S. dollar with all other variables held constant, this movement would have resulted in a EUR 41 million credit / EUR 27 million charge to total comprehensive income, mainly as a result of gains/losses from the fair value change of forward foreign exchange contracts.

As of December 31, 2015, if the EUR had weakened/strengthened by 20 percent against the U.S. dollar with all other variables held constant, this movement would have resulted in a EUR 52 million credit / EUR 31 million charge to total comprehensive income, mainly as a result of gains/losses from the fair value change of forward foreign exchange contracts.

c) Other price risk

In the normal course of its business, the Company is exposed to price fluctuations related to the production and sale of steel products. The Company is also exposed to price risk related to the purchase, production or sale of coal, coke, natural gas, steel scrap, iron ore and pellets, and zinc, tin and other nonferrous metals used as raw materials.

The Company is exposed to commodity price risk on both the purchasing and sales sides, and manages the risk through natural hedges. The Company's market risk strategy is in compliance with U. S. Steel's strategy that has generally been to obtain competitive prices for our products and services and allow operating results to reflect the market price movements dictated by supply and demand in the profit or loss.

The Company is exposed to a fluctuation of Iron Ore, Zinc and Tin prices. An increase in these commodity prices would have an adverse impact on the Company's profitability. In order to mitigate the Company's exposure to Iron Ore, Zinc and Tin price fluctuation, the Company entered into commodity forwards to protect its profit margin. Participating in this hedging program fixed the price for the portion of the

(All amounts are in thousands of EUR if not stated otherwise)

Company's Iron Ore, Zinc and Tin requirements, which helped the Company's profitability objectives. All commodity forwards commenced in 2016 matured in 2016.

In 2015 the Company did not carry out any other material derivative transaction mitigating commodity price risk and had no outstanding commodity derivatives as of December 31, 2015.

Note 27 Financial Instruments by Category

The following table provides a reconciliation of classes of financial assets and liabilities with the measurement categories as determined by *IAS 39 Financial Instruments: Recognition of Measurement*:

December 31, 2016

	Loans and receivables	Hedging derivatives	Financial assets available-for-sale	Total
Assets				
Shares at acquisition cost	-	-	259	**259**
Trade receivables (net)	301,817	-	-	**301,817**
Related party accounts receivables (net)	616	-	-	**616**
Other receivables – government grants	70,976	-	-	**70,976**
Cash and cash equivalents	115,773	-	-	**115,773**
Restricted cash	7,355	-	-	**7,355**
Short-term loans provided	250,328	-	-	**250,328**
Derivative financial instruments	-	8,595	-	**8,595**
Total	**746,865**	**8,595**	**259**	**755,719**

	Hedging derivatives	Other financial liabilities	Total
Liabilities			
Trade payables and accruals	-	341,743	**341,743**
Short-term borrowings	-	10,187	**10,187**
Derivative financial instruments	158	-	**158**
Total	**158**	**351,930**	**352,088**

December 31, 2015

	Loans and receivables	Hedging derivatives	Financial assets available-for-sale	Total
Assets				
Shares at acquisition cost	-	-	259	**259**
Trade receivables (net)	222,093	-	-	**222,093**
Related party accounts receivables (net)	1,304	-	-	**1,304**
Other receivables – government grants	20	-	-	**20**
Cash and cash equivalents	248,940	-	-	**248,940**
Restricted cash	5,800	-	-	**5,800**
Derivative financial instruments	-	3,458	-	**3,458**
Total	**478,157**	**3,458**	**259**	**481,874**

(All amounts are in thousands of EUR if not stated otherwise)

	Hedging derivatives	Other financial liabilities	Total
Liabilities			
Trade payables and accruals	-	280,983	**280,983**
Short-term borrowings	-	9,439	**9,439**
Derivative financial instruments	911	-	**911**
Total	**911**	**290,422**	**291,333**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

December 31, 2016

	Level 1	Level 2	Level 3	Total
Assets				
Hedging derivatives	-	8,595	-	**8,595**
Total	**-**	**8,595**	**-**	**8,595**
Liabilities				
Hedging derivatives	-	158	-	**158**
Total	**-**	**158**	**-**	**158**

December 31, 2015

	Level 1	Level 2	Level 3	Total
Assets				
Hedging derivatives	-	3,458	-	**3,458**
Total	**-**	**3,458**	**-**	**3,458**
Liabilities				
Hedging derivatives	-	911	-	**911**
Total	**-**	**911**	**-**	**911**

During the year 2016 and 2015, there were no transfers between Level 1 and Level 2 of fair value measurements and no transfers into and out of Level 3 of fair value measurements.

All other financial instruments, with the exception of hedging derivatives, are measured at amortised cost as of December 31, 2016 and December 31, 2015. Fair values of these instruments as of December 31, 2016 and December 31, 2015 approximate their carrying amounts.

Note 28 Contingent Liabilities and Contingent Assets

Operating leases

Future aggregated minimum lease payments under non-cancellable operating leases (payments in foreign currency are stated using the exchange rate at the end of reporting period) are as follows:

	2016	2015
Not later than 1 year	**4,564**	5,815
Later than 1 year and not later than 5 years	**4,104**	4,593
Later than 5 years	**1**	5
Total	**8,669**	**10,413**

Capital Commitments

Capital expenditures of EUR 42 million had been committed under contractual arrangements as of December 31, 2016 (December 31, 2015: EUR 81 million).

Environmental Commitments

The Company is in compliance with environmental legislation. In 2016, the environmental expenses represented by air, water pollution and solid waste handling fees totaled approximately EUR 12 million

(2015: EUR 14 million). There are no material legal proceedings pending against the Company involving environmental matters.

USSK is subject to the laws of Slovakia and the European Union (EU). An EU Regulation commonly known as Registration, Evaluation, Authorization and Restriction of Chemicals, Regulation 1907/2006 (REACH) requires the registration of certain substances produced in or imported into the EU, and application for authorization to continue use where replacement of certain substances is not possible or feasible. In some case replacements for substances currently used in our operations were implemented. Suppliers in EU have filled the Application for Authorization to be permitted to continue using hexavalent chromium substances also in our production until suitable alternatives can be identified. If granted, the authorizations shall last for four years, after which the replacement substances must be implemented or a new Application for Authorization must be filled. Efforts are ongoing to identify, test and prove the feasibility of replacement substances. In 2017 USSK shall start to produce new substances from boiler operation which will require registration. Although USSK is currently compliant with REACH, efforts to remain compliant will require capital investment and increased operational costs. We cannot reliably estimate the potential cost of complying with these measures at this time.

Slovakia adopted a new waste code in March 2015 that became effective January 1, 2016. This legislation implements the EU Waste Framework Directive that strictly regulates waste disposal and encourages recycling, among other provisions, by increasing fees for waste disposed of in landfills, including privately owned landfills. The financial impact of compliance with the legislation on USSK's operations is estimated to be EUR 2 million annually.

Carbon Dioxide (CO_2) Emissions

The European Commission (EC) has created an Emissions Trading System (ETS) and starting in 2013, the ETS began to employ centralized allocation, rather than national allocation plans, that are more stringent than the previous requirements. The ETS also includes a cap designed to achieve an overall reduction of greenhouse gas (GHG) for the ETS sectors of 21 percent in 2020 compared to 2005 emissions and auctioning as the basic principle for allocating emissions allowances, with some transitional free allocation provided on the basis of benchmarks for manufacturing industries under risk of transferring their production to other countries with lesser constraints on GHG emissions, commonly referred to as carbon leakage. Manufacturing of sinter, coke oven products, basic iron and steel, ferro-alloys and cast iron tubes have all been recognized as exposing companies to a significant risk of carbon leakage, but the ETS is still expected to lead to additional costs for steel companies in Europe.

The EU has imposed limitations under the ETS for the period 2013-2020 (Phase III) that are more stringent than those in NAP II, reducing the number of free allowances granted to companies to cover their CO_2 emissions.

In September of 2013, the EC issued EU wide legislation further reducing the expected free allocation for Phase III by an average of approximately 12 percent. The Company's final allocation for the Phase III that was approved by the EC in January 2014 is approximately 48 million allowances. However, following the recent judgment of the Court of Justice of the European Union in April 2016, the volume of free allocations for the years 2018-2020 will be reduced. Until a new calculation by the European Commission (EC) is adopted, we cannot reliably estimate the impact on USSK's free allocation volume. Prior to the recent ruling we estimated a shortfall of approximately 16 million allowances for the entire Phase III period. The actual shortfall will depend upon the reductions resulting from the recent Court of Justice ruling. Based on 2016 emission intensity levels and projected future production levels, and as a result of carryover allowances from the NAP II period, the earliest the Company would have to purchase allowances to meet the annual compliance submission would be the first quarter of 2018. However, due to a number of variable factors, such as the future market value of allowances, future production levels and future emission intensity levels, the Company cannot reliably estimate the full cost of complying with the ETS regulations at this time.

Best Available Techniques (BAT's)

The EU's Industry Emission Directive requires implementation of EU determined BAT's to reduce environmental impacts as well as compliance with BAT associated emission levels. This directive includes operational requirements for air emissions, wastewater discharges, solid waste disposal and energy conservation, determines certain operating practices and imposes stricter emission limits. Producers are required to be in compliance with the iron and steel BAT since March 8, 2016, unless emission limits' variances are determined by the Slovak environmental inspection. The Company has updated existing operating permits for different facilities involved in producing iron and steel in the plant in accordance with the new BAT requirements. Through this process for some facilities, the Company has obtained some extensions from the 2016 compliance deadline in order to meet or exceed the BAT requirements. Current compliance with determined emission limits going beyond BAT requirements makes the Company eligible for EU funding support and prepares the Company for any further tightening of environmental protection standards. The most recent broad estimate of likely capital expenditures for projects to go beyond the BAT requirements is approximately EUR 138 million over the 2017 to 2020 time period.

The EU has various programs under which funds are allocated to member states to implement broad public policies, which are then awarded by the member states to public and private entities on a competitive basis. The funding intensity under these programs currently ranges from 55 percent of defined eligible costs on a project under the standard state scheme to 90 percent on a recently approved ad hoc scheme to improve the air quality in the Kosice region of Slovakia. Based on the list of projects that comprise the approximate EUR 138 million of spending noted, the Company may be eligible to receive up to EUR 85 million of incentive grants. This could potentially reduce company‘s net cash expenditures to approximately EUR 53 million. The actual amount of capital spending to reduce environmental impacts will be dependent upon, among other things, the actual amount of incentive grants received.

The Company also believes there will be increased operating costs associated with these projects, such as increased energy and maintenance costs. The Company is currently unable to reliably estimate what the increase in operating costs will be as many projects are still in the development stage.

Due to other EU legislation, the Company will be required to make changes to the boilers at the steam and power generation plant in order to comply with stricter air emission limits for large combustion plants, which will result in the construction of a new boiler and certain upgrades to our existing boilers. In January of 2014, the operation of the Company's boilers was approved by the European Commission as part of Slovakia's Transitional National Plan (TNP) for bringing all boilers in Slovakia into BAT compliance no later than 2020. The TNP establishes parameters for determining the date by which specific boilers are required to reach compliance with the new air standards, which has been determined to be October 2017 for the Company's boilers. The boiler projects have been approved by U. S. Steel Board of Directors and the Company is now in the execution phase. These projects will result in a reduction in electricity, operating, maintenance, and waste disposal costs once completed. The current projected cost to reconstruct one existing boiler and build one new boiler to achieve compliance is approximately EUR 127 million of which EUR 86 million has already been spent through December 31, 2016. Legislative changes were enacted by the Slovak Republic to extend the scope of support for renewable sources of energy, which will allow the Company to participate in Slovakia's renewable energy incentive program once both boiler projects are completed.

Memorandum of Understanding

A Memorandum of Understanding (MOU) was signed in March of 2013 between U. S. Steel and the government of Slovakia. The MOU outlines areas in which the government and U. S. Steel will work together to help create a more competitive environment and conditions for the Company. Incentives the government of Slovakia agreed to provide include potential participation in a renewable energy program that provides the opportunity to reduce electricity costs as well as the potential for government grants and other support concerning investments in environmental control technology. Although there are many conditions and uncertainties regarding the grants, including matters controlled by the EU, the value of these incentives as stated in the MOU could be as much as EUR 75 million. In the MOU, U. S. Steel agreed to refrain from undertaking a massive layoff according to Article 73 of the Slovak Labor Code for the reasons stated in Article 63 sec. 1, letter a-b of the Slovak Labor Code, except in cases of severe economic downturn or a material adverse change, but may rely on natural attrition to permit the business to reach a more efficient level of employment. U. S. Steel also agreed to pay the government of Slovakia specified declining amounts should U. S. Steel sell the Company within five years of the date of the MOU. U. S. Steel continues to work closely with the government of Slovakia to monitor the progress of the respective commitments and to achieve the incentives described in the MOU.

(All amounts are in thousands of EUR if not stated otherwise)

Note 29 Related Party Transactions

Transactions with related parties

The following table provides amounts of transactions with related parties recognized in the profit or loss of the relevant financial year and outstanding balances resulting from transactions with related parties included in the statement of financial position at December 31 of the relevant financial year:

		2016	2015
U. S. Steel Global Holdings I B.V., Company under common control of U. S. Steel			
	Expenses	**-**	11,120
United States Steel Corporation, Ultimate parent company			
	Revenues	**4,029**	2,467
	Expenses	**28,042**	36,191
	Receivables	**116**	823
	Payables	**1,183**	10,627
U. S. Steel Holdings, Inc., Company under common control of U. S. Steel			
	Loans provided	**250,328**	-
	Interest income	**328**	-
USS International Services, LLC, Company under common control of U. S. Steel			
	Revenues	**1**	1
	Expenses	**3,892**	5,546
	Receivables	**222**	186
	Payables	**637**	690
Subsidiaries under control of the Company (Note 8)			
	Revenues	**5,884**	6,978
	Expenses	**70,527**	77,587
	Receivables	**278**	295
	Payables	**10,441**	9,538
	Borrowings accepted	**10,187**	9,439
Total			
	Revenues	**10,242**	9,446
	Expenses	**102,461**	130,444
	Receivables	**616**	1,304
	Payables	**12,261**	20,855
	Borrowings accepted	**10,187**	9,439
	Loans provided	**250,328**	-

On September 3, 2015 the Company repaid all borrowings received from U. S. Steel Global Holdings I B.V. under the long-term revolving unsecured credit facility (Note 16). Expenses in 2015 represented related interest costs only. In April 2016, dividends totaling EUR 47,948 thousand were approved for distribution and paid to U. S. Steel Global Holdings I B.V. (Note 15).

Transactions with United States Steel Corporation relate mainly to rendering of services (2016: EUR 1,996 thousand; 2015: EUR 2,467 thousand), interest income from inter-company loan (2016: EUR 2,361 thousand; 2015: none) and purchases of raw material (2016: EUR 8,200 thousand; 2015: EUR 28,658 thousand) and licences (2016: EUR 6,890 thousand; 2015: none), managerial services (2016: EUR 13,030 thousand; 2015: EUR 5,444 thousand) and net impact of the sale of tangible assets (2016: none; 2015: EUR 2,089 thousand).

As of June 10, 2016, the Company entered into a EUR 200 mil. unsecured revolving credit agreement with the U. S. Steel Corporation. The contract is valid until December 30, 2017. Interest on borrowings under the facility is based on EURIBOR + 4% p.a. As of December 31, 2016, there was no outstanding balance.

As of December 14, 2016, the Company entered into a EUR 400 mil. unsecured revolving credit agreement with the U. S. Steel Holdings, Inc. The contract is valid until December 30, 2020. Interest on loans provided under the facility is based on EURIBOR + 4% p.a. As of December 31, 2016, two loans provided totalling EUR 250 million were drawn against this facility and should be repaid in March 2017 (Note 30).

USS International Services, LLC provides managerial services to U. S. Steel Košice, s.r.o.

(All amounts are in thousands of EUR if not stated otherwise)

Transactions with subsidiaries of U. S. Steel Košice, s.r.o. include sales of steel products and purchases of various services provided to U. S. Steel Košice, s.r.o.

Borrowings drawn and provided within the Company's cash pooling strategy bear interest rate spread over EUR LIBOR plus margin. Borrowing contracts contain customary terms and conditions and are valid until May 31, 2017 with the option to be prolonged. During 2016, the Company under these borrowings drew from its subsidiaries the amount of EUR 73,387 thousand and repaid amount of EUR 72,641 thousand. During 2015, the Company drew amount of EUR 83,470 thousand from which amount of EUR 87,150 thousand was repaid.

Emoluments of the statutory representatives and key management employees

a) Slovak and foreign statutory representatives of the Company did not receive any cash or non-cash benefits from the Company in 2016 and 2015 that arise from their positions of statutory representatives. Foreign statutory representatives of the Company are employed and paid based on their employment contract with USS International Services, LLC and their compensation is included in charges for managerial services provided to the Company. Salaries and other employee benefits of the Company's key management employees shown in the following table comprise also a compensation of Slovak statutory representatives:

	2016	2015
Wages and salaries	**17,605**	15,904
Profit sharing expense	**-**	32
Mandatory social and health insurance to all insurance funds	**4,232**	3,710
Total	**21,837**	**19,646**

b) Shares of U. S. Steel granted to the Company's executives do not represent a material amount in these financial statements.

c) No loans or advance payments were provided to statutory representatives by the Company.

Note 30 Events after the Reporting Period

On January 23, 2017 Company's lenders confirmed the first maturity extension request under the USSK Credit Agreement regarding the EUR 200 million revolving unsecured credit facility to July 2020.

The new subsidiary, Ferroenergy s.r.o., was established on February 4, 2017 as a limited liability company. Majority (98 percent) of the share capital totalling EUR 50 thousand is owned by USSK, remaining minority share (2 percent) is owned by USSK's subsidiary OBAL-SERVIS, a.s.. The principal activity of Ferroenergy s.r.o. is production of electricity, steam, hot water and technical gases as well as operation and maintenance of relating distribution network. It is expected that USSK will separate and contribute relating assets to the newly established subsidiary on July 1, 2017 and the Company will start its operation since then. The value of contributed assets, which has USSK book value totalling EUR 125 million, will be determined by expert's appraisal. Total revenues generated in second half of 2017 are expected to be EUR 92 million, 99 percent of it realized within the USSK group.

On February 9, 2017, the Slovak Agency for Environment published the guidelines related to EU funding support for projects based on which the beneficiary of such funding might be required to provide some form of collateral. USSK expects that there will be an amendment to these guidelines to bring them in line with similar guidelines in some other EU countries and the Company will not be required to provide any collateral for EU funding support for BAT projects.

In March 2017, the borrower U. S. Steel Holdings, Inc., requested the lender, the Company, maturity extension to 3 months under the revolving credit agreement.

The 2017 CO_2 emission allowances were credited to the Company account on February 22, 2017 in the volume of 5,959,728 tons. On March 29, 2017, the Company delivered 8 867 366 CO_2 emission allowances for 2016 to the Slovak Government fulfilling its obligation for the third year of the Phase III period.

On March 28, 2017, the Regional Court in Košice issued an ex parte judicial lien on USSK's real property to plaintiffs in an ongoing legal case as a precautionary measure, which USSK is vigorously contesting in good faith and by appropriate proceedings. Potential impact of this judicial lien on the eligibility of the Company to obtain EU funding support for BAT projects is uncertain.

After December 31, 2016, no other significant events have occurred that would require recognition or disclosure in the 2016 financial statements.