U. S. Steel Košice

U. S. Steel Košice, s.r.o.

Annual Report 2014

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PRESIDENT'S FOREWORD

The year 2014 was a year of transformation for us, where we made remarkable progress on the Carnegie Way Initiative towards the sustainable success of our business. The energy which we have put into this process has produced results that far exceeded our expectations, and I can confirm that we are reporting significant performance improvement for U. S. Steel Košice, s.r.o. largely thanks to the ideas, projects and teamwork of our people.

Our safety journey has brought us a long way towards our goal of zero injuries. While we can be proud of our 2014 accomplishments we cannot be satisfied until each and every injury is eliminated. We have made good progress in the establishment and expansion of the 5S (significant and sustainable improvement in the work environment) safety process, and we continue to identify and eliminate significant risks in the workplace through our HIRA (hazard identification and risk assessment) process. However, the key to reaching our goal of "zero" is to take employee engagement in safety performance to the highest possible level.

The European market faced big challenges again in 2014. Uncertainty and political tensions made business less predictable in this region. The high cost of electricity in Slovakia in comparison to other surrounding countries continued to limit our competiveness. Therefore, we continue to concentrate and focus on the things which we can influence and control. Customer satisfaction with the quality of our products, services and product solutions has been an accelerating force for us. Focusing on solutions for our customers last year led to the transformation of our organizational structures and better cross-departmental collaboration.

In the field of environmental protection we continued in our effort to minimize the impacts of our steel production on the environment. In 2014, for the seventh year running, no external undesirable incident was recorded nor limits exceeded in operating the technology and production equipment at U. S. Steel Košice, s.r.o. We started to work intensively on the implementation of several best available technologies, mainly in the reduction of solid pollutant emissions into the atmosphere, so we can fulfill both Slovak and new European legal requirements. We have also concentrated on further reducing the amount of energy consumed in the production process. Successful control audits confirm the high standard of environmental management as well as energy management systems in place at our company in compliance with valid international regulations.

We look into the future with optimism. Despite the ongoing difficult conditions in the steelmaking industry our employees have shown that they are ready and willing not only to improve their work, but also to do things differently, to seek new innovative solutions to achieve profitability under any market conditions.

George F. Babcoke
President, U. S. Steel Košice, s.r.o.

CORPORATE 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. In addition, USSK has a research laboratory which, in conjunction with U. S. Steel's Research and Technology Center, supports efforts in coke-making, electrical steels, design and instrumentation, and ecology.
The Company does not have a branch abroad.

The statutory representatives as of December 31, 2014 were as follows:

George F. Babcoke	President
Matthew Todd Lewis	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 External Servicest
RNDr. Miroslav Kiraľvarga, MBA	Vice President External Affairs, Administration and Business Development
Charles James Bond	General Counsel
John Patrick Coyne	Vice President BSC
Ing. Vladimír Jacko, PhD., MBA	Vice President Energy, Environment and Technical Inspection
Michael Andrew Fedorenko	Vice President Engineering and Innovation
Ing. Martin Pitorák	Vice President Human Resources

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 compete in our never-ending journey.

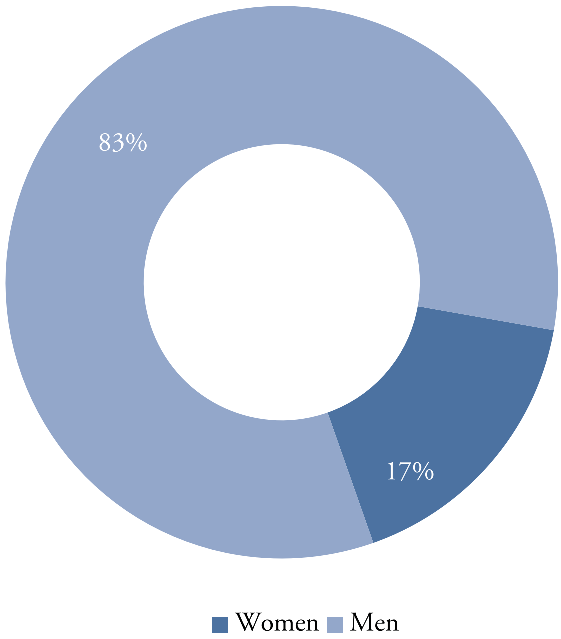
As our journey continued in 2014, an exciting team atmosphere and cadence was created to help turn hundreds of employee ideas into real value creation for all of our stakeholders. Additional tools are being made available that will further empower and engage our employees. Our teams are energized by their performance in 2014 and are looking forward to the challenges of 2015 and beyond.

IMPACT OF THE COMPANY IN THE SOCIAL AREA

U. S. Steel Košice, s.r.o. is the largest private employer in Slovakia and the largest employer in the East Slovakian region. As of December 31, 2014 the workforce was 10,309 people. The Company supports **equal opportunities** through a special project offering work for about one hundred participants from socially marginalized groups of the Roma minority, who have problems with inclusion into public and working lives.

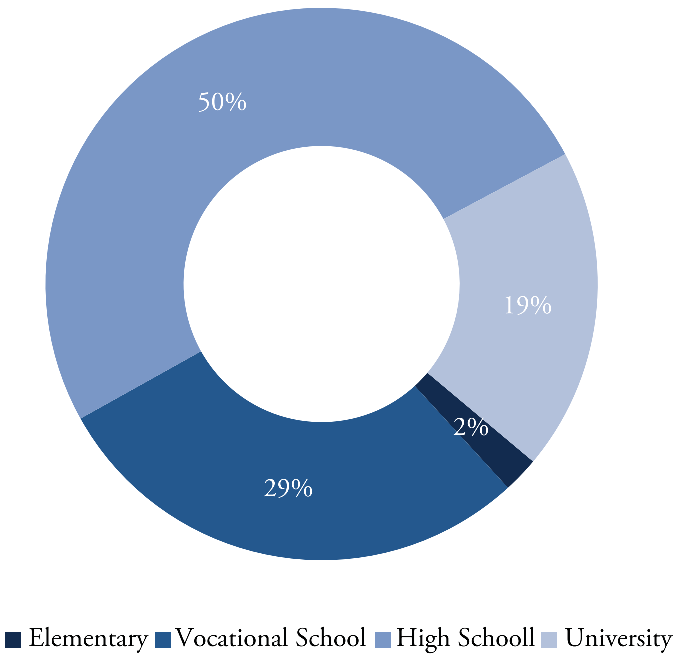
Number of employees by gender as of 12/31/2014

USSK Active Employees Total: **10,309**



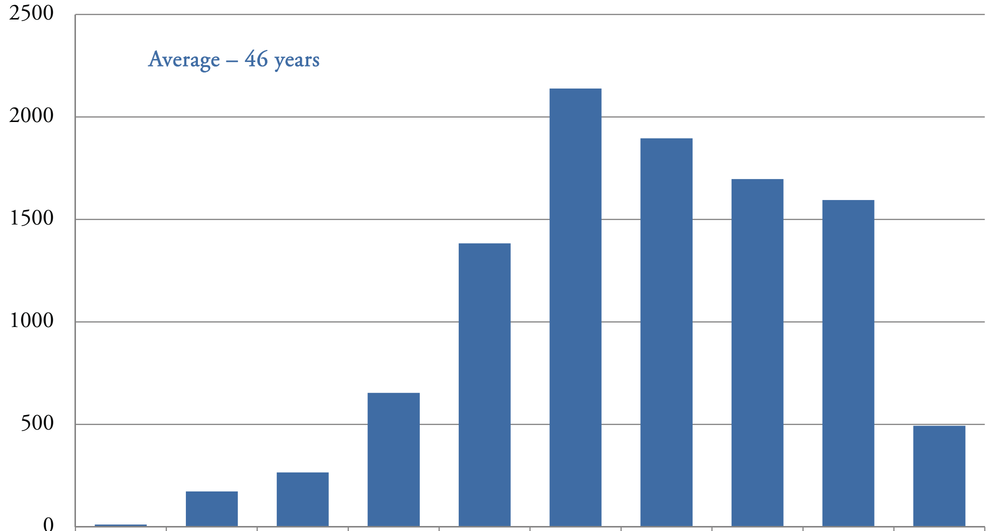
Number of employees by educational background as of 31/12/2014

USSK Active Employees Total: **10,309**



USSK Active Employees Total: **10,309**

Number of employees by age as of 31/12/2014



	up to 20	20 - 24	25 - 29	30 - 34	35 - 39	40 - 44	45 - 49	50 - 54	55 - 59	over 60
# of employees	12	173	266	654	1384	2139	1896	1697	1595	493

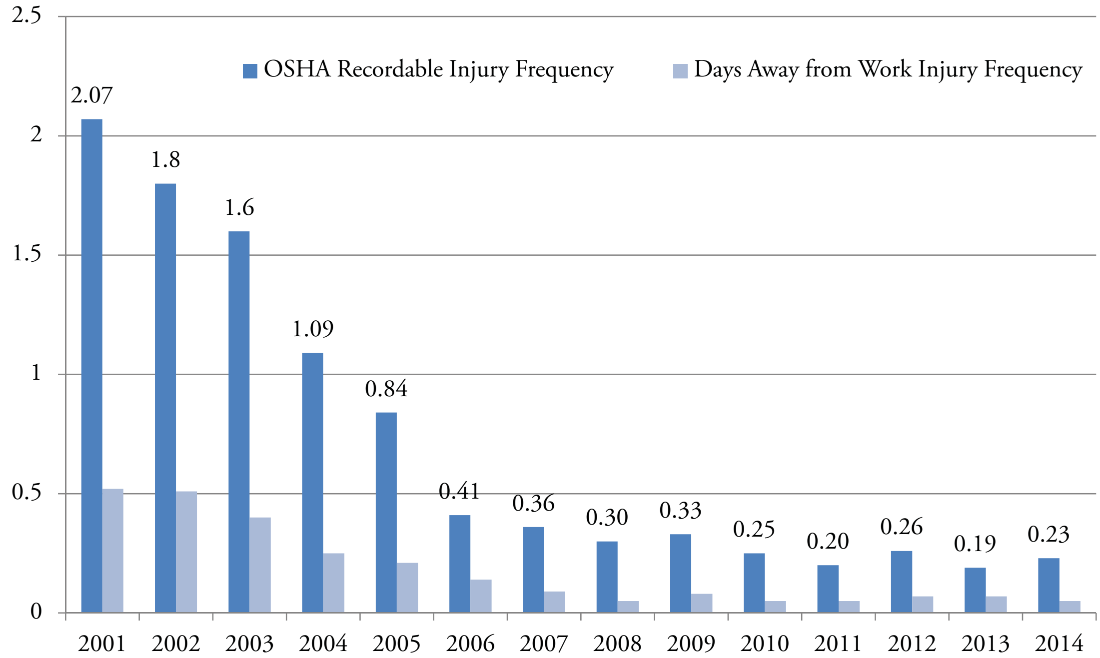
age

Occupational Safety and Health Protection

U. S. Steel Košice, s.r.o. remains focused on its primary core value – the safety and health of our employees and contractors working at the facility every day. We firmly believe that zero injuries is achievable and that remains our goal. By the end of 2014, the Steelshop Division Plant reached more than one million employee hours without an occupational injury. The Equipment Reliability Organization and Company Management Organizations performed injury free throughout the year.

The incorporation of the Carnegie Way into the safety process will enhance our efforts in identifying, prioritizing, and eliminating risk while engaging the

entire workforce. Ongoing implementation of 5S (Japanese for: sort, set in order, shine, standardize, sustain) housekeeping principles will assist in creating and maintaining an organized, clean, and high performance workplace across all facilities.



As shown in the graph comparing the years 2001 through 2014, **U. S. Steel Košice, s.r.o. achieved an 89% decrease in OSHA (USA Occupational Health and Safety Administration) Recordable injury frequency and a 90% decrease in Days Away from Work injury frequency** (injury frequency is calculated based on actual employee hours worked).

We are systematically focusing on hazard identification, elimination and risk assessment (HIRA). 568 managers participated in this process and 4,790 hazards were identified through the year. 177 managers from 8 division plants and subsidiary companies fulfilled the conditions for work performance appreciation. **Employee Representatives for Safety** are also involved in job hazard identification and elimination. A total of 1,100 opportunities for safety improvement were identified by Employees Representatives with 95 % completed by the end of the year. The main initiatives/projects involved unsafe conditions - 89,7 %, general safety improvements - 7,7 % and revision of unsafe procedures - 2,5 %.

On May 31, 2014 we held our third annual **Family Safety Day** event entitled, "Where my Dad, my Mom works"**.** The event was organized by the Public Affairs Department and the Safety, Industrial Hygiene & REACH Department in close cooperation with administration and operations units. This event was attended by more than 5,000 employees and family members. Participants had the opportunity to walk areas of the Hot Strip Mill or take a bus tour around the plant including Galvanizing Line 3. There were many other activities available for the event participants including the opportunity to learn about and have family photos taken in employee Personal Protective Equipment. The program also included displays of products made from our steel, activities related to environmental protection, as well as attractions, performances, and games for children.

Human Resources Development

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 to ensure legally required safety and vocational requirements as well as requirements reflecting the company´s strategic goals and employees´ individual development needs. In 2014, we continued with the **Mentoring Program** focusing on leadership skills

of our managers with the aim of transfering unique experience of mentors to newly appointed managers or newly hired graduates. A specific development of the **Sales Department** employees was completed through a number of training sessions focusing on advanced negotiation skills, impact and influencing as well as improvement of communication between office and customers in 2014.

In order to promote professional metallurgy skills, we organized **Operation Academies** for operators. Sessions were taken by our internal staff from the Research & Development Department as well as Operations. In 2014, we focused on iron making in blast furnaces and galvanizing technologies.

To help employees understand and use the **Carnegie Way Method,** the Training and Development Department together with the Process Technology Excellence Unit prepared the Carnegie Way 101, 201, and 301 training sessions. The Carnegie Way 101 training started in 2014 and will continue in 2015, and serves as the "core curriculum" that all employees will take in order to learn critical skills for creating meaningful change within each of their own work areas. Some employees will then be asked to participate in the 201 or 301 training.

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 2014 in this area was the **President's Award** for the three best projects in five key areas supporting the Carnegie Way Initiative. During a gala evening held in early December 2014, in the presence of the President and top management, awards were extended to 15 projects in which nearly 200 employees participated. The Company regularly acknowledges all employee safety representatives for activities in their respective areas and awards the most active ones a contribution to their recreation

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

U. S. Steel Košice, s.r.o. also provides conditions for better involvement of women in the steelmaking company and their further development through educational and networking activities. Events organized by the **U. S. Steel Košice Women's Network** support strategic business initiatives, generate new topics and support better collaboration among departments.

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 thousand 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 corporate newspaper "Oceľ Východu", which has won the national Best Corporate Medium Award several times.

Business Ethics

The principles of **the Code of Ethical Business Conduct**, which are mandatory for employees at all levels, are considered to be the foundation of the trust necessary for long-term success of the Company. The Code of Ethical Business Conduct defines standards of employee conduct in areas such as safety, respect for others, environmental protection, fair work for the Company's benefit, protection and correct usage of Company property, and honest behavior in compliance with legal requirements.

USSK is one of the leading companies enforcing business ethics and anti-corruption practices in Slovakia. In 2014, through USSK's intranet pages, live presentations to employees, on-line training programs, information campaigns in the corporate newspaper Oceľ Východu, as well as information leaflets available around the Company premises, USSK employees were regularly informed about the procedure for reporting any form of prohibited or unethical behavior. These kinds of behavior can be reported to a supervisor or by using the **U. S. Steel Ethics Line**, either by telephone, mail or internet. In addition to USSK employees, external persons may also use the U. S. Steel Ethics Line to report unethical or unauthorized practices in relation to USSK.

Activities organized during **Ethics Week** from September 22 to 26, 2014 emphasized the importance of ethical business conduct in day-to-day work. Each day of this week an employee of U. S. Steel Group was recognized as a "2014 Ethics and Compliance Champion" for his or her outstanding dedication to U. S. Steel's Code of Ethical Business Conduct, as demonstrated by his or her strong ethical character and commitment to always "Do What's Right". Also during Ethics Week, a training video entitled "Raising Concerns: Someone Else´s Problem" was distributed to all USSK employees, presenting in an illustrative manner a variety of scenarios showing ethical dilemmas that can arise in the workplace, along with recommended solutions to such dilemmas. In addition, the **Annual Certification of the Code and Policies** in 2014 included not only administrative employees, but was extended to all employees, who by their signature certified their compliance with the Code of Ethical Business Conduct and policies of the Company. The 2014 annual certification also included the participation of all employees of USSK's subsidiary companies and foreign affiliates. All these activities and examples of real ethical situations foster further discussions between managers and employees about how to "Do What´s Right" during performance of work for USSK and its affiliated companies.

IMPACT OF THE COMPANY IN THE ECONOMIC, ENVIRONMENTAL, AND ENERGY SPHERES

U. S. Steel Košice, s.r.o. conducts its business primarily in Central and Western Europe. The Company engages in 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 2014 USSK produced 4.3 million metric tons of raw steel slabs.**

USSK serves several steel consuming sectors including the construction, service centre, transportation (including automotive), container, further conversion, and appliance industries.

We understand that innovation is the main driver of sustainable and balanced growth. Last year the Company continually focused on ongoing efforts to improve products, services and processes to strengthen our competitive position. Our continuous improvement system has become the main management tool in our commercial organization to address rapid changes in the market and to increase the effectiveness of our commercial strategy. In line with our strategy we increased the volume of sales to V4 countries and Western Europe and the sales of products with added value.

All these activities resulted in further upward movement in the efficiency and quality of services for

our customers, and were one of the decisive factors enabling U. S. Steel Košice, s.r.o. to remain successful and competitive in difficult market conditions.

The ability of the steelmaking company to break through in tough competition is also associated with continuous development of new value-added products. These include, for example, the newly developed „High Permeability“ dynamo grades designed for electric motors with highest efficiency, as well as high-strength steels for the electrical industry, minimizing core losses and maximizing strength-plastic properties. The development in the area of surface treatments has been aimed at improving the corrosion protection and other properties of sheets and finished products. U. S. Steel Košice, s.r.o. began production of a new type of Mg-Al alloyed zinc coating for construction applications (ZINKOMAG)

with improved corrosion resistance, stampability and resistance to scratching. The first deliveries of galvanized sheets with thin transparent organic coatings (TOC coatings) were made in 2014, which provide not only excellent corrosion resistance and stampability, but also antifingerprint properties in the final product. The portfolio of the color-coated sheets was expanded to include PURTEX and HERCULIT products designed for the construction industry. **In 2014, total research costs amounted to EUR 3.1 million.**

The Company is certificated in accordance with the international EN ISO 9001 and ISO/TS 16949 (automotive industry) standards. **Quality management system** performance (QMS) 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 17 025. The Company successfully passed the QMS re-certification process according to EN ISO 9001 and ISO/TS 16949 in 2014, thus proving that the implemented systems are appropriate and effective.

Record low internal quality rejections were attained during the year with the diversion rate meeting the objective of 1.29%, and the retreatment rate of 0.72% being significantly above the goal of 0.95%. Notable improvements were made in the areas of Hot Strip Mill coil quality and emulsion stains on cold rolled products. These improvements were achieved by utilizing the tools and methodologies defined in the Carnegie Way Transformation Process. Flatness of tin mill products also achieved significant improvement with the installation and deployment of the new tension leveler on Electrolytic Tinning Line 1.

Environmental protection is one of the Company's principal strategic business drivers, and its main commitments are stated in the Company's Quality, Environmental and Energy Policy. USSK is a holder of the **Environmental Management System** international certification in line with the ISO 14001

standard covering five divisional plants. This system is regularly internally verified in other divisions.

Since 2000, the Company has invested more than USD 510 million into dozens of environmental projects. The following environmental investment projects were initiated in 2014: Blast Furnaces 2 & 3 Casthouse Emissions Efficiency, Coke Batteries 1 & 3 Door Cleaning and the building of Boiler 7 within the project Boiler House Upgrade, which gradually ensure the compiance with new EU requirements regarding air quality and air emissions. Further significant action in 2013 and 2014 was the Reconstruction and Modernization of the Sokoľany Waste Water Cleaning Station worth approximately 10.3 million USD, which ensures its compliance with conditions set in the decision of the Slovak Environmental Inspectorate. The most important result of our long-term effort in protection of all environmental segments is the fact that since 2008 no external environmental incident has occurred, nor has any penalty been imposed.

In compliance with legal requirements the Company continuously monitors and regularly informs employees, the professional and general public about its environmental performance in the corporate newspaper Oceľ Východu and on its web site www.usske.sk.

In addition to environmental capital expenditures, our Company spent significant funds on projects aiming to assure our competitiveness and stabile position on the market. Major projects were completed in order to support the sales of our products and customer-oriented approach, such as Tin Mill 1 Preparation Line Tension Leveller Upgrade, Continuous Galvanizing Line 3 Upgrade, Color Coating Line Coater Upgrade, and Pickling Line 1 Upgrade (in progress). These new technical improvements will greatly contribute to the higher added value of our finished products. Investments in the company infrastructure also comprised an important part of our capital expenditures last year, for example Pad-up Repair of Coke Oven Battery Walls – Phase 4, Hot Strip Mill Control System Upgrade – Phase 2 completed and Phase 3 commenced. These projects will significantly boost the overall technical condition of our production facilities.

Energy management is very important for the Company due to both the amount of energy consumed and costs, as well as due to environmental protection. The Company implemented an **Energy Management System** in accordance with international standard ISO 50001 and passed certification in March 2013. In April 2014 TÜV SÜD Slovakia s.r.o. conducted the first supervisory audit and extended the validity of the above certificate for another year. We succeeded in reducing energy consumption in accordance with the Energy Management Action Program by implementing the Continuous Cost Improvement Program and Carnegie Way Initiative, based on which 56 energy projects were submitted totalling 210,000 GJ. In addition, for improving the Energy Management System, the Corrective/Preventive Action Request software application was extended with the addition of the „Energies“ module and a new auxiliary process was created for energy efficiency in the USSK Process Map „Resources“ folder. Implementation of the USSK Energy Management Action Program for the period up to 2018 will help to meet the Company‘s main strategic objectives in the areas of reducing energy consumption in production, improving energy management, and raising employees’ awareness regarding energy efficiency.

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.

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 education, safety, sports activities and the preservation of cultural heritage. In 2014, ten other community projects were supported in towns and villages of Eastern Slovakia and altogether, 76 developing initiatives have been implemented since 2008.

In support of education the Company works actively with selected technical secondary schools and colleges in Košice. Long-term systematic co-operation has been developed with the Secondary Vocational School for Metallurgy in Košice-Šaca in preparing pupils for employment in the steel-making industry. In the field of extending practice and professional skills we enable university students and graduates 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**. With the Technical University of Košice and Pavol Jozef Šafárik University in Košice, the Company has also been cooperating in research and development. The main areas of cooperation are primary operations and ecology, power engineering, mathematical modeling, optimization, metallurgy processes control, material properties control, as well as education of new specialists. For several years U. S. Steel Košice, s.r.o. has also supported the educational programs organized by the Junior Achievement Slovakia non-profit organization. We support these programs financially, but also by sending 10 to 12 USSK specialists every year to work as voluntary consultants and jury members. 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 2013/2014 ten new scholarships were granted, and 15 more in 2014/2015.

In support of health care U. S. Steel Košice, s.r.o. receives numerous requests for support in medical care. USSK and its employees support hospitals by providing new medical equipment. Similarly as in the previous year, in 2014 the traditional **Pre-Christmas Fund-Raising** focused on the Children's Faculty Hospital in Košice. The mutual efforts of employees, the Company and its foundation resulted in a fund of EUR 111,878 which will be used for the purchase of ultrasound equipment to improve diagnosis and treatment of the children in the hospital. USSK, traditional partner of the League Against Cancer, 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 2014 the collection among employees raised EUR 4,931.

In support of social care USSK directs its assistance mainly towards supporting foster homes. It also provides long-term support to the Autumn of Life civic association, whose members are former 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 2014 these were in the Sečovce and Nižná Kamenica foster homes 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 overome difficult moments in their life through this solidarity.

In support of culture the Company has been a long-term supporter of important cultural institu-

tions 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, the Festival of Central European Theaters, and the multi-genre open air performance called Imaginations.

Support for sports has been focused on traditional sports and events in the Košice region: ice-hockey, handball, soccer, basketball and figure-skating. 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 as well. The Company is also a long-term partner of the HC Košice ice-hockey club, which has won the Slovakian Extra 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 2014 as well, and provided equal opportunities for children from socially-disadvantaged families to play ice-hockey, basketball and soccer. USSK contributed to their club membership fees and part of the cost of buying sport equipment.

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 eighth time on May 16-17, 2014. 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 center, community center and charity house, and improving premises and surroundings of two autistic centers. 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.

SELECTED FINANCIAL INFORMATION

Statement of Financial Position

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

In million EUR	Dec 31, 2014	Dec 31, 2013	Dec 31, 2012
Property, plant and equipment, and tinvestment property	369	373	858
Intangible assets	87	39	115
Other non-current assets	104	120	17
Inventories	376	363	337
Short-term receivables	356	350	317
Other current assets	355	226	172
Total Assets	**1,647**	**1,471**	**1,816**
Equity	913	856	1,226
Trade and other payables	384	324	273
Long-term loans and borrowings	222	196	205
Other liabilities	127	94	112
Total Equity and Liabilities	**1,647**	**1,471**	**1,816**

In 2014 the Company recorded an impairment of property, plant and equipment and intangible assets in the amount of EUR 49 million (2013: EUR 466 million). This expense was partially offset by a deferred tax impact in the amount of EUR 10 million (2013: EUR 103 million) included in Other non-current assets line.
The increase in Intangible assets compared to 2013 is caused mainly by the revaluation of emission allowances. The increase in inventories was mainly due to a higher volume of steel inventory. The change in other current assets primarily includes an increase in cash in bank accounts. The increase in payables reflects the impact of initiatives to improve working capital and an increase in unpaid capital expenditures.

Statement of Comprehensive Income

Selected items from the Statements of Comprehensive Income for the last three years are:

In million EUR	2014	2013	2012
Revenues and other income	2,252	2,243	2,478
Operating profit/loss	35	(462)	47
Profit/Loss for the Year	**17**	**(369)**	**28**

The better financial results for the year 2014 compared to the year 2013 primarily reflect benefits from our Carnegie Way Initiative, lower raw material cost, decreased depreciation and amortization and decreased impairment charges, which were partially offset by foreign exchange losses and a decrease in sales prices.

Proposal for 2014 Profit Distribution

In million EUR	2014
Profit for 2014	17
Contribution to legal reserve fund	1
Accumulated losses	(4)
Proposal for profit sharing for U. S. Global Holdings I B.V.	12
Retained earnings after contribution to legal reserve fund and dividend paid	-

Significant Events after 2014 Reporting Period and Expected Development in 2015

Despite elevated geopolitical risks and economic uncertainties, the economic recovery in the EU continued in the second half of 2014, albeit at a very cautious pace. Several factors now contribute to a cautiously brightened outlook for economic fundamentals in 2015, partly offsetting the prevailing negative factors and uncertainties which have been acting as a drag on growth.

The significantly lower oil price should provide welcome support to the EU economy. It will contribute to lower input costs and higher margins in the business sector and reduce the energy bill of private households, and as a consequence boost household income. Secondly, the depreciation of the Euro will improve the competitive position of Eurozone exporters.

As a result, investment and private consumption are expected to gain momentum and contribute to increased activity in the steel consuming sectors, and consequently to a further modest increase in steel consumption.

Report on Verifying Consistency of the Annual Report with the Separate Financial Statements,
as required by § 23 of Act No. 540/2007 Coll.
(Addendum to the Auditor's Report)

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

We have audited the separate financial statements of U. S. Steel Košice, s.r.o. ("the Company") at 31 December 2014, on which we issued Independent Auditor's Report on 24 April 2015 and on which we expressed an unqualified audit opinion as follows:

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. as at 31 December 2014, 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.

In accordance with the Act No. 431/2002 Coll. on Accounting, as amended, we also verified whether accounting information included in the Company's annual report at 31 December 2014 is consistent with the audited separate financial statements referred to above.

Management's Responsibility for the Annual Report

The Company's management is responsible for the preparation, accuracy, and completeness of the annual report in accordance with the Slovak Accounting Act.

Auditor's Responsibility for Verifying Consistency of the Annual Report with the* Separate *Financial Statements

Our responsibility is to express an opinion on whether the accounting information presented in the annual report is consistent, in all material respects, with the Company's audited separate financial statements. We conducted the verification in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the verification to obtain reasonable assurance whether the accounting information presented in the annual report is consistent, in all material respects, with the Company's audited separate financial statements.

The scope of work includes performing procedures to verify that the accounting information presented in the annual report is consistent with the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the annual report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Company's preparation and fair presentation of the annual report in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. We did not verify those data and information in the annual report that were not derived from the separate financial statements.

We believe that the verification performed provides sufficient and appropriate basis for our opinion.

Opinion

In our opinion, the accounting information presented in the Company's annual report prepared for the year ended on 31 December 2014 is consistent, in all material respects, with the audited separate financial statements referred to above.

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

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

Bratislava, 24 April 2015

Our report has been prepared in the Slovak and in the English language. 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, 2014

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

This version of the accompanying financial statements is a translation of the original prepared in Slovak. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, the original language of the financial statements shall take precedence over this translation in all matters of interpretation of information, views or opinions.

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying separate financial statements of U. S. Steel Košice, s.r.o., which comprise the statement of financial position as at 31 December 2014 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the separate financial statements

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with 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.

Auditor's responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of U. S. Steel Košice, s.r.o. as at 31 December 2014, 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.

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

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

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

Bratislava, 24 April 2015

Our report has been prepared in the Slovak and in the English language. 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, 2014

Financial statements for the year ended December 31, 2014, 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 24, 2015. Neither the Company's shareholder nor the executives have the power to amend the financial statements after issue.

Košice, April 24, 2015

George F. Babcoke
President
(statutory representative)

M. T. Lewis

Matthew T. Lewis
Senior Vice President and Chief Financial Officer
(statutory representative)

Ing. Silvia Gaálová, FCCA
General Manager of General Accounting and Consolidation
(responsible for accounting)

Ing. Beáta Marčáková
Director of Accounting Compliance and External Reporting
(responsible for financial statements preparation)

U. S. Steel Košice, s.r.o.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

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U. S. Steel Košice, s.r.o.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(all amounts are in thousands of EUR)

STATEMENT OF FINANCIAL POSITION

	Note	December 31, 2014	December 31, 2013
ASSETS			
Non-current assets			
Property, plant and equipment	5	**366,312**	369,197
Investment property	6	**3,099**	3,490
Intangible assets	7	**87,090**	39,281
Investments	8	**13,250**	13,143
Financial assets available-for-sale		**259**	259
Deferred income tax asset	9	**85,566**	102,307
Restricted cash	10	**4,734**	3,948
Total non-current assets		**560,310**	**531,625**
Current assets			
Inventories	11	**375,990**	362,681
Trade and other receivables	12	**355,627**	349,877
Derivative financial instruments	13	**25,560**	-
Restricted cash	10	**55**	14
Other current assets	15	**1,183**	32,539
Cash and cash equivalents	14	**327,995**	193,768
Total current assets		**1,086,410**	**938,879**
TOTAL ASSETS		**1,646,720**	**1,470,504**
EQUITY AND LIABILITIES			
Equity			
Share capital	16	**839,357**	839,357
Reserve funds	16	**61,323**	43,728
Retained earnings / (accumulated losses)		**12,631**	(26,867)
Total equity		**913,311**	**856,218**
Liabilities			
Non-current liabilities			
Long-term loans and borrowings	17, 31	**222,495**	195,875
Long-term provisions for liabilities	18	**4,906**	5,150
Long-term deferred income – Government grants		**6,190**	-
Long-term employee benefits payable	19	**30,990**	23,408
Trade and other payables – long-term	20	**2,006**	1,978
Total non-current liabilities		**266,587**	**226,411**
Current liabilities			
Trade and other payables	20	**383,752**	324,196
Current income tax liability		**3**	-
Derivative financial instruments	13	**-**	8,326
Deferred income		**2**	3
Short-term borrowings	31	**13,124**	9,447
Short-term provisions for liabilities	18	**67,537**	44,496
Short-term employee benefits payable	19	**2,404**	1,407
Total current liabilities		**466,822**	**387,875**
TOTAL EQUITY AND LIABILITIES		**1,646,720**	**1,470,504**

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 COMPREHENSIVE INCOME

	Note	2014	2013
Revenue	21	**2,193,991**	2,202,972
Other income	21	**57,895**	39,707
Materials and energy consumed	22	**(1,419,350)**	(1,505,517)
Salaries and other employees benefits	23	**(282,399)**	(264,484)
Depreciation and amortization	5, 6, 7	**(29,447)**	(76,381)
Repairs and maintenance		**(68,134)**	(66,874)
Transportation services		**(122,247)**	(121,158)
Advisory services		**(12,334)**	(13,447)
Foreign exchange gain / (loss)		**(34,174)**	11,612
Impairment loss	5, 7	**(49,109)**	(477,547)
Other operating expenses	24	**(199,425)**	(190,403)
Profit from operations		**35,267**	**(461,520)**
Dividend income		**1,556**	1,812
Finance income	25	**171**	93
Finance cost	25	**(14,370)**	(13,699)
Profit / (loss) before tax		**22,624**	**(473,314)**
Income tax credit / (expense)	26	**(5,595)**	**104,427**
Profit / (loss) after tax		**17,029**	**(368,887)**
Items that will not be reclassified to profit or loss			
Remeasurement of post employment benefit obligations	26	**(3,836)**	(562)
Items that may be subsequently reclassified to profit or loss			
Change in fair value of derivative hedging instruments	26	**26,919**	(719)
Change in revaluation of intangible assets	7, 26	**16,981**	-
Other comprehensive income / (loss), net of tax		**40,064**	**(1,281)**
Total comprehensive income / (loss) for the year		**57,093**	**(370,168)**

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, 2014	**839,357**	**43,728**	**(26,867)**	**856,218**
Profit for 2014	-	-	17,029	17,029
Other comprehensive income	-	43,900	(3,836)	**40,064**
Total comprehensive income for the year	-	**43,900**	**13,193**	**57,093**
Transactions with owners:				
Loss settlement from legal reserve fund	-	(26,305)	26,305	**-**
Total transactions with owners	-	**(26,305)**	**26,305**	**-**
Balance as of December 31, 2014	**839,357**	**61,323**	**12,631**	**913,311**

	Share capital	Reserve funds	Retained earnings / (accumulated losses)	Total
Balance as of January 1, 2013	**839,357**	**43,064**	**343,965**	**1,226,386**
Loss for 2013	-	-	(368,887)	**(368,887)**
Other comprehensive loss	-	(719)	(562)	**(1,281)**
Total comprehensive loss for the year	**-**	**(719)**	**(369,449)**	**(370,168)**
Transactions with owners:				
Contribution to legal reserve fund	-	1,383	(1,383)	**-**
Total transactions with owners	**-**	**1,383**	**(1,383)**	**-**
Balance as of December 31, 2013	**839,357**	**43,728**	**(26,867)**	**856,218**

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, 2014
(all amounts are in thousands of EUR)

STATEMENT OF CASH FLOWS

	Note	Total	
		2014	**2013**
Profit / (loss) before tax		**22,624**	**(473,314)**
Non-cash adjustments for			
Depreciation of property, plant and equipment and investment property	5, 6	**28,343**	74,291
Amortization of intangible assets	7	**1,104**	2,090
Amortization of deferred income from CO_2 emission allowances	21	**(48,550)**	(31,055)
Charge of provision for CO_2 emissions emitted	18, 24	**65,677**	40,645
Impairment of property, plant and equipment	5	**47,707**	462,518
Impairment of intangible assets	5, 7	**1,402**	3,704
Impairment loss – CO_2 emission allowances	7	**-**	11,325
(Reversal of impairment) / impairment of investments		**(107)**	118
Loss / (gain) on disposal of property, plant and equipment and intangible assets	21, 24	**(851)**	(309)
Loss / (gain) from changes in fair value of derivative financial instruments	21, 24	**(4,486)**	9,502
Dividend income and distribution of profit		**(1,556)**	(1,812)
Interest income	25	**(171)**	(93)
Interest expense	25	**14,370**	13,699
Foreign exchange loss / (gain) on operating activities		**26,620**	(8,863)
Changes in working capital			
(Increase) / decrease in inventories	11	**(13,309)**	(26,162)
Decrease/ (increase) in trade and other receivables and other current assets	12, 15	**(5,448)**	(33,258)
(Decrease) / Increase in trade and other payables and other current liabilities	20	**54,634**	43,594
Cash generated from / (used in) operations		**188,003**	**86,620**
Interest paid		**(13,142)**	(12,602)
Income taxes paid		**(13)**	(15)
Net (payments) / receipts from derivative financial instruments		**4,974**	(10,340)
Net cash generated from / (used in) operating activities		**179,822**	**63,663**
Cash flows from / (used in) investing activities			
Acquisition of financial investments	8	**-**	(100)
Purchases of property, plant and equipment	5	**(60,822)**	(44,739)
Proceeds from sale of property, plant and equipment		**179**	181
Purchases of intangible assets	7	**(2,202)**	(1,940)
Proceeds from sale of intangible assets (excluding CO_2 emission allowances)		**-**	4,155
Proceeds from sale of CO_2 emission allowances		**12,677**	-
Change in restricted cash, net	10	**(827)**	3,416
Interest received		**171**	93
Dividends received and distribution of profit		**1,556**	2,848
Net cash used in investing activities		**(49,268)**	**(36,086)**
Cash flows from / (used in) financing activities			
Intercompany borrowings granted	31	**-**	(88)
Intercompany borrowings repaid	31	**-**	88
Proceeds from borrowings	28	**89,734**	84,243
Repayment of borrowings	28	**(86,061)**	(83,861)
Net cash generated from / (used in) financing activities		**3,673**	**382**
Net increase in cash and cash equivalents		**134,227**	**27,959**
Cash and cash equivalents at beginning of year	14	**193,768**	**165,809**
Cash and cash equivalents at end of year	14	**327,995**	**193,768**

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”) was established as a limited liability company on June 7, 2000 and incorporated 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 21).

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 23.

The Company’s management

Statutory representatives as of December 31, 2014 were as follows:

George F. Babcoke	President
Matthew Todd Lewis	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 External Services
RNDr. Miroslav Kiraľvarga, MBA	Vice President External Affairs, Administration and Business Development
Charles James Bond	General Counsel
John Patrick Coyne	Vice President BSC
Ing. Vladimír Jacko, PhD., MBA	Vice President Energy, Environment and Technical Inspection
Michael Andrew Fedorenko	Vice President Engineering and Innovation
Ing. Martin Pitorák	Vice President Human Resources

Emoluments of statutory representatives are disclosed in Note 31.

Shareholder of the Company

As of December 31, 2014, the only shareholder of the Company was U. S. Steel Global Holdings I 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 June 26, 2014, 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, 2014 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, 2014.

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, 2014 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, 2014 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

<u>Functional and presentation currency</u>

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.

<u>Transactions and balances</u>

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. Gains and losses on assets' disposals are determined by comparing related proceeds with the carrying amount. These gains and losses are included in profit or loss.

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 losses. Investment properties (excluding land) are depreciated on a straight-line basis over their estimated useful lives (35 years). 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 recognized as investment property.

Investment properties are derecognized when either they have been disposed 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 other than emission allowances are measured initially at cost. 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.

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 live (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 and measured at acquisition costs. 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 has been paid to acquire this intangible asset, the fair value was 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 released at 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)

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 Consolidated and Separate Financial Statements*. Impairment losses are recognized using a provision account based on the present value of estimated future cash flows.

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.

Financial assets at fair value through profit and loss

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. Management designates financial instruments into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Company's key management personnel.

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.

Hedging derivatives

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.

Financial assets available-for-sale

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.

Derecognition of financial assets

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 expires.

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 costs.

2.18 Government Grants

Government grants are recognized only if there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received. Grants are deferred and recorded on a systematic basis into income over the period necessary to match them with the related costs that they are intended to compensate. Grants received are treated as deferred income in these financial statements. 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 such as the allowed tax credit, 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 licence), 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 licence. 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, unused tax credits 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, e.g. one-off wage for long-term employment. 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.

Hedge accounting

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.

Forward physical purchase contracts for commodities

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 29):

- 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 29)
- 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 29)
- 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 represents approximately 20 years (2013: 19 years). An increase of the average useful life by 1 year would change the annual depreciation charge by EUR 1 million (2013: EUR 3 million). A decrease of the average useful life by 1 year would change the annual depreciation charge by EUR 1 million (2013: EUR 5 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.

Since the economic crisis in 2008, European economies have struggled to recover, particularly in the steel consuming sectors such as the construction industry. This has lead to a significant overcapacity situation in the European steel market. This overcapacity and the resulting intense competition for tonnage amongst the steel mills still operating has put downward pressure on steel pricing. Since the beginning of 2013, steel prices have dropped approximately 15 percent. In 2013, the costs for major inputs such as iron ore and energy remained relatively high and squeezed the margins of most European steel producers. This was deemed to be an indicator of possible impairment in 2013. An impairment test was performed, which resulted in significant impairment charges in 2013. In 2014, the costs for some major inputs, especially iron ore, declined and allowed for some improvement in steel margins and therefore earnings, even though steel prices continued their downward slide. The impairment calculation was updated as of December 31, 2014 due to significant capital expenditures in the first cash generating unit during 2014.

As part of the impairment evaluation process as of December 31, 2014 and December 31, 2013, the Company was divided into two cash-generating units and their recoverable amounts have been determined. Recoverable amount is the higher of fair value less costs of disposal and 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.
- 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. The discount rate was specifically adjusted in 2014 and 2013 related to the current geopolitical situation in Ukraine, which could disrupt the normal supply of raw materials and natural gas to European steel makers, including the Company, which currently purchases many of its raw materials either from the Ukraine or Russia. This situation could also have significant adverse effects on the European economy as a whole, further delaying any meaningful recovery of steel demand across the region and together with the ongoing sluggish recovery of European steel consumption has increased uncertainty inherent in the Company's cash flow projections.

The calculated recoverable amount is sensitive to the above-mentioned assumptions and estimates with key factors being cash flow forecasts, discount rate, terminal growth rate for sales and production costs and the Carnegie Way's economic benefits. Changes in any of the assumptions could result in management reaching a different conclusion regarding the potential impairment, which could be material. Impairment evaluations inherently involve uncertainties from uncontrollable events that could positively or negatively impact the anticipated future economic and operating conditions. Sensitivity analysis is disclosed in Note 5.

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 largerly based on comparable transactions since in management's view the necessary adjustments to the comparable transactions had insignificant impact.

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

Income taxes

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. Significant 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 18).

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 19).

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 18).

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, 2014

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after January 1, 2014 that would be expected to have a material impact on the Company.

4.2 Standards, amendments and interpretations issued but not effective until the financial year beginning January 1, 2015 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 1 January 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 Company is currently assessing the impact of the standard on its financial statements. The standard has not yet been endorsed by the EU.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 February 2015). The improvements consist of changes to seven standards. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Company is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 January 2015). The improvements consist of changes to four standards. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Company is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale ore distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. The Company is currently assessing the impact of the amendments on its financial statements. The standard has not yet been endorsed by the EU.

IFRS 15 “Revenue from Contracts with Customers“ (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). 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 Company is currently assessing the impact of the new standard on its financial statements. The standard has not yet been endorsed by the EU.

Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Company is currently assessing the impact of the amendments on its separate financial statements. The standard has not yet been endorsed by the EU.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The Company is currently assessing the impact of the amendments on its financial statements. The standard has not yet been endorsed by the EU.

Unless otherwise described above, the new standards 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 2014 are as follows:

	Land and buildings	Machinery, equipment and motor vehicles	Other tangible assets	Construction in progress	Total
Cost					
January 1, 2014	**434,438**	**1,066,698**	**13,226**	**29,744**	**1,544,106**
Additions	-	-	-	73,681	**73,681**
Disposals	(385)	(32,150)	(392)	(328)	**(33,255)**
Transfer to / from investment property	462	-	-	-	**462**
Transfers to base	5,632	48,616	1	(54,249)	**-**
December 31, 2014	**440,147**	**1,083,164**	**12,835**	**48,848**	**1,584,994**
Accumulated Depreciation and Impairment Losses					
January 1, 2014	**(269,951)**	**(871,735)**	**(12,981)**	**(20,242)**	**(1,174,909)**
Depreciation for the year	(3,918)	(24,301)	(18)	-	**(28,237)**
Disposals	328	32,020	-	-	**32,348**
Transfer to / from investment property	(177)	-	-	-	**(177)**
Impairment losses	(4,928)	(33,883)	547	(9,443)	**(47,707)**
December 31, 2014	**(278,646)**	**(897,899)**	**(12,452)**	**(29,685)**	**(1,218,682)**
Carrying amount	**161,501**	**185,265**	**383**	**19,163**	**366,312**

Movements in property, plant and equipment during 2013 are as follows:

	Land and buildings	Machinery, equipment and motor vehicles	Other tangible assets	Construction in progress	Total
Cost					
January 1, 2013	**427,421**	**1,058,753**	**13,862**	**25,659**	**1,525,695**
Additions	-	-	-	51,870	**51,870**
Disposals	(142)	(32,374)	(644)	(104)	**(33,264)**
Transfer to / from investment property	(195)	-	-	-	**(195)**
Transfers to base	7,354	40,319	8	(47,681)	**-**
December 31, 2013	**434,438**	**1,066,698**	**13,226**	**29,744**	**1,544,106**
Accumulated Depreciation and Impairment Losses					
January 1, 2013	**(101,791)**	**(558,114)**	**(10,542)**	**-**	**(670,447)**
Depreciation for the year	(11,357)	(62,554)	(268)	-	**(74,179)**
Disposals	28	32,231	-	-	**32,259**
Transfer to / from investment property	(24)	-	-	-	**(24)**
Impairment losses	(156,807)	(283,298)	(2,171)	(20,242)	**(462,518)**
December 31, 2013	**(269,951)**	**(871,735)**	**(12,981)**	**(20,242)**	**(1,174,909)**
Carrying amount	**164,487**	**194,963**	**245**	**9,502**	**369,197**

Additions to property, plant and equipment include EUR 1,008 thousand in 2014 (2013: EUR 1,435 thousand) of interest capitalized at an average borrowing rate of 6.78 percent (2013: 6.81 percent).

No property, plant and equipment was pledged in favor of a creditor or restricted in its use as of December 31, 2014 or December 31, 2013.

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 13 million for the year ended December 31, 2014 and EUR 7 million for the year ended December 31, 2013.

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

Balance of impairment as of December 31, 2014:

	Cash-generating unit 1	Cash-generating unit 2
Carrying amout of plant, property and equipment, investment properties and intangible assets (before impairment)	**620,721**	**348,977**
Impairment loss – property, plant and equipment	(508,092)	-
Impairment loss – intangible assets	(5,105)	-
Revised carrying amount	**107,524**	**348,977**

Balance of impairment as of December 31, 2013:

	Cash-generating unit 1	Cash-generating unit 2
Carrying amout of plant, property and equipment, investment properties and intangible assets (before impairment)	**585, 261**	**304,254**
Impairment loss – property, plant and equipment	(462,518)	-
Impairment loss – intangible assets	(3,704)	-
Impairment loss – emission allowances	(7,928)	(3,397)
Revised carrying amount	**111,111**	**300,857**

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 then carrying amount of the unit, excluding the annual revaluation of emission allowances.

Impairment in the first cash generating unit is primarily driven by lower margins on hot-rolled coils compared to products with higher added value. This commodity is exposed to imports from other countries, mainly the Ukraine and Russia, and more sensitive to changes in market prices. 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. Change in key assumptions used in the measurement of fair value less costs of disposal of the whole cash-generating unit would not lead to material impact to the amount of impairment loss, as in case of reasonable changes in the key assumptions, the fair value less costs of disposal of individual assets would still be higher than the recoverable value of the whole cash generating unit, so there would be no change as to the amount of impairment loss recognized. The fair values less costs of disposal of individual assets were measured using market approach.

The increase in impairment loss recognized in 2014 is caused mainly due to additions of newly acquired non-current assets in the first cash-generating unit.

Insurance

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 750 million (i.e. EUR 618 million using the exchange rate at the end of reporting period) (2013: USD 750 million (i.e. EUR 544 million using the exchange rate as of December 31, 2013)). Compensation sublimits for individual risks are specified in the insurance contract. Self insurance is USD 25 million (i.e. EUR 21 million using the exchange rate at the end of reporting period) per claim.

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

Note 6 Investment Properties

Movements in investment properties during 2014 and 2013 are as follows:

	2014	2013
Cost		
Opening balance as of January 1	**4,709**	**4,514**
Transfers to / from property, plant and equipment	(462)	195
Closing balance as of December 31	**4,247**	**4,709**
Accumulated Depreciation and Impairment Losses		
Opening balance as of January 1	**(1,219)**	**(1,131)**
Depreciation for the year	(106)	(112)
Transfers to / from property, plant and equipment	177	24
Closing balance as of December 31	**(1,148)**	**(1,219)**
Carrying amount	**3,099**	**3,490**

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 provision for depreciation and impairment.

The fair value of the investment properties totaled EUR 6,922 thousand as of December 31, 2014 (December 31, 2013: EUR 7,709 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 2014 are as follows:

	Software	Emission allowances	Other intangible assets	Intangible assets not yet available for use	Total
Cost					
January 1, 2014	**28,837**	**63,221**	**376**	**924**	**93,358**
Additions	-	79,991	-	1,816	**81,807**
Disposals	(121)	(81,791)	-	-	**(81,912)**
Revaluation surplus	-	21,771	-	-	**21,771**
Transfers to base	1,513	-	195	(1,708)	**-**
December 31, 2014	**30,229**	**83,192**	**571**	**1,032**	**115,024**
Accumulated Amortization and Impairment Losses					
January 1, 2014	**(25,229)**	**(28,528)**	**(320)**	**-**	**(54,077)**
Amortization for the year	(1,077)	-	(27)	-	**(1,104)**
Disposals	121	28,528	-	-	**28,649**
Impairment losses	(681)	-	(97)	(624)	**(1,402)**
December 31, 2014	**(26,866)**	**-**	**(444)**	**(624)**	**(27,934)**
Carrying amount	**3,363**	**83,192**	**127**	**408**	**87,090**

Movements in intangible assets during 2013 are as follows:

	Software	Emission allowances	Other intangible assets	Intangible assets not yet available for use	Total
Cost					
January 1, 2013	**25,325**	**162,217**	**327**	**22,501**	**210,370**
Additions	-	-	-	2,306	**2,306**
Disposals	(160)	(98,996)	-	(20,162)	**(119,318)**
Transfers to base	3,672	-	49	(3,721)	**-**
December 31, 2013	**28,837**	**63,221**	**376**	**924**	**93,358**
Accumulated Amortization and Impairment Losses					
January 1, 2013	**(19,707)**	**(59,621)**	**(208)**	**(16,066)**	**(95,602)**
Amortization for the year	(2,054)	-	(36)	-	**(2,090)**
Disposals	160	42,418	-	16,066	**58,644**
Impairment losses	(3,628)	(11,325)	(76)	-	**(15,029)**
December 31, 2013	**(25,229)**	**(28,528)**	**(320)**	**-**	**(54,077)**
Carrying amount	**3,608**	**34,693**	**56**	**924**	**39,281**

Additions to intangible assets include EUR 2 thousand of interest capitalized at an average borrowing rate of 6.78 percent in 2014 (in 2013: EUR 9 thousand at an average borrowing rate of 6.81 percent).

In January 2013, management of U. S. Steel decided to remove the Company from the scope of its global implementation of an enterprise resource planning ("ERP") system. On March 15, 2013, intangible assets not yet available for use related to ERP modules that will not be deployed in the Company were sold to U. S. Steel.

No intangible assets were pledged in favor of a creditor or restricted in its use as of December 31, 2014 or December 31, 2013.

<u>Insurance</u>

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 by the Slovak Government. The allowances were initially measured at fair value as of the allocation date at EUR 7.05 per allowance (2013: EUR 5.48 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, 2014	**December 31, 2013**
Emission allowances (intangible asset) (Note 7)	**83,192**	34,693
Emission allowances receivable from government (other current asset) (Note 15)	**-**	31,055
Liability from the obligation to deliver allowances (provision) (Note 18)	**64,890**	40,645

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, 2014

	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Emission allowances	83,192	-	-	83,192
Total	**83,192**	**-**	**-**	**83,192**

December 31, 2013

	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Emission allowances	34,693	-	-	34,693
Total	**34,693**	**-**	**-**	**34,693**

During the year 2014 and 2013, 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 61,421 thousand as of 31 December 2014 (31 December 2013: EUR 34,693 thousand).

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

Note 8 Investments

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

Entity, Place of incorporation, Principal activities		2014	2013
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)	**369**	446
	Equity	**4,185**	4,240
U.S. Steel Košice – SBS, s.r.o., Slovakia, Security services			
	Ownership interest (%)	**98.00**	98.00
	Carrying amount	**34**	34
	Profit / (loss)	**95**	94
	Equity	**377**	376
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)	**1,885**	2,471
	Equity	**18,597**	17,212
U. S. Steel Services s.r.o., Slovakia, Various services			
	Ownership interest (%)	**99.96**	99.96
	Carrying amount	**1,804**	1,804
	Profit / (loss)	**378**	352
	Equity	**2,916**	2,873
OBAL-SERVIS, a.s. Košice, Slovakia, Packaging			
	Ownership interest (%)	**100.00**	100.00
	Carrying amount	**6,106**	6,055
	Profit / (loss)	**562**	262
	Equity	**6,449**	6,123
U. S. Steel Europe – Bohemia a.s. , Czech Republic, Sales Agent			
	Ownership interest (%)	**100.00**	100.00
	Carrying amount	**295**	318
	Profit / (loss)	**56**	61
	Equity	**1,572**	1,594
U. S. Steel Europe – France S.A. (1), France, Sales Agent			
	Ownership interest (%)	**99.94**	99.94
	Carrying amount	**212**	212
	Profit / (loss)	**16**	21
	Equity	**185**	189
U. S. Steel Europe – Germany GmbH(1), Germany, Sales Agent			
	Ownership interest (%)	**100.00**	100.00
	Carrying amount	**444**	365
	Profit / (loss)	**65**	59
	Equity	**1,290**	1,284
U. S. Steel Europe – Italy S.r.l. (1), Italy, Sales Agent			
	Ownership interest (%)	**100.00**	100.00
	Carrying amount	**110**	110
	Profit / (loss)	**10**	9
	Equity	**133**	123
Total carrying amount of investments		**13,250**	13,143

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

(1) Financial information for the year 2014 is unaudited.

The change in carrying amounts of investments in U. S. Steel Europe – Germany GmbH, U. S. Steel Europe – Bohemia a.s. and OBAL-SERVIS, a.s. Košice as of December 31, 2014 relates to adjustments made in the provisions for impairment to the investments.

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

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, 2014 or December 31, 2013.

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 22 percent as of December 31, 2014 (2013: 22 percent).

The tax effect of the movements in the temporary differences during year 2014 is as follows:

	January 1, 2014	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2014
Property, plant and equipment	**75,529**	(9,244)	-	**66,285**
Inventories	**4,638**	(641)	-	**3,997**
Employee benefits	**5,275**	190	1,082	**6,547**
Deferred charges	**93**	-	-	**93**
Provision for impairment of receivables	**2,850**	654	-	**3,504**
Unused tax loss 2012 and 2013	**15,890**	(7,410)	-	**8,480**
Emission allowances transactions	**(5,364)**	9,566	(4,790)	**(588)**
Derivative financial instruments	**1,832**	-	(7,455)	**(5,623)**
Other items	**1,564**	1,307	-	**2,871**
Total	**102,307**	**(5,578)**	**(11,163)**	**85,566**
Deferred tax asset/(liability)	**102,307**			**85,566**

The tax effect of the movements in the temporary differences during year 2013 is as follows:

	January 1, 2013	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2013
Property, plant and equipment	(15,040)	90,569	-	**75,529**
Inventories	4,242	396	-	**4,638**
Employee benefits	5,050	67	158	**5,275**
Deferred charges	506	(413)	-	**93**
Provision for impairment of receivables	3,034	(184)	-	**2,850**
Unused tax loss 2009, 2012 and 2013	8,042	7,848	-	**15,890**
Emission allowances transactions	(10,584)	5,220	-	**(5,364)**
Derivative financial instruments	1,975	-	(143)	**1,832**
Other items	625	939	-	**1,564**
Total	**(2,150)**	**104,442**	**15**	**102,307**
Deferred tax asset/(liability)	(2,150)			**102,307**

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

	December 31, 2014	December 31, 2013
Deferred tax to be realized within 12 months	**10,552**	9,960
Deferred tax to be realized after 12 months	**75,014**	92,347

The Company has unrecognized potential deferred tax assets of EUR 883 thousand related to subsidiaries as of December 31, 2014 (December 31, 2013: EUR 892 thousand).

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

Tax loss carryforward

By the end of 2014, the Company recognized a deferred tax asset for the tax losses in accordance with IAS 12 Income taxes. The 2014 cumulative tax loss amounted to EUR 38,545 thousand (December 31, 2013: EUR 72,226 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.

Impairment of property, plant and equipment

By the end of 2014 and 2013, 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, 2014	December 31, 2013
Cash restricted in its use - long-term portion	**4,734**	3,948
Cash restricted in its use - short-term portion	**55**	14
Total (Notes 28 and 29)	**4,789**	**3,962**

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 18). 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 28.

Note 11 Inventories

	December 31, 2014	December 31, 2013
Raw materials	**169,873**	162,897
Work-in-progress	**42,431**	44,123
Semi-finished production	**48,794**	54,922
Finished products	**114,892**	100,739
Total	**375,990**	**362,681**

Inventory as of December 31, 2014 is shown net of write-down allowances resulting from lower net realizable values totaling EUR 3,776 thousand (December 31, 2013: EUR 3,339 thousand). No inventories were pledged in favor of a creditor or restricted in use as of December 31, 2014 or December 31, 2013.

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

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

	Raw materials	Work in progress	Semi-finished production	Finished products	Total
January 1, 2014	**1,265**	**570**	**635**	**869**	**3,339**
Allowance made	761	259	720	769	**2,509**
Allowance used	(338)	(301)	(518)	(801)	**(1,958)**
Allowance reversed	(15)	(23)	(8)	(68)	**(114)**
December 31, 2014	**1,673**	**505**	**829**	**769**	**3,776**

	Raw materials	Work in progress	Semi-finished production	Finished products	Total
January 1, 2013	**1,006**	**208**	**28**	**330**	**1,572**
Allowance made	550	420	635	869	**2,474**
Allowance used	(289)	(71)	(29)	(354)	**(743)**
Allowance reversed	(2)	13	1	24	**36**
December 31, 2013	**1,265**	**570**	**635**	**869**	**3,339**

Note 12 Trade and Other Receivables

	December 31, 2014	December 31, 2013
Trade receivables	**318,702**	328,285
Related party accounts receivable (Note 31)	**1,249**	2,008
Total trade receivables (Note 29)	**319,951**	**330,293**
Advance payments made	**6,189**	4,005
VAT receivable	**42,258**	34,962
Other receivables – governments grants	**6,190**	-
Other receivables	**538**	667
Trade and other receivables (gross)	**375,126**	**369,927**
Provision for impairment of trade receivables	**(19,467)**	(19,957)
Provision for impairment of other receivables	**(32)**	(93)
Trade and other receivables (net)	**355,627**	**349,877**
Long-term receivables	**-**	-
Short-term receivables	**355,627**	349,877

No receivables of the Company were pledged in favor of a bank or other entities as of December 31, 2014 or December 31, 2013. 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 28.

<u>Government Grants</u>

On May 23, 2014, Ministry of Environment of the Slovak Republic approved the Company's application for EU grants from Operational Program Environment for the purpose of Casthouse Emissions Efficiency improvement projects at Blast Furnaces No. 2 and 3. The amount of the grant received will be based on 35 percent of the identified eligible costs actually incurred to complete the projects, up to the maximum approved funding level of EUR 8.8 million. Recorded amount of EUR 6.2 million reflects the expected project spending which was adjusted after tender. The government grant receivable is denominated in Euro and is neither subject to credit risk nor currency risk.

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

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

	December 31, 2014	December 31, 2013
EUR	**305,319**	302,123
USD	**3,769**	14,471
Other	**10,863**	13,699
Total	**319,951**	**330,293**

The structure of trade receivables is as follows:

	December 31, 2014	December 31, 2013
Receivables not yet due and not impaired	**276,296**	294,038
Receivables past due but not impaired	**22,953**	14,290
Receivables impaired	**19,453**	19,957
Trade receivables	**318,702**	**328,285**
Receivables not yet due and not impaired	**1,219**	1,392
Receivables past due but not impaired	**16**	616
Receivables impaired	**14**	-
Related party accounts receivable	**1,249**	**2,008**
Total	**319,951**	**330,293**

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

	December 31, 2014	December 31, 2013
No or low-risk counterparties	**142,899**	147,114
Increased or high-risk counterparties	**133,397**	146,924
Trade receivables	**276,296**	**294,038**
No or low-risk counterparties	**1,219**	1,049
Increased or high-risk counterparties	**-**	343
Related party accounts receivable	**1,219**	**1,392**
Total	**277,515**	**295,430**

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.

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

	December 31, 2014	December 31, 2013
Past due 0 – 30 days	**20,754**	14,169
Past due 30 – 90 days	**1,873**	71
Past due 90 – 180 days	**215**	50
Past due more than 180 days	**111**	-
Trade receivables	**22,953**	**14,290**
Past due 0 – 30 days	**-**	-
Past due 30 – 90 days	**9**	-
Past due 90 – 180 days	**7**	-
Past due more than 180 days	**-**	616
Related party accounts receivable	**16**	**616**
Total	**22,969**	**14,906**

Discounted present value of receivables past due is not materially different from their book values as of December 31, 2014 and 2013.

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

Ageing structure of trade receivables individually impaired is as follows:

	December 31, 2014	December 31, 2013
Not yet due	**-**	1
Past due 0 – 30 days	**-**	1
Past due 30 – 90 days	**90**	1
Past due 90 – 180 days	**-**	79
Past due 180 – 365 days	**125**	313
Past due over 365 days	**19,238**	19,562
Trade receivables	**19,453**	**19,957**
Not yet due	**-**	-
Past due 0 – 30 days	**3**	-
Past due 30 – 90 days	**4**	-
Past due 90 – 180 days	**7**	-
Past due 180 – 365 days	**-**	-
Past due over 365 days	**-**	-
Related party accounts receivable	**14**	**-**
Total	**19,467**	**19,957**

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, 2014	**19,957**	**-**	**93**	**-**	**20,050**
Provision made	220	14	2	-	**236**
Receivables written-off	(365)	-	(61)	-	**(426)**
Provision reversed	(359)	-	(2)	-	**(361)**
December 31, 2014	**19,453**	**14**	**32**	**-**	**19,499**

	Trade receivables	Related party accounts receivable	Other receivables	Advance payments made	Total
January 1, 2013	**15,552**	**-**	**106**	**-**	**15,658**
Provision made	4,579	-	2	-	**4,581**
Receivables written-off	(77)	-	-	-	**(77)**
Provision reversed	(97)	-	(15)	-	**(112)**
December 31, 2013	**19,957**	**-**	**93**	**-**	**20,050**

Accounts receivable totaling EUR 426 thousand were written off in 2014 (2013: EUR 77 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 16) as of December 31, 2014 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, 2013 and December 31, 2012 recognized in other comprehensive income and accumulated in revaluation reserves in equity were reclassified into profit or loss in 2014, respectively 2013. The actual value recognized in Other operating expenses in 2014 amounts to a loss of EUR 1 million (2013: loss of EUR 9 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:

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

	December 31, 2014		December 31, 2013	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Foreign exchange forwards – cash flow hedges	**25,560**	-	-	8,326
Total	**25,560**	**-**	**-**	**8,326**

Balances as of December 31, 2014 and December 31, 2013 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, PNC Bank, Commerzbank and The Bank of Nova Scotia as of December 31, 2014 and with ING Bank N.V., Citibank Europe plc, PNC Bank, Commerzbank and The Bank of Nova Scotia as of December 31, 2013. The financial asset for each counterparty represents less than 35 percent of total financial assets. The ratings of the banks are A- and higher (according to Standard & Poor's) as of December 31, 2014 (December 31, 2013: A- and higher). Information about the fair value hierarchy as of December 31, 2014 is disclosed in Note 29.

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, 2014	December 31, 2013
Payable on settlement in EUR thousand	**(304,103)**	(239,965)
Receivable on settlement in USD thousand	**401,000**	319,500

Note 14 Cash and Cash Equivalents

	December 31, 2014	December 31, 2013
Cash on hand	**40**	33
Cash at bank	**327,955**	193,735
Total (Note 29)	**327,995**	**193,768**

Interest rates on bank accounts were approximately 0.14 percent per annum for EUR deposits, 0.04 percent per annum for USD deposits and 0.01 percent per annum for CZK deposits as of December 31, 2014 (December 31, 2013: 0.08 percent per annum for EUR deposits, 0.09 percent per annum for USD deposits and 0.01 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 28.

Note 15 Other Current Assets

The balance of other current assets represents prepaid expenses totaling EUR 1,183 thousand as of December 31, 2014 (December 31, 2013: EUR 1,484 thousand and EUR 31,055 thousand for emission allowances the Company was entitled to as of December 31, 2013).

Note 16 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, 2014.

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

Reserve funds

The movement in reserve funds is as follows:

	Other capital funds	Legal reserve fund	Revaluation reserves	Total
January 1, 2014	**44**	**50,403**	**(6,719)**	**43,728**
Changes in fair value of derivative hedging instruments	-	-	26,919	**26,919**
Changes in fair value of CO_2 emission allowances	-	-	16,981	**16,981**
Loss settlement from legal reserve fund	-	(26,305)	-	**(26,305)**
December 31, 2014	**44**	**24,098**	**37,181**	**61,323**

	Other capital funds	Legal reserve fund	Revaluation reserves	Total
January 1, 2013	**44**	**49,020**	**(6,000)**	**43,064**
Changes in fair value of derivative hedging instruments	-	-	(719)	**(719)**
Contribution to legal reserve fund	-	1,383	-	**1,383**
December 31, 2013	**44**	**50,403**	**(6,719)**	**43,728**

As of December 31, 2014 the closing balance of revaluation reserves consisted of the revaluation reserve for derivative hedging instruments in the amount of EUR 20,200 and the revaluation reserve for CO2 emission allowances in the amount of EUR 16,981 (December 31, 2013, the closing balance of the revaluation reserves consisted of revaluation reserve for derivative hedging instruments). The remeasurements of post employment benefit obligations in 2014 and 2013 are recognized in Retained Earnings / Accumulated Losses.

Dividends

There were no declared but unpaid dividends as of December 31, 2014 (December 31, 2013: no declared but unpaid dividends).

Note 17 Long-Term Loans and Borrowings

	December 31, 2014	December 31, 2013
USD 500 million credit facility	**222,495**	195,875
EUR 200 million credit facility	**-**	-
	222,495	**195,875**
Current portion of the borrowings	-	-
Non-current portion of the borrowings	222,495	195,875

As of 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. 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. As of December 31, 2014, borrowings totaling USD 270 million (i.e. EUR 222 million using the exchange rate at the end of reporting period) were drawn against this facility (December 31, 2013: USD 270 million, i.e. EUR 196 million).

On July 15, 2013, the Company entered into a EUR 200 million three-year revolving unsecured credit facility that replaced a EUR 200 million three-year revolving unsecured credit facility which was set to expire in August 2013. The facility bears interest at the applicable inter-bank offer rate plus a margin and the agreement contains customary terms and conditions. As of December 31, 2014, there were no borrowings against this credit facility (December 31, 2013: no borrowings against the replaced facility).

Carrying amounts of the borrowings as of December 31, 2014 and December 31, 2013 are measured at amortized costs. Fair values of the borrowings as of December 31, 2014 and December 31, 2013 approximate their carrying amounts.

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

Management of capital is disclosed in Note 27 and information about credit facilities available to the Company and interest rate risk exposure is disclosed in Note 28.

Note 18 Provisions for Liabilities

Movements in provisions for liabilities were as follows:

	Landfill	**Litigation**	**CO_2 emissions**	**Other**	**Total**
January 1, 2014	**5,164**	**3,794**	**40,645**	**43**	**49.646**
Provision made	142	224	65,677	371	66,414
Provision used / reversed	(386)	(1,626)	(41,432)	(173)	(**43**,617**)**
December 31, 2014	**4,920**	**2,392**	**64,890**	**241**	**72,443**
Long-term provisions	4,906	-	-	-	4,906
Short-term provisions	14	2,392	64,890	241	67,537

	Landfill	**Litigation**	**CO_2 emissions**	**Other**	**Total**
January 1, 2013	**9,071**	**3,816**	**56,578**	**85**	**69,550**
Provision made	157	101	40,645	224	**41,127**
Provision used / reversed	(4,064)	(123)	(56,578)	(266)	**(61,031)**
December 31, 2013	**5,164**	**3,794**	**40,645**	**43**	**49,646**
Long-term provisions	5,150	-	-	-	**5,150**
Short-term provisions	14	3,794	40,645	43	**44,496**

The movement of provisions caused by the passage of time (i.e. accretion expense) in 2014 and 2013 was considered to be immaterial.

Provision reversals for the year 2014 and 2013 were considered to be immaterial.

Landfill

The provision for closing, reclamation and after-close monitoring of landfills is recognized based on the Act on Waste. In 2014, the Company has 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 has 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 2014. 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. The provision was charged to Other operating expenses (Note 24). Amortization of related deferred income from assigned CO_2 emission allowances is recognized in Other income (Note 21).

Other

Other provisions include provisions for warranty and other business risks.

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

Note 19 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:

	2014	2013
January 1	**24,815**	**22,072**
Total expense charged in profit or loss – pension	**1,531**	2,762
Total expense charged in profit or loss – jubilee	**2,328**	252
Total expense charged in profit or loss – termination	**1,262**	-
Remeasurements of post employment benefit obligations	**4,918**	720
Benefits paid	**(1,460)**	(991)
December 31	**33,394**	**24,815**
Long-term employee benefits payable	**30,990**	23,408
Short-term employee benefits payable	**2,404**	1,407

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

	December 31, 2014	December 31, 2013
Present value of the obligation – pension	**17,688**	16,176
Present value of the obligation – jubilee	**9,120**	7,544
Present value of the obligation – termination	**948**	-
Remeasurements of post employment benefit obligations	**5,638**	720
Unrecognized past service costs	**-**	375
Total liability in the statement of financial position	**33,394**	**24,815**

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

	2014	2013
Current service costs – pension	**772**	1,744
Current service costs – jubilee	**315**	355
Current service costs – termination	**1,262**	-
Interest costs	**1,082**	935
Net actuarial losses / (gains)	**1,690**	(20)
Remeasurements of post employment benefit obligations	**4,918**	720
Total	**10,039**	**3,734**

Current service cost and net actuarial losses are presented in salaries and other employee benefits (Note 23) and interest costs are reflected in finance costs.

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

	2014	2013
Discount rate	**1.84%**	4.50%
Annual wage and salary increases	**5.00%**	3.00%
Staff turnover (1)	**max 5.00%**	max 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.

(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 24.4 percent (2013: 24.9 percent) of total salaries and other employee benefits up to a monthly salary ceiling of EUR 4,025 (2013: EUR 3,930). The amount of contributions for social security is presented in Note 23.

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 up to 1.7 percent from the monthly accounted wage in 2014 (2013: 1.7 percent).

Note 20 Trade and Other Payables

	December 31, 2014	December 31, 2013
Trade payables	**186,636**	147,291
Related party accounts payable (Note 31)	**20,712**	26,026
Assigned trade payables	**31,143**	29,355
Uninvoiced deliveries and other accrued expenses	**105,554**	88,245
Trade payables and accruals (Note 29)	**344,045**	**290,917**
Advance payments received	**2,543**	2,164
Liability to employees and social security institutions	**29,885**	22,829
VAT and other taxes and fees	**5,073**	5,887
Other payables	**4,212**	4,377
Total	**385,758**	**326,174**

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, 2014.

Increase in payables reflects the impact of initiatives to improve working capital and an increase in unpaid capital expenditures.

	December 31, 2014	December 31, 2013
Short-term trade and other payables	**383,752**	324,196
Long-term trade and other payables	**2,006**	1,978
Total	**385,758**	**326,174**

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.

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

	December 31, 2014	December 31, 2013
Trade and other payables not yet due	**380,061**	323,003
Trade and other payables past due	**5,697**	3,171
Total	**385,758**	**326,174**

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

	December 31, 2014	December 31, 2013
EUR	**258,719**	219,646
USD	**80,702**	61,467
Other	**4,624**	9,804
Total	**344,045**	**290,917**

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

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

	2014	2013
Opening balance as of January 1	**95**	**(1)**
Company contribution (company costs)	**1,483**	1,441
Employees contribution (repayments)	**204**	262
Withdrawals	**(1,685)**	(1,607)
Closing balance as of December 31	**97**	**95**

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 21 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:

	2014	2013
Sales of own production	**2,168,263**	2,179,601
Sales of merchandise	**4,840**	5,972
Rendering of services	**20,888**	17,399
Total	**2,193,991**	**2,202,972**

In 2014 and 2013, sales of merchandise represent primarily sales of electricity.

<u>Other income</u>

Other income consists of the following:

	2014	2013
Amortization of deferred income - CO_2 emission allowances	**48,550**	31,055
Gain on disposal of property, plant and equipment and intangible assets	**851**	309
Gain on derivative financial instruments	**4,486**	-
Rental income	**1,903**	1,959
Income from contractual penalties	**349**	440
Other income	**1,756**	5,944
Total	**57,895**	**39,707**

Note 22 Materials and Energy Consumed

Materials and energy consumed is comprised of the following:

	2014	2013
Materials consumed	**(1,281,360)**	(1,394,217)
Energy consumed	**(138,377)**	(145,817)
Costs of merchandise sold	**(4,797)**	(5,985)
Changes in internally generated inventory	**7,579**	43,012
Inventory write-down allowance (Note 11)	**(2,395)**	(2,510)
Total	**(1,419,350)**	**(1,505,517)**

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

Note 23 Salaries and Other Employee Benefits

Salaries and employee benefits are comprised of the following:

	2014	2013
Wages and salaries	**(194,249)**	(182,588)
Profit sharing expense	**(3,151)**	(1,512)
Termination benefits (Note 19)	**(1,262)**	-
Social insurance – defined contribution plan (Note 19)	**(68,602)**	(65,943)
Other social expenses	**(12,358)**	(12,362)
Pension expenses – retirement and work and life jubilees (Note 19)	**(2,777)**	(2,079)
Total	**(282,399)**	**(264,484)**

The average number of the Company's employees for 2014 was 10,368 (2013: 10,538), out of which 259 were key management employees (2013: 255).

Note 24 Other Operating Expenses

Other operating expenses during 2014 are as follows:

	2014	2013
Packaging	**(15,608)**	(15,707)
Cleaning and waste disposal	**(9,056)**	(8,941)
Rent	**(1,912)**	(2,092)
Advertising and promotion	**(3,478)**	(3,097)
Intermediary fees	**(2,959)**	(4,069)
Training	**(1,136)**	(1,789)
Charge for provision for CO_2 emissions (Note 18)	**(65,677)**	(40,645)
Impairment of receivables – (loss) and receivables written-off (Note 12)	**131**	(4,471)
Loss from derivative financial instruments	**-**	(9,502)
Real estate tax and other taxes	**(5,457)**	(5,854)
Laboratory and heat tests	**(5,996)**	(6,098)
External processing of internally produces inventories	**(7,716)**	(7 702)
Costs of processing of steel slag, sludge and dust	**(5,104)**	(5 136)
Audit fees	**(668)**	(668)
Other services provided by the auditor	**(30)**	(37)
Other operating expenses [(1)]	**(74,759)**	(74,595)
Total	**(199,425)**	**(190,403)**

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

Note 25 Finance Income and Finance Cost

Finance income and finance cost during 2014 are as follows:

	2014	2013
Interest income	**171**	93
Interest expense	**(14,370)**	(13,699)
Total	**(14,199)**	**(13,606)**

Note 26 Income Tax

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

	2014	2013
Current tax	**(17)**	(15)
Deferred tax (Note 9)	**(5,578)**	104,442
Total	**(5,595)**	**104,427**

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

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:

	2014	2013
Profit / (loss) before tax	**22,624**	**(473,314)**
Tax calculated at 22% tax rate	**(4,977)**	108,862
Non-deductible expenses	**(220)**	(206)
Impact of income tax change from 23% to 22%	**-**	(4,560)
Other	**(398)**	331
Tax (charge) / credit	**(5,595)**	**104,427**

The effective tax rate was 25 percent (2013: 22 percent).

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

	2014			2013		
	Before tax	Tax (charge) / credit	After tax	Before tax	Tax (charge) / credit	After tax
Changes in fair value of derivative hedging instruments	**34,374**	**(7,455)**	**26,919**	(576)	(143)	(719)
Changes in actuarial gains and losses	**(4,918)**	**1,082**	**(3,836)**	(720)	158	(562)
Changes in revaluation reserve	**21,771**	**(4,790)**	**16,981**	-	-	-
Other comprehensive income	**51,227**	**(11,163)**	**40,064**	**(1,296)**	**15**	**(1,281)**
Current tax	-	-	-	-	-	-
Deferred tax (Note 9)	-	**(11,163)**	-	-	15	-
	-	**(11,163)**	**-**	**-**	**15**	**-**

Note 27 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 2013.

The capital structure of the Company consists of debt (Note 17 and Note 31) totaling EUR 235,619 thousand as of December 31, 2014 (December 31, 2013: EUR 205,322 thousand) and equity (Note 16) totaling EUR 913,311 thousand as of December 31, 2014 (December 31, 2013: EUR 856,218 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, 2014 and December 31, 2013.

Note 28 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.

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 Credit and Collections 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 visits and likewise.

Credit risk resulting from financial market transactions is minimized through the diversification of financial activities between various financial institutions and the determination of maximum limits for individual counterparties. 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 A- and higher (according to Standard & Poor's or equivalent per Moody's).

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

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

December 31, 2014

	Derivative financial instruments	Loans and receivables
Trade receivables (Note 12)		
Trade receivables (net)	-	299,235
Related party accounts receivables (net)	-	1,249
Derivative financial instruments (Note 13)		
Forward foreign exchange	25,560	-
Cash and cash equivalents (Note 14)		
ING Bank N.V.	-	75,768
COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky	-	63,600
Citibank (Slovakia) a.s.	-	67,303
Slovenská sporiteľňa, a.s.	-	61,136
Komerční Banka, a.s.	-	60,091
Other banks	-	57
Cash on hand	-	40
Cash restricted in its use (Note 10)		
Slovenská sporiteľňa, a.s.	-	839
Všeobecná úverová banka, a.s.	-	3,348
COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky	-	561
ING Bank N.V.	-	41
Total	**25,560**	**633,268**

December 31, 2013

	Derivative financial instruments	Loans and receivables
Trade receivables (Note 12)		
Trade receivables (net)	-	308,328
Related party accounts receivables (net)	-	2,008
Derivative financial instruments (Note 13)		
Forward foreign exchange	-	-
Cash and cash equivalents (Note 14)		
ING Bank N.V.	-	72,932
COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky	-	26,225
Citibank (Slovakia) a.s.	-	45,338
Slovenská sporiteľňa, a.s.	-	49,187
Other banks	-	53
Cash on hand	-	33
Cash restricted in its use (Note 10)		
Slovenská sporiteľňa, a.s.	-	839
Všeobecná úverová banka,a.s.	-	2,797
COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky	-	326
Total	**-**	**508,066**

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

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 79 percent (2013: 85 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:

	2014	2013
Credit insurance	**63 %**	63 %
Letters of credit and documentary collection	**4 %**	8 %
Bank guarantees	**3 %**	4 %
Other credit enhancements	**9 %**	10 %
Credit enhanced sales	**79 %**	85 %
Unsecured sales	**21 %**	15 %
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.

Liquidity risk

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.

On December 17, 2010, the Company entered into a EUR 20 million credit facility to replace its EUR 10 million credit facility that was scheduled to expire in January 2011. The EUR 20 million credit facility may be used until December 2015 for working capital financing, drawing bank overdraft, and issuing of bank guarantees and letters of credit. As of December 31, 2014, the credit facility has been used in the amount of EUR 362 thousand for bank guarantees (December 31, 2013: EUR 1,288 thousand).

On July 15, 2013, the Company entered into a EUR 200 million three-year revolving unsecured credit facility, that replaced a EUR 200 million three-year revolving unsecured credit facility, which was scheduled to expire in August 2013. The EUR 200 million credit facility may be used until July 2016. As of December 31, 2014, there were no borrowings against this credit facility (December 31, 2013: no borrowings against the replaced credit facility).

On December 6, 2013, the Company entered into a EUR 10 million three-year credit facility. This credit facility may be used for drawing short-term loans, issuing of bank guarantees and letters of credit. As of December 31, 2014, the credit facility has been used in the amount of EUR 1,732 thousand for bank guarantees (December 31, 2013: EUR 747 thousand).

Within credit facilities, the Company draws 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 2014, the Company did not draw any loans against these credit facilities (2013: no borrowings against these credit facilities).

As of 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. 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 a USD 500 million credit facility using the exchange rate from the day before transaction. As of December 31, 2014, borrowings totaling USD 270 million (i.e. EUR 222 million using the exchange rate at the end of reporting period) were drawn against this facility (December 31, 2013: USD 270 million, i.e. EUR 196 million). No amount was drawn in 2014 and 2013.

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

During 2014, the Company drew short-term borrowings as a part of the Company's cash pooling strategy of EUR 90 million and repaid EUR 86 million. During 2013, the Company under this strategy drew amount of EUR 84 million from which EUR 84 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, 2015 with the option to be prolonged.

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

December 31, 2014

	0 – 1 year	1 – 5 years	over 5 years	Total
Assets				
Cash and cash equivalents	327,995	-	-	**327,995**
Restricted cash	55	-	4,734	**4,789**
Trade receivables (net)	300,484	-	-	**300,484**
Derivative financial instruments	330,286	-	-	**330,286**
Total	**958,820**	**-**	**4,734**	**963,554**
Liabilities				
Trade payables and accruals	342,039	2,006	-	**344,045**
Derivative financial instruments	304,103	-	-	**304,103**
Loans and borrowings	28,254	241,407	-	**269,661**
Total	**674,396**	**243,413**	**-**	**917,809**

December 31, 2013

	0 – 1 year	1 – 5 years	over 5 years	Total
Assets				
Cash and cash equivalents	193,768	-	-	**193,768**
Restricted cash	14	-	3,948	**3,962**
Trade receivables (net)	310,336	-	-	**310,336**
Derivative financial instruments	231,673	-	-	**231,673**
Total	**735,791**	**-**	**3,948**	**739,739**
Liabilities				
Trade payables and accruals	288,939	1,978	-	**290,917**
Derivative financial instruments	239,965	-	-	**239,965**
Loans and borrowings	22,855	222,950	-	**245,805**
Total	**551,759**	**224,928**	**-**	**776,687**

<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 17). As the Company did not draw any variable interest rate borrowings in 2014 and in 2013, 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 no significant interest income other than that arising from short term bank deposits and cash at bank accounts as of December 31, 2014 and December 31, 2013.

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, 2014

	Cash and cash equivalents	Cash restricted in its use
EUR	294,852	4,789
USD	16,619	-
CZK	16,270	-
Other	254	-
Total	**327,995**	**4,789**

December 31, 2013

	Cash and cash equivalents	Cash restricted in its use
EUR	170,505	3,962
USD	16,557	-
CZK	6,256	-
Other	450	-
Total	**193,768**	**3,962**

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, 2014, the Company had open USD forward purchase contracts for Euros (total notional value of approximately EUR 304 million; December 31, 2013: EUR 240 million). The Company changed its EUR 400 million credit facility to a USD 500 million credit facility as of April 1, 2012. As of December 31, 2014, borrowings totaling USD 270 million (i.e. EUR 222 million using the exchange rate at the end of reporting period) were drawn against this facility (December 31, 2013: USD 270 million, i.e. EUR 196 million) (Note 17).

As of December 31, 2014, if the EUR had weakened/strengthened by 20% against the U.S. dollar with all other variables held constant, this movement would have resulted in a EUR 15 million credit / EUR 6 million charge to total comprehensive income, mainly as a result of gains/losses from the fair value of forward foreign exchange contracts that were partially offset by foreign exchange losses/gains on the translation on USD denominated borrowings.

As of December 31, 2013, if the EUR had weakened/strengthened by 20% against the U.S. dollar with all other variables held constant, this movement would have resulted in a EUR 3 million credit / EUR 0.1 million credit to total comprehensive income, mainly as a result of gains/losses from the fair value of forward foreign exchange contracts, partially offset by foreign exchange losses/gains on the translation on USD denominated borrowings.

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 also routinely executes London Metal Exchange fixed-price forward physical purchase contracts for a portion of expected business needs of zinc and tin in order to manage exposure to market volatility.

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, 2014 or December 31, 2013.

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

Note 29 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, 2014

	Loans and receivables	Hedging derivatives	Financial assets available-for-sale	Total
Assets				
Shares at acquisition cost	-	-	259	**259**
Trade receivables (net)	299,235	-	-	**299,235**
Related party accounts receivables (net)	1,249	-	-	**1,249**
Cash and cash equivalents	327,995	-	-	**327,995**
Restricted cash	4,789	-	-	**4,789**
Derivative financial instruments	-	25,560	-	**25,560**
Total	**633,268**	**25,560**	**259**	**659,087**

	Hedging derivatives	Other financial liabilities	Total
Liabilities			
Non-current loans	-	222,495	**222,495**
Trade payables and accruals	-	344,045	**344,045**
Short-term borrowings	-	13,124	**13,124**
Derivative financial instruments	-	-	**-**
Total	**-**	**579,664**	**579,664**

December 31, 2013

	Loans and receivables	Hedging derivatives	Financial assets available-for-sale	Total
Assets				
Shares at acquisition cost	-	-	259	**259**
Trade receivables (net)	308,328	-	-	**308,328**
Related party accounts receivables (net)	2,008	-	-	**2,008**
Cash and cash equivalents	193,768	-	-	**193,768**
Restricted cash	3,962	-	-	**3,962**
Total	**508,066**	**-**	**259**	**508,325**

	Hedging derivatives	Other financial liabilities	Total
Liabilities			
Non-current loans	-	195,875	**195,875**
Trade payables and accruals	-	290,917	**290,917**
Short-term borrowings	-	9,447	**9,447**
Derivative financial instruments	8,326	-	**8,326**
Total	**8,326**	**496,239**	**504,565**

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

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, 2014

	Level 1	Level 2	Level 3	Total
Assets				
Hedging derivatives	-	25,560	-	**25,560**
Total	**-**	**25,560**	**-**	**25,560**
Liabilities				
Hedging derivatives	-	-	-	**-**
Total	**-**	**-**	**-**	**-**

December 31, 2013

	Level 1	Level 2	Level 3	Total
Assets				
Hedging derivatives	-	-	-	**-**
Total	**-**	**-**	**-**	**-**
Liabilities				
Hedging derivatives	-	8,326	-	**8,326**
Total	**-**	**8,326**	**-**	**8,326**

During the year 2014 and 2013, 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, 2014 and December 31, 2013. Fair values of these instruments as of December 31, 2014 and December 31, 2013 approximate their carrying amounts.

Note 30 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:

	2014	2013
Not later than 1 year	**5,583**	6,552
Later than 1 year and not later than 5 years	**7,103**	12,172
Later than 5 years	**40**	236
Total	**12,726**	**18,960**

Capital Commitments

Capital expenditures of EUR 157 million had been committed under contractual arrangements as of December 31, 2014 (December 31, 2013: EUR 10 million).

Environmental Commitments

The Company is in compliance with environmental legislation. In 2014, the environmental expenses represented by air, water and solid waste pollution fees totaled approximately EUR 12 million (2013: EUR 13 million). There are no material legal proceedings pending against the Company involving environmental matters.

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 % 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 GHS 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%. The Company's final allocation for the Phase III that was approved by the EC in January 2014 is approximately 48 million allowances. Based on 2014 emission intensity levels and projected future production levels, and as a result of carryover allowances from the NAP II period, the Company does not currently anticipate the need to purchase credits until 2018, and currently estimates a shortfall of 16 million allowances for the Phase III period. 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

The EU's Industry Emission Directive will require implementation of EU determined best available techniques (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, dictates certain operating practices and imposes stricter emission limits. Producers will be required to be in compliance with the iron and steel BAT by March 8, 2016, unless specific exceptions or extensions are granted by the Slovak environmental authority. The Company is currently evaluating the costs of complying with BAT, but the most recent broad estimate of likely capital expenditures is EUR 80 million to EUR 155 million over the 2015 to 2020 period. There are ongoing efforts to seek EU grants to fund a portion of these capital expenditures. 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 total capital expenditures required for BAT compliance will depend upon, among other factors, the extent to which EU incentive grants are awarded for these projects. The Company also believes there will be increased operating costs, such as increased energy and maintenance costs, but it is currently unable to reliably estimate them.

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. 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 131 million. Broad legislative changes were enacted by the Slovak Republic to extend the scope of support for renewable sources of energy, that are intended to 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 that may be required under the recently adopted EU requirements to implement BAT's to reduce environmental impacts. 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 return, U. S. Steel agreed to achieve employment level reduction goals in the Company only through the use of natural attrition, except in cases of extreme economic conditions, as outlined in the current Collective

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

Labor Agreement. 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.

Note 31 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:

		2014	2013
U. S. Steel Global Holdings I B.V., Parent company			
	Expenses	**13,896**	13,833
	Borrowings	**222,495**	195,875
United States Steel Corporation, Ultimate parent company			
	Revenues	**32,865**	2,288
	Expenses	**46,671**	82,855
	Receivables	**681**	639
	Payables	**8,892**	15,617
USS International Services, LLC, Company under common control of U. S. Steel			
	Revenues	**2**	3
	Expenses	**7,127**	6,718
	Receivables	**184**	259
	Payables	**760**	1,038
U. S. Steel Canada Inc, Company under common control of U. S. Steel			
	Revenues	**8**	29
	Expenses	**-**	30
	Receivables	**-**	50
United States Steel International Inc, Company under common control of U. S. Steel			
	Revenues	**69**	103
	Receivables	**-**	6
Subsidiaries under control of the Company (Note 8)			
	Revenues	**5,460**	5,613
	Expenses	**84,187**	83,812
	Receivables	**384**	1,054
	Payables	**11,060**	9,371
	Borrowings	**13,124**	9,447
Total			
	Revenues	**38,404**	8,036
	Expenses	**151,881**	187,248
	Receivables	**1,249**	2,008
	Payables	**20,712**	26,026
	Borrowings	**235,619**	205,322

The balances of borrowings received from U. S. Steel Global Holdings I B.V. represent outstanding amounts under the long-term revolving unsecured credit facility (Note 17) as of December 31, 2014 and 2013. Expenses represent related interest costs only.

Transactions with United States Steel Corporation relate mainly to sales of slabs (2014: EUR 30,542 thousand; 2013: EUR 0 thousand), rendering of services (2014: EUR 2,323 thousand; 2013: EUR 2,288 thousand) and purchases of raw material (2014: EUR 43,101 thousand; 2013: EUR 73,162 thousand) and managerial services (2014: EUR 3,570 thousand; 2013: EUR 5,456 thousand). In January 2013, management decided to remove the Company from the scope of global implementation enterprise resource planning ("ERP") project and sold ERP modules to U. S. Steel Corporation in March 2013. Net impact from ERP transaction, included in expenses, is EUR 4,236 thousand.

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 U. S. Steel Canada Inc. relate to purchases of raw materials and services and recharges provided to U. S. Steel Canada Inc.

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, 2015 with the option to be prolonged. During 2014, the Company drew amount of EUR 89,734 thousand and repaid amount of EUR 86,061 thousand. During 2013, the Company under these borrowings credited its subsidiaries with amount of EUR 88 thousand from which amount of EUR 88 thousand was repaid as well as drew amount of EUR 84,243 thousand from which amount of EUR 83,861 thousand was repaid.

Emoluments of the statutory representatives

a) Slovak and foreign statutory representatives of the Company did not receive any cash or non-cash benefits from the Company in 2014 and 2013 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. Compensation of Slovak statutory representatives is included in the salaries and other employee benefits (Note 23) of the Company's key management employees at amounts shown in the following table:

	2014	2013
Wages and salaries	**16,302**	11,234
Profit sharing expense	**28**	22
Social security – defined contribution plan	**3,580**	3,247
Total	**19,910**	**14,503**

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 32 Events after the Reporting Period

The 2015 CO_2 emission allowances were credited to the Company account on February 17, 2015 in the volume of 6,190,422 tons.

On April 8, 2015, the Company delivered 8,962,739 tons of CO_2 emission allowances for 2014 to the Slovak Government fulfilling its obligation for the second year of the Phase III period.

Effective May 31, 2015, Scott D. Buckiso has been named statutory representative and president of U. S. Steel Košice, s.r.o., succeeding George F. Babcoke.

After December 31, 2014, no other significant events have occurred that would require recognition or disclosure in the 2014 financial statements.