Annual Report
U. S. Steel Košice

2017

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PRESIDENT'S FOREWORD

U. S. Steel Košice, s.r.o. is issuing our annual report on our business activities, presenting information for our various stakeholders, our customers, suppliers, other partners, our employees and the general public, about our business results. We have had a successful year in 2017, however, we still need to improve.

Our most important asset are our employees. In our operations, occupational safety and health protection remain our highest priority. At U. S. Steel Košice we believe that if everyone has safety as our number one core value, then even a firm with thousands of employees can function long-term without a single injury. And although we have achieved record results within U. S. Steel Košice with regard to several occupational safety indicators, two fatal accidents among our external contractors affected us deeply last year, spurring us on into even more intensive work with contractors aiming to implement the highest possible safety standards and a "Culture of Caring" between all colleagues that work within our gates. I am sure that if a company as large as ours with an injury frequency of 0.13 in 2017 can get even closer to a zero injury rate, with shared efforts we must be able to get our contractors to achieve high aims as well. The safety of our employees, and contractors will remain our top focus and we will not be satisfied until everyone goes home safe to their families each and every day.

I am pleased to be able to say that the results from 2017 fill us with optimism. In every quarter we achieved consistent financial results, and we finished the year as a whole with the best positive net income in the last four years. We operated in a more stable way mainly due to our exclusive concentration on what we are able to influence and keep under our control, giving priority to safety, quality, deliveries to our customers and costs. Proceeding with the Carnegie Way transformation process, our interdisciplinary teams continued seeking innovative approaches in every field, and thanks to the engagement of thousands of employees we achieved annual benefits totaling USD 162 million. Continuous improvement was also applied to communication, services and solutions crafted for our customers, since their satisfaction is always very important for us. At the same time, thanks in part to our unflagging efforts, the perception of the steelmaking sector in Europe has been successfully changed, with the European Commission's recognition of the industry as being vitally important for the economy of the European Union from the point of view both of global value chains and of employment for hundreds of thousands of European citizens. Although the devastating impact of steel product unfair imports has been moderated by the EC's measures, we must stay alert and ready to fight for fair and level playing field on the steel market. All this is a true testament of the hard work, dedication and will to succeed of all of our employees!

In the environmental field our goal also in 2017 was to min-

imize the impact of our company's production activity on the quality of the environment, especially the air and water within the communities we work and live. We paid equal attention to recycling and waste disposal as well. In each of these areas we invested in projects making our efforts towards environmental protection more effective, and several of these solutions ultimately also brought with them financial savings. One of the most significant capital investment projects was the reconstruction and modernization of Boiler no. 6, the benefit of which will be reduced emissions and waste material in line with our undertaking to implement the best available technology (BAT). With regard to power generation we are also achieving increased efficiency in the production of heat and electrical power with reduced costs, which is one of our permanent goals in the area of energy efficiency management.

In the social field we continued with our regular meetings and dialog with the labor unions. The basis of our mutual cooperation is the Collective Labor Agreement for the period 2016 – 2020, which was updated in 2017 with amendments 2 and 3 concerning pay increases and improved retirement bonuses. Thanks to our long-term cooperation with local schools and colleges, we were also able to fill key roles need with highly skilled individuals, primarily in our production operations and maintenance areas. After work we did not hesitate to roll up our sleeves and help the local community and the region, organizing volunteer and other charity events together with our local partners, all of which makes me particularly proud of our employees. Good, honest hard work, ethical principles, responsibility and reliability are the values on which we build our partnerships and success.

We have started out in 2018 expecting new challenges. We do business in a dynamic and fast changing environment, and we are accustomed to reacting flexibly to changing conditions. Our 2017 results have reinforced our conviction that we are able to produce high-quality steel and fulfill the demanding requirements of our customers. So long as the world steel markets operate under fair and equal conditions for everyone involved, we are prepared to go on working hard and concentrating on what makes us successful: safety at work, the quality of our products and services, on-time deliveries, and reduction of costs. We shall continue with the Carnegie Way transformation process, constantly looking for innovative approaches and solutions. We shall also focus on further improving the effectiveness of processes involved in the implemented systems of quality, environmental and energy management in line with the ISO 9001, ISO 14001 and ISO 50001 standards. The year 2018 will be important in terms of deliveries to customers in the automotive industry due to the transition to the new IATF 16949 standard and the obligation to confirm our fulfillment of the new requirements through a surveillance audit.

A lot of new challenges await us, but everything we do we shall do safely. That is my own and our common primary commitment. We're going to keep an eye on each other, ensuring our own and our colleagues' safety, backed up by the company's "Culture of Caring" in our everyday efforts to remain successful and develop our business in a responsible and sustainable manner.

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

THE GROUP PROFILE

U. S. Steel Košice group includes U. S. Steel Košice, s.r.o. and its domestic and foreign subsidiaries.

U. S. Steel Košice, s.r.o. 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.

U. S. Steel Košice, s.r.o. has annual raw steel production capability of 4.5 million metric tons. It 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. U. S. STEEL Košice, s.r.o. also has multiple slitting, cutting and other finishing lines for flat products. The research unit runs corporate excellence centers for coal and coke, electrical steels, statistics and mathematical analyses, as well as a center for technical design and instrumentation.

U. S. Steel Košice, s.r.o. was established as a limited liability company on June 7, 2000 and incorporated in the Commercial Register of the District Court Košice I, Section Sro, Insert 11711/V on June 20, 2000. The Company's registered office is at Vstupný areál U. S. Steel, 044 54 Košice. As of December 31, 2017 the only shareholder of the Company became U. S. Steel Global Holdings VI B.V., Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands. The ultimate parent company of USSK is United States Steel Corporation, 600 Grant Street, Pittsburgh, Pennsylvania, USA.
As of December 31, 2017 U. S. Steel Košice, s.r.o. had ten subsidiaries, six of them in Slovakia and four abroad. The Company does not have a branch abroad.

Domestic subsidiaries located within the area of U. S. Steel Košice, s.r.o.:

- Ferroenergy s.r.o.
- RMS, a.s. Košice
- OBAL-SERVIS, a.s. Košice
- U. S. Steel Košice – Labortest, s.r.o.
- U.S. Steel Košice – SBS, s.r.o.
- U. S. Steel Services s.r.o.

Their activities are closely linked with the business and production of U. S. Steel Košice, s.r.o. Subsidiaries are actively involved in all programs and activities of U. S. Steel Košice, s.r.o.

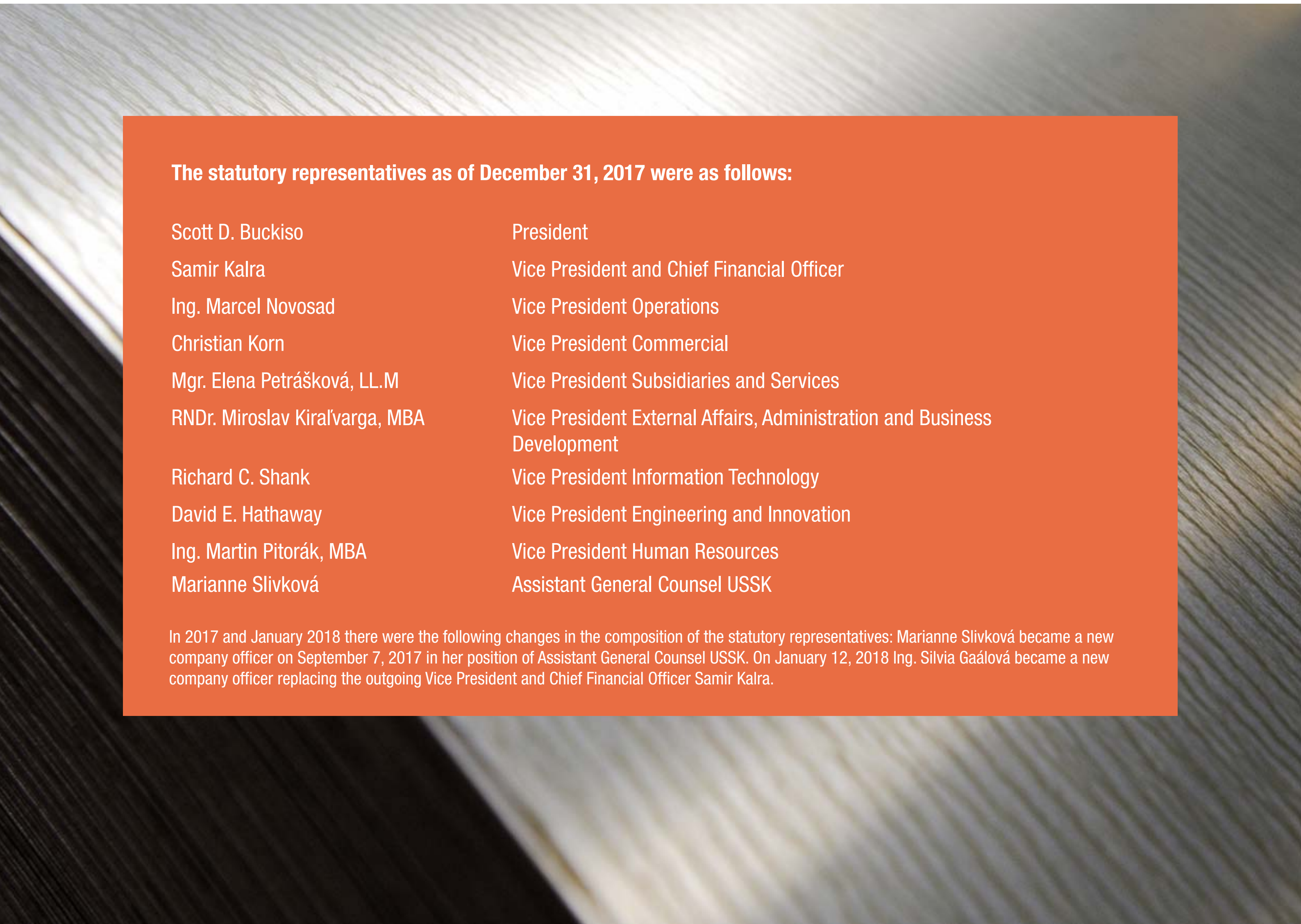
The recently-formed company Ferroenergy s.r.o. was established and entered in the Commercial Register on February 4, 2017. Effective December 1, 2017 U. S. Steel Košice s.r.o. contributed to its registered capital with an in-kind investment in the form of its Ferroenergy Division.

Subsidiary companies located abroad (affiliations) focus on U. S. Steel Košice, s.r.o. sales and customer service support on foreign markets:

- U. S. Steel Europe - Bohemia a.s.
- U. S. Steel Europe – France S.A.
- U. S. Steel Europe - Germany GmbH
- U. S. Steel Europe – Italy S.r.l.

Additional information about subsidiary companies is provided in Note No. 8 of Separate financial statements.

This annual report covers the activities and results of U. S. Steel Košice, s.r.o. and its subsidiaries and refers to them all as “the Group” or “U. S. Steel Košice Group” U. S. Steel Košice, s.r.o. is also referred to as “U. S. Steel Košice”,“USSK” or “the Company”.



The statutory representatives as of December 31, 2017 were as follows:

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

In 2017 and January 2018 there were the following changes in the composition of the statutory representatives: Marianne Slivková became a new company officer on September 7, 2017 in her position of Assistant General Counsel USSK. On January 12, 2018 Ing. Silvia Gaálová became a new company officer replacing the outgoing Vice President and Chief Financial Officer Samir Kalra.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

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

USSK is one of the establishing members of the Business Leaders Forum, which has systematically promoted the CSR approach in Slovakia since 2004. The results of our responsible approach in various fields of our activity in 2017 are described in the following chapters.

THE CARNEGIE WAY

The Carnegie Way was launched in 2013 to transform the way we do business to achieve sustainable short and long term profitability regardless of the business cycles. Lean Six Sigma, change management and leadership training have been blended together into a unique Carnegie Way method to give us the tools to sustain and compete in complicated business environment.
As our journey continued in 2017, an exciting team atmosphere and cadence was created to help turn approximately 1,230 employee ideas into real value creation for all of the Group's stakeholders. Savings from employee initiatives exceeded the value of USD 162 million. Additional tools are being made available that will further empower and engage our employees. Our teams were energized by their performance in 2017 and are looking forward to the challenges of 2018 and beyond.

1,230 projects / USD 162 million / 5 areas

2017 Best Carnegie Way projects:

- **Safe blast furnace slag granulation**
  Area of implementation: Safety and Environment
- **Hot strip rolling speed increase at Finishing Mill**
  Area of implementation: Increasing Revenues and Cash Generation
- **Hot Rolling Mill - Downtimes decrease due to Finishing Mill drive breakdowns**
  Area of implementation: Cost Reduction
- **Narrowing the mechanical properties range for a key customer**
  Area of implementation: Enhancing the Quality of Products and Customer Service
- **Hot blast temperature increase - new Blast Furnace No. 3 stoves flue gas heat recovery system**
  Area of implementation: Innovations

"Our colleagues working on 2017 best projects deserve to be recognized for all of their effort, creativity and personal engagement. It is also equally important to recognize and thank several thousand other USSK colleagues who generated innovative ideas and completed all other projects that contributed to our strong 2017 performance. I am sure that they have a lot of other great ideas. It's up to all of us to encourage each other and our colleagues to get involved and engaged in our transformation process."

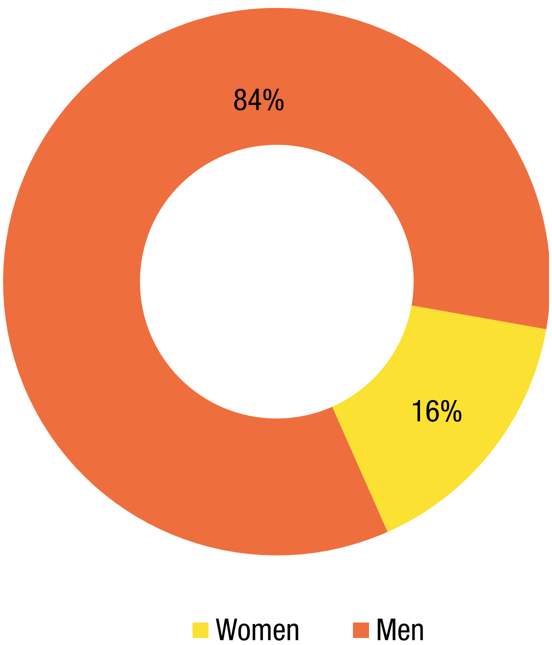
Scott Buckiso, President U. S. Steel Košice, s.r.o.

IMPACT OF THE COMPANY IN THE SOCIAL SPHERE

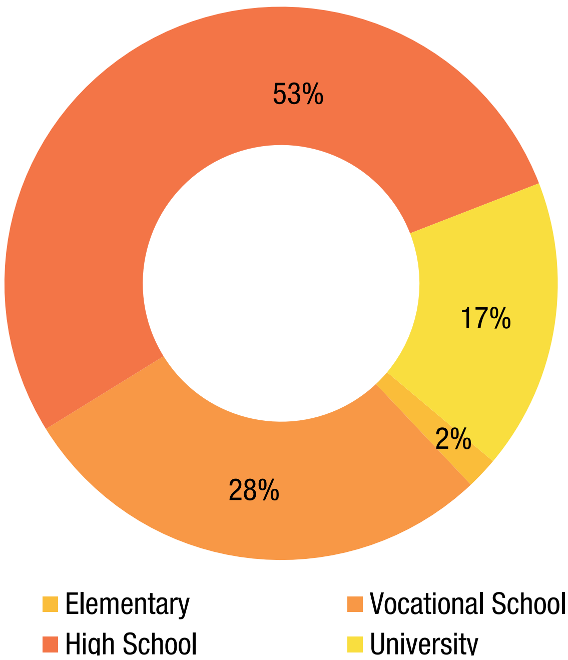
U. S. Steel Košice Group is one of the largest private employers in Slovakia and the largest employer in the East Slovakian region. Several generations of employees with excellent professional knowledge and skills have contributed to the success of the Group. The Group pays constant attention to management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

USSK Group Active Employees Total: **12,028**

Employees by gender
as of 12/31/2017

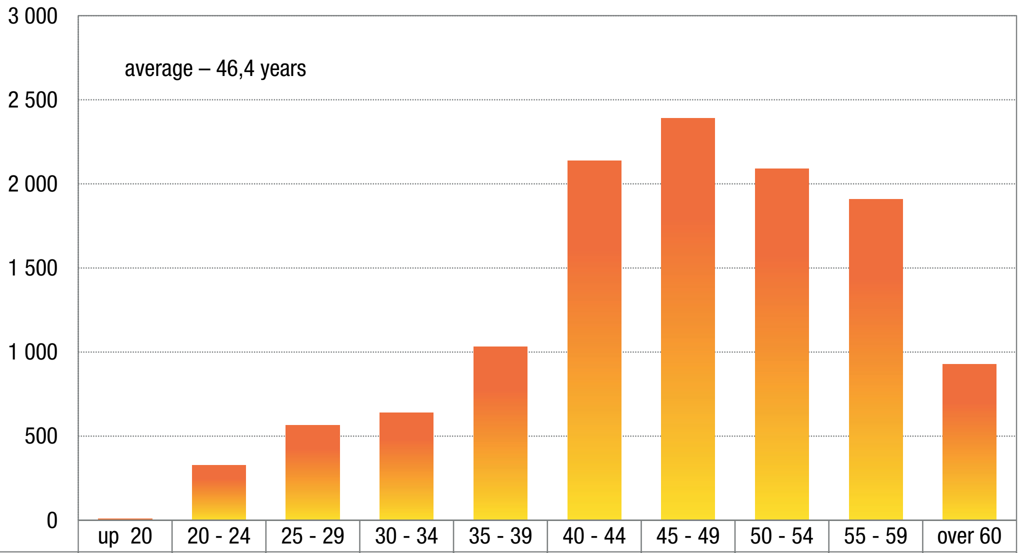


Employees by educational background
as of 12/31/2017



USSK Group Active Employees
Total: 12,028

Number of employees by age
as of 12/31/2017

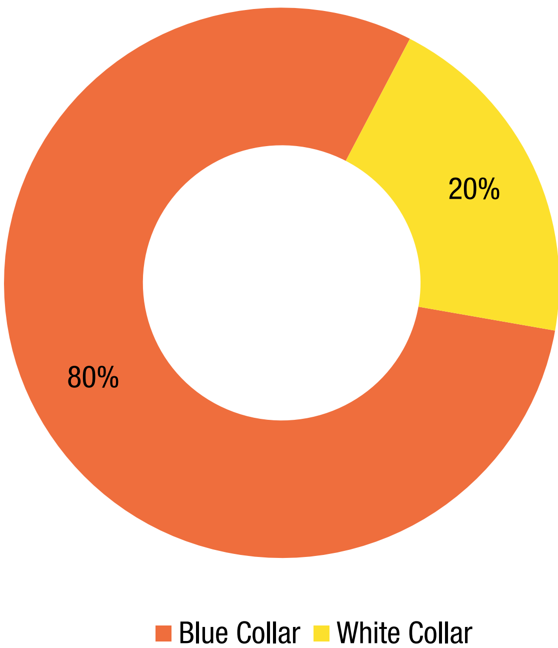


	up 20	20 - 24	25 - 29	30 - 34	35 - 39	40 - 44	45 - 49	50 - 54	55 - 59	over 60
# of employees	8	328	565	640	1 031	2 137	2 391	2 091	1 910	927

age

USSK Group Active Employees
Total: 12,028

Ratio of employees by category
as of 12/31/2017

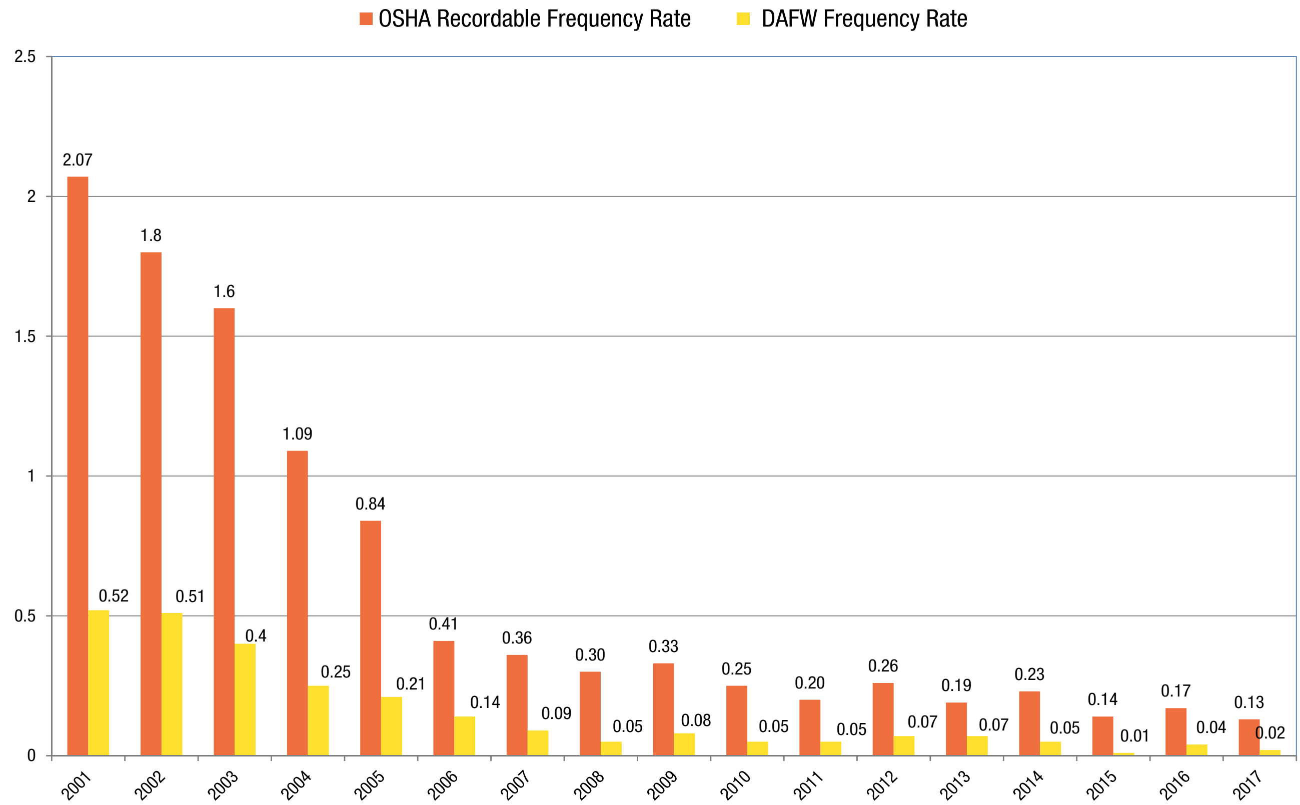


OCCUPATIONAL SAFETY AND HEALTH PROTECTION

Occupational Safety and Health Protection of employees and contractors is and will always remain the primary core value at U. S. Steel Košice Group. Effective engagement of all our employees and contractors are essential.

Thanks to the efforts of all employees, USSK is experiencing a steady declining injury rate trend. As shown in the graph below, U. S. Steel Košice has achieved a 95 % reduction in OSHA Recordable Injury frequency and more than 96% reduction of Days Away from Work frequency since 2001.

Overall, the Group delivered record-setting performance in 2017. A new record for Total Occupational Safety and Health Administration (OSHA) Recordable Frequency Rate was established at 0.13. The previous record of 0.14 was set in 2015. The facility also had the fewest number of OSHA Recordable cases at 12, breaking the previous record of 13 established in 2015. Another milestone reached was the greatest number of consecutive days, 86, without an OSHA Recordable Injury, eclipsing the old record of 74 set in 2015. Individual divisions including the Radiator & Pipe Mill, Blast Furnaces and Coat-



ed Product & Tin Mill also achieved excellent safety results in 2017 by surpassing 1.5 million employee-hours without an occupational injury. In June 2017, the Transportation Division reached over 3 million employee-hours without an occupational injury. The company management extended their record to more than 12 million employee-hours without occupational injury. During 2017 the employees of the subsidiary companies together worked 1.5 million hours without injury, and 12.5 million hours without recordable injury.

Contractor safety was a Group's major focus point for 2017. As part of an overall facility safety effort, U. S. Steel Košice implemented a registration and qualification process for contractor and subcontractor companies working on plant sites through ISNetworld. Cardinal Rules and Life Threatening Safety Practices training was also revised and delivered to USSK and contractor personnel alike. Jobsite safety audits have also increased with a focus on life threatening situations to educate workers and practically apply lessons learned from the training.

Throughout the year, the use of the **STOP & ACT** principle was re-enforced with all employees. If something is not safe, stop what you are doing and address the hazard. Divisions refined their **5S, Housekeeping** and **the Hazard Identification, Elimination and Risk Assessment (HIRA)** processes. HIRA focused on auditing the quality of assessed jobs and safe job procedure content. The annual internal Fatality Prevention Audit evaluated and eliminated potential exposures related to Gas Hazards, Protection from Electrical Arc Flash, and Crane Operations. Cross-functional teams, consisting of 45 individuals from across the steelworks performed 40 audits focusing on these life threatening practices.

The Group held its sixth annual **Family Safety Day event "Where my Mom and Dad Work"** on June 3, 2017. The event was attended by over 5,000 steelmakers and their families. All participants over the age of 12 years had an opportunity to visit operating units in the Finishing Operations such as the Cold Rolling Mill, Dynamo Line and Paint Line. A bus tour, and numerous entertainment activities were also made available to all attendees.

EDUCATION AND HUMAN RESOURCES DEVELOPMENT

Our recruitment system is based on long-standing good cooperation with selected partner secondary technical schools and universities. Cooperation with secondary schools, especially with the Secondary Vocational School in Košice-Šaca, includes providing training for students in selected production plants of the Group, as well as support for the development of school curricula, and help in their recruitment of elementary school students. In 2016 USSK first entered into the dual education system in cooperation with the Secondary Vocational School for Railway Transport in Košice and in 2017 the Company expanded its dual education system and included cooperation with the Secondary Technical School in Košice Šaca. Within the two main partner schools, 36 students studied under the supervision of USSK in the dual education system in the 2017/2018 school year. This concerns the steelmaking equipment operator course and the electrical mechanics course focusing on electrical and signaling devices in railway transport. The Group also has long-term cooperation with the Secondary Vocational School for Electrical Engineering. RMS, a.s. Košice subsidiary actively cooperates with the Secondary Vocational Technical School in Košice, providing professional practice and corporate scholarships for students on the refractory bricklayer course.

Cooperation with universities is aimed mainly at the Technical University of Košice and Pavol Jozef Šafárik University in Košice. To extend the practical and professional skills of university students and graduates, we enable them to participate in plant tours and practice at operations, and to work on their dissertations and theses directly in the steelworks environment. Moreover, selected university students increase their theoretical knowledge, practical experience, communication and managerial skills during a summer stay called the **Summer Internship Program**. In 2017 we intensified the project called **A Year of Work Experience** for 3rd and 4th year university students, and 72 of them had the chance to get involved regularly in projects and activities at production facilities and administrative departments. This proactive approach to working with students has proved effective. On the one hand, students of secondary schools and universities get the chance to join in the practical activities of the Group in order to gain experience and acquire skills that provide a competitive advantage in the labor market. On the other hand, this approach allows the Group to find talents among students of secondary schools and universities and to meet future employment needs.

The Group supports the **training and development of all its employees** through various programs focusing on language, managerial, professional and vocational skills and knowledge. Lessons were organized in 2017 to ensure legally required safety and vocational requirements as well as requirements reflecting the Group´s strategic goals and employees´ individual development needs. Employees who enter operations or maintenance premises attended the annual corporate safety awareness training focused on cardinal rules and life threatening programs. In 2017, these trainings and programs were extended to employees of contractors engaged in manufacturing and maintenance work on U. S. Steel Košice Group premises.

The key training in 2017 was **Carnegie Way 101 training**, intended for all employees of USSK and subsidiaries for bet-

ter understanding of improvement initiatives for processes and procedures. Carnegie Way 101 training continued throughout the year as basic training to help employees understand and ultimately use the Carnegie Way approach in implementing and creating meaningful changes within each of our own work areas. Selected employees participated in 201 or 301 training courses, which prepared them to lead more complex projects. As part of the Carnegie Way initiatives in 2017 we implemented the **Front Line Leadership Development program** designed to enhance leadership skills of front line managers. These managers were progressively trained in several modules which gave them the opportunity to develop their skills in effective communication, based on the exact terms and visualization of important indicators of production, understanding of best practice, giving constructive feedback, building favorable labor relations and developing their subordinate skills. In 2017, we continued with the **Mentoring program** focusing on leadership skills of our managers with the aim of transferring the unique experience of mentors to newly-appointed managers or newly-hired graduates. In order to maintain the specialist knowledge and skills of key employees, a program aimed at sharing and spreading this expertise was implemented. In order to build the talent potential and the preparation of selected employees for future positions within the Group, a succession plan was implemented and employees with high growth potential, for whom the development program was prepared, were identified. In order to promote professional metallurgy skills, we organized **Practical Academies** for machine operators. Sessions were taken by our internal staff from the Research and Development Department as well as external experts in specific fields. In 2017, we focused on iron and steelmaking, and hot and cold rolling.

EMPLOYEE SOCIAL PROGRAM AND COOPERATION WITH LABOR UNIONS

Cooperation with labor unions is an integral part of the Group's social program for employees. In March 2017, collective bargaining resulted in **Addendum No. 2 to the valid Collective Labor Agreement for 2016 – 2020**, which is applicable for U. S. Steel Košice, s.r.o., U.S. Steel Košice - SBS, s.r.o. and U. S. Steel Košice - Labortest, s.r.o., and pay adjustments were made in 2017 accordingly. The year 2017 was very important from the point of view of the agreements with the labor unions for subsidiaries OBAL-SERVIS, a.s. Košice, RMS, a.s. Košice and U. S. Steel Services s.r.o., as the **new collective labor agreements were concluded for the period 2017 – 2020**. In compliance with legal requirements, the Group fully accepts the role of social partner in each area of its activities, and considers social conciliation as a necessary condition for effective business. At all managerial levels cooperation is used to fulfill the Collective Labor Agreement commitments and resolve labor issues in compliance with relevant legal requirements. In joint committees together with the labor unions, the Group settles employee issues in the fields of safety, salaries and wages, social policy, catering and transportation. Representatives of the labor unions meet Group management on a regular basis to be informed about production performance and the financial situation.

U. S. Steel Košice Group shows its appreciation to those employees who have worked at the steelworks for a long time by organizing gala dinners with entertainment and gifts. It also rewards employees who participate in the achievement of excellent results in various areas through the quality of their work. A significant event in this area was the **President's Award 2017** for the three best projects in five key areas supporting the Carn-

egie Way initiative. During a festive evening held in March 2018, in the presence of the Company President and top management, awards were extended to 15 projects in which over 200 employees participated. During 2017, quarterly recognition of employees from the best shift team was conducted, rewarding the results achieved while meeting the criteria supporting the Carnegie Way in the form of a financial bonus and presentation of the travelling Carnegie Trophy. The Group also regularly acknowledges all employee safety representatives for activities in their respective areas and recognizes the most active ones with contributions to their recuperation stays. As part of social policy, USSK supports voluntary blood donorship by its active participation in Jansky and Knazovicky Plaque Award Ceremonies and at the same time contributes to relaxation opportunities of those employees who are blood donors.

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

DIVERSITY AND EQUAL OPPORTUNITIES

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

Since 2002 the Group has also been supporting equal opportunities in the region through a special project offering work to people from the Roma minority who have problems with inclusion into public and working lives due to insufficient education and working skills. Though this project finished due to changed legal conditions, about thirty project participants were offered employee contracts in 2017.

BUSINESS ETHICS

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

The year 2017 was exceptional because the updated Code of Ethical Conduct of U. S. Steel Košice was issued. The new Code was issued on October 5, 2017, and in the period from October 18, 2017 to November 10, 2017 all the employees became acquainted with it during the Annual Certification, and confirmed their commitment to complying with its provisions, as well as the provisions of selected Group Policies. The Group has issued 13 Policies regulating basic areas of ethics and compliance, including the rules governing the provision and acceptance of gifts and entertainment, conflicts of interest, the prohibition of sexual harassment and other forms of discrimination, safety and industrial hygiene, and the rules for compliance with competition laws. Also of great importance is the content and application of the **Anti-corruption Policy**, which does not regulate solely relationships with government officials or entities performing their activities in the public sphere, but it also lays down a significant procedure for verification of business partners based on the degree of risk evaluation (so-called due diligence process).

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

In line with its emphasis on social responsibility, U. S. Steel Košice is one of the leaders promoting an ethical business environment. The USSK's intranet site, the issue of compliance tips, various thematic presentations for employees and suppliers, and on-line training are among the many resources through which employees were regularly informed throughout 2017 of the Group's expectations in ethics and compliance, as well as the process of reporting any illegal or unethical behavior. Furthermore, the e-publishing of the newsletter Ethically Speaking – a quarterly leaflet on ethics and compliance – continued in 2017.

Between November 6 and 10, 2017, the **Seventh Annual Ethics and Compliance Week** took place. Throughout this week employees were reminded of the above-mentioned common commitment in various ways, e.g. in the form of emails from top representatives of our company, the newsletter Ethically Speaking, by issuing a compliance tip, as well as via an on-line survey of ethics and compliance with the policy. At the same time, throughout this week, several employees within the corporation were acknowledged for proving through their behavior that they set an example of strong moral character, and they were awarded the title of **Ethics and Compliance Champion**. Marek Lukačín, USSK GM Primary was acknowledged for enforcing the efforts of the Group to ensure compliance with applicable laws, regulations and internal regulations.

IMPACT OF THE COMPANY IN THE ECONOMIC SPHERE

U. S. Steel Košice Group conducts its business primarily in Central and Western Europe. The Group's principal activity is the production and sale of steel products: slabs, hot-rolled, cold-rolled and coated sheets including hot-dip galvanized, color-coated, tinplate and non-grain-oriented sheets. The Group also produces spiral welded pipes, panel radiators, electricity, industrial gases, refractory products, and provides laboratory and other services.

In 2017, USSK produced 4.62 million metric tons of raw steel slabs.

The Group serves several steel consuming sectors including the construction, service center, automotive, transportation, container, further processing, and appliance industries. To maintain its competitive position in tough market conditions, it focuses on continuous improvement projects and activities. Continuous improvement tools also helped our managers in 2017 to make decisions and implement projects which led to improved quality of goods and services, sustainable profitability improvements and better financial and liquidity position of the Group.

RESEARCH, INNOVATIONS AND CUSTOMER SOLUTIONS

Cross-functional innovation teams continued to work hard in 2017 in Automotive & Appliance, Color-coated, Electrical Products, and Tinplate areas. The financial benefit delivered by the innovation teams in 2017 was significant and comparable to 2016. The main goal of these teams is to coordinate innovation activities and processes, as well as focusing on innovations based on customer needs, market requirements and future trends in the steel industry.

Continual innovations and close cooperation with customers are the basic prerequisite for success in the steelmaking industry. The research and development activities in 2017 resulted in notable extensions of the product mix with new products in all segments.

Research in the area of metal sheets for the automotive industry was mainly focused on hot-dip galvanized TRIP steels and dual-phase steels with improved stampability. These sheets offer to car manufacturers better forming ability in the stamping process while maintaining high strength. For exposed car body parts, the dual-phase steel with guaranteed microgeometry of the sheet surface was successfully produced and tested. Research developed a new type of hot-rolled steel achieving high strength, toughness and abrasion resistance after heat treatment. These unique features of the steel are used in the manufacture of agricultural machinery and commercial vehicles. In 2017, the Group's production program was expanded by five grades of pickled sheets, designed according to the requirements of automotive customers, which are used

for stamping of structural body parts. Research also improved the system enabling USSK to accelerate the shipment of hot-rolled sheets to customers. Immediately after rolling the system determines the basic material characteristics of the sheet necessary for issuing the metallurgical certificate.

In the area of surface protection of galvanized sheets, the production volume of sheets with Thin Organic Coating (TOC) continued to grow. This product is very popular, as it offers a significant enhancement of the utility properties compared to the conventional surface treatment of the galvanized sheets by passivation. The galvanized sheet thus treated has excellent corrosion resistance and outstanding lubricating properties. This allows a significant reduction in the consumption of stamping oils and, in some cases, their complete elimination. In addition, it is well paintable with powder and liquid paints without the use of chemical pretreatment, and no fingerprints remain on it. At present, USSK production range includes TOC coating in transparent version, but research activities aimed at testing of these coatings in color version continue. These coatings, in addition to the mentioned usage properties, meet the special aesthetic requirements of customers. All currently used surface protections of galvanized sheets - passivation and permanent thin organic coatings - are based on trivalent chromium and therefore comply with valid European legislation. Moreover, USSK Research and Development is constantly testing chromium-free sheet surface treatments.

In the tinplate segment, USSK has long been one of the leading European producers and has been a longtime member of the Association of European Producers of Steel for Packaging (APEAL). Despite the wide product portfolio, research activities have taken place in several areas. They have been focused mainly on narrowing the range of mechanical properties as well as improving the corrosion resistance of tinplate. Based on customer requirements, the development of new high-strength steels with improved elongation has continued. In line with the REACH legislation, R&D also continued with activities aimed at testing and optimizing the new technology of chromium-free passivation within the international cooperation in this area.

The result of the research and development activities in the field of **non-oriented silicon steel for electrical engineering**, was the successful trial production of four new grades intended for applications in electric cars and hybrid cars. Moreover, trial deliveries and homologation of a new grade for power generators has successfully continued. In the segment of advanced industrial applications, the production program has been expanded to include two new grades for high efficiency electric motors.

An integral part of the research activities was the development and **implementation of new laboratory analytical methods** enabling determination of the phase composition or texture of new types of electrical steels and modern high-strength sheets. Research activities in the area of **innovation of technologies and production processes and reduction of environmental impacts** have continued as well. **The Center of Excellence for Technical Design and Measuring Systems** has proposed a number of technical adjustments to production lines and equipment aimed at increasing the production efficiency and improving the quality of products and processes. An example of this is the project for cooling optimization of the Hot Rolling Mill work rolls, aimed at reducing the roll wear and cooling water consumption, shortening the line maintenance delays and, in general, at increasing the quality of the hot-rolled prod-

ucts. Research has also worked on several **waste recycling technologies** that can be used economically, with advantage, in metallurgical production processes. The technology of automatic increasing of the bulk density of the coal charge has been introduced at the Coke Battery using recycled oil from USSK, which provides efficient filling and higher production of coke ovens. Another technology is the recycling of refractory waste from steel ladles, which after processing (sorting, milling, magnetic separation) is used for the production of synthetic slags for addition into steel ladles.

In 2017, the total cost associated with research amounted to EUR 3.15 million.

The Group also spent significant amounts on projects aiming to ensure our competitiveness and stable position in the market. Several important projects were completed supporting the sales of our products and customer-oriented approach; examples include the CR-free Passivation in Electrolytic Tin Line 2, Rolling Solution Application for 2 Stand Mill and Preparing Line Pay-off Reel Upgrade for Electrolytic Tin Line 1. New technical improvements will significantly contribute to the higher added value of our products.

USSK is certificated in accordance with the international EN ISO 9001 and ISO/TS 16949 (automotive industry) standards. **Quality Management System** (QMS) performance is regularly reviewed once a year. In the area of pipes, USSK has maintained the Spec Q1 certificate with American Petroleum Institute. The Group also holds several dozen individual product certificates, and several of its laboratories are accredited in compliance with ISO/IEC 17025. In 2017 USSK implemented new requirements stated in EN ISO 9001:2015 and it successfully passed the surveillance transfer QMS audit, performed in accordance with the new version of the standard. U. S. Steel Košice also successfully passed the re-certification audit in accordance with ISO/TS 16949, thus confirming the suitability and effectiveness of the processes.

USSK customers were satisfied with the delivery performance and the demanding internal quality objectives were achieved. The goal of 1.15 % in the Divert (reclassified) category was achieved with the year-end result of 1.15 %. The Retreat objective was 0.60 % and the year-end result was 0.53 %. The major reasons for rejections were slivers and coiling quality of hot-rolled coils. In 2017, two camera inspection systems were successfully used, contributing to the excellent results and satisfaction of tinplate customers.

As to external quality, in 2017 the positive trend in customer claims was maintained. Even though the claim rate for all products in 2017 reached 0.15 %, which is a slightly worse result compared to year 2016 (0.13 %), significant achievements were made as to the number of claims received, where we got 7% fewer claims than in 2016. At the same time, we reached the lowest claim rate values in the value-added products area, i.e. coated products. Our Customer Satisfaction Survey is a significant external quality parameter of supplied products and services. The response rate in 2017 reached a level of 96 % and the customer satisfaction rating reached a value of 1.70, scale 1 – excellent, 5 – poor. This excellent result, is the best customer satisfaction survey result reached since U. S. Steel took over the Košice plant.

PROCUREMENT AND SUPPLIER RELATIONS

Transparent and effective procurement and building of long-term relations with suppliers significantly contribute to fulfilling Group strategy in the economic sphere. Together with suppliers we are finding ways of reducing overall costs of purchasing materials, spare parts, services, repairs and capital expenditures. We also work together on improving the effectiveness of financial resources usage and on discovering new innovative solutions. The Group expects its suppliers to have implemented in their processes standards for quality, ethics, occupational safety and environmental protection. Their performance is regularly assessed, and this long-term partnership is seen as basis for development on both sides. The important influence of Group activity on regional development is underlined by the fact that local suppliers made up 68 % of total suppliers. At the same time the Company is also involved in public procurement in line with the Law on Public Procurement.

IMPACT OF THE COMPANY IN THE ENVIRONMENTAL AND ENERGY SPHERES

ENVIRONMENTAL PROTECTION

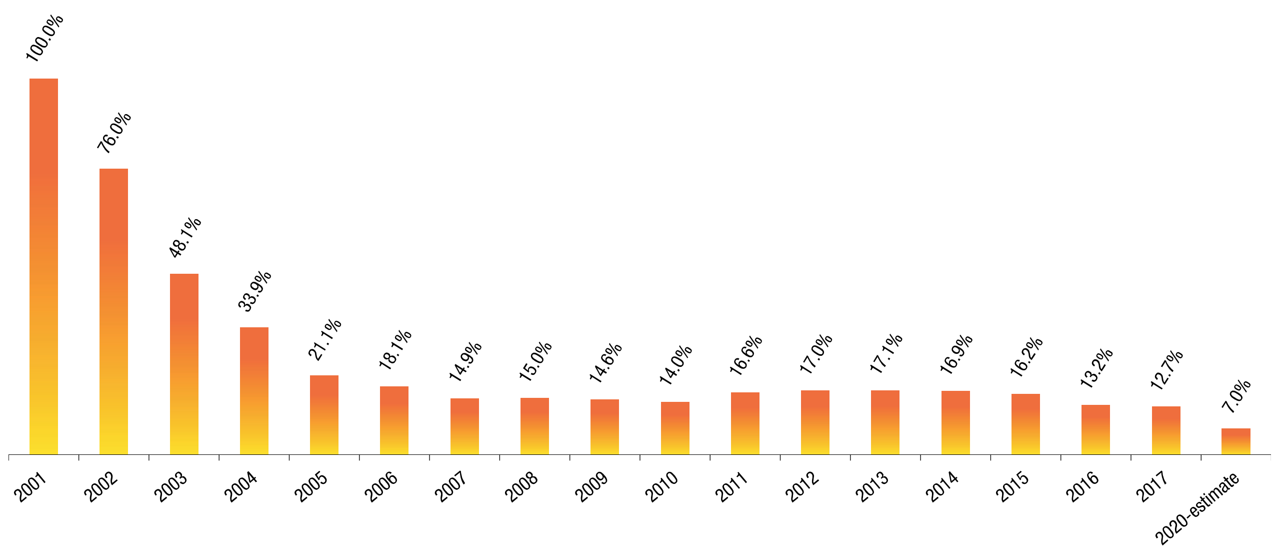
Environmental protection is one of the principal strategic goals of the Group, and the main commitments in this area are stated in the **Quality, Environmental and Energy Policy**. In accordance with these objectives, in November 2017 TÜV SÜD Slovakia s.r.o. carried out a surveillance and extension audit of the USSK **Environmental Management System**, already in compliance with the new updated standard STN EN ISO 14001:2016. The audit confirmed high performance of this system and continuous improvement of processes. Based on the audit results a Environmental Management System Certificate has been issued, now according to this standard from 2016.

Since 2000, the company has invested more than USD 650 million in dozens of environmental projects. The greatest achievement in the targeted protection of various elements of the environment at USSK is the fact that since 2008 there has been no ecological accident at U. S. Steel Košice. The compliance of the Group's activities with current legislation is regularly checked by the Slovak Environmental Inspectorate, which carried out a total of fourteen inspections in 2017.

In 2017 we continued with the implementation of investment projects aimed at protection of the environment in compliance with the environmental requirements of the European Union. The most important actions in 2017 include the ongoing reconstruction and modernization of the Boiler Plant with final operating permit of Boiler 7 and reconstruction of Boiler 6, the benefit of which, in addition to improvement of the heat and electric power generation efficiency with cost reduction, will also be reduction of emissions and the amount of generated waste in compliance with the BAT for Large Combustion Plants. The following investments have been started in order to ensure air quality: Emission Control of Extra-furnace Steel Preparation at Steel Shop 1, Emission Control at Steel Shop 2 – Extra-furnace Steel Desulfurization, Emission Control for Blast Furnace 1-3 Ore Bridges and Emission Control of Ends of Sinter Strand 1-4. We managed to reduce the amount of carbon monoxide emissions by 22 % through implementation of technical and organizational measures at Steel Shop 2, which in financial terms means cost reduction by approximately EUR 100,000.

Compared to 2001, specific emissions of Total Solid Particulate (TSP) have dropped to 12.7 %, which means 0.565 tons per thousand tons of steel produced (0.587 in 2016). After completing all investments, we expect a decrease to 7 % compared to the amount in 2001.

Comparison of Total Solid Particulate Specific Emissions in kg/t steel production
in year 2001 is 100%



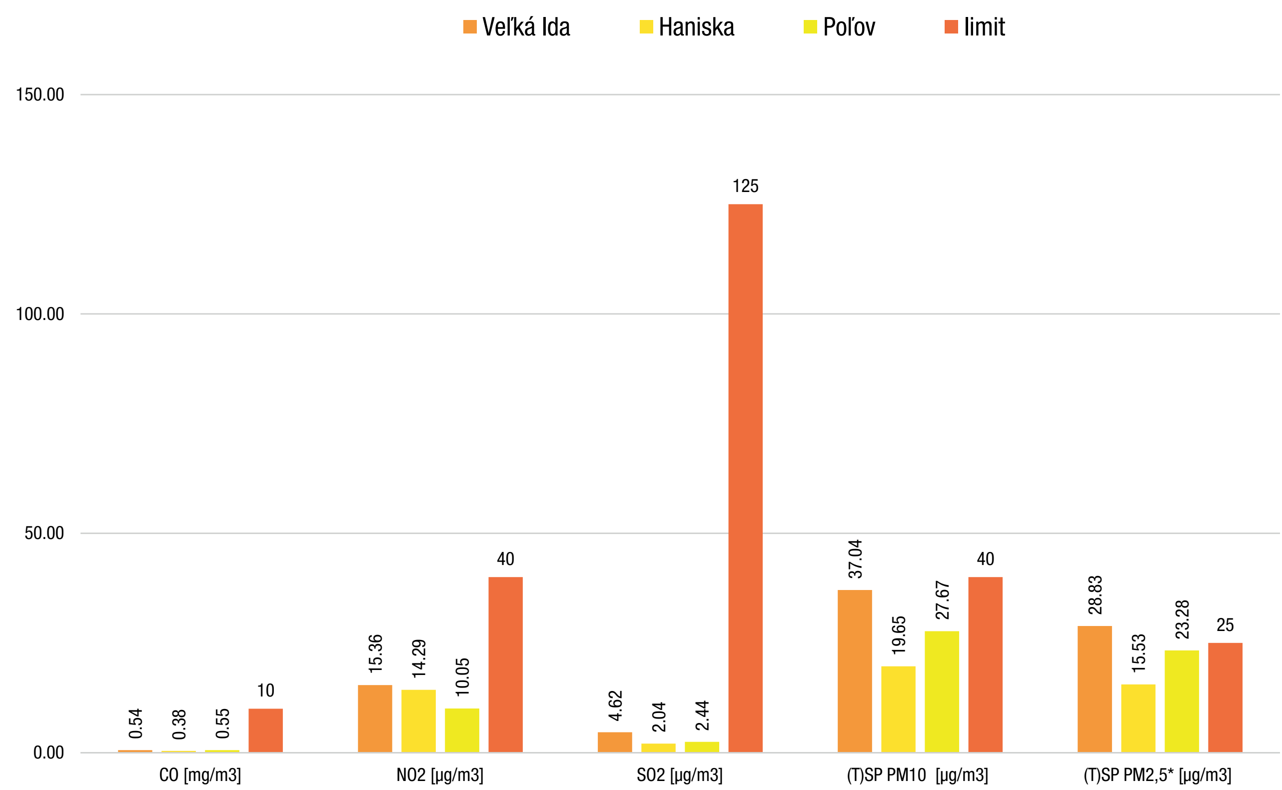
In addition to monitoring of emissions (pollutants discharged to air), imissions (pollutants contained in the environment and transferred) occurring in the vicinity of the steelworks are measured at three villages and data from three automatic monitoring systems are also sent to the Slovak Hydro Meteorological Institute. Pollution limits and the results of monitoring in 2017 are shown in the graph in micrograms per m^3 (CO in milligrams per m^3).

Significant results in **water protection** include a 20 % increase in the amount of water returned from the Sokoľany Waste Water Treatment Plant for reuse in USSK compared to 2016. It is the largest ever amount of returned water. In 2017 an extension of accreditation of the environmental laboratory unit in the area of waste water analyses and sampling of waters and waste was completed successfully, which will support in the coming years both the reduction of potential emergency situations related to waters and compliance with new legal requirements in the area of waste and, last but not least, cost reduction.

In the area of **waste management**, the oiled water separator erection at the Cold Rolling Mill Neutralization Station in 2016 helped reduce the amount of hazardous waste by 20 %. Excellent results have also been achieved in waste recycling. Last year the external use of building waste increased by approximately two and a half times compared to 2016. Sale of blast-furnace sludge for recycling started; 3,727 metric tons have been sold for recycling and we plan to continue this program to a greater extent in 2018. These wastes would have otherwise been sent to landfills.

In addition to the environment, investments to improve the **efficiency of energy and raw materials usage** also made up a considerable part of the Group capital expenditure in 2017. Projects included the Blast Furnace Sludge Utilization Increase, Continuous Galvanizing Line 2 New Air Dryer, LED Light for Electrolytic Tin Line 1 and 2. Investments were also made in the Group **infrastructure** through projects Coke Battery 3 Thru-Wall Replacement - Phase 5, and System of Energy Consumption Measurements. A new Robot Work Station was built at the Refractory Bricks Production Shop, and a modern X-ray spectrometer for chemical analysis of raw materials was bought as well as some new fork-lift trucks. These projects will significantly boost the overall technical condition of our production facilities.

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



Note:
* increased values of particles of solid pollutants with a diameter of less than 2.5 µm and the excess in Veľká Ida was due to the critical smog situation in the Slovak Republic in January 2017.

EUROPEAN UNION CO_2 EMISSIONS TRADING SYSTEM AND REACH LEGISLATION IMPLEMENTATION

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

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

As far as chemicals are concerned, in compliance with the **REACH legislation (1907/2006 Registration, Evaluation and Authorization of Chemicals),** which requires every chemical substance manufactured and placed on the EU market to be registered with the European Chemicals Agency, we registered a new substance Calcium Sulphate, production of which started in 2017. We keep registrations of all our substances up to date. We cooperate with all our suppliers to make sure all substances and mixtures used in our production process are registered in the legal timeframes. For our customers, we regularly issue certificates for all of our steel products about (non)content of “substances of very high concern” from the updated List of substances of very high concern. For substances that require authorization and are necessary for our production process we have prepared and submitted the applications for authorization, which enabled us to use these substances in production. Regular inspections at operations ensure that all the employees are well trained in new classification and labeling of chemical substances and preparation

and they are well aware of how to use chemicals safely.

ENERGY EFFICIENCY

Energy management is very important for the long-term perspective of the U. S. Steel Košice Group due to both the amount of energy consumed and its costs. Since 2013 U. S. Steel Košice has implemented Energy Management System pursuant to international standard EN ISO 50001. Based on this system we have created conditions for integrated and systemic solutions of effective energy management, which have been confirmed by another successfully completed surveillance audit carried out in 2017. During the closing meeting, the auditors from an external organization pointed out several positive achievements, such as:

• Total achieved cost saving - USD 13.2 million as a result of implemented energy projects in 2016. The plan was exceeded by 17%, and thereby we saved an extra USD 1.9 million.
• Communication in individual division plants in the field of energy management as well as unified presentation during the audit.
• Gradual update of documented procedures concerning energy management to include performance of activities.
• Implemented progressive maintenance methods without interrupting operations.
• Updated educational e-learning program - Energy Management System – developed by internal employees, leading to cost saving of USD 5,500.

To achieve the energy goal in 2017 we used the tools of the continuous improvement program and Carnegie Way method, which contributed to fulfillment of the goal named “Reduce costs per ton of steel manufactured and enhance energy efficiency of the entire metallurgical cycle” in compliance with the USSK Action Program of Energy Management.

In 2017 we completed 189 energy projects with total cost savings of USD 7.8 million. The plan for 2017 was fulfilled to 105 %, so an additional USD 0.4 million was saved compared to the goal.

The following projects contributed to significant cost saving:

• Cost optimization with fluctuation in electricity purchasing,
• Increase in efficiency of Turbo Generator 1,
• Effectiveness enhancement of the Sokolany Water Treatment Station.

IMPACT OF THE COMPANY ON THE COMMUNITY AND THE REGION

U. S. Steel Košice Group 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 Group has become a partner to many non-profit organizations which are active in solving problems and providing innovative solutions for community development and social care for disabled people and seniors.

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

In 2004, the 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 2016/2017, eighteen new scholarships were granted, and twenty-five more in 2017/2018.

In support of health care, Group focuses mainly on specialized medical institutions in the region. Thanks to the 2017 pre-Christmas fund-raising, which was supported by 7,675 steelmakers who together collected EUR 42,346, the East Slovakian Oncology Institute could get quality digital x-ray equipment to enable quicker diagnostics of cancer disease. Finally, it could spend EUR 84,692 since the Group matched the generosity of its employees and doubled the collected sum. As a traditional partner of the League Against Cancer, USSK jointly organizes the public fund-raising on Daffodil Day, the proceeds from which support public education, research and prevention of oncological diseases, and improve care for oncology patients in the Košice region. In 2017, the collection among employees raised the sum of EUR 5,090.

In support of social care, USSK directs its assistance mainly towards supporting foster homes and their children by organiz-

ing activities and experience events for them during the whole year. It also provides long-term support to the Autumn of Life civic association, whose members are retired USSK employees. For many years, USSK has cooperated with the Archdiocesan Charity in Košice, making life easier for people in difficult situations. The Group 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 2017 this meant almost 160 youngsters in the foster homes at Podolínec and Uralská Street in Košice as well as the halfway houses in Košice and Medzilaborce, and children from steelmakers' families in difficult circumstances. Within the special project named **We are with You at the Right Time,** the Group took care of the latter families during the whole year, inviting them to various corporate events and helping them overcome difficult moments in their life through this solidarity. In addition to the above, these four institutions and ten families also received financial support of EUR 39,000.

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

Support for sports has been focused on traditional sports and events in the Košice region. For many years U. S. Steel Košice has been the main partner of the Košice Peace Marathon, which is the oldest marathon in Europe and very popular among employees and partners as well. The Company is also a long-term partner of the HC Košice ice-hockey club, which has won the Slovakian League several times. The Group supports children's sports, and either talented or disadvantaged young sports people. Our own program called **Your Chance to Play** continued in 2017 as well, and provided equal opportunities both for children from socially-disadvantaged and steelmakers' families to play ice-hockey, basketball and soccer. Since 2006, the Group has contributed EUR 189,079 towards club membership fees and sports equipment for 531 children, which also included EUR 6,480 for 19 children in 2017.

Voluntary programs are part of the community support. Our largest corporate volunteer event is the Volunteer Days – Steelmakers for Košice, which were held for the eleventh time on May 12-13, 2017. Employees of the Group helped nine organizations with public-benefit activities, giving blood in the "Steelmakers' Drop of Blood" donor drive, collecting used clothing and other requirements for the crisis and community centers and charity house, and improving premises and surroundings of both foster home and a day-care center for disabled youth and adults. 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 Group have been actively involved in support to their region helping as teachers in educational programs, contributors to public fund-raising and in-kind donations, as well as organizers of community life.

Every year in cooperation with the Carpathian Foundation, U. S. Steel Košice runs the **Together for the Region** grant program, which focuses on supporting leisure-time activities for children and teenagers, environmental protection and increasing safe behavior in all activities. In 2017, six other community projects with active involvement of USSK employees were supported in towns and villages of Eastern Slovakia, and altogether 95 developing initiatives have been supported with EUR 241,900 and implemented since 2008.

The U. S. Steel Košice Group has also been helping the region in other ways. It has donated waste wood to several villages, helping their socially disadvantaged citizens mainly in winter. Deliveries to Veľká Ida village alone amounted to 530 tons with a value of EUR 10,900.

SELECTED FINANCIAL INFORMATION

STATEMENT OF FINANCIAL POSITION

Selected items from the Separate and Consolidated Statements of Financial Position for the last three years:

	Separate Financial Statements			Consolidated Financial Statements		
In EUR million	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015
Property, plant and equipment, incl. investment property	727	557	382	878	557	382
Intangible assets	76	48	76	76	48	76
Long-term receivables	42	68	-	42	68	-
Other non-current assets	149	49	99	5	49	99
Inventories	354	330	313	362	330	313
Short-term receivables	439	345	260	428	345	260
Short-term loans and borrowings	1	250	-	-	250	-
Cash and cash equivalents	301	116	249	303	116	249
Other current assets	3	11	4	6	11	4
Total Assets	2,092	1,774	1,383	2,100	1,774	1,383
Equity	1,344	1,173	940	1,356	1,173	940
Trade and other payables	482	389	318	456	389	318
Other liabilities	266	212	125	288	212	125
Total Equity and Liabilities	2,092	1,774	1,383	2,100	1,774	1,383

Compared to previous accounting period, carrying amount of property, plant and equipment of the Group increased by EUR 321 million. In 2017, the Group's capital expenditure amounted EUR 76 million (2016: EUR 87 million, 2015: EUR 120 million) and impairment of property plant and equipment and intangible assets was fully reversed. As of December 31, 2017, the Group purchased emissions allowances EUA totaling EUR 36 million. Emission allowances granted for free in 2017 totaled EUR 30 million.

Change in inventories reflects mainly impact of higher volumes of steel inventories in 2017 compared to 2016. Short-term receivables have increased in 2017 mainly as a result of increased selling prices as of year-end as compared to 2016 when selling prices were decreasing.
Decrease in assets – short-term loans and borrowings compared to 2016 was caused by repayment of the intercompany loan provided by USSK to parent company.

Increase in trade payables in 2017 is primarily due to increased purchase prices of key raw materials.

Detailed information to long-term loans and borrowings of the Group are disclosed in Note 16 of Separate or Consolidated Financial Statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

	Separate Financial Statements			Consolidated Financial Statements		
In EUR million	2017	2016	2015	2017	2016	2015
Revenues and other income	2,643	2,060	2,192	2,642	2,060	2,192
Operating profit	561	344	67	563	344	67
Profit for the Year	450	271	43	448	271	43

The Group had profit of EUR 448 million for the year ended December 31, 2017 compared to profit of EUR 271 million for the year ended December 31, 2016. The increase in the financial result in 2017 compared to 2016 was primarily due to higher selling prices, savings resulting from continued Carnagie Way initiatives, which improve operating efficiency, lower interest costs, positive impact of foreign exchange gains and due to full reversal of impairment of property, plant and equipment and intangible assets.

PROPOSAL FOR 2017 PROFIT DISTRIBUTION

In EUR million	2017
Profit for 2017	450
Contribution to Legal Reserve Fund	(22)
Proposed Dividends for U. S. Steel Global Holdings VI B.V.	(250)
Contribution to Retained Earnings	(178)
Other Changes in 2017 Directly Accounted for in Retained Earnings	10

SIGNIFICANT EVENTS AFTER 2017 REPORTING PERIOD AND EXPECTED DEVELOPMENT IN 2018

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

The EU economy remained on a favorable growth track in 2017 driven by robust investment, solid private consumption and strong exports. The GDP country breakdown shows that the growth pattern across EU member states has become even more synchronized over the past few quarters.

Conditions look right for the EU economy, and it is expected to maintain an above-trend growth rate in 2018. Economic sentiment in the EU28 countries gradually strengthened during 2017, and the beginning of 2018 saw continued strength in confidence. Investment is expected to remain a key driver of growth, reflecting robust domestic and foreign demand. Private consumption will also continue to perform well.

Increased protectionism and threat of implementation of safeguard measures on import of goods in key territories is currently the main downside risk for global economy and export, which might significantly affect current positive outlook for steel consuming industries and for steel consumption forecast.

Annual Report 2017
U. S. Steel Košice Group

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

June 2018

U. S. Steel Košice, s.r.o.

Separate financial statements for the year ended December 31, 2017

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.:

Our opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of U. S. Steel Košice, s.r.o. (the "Company") as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Company's separate financial statements comprise:

- the separate statement of financial position as at 31 December 2017;
- the separate statement of profit or loss and other comprehensive income for the year then ended;
- the separate statement of changes in equity for the year then ended;
- the separate statement of cash flows for the year then ended; and
- the notes to the separate financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Reporting on other information in the annual report

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

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

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

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

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

- the information given in the annual report for the year ended 31 December 2017 is consistent with the separate financial statements; and
- the annual report has been prepared in accordance with the Accounting Act.

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

Management's responsibilities for the separate financial statements

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

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

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

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers Slovensko, s.r.o.

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

Ing. Monika Smižanská, FCCA
UDVA licence No. 1015

Bratislava, 11 June 2018

Our report has been prepared in Slovak and in English. 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.

SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Separate financial statements for the year ended December 31, 2017, 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" or "USSK") on June 11, 2018. Neither the Company's shareholder nor the executives have the power to amend the Separate financial statements after issue.

Košice, June 11, 2018

Scott Douglas Buckiso
President
(statutory representative)

Ing. Silvia Gaálová, FCCA
Vice President and Chief Financial Officer
(statutory representative)

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

Ing. Beáta Marčáková
Director General Accounting and Compliance
(responsible for financial statements preparation)

U. S. Steel Košice, s.r.o.

SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Table of Contents

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

STATEMENT OF FINANCIAL POSITION

	Note	December 31, 2017	December 31, 2016
ASSETS			
Non-current assets			
Property, plant and equipment	5	**724,244**	554,434
Investment property	6	**2,432**	2,729
Intangible assets	7	**75,689**	48,471
Investments	8	**143,586**	13,443
Financial assets available-for-sale		**259**	259
Long-term receivables	12	**41,587**	68,401
Deferred income tax asset	9	**-**	27,548
Restricted cash	10	**4,747**	7,289
Total non-current assets		**992,544**	**722,574**
Current assets			
Inventories	11	**353,863**	330,444
Trade and other receivables	12	**439,130**	345,277
Derivative financial instruments	13	**48**	8,595
Short-term loans provided to related parties	29	**1,206**	250,328
Restricted cash	10	**3,566**	66
Prepaid expense		**1,164**	1,164
Cash and cash equivalents	14	**300,630**	115,773
Total current assets		**1,099,607**	**1,051,647**
TOTAL ASSETS		**2,092,151**	**1,774,221**
EQUITY AND LIABILITIES			
Equity			
Share capital	15	**839,357**	839,357
Reserve funds	15	**45,104**	40,825
Retained earnings / (accumulated losses)		**459,801**	292,862
Total equity		**1,344,262**	**1,173,044**
Liabilities			
Non-current liabilities			
Long-term provisions for liabilities	17	**5,762**	11,509
Long-term deferred income – government rants	5	**96,225**	70,976
Long-term employee benefits payable	18	**32,454**	31,879
Deferred income tax liability	9	**39,388**	-
Trade and other payables – long-term	19	**1,441**	4,026
Total non-current liabilities		**175,270**	**118,390**
Current liabilities			
Trade and other payables	19	**480,116**	384,708
Current income tax liability		**18,633**	27,744
Derivative financial instruments	13	**8,782**	158
Deferred income		**4**	4
Short-term borrowings	29	**10,478**	10,187
Short-term provisions for liabilities	17	**53,335**	58,560
Short-term employee benefits payable	18	**1,271**	1,426
Total current liabilities		**572,619**	**482,787**
TOTAL EQUITY AND LIABILITIES		**2,092,151**	**1,774,221**

The accompanying notes on pages SF-11 to SF-54 are an integral part of these separate financial statements.

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2017	2016
Revenue	20	**2,612,248**	2,017,271
Other income	20	**30,903**	43,200
Materials and energy consumed	21	**(1,617,091)**	(1,141,737)
Salaries and other employee benefits	22	**(298,837)**	(294,105)
Depreciation and amortization	5, 6, 7	**(43,116)**	(28,867)
Repairs and maintenance		**(71,449)**	(60,427)
Transportation services		**(126,319)**	(117,953)
Advisory services		**(9,807)**	(18,388)
Foreign exchange gain		**8,025**	1,391
Impairment reversal	5, 7	**290,210**	142,809
Other operating expenses	23	**(213,760)**	(199,022)
Profit from operations		**561,007**	**344,172**
Dividend income		**1,813**	2,931
Interest income		**3,476**	2,693
Interest expense		**(1,116)**	(1,168)
Profit before tax		**565,180**	**348,628**
Income tax expense	24	**(115,259)**	(78,114)
Profit after tax		**449,921**	**270,514**
Items that will not be reclassified to profit or loss			
Remeasurement of post employment benefit obligations	24	**(236)**	490
Revaluation of intangible assets	7, 24	**14,606**	7,512
Items that may be subsequently reclassified to profit or loss			
Change in fair value of derivative hedging instruments	24	**(13,736)**	2,277
Other comprehensive income / (loss), net of tax		**634**	**10,279**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**450,555**	**280,793**

The accompanying notes on pages SF-11 to SF-54 are an integral part of these separate financial statements.

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

STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve funds	Retained earnings / (accumulated losses)	Total
Balance as of January 1, 2017	**839,357**	**40,825**	**292,862**	**1,173,044**
Profit for 2017	-	-	449,921	**449,921**
Other comprehensive income	-	870	(236)	**634**
Total comprehensive income for the year	-	**870**	**449,685**	**450,555**
Release of reserves:				
Release of revaluation reserve – CO_2 emission allowances	-	(10,116)	10,116	**-**
Total adjustments	**-**	**(10,116)**	**10,116**	**-**
Transactions with owners:				
Dividends	-	-	(279,337)	**(279,337)**
Contribution to legal reserve fund	-	13,525	(13,525)	**-**
Total transactions with owners	**-**	**13,525**	**(292,862)**	**(279,337)**
Balance as of December 31, 2017	**839,357**	**45,104**	**459,801**	**1,344,262**

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

The accompanying notes on pages SF-11 to SF-54 are an integral part of these separate financial statements.

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

STATEMENT OF CASH FLOWS

	Note	Total	
		2017	**2016**
Profit before tax		**565,180**	**348,628**
Non-cash adjustments for			
Depreciation of property, plant and equipment and investment property	5, 6	**41,139**	27,807
Amortization of intangible assets	7	**1,977**	1,060
Amortization of deferred income from CO_2 emission allowances	20	**(30,038)**	(30,075)
Amortization of deferred income - government grants	5, 20	**5,660**	-
Charge of provision for CO_2 emissions emitted	17, 23	**72,343**	57,993
Reversal of impairment of property, plant and equipment	5	**(290,197)**	(139,282)
Reversal of impairment of intangible assets	7	**(13)**	(3,527)
Impairment of investments		**55**	64
(Gain) / loss on disposal of property, plant and equipment, intangible assets and investment property	20, 23	**1,229**	(1,073)
(Gain) / loss from changes in fair value of derivative financial instruments	20, 23	**2,917**	(5,704)
Dividend income and distribution of profit		**(1,813)**	(2,931)
Interest income		**(3,476)**	(2,693)
Interest expense		**1,116**	1,168
Changes in working capital			
(Increase) / decrease in inventories	11	**(23,419)**	(17,531)
(Increase) / decrease in trade and other receivables and other current assets	12	**(67,476)**	(153,891)
Increase / (decrease) in trade and other payables and other current liabilities	19	**100,405**	166,920
Cash generated from operations		**375,589**	**246,933**
Interest paid		**(402)**	(273)
Income taxes paid		**(53,847)**	(4,090)
Net (disbursements) / receipts from derivative financial instruments		**(3,088)**	3,303
Net cash generated from operating activities		**318,252**	**245,873**
Cash flows from / (used in) investing activities			
Intercompany loans provided	29	**(1,593)**	(350,000)
Intercompany loans repayment	29	**250,387**	100,000
Acquisition of a subsidiary / increase of base capital	29	**(49)**	**-**
Purchases of property, plant and equipment	5	**(69,921)**	(85,209)
Proceeds from sale of property, plant and equipment		**134**	1,209
Purchases of intangible assets	7	**(38,395)**	(1,576)
Change in restricted cash, net	10	**(958)**	(1,555)
Government grants received		**441**	-
Interest received		**3,800**	2,361
Dividends received and distribution of profit		**1,813**	2,931
Net cash used in investing activities		**145,659**	**(331,839)**
Cash flows from / (used in) financing activities			
Proceeds from borrowings	26, 29	**74,623**	73,387
Repayment of borrowings	26, 29	**(74,340)**	(72,640)
Dividends paid to the Company´s shareholder	15	**(279,337)**	(47,948)
Net cash generated from / (used in) financing activities		**(279,054)**	**(47,201)**
Net increase in cash and cash equivalents		**184,857**	**(133,167)**
Cash and cash equivalents at beginning of year	14	**115,773**	248,940
Cash and cash equivalents at end of year	14	**300,630**	**115,773**

The accompanying notes on pages SF-11 to SF-54 are an integral part of these separate 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 entered in the Commercial Register of the District Court Košice I, Section Sro, Insert 11711/V on June 20, 2000.

The Company's registered office is:

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

Business activities of the Company

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

Liability in other business entities

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

Average number of staff

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

The Company's management

Statutory representatives as of December 31, 2017 were as follows:

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

Emoluments of statutory representatives are disclosed in Note 29.

Shareholder of the Company

As of October 7, 2016, the only shareholder of the Company, U. S. Steel Global Holdings I B.V., Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands, transferred all ownership interests of the Company to U. S. Steel Global Holdings VI B.V., Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands. As of December 31, 2017, the only shareholder of the Company was U. S. Steel Global Holdings VI B.V., Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands. The shareholder owns a 100 percent share of the share capital, representing 100 percent of the voting rights.

On April 20, 2017, 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

Since 2017, the Company prepares consolidated financial statements for U. S. Steel Košice, s.r.o. and its controlled companies in accordance with IFRS as adopted by the EU.

The Company publishes and deposits the financial statements, annual reports and reports of the auditor in accordance with Act No. 431/2002 Z. z. on accounting, as amended. The Company also publishes financial statements on its web page www.usske.sk.

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 and internet web page www.ussteel.com.

Note 2 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these separate 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, 2017 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, 2017 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 the functional currency EUR. Transactions in currencies other than the EUR are translated into the EUR using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of transactions in currencies other than the EUR, and from the translation of monetary assets and liabilities denominated in currencies other than the EUR at year-end exchange rates are recognized in profit or loss.

2.5 Property, Plant and Equipment

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

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

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

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

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

Useful lives of landfills are determined based on their capacity.

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

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

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

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

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

2.6 Investment Properties

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

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

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

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

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

2.7 Intangible Assets

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

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

Research and development costs

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

Software

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

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

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

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

Emission allowances

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

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

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

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

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

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

2.8 Impairment of Non-Financial Assets

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

2.9 Borrowing Costs

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

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

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

2.10 Accounting for Leases

Leases of assets are classified as:

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

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

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

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

2.11 Investments

<u>Subsidiaries</u>

Subsidiaries are those investees (including structured entities) that the Company controls because the Company (i) has the power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use power over the investees to affect the amount of the investor's returns. In these financial statements, investments in subsidiaries are measured at cost less any accumulated impairment losses in accordance with *IAS 27 Separate Financial Statements*. Impairment losses are recognized using a provision account to their recoverable value which is the higher of the value in use and fair value less costs of disposal. Investments in subsidiaries acquired in non-monetary exchange of assets are measured at fair value unless the exchange transaction will not result in material change in risk, timing and amounts of cash flows, or the fair value is not reliably measurable. In such case, investments in subsidiaries are measured at cost which represent carrying value of the net assets exchanged.

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 a 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.

Loans and receivables

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 loans and receivables are uncollectible, they are written off against the 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.

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 may be used only to cover losses of the Company, should the special law not stipulate otherwise.

b) Other Reserve Funds

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

2.16 Financial Liabilities

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

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

Loans and borrowings

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

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

Trade and other payables

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

Derecognition of financial liabilities

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

2.17 Dividends and Profit Distribution

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

2.18 Government Grants

Government grants are recognized only if there is a reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received. Non-monetary grants are recognized at the fair value of the asset received. Grants are treated as deferred income and released on a systematic basis into income over the period necessary to match them with the related costs that they are intended to compensate. If government grant is received to compensate costs of acquisition of fixed assets which were impaired, relating deferred income is released into income to match corresponding amount of impairment. If impairment is reversed subsequently, government grant is again recognized in deferred income to match the reversed amount. Income related to government grants is recognized in Other income of Statement of profit or loss.

2.19 Provisions

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

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

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

2.20 Current and Deferred Income Tax

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

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

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

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

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

2.21 Employee Benefits

Defined contribution pension plan

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

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

Employee retirement obligation

The Company is committed to make payments to the employees upon retirement in accordance with the 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; or b) when the entity recognizes related restructuring cost or termination benefits.

Work and life jubilee benefits

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

The liability in respect of the work and life jubilee benefits plan represents the present value of the defined benefit obligation at the end of a reporting period and is calculated annually by U. S. Steel actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds in the

European market which have terms to maturity approximating the terms of the related liability and subsequently attributing such present value to employees' years of service.

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

Termination benefits

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

Profit sharing and bonus plans

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

2.22 Revenue Recognition

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

Sale of own production and goods

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

Rendering of services

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

Interest income

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

Dividend income and distribution of profit

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

2.23 Contingent Liabilities and Contingent Assets

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

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

2.24 Accounting for Derivative Financial Instruments

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

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

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss for the current period.

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

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 27):

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

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

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

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

- emission allowances (Note 2.7 and 7);
- derivative financial instruments (Note 2.24, 13 and 27);
- fair value disclosures for investment properties measured using the cost model (Note 2.6 and 6);
- fair value disclosures for financial instruments measured at amortised cost (Note 27);
- impairment of property, plant and equipment, intangible assets and investment properties (Note 5, 6 and 7).

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

2.26 Events After the Reporting Period

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

Note 3 Significant Accounting Estimates and Judgments

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

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

The average useful life of depreciable property, plant and equipment and investment property as of December 31, 2017 is approximately 20 years (as of December 31, 2016: 20 years). If estimated average useful life of these assets would increase by 1 year, the annual depreciation charge would have been lower by EUR 3.6 million (2016: EUR 1.8 million). If estimated average useful life of these assets would decrease by 1 year, the annual depreciation charge would have been higher by EUR 4.0 million (2016: EUR 1.9 million).

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

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

After the economic crisis in 2008, European economies struggled to recover, particularly in the steel consuming sectors such as the construction industry which led to a significant overcapacity in the European steel market and intense competition for tonnage amongst the steel mills. In addition, steel pricing in the EU continues to be influenced by the level of imports.

In 2013, there were deemed to be impairment indicators and the Company recorded significant impairment charges. The impairment test was performed again in 2014 through 2017 and resulted in further impairment losses in 2014 and 2015, partial reversal of impairment in 2016 and full reversal in 2017. As part of the impairment evaluation, the Company was divided into two cash-generating units and their recoverable amounts have been determined. The recoverable amount is the higher of fair value less costs of disposal or value in use. As the fair value less costs of disposal was higher than the value in use, the recoverable amounts of relevant cash-generating units have been determined on the basis of fair value calculation. Due to interdependence between individual Division Plants, the determination of cash-generating units was made based on two main steel product categories from which a sufficient volume of steel production is sold on active markets, specifically hot-rolled products on one side and cold-rolled products, coated products, 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 an 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 that 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 economic recovery across the EU with a corresponding increase in steel prices and improvement in steel demand.
- Cash flow projections beyond the five-year period have been extrapolated taking into account a terminal growth rate of 2.0 percent (2016: 2.9 percent) for sales and production costs and reflect the best estimates for stable perpetual growth of the Company. This percentage is consistent with long-term average growth rates for countries in which the Company sells the majority of its production. In 2017, a change in the terminal growth by 1 percent would not have materially changed the carrying value of the assets at all. In 2016, if terminal growth rate had increased by 1 percent, the carrying value of the assets would have been higher by EUR 19 million and if the terminal growth rate had decreased by 1 percent, the carrying value of the assets would have been lower by EUR 8 million.
- Cash flow projections also reflect the initiated shareholder value creation strategy: earn the right to grow, and drive and sustain profitable growth. Through a disciplined approach, now referred to as “The Carnegie Way”, the Company is working to strengthen its financial situation, with more intense focus on cash flow, and launched a series of initiatives that are believed to enable the Company to add value, get leaner, faster, right-sized, and improve performance in core business process capabilities, including commercial, supply chain, manufacturing, procurement, innovation, and operational and functional support.
- Cash flow projections were prepared in nominal terms.
- The discount rate applicable for 2017 was estimated in nominal terms at 10 percent (2016: 20 percent) based on the risk-adjusted post-tax weighted average cost of capital. The discount rate in 2016 reflected higher uncertainty inherent in the Company’s cash flow projections arising from geopolitical situation in Ukraine, which may affect raw materials and gas supplies, higher political risks resulting from the increased uncertainty in the EU relating to BREXIT and elections in major EU countries, the ongoing sluggish recovery of European steel consumption and level of imports into the EU, many of which we believe to be unfairly traded. The discount rate in 2017 was adjusted to reflect recent steel market improvements and reduced uncertainty inherent in Company’s cash flow projections. In 2017, the change in discount rate by 1 percent would not have materially changed the carrying value of the assets. The break-even point is 12.4 percent. In 2016, if discount rate had increased by 1 percent, the carrying value of the assets would have been lower by EUR 14 million and if the discount rate had decreased by 1 percent, the carrying value of the assets would have been higher by EUR 26 million.

In 2017, the impairment of assets was fully reversed. The reversal increased carrying amount of the assets up to the amount of depreciated historical costs if the impairment had not been recognized and the difference between impairment and depreciation was recognized in the Statement of profit or loss.

As of December 31, 2016, the remaining accumulated impairment attributable to each cash-generating unit was allocated to assets in the cash-generating unit on a pro rata basis based on the carrying amount of each asset. Carrying amount of individual assets were reduced only to the highest of the 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, was 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 was largely based on comparable transactions since, in management’s view, the necessary adjustments to the comparable transactions had insignificant impact. For these specific assets the valuation was within Level 2 of the fair value hierarchy.

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

Income taxes

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

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

Litigation

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

Employee benefits

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

Landfill provision

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

Note 4 New Accounting Pronouncements

4.1 Standards, amendments and interpretations to published standards effective for the first time for periods on or after January 1, 2017

The following new standards and interpretations became effective for the Company from January 1, 2017:

Disclosure Initiative - Amendments to IAS 7 (issued on January 29, 2016 and effective in the EU for annual periods beginning on or after January 1, 2017). The amended IAS 7 requires disclosure of a reconciliation of movements in liabilities arising from financing activities. The amendment did not have material impact as there was no material borrowings during 2017.

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after January 1, 2017 that had a material impact on the Company.

4.2 Standards, amendments and interpretations issued but not effective until the financial year beginning January 1, 2018 or later and not early adopted

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

Key features of the new standard are as follows:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortized cost, those to be measured subsequently at fair value through other comprehensive income and those to be measured subsequently at fair value through profit or loss.
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the

SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as fair value through other comprehensive income. Financial assets that do not contain cash flows that are SPPI must be measured at fair value through profit or loss (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses ("ECL") model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The new standard and interpretations are not expected to have a material impact on the Company's financial statements considering the structure and nature of the Company's financial instruments.

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

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

IFRS 16 "Leases" (issued in January 2016 and effective in the EU for annual periods beginning on or after January 1, 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company is currently evaluating the financial statement implications of adopting IFRS 16, and has begun an inventory of its leasing arrangements. The Company expects to finish it by the end of the year (Note 28).

Plan Amendment, Curtailment or Settlement – Amendments to IAS 19 (issued on February 7, 2018 and effective for annual periods beginning on or after January 1, 2019). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan – an amendment, curtailment or settlement – takes place, IAS 19 requires remeasuring net defined benefit liability or asset. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. These amendments have not yet been endorsed by the EU. The Company is currently assessing the impact of the amendment on its financial statements.

Transfers of Investment Property - Amendments to IAS 40 (issued on December 8, 2016 and effective for annual periods beginning on or after January 1, 2018). The amendments clarify the requirements on transfers to, or from investment property in respect of properties under construction. Prior to the amendments, there was no specific guidance on transfers into, or out of investment properties under construction in IAS 40. The amendment clarifies that there was no intention to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use. IAS 40 was amended to reinforce the principle of transfers into, or out of investment property in IAS 40 to specify that a transfer into, or out of investment property should only be made when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. Such a change in use should be supported by evidence. The Company is currently assessing the impact of the amendments on its financial statements.

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

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

Note 5 Property, Plant and Equipment

Movements in property, plant and equipment during 2017 are as follows:

	Land and buildings	Machinery, equipment and motor vehicles	Other tangible assets	Construction in progress	Total
Cost					
January 1, 2017	**475,852**	**1,210,668**	**18,895**	**31,752**	**1,737,167**
Additions	-	-	-	64,697	**64,697**
Disposals	(96)	(8,838)	(2,518)	(20)	**(11,472)**
Contribution to Ferroenergy s.r.o.	(27,566)	(106,102)	-	(47,329)	**(180,997)**
Transfer to / from investment property	391	-	-	-	**391**
Transfers to base	4,235	20,086	-	(24,321)	**-**
December 31, 2017	**452,816**	**1,115,814**	**16,377**	**24,779**	**1,609,786**
Accumulated Depreciation and Impairment of Assets					
January 1, 2017	**(265,090)**	**(898,848)**	**(18,795)**	**-**	**(1,182,733)**
Depreciation for the year	(6,290)	(34,449)	(316)	**-**	**(41,055)**
Disposals	1,861	5,719	-	**-**	**7,580**
Transfer to / from investment property	(178)	-	-	**-**	**(178)**
Contribution to Ferroenergy s.r.o.	6,399	34,248	-	**-**	**40,647**
Reversal of impairment (Impairment losses)	109,459	174,130	6,608	**-**	**290,197**
December 31, 2017	**(153,839)**	**(719,200)**	**(12,503)**	**-**	**(885,542)**
Carrying amount	**298,977**	**396,614**	**3,874**	**24,779**	**724,244**

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

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

No interest was capitalized in 2017 and 2016 (Note 16).

No property, plant and equipment was pledged in favor of a creditor or restricted in its use as of December 31, 2017 or December 31, 2016.

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

Additionally, purchases of property, plant 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 5 million for the year ended December 31, 2017 (for the year ended December 31, 2016: EUR 24 million).

In 2017, no impairment of property, plant and equipment, investment properties and intangible assets was recognized in relation to the first and the second cash generating unit. Impairment loss relating to the first cash generating unit was fully reversed primarily due to improved cash flow projections resulting from improved steel markets and reduced risks and uncertainty inherent in appropriate discount rate.

In 2016, 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 was higher than carrying amount of the unit, excluding the annual revaluation of emission allowances.

Impairment loss relating to the first cash generating unit was partially reversed primarily due to improved margins on hot-rolled coils prices of which started to grow significantly in the second half of 2016. The growth was driven mainly by a rise in raw material costs and tightened supply in the EU market caused by limited third country import volumes due to trade defense measures.

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

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 150 million, i.e. EUR 125 million using the exchange rate at the end of reporting period (2016: USD 500 million, i.e. EUR 474 million using the exchange rate as of December 31, 2016). 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 Risk Property Damage Insurance and Business Interruption Insurance including Machinery Breakdown excess of USD 150 million is covered by the insurance policy of Grant Assurance Corporation held by United States Steel Corporation, where the maximum limit of coverage is USD 650 million, i.e. EUR 542 million.

Property, Plant and Equipment acquired using Government Grant

In 2017, the Company invested EUR 6,433 thousand in Property, plant and equipment related to flue gas cleanup projects and emission control projects. The government grant related to the projects was EUR 3,831 thousand in 2017. The government grant was recognized in Other income in EUR 367 thousand in 2017. The Company did not acquire Property, plant and equipment using government grant in 2016.

If government grant is received to compensate costs of acquisition of fixed assets which were impaired, relating deferred income is released into income to match corresponding amount of impairment. As a result of full reversal of impairment in 2017, previously amortized government grant was again recognized in deferred income totaling EUR 5,660 thousand. As the Company believes that it complied with the grant conditions also for new projects, the Company recognized additional deferred income totaling EUR 19,956 thousand in 2017.

	2017	**2016**
Deferred income – government grant	**70,976**	-
Deferred income – additions	**19,956**	70,976
Deferred income – reversal of impairment	**5,660**	-
Less: Other income	**(367)**	-
Deferred income balance at year end	**96,225**	**70,976**

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

Note 6 Investment Properties

Movements in investment properties during 2017 and 2016 are as follows:

	2017	2016
Cost		
Opening balance as of January 1	**4,014**	**4,329**
Transfers to / from property, plant and equipment	**(391)**	170
Disposals	**-**	(485)
Closing balance as of December 31	**3,623**	**4,014**
Accumulated Depreciation and Impairment Losses		
Opening balance as of January 1	**(1,285)**	**(1,238)**
Depreciation for the year	**(84)**	(97)
Transfers to / from property, plant and equipment	**178**	(103)
Disposals	**-**	153
Closing balance as of December 31	**(1,191)**	**(1,285)**
Carrying amount	**2,432**	**2,729**

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 were immaterial.

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

The fair value of the investment properties totaled EUR 5,240 thousand as of December 31, 2017 (December 31, 2016: EUR 5,964 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 2017 are as follows:

	Software	Emission allowances	Other intangible assets	Intangible assets not yet available for use	Total
Cost					
January 1, 2017	**33,840**	**40,204**	**643**	**1,109**	**75,796**
Additions	-	66,298	-	2,134	**68,432**
Disposals	(45)	(53,913)	(2)	(2)	**(53,962)**
Contribution to Ferroenergy s.r.o.	(114)	-	-	(5)	**(119)**
Revaluation surplus	-	14,686	-	-	**14,686**
Transfers to base	1,999	-	-	(1,999)	**-**
December 31, 2017	**35,680**	**67,275**	**641**	**1,237**	**104,833**
Accumulated Amortization and Impairment of Assets					
January 1, 2017	**(26,958)**	-	**(367)**	-	**(27,325)**
Amortization for the year	(1,929)	-	(48)	-	**(1,977)**
Disposals	64	-	(16)	-	**48**
Contribution to Ferroenergy s.r.o.	97	-	-	-	**97**
Reversal of impairment (Impairment losses)	13	-	-	-	**13**
December 31, 2017	**(28,713)**	**-**	**(431)**	**-**	**(29,144)**
Carrying amount	**6,967**	**67,275**	**210**	**1,237**	**75,689**

Movements in intangible assets during 2016 are as follows:

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

No interest was capitalized in 2017 and 2016 (Note 16).

No intangible assets were pledged in favor of a creditor or restricted in their use as of December 31, 2017 or December 31, 2016.

<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 from the Slovak Government. The emission allowances were initially measured at fair value as of the allocation date at EUR 5.04 per ton (2016: EUR 4.95 per ton). The emission 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.

Based on projected future production levels, the Company started to purchase emission allowances in the third quarter of 2017 to meet the annual compliance submission in the future. As of December 31, 2017, the Company purchased 5 million European Union Allowances (EUA) totaling EUR 36 million. Emission allowances granted for free in 2017 totaled EUR 30 million.

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

	December 31, 2017	December 31, 2016
Emission allowances (intangible asset)	**67,275**	40,204
Liability from the obligation to deliver allowances (provision) (Note 17)	**48,684**	57,993

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, 2017	Level 1	Level 2	Level 3	Total
Assets				
Emission allowances	67,275	-	-	**67,275**
Total	**67,275**	**-**	-	**67,275**

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

During the year 2017 and 2016, 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 52,589 thousand as of December 31, 2017 (December 31, 2016: EUR 30,087 thousand).

Note 8 Investments

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

Entity, Country of incorporation, Principal activities	December 31, 2017	December 31, 2016 (2)
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)	**189**	341
Equity	**4,059**	4,194
U.S. Steel Košice – SBS, s.r.o., Slovakia, Security Services		
Ownership interest (%)	**98.00**	98.00
Carrying amount	**34**	34
Profit / (loss)	**53**	67
Equity	**334**	349

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

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)	**432**	769
	Equity	**16,341**	16,677
U. S. Steel Services s.r.o., Slovakia, Various Services			
	Ownership interest (%)	**99.96**	99.96
	Carrying amount	**1,804**	1,804
	Profit / (loss)	**189**	273
	Equity	**2,779**	2,849
OBAL-SERVIS, a.s. Košice, Slovakia, Packaging			
	Ownership interest (%)	**100.00**	100.00
	Carrying amount	**6,106**	6,106
	Profit / (loss)	**510**	669
	Equity	**6,612**	6,705
Ferroenergy s.r.o., Slovakia, Production of Electricity, Steam, Hot Water and Technical Gases			
	Ownership interest (%)	**99.99**	-
	Carrying amount	**130,198**	**-**
	Profit / (loss)	**6,393**	**-**
	Equity	**128,132**	**-**
U. S. Steel Europe – Bohemia a.s., Czech Republic, Sales Agent			
	Ownership interest (%)	**100.00**	100.00
	Carrying amount	**387**	420
	Profit / (loss)	**64**	(68)
	Equity	**1,639**	1,488
U. S. Steel Europe – France S.A. (1), France, Sales Agent			
	Ownership interest (%)	**99.94**	99.94
	Carrying amount	**212**	212
	Profit / (loss)	**35**	14
	Equity	**204**	183
U. S. Steel Europe – Germany GmbH(1), Germany, Sales Agent			
	Ownership interest (%)	**100.00**	100.00
	Carrying amount	**490**	512
	Profit / (loss)	**36**	20
	Equity	**1,255**	1,245
U. S. Steel Europe – Italy S.r.l. (1), Italy, Sales Agent			
	Ownership interest (%)	**100.00**	100.00
	Carrying amount	**110**	110
	Profit / (loss)	**8**	1
	Equity	**121**	113
Total carrying amount of investments		**143,586**	**13,443**

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

(1) Financial information for the year 2017 is unaudited.

(2) Financial information for the year 2016 is audited.

The change in carrying amounts of investments in U. S. Steel Europe – Germany GmbH and U. S. Steel Europe – Bohemia a.s. as of December 31, 2017 relates to adjustments made in the provisions for impairment to the investments.

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

None of the Company's ownership interests in subsidiaries were pledged as of December 31, 2017 or December 31, 2016.

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

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

A new subsidiary, Ferroenergy s.r.o., was established on February 4, 2017 as a limited liability company. Majority (99.99 percent) of the share in registered capital totalling EUR 121,809 thousand is owned by USSK, remaining minority share (0.01 percent) is owned by USSK's subsidiary OBAL-SERVIS, a.s. Košice. The principal activity of Ferroenergy s.r.o. is production of electricity, steam, hot water and technical gases as well as operation and maintenance of relating distribution network. On December 1, 2017, USSK separated and contributed Division Plant Ferroenergy to the registered capital of Ferroenergy s.r.o. and the subsidiary effectively started its operation since then. The value of contributed assets, which has USSK book value totalling EUR 130,198 thousand. Total revenues generated in December 2017 were EUR 15,693 thousand, 99 percent of it realized within the USSK group.

Contribution assets and liabilities to Ferroenergy s.r.o.	
Property, plant and equipment and Intangible assets	140,373
Receivables	1,758
Trade payables	(5,192)
Provisions and accruals	(5,412)
Liabilities to employees and social security insurance	(557)
Other	(773)
Total	**130,198**

Note 9 Deferred Income Tax

Differences between IFRS, as adopted by the EU and Slovak tax laws give rise to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is recorded at the rate of 21 percent as of December 31, 2017 (2016: 21 percent).

The tax effect of the movements in the temporary differences during year 2017 is as follows:

	January 1, 2017	**Recognized in profit or loss**	**Recognized in other comprehensive income**	**December 31, 2017**
Property, plant and equipment	**13,404**	(66,499)	-	**(53,095)**
Inventories	**1,766**	744	-	**2,510**
Employee benefits	**6,964**	31	63	**7,058**
Deferred charges	**756**	(624)	-	**132**
Provision for impairment of receivables	**105**	(51)	-	**54**
Unused tax loss 2012 and 2013	**2,863**	(2,863)	-	**-**
Emission allowances transactions	**(113)**	245	(80)	**52**
Derivative financial instruments	**(1,772)**	-	3,606	**1,834**
Other temporary differences	**3,575**	(1,508)	-	**2,067**
Total	**27,548**	**(70,525)**	**3,589**	**(39,388)**
Deferred tax asset / (liability)	**27,548**			**(39,388)**

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

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

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

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

	December 31, 2017	December 31, 2016
Deferred tax to be realized within 12 months	**13,443**	13,337
Deferred tax to be realized after 12 months	**(52,831)**	14,211

The Company has unrecognized potential deferred tax liability of EUR 951 thousand related to subsidiaries as of December 31, 2017 (December 31, 2016: deferred tax asset of EUR 799 thousand).

Tax loss carryforward

The Company did not report a tax loss in 2017. The 2016 cumulative tax loss amounted to EUR 13,641 thousand. The tax loss carryforward from 2016 was fully utilized in 2017.

Impairment of property, plant and equipment

By the end of 2016, the Company recognized a deferred tax asset for the impairment of property, plant and equipment in accordance with *IAS 12 Income taxes.* The deferred tax asset was reversed in 2017.

Note 10 Restricted Cash

	December 31, 2017	December 31, 2016
Cash restricted in its use - long-term portion	**4,747**	7,289
Cash restricted in its use - short-term portion	**3,566**	66
Total (Notes 26 and 27)	**8,313**	**7,355**

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

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

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

Note 11 Inventories

	December 31, 2017	December 31, 2016
Raw materials	**167,626**	154,265
Work-in-progress	**46,794**	41,802
Semi-finished production	**39,864**	41,725
Finished products	**97,160**	92,652
Merchandise	**2,419**	-
Total	**353,863**	**330,444**

No inventories were pledged in favor of a creditor or restricted in their use as of December 31, 2017 or December 31, 2016.

Inventory as of December 31, 2017 is shown net of write-down allowances resulting from lower net realizable values totaling EUR 1,941 thousand (December 31, 2016: EUR 3,094 thousand).

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

	Raw materials	Work in progress	Semi-finished production	Finished products	Total
January 1, 2017	**480**	**734**	**987**	**894**	**3,095**
Allowance made	183	134	134	(428)	**23**
Allowance used	(26)	(465)	(448)	(54)	**(993)**
Allowance reversed	15	(80)	(47)	(72)	**(184)**
December 31, 2017	**652**	**323**	**626**	**340**	**1,941**

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

Note 12 Trade and Other Receivables

	December 31, 2017	December 31, 2016
Trade receivables	**345,125**	321,864
Related party accounts receivable (Note 29)	**18,643**	616
Total trade receivables	**363,768**	**322,480**
Advance payments made	**5,374**	5,731
VAT receivable	**38,693**	33,323
Other receivables – government grants	**90,491**	70,976
Other receivables	**2,156**	1,220
Trade and other receivables (gross)	**500,482**	**433,730**
Provision for impairment of trade receivables	**(19,760)**	(20,047)
Provision for impairment of other receivables	**(5)**	(5)
Trade and other receivables (net)	**480,717**	**413,678**
Long-term receivables	**41,587**	68,401
Short-term receivables	**439,130**	345,277

No receivables of the Company were pledged in favor of a bank or other entities as of December 31, 2017 or December 31, 2016. The maximum credit risk exposure at the end of reporting period is the carrying amount of each class of receivable mentioned above. Information about collateral or other credit enhancements and the overall credit risk of the Company is disclosed in Note 26.

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

Government Grants

In 2016, the Ministry of Environment of the Slovak Republic approved the Company's application for ten EU grants from Operational Program Environment Quality for the purpose of Dedusting of Ladle Metallurgy of Steel Shop No.1 and Steel Shop No. 2, Emission Control for Ore Bridges of Blast Furnaces No.1 and No.3, Sinter Strand No. 1 - 4 Exit Emission Control, Dedusting of Sinter Strand No. 1 – 4. In 2017, additional five grants were approved for following Company's projects: Steel Shop No. 2 Dedusting – Hot Metal Desulphurization, Coal Preparation Emission Control, Coke Handling Dedusting at Coke Bateries No. 1 and 3 and Emission Control for Ore Bridges of Blast Furnace No. 2. The approved amount of these grants was 55 - 90 percent of the identified eligible costs of these projects, which represent the amount of EUR 90 million (2016: EUR 71 million) as of December 31, 2017, out of which EUR 42 million is relating to the year 2019 and later.

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

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

	December 31, 2017	December 31, 2016
EUR	**351,840**	303,125
USD	**2,464**	5,877
Other	**9,464**	13,478
Total	**363,768**	**322,480**

The structure of trade receivables is as follows:

	December 31, 2017	December 31, 2016
Receivables not yet due and not impaired	**312,056**	293,481
Receivables past due but not impaired	**13,342**	8,374
Receivables impaired	**19,727**	20,009
Trade receivables	**345,125**	**321,864**
Receivables not yet due and not impaired	**18,270**	578
Receivables past due but not impaired	**340**	-
Receivables impaired	**33**	38
Related party accounts receivable	**18,643**	**616**
Total	**363,768**	**322,480**

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

	December 31, 2017	December 31, 2016
No or low-risk counterparties	**144,216**	172,118
Increased risk counterparties	**167,840**	121,363
Trade receivables	**312,056**	**293,481**
No or low-risk counterparties	**5,796**	575
Increased risk counterparties	**12,474**	3
Related party accounts receivable	**18,270**	**578**
Total	**330,326**	**294,059**

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

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

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

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

	December 31, 2017	December 31, 2016
Past due 0 – 30 days	**12,971**	8,218
Past due 30 – 90 days	**271**	155
Past due 90 – 180 days	**75**	1
Past due more than 180 days	**25**	-
Trade receivables	**13,342**	**8,374**
Past due 0 – 30 days	**340**	**-**
Related party accounts receivable	**340**	**-**
Total	**13,682**	**8,374**

Discounted present value of receivables past due is not materially different from their book values as of December 31, 2017 and 2016.

Ageing structure of trade receivables individually impaired is as follows:

	December 31, 2017	December 31, 2016
Not yet due	**-**	-
Past due 0 – 30 days	**-**	-
Past due 30 – 90 days	**-**	518
Past due 90 – 180 days	**-**	62
Past due 180 – 365 days	**-**	59
Past due over 365 days	**19,727**	19,370
Trade receivables	**19,727**	**20,009**
Not yet due	**-**	-
Past due 0 – 30 days	**-**	-
Past due 30 – 90 days	**-**	-
Past due 90 – 180 days	**-**	-
Past due 180 – 365 days	**-**	-
Past due over 365 days	**33**	38
Related party accounts receivable	**33**	**38**
Total	**19,760**	**20,047**

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, 2017	**20,009**	**38**	**5**	**-**	**20,052**
Provision made	198	**-**	-	**-**	198
Receivables written-off	(273)	(1)	-	-	(274)
Provision reversed	(207)	(4)	-	-	(211)
December 31, 2017	**19,727**	**33**	**5**	**-**	**19,765**

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

Accounts receivable totaling EUR 274 thousand were written off in 2017 (2016: EUR 304 thousand).

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

Note 13 Derivative Financial Instruments

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

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses on forward foreign exchange contracts recognized in other comprehensive income and accumulated in revaluation reserves in equity (Note 15) as of December 31, 2017 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, 2017 and December 31, 2016 recognized in other comprehensive income and accumulated in revaluation reserves in equity were reclassified into profit or loss in 2017, respectively 2016. The actual value recognized in Other operating expenses in 2017 amounts to EUR 3 million (2016: loss of EUR 2 million).

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

	December 31, 2017		December 31, 2016	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Foreign exchange forwards – cash flow hedges	**48**	**8,782**	8,595	158
Total	**48**	**8,782**	**8,595**	**158**

Balances as of December 31, 2017 and December 31, 2016 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 and Commerzbank as of December 31, 2017 and with ING Bank N.V., Citibank Europe plc, Commerzbank and The Bank of Nova Scotia as of December 31, 2016. The financial asset for each counterparty represents less than 40 percent of total financial assets. The ratings of the banks are BBB+ and higher (according to Standard & Poor's) as of December 31, 2017 (December 31, 2016: BBB+ and higher). Information about the fair value hierarchy as of December 31, 2017 is disclosed in Note 27.

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, 2017	December 31, 2016
Payable on settlement in EUR thousand	**(233,812)**	(157,377)
Receivable on settlement in USD thousand	**273,000**	176,250

The Company is exposed to a fluctuation of Iron Ore, Zinc and Tin purchase prices. In order to eliminate the Company's exposure to Iron Ore, Zinc and Tin prices fluctuation, the Company entered into commodity forwards to protect its profit margin. All commodity forwards commenced in 2017 matured in 2017, resulting in an amount of 0 EUR (in 2016: gain of 2,728 thousand EUR).

Note 14 Cash and Cash Equivalents

	December 31, 2017	December 31, 2016
Cash on hand	**57**	49
Cash at bank	**300,573**	115,724
Total (Note 27)	**300,630**	**115,773**

Interest rates on bank accounts were approximately 0.15 percent per annum for EUR deposits, 1.13 percent per annum for USD deposits and 0.07 percent per annum for CZK deposits as of December 31, 2017 (December 31, 2016: 0.15 percent per annum for EUR deposits, 0.60 percent per annum for USD deposits and 0.07 percent per annum for CZK deposits). Interest rates at bank accounts denominated in other currencies are not disclosed as the balances in these accounts are not material.

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

Cash restricted in its use is presented in Note 10.

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

Note 15 Equity

Share capital

The Company's registered and fully paid in capital is EUR 839,357 thousand. The Company does not have unregistered increased share capital as of December 31, 2017.

Reserve funds

The movement in reserve funds is as follows:

	Other capital funds	Legal reserve fund	Derivative hedging instruments	CO2 emission allowances	Total
January 1, 2017	**44**	**27,110**	**6,699**	**6,972**	**40,825**
Changes in fair value of derivative hedging instruments	-	-	(10,125)	-	**(10,125)**
Changes in fair value of CO_2 emission allowances	-	-	-	11,462	**11,462**
Realisation of revaluation surplus	-	-	-	(6,972)	**(6,972)**
Release of fair value of derivative hedging instruments	-	-	(3,611)	-	**(3,611)**
Contribution to legal reserve fund	-	13,525	-	-	**13,525**
December 31, 2017	**44**	**40,635**	**(7,037)**	**11,462**	**45,104**

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

As of December 31, 2017, the closing balance of revaluation reserves consisted of the revaluation reserve for derivative hedging instruments in the amount of EUR (7,037) thousand and the revaluation reserve for CO_2 emission allowances in the amount of EUR 11,462 thousand (December 31, 2016: the closing balance of the revaluation reserves consisted of revaluation reserve for derivative hedging instruments in the amount of EUR 6,699 thousand and the revaluation reserve for CO_2 emission allowances in the amount of EUR 6,972 thousand). The remeasurements of post employment benefit obligations in 2017 and 2016 are recognized in Retained Earnings / Accumulated Losses.

Dividends

In April 2017, dividends totaling EUR 279,337 thousand were approved for distribution and paid to U. S. Steel Global Holdings VI B.V. There were no declared but unpaid dividends as of December 31, 2017 (December 31, 2016: no declared but unpaid dividends).

Note 16 Long-Term Loans and Borrowings

The USD 500 million unsecured credit facility with U. S. Steel Global Holdings I B.V. expired in March 2017 and was not renewed. No borrowings were drawn against this credit facility as of March 31, 2017 and December 31, 2016.

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

On February 22, 2016, the Company entered into a EUR 200 million multicurrency revolving unsecured credit facility with Commerzbank, ING Bank N.V., Slovenská sporiteľňa a.s., Komerční banka, a.s. and Citibank Europe plc that replaced original credit facility which was set to expire in July 2016. The USSK Credit Agreement expires in July 2020. The USSK Credit Agreement permits one additional one-year extension to the final maturity date at the mutual consent of USSK and its lenders. As of December 31, 2017 and December 31, 2016, there were no borrowings against this credit facility.

The existing credit facility in the amount of EUR 40 million may be used for working capital financing, drawing bank overdraft, and issuing of bank guarantees and letters of credit until December 2018. As of December 31, 2017, the credit facility has been used in the amount of EUR 328 thousand for bank guarantees (December 31, 2016: EUR 133 thousand).

On October 27, 2017, USSK entered into an amendment No.3 to its Bilateral Loan Agreement in the amount of EUR 10 million between the Company and Commerzbank to extend the agreement's final maturity date from December 2017 to December 2018. The amendment also permits one additional one-year extension to the final maturity date at the mutual consent of USSK and its lender. As of December 31, 2017, the credit facility has been used in the amount of EUR 1,975 thousand for bank guarantees (December 31, 2016: EUR 2,116 thousand).

Within available credit facilities, the Company can draw loans with terms of not more than six months with interest fixed for each particular loan at the applicable inter-bank offer rate plus margin. Each of these facilities bear interest at the applicable inter-bank offer rate plus a margin and 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 2017 and 2016 the Company did not draw any loans against these credit facilities.

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

Note 17 Provisions for Liabilities

Movements in provisions for liabilities were as follows:

	Landfill	Litigation	CO_2 emissions	Other	Total
January 1, 2017	**11,519**	**467**	**57,993**	**90**	**70,069**
Provision made	-	687	72,343	731	**73,761**
Provision used / reversed	(2,287)	(23)	(57,993)	(771)	**(61,074)**
Allocaton to Ferroenergy s.r.o.	-		(23,659)	-	**(23,659)**
December 31, 2017	**9,232**	**1,131**	**48,684**	**50**	**59,097**
Long-term provisions	5,762	-	-	-	**5,762**
Short-term provisions	3,470	1,131	48,684	50	**53,335**

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

The movement of provisions caused by the passage of time (i.e. accretion expense) in 2017 and 2016 was immaterial.

Provision reversals for the year 2017 and 2016 were immaterial.

<u>Landfill</u>

The provision for closing, reclamation and after-close monitoring of landfills is recognized based on the Law on Waste. In 2017, the Company had four landfills; two for non-hazardous waste and two for hazardous waste. Reclamation of one hazardous and one non-hazardous landfill was completed, and those landfills were closed in 2011 and 2013. 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.

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

Litigation

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

CO_2 emissions

A provision was recognized for CO_2 emissions emitted in 2017. The provision is calculated as a multiple of the final volume of CO_2 emitted for the calendar year and the fair value of CO_2 emission allowances on the European Climate Exchange as of the date of the financial statements. The provision was charged to Other operating expenses (Note 23). Amortization of related deferred income from assigned CO_2 emission allowances is recognized in Other income (Note 20). The Company has allocated CO_2 emission allowances in amount of EUR 23,659 thousand (2,906,438 tons of emission allowances with fair value EUR 8.14 per ton) to new subsidiary Ferroenergy s.r.o. as of December 31, 2017 based on agreement of settlement and recognized a respective payable to Ferroenergy s.r.o. (Note 29). The payable was settled with CO_2 emission allowances in 2018.

Other

Other provisions include provisions for warranty.

Note 18 Employee Benefits Obligations

Employee retirement obligation

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

Work and life jubilee benefits

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

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

	2017	2016
January 1	**33,305**	32,882
Total expense charged in profit or loss – pension	**1,280**	1,512
Total expense charged in profit or loss – jubilee	**467**	501
Total expense charged in profit or loss – termination	**(8)**	4,591
Remeasurements of post employment benefit obligations	**513**	(335)
Benefits paid	**(1,235)**	(5,846)
Contribution to Ferroenergy s.r.o.	**(597)**	-
December 31	**33,725**	**33,305**
Long-term employee benefits payable	**32,454**	31,879
Short-term employee benefits payable	**1,271**	1,426

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

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

	December 31, 2017	December 31, 2016
Present value of the obligation – pension	**20,946**	19,913
Present value of the obligation – jubilee	**8,635**	8,787
Present value of the obligation – termination	**22**	95
Remeasurements of post employment benefit obligations	**4,719**	4,510
Contribution to Ferroenergy s.r.o.	**(597)**	-
Total liability in the statement of financial position	**33,725**	**33,305**

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

	2017	2016
Current service costs – pension	**1,194**	1,043
Current service costs – jubilee	**384**	374
Current service costs – termination	**(8)**	4,591
Interest costs	**443**	597
Net actuarial losses / (gains)	**214**	351
Pension recalculation change	**(274)**	-
Remeasurements of post employment benefit obligations	**299**	(687)
Total	**2,252**	**6,269**

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

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

	2017	2016
Discount rate - pension	**1.50%**	1.50%
Discount rate - jubilee	**1.00%**	1.00%
Annual wage and salary increases	**5.00%**	5.00%
Staff turnover (1)	**5.00%**	5.00%

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

For calculating the discount rate for euro-denominated pension and postretirement obligations in accordance with *IAS 19 Employee benefits,* the Company used a suitable bond yield curve. The yield curve used was a Euro bond yield as of December 31, 2017 developed by Conduent, Inc. The curve plots yield rates as a function of time. Each point on the curve represents a spot rate that can be used to discount a benefit amount expected to be paid at that time. The curve is constructed by examining the yields on selected highly rated corporate bonds.

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 24.9 percent (2016: 24.5 percent) of total salaries and other employee benefits up to a monthly salary limit of EUR 6,181 (2016: EUR 4,290). The monthly salary limit for calculation of the health insurance contribution was canceled for the year 2017. For comparison, considering using the monthly salary limit of EUR 6,181 for the health insurance contribution calculation and consecutive comparison to annual health insurance calculation of the employer lead to the cost increase by EUR 547 thousand.

The amount of contributions for social security is presented in Note 22.

In addition, with respect to employees who have chosen to participate in a supplementary pension scheme, the Company made contributions to the supplementary scheme amounting to 1.7 percent of the monthly accounted wage in 2017 (2016: 1.6 percent).

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

Information for pension plans with an accumulated benefit obligation:

	December 31, 2017	December 31, 2016
Accumulated benefit obligation (ABO)	**25,033**	25,984
Effects of Future Compensation	**8,670**	7,226
Projected benefit obligation (PBO)	**33,703**	**33,210**
Termination	**22**	95
Total liability in the statement of financial position	**33,725**	**33,305**

Note 19 Trade and Other Payables

	December 31, 2017	December 31, 2016
Trade payables	**171,063**	209,856
Related party accounts payable (Note 29)	**57,451**	12,261
Assigned trade payables [(1)]	**88,632**	35,282
Uninvoiced deliveries and other accrued expenses	**116,984**	84,344
Trade payables and accruals (Note 26)	**434,130**	**341,743**
Advance payments received	**3,710**	3,636
Liability to employees and social security institutions	**31,162**	34,781
VAT and other taxes and fees	**5,968**	4,627
Other payables	**6,587**	3,947
Total	**481,557**	**388,734**

[(1)] Assigned trade payables are trade payables which are not going to be paid to original supplier because receivable against the Company was transferred to other creditor mainly as a result of supply chain financing.

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, 2017.

	December 31, 2017	December 31, 2016
Short-term trade and other payables	**480,116**	384,708
Long-term trade and other payables	**1,441**	4,026
Total	**481,557**	**388,734**

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

	December 31, 2017	December 31, 2016
Trade and other payables not yet due	**462,979**	380,953
Trade and other payables past due	**18,578**	7,781
Total	**481,557**	**388,734**

Trade and other payables past due totaling EUR 9 million were paid on January 2, 2018.

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

	December 31, 2017	December 31, 2016
EUR	**333,657**	275,643
USD	**95,246**	65,939
Other	**5,227**	161
Total	**434,130**	**341,743**

(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:

	2017	2016
Opening balance as of January 1	**72**	**100**
Company contribution (company costs)	**1,650**	1,548
Employees contribution (repayments)	**47**	103
Withdrawals	**(1,606)**	(1,679)
Closing balance as of December 31	**163**	**72**

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

Note 20 Revenue and Other Income

The main activities of the Company are the production and sale of steel products, which include slabs, sheet, strip mill plate, tin mill products, spiral welded pipes and panel radiators. In addition, the Company also produced and distributes electricity, heat and gas. Electricity and heat is produced by the subsidiary Ferroenergy s.r.o.. effective December 1, 2017. 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 ultimate parent company.

Revenue consists of the following:

	2017	2016
Sales of own production	**2,585,612**	1,994,163
Sales of merchandise	**3,161**	3,183
Rendering of services	**23,475**	19,925
Total	**2,612,248**	**2,017,271**

In 2017 and 2016, sales of merchandise represent primarily sales of electricity.

<u>Other income</u>

Other income consists of the following:

	2017	2016
Amortization of deferred income - CO_2 emission allowances	**30,038**	30,075
Recognition of deferred income - government grant (Note 5)	**(5,293)**	-
Gain on disposal of property, plant and equipment, investment property and intangible assets	**-**	1,073
Gain on derivative financial instruments	**-**	5,704
Rental income	**1,443**	1,811
Income from contractual penalties	**358**	624
Other income	**4,357**	3,913
Total	**30,903**	**43,200**

Note 21 Materials and Energy Consumed

Materials and energy consumed is comprised of the following:

	2017	2016
Materials consumed	**(1,487,532)**	(1,034,178)
Energy consumed	**(133,045)**	(121,708)
Costs of merchandise sold	**(3,477)**	(3,182)
Changes in internally produced inventory	**6,802**	17,463
Inventory write-down allowance (Note 11)	**161**	(132)
Total	**(1,617,091)**	**(1,141,737)**

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

Note 22 Salaries and Other Employee Benefits

Salaries and employee benefits are comprised of the following:

	2017	2016
Wages and salaries	**(197,101)**	(196,346)
Profit sharing expense	**(13,556)**	(7,375)
Termination benefits (Note 18)	**8**	(4,591)
Mandatory social and health insurance to all insurance funds (Note 18)	**(74,483)**	(72,110)
Other social expenses	**(12,187)**	(11,915)
Pension expenses – retirement and work and life jubilees (Note 18)	**(1,518)**	(1,768)
Total	**(298,837)**	**(294,105)**

The average number of the Company's employees for 2017 was 10,059 (2016: 10,092).

Note 23 Other Operating Expenses

Other operating expenses during 2017 and 2016 are as follows:

	2017	2016
Packaging	**(14,086)**	(13,192)
Cleaning and waste disposal	**(8,637)**	(8,609)
Rent	**(1,661)**	(1,933)
Advertising and promotion	**(2,841)**	(2,609)
Intermediary fees	**(2,233)**	(2,746)
Training	**(1,007)**	(819)
Charge for provision for CO_2 emissions (Note 17)	**(72,343)**	(57,993)
Impairment of receivables release and receivables written-off (Note 12)	**13**	(641)
Fair value (gains)/losses on derivative financial instruments	**(2,917)**	-
Loss on disposal on property, plant and equipment and intangible assets	**(1,229)**	-
Real estate tax and other taxes	**(5,111)**	(5,468)
Intangible assets, licences, trade marks, licence support	**(12,025)**	(10,112)
Laboratory and heat tests	**(6,294)**	(6,083)
External processing	**(15,018)**	(14,639)
Costs of processing of steel slag, sludge and dust	**(5,312)**	(5,070)
Audit fees	**(729)**	(598)
Other services provided by the auditor	**(6)**	(12)
Other operating expenses (1)	**(62,324)**	(68,498)
Total	**(213,760)**	**(199,022)**

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

Note 24 Income Tax

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

	2017	2016
Current tax	**(44,734)**	(29,675)
Deferred tax (Note 9)	**(70,525)**	(48,439)
Total	**(115,259)**	**(78,114)**

(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:

	2017	2016
Profit before tax	**565,180**	348,628
Tax calculated at 21% tax rate (2016: 22%)	**(118,688)**	(76,698)
Non-deductible expenses	**5,818**	197
Impact on deferred tax from a change in a tax rate (22% to 21%)	**-**	(1,448)
Other	**(2,389)**	(165)
Tax (charge) / credit	**(115,259)**	**(78,114)**

The effective tax rate was 21 percent in 2017 (2016: 22 percent). Effective January 1, 2017 the income tax rate decreased from 22 percent to 21 percent.

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

	2017			2016		
	Before tax	Tax (charge) / credit	After tax	Before tax	Tax (charge) / credit	After tax
Changes in fair value of derivative hedging instruments	**(17,342)**	**3,606**	**(13,736)**	3,488	(1,211)	2,277
Changes in actuarial gains and losses	**(299)**	**63**	**(236)**	687	(197)	490
Revaluation of intangible assets	**14,686**	**(80)**	**14,606**	9,540	(2,028)	7,512
Other comprehensive income	**(2,955)**	**3,589**	**634**	**13,715**	**(3,436)**	**10,279**

Note 25 Capital Management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns for the shareholder and to pay obligations as they come due. The Company's overall strategy did not change from 2016.

The capital structure of the Company consists of debt (Note 16 and Note 29) totaling EUR 10,478 thousand as of December 31, 2017 (December 31, 2016: EUR 10,187 thousand) and equity (Note 15) totaling EUR 1,344,262 thousand as of December 31, 2017 (December 31, 2016: EUR 1,173,044 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, 2017 and December 31, 2016.

Note 26 Financial Risk Management

Financial risk is managed in compliance with policies and procedures established by U. S. Steel. The use of risk management instruments is controlled by U. S. Steel management which has authorized the use of futures, forwards, swaps and options to manage exposure to price fluctuations of certain commodities and foreign currency transactions. The derivative instruments, if used, 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.

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

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

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

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

December 31, 2017	Derivative financial instruments	Loans and receivables
Trade and other receivables (Note 12)		
Trade receivables (net)	-	325,365
Related party accounts receivables (net)	-	18,643
Other receivables – government grants	-	90,491
Other receivables (net)	-	2,151
Derivative financial instruments (Note 13)		
Forward foreign exchange	48	-
Short-term loans (Note 29)		
Short-term loans provided to related parties	-	1,206
Cash and cash equivalents (Note 14)		
ING Bank N.V.	-	58,177
COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky	-	31,390
Citibank (Slovakia) a.s.	-	65,259
Slovenská sporiteľňa, a.s.	-	27,446
Komerční Banka, a.s.	-	25,382
Československá obchodná banka, a.s.	-	49,100
Všeobecná úverová banka	-	43,800
Other banks	-	19
Cash on hand	-	57
Cash restricted in its use (Note 10)		
Slovenská sporiteľňa, a.s.	-	831
Všeobecná úverová banka, a.s.	-	6,214
COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky	-	1,201
ING Bank N.V.	-	67
Total	**48**	**746,799**

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

December 31, 2016	Derivative financial instruments	Loans and receivables
Trade and other receivables (Note 12)		
Trade receivables (net)	-	301,817
Related party accounts receivables (net)	-	616
Other receivables – government grants	-	70,976
Other receivables (net)	-	1,215
Derivative financial instruments (Note 13)		
Forward foreign exchange	8,595	-
Short-term loans (Note 29)		
Short-term loans provided to related parties	-	250,328
Cash and cash equivalents (Note 14)		
ING Bank N.V.	-	31,282
COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky	-	34,449
Citibank (Slovakia) a.s.	-	22,711
Slovenská sporiteľňa, a.s.	-	24,414
Komerční Banka, a.s.	-	2,781
Other banks	-	87
Cash on hand	-	49
Cash restricted in its use (Note 10)		
Slovenská sporiteľňa, a.s.	-	832
Všeobecná úverová banka, a.s.	-	5,460
COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky	-	1,044
ING Bank N.V.	-	19
Total	**8,595**	**748,081**

The maximum exposure to credit risk at the reporting date is the carrying value of the above mentioned financial assets before consideration of collateral and other credit enhancements. The Company mitigates credit risk for approximately 69 percent (2016: 69 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:

	2017	2016
Credit insurance	**59%**	57%
Letters of credit and documentary collection	**5%**	6%
Bank guarantees	**2%**	2%
Other credit enhancements	**3%**	4%
Credit enhanced sales	**69%**	**69%**
Unsecured sales	**31%**	31%
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.

During 2017, the Company drew short-term borrowings as a part of the Company's cash pooling strategy of EUR 72,490 thousand and repaid EUR 73,304 thousand and provided to its subsidiaries the amount of EUR 1,593 thousand and got paid EUR 387 thousand. During 2016, the Company under this strategy drew amount of EUR 73,387 thousand from which EUR 72,641 thousand 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, 2018 with the option to be prolonged.

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

Long-term borrowings are disclosed in Note 16.

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

December 31, 2017	0 – 1 year	1 – 5 years	over 5 years	Total
Assets				
Cash and cash equivalents	300,630	-	-	**300,630**
Restricted cash	3,566	-	4,747	**8,313**
Trade receivables (net)	344,008	-	-	**344,008**
Other receivables – government grants	48,904	41,587	-	**90,491**
Derivative financial instruments	227,633	-	-	**227,633**
Intercompany short - term loans provided	1,206	-	-	**1,206**
Total	**925,947**	**41,587**	**4,747**	**972,281**
Liabilities				
Trade payables and accruals	432,687	1,443	-	**434,130**
Derivative financial instruments	233,812	-	-	**233,812**
Loans and borrowings	10,478	-	-	**10,478**
Total	**676,977**	**1,443**	**-**	**678,420**

December 31, 2016	0 – 1 year	1 – 5 years	over 5 years	Total
Assets				
Cash and cash equivalents	115,773	-	-	**115,773**
Restricted cash	66	-	7,289	**7,355**
Trade receivables (net)	302,433	-	-	**302,433**
Other receivables – government grants	2,575	68,401	-	**70,976**
Derivative financial instruments	167,204	-	-	**167,204**
Intercompany short - term loans provided	250,328	-	-	**250,328**
Total	**838,379**	**68,401**	**7,289**	**914,069**
Liabilities				
Trade payables and accruals	337,717	4,026	-	**341,743**
Derivative financial instruments	157,377	-	-	**157,377**
Loans and borrowings	10,187	-	-	**10,187**
Total	**505,281**	**4,026**	**-**	**509,307**

Market risk

a) Interest rate risk

The Company is subject to the effects of interest rate fluctuations on borrowings drawn against revolving credit facilities (Note 16). As the Company did not draw any variable interest rate borrowings in 2017 and in 2016, operating cash flow was not affected by changes in market interest rates.

The Company’s income is substantially independent of changes in market interest rates. The Company had accrued interest income from intercompany loan (Note 29) and had other minor interest income from short term bank deposits and cash at bank accounts as of December 31, 2017 and December 31, 2016.

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, 2017

	Cash and cash equivalents	Cash restricted in its use
EUR	209,487	8,313
USD	83,529	-
CZK	7,552	-
Other	62	-
Total	**300,630**	**8,313**

December 31, 2016

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

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, 2017, the Company had open USD forward purchase contracts for Euros in total notional value of approximately EUR 234 million (December 31, 2016: EUR 157 million).

As of March 2017, the USD 500 million unsecured credit facility with U. S. Steel Global Holdings I B.V. expired. No borrowings were drawn against this credit facility as of March 31, 2017 and December 31, 2016. (Note 16).

As of December 31, 2017, if the EUR had weakened/strengthened by 20 percent against the U.S. dollar with all other variables held constant, this movement would have resulted in a EUR 54 million credit / EUR 36 million charge to total comprehensive income, mainly as a result of gains/losses from the fair value change of forward foreign exchange contracts.

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

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, zinc, tin and other nonferrous metals used as raw materials.

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

The Company is exposed to a fluctuation of Iron Ore, Zinc and Tin purchase prices. An increase in these commodity prices would have an adverse impact on the Company's profitability. In order to mitigate the

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

Company's exposure to Iron Ore, Zinc and Tin price fluctuation, the Company entered into commodity forwards to protect its profit margin. Participating in this hedging program fixed the price for the portion of the Company's Iron Ore, Zinc and Tin requirements, which helped the Company's profitability objectives. All commodity forwards commenced in 2017 matured in 2017. All commodity forwards commenced in 2016 matured in 2016.

In 2016 and 2017, 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, 2016 and December 31, 2017, respectivelly.

Note 27 Financial Instruments by Category

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

December 31, 2017

	Loans and receivables	Hedging derivatives	Financial assets available-for-sale	Total
Assets				
Shares at acquisition cost	-	-	259	**259**
Trade receivables (net)	325,365	-	-	**325,365**
Related party accounts receivables (net)	18,643	-	-	**18,643**
Other receivables – government grants	90,491	-	-	**90,491**
Cash and cash equivalents	300,630	-	-	**300,630**
Restricted cash	8,313	-	-	**8,313**
Short-term loans provided to related parties	1,206	-	-	**1,206**
Derivative financial instruments	-	48	-	**48**
Total	**744,648**	**48**	**259**	**744,955**

	Hedging derivatives	Other financial liabilities	Total
Liabilities			
Trade payables and accruals	-	434,130	**434,130**
Short-term borrowings	-	10,478	**10,478**
Derivative financial instruments	8,782	-	**8,782**
Total	**8,782**	**444,608**	**453,390**

December 31, 2016

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

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

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

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, 2017

	Level 1	Level 2	Level 3	Total
Assets				
Hedging derivatives	-	48	-	**48**
Total	**-**	**48**	**-**	**48**
Liabilities				
Hedging derivatives	-	8,782	-	**8,782**
Total	**-**	**8,782**	**-**	**8,782**

December 31, 2016

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

During the year 2017 and 2016, 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, 2017 and December 31, 2016. Fair values of these instruments as of December 31, 2017 and December 31, 2016 approximate their carrying amounts.

Note 28 Contingent Liabilities and Contingent Assets

Operating leases

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

	2017	2016
Not later than 1 year	**6,078**	4,564
Later than 1 year and not later than 5 years	**13,589**	4,104
Later than 5 years	**1,399**	1
Total	**21,066**	**8,669**

Capital Commitments

Capital expenditures of EUR 105 million had been committed under contractual arrangements as of December 31, 2017 (December 31, 2016: EUR 42 million).

Environmental Commitments

The Company is in compliance with environmental legislation. In 2017, the environmental expenses represented by air, water pollution and solid waste handling fees totaled approximately EUR 12 million

(2016: EUR 12 million). There are no material legal proceedings pending against the Company involving environmental matters.

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

In March 2015, the Slovak Republic adopted a new waste code that became effective on January 1, 2016. This legislation implements the EU Waste Framework Directive that strictly regulates waste disposal and among other provisions, increases fees for waste disposed of in landfills, including privately owned landfills. The financial impact of compliance with the legislation on USSK's operations were EUR 2 million annually which relates to waste stabilization and increased fees for packaging materials recycling fees. In addition, the Slovak Republic is preparing an amended law on waste disposal fees. If the drafted amendment is enacted, USSK estimates that waste disposal fees will increase by EUR 5 million annually.

<u>Carbon Dioxide (CO_2) Emissions</u>

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

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

In September of 2013, the EC issued EU wide legislation further reducing the expected free allocation for Phase III by an average of approximately 12 percent. The Company’s final allocation of free allowances for the Phase III period, which covers the years 2013 through 2020 is 48 million tons of emission allowances. However, following the recent judgment of the Court of Justice of the European Union in April 2016, the volume of free allocations for the years 2018-2020 was reduced. Based on projected future production levels, the Company started to purchase emission allowances in the third quarter of 2017 to meet the annual compliance submission in the future. As of December 31, 2017, the Company purchased 5 million European Union Allowances (EUA) totaling EUR 36 million. For the Phase III period, the Company estimates a shortfall of approximately 16 million tons of emission allowances totaling EUR 130 million (using fair value of EUR 8.14 per ton as of December 31, 2017). However, due to a number of variable factors, such as the future market value of emission 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.

<u>Best Available Techniques (BAT’s)</u>

The EU’s Industry Emission Directive requires implementation of EU determined BAT’s for Iron and Steel production 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. Iron and steel producers were required to be in compliance with the iron and steel BAT by March 8, 2016, unless specific exceptions or extensions were granted by the Slovak environmental authority. The Company updated existing operating permits for different facilities involved in producing iron and steel in the plant in accordance with the new BAT requirements. Through this process for some facilities, the Company has obtained extensions from the 2016 compliance deadline in order to meet or exceed the BAT requirements. Compliance with stricter emission limits going beyond BAT requirements makes the Company eligible for EU funding support and prepares the Company for any further tightening of environmental protection standards. The most recent broad estimate of likely capital expenditures for projects to comply with or go beyond the BAT requirements is approximately EUR 138 million over the 2017 to 2020 time period.

The EU has various programs under which funds are allocated to member states to implement broad public policies which are then awarded by the member states to public and private entities on a competitive basis. The funding intensity under these programs currently ranges from 55 percent of defined eligible costs on a project under the standard state scheme to 90 percent on an approved ad hoc scheme to improve the air quality in the Kosice region of Slovakia. Based on the list of projects that comprise the approximate EUR 138 million of spending noted, the Company may be eligible to receive up to EUR 88 million of incentive grants. This could potentially reduce Company‘s net cash expenditures to approximately EUR 50 million. The actual amount of capital spending will be dependent upon, among other things, the actual amount of incentive grants received.

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

Due to other EU legislation, BAT for Large Combustion Plants (LCP), the Company is 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. The new requirements for LCP resulted in the construction of a new boiler and certain upgrades to the existing boilers. In January 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 compliance by no later than 2020. The TNP establishes emissions ceilings for each category of emissions (total suspended particulate, sulfur dioxide (SO_2), and nitrogen oxide (NO_x)) for both stacks within the power plant. The allowable amount of discharged emissions will decrease each year until mid 2020. An emission ceiling will be a limiting factor for future operation of the boilers. The boiler projects totaling EUR 128 million have been approved by the U. S. Steel Board of Directors and the Company is now in the execution phase. These projects will result in a reduction in electricity, carbon dioxide (CO_2) emissions and operating, maintenance, and waste disposal costs once completed. The construction of the new boiler is complete with a total final installed cost of EUR 74 million. Reconstruction of the existing boiler with a projected cost of EUR 54 million is in progress. The total remaining to be spent on the existing boiler project is projected to be EUR 7 million, with the final house inspection expected to be completed in October 2018. 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 2013 between U. S. Steel, USSK and the government of Slovakia. The MOU outlines areas in which the government and U. S. Steel will work together to help create a more competitive environment and conditions for the Company. Incentives the government of Slovakia agreed to provide include potential participation in a renewable energy program that provides the opportunity to reduce electricity costs as well as the potential for government grants and other support concerning investments in environmental control technology. Although there are many conditions and uncertainties regarding the grants, including matters controlled by the EU, the value of these incentives as stated in the MOU could be as much as EUR 75 million. 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. The Company now expects the total amount of EU funds will be as much as EUR 85 million. The final grant value will depend on actual project spending on eligible costs.

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

Note 29 Related Party Transactions

Transactions with related parties

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

		2017	2016
United States Steel Corporation, Ultimate parent company			
	Revenues	**21,913**	4,029
	Expenses	**66,668**	28,042
	Receivables	**460**	116
	Payables	**8,621**	1,183
U. S. Steel Holdings, Inc., Company under common control of U. S. Steel			
	Loans provided	**-**	250,328
	Interest income	**3,194**	328
USS International Services, LLC, Company under common control of U. S. Steel			
	Revenues	**-**	1
	Expenses	**2,875**	3,892
	Receivables	**197**	222
	Payables	**520**	637
Subsidiaries under control of the Company (Note 8)			
	Revenues	**10,267**	5,884
	Expenses	**75,784**	70,527
	Receivables	**17,986**	278
	Payables	**48,310**	10,441
	Borrowings accepted (cash pooling)	**10,478**	10,187
	Loans provided	**1,206**	-
Total			
	Revenues	**35,374**	**10,242**
	Expenses	**145,327**	**102,461**
	Receivables	**18,643**	**616**
	Payables	**57,451**	**12,261**
	Borrowings accepted (cash pooling)	**10,478**	**10,187**
	Loans provided	**1,206**	**250,328**

In April 2017, dividends totaling EUR 279,337 thousand were approved for distribution and paid to U. S. Steel Global Holdings VI B.V. (Note 15).

Transactions with United States Steel Corporation relate mainly to rendering of services (2017: EUR 1,667 thousand; 2016: EUR 1,996 thousand), interest income from inter-company loan (2017: EUR 858 thousand; 2016: EUR 2,361 thousand) and purchases of raw material (2017: EUR 53,767 thousand; 2016: EUR 8,200 thousand) and licences (2017: EUR 8,718 thousand; 2016: EUR 6,890 thousand), managerial services (2017: EUR 4,755 thousand; 2016: EUR 13,030 thousand) and sales of own products (2017: EUR 20,247 thousand; 2016: none).

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

As of December 14, 2016, the Company entered into a EUR 400 million unsecured revolving credit agreement with the U. S. Steel Holdings, Inc. The contract is valid until December 30, 2020. Interest on loans provided under the facility is based on EURIBOR + 4% p.a. As of December 31, 2017, there were no loans provided under this facility. As of December 31, 2016, two loans provided totalling EUR 250 million were drawn against this facility and were repaid in April 2017.

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)

As of February 24, 2017, the Company entered into a CZK 30 million, i.e EUR 1,175 thousand (using the exchange rate at the end of reporting period) unsecured revolving credit agreement with the U. S. Steel Europe - Bohemia a.s. The contract is valid until December 31, 2018. Interest on borrowings under the facility is based on PRIBOR plus margin. As of December 31, 2017, the Company draw CZK 28 milion, i.e. EUR 1,097 thousand (using the exchange rate at the end of reporting period) against this credit facility.

Transactions with subsidiaries of U. S. Steel Košice, s.r.o. include sales of steel products and purchases of refractory material and 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, 2018 with the option to be prolonged. During 2017, the Company under these borrowings drew from its subsidiaries the amount of EUR 72,490 thousand and repaid amount of EUR 73,304 thousand and provided to its subsidiaries the amount of EUR 1,593 thousand and got paid EUR 387 thousand. During 2016, the Company drew amount of EUR 73,387 thousand from which amount of EUR 72,641 thousand was repaid.

Employments of the statutory representatives and key management employees

a) Slovak and foreign statutory representatives of the Company did not receive any cash or non-cash benefits from the Company in 2017 and 2016 that arise from their positions of statutory representatives. Foreign statutory representatives of the Company are employed and paid based on their employment contract with USS International Services, LLC and their compensation is included in charges for managerial services provided to the Company. Salaries and other employee benefits of the Company's key management employees shown in the following table comprise also a compensation of Slovak statutory representatives:

	2017	2016
Wages and salaries	**15,488**	17,605
Mandatory social and health insurance to all insurance funds	**4,624**	4,232
Total	**20,112**	**21,837**

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

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

Note 30 Events after the Reporting Period

An addendum No.3 to the valid Collective Labor Agreement became effective on January 1, 2018 and changed benefit payments at termination of employemt which replaced actual system of retirement benefits.

Effective January 12, 2018, Ing. Silvia Gaálová was appointed statutory representative of U. S. Steel Košice, s.r.o. by general meeting of the Company and replaced Samir Kalra in Vice President and Chief Financial Officer position.

On January 22, 2018, USSK's lenders confirmed the second maturity extension request under the EUR 200 million revolving unsecured credit facility to July 2021.

On February 20, 2018, the 2018 CO_2 emission allowances were credited to the Company account in the volume of 5,810,856 tons totaling EUR 56.4 million. On March 26, 2018, the Company delivered 5,961,445 tons of CO_2 emission allowances for 2017 to the Slovak Government fulfilling its obligation for the fifth year of the Phase III period.

The MOU expired in March 2018. The Company will continue to apply for the incentive funding for the approved BAT projects through their completion.

After December 31, 2017, no other significant events have occurred that would require recognition or disclosure in the 2017 separate financial statements.

U. S. Steel Košice, s.r.o.

Consolidated financial statements for the year ended December 31, 2017

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.:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of U. S. Steel Košice, s.r.o. and its subsidiaries (together - the "Group") as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Reporting on other information in the annual report

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

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

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

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

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

- the information given in the annual report for the year ended 31 December 2017 is consistent with the consolidated financial statements; and
- the annual report has been prepared in accordance with the Accounting Act.

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

Management's responsibilities for the consolidated financial statements

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

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

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

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

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

Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

PricewaterhouseCoopers Slovensko s.r.o.

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

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

Ing. Monika Smižanská, FCCA
UDVA licence No. 1015

Bratislava, 11 June 2018

Our report has been prepared in Slovak and in English. 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.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Consolidated financial statements for the year ended December 31, 2017, 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" or "USSK") on June 11, 2018. Neither the Company's shareholder nor the executives have the power to amend the financial statements after issue.

Košice, June 11, 2018

Scott Douglas Buckiso
President
(statutory representative)

Ing. Silvia Gaálová, FCCA
Vice President and Chief Financial Officer
(statutory representative)

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

Ing. Beáta Marčáková
Director General Accounting and Compliance
(responsible for financial statements preparation)

U. S. Steel Košice, s.r.o.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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(all amounts are in thousands of EUR)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	December 31, 2017	December 31, 2016
ASSETS			
Non-current assets			
Property, plant and equipment	5	**876,624**	554,434
Investment property	6	**1,864**	2,729
Intangible assets	7	**75,878**	48,471
Financial assets available-for-sale		**259**	259
Long-term receivables	12	**41,588**	68,401
Deferred income tax asset	9	**-**	27,548
Restricted cash	10	**4,747**	7,289
Other non-current assets		**-**	13,443
Total non-current assets		**1,000,960**	**722,574**
Current assets			
Inventories	11	**362,377**	330,444
Trade and other receivables	12	**428,296**	345,277
Derivative financial instruments	13	**48**	8,595
Short-term loans provided to related parties	29	**-**	250,328
Restricted cash	10	**3,566**	66
Prepaid expense		**1,322**	1,164
Cash and cash equivalents	14	**303,492**	115,773
Total current assets		**1,099,101**	**1,051,647**
TOTAL ASSETS		**2,100,061**	**1,774,221**
EQUITY AND LIABILITIES			
Equity			
Share capital	15	**839,357**	839,357
Reserve funds	15	**47,569**	40,825
Retained earnings / (accumulated losses)		**469,087**	292,862
Total equity		**1,356,013**	**1,173,044**
Liabilities			
Non-current liabilities			
Long-term provisions for liabilities	17	**5,765**	11,509
Long-term deferred income – government grants	5	**96,225**	70,976
Long-term employee benefits payable	18	**37,446**	31,879
Deferred income tax liability	9	**41,145**	-
Trade and other payables – long-term	19	**1,468**	4,026
Total non-current liabilities		**182,049**	**118,390**
Current liabilities			
Trade and other payables	19	**454,301**	384,708
Current income tax liability		**18,237**	27,744
Derivative financial instruments	13	**8,782**	158
Deferred income		**40**	4
Short-term provisions for liabilities	17	**79,342**	58,560
Short-term employee benefits payable	18	**1,297**	1,426
Other current liabilities		**-**	10,187
Total current liabilities		**561,999**	**482,787**
TOTAL EQUITY AND LIABILITIES		**2,100,061**	**1,774,221**

The accompanying notes on pages CF-11 to CF-55 are an integral part of these financial statements.

(all amounts are in thousands of EUR)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2017	2016
Revenue	20	**2,611,610**	2,017,271
Other income	20	**30,609**	43,200
Materials and energy consumed	21	**(1,612,792)**	(1,141,737)
Salaries and other employee benefits	22	**(340,330)**	(294,105)
Depreciation and amortization	5, 6, 7	**(45,169)**	(28,867)
Repairs and maintenance		**(58,442)**	(60,427)
Transportation services		**(126,599)**	(117,953)
Advisory services		**(10,277)**	(18,388)
Foreign exchange gain		**7,960**	1,391
Impairment reversal	5, 7	**290,210**	142,809
Other operating expenses	23	**(184,046)**	(199,022)
Profit from operations		**562,734**	**344,172**
Interest income		**3,500**	2,693
Interest expense		**(943)**	(1,168)
Other financial income		**-**	2,931
Profit before tax		**565,291**	**348,628**
Income tax expense	24	**(117,665)**	(78,114)
Profit after tax		**447,626**	**270,514**
Profit after tax is attributable to:			
- Non-controlling interest		**-**	**-**
- Equity holders of the Company		**447,626**	**270,514**
Total profit after tax		**447,626**	**270,514**
Items that will not be reclassified to profit or loss			
Remeasurement of post employment benefit obligations	24	**(340)**	490
Revaluation of intangible assets	7, 24	**14,606**	7,512
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translation of foreign operations		**86**	**-**
Change in fair value of derivative hedging instruments	24	**(13,736)**	2,277
Other comprehensive income / (loss), net of tax		**616**	**10,279**
Total comprehensive income for the year		**448,242**	**280,793**
Total comprehensive income/(loss) is attributable to:			
- Non-controlling interest		**-**	**-**
- Equity holders of the Company		**448,242**	**280,793**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**448,242**	**280,793**

The accompanying notes on pages CF-11 to CF-55 are an integral part of these financial statements.

(all amounts are in thousands of EUR)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holder of the Company			
	Share capital	**Reserve funds**	**Retained earnings / (accumulated losses)**	**Total**
Balance as of January 1, 2017	**839,357**	**40,825**	**292,862**	**1,173,044**
Profit for 2017	-	-	447,626	**447,626**
Other comprehensive income	-	956	(340)	**616**
Total comprehensive income for the year	**-**	**956**	**447,286**	**448,242**
Adjustments:				
Release of revaluation reserve – CO_2 emission allowances	-	(10,116)	10,116	**-**
Other	-	2,296	11,768	**14,064**
Total adjustments	**-**	**(7,820)**	**21,884**	**14,064**
Transactions with owners:				
Dividends	-	-	(279,337)	**(279,337)**
Contribution to legal reserve fund	-	13,608	(13,608)	**-**
Total transactions with owners	**-**	**13,608**	**(292,945)**	**(279,337)**
Balance as of December 31, 2017	**839,357**	**47,569**	**469,087**	**1,356,013**

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

The accompanying notes on pages CF-11 to CF-55 are an integral part of these financial statements.

(all amounts are in thousands of EUR)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Total	
		2017	**2016**
Profit before tax		**565,292**	**348,628**
Non-cash adjustments for			
Depreciation of property, plant and equipment and investment property	5, 6	**43,152**	27,807
Amortization of intangible assets	7	**2,017**	1,060
Amortization of deferred income from CO_2 emission allowances	20	**(30,038)**	(30,075)
Amortization of deferred income - government grants	5, 20	**5,660**	-
Charge of provision for CO_2 emissions emitted	17, 23	**74,663**	57,993
Reversal of impairment of property, plant and equipment	5	**(290,197)**	(139,282)
Reversal of impairment of intangible assets	7	**(13)**	(3,527)
(Gain) / loss on disposal of property, plant and equipment, intangible assets and investment property	20, 23	**1,210**	(1,073)
(Gain) / loss from changes in fair value of derivative financial instruments	20, 23	**2,917**	(5,704)
Interest income		**(3,476)**	(2,693)
Interest expense		**914**	1,168
Other non-cash adjustments		**10,920**	(2,867)
Changes in working capital			
(Increase) / decrease in inventories	11	**(31,933)**	(17,531)
(Increase) / decrease in trade and other receivables and other current assets	12	**(56,802)**	(153,891)
Increase / (decrease) in trade and other payables and other current liabilities	19	**89,534**	166,920
Cash generated from operations		**383,820**	**246,933**
Interest paid		**(173)**	(273)
Income taxes paid		**(54,651)**	(4,090)
Net (disbursements) / receipts from derivative financial instruments		**(3,088)**	3,303
Net cash generated from operating activities		**325,908**	**245,873**
Cash flows from / (used in) investing activities			
Intercompany loans provided	29	**-**	(350,000)
Intercompany loans repayment	29	**250,000**	100,000
Purchases of property, plant and equipment	5	**(73,825)**	(85,209)
Proceeds from sale of property, plant and equipment		**134**	1,209
Purchases of intangible assets	7	**(38,445)**	(1,576)
Change in restricted cash, net	10	**(958)**	(1,555)
Government grants received		**441**	-
Interest received		**3,801**	2,361
Other transactions from investing activities		**-**	2,931
Net cash generated from / (used in) investing activities		**141,148**	**(331,839)**
Cash flows from / (used in) financing activities			
Proceeds from / repayment of borrowings	26, 29	**-**	747
Dividends paid to the Company´s shareholder	15	**(279,337)**	(47,948)
Net cash generated from / (used in) financing activities		**(279,337)**	**(47,201)**
Net (increase)/ decrease in cash and cash equivalents		**187,719**	**(133,167)**
Cash and cash equivalents at beginning of year	14	**115,773**	248,940
Cash and cash equivalents at end of year	14	**303,492**	**115,773**

The accompanying notes on pages CF-11 to CF-55 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 "the Company") was established as a limited liability company on June 7, 2000 and entered in the Commercial Register of the District Court Košice I, Section Sro, Insert 11711/V on June 20, 2000.

The Company's registered office is:

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

Business activities of the Group

The principal activity of the Company and its subsidiaries (hereinafter "the Group") is production and sale of steel products (Note 20).

Liability in other business entities

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

Average number of staff

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

The Group's management

Statutory representatives as of December 31, 2017 were as follows:

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

Emoluments of statutory representatives are disclosed in Note 29.

Shareholder of the Company

As of October 7, 2016, the only shareholder of the Company, U. S. Steel Global Holdings I B.V., Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands, transferred all ownership interests of the Company to U. S. Steel Global Holdings VI B.V., Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands. As of December 31, 2017, the only shareholder of the Company was U. S. Steel Global Holdings VI B.V., Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands. The shareholder owns a 100 percent share of the share capital, representing 100 percent of the voting rights.

Consolidated Group

The Group's consolidated financial statements in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") were not prepared and approved for the previous accounting period because, according to the Slovak Accounting Law, the impact of consolidated subsidiaries was not material.

The Group publishes and deposits the financial statements, annual reports and reports of the auditor in accordance with Act No. 431/2002 Z. z. on accounting, as amended. The Company also publishes financial statements on its web page www.usske.sk.

The Group 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 and internet web page www.ussteel.com.

Note 2 Summary of Significant Accounting Policies

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

2.1 Statement of Compliance

These consolidated financial statements have been prepared in compliance with IFRS as adopted by the EU, issued as of December 31, 2017 and effective for annual periods then ended.

2.2 Basis of Preparation

The Slovak Accounting Law requires the Company to prepare consolidated financial statements for the year ended December 31, 2017 in compliance with IFRS as adopted by the EU.

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

The preparation of consolidated 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 Group'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 Group operates ("the functional currency"). These consolidated financial statements are presented in EUR, rounded to thousands, if not stated otherwise, which is the functional currency of the Group and all of its subsidiaries except for U. S. Steel Europe – Bohemia a.s.

<u>Transactions and balances</u>

The accounting books and records are kept in the 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.

<u>Group companies</u>

The subsidiaries are financially, economically and organizationally autonomous.Their functional currencies are the respective local currencies. The results and financial position of U. S. Steel Europe – Bohemia a.s. that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

b) income and expenses for each statement of comprehensive income are translated at average exchange rates; and

c) all resulting exchange differences are recognized in other comprehensive income and accumulated as a translation reserve in equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognized in the statement of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Principles of Consolidation

Subsidiaries

The consolidated financial statements of the Group include separate financial statements of U. S. Steel Košice, s.r.o. and the companies that it controls (Note 8), i.e. 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. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, liabilities incurred to the former owners of the acquired business, equity interests issued by the group, fair value of any asset or liability resulting from a contingent consideration arrangement, and fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred. The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Non-controlling interest

Non-controlling interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. This interest forms a separate component of the Group's equity.

The Group attributes total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2.6 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 2.10).

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 Group 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 Group 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 Group allocates the amount initially recognized in respect of an item of property, plant and equipment proportionally to its significant parts and depreciates separately each such component.

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

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

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

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

2.7 Investment Properties

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

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

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

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

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

2.8 Intangible Assets

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

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

<u>Research and development costs</u>

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

Software

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

Costs associated with maintaining computer software are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group 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 Group's software is 5 years.

Emission allowances

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

Carbon dioxide emission allowances which are allocated to emitting facilities annually free of charge by the Slovak Government, are recognized as an intangible asset as of the date the emission allowances are credited to the National Registry of Emission Rights (hereinafter "NRER"). The emission allowances are initially measured at fair value. The fair value of emission 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 Group will comply with the conditions attaching to the grant, are recognized as emission allowances receivable at fair value when the above-mentioned conditions are met.

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

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

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

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

2.9 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.

2.10 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.

2.11 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 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.

2.12 Financial Assets

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

The Group 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 a trade-date which is the date on which the Group 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 Group 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 loans or receivables are uncollectible, they are written off against the 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.

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 Group 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

Legal reserve fund of companies based in Slovakia is formed in accordance with the Commercial Code, i.e. 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 and in foreign-registered companies is constituted in accordance with the law of the country in which the company has its registered office. A legal reserve fund may be used only to cover losses of the Group, should the special law not stipulate otherwise.

b) Other reserve funds

Other reserve funds 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 Group 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 Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of reporting period.

Trade and other payables

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

Derecognition of financial liabilities

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

2.17 Dividends and Profit Distribution

Dividends are recognized in the accounts of the companies within the Group in the period in which they are approved by general meeting of companies. Dividend liability is initially measured at fair value and subsequently at amortized cost. Transactions within the Group are subsequently eliminated for consolidation purposes.

2.18 Government Grants

Government grants are recognized only if there is a reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received. Non-monetary grants are recognized at the fair value of the asset received. In these consolidated financial statements, grants are treated as deferred income and released on a systematic basis into income over the period necessary to match them with the related costs that they are intended to compensate. If government grant is received to compensate costs of acquisition of fixed assets which were impaired, relating deferred income is released into income to match corresponding amount of impairment. If impairment is reversed subsequently, government grant is again recognized in deferred income to match the reversed amount. Income related to government grants is recognized in Other income of Statement of profit or loss.

2.19 Provisions

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

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

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

2.20 Current and Deferred Income Tax

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

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

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

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

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

2.21 Employee Benefits

Defined contribution pension plan

The Group 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 Group who choose to participate in a supplementary pension savings scheme, the Group makes monthly contributions to the supplementary pension savings scheme in amounts determined in the respective Collective Labor Agreement.

Employee retirement obligation

The Group is committed to make payments to the employees upon retirement in accordance with the Slovak legislation and respective 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 Group, 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; or b) when the Group recognizes related restructuring cost or termination benefits.

Work and life jubilee benefits

The Group also pays certain work and life jubilee benefits. Employees of U. S. Steel Košice, s.r.o. and subsidiaries based in Slovak Republic are entitled to work and life jubilee benefits upon reaching a specific age and/or reaching a specific period of employment in accordance with respective 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 Group as a result of specific organizational reasons or employee health reasons, or whenever an employee accepts voluntary redundancy in exchange for termination or similar benefits. The Group 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 Group 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 Group 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.

2.23 Contingent Liabilities and Contingent Assets

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

Contingent assets are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated 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 Group operates, and therefore are not separately accounted for.

Hedge accounting

The Group 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 Group 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 Group has documented a strategy of financial risk management. Hedging targets are determined in compliance with this strategy. The Group 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 Group 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 Group’s expected usage requirements. These contracts do not meet the definition of financial instruments and are accounted for as normal purchase contracts.

2.25 Fair Value Estimation

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

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

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

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

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

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

- emission allowances (Note 2.8 and 7);
- derivative financial instruments (Note 2.24, 13 and 27);
- fair value disclosures for investment properties measured using the cost model (Note 2.7 and 6);
- fair value disclosures for financial instruments measured at amortised cost (Note 27);
- impairment of property, plant and equipment, intangible assets and investment properties (Note 5, 6 and 7).

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 Group 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 Group in applying its accounting policies are outlined below.

Estimated useful life of property, plant and equipment and investment property

The average useful life of depreciable property, plant and equipment and investment property as of December 31, 2017 is approximately 20 years (as of December 31, 2016: 20 years). If estimated average useful life of these assets would increase by 1 year, the annual depreciation charge would have been lower by EUR 3.6 million (2016: EUR 1.8 million). If estimated average useful life of these assets would decrease by 1 year, the annual depreciation charge would have been higher by EUR 4.0 million (2016: EUR 1.9 million).

Impairment of property, plant and equipment, intangible assets and investment properties

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

After the economic crisis in 2008, European economies struggled to recover, particularly in the steel consuming sectors such as the construction industry which led to a significant overcapacity in the European steel market and intense competition for tonnage amongst the steel mills. In addition, steel pricing in the EU continues to be influenced by the level of imports.

In 2013, there were deemed to be impairment indicators and USSK recorded significant impairment charges. The impairment test was performed again in 2014 through 2017 and resulted in further impairment losses in 2014 and 2015, partial reversal of impairment in 2016 and full reversal in 2017. As part of the impairment evaluation, USSK was divided into two cash-generating units and their recoverable amounts have been determined. The recoverable amount is the higher of fair value less costs of disposal or value in use. As the fair value less costs of disposal was higher than the value in use, the recoverable amounts of relevant cash-generating units have been determined on the basis of fair value calculation. Due to interdependence between individual Division Plants, the determination of cash-generating units was made based on two main steel product categories from which a sufficient volume of steel production is sold on active markets, specifically hot-rolled products on one side and cold-rolled products, coated products, spiral welded pipes and panel radiators on the other side. 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 an 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 that 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 economic recovery across the EU with a corresponding increase in steel prices and improvements in steel demand.
- Cash flow projections beyond the five-year period have been extrapolated taking into account a terminal growth rate of 2.0 percent (2016: 2.9 percent) for sales and production costs and reflect the best estimates for stable perpetual growth of the Group. This percentage is consistent with long-term average growth rates for countries in which the Group sells the majority of its production. In 2017, a change in the terminal growth by 1 percent would not have materially changed the carrying value of the assets at all. In 2016, if the terminal growth rate had increased by 1 percent, the carrying value of

the assets would have been higher by EUR 19 million and if the terminal growth rate had decreased by 1 percent, the carrying value of the assets would have been lower by EUR 8 million.

- Cash flow projections also reflect the initiated shareholder value creation strategy: earn the right to grow, and drive and sustain profitable growth. Through a disciplined approach, now referred to as “The Carnegie Way”, the Group 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 Group 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 applicable for 2017 was estimated in nominal terms at 10 percent (2016: 20 percent) based on the risk-adjusted post-tax weighted average cost of capital. The discount rate in 2016 reflected higher uncertainty inherent in the Group’s cash flow projections arising from the geopolitical situation in Ukraine, which may affect raw materials and gas supplies, higher political risks resulting from increased uncertainty in the EU relating to BREXIT and elections in major EU countries, the ongoing sluggish recovery of European steel consumption and level of imports into the EU, many of which we believe to be unfairly traded. The discount rate in 2017 was adjusted to reflect recent steel market improvements and reduced uncertainty inherent in the Group’s cash flow projections. In 2017, the change in the discount rate by 1 percent would not have materially changed the carrying value of the assets. The break-even point is 12.4 percent. In 2016, if discount rate had increased by 1 percent, the carrying value of the assets would have been lower by EUR 14 million and if the discount rate had decreased by 1 percent, the carrying value of the assets would have been higher by EUR 26 million.

In 2017, the impairment of assets was fully reversed. The reversal increased carrying amount of the assets up to the amount of depreciated historical costs if the impairment had not been recognized and the difference between impairment and depreciation was recognized in the Statement of profit or loss.

As of December 31, 2016, the remaining accumulated impairment attributable to each cash-generating unit was allocated to assets in the cash-generating unit on a pro rata basis based on the carrying amount of each asset. Carrying amounts of individual assets were reduced only to the highest of the 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, was 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 was largely based on comparable transactions since, in management’s view, the necessary adjustments to the comparable transactions had insignificant impact. For these specific assets the valuation was within Level 2 of the fair value hierarchy.

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

<u>Income taxes</u>

Certain areas of the 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 Group’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 Group. The Group 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 Group conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or the entire deferred tax asset to be utilized. Management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Litigation

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

Employee benefits

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

Landfill provision

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

Note 4 New Accounting Pronouncements

4.1 Standards, amendments and interpretations to published standards effective for the first time for periods on or after January 1, 2017

The following new standards and interpretations became effective from January 1, 2017:

Disclosure Initiative - Amendments to IAS 7 (issued on January 29, 2016 and effective in the EU for annual periods beginning on or after January 1, 2017). The amended IAS 7 requires disclosure of a reconciliation of movements in liabilities arising from financing activities. The amendment did not have material impact as there were no material borrowings during 2017.

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after January 1, 2017 that had a material impact on the Group.

4.2 Standards, amendments and interpretations issued but not effective until the financial year beginning January 1, 2018 or later and not early adopted

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

Key features of the new standard are as follows:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortized cost, those to be measured subsequently at fair value through other comprehensive income and those to be measured subsequently at fair value through profit or loss.
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as fair value through other comprehensive income. Financial assets that do not contain cash flows that are SPPI must be measured at fair value through profit or loss (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses ("ECL") model. There is a 'three stage' approach which is based on the change in credit quality of

financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The new standard and interpretations are not expected to have a material impact on the Group's financial statements considering the structure and nature of the Group's financial instruments.

IFRS 15 "Revenue from Contracts with Customers" (issued on May 28, 2014 and effective in the EU for the periods beginning on or after January 1, 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group has completed its review of its significant customer contracts and has determined that this standard will not have a material financial statements impact effective January 1, 2018. The Group will provide expanded disclosures in accordance with the standard.

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

IFRS 16 "Leases" (issued in January 2016 and effective in the EU for annual periods beginning on or after January 1, 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently evaluating the consolidated financial statements implications of adopting IFRS 16, and has begun an inventory of its leasing arrangements. The Group expects to finish it by the end of the year (Note 28).

Plan Amendment, Curtailment or Settlement – Amendments to IAS 19 (issued on February 7, 2018 and effective for annual periods beginning on or after January 1, 2019). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan – an amendment, curtailment or settlement – takes place, IAS 19 requires a remeasurement of the net defined benefit liability or asset. The amendments require the use of the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements.

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

These amendments have not yet been endorsed by the EU. The Group is currently assessing the impact of the amendment on the consolidated financial statements.

Transfers of Investment Property - Amendments to IAS 40 (issued on December 8, 2016 and effective for annual periods beginning on or after January 1, 2018). The amendments clarify the requirements on transfers to, or from investment property in respect of properties under construction. Prior to the amendments, there was no specific guidance on transfers into, or out of investment properties under construction in IAS 40. The amendment clarifies that there was no intention to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use. IAS 40 was amended to reinforce the principle of transfers into, or out of investment property in IAS 40 to specify that a transfer into, or out of investment property should only be made when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. Such a change in use should be supported by evidence. The Group is currently assessing the impact of the amendments on the consolidated financial statements.

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

Note 5 Property, Plant and Equipment

Movements in property, plant and equipment during 2017 are as follows:

	Land and buildings	Machinery, equipment and motor vehicles	Other tangible assets	Construction in progress	Total
Cost					
January 1, 2017	**475,852**	**1,230,668**	**18,895**	**31,752**	**1,757,167**
Additions	-	-	-	68,601	**68,601**
Disposals	(96)	(8,149)	(2,523)	(42)	**(10,810)**
Transfer to / from investment property	(2)	-	-	-	**(2)**
Transfers to base	5,538	23,544	169	(29,251)	**-**
Other	5,872	5,750	193	60	**11,875**
December 31, 2017	**487,164**	**1,251,813**	**16,734**	**71,120**	**1,826,831**
Accumulated Depreciation and Impairment of Assets					
January 1, 2017	**(265,090)**	**(918,848)**	**(18,795)**	**-**	**(1,202,733)**
Depreciation for the year	(6,573)	(36,198)	(316)	-	**(43,087)**
Disposals	1,427	6,260	9	-	**7,696**
Reversal of impairment / (Impairment losses)	109,459	174,130	6,608	-	**290,197**
Other	(2,097)	13	(196)	-	**(2,280)**
December 31, 2017	**(162,874)**	**(774,643)**	**(12,690)**	**-**	**(950,207)**
Carrying amount	**324,290**	**477,170**	**4,044**	**71,120**	**876,624**

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

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

	Land and buildings	Machinery, equipment and motor vehicles	Other tangible assets	Construction in progress	Total
Cost					
January 1, 2016	**445,737**	**1,131,401**	**15,214**	**113,302**	**1,705,654**
Additions	-	-	3,680	61,238	**64,918**
Disposals	(136)	(13,047)	-	(52)	**(13,235)**
Transfer to / from investment property	(170)	-	-	-	**(170)**
Transfers to base	30,421	112,314	1	(142,736)	**-**
December 31, 2016	**475,852**	**1,230,668**	**18,895**	**31,752**	**1,757,167**
Accumulated Depreciation and Impairment of Assets					
January 1, 2016	**(288,248)**	**(955,461)**	**(14,843)**	**(68,450)**	**(1,327,002)**
Depreciation for the year	(4,304)	(23,406)	-	-	**(27,710)**
Disposals	9	12,585	-	-	**12,594**
Transfer to / from investment property	103	-	-	-	**103**
Reversal of impairment / (Impairment losses)	27,350	47,434	(3,952)	68,450	**139,282**
December 31, 2016	**(265,090)**	**(918,848)**	**(18,795)**	**-**	**(1,202,733)**
Carrying amount	**210,762**	**311,820**	**100**	**31,752**	**554,434**

No interest was capitalized in 2017 and 2016 (Note 16).

No property, plant and equipment was pledged in favor of a creditor or restricted in its use as of December 31, 2017 or December 31, 2016.

Additionally, purchases of property, plant 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 5 million for the year ended December 31, 2017 (for the year ended December 31, 2016: EUR 24 million).

In 2017, no impairment of property, plant and equipment, investment properties and intangible assets was recognized in relation to the first and the second cash generating unit. An impairment loss relating to the first cash generating unit was fully reversed primarily due to improved Group's cash flow projections resulting from improved steel markets and reduced risks and uncertainty inherent in the appropriate discount rate.

In 2016, 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 was higher than the carrying amount of the unit, excluding the annual revaluation of emission allowances.

The impairment loss relating to the first cash generating unit was partially reversed primarily due to improved margins on hot-rolled coils prices which started to grow significantly in the second half of 2016. The growth was driven mainly by a rise in raw material costs and tightened supply in the EU market caused by limited third country import volumes due to trade defense measures.

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

<u>Insurance</u>

Property, plant and equipment are insured by KOOPERATIVA poisťovňa, a.s. Vienna Insurance Group. The insurance covers damage caused by theft, disaster and other causes of machinery and equipment failure while maximum insurance compensation for one insurance claim is USD 150 million, i.e. EUR 125 million using the exchange rate at the end of reporting period (2016: USD 500 million, i.e. EUR 474 million, using the exchange rate as of December 31, 2016). 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 Risk Property Damage Insurance and Business Interruption Insurance including Machinery Breakdown excess of USD 150 million is covered by the insurance policy of Grant Assurance Corporation held by United States Steel Corporation, where the maximum limit of coverage is USD 650 million, i.e. EUR 542 million.

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

Property, Plant and Equipment acquired using Government Grant

In 2017 the Group invested EUR 6,433 thousand in Property, plant and equipment related to flue gas cleanup projects and emission control projects. The government grant related to the projects was EUR 3,831 thousand in 2017. The government grant was recognized in Other income in EUR 367 thousand in 2017. The Group did not acquire Property, plant and equipment using the government grant in 2016.

If government grant is received to compensate costs of acquisition of fixed assets which were impaired, relating deferred income is released into income to match corresponding amount of impairment. As a result of full reversal of impairment in 2017, previously amortized government grant was again recognized in deferred income totaling EUR 5,660 thousand. As the Group believes that it complied with the grant conditions also for new projects, the Group recognized additional deferred income totaling EUR 19,956 thousand in 2017.

	2017	2016
Deferred income – government grant	**70,976**	-
Deferred income – additions	**19,956**	70,976
Deferred income – reversal of impairment	**5,660**	-
Less: Other income	**(367)**	-
Deferred income balance at year end	**96,225**	**70,976**

Note 6 Investment Properties

Movements in investment properties during 2017 and2016.

	2017	2016
Cost		
Opening balance as of January 1	**4,014**	**4,329**
Transfers to / from property, plant and equipment	**2**	170
Disposals	**(1,233)**	(485)
Closing balance as of December 31	**2,783**	**4,014**
Accumulated Depreciation and Impairment Losses		
Opening balance as of January 1	**(1,285)**	**(1,238)**
Depreciation for the year	**(65)**	(97)
Transfers to / from property, plant and equipment	**-**	(103)
Disposals	**431**	153
Closing balance as of December 31	**(919)**	**(1,285)**
Carrying amount	**1,864**	**2,729**

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 were immaterial.

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

The fair value of the investment properties totaled EUR 3,922 thousand as of December 31, 2017 (December 31, 2016: EUR 5,964 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 the fair value of properties 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.

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

The Group 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.

Note 7 Intangible Assets

Movements in intangible assets during 2017 are as follows:

	Software	Emission allowances	Other intangible assets	Intangible assets not yet available for use	Total
Cost					
January 1, 2017	**33,840**	**40,204**	**643**	**1,109**	**75,796**
Additions	-	66,298	-	2,184	**68,482**
Disposals	(57)	(53,913)	(3)	(2)	**(53,975)**
Revaluation surplus	-	14,686	-	-	**14,686**
Transfers to base	2,008	-	42	(2,050)	**-**
Other	377	-	413	-	**790**
December 31, 2017	**36,168**	**67,275**	**1,095**	**1,241**	**105,779**
Accumulated Amortization and Impairment of Assets					
January 1, 2017	**(26,958)**	**-**	**(367)**	**-**	**(27,325)**
Amortization for the year	(1,935)	-	(82)	-	**(2,017)**
Disposals	77	-	(16)	-	**61**
Reversal of impairment (Impairment losses)	13	-	-	-	**13**
Other	(370)	-	(263)	-	**(633)**
December 31, 2017	**(29,173)**	**-**	**(728)**	**-**	**(29,901)**
Carrying amount	**6,995**	**67,275**	**367**	**1,241**	**75,878**

Movements in intangible assets during 2016 are as follows:

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

No interest was capitalized in 2017 and 2016 (Note 16).

No intangible assets were pledged in favor of a creditor or restricted in their use as of December 31, 2017 or December 31, 2016.

<u>Insurance</u>

Intangible assets are not insured.

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

Emission allowances

The Group received free of charge allocations of CO_2 emission allowances from the Slovak Government. The allowances were initially measured at fair value as of the allocation date at EUR 5.04 per ton (2016: EUR 4.95 per ton). The allowances are revalued at the end of each 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 allowances is settled within a few months after the end of the reporting period in accordance with applicable legislation.

Based on projected future production levels, the Group started to purchase allowances in the third quarter of 2017 to meet the annual compliance submission in the future. As of December 31, 2017, the Group purchased 5 million European Union Allowances (EUA) totaling EUR 36 million. Emission allowances granted for free in 2017 totaled EUR 30 million.

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

	December 31, 2017	**December 31, 2016**
Emission allowances (intangible asset)	**67,275**	40,204
Liability from the obligation to deliver allowances (provision) (Note 17)	**74,663**	57,993

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, 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Emission allowances	**67,275**	**-**	**-**	**67,275**
Total	**67,275**	**-**	**-**	**67,275**

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

During 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

If a cost model had been used, the carrying amount of emissions allowances net of impairment would have totaled EUR 52,589 thousand as of December 31, 2017 (December 31, 2016: EUR 30,087 thousand).

Note 8 Group Structure

List of subsidiaries

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

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

The following subsidiaries have been consolidated as of December 31, 2017:

Entity	Place of Incorporation	Principal activities	Group's Ownership Interest	
			December 31, 2017	**December 31, 2016**
U. S. Steel Košice – Labortest, s.r.o.	Slovakia	Testing laboratory	**100,00 %**	100,00 %
U.S. Steel Košice – SBS, s.r.o.	Slovakia	Security services	**100,00 %**	100,00 %
RMS, a.s. Košice	Slovakia	Maintenance and vulcanization services, Refractory production	**100,00 %**	100,00 %
U. S. Steel Services s.r.o.	Slovakia	Various services	**100,00 %**	100,00 %
OBAL-SERVIS, a.s. Košice	Slovakia	Packaging	**100,00 %**	100,00 %
Ferroenergy s.r.o.	Slovakia	Production of Electricity, Steam, Hot Water and Technical Gases	**100,00 %**	-
U. S. Steel Europe – Bohemia a.s.	Czech Republic	Steel trading	**100,00 %**	100,00 %
U. S. Steel Europe – France S.A.	France	Steel trading	**99,94 %**	99,94 %
U. S. Steel Europe – Germany GmbH	Germany	Steel trading	**100,00 %**	100,00 %
U. S. Steel Europe – Italy S.r.l.	Italy	Steel trading	**100,00 %**	100,00 %

Company's ownership interests in subsidiaries were not pledged as of 31 December 2017 and 31 December 2016.

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

The new subsidiary, Ferroenergy s.r.o., was established on February 4, 2017, as a limited liability company. Majority (99.99 percent) of the share in registered capital totalling EUR 121,809 thousand is owned by USSK, remaining minority share (0.01 percent) is owned by USSK's subsidiary OBAL-SERVIS, a.s. Košice.

Note 9 Deferred Income Tax

Differences between IFRS, as adopted by the EU and Slovak tax laws give rise to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is recorded at the rate of 21 percent as of December 31, 2017 (2016: 21 percent).

The tax effect of the movements in the temporary differences during year 2017 is as follows:

	January 1, 2017	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2017
Property, plant and equipment	**13,404**	(68,855)	-	**(55,451)**
Inventories	**1,766**	749	-	**2,515**
Employee benefits	**6,964**	140	90	**7,194**
Deferred charges	**756**	(659)	-	**97**
Provision for impairment of receivables	**105**	(51)	-	**54**
Unused tax loss 2012 and 2013	**2,863**	(2,863)	-	**-**
Emission allowances transactions	**(113)**	245	(80)	**52**
Derivative financial instruments	**(1,772)**	-	3,606	**1,834**
Other temporary differences	**3,575**	(1,229)	-	**2,346**
Other	**-**	-	-	**214**
Total	**27,548**	**(72,523)**	**3,616**	**(41,145)**
Deferred tax asset/(liability)	**27,548**			**(41,145)**

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

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

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

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

	December 31, 2017	December 31, 2016
Deferred tax to be realized within 12 months	**14,077**	13,337
Deferred tax to be realized after 12 months	**(55,222)**	14,211

Tax loss carryforward

The Group did not report a tax loss in 2017. The 2016 cumulative tax loss amounted to EUR 13,641 thousand. The tax loss carryforward from 2016 was fully utilized in 2017.

Impairment of property, plant and equipment

By the end of 2016, the Group recognized a deferred tax asset for the impairment of property, plant and equipment in accordance with *IAS 12 Income taxes.* The deferred tax asset was reversed in 2017.

Note 10 Restricted Cash

	December 31, 2017	December 31, 2016
Cash restricted in its use - long-term portion	**4,747**	7,289
Cash restricted in its use - short-term portion	**3,566**	66
Total (Notes 26 and 27)	**8,313**	**7,355**

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

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

Note 11 Inventories

	December 31, 2017	December 31, 2016
Raw materials	**173,476**	154,265
Work-in-progress	**47,505**	41,802
Semi-finished production	**39,864**	41,725
Finished products	**99,099**	92,652
Merchandise	**2,433**	**-**
Total	**362,377**	**330,444**

No inventories were pledged in favor of a creditor or restricted in their use as of December 31, 2017 or December 31, 2016.

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

Inventory as of December 31, 2017 is shown net of write-down allowances resulting from lower net realizable values totaling EUR 2,669 thousand (December 31, 2016: EUR 3,094 thousand)

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

	Raw materials	Work in progress	Semi-finished production	Finished products	Merchandise	Total
January 1, 2017	**480**	**733**	**987**	**894**	**-**	**3 094**
Allowance made	183	134	134	(428)	-	**23**
Allowance used	(15)	(465)	(448)	(42)	-	**(970)**
Allowance reversed	15	(79)	(47)	(72)	-	**(183)**
Other	226	-	-	475	4	**705**
December 31, 2017	**889**	**323**	**626**	**827**	**4**	**2,669**

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

Note 12 Trade and Other Receivables

	December 31, 2017	December 31, 2016
Trade receivables	**348,340**	321,864
Related party accounts receivable (Note 29)	**695**	616
Total trade receivables	**349,035**	**322,480**
Advance payments made	**5,780**	5,731
VAT receivable	**40,687**	33,323
Other receivables – government grants	**90,491**	70,976
Other receivables	**3,953**	1,220
Trade and other receivables (gross)	**489,946**	**433,730**
Provision for impairment of trade receivables	**(20,048)**	(20,047)
Provision for impairment of other receivables	**(14)**	(5)
Trade and other receivables (net)	**469,884**	**413,678**
Long-term receivables	**41,588**	68,401
Short-term receivables	**428,296**	345,277

No receivables of the Group were pledged in favor of a bank or other entities as of December 31, 2017 or December 31, 2016. The maximum credit risk exposure at the end of the 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 Group is disclosed in Note 26.

Government Grants

In 2016, the Ministry of Environment of the Slovak Republic approved the Company's application for ten EU grants from Operational Program Environment Quality for the purpose of Dedusting of Ladle Metallurgy of Steel Shop No.1 and Steel Shop No. 2, Emission Control for Ore Bridges of Blast Furnaces No.1 and No.3, Sinter Strand No. 1 - 4 Exit Emission Control, Dedusting of Sinter Strand No. 1 – 4. In 2017, additional five grants were approved for following Company's projects: Steel Shop No. 2 Dedusting – Hot Metal Desulphurization, Coal Preparation Emission Control, Coke Handling Dedusting at Coke Bateries No. 1 and 3 and Emission Control for Ore Bridges of Blast Furnace No. 2.The approved amount of these grants was 55 - 90 percent of the identified eligible costs of these projects, which represent the amount of EUR 90 million (2016: EUR 71 million) as of December 31, 2017, out of which EUR 42 million is relating to the year 2019 and later.

The government grant receivable was denominated in Euro and was neither subject to substantial credit risk nor currency risk (Note 26).

(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, 2017	December 31, 2016
EUR	**337,070**	303,125
USD	**2,501**	5,877
Other	**9,464**	13,478
Total	**349,035**	**322,480**

The structure of trade receivables is as follows:

	December 31, 2017	December 31, 2016
Receivables not yet due and not impaired	**314,836**	293,481
Receivables past due but not impaired	**13,489**	8,374
Receivables impaired	**20,015**	20,009
Trade receivables	**348,340**	**321,864**
Receivables not yet due and not impaired	**342**	578
Receivables past due but not impaired	**320**	-
Receivables impaired	**33**	38
Related party accounts receivable	**695**	**616**
Total	**349,035**	**322,480**

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

	December 31, 2017	December 31, 2016
No or low-risk counterparties	**146,996**	172,118
Increased risk counterparties	**167,840**	121,363
Trade receivables	**314,836**	**293,481**
No or low-risk counterparties	**342**	575
Increased risk counterparties	**-**	3
Related party accounts receivable	**342**	**578**
Total	**315,178**	**294,059**

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

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

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

	December 31, 2017	December 31, 2016
Past due 0 – 30 days	**13,084**	8,218
Past due 30 – 90 days	**296**	155
Past due 90 – 180 days	**75**	1
Past due more than 180 days	**34**	-
Trade receivables	**13,489**	**8,374**
Past due 0 – 30 days	**307**	-
Past due 30 – 90 days	**13**	-
Related party accounts receivable	**320**	**-**
Total	**13,809**	**8,374**

Discounted present value of receivables past due is not materially different from their book values as of December 31, 2017 and 2016

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

Ageing structure of trade receivables individually impaired is as follows:

	December 31, 2017	December 31, 2016
Not yet due	**-**	-
Past due 0 – 30 days	**-**	-
Past due 30 – 90 days	**-**	518
Past due 90 – 180 days	**-**	62
Past due 180 – 365 days	**-**	59
Past due over 365 days	**20,015**	19,370
Trade receivables	**20,015**	**20,009**
Not yet due	**-**	-
Past due 0 – 30 days	**-**	-
Past due 30 – 90 days	**-**	-
Past due 90 – 180 days	**-**	-
Past due 180 – 365 days	**-**	-
Past due over 365 days	**33**	38
Related party accounts receivable	**33**	**38**
Total	**20,048**	**20,047**

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, 2017	**20,009**	**38**	**5**	**-**	**20,052**
Provision made	198	-	-	-	**198**
Receivables written-off	(273)	-	-	-	**(273)**
Provision reversed	(207)	-	-	-	**(207)**
Other	288	(5)	9	-	**292**
December 31, 2017	**20,015**	**33**	**14**	**-**	**20,062**

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

Accounts receivable totaling EUR 273 thousand were written off in 2017 (2016: EUR 304 thousand).

Note 13 Derivative Financial Instruments

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

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses on forward foreign exchange contracts recognized in other comprehensive income and accumulated in revaluation reserves in equity (Note 15) as of December 31, 2017 and December 31, 2016 will be recognized in the profit or loss in the period(s) during which the hedged forecast transaction affects the profit or loss. This is generally within 12 months after the end of reporting period. Gains and losses from revaluation of forward exchange contracts as of December 31, 2017 and December 31, 2016 recognized in other comprehensive income and accumulated in revaluation reserves in equity were reclassified into profit or loss in 2017 and 2016, respectively. The actual value recognized in Other operating expenses in 2017 amounts to EUR 3 million (2016: loss of EUR 2 million)

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

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 Group's forward foreign exchange contracts:

	December 31, 2017		December 31, 2016	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Foreign exchange forwards – cash flow hedges	**48**	**8,782**	8,595	158
Total	**48**	**8,782**	**8,595**	**158**

Balances as of December 31, 2017 and December 31, 2016 were not past due. The risk of concentration of counterparty credit risk is mitigated by purchasing forward foreign exchange contracts from several counterparties. The Group has entered into forward foreign exchange contracts with ING Bank N.V., Citibank Europe plc and Commerzbank as of December 31, 2017 and with ING Bank N.V., Citibank Europe plc, Commerzbank and The Bank of Nova Scotia as of December 31, 2016. The financial asset for each counterparty represents less than 40 percent of total financial assets. The ratings of the banks are BBB+ and higher (according to Standard & Poor's) as of December 31, 2017 (December 31, 2016: BBB+ and higher) Information about the fair value hierarchy as of December 31, 2017 is disclosed in Note 27.

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, 2017	December 31, 2016
Payable on settlement in EUR thousand	**(233,812)**	(157,377)
Receivable on settlement in USD thousand	**273,000**	176,250

The Group is exposed to a fluctuation of Iron Ore, Zinc and Tin purchase prices. In order to eliminate the Group's exposure to Iron Ore, Zinc and Tin prices fluctuation, the Group entered into commodity forwards to protect its profit margin. All commodity forwards commenced in 2017 matured in 2017, resulting in an amount of 0 EUR (in 2016: gain of 2,728 thousand EUR)

Note 14 Cash and Cash Equivalents

	December 31, 2017	December 31, 2016
Cash on hand	**94**	49
Cash at bank	**303,398**	115,724
Total (Note 27)	**303,492**	115,773

Interest rates on bank accounts were approximately 0.15 percent per annum for EUR deposits, 1.13 percent per annum for USD deposits and 0.07 percent per annum for CZK deposits as of December 31, 2017 (December 31, 2016: 0.15 percent per annum for EUR deposits, 0.60 percent per annum for USD deposits and 0.07 percent per annum for CZK deposits). Interest rates at bank accounts denominated in other currencies are not disclosed as the balances in these accounts are not material.

Cash restricted in its use is presented in Note 10.

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

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

Note 15 Equity

Share capital

The Company's registered and fully paid in capital is EUR 839,357 thousand. The Company does not have unregistered increased share capital as of December 31, 2017.

Reserve funds

The movement in reserve funds is as follows:

	Other capital funds	Legal reserve fund	Derivative hedging instruments	CO2 emission allowances	Translation reserve	Total
January 1, 2017	**44**	**27,110**	**6,699**	**6,972**	**-**	**40,825**
Changes in fair value of derivative hedging instruments	-	-	(10,125)	-	-	**(10,125)**
Changes in fair value of CO_2 emission allowances	-	-	-	11,462	-	**11,462**
Realisation of revaluation surplus	-	-	-	(6,972)	-	**(6,972)**
Release of fair value of hedging derivatives	-	-	(3,611)	-	-	**(3,611)**
Contribution to legal reserve fund	-	13,608	-	-	-	**13,608**
Translation reserve	-	-	-	-	86	**86**
Other	275	1,623	-	-	398	**2,296**
December 31, 2017	**319**	**42,341**	**(7,037)**	**11,462**	**484**	**47,569**

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

As of December 31, 2017, the closing balance of revaluation reserves consisted of the revaluation reserve for derivative hedging instruments in the amount of EUR (7,037) thousand and the revaluation reserve for CO_2 emission allowances in the amount of EUR 11,462 thousand (December 31, 2016 the closing balance of revaluation reserves consisted of the revaluation reserve for derivative hedging instruments in the amount of EUR 6,699 thousand and the revaluation reserve for CO_2 emission allowances in the amount of EUR 6,972 thousand). The remeasurements of post employment benefit obligations in 2017 and 2016 are recognized in Retained Earnings / Accumulated Losses.

Dividends

In April 2017, dividends totaling EUR 279,337 thousand were approved for distribution and paid to U. S. Steel Global Holdings VI B.V. There were no declared but unpaid dividends as of December 31, 2017 (December 31, 2016: no declared but unpaid dividends).

Note 16 Long-Term Loans and Borrowings

The USD 500 million unsecured credit facility with U. S. Steel Global Holdings I B.V. expired in March 2017 and was not renewed. No borrowings were drawn against this credit facility as of March 31, 2017 and December 31, 2016.

On February 22, 2016, the Company entered into a EUR 200 million multicurrency revolving unsecured credit facility with Commerzbank, ING Bank N.V., Slovenská sporiteľňa a.s., Komerční banka, a.s. and Citibank Europe plc that replaced the original credit facility which was set to expire in July 2016. The USSK Credit Agreement expires in July 2020. The USSK Credit Agreement permits one additional one-year extension to the final maturity date at the mutual consent of USSK and its lenders. As of December 31, 2017 and December 31, 2016, there were no borrowings against this credit facility.

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

The exisiting credit facility in the amount of EUR 40 million may be used for working capital financing, drawing bank overdraft, and issuing of bank guarantees and letters of credit until December 2018. As of December 31, 2017, the credit facility has been used in the amount of EUR 328 thousand for bank guarantees (December 31, 2016: EUR 133 thousand).

On October 27, 2017, USSK entered into an amendment No.3 to its Bilateral Loan Agreement in the amount of EUR 10 million between the Company and Commerzbank to extend the agreement's final maturity date from December 2017 to December 2018. The amendment also permits up to one additional one-year extension to the final maturity date at the mutual consent of USSK and its lender. As of December 31, 2017, the credit facility has been used in the amount of EUR 1,975 thousand for bank guarantees (December 31, 2016: EUR 2,116 thousand).

Within available credit facilities, the Company can draw loans with terms of not more than six months with interest fixed for each particular loan at the applicable inter-bank offer rate plus margin. Each of these facilities bear interest at the applicable inter-bank offer rate plus a margin and contains 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 2017 and 2016 the Group did not draw any loans against these credit facilities.

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

Note 17 Provisions for Liabilities

Movements in provisions for liabilities were as follows:

	Landfill	Litigation	CO_2 emissions	Other	Total
January 1, 2017	**11,519**	**467**	**57,993**	**90**	**70,069**
Provision made	(2,257)	687	74,663	731	**73,824**
Provision used / reversed	(30)	(48)	(57,993)	(772)	**(58,843)**
Other	-	54	-	3	57
December 31, 2017	**9,232**	**1,160**	**74,663**	**52**	**85,107**
Long-term provisions	5,762	-	-	3	**5,765**
Short-term provisions	3,470	1,160	74,663	49	**79,342**

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

The movement of provisions caused by the passage of time (i.e. accretion expense) in 2017 and 2016 was immaterial.

Provision reversals for the year 2017 and 2016 were immaterial.

<u>Landfill</u>

The provision for closing, reclamation and after-close monitoring of landfills is recognized based on the Law on Waste. In 2017, the Group had four landfills; two for non-hazardous waste and two for hazardous waste. Reclamation of one hazardous and one non-hazardous landfill was completed, and those landfills were closed in 2011 and 2013. 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.

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

Litigation

The Group 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 Group'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 Group's financial statements. Based on the facts currently available, management believes that the disposition of these matters that are pending or asserted will not have a material adverse effect, individually or in the aggregate, on the financial position of the Group.

CO_2 emissions

A provision was recognized for CO_2 emissions emitted in 2017. The provision is calculated as a multiple of the final volume of CO_2 emitted for the calendar year and the fair value of CO_2 emission allowances on the European Climate Exchange as of December 31, 2017. The provision was charged to Other operating expenses (Note 23). Amortization of related deferred income from assigned CO_2 emission allowances is recognized in Other income (Note 20).

Other

Other provisions include provisions for warranty.

Note 18 Employee Benefits Obligations

Employee retirement obligation

The Group 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 Group 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:

	2017	2016
January 1	**33,305**	**32,882**
Total expense charged in profit or loss – pension	**1,347**	1,512
Total expense charged in profit or loss – jubilee	**553**	501
Total expense charged in profit or loss – termination	**84**	4,591
Remeasurements of post employment benefit obligations	**684**	(335)
Benefits paid	**(1,430)**	(5,846)
Other	**4,200**	-
December 31	**38,743**	**33,305**
Long-term employee benefits payable	**37,446**	31,879
Short-term employee benefits payable	**1,297**	1,426

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

	December 31, 2017	December 31, 2016
Present value of the obligation – pension	**23,069**	19,913
Present value of the obligation – jubilee	**10,208**	8,787
Present value of the obligation – termination	**22**	95
Remeasurements of post employment benefit obligations	**5,444**	4,510
Total liability in the statement of financial position	**38,743**	**33,305**

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

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

	2017	2016
Current service costs – pension	**1,252**	1,043
Current service costs – jubilee	**454**	374
Current service costs – termination	**84**	4,591
Interest costs	**498**	597
Net actuarial losses / (gains)	**254**	351
Pension recalculation change	**(304)**	-
Remeasurements of post employment benefit obligations	**430**	(687)
Total	**2,668**	**6,269**

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

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

	2017	2016
Discount rate - pension	**1.50%**	1.50%
Discount rate - jubilee	**1.00%**	1.00%
Annual wage and salary increases	**5.00%**	5.00%
Staff turnover [(1)]	**5.00%**	5.00%

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

For calculating the discount rate for euro-denominated pension and postretirement obligations in accordance with *IAS 19 Employee benefits,* the Group used a suitable bond yield curve. The yield curve used was a Euro bond yield as of December 31, 2017 developed by Conduent, Inc. The curve plots yield rates as a function of time. Each point on the curve represents a spot rate that can be used to discount a benefit amount expected to be paid at that time. The curve is constructed by examining the yields on selected highly rated corporate bonds.

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 Group made contributions to the mandatory government and private defined contribution plans representing 24.6 percent (2016: 24.5 percent) of total salaries and other employee benefits up to a monthly salary limit of EUR 6,181 (2016: EUR 4,290). The monthly salary limit for calculation of the health insurance contribution was canceled for the year 2017. For comparison, using a monthly salary limit of EUR 6,181 for the health insurance contribution calculation and consecutive comparison to annual health insurance calculation of the employer leads to a cost increase of EUR 547 thousand. The amount of contributions for social security is presented in Note 22.

In addition, with respect to employees who have chosen to participate in a supplementary pension scheme, the Group made contributions to the supplementary scheme amounting to 1.6 percent of the monthly accounted wage in 2017 (2016: 1.6 percent).

Information for pension plans with an accumulated benefit obligation:

	December 31, 2017	December 31, 2016
Accumulated benefit obligation (ABO)	**28,927**	25,984
Effects of Future Compensation	**9,794**	7,226
Projected benefit obligation (PBO)	**38,721**	**33,210**
Termination	**22**	95
Total liability in the statement of financial position	**38,743**	**33,305**

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

Note 19 Trade and Other Payables

	December 31, 2017	December 31, 2016
Trade payables	**171,508**	209,856
Related party accounts payable (Note 29)	**9,141**	12,261
Assigned trade payables [(1)]	**69,407**	35,282
Uninvoiced deliveries and other accrued expenses	**152,633**	84,344
Trade payables and accruals (Note 26)	**402,689**	**341,743**
Advance payments received	**3,917**	3,636
Liability to employees and social security institutions	**36,115**	34,781
VAT and other taxes and fees	**6,363**	4,627
Other payables	**6,685**	3,947
Total	**455,769**	**388,734**

(1) Assigned trade payables are trade payables which are not going to be paid to original supplier because receivable against the Company was transferred to other creditor mainly as a result of supply chain financing.

Trade payables also include liability for discounts and rebates the Group will provide to the customers which fulfilled all requirements stated in sale contracts as of December 31, 2017.

	December 31, 2017	December 31, 2016
Short-term trade and other payables	**454,301**	384,708
Long-term trade and other payables	**1,468**	4,026
Total	**455,769**	**388,734**

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

	December 31, 2017	December 31, 2016
Trade and other payables not yet due	**436,970**	380,953
Trade and other payables past due	**18,799**	7,781
Total	**455,769**	**388,734**

Trade and other payables past due totaling EUR 9 million were paid on January 2, 2018.

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

	December 31, 2017	December 31, 2016
EUR	**301,996**	275,643
USD	**95,452**	65,939
Other	**5,241**	161
Total	**402,689**	**341,743**

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

	2017	2016
Opening balance as of January 1	**72**	**100**
Group contribution (group costs)	**2,002**	1,548
Employees contribution (repayments)	**81**	103
Withdrawals	**(1,929)**	(1,679)
Other	**158**	-
Closing balance as of December 31	**384**	**72**

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

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

Note 20 Revenue and Other Income

The main activities of the Group are the production and sale of steel products, which include slabs, sheet, strip mill plate, tin mill products, spiral welded pipes, panel radiators, packaging and other services. In addition, the Group also produces and distributes electricity, heat and gas. The Group also produces coke which is primarily used in the steel making process, produces refractories and provides maintenance of blast furnaces and provides packaging of semi-finished and finished steel products. The Group also provides certain functional support services to its ultimate parent company.

Revenue consists of the following:

	2017	2016
Sales of own production	**2,584,527**	1,994,163
Sales of merchandise	**2,311**	3,183
Rendering of services	**24,772**	19,925
Total	**2,611,610**	**2,017,271**

In 2017 and 2016, sales of merchandise represent primarily sales of electricity.

<u>Other income</u>

Other income consists of the following:

	2017	2016
Amortization of deferred income - CO_2 emission allowances	**30,038**	30,075
Recognition of deferred income - government grant (Note 5)	**(5,293)**	-
Gain on disposal of property, plant and equipment, investment property and intangible assets	**-**	1,073
Gain on derivative financial instruments	**-**	5,704
Rental income	**1,013**	1,811
Income from contractual penalties	**358**	624
Other income	**4,493**	3,913
Total	**30,609**	**43,200**

Note 21 Materials and Energy Consumed

Materials and energy consumed is comprised of the following:

	2017	2016
Materials consumed	**(1,493,197)**	(1,034,178)
Energy consumed	**(122,567)**	(121,708)
Costs of merchandise sold	**(3,917)**	(3,182)
Changes in internally produced inventory	**6,729**	17,463
Inventory write-down allowance (Note 11)	**160**	(132)
Total	**(1,612,792)**	**(1,141,737)**

Note 22 Salaries and Other Employee Benefits

Salaries and employee benefits are comprised of the following:

	2017	2016
Wages and salaries	**(226,171)**	(196,346)
Profit sharing expense	**(14,327)**	(7,375)
Termination benefits (Note 18)	**(84)**	(4,591)
Mandatory social and health insurance to all insurance funds (Note 18)	**(83,789)**	(72,110)
Other social expenses	**(14,303)**	(11,915)
Pension expenses – retirement and work and life jubilees (Note 18)	**(1,656)**	(1,768)
Total	**(340,330)**	**(294,105)**

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

The average number of employees of the Group was 11,948 (2016: 11,927).

	2017	2016
U. S. Steel Košice, s.r.o.	**10,059**	10,092
Other Group companies	**1,889**	1,835
Total	**11,948**	**11,927**

Note 23 Other Operating Expenses

Other operating expenses during 2017 and 2016 are as follows:

	2017	2016
Charge for provision for CO_2 emissions (Note 17)	**(74,663)**	(57,993)
Cleaning and waste disposal	**(7,714)**	(8,609)
Rent	**(2,775)**	(1,933)
Advertising and promotion	**(2,981)**	(2,609)
Intermediary fees	**(248)**	(2,746)
Training	**(1,067)**	(819)
Impairment of receivables – (loss) and receivables written-off (Note 12)	**11**	(641)
Loss on disposal on property, plant and equipment and intangible assets	**(1,210)**	-
Fair value (gains)/losses on derivative financial instruments	**(2,917)**	-
Real estate tax and other taxes	**(5,505)**	(5,468)
Intangible assets, licences, trade marks, licence support	**(12,065)**	(10,112)
Laboratory and heat tests	**(6,299)**	(6,083)
External processing	**(15,236)**	(14,639)
Costs of processing of steel slag, sludge and dust	**(5,314)**	(5,070)
Audit fees	**(757)**	(598)
Other services provided by the auditor	**(8)**	(12)
Packaging	**(1)**	(13,192)
Other operating expenses [(1)]	**(45,297)**	(68,498)
Total	**(184,046)**	**(199,022)**

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

Note 24 Income Tax

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

	2017	2016
Current tax	**(45,142)**	(29,675)
Deferred tax (Note 9)	**(72,523)**	(48,439)
Total	**(117,665)**	**(78,114)**

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

	2017	2016
Profit before tax	**565,291**	348,628
Tax calculated at 21% tax rate (2016: 22%)	**(118,711)**	(76,698)
Non-deductible expenses	**5,818**	197
Impact on deferred tax from a change in a tax rate (22% to 21%)	**-**	(1,448)
Other	**(4,772)**	(165)
Tax (charge) / credit	**(117,665)**	**(78,114)**

The effective tax rate was 21 percent (2016: 22 percent). Effective January 1, 2017 the income tax rate decreased from 22 percent to 21 percent.

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

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

	2017			2016		
	Before tax	**Tax (charge) / credit**	**After tax**	**Before tax**	**Tax (charge) / credit**	**After tax**
Changes in fair value of derivative hedging instruments	**(17,342)**	**3,606**	**(13,736)**	3,488	(1,211)	2,277
Changes in actuarial gains and losses	**(430)**	**90**	**(340)**	687	(197)	490
Revaluation of intangible assets	**14,686**	**(80)**	**14,606**	9,540	(2,028)	7,512
Translation reserve	**86**	**-**	**86**	-	-	-
Other comprehensive income	**(3,000)**	**3,616**	**616**	**13,715**	**(3,436)**	**10,279**
Current tax	**-**	**-**	**-**	**-**	**-**	**-**
Deferred tax (Note 9)	**-**	**3,616**	**-**	**-**	(3,436)	**-**
	-	**3,616**	**-**	**-**	**(3,436)**	**-**

Note 25 Capital Management

The Group's objective when managing capital is to safeguard the Group'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 Group's overall strategy did not change from 2016.

The capital structure of the Group consists of debt (Note 16 and Note 29) totaling EUR 0 as of December 31, 2017 (December 31, 2016: EUR 0) and equity (Note 15) totaling EUR 1,356,013 thousand as of December 31, 2017 (December 31, 2016: EUR 1,173,044 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 Group complied with the regulatory capital requirements as of December 31, 2017 and December 31, 2016.

Note 26 Financial Risk Management

Financial risk is managed in compliance with policies and procedures established by U. S. Steel. The use of risk management instruments is controlled by U. S. Steel management which has authorized the use of futures, forwards, swaps and options to manage exposure to price fluctuations of certain commodities and foreign currency transactions. The derivative instruments, if used, could materially affect the Group'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 Group.

The Group 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 Group's financial performance.

Credit risk

The Group 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 Group's financial performance.

Credit risk is managed by the Receivables Management Department. All customers of the Group 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. Group management carefully monitors the impact of the current economic situation on the customers and adjusts the ratings and related credit limits accordingly. Trade receivables are monitored on a daily basis for individual customers and groups of customers under common control. Overdue receivables are handled in accordance with established collection management practices such as reminders, phone contact, suspension of orders and shipments, customers visit and likewise.

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

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

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

December 31, 2017

	Derivative financial instruments	Loans and receivables
Trade and other receivables (Note 12)		
Trade receivables (net)	-	328,292
Related party accounts receivables (net)	-	695
Other receivables – government grants	-	90,491
Other receivables (net)	-	3,939
Derivative financial instruments (Note 13)		
Forward foreign exchange	48	-
Short-term loans (Note 29)		
Short-term loans provided	-	-
Cash and cash equivalents (Note 14)		
ING Bank N.V.	-	58,915
COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky	-	31,390
Citibank (Slovakia) a.s.	-	66,502
Slovenská sporiteľňa, a.s.	-	27,525
Komerční Banka, a.s.	-	25,749
Československá obchodná banka, a.s.	-	49,100
Všeobecná úverová banka	-	43,800
Other banks	-	417
Cash on hand	-	94
Cash restricted in its use (Note 10)		
Slovenská sporiteľňa, a.s.	-	831
Všeobecná úverová banka, a.s.	-	6,214
COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky	-	1,201
ING Bank N.V.	-	67
Total	**48**	**735,222**

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

December 31, 2016

	Derivative financial instruments	Loans and receivables
Trade and other receivables (Note 12)		
Trade receivables (net)	-	301,817
Related party accounts receivables (net)	-	616
Other receivables – government grants	-	70,976
Other receivables (net)	-	1,215
Derivative financial instruments (Note 13)		
Forward foreign exchange	8,595	-
Short-term loans (Note 29)		
Short-term loans provided	-	250,328
Cash and cash equivalents (Note 14)		
ING Bank N.V.	-	31,282
COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky	-	34,449
Citibank (Slovakia) a.s.	-	22,711
Slovenská sporiteľňa, a.s.	-	24,414
Komerční Banka, a.s.	-	2,781
Other banks	-	87
Cash on hand	-	49
Cash restricted in its use (Note 10)		
Slovenská sporiteľňa, a.s.	-	832
Všeobecná úverová banka, a.s.	-	5,460
COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky	-	1,044
ING Bank N.V.	-	19
Total	**8,595**	**748,080**

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 Group mitigates credit risk for approximately 69 percent (2016: 69 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:

	2017	2016
Credit insurance	**59%**	57%
Letters of credit and documentary collection	**5%**	6%
Bank guarantees	**2%**	2%
Other credit enhancements	**3%**	4%
Credit enhanced sales	**69%**	**69%**
Unsecured sales	**31%**	31%
Total	**100%**	**100%**

The majority of the Group’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 Group’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. Group management monitors expected and actual cash flows and the cash position of the Group 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.

Long-term borrowings are disclosed in Note 16.

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

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

December 31, 2017

	0 – 1 year	1 – 5 years	over 5 years	Total
Assets				
Cash and cash equivalents	303,492	-	-	**303,492**
Restricted cash	3,566	-	4,747	**8,313**
Trade receivables (net)	328,987	-	-	**328,987**
Other receivables – government grants	48,903	41,588	-	**90,491**
Derivative financial instruments	227,633	-	-	**227,633**
Total	**912,581**	**41,588**	**4,747**	**958,916**
Liabilities				
Trade payables and accruals	401,221	1,468	-	402,689
Derivative financial instruments	233,812	-	-	233,812
Total	**635,033**	**1,468**	**-**	**636,501**

December 31, 2016

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

Market risk

a) Interest rate risk

The Group is subject to the effects of interest rate fluctuations on borrowings drawn against revolving credit facilities (Note 16). As the Group did not draw any variable interest rate borrowings in 2017 and in 2016, operating cash flow was not affected by changes in market interest rates.

The Group's income is substantially independent of changes in market interest rates. The Group had accrued interest income from an intercompany loan (Note 29) and had other minor interest income from short term bank deposits and cash at bank accounts as of December 31, 2017 and December 31, 2016.

b) Currency risk

The Group 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, 2017

	Cash and cash equivalents	Cash restricted in its use
EUR	211,976	8,313
USD	83,605	-
CZK	7,849	-
Other	62	-
Total	**303,492**	**8,313**

December 31, 2016

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

The Group 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, 2017, the Group had open USD forward purchase contracts for Euros (total notional value of approximately EUR 234 million; December 31, 2016: EUR 157 million).

As of March 2017, the USD 500 million unsecured credit facility with U. S. Steel Global Holdings I B.V. expired. No borrowings were drawn against this credit facility as of March 31, 2017 and December 31, 2016. (Note 16).

As of December 31, 2017, if the EUR had weakened/strengthened by 20 percent against the U.S. dollar with all other variables held constant, this movement would have resulted in a EUR 54 million credit / EUR 36 million charge to total comprehensive income, mainly as a result of gains/losses from the fair value change of forward foreign exchange contracts.

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

c) Other price risk

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

The Group is exposed to commodity price risk on both the purchasing and sales sides, and manages the risk through natural hedges. The Group'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 Group is exposed to a fluctuation of Iron Ore, Zinc and Tin purchase prices. An increase in these commodity prices would have an adverse impact on the Group's profitability. In order to mitigate the Group's exposure to Iron Ore, Zinc and Tin price fluctuation, the Group entered into commodity forwards to protect its profit margin. Participating in this hedging program fixed the price for the portion of the Group's Iron Ore, Zinc and Tin requirements, which helped the Group's profitability objectives. All commodity forwards commenced in 2017 matured in 2017. All commodity forwards commenced in 2016 matured in 2016.

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

In 2017 and 2016 the Group did not carry out any other material derivative transaction mitigating commodity price risk and had no outstanding commodity derivatives as of December 31, 2017 and December 31, 2016, respectivelly.

Note 27 Financial Instruments by Category

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

December 31, 2017

	Loans and receivables	Hedging derivatives	Financial assets available-for-sale	Total
Assets				
Shares at acquisition cost	-	-	259	**259**
Trade receivables (net)	328,292	-	-	**328,292**
Related party accounts receivables (net)	695	-	-	**695**
Other receivables – government grants	90,491	-	-	**90,491**
Cash and cash equivalents	303,492	-	-	**303,492**
Restricted cash	8,313	-	-	**8,313**
Derivative financial instruments	-	48	-	**48**
Total	**731,283**	**48**	**259**	**731,590**

	Hedging derivatives	Other financial liabilities	Total
Liabilities			
Trade payables and accruals	-	402,689	**402,689**
Derivative financial instruments	8,782	-	**8,782**
Total	**8,782**	**402,689**	**411,471**

December 31, 2016

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

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

(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, 2017

	Level 1	Level 2	Level 3	Total
Assets				
Hedging derivatives	-	48	-	**48**
Total	**-**	**48**	**-**	**48**
Liabilities				
Hedging derivatives	-	8,782	-	**8,782**
Total	**-**	**8,782**	**-**	**8,782**

December 31, 2016

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

During the year 2017 and 2016, 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, 2017 and December 31, 2016. Fair values of these instruments as of December 31, 2017 and December 31, 2016 approximate their carrying amounts.

Note 28 Contingent Liabilities and Contingent Assets

Operating leases

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

	2017	2016
Not later than 1 year	**6,287**	4,564
Later than 1 year and not later than 5 years	**13,845**	4,104
Later than 5 years	**1,428**	1
Total	**21,560**	**8,669**

Capital Commitments

Capital expenditures of EUR 110 million had been committed under contractual arrangements as of December 31, 2017 (December 31, 2016: EUR 42 million).

Environmental Commitments

The Group is in compliance with environmental legislation. In 2017, the environmental expenses represented by air, water pollution and solid waste handling fees totaled approximately EUR 12 million (2016: EUR 12 million). There are no material legal proceedings pending against the Group involving environmental matters.

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

In March 2015, the Slovak Republic adopted a new waste code that became effective on January 1, 2016. This legislation implements the EU Waste Framework Directive that strictly regulates waste disposal and among other provisions, increases fees for waste disposed of in landfills, including privately owned landfills. The financial impact of compliance with the legislation on Group's operations were EUR 2 million annually which relates to waste stabilization and increased fees for packaging materials recycling fees. In addition, the Slovak Republic is preparing an amended law on waste disposal fees. If the drafted amendment is enacted, the Group estimates that waste disposal fees will increase by EUR 5 million annually.

Carbon Dioxide (CO_2) Emissions

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

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

In September of 2013, the EC issued EU wide legislation further reducing the expected free allocation for Phase III by an average of approximately 12 percent. The Group's final allocation of free allowances for the Phase III period, which covers the years 2013 through 2020 is 48 million tons of emission allowances. However, following the recent judgment of the Court of Justice of the European Union in April 2016, the volume of free allocations for the years 2018-2020 was reduced. Based on projected future production levels, the Group started to purchase emission allowances in the third quarter of 2017 to meet the annual compliance submission in the future. As of December 31, 2017, the Company purchased 5 million European Union Allowances (EUA) totaling EUR 36 million. For the Phase III period, the Company estimates a shortfall of approximately 16 million tons of emission allowances totaling EUR 130 million (using fair value of EUR 8.14 per ton as of December 31, 2017). However, due to a number of variable factors, such as the future market value of emission allowances, future production levels and future emission intensity levels, the Group cannot reliably estimate the full cost of complying with the ETS regulations at this time.

Best Available Techniques (BAT's)

The EU's Industry Emission Directive requires implementation of EU determined BAT's for Iron and Steel production 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. Iron and steel producers were required to be in compliance with the iron and steel BAT by March 8, 2016, unless specific exceptions or extensions were granted by the Slovak environmental authority. The Group updated existing operating permits for different facilities involved in producing iron and steel in the plant in accordance with the new BAT requirements. Through this process for some facilities, the Group has obtained some extensions from the 2016 compliance deadline in order to meet or exceed the BAT requirements. Compliance with stricter emission limits going beyond BAT requirements makes the Group eligible for EU funding support and prepares the Group for any further tightening of environmental protection standards. The most recent broad estimate of likely capital expenditures for projects to comply with or go beyond the BAT requirements is approximately EUR 138 million over the 2017 to 2020 time period.

The EU has various programs under which funds are allocated to member states to implement broad public policies which are then awarded by the member states to public and private entities on a competitive basis. The funding intensity under these programs currently ranges from 55 percent of defined eligible costs on a project under the standard state scheme to 90 percent on an approved ad hoc scheme to improve the air quality in the Kosice region of Slovakia. Based on the list of projects that comprise the approximate EUR 138 million of spending noted, the Group may be eligible to receive up to EUR 88 million of incentive grants. This could potentially reduce the Group's net cash expenditures to approximately EUR 50 million. The actual amount of capital spending will be dependent upon, among other things, the actual amount of incentive grants received.

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

Due to other EU legislation, BAT for Large Combustion Plants (LCP), the Group is 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. The new requirements for LCP resulted in the construction of a new boiler and certain upgrades to the existing boilers. In January of 2014, the operation of the Group's boilers was approved by the European Commission as part of Slovakia's Transitional National Plan (TNP) for bringing all boilers in Slovakia into compliance by no later than 2020. The TNP establishes emissions ceilings for each category of emissions (total suspended particulate, sulfur dioxide (SO_2), and nitrogen oxide (NO_x)) for both stacks within the power plant. The allowable amount of discharged emissions will decrease each year until mid 2020. An emission ceiling will be a limiting factor for future operation of the boilers. The boiler projects totaling EUR 128 million have been approved by the U. S. Steel Board of Directors and the Group is now in the execution phase. These projects will result in a reduction in electricity, carbon dioxide (CO_2) emissions and operating, maintenance, and waste disposal costs once completed. The construction of the new boiler is complete with a total final installed cost of EUR 74 million. Reconstruction of the existing boiler with a projected cost of EUR 54 million is in progress. The total remaining to be spent on the existing boiler project is projected to be EUR 7 million with the final house inspection expected to be completed in October 2018. 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 Group to participate in Slovakia's renewable energy incentive program once both boiler projects are completed.

<u>Memorandum of Understanding</u>

A Memorandum of Understanding (MOU) was signed in March of 2013 between U. S. Steel, USSK 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 Group. Incentives the government of Slovakia agreed to provide include potential participation in a renewable energy program that provides the opportunity to reduce electricity costs as well as the potential for government grants and other support concerning investments in environmental control technology. Although there are many conditions and uncertainties regarding the grants, including matters controlled by the EU, the value of these incentives as stated in the MOU could be as much as EUR 75 million. U. S. Steel also agreed to pay the government of Slovakia specified declining amounts should U. S. Steel sell the Group within five years of the date of the MOU. The Group now expects the total amount of EU funds will be as much as EUR 85 million. The final grant value will depend on actual project spending on eligible costs.

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

Note 29 Related Party Transactions

Transactions with related parties

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

		2017	2016
United States Steel Corporation, Ultimate parent company			
	Revenues	**23,000**	4,029
	Expenses	**67,609**	28,042
	Receivables	**498**	116
	Payables	**8,621**	1,183
U. S. Steel Holdings, Inc., Company under common control of U. S. Steel			
	Loans provided	**-**	250,328
	Interest income	**3,194**	328
USS International Services, LLC, Company under common control of U. S. Steel			
	Revenues	**-**	1
	Expenses	**2,875**	3,892
	Receivables	**197**	222
	Payables	**520**	637
Total			
	Revenues	**26,194**	**10,242**
	Expenses	**70,484**	**102,461**
	Receivables	**695**	**616**
	Payables	**9,141**	**12,261**
	Loans provided	**-**	**250,328**

In April 2017, dividends totaling EUR 279,337 thousand were approved for distribution and paid to U. S. Steel Global Holdings VI B.V. (Note 15).

Transactions with United States Steel Corporation relate mainly to rendering of services (2017: EUR 1,813 thousand; 2016: EUR 1,996 thousand), interest income from inter-company loan (2017: EUR 858 thousand; 2016: EUR 2,361 thousand) and purchases of raw material (2017: EUR 53,767 thousand; 2016: EUR 8,200 thousand), licences (2017: EUR 8,718 thousand; 2016: EUR 6,890 thousand), managerial services (2017: EUR 4,755 thousand; 2016: EUR 13,030 thousand), sales of own products (2017: EUR 21,187 thousand; 2016: none) and cost of sales of own products (2017: EUR 942 thousand; 2016: none).

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

As of December 14, 2016, the Company entered into a EUR 400 million unsecured revolving credit agreement with the U. S. Steel Holdings, Inc. The contract is valid until December 30, 2020. Interest on loans provided under the facility is based on EURIBOR + 4% p.a. As of December 31, 2017, there were no loans provided under this facility. As of December 31, 2016, two loans provided totalling EUR 250 million were drawn against this facility and were repaid in April 2017.

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

Employments of the statutory representatives and key management employees

a) Slovak and foreign statutory representatives of the Group did not receive any cash or non-cash benefits from the Group in 2017 and 2016 that arise from their positions as statutory representatives. Foreign statutory representatives of the Group are employed and paid based on their employment contracts with USS International Services, LLC and their compensation is included in charges for managerial services provided to the Group. Salaries and other employee benefits of the Group's key management employees shown in the following table includes thecompensation of Slovak statutory representatives:

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

	2017	2016
Wages and salaries	**16,968**	17,605
Profit sharing expense	**18**	-
Mandatory social and health insurance to all insurance funds	**5,136**	4,232
Total	**22,122**	**21,837**

b) Shares of U. S. Steel granted to the Group'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 Group.

Note 30 Events after the Reporting Period

An addendum No.3 to the valid Collective Labor Agreement became effective on Janaury 1, 2018 and changed benefit payments at termination of employment which replaced actual system of retirement benefits.

Effective January 12, 2018, Ing. Silvia Gaálová was appointed statutory representative of U. S. Steel Košice, s.r.o. by general meeting of the Company and replaced Samir Kalra in Vice President and Chief Financial Officer position.

On January 22, 2018, Group's lenders confirmed the second maturity extension request under the EUR 200 million revolving unsecured credit facility to July 2021.

On February 20, 2018, the 2018 CO_2 emission allowances were credited to the U. S. Steel Košice, s.r.o. account in the volume of 5,810,856 tons totaling EUR 56.4 millionand to the Ferroenergy s.r.o. account in volume of 31,839 tons totaling EUR 309 thousand. On March 26, 2018, the Group delivered 9,172,344 tons of CO_2 emission allowances for 2017 to the Slovak Government fulfilling its obligation for the fifth year of the Phase III period.

The MOU expired in March 2018. The Group will continue to apply for the incentive funding for the approved BAT projects through their completion.

After December 31, 2017, no other significant events have occurred that would require recognition or disclosure in the 2017 consolidated financial statements.