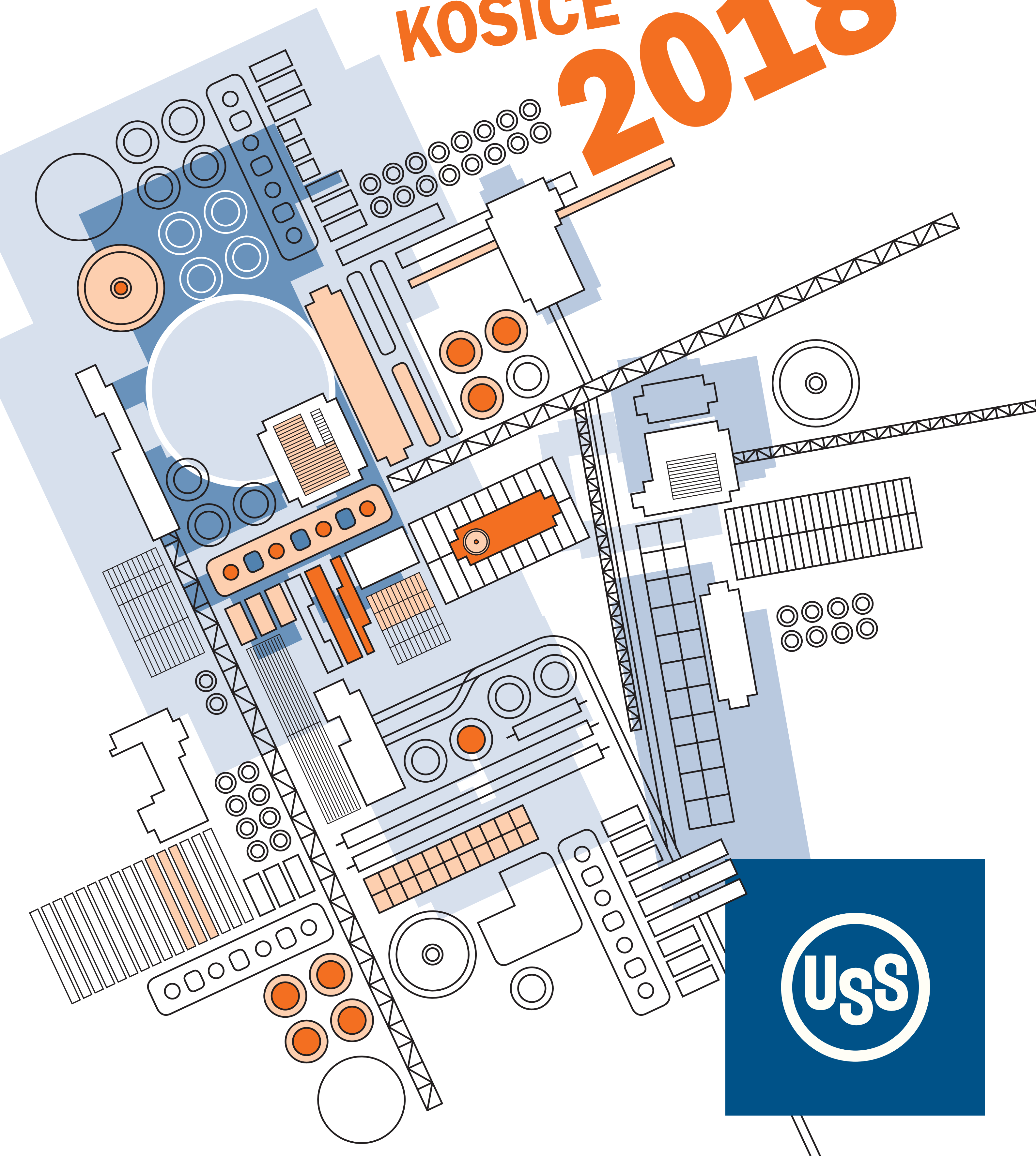
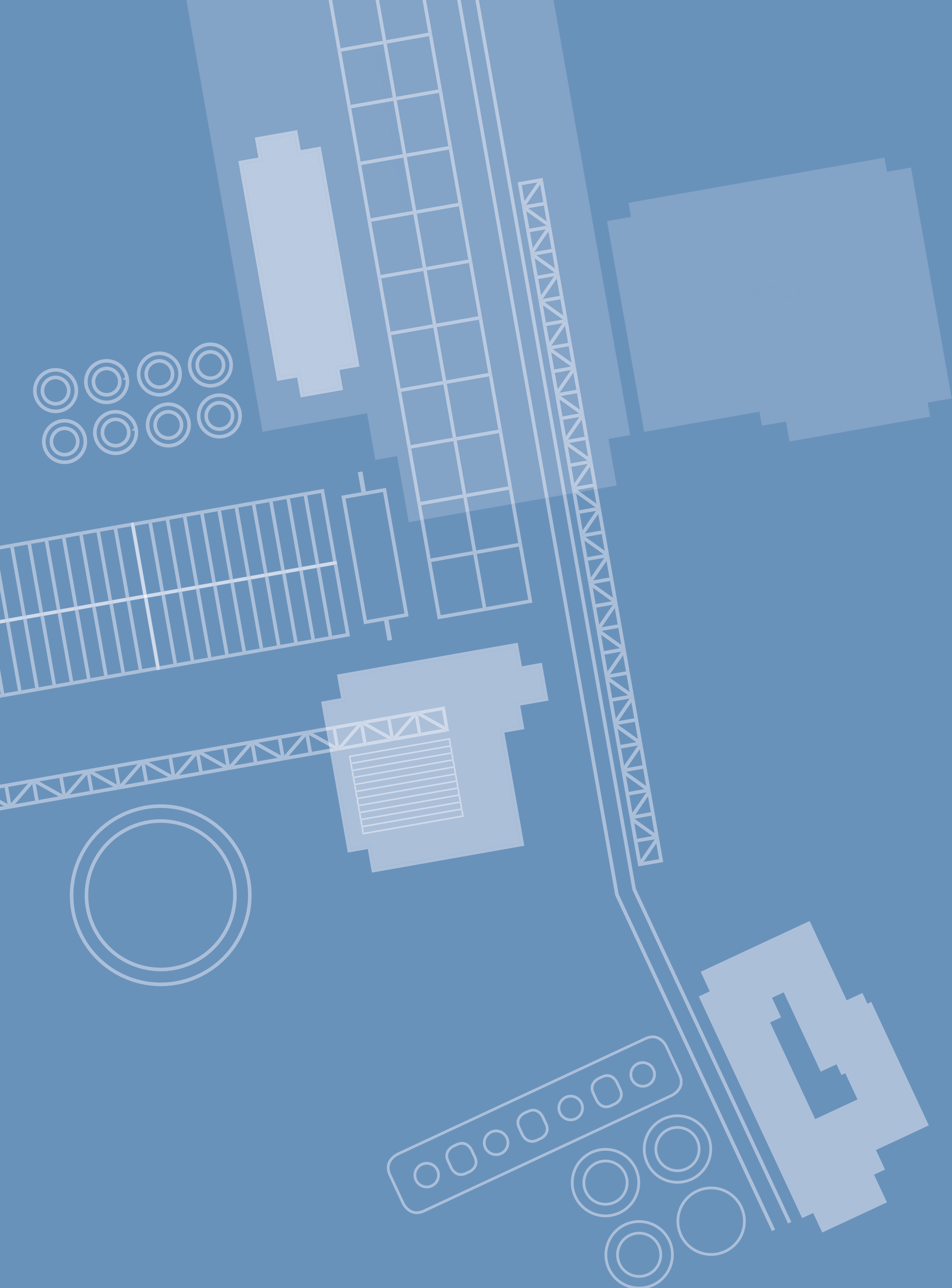
ANNUAL REPORT U. S. STEEL KOŠICE 2018





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”.

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32000kg

PRESIDENT'S FOREWORD

U. S. Steel Košice, s.r.o. delivers another annual report. We want to transparently inform everybody involved about our business: all stakeholders, mainly our customers, suppliers and other business partners, as well as our employees and the general public. Only through understanding and cooperation with all parties engaged in our business can we further develop it and make it sustainable in the future.

I am proud to say that in 2018 we achieved strong results. Day after day we concentrated on our priorities: safety of our employees, quality of our products and services, deliveries to customers and efficiency of costs. As one team we have been looking for reserves as well as new and better solutions. The results confirmed to us that we can be even better. Our new corporate strategy supports us in our efforts, focusing on upskilling of our employees, operational excellence, innovations and customer satisfaction.

In the area of safety we succeeded in achieving the objectives set on our journey to zero injuries. Thanks to the implemented measures we dramatically reduced the injury rate among contractors, which we were not satisfied with in the past. In 2018 the number of contractor injuries fell to its historically lowest level. Not only the numbers were important but the overall change in safety culture. The Culture of Caring moved up employee responsibility and engagement both in our own safety and the safety of colleagues. I care, I have the commitment, I have the courage to act in favor of safety; these are my day-to-day drivers as well as of thousands of my colleagues.

The trade unions remained our solid partners, not only in safety, and we discussed all crucial issues at our regular meetings. The Collective Labor Agreement valid for 2016 – 2020 created the basis for our cooperation and understanding, and in 2018 we updated it with mutual consent in the salary area. We are also proud of our employee training, social and health-care programs. We feel that we are on the same ship not only at work, but also during our traditional volunteer and charity activities.

Regarding the environment, in 2018 we again continued in minimizing the impact of our production on environmental quality in the area where we work and live together with our families. We focused mainly on air and water protection, energy efficiency, waste disposal and recycling. In line with European Union environmental legislation we continued to implement best available technologies in all our primary divisions and put several of them into operation. Thanks to our systematic approach we have been able to reduce emissions of solid particulates by about 90 percent during the twenty years of our business here in Slovakia.

In spite of these clear successes, in 2018 we had to overcome several obstacles and fight for appropriate positioning of the European steelmaking industry, which is the basis for other industrial sectors and for independence and growth of the European economy. We are proud that we produce clean steel for our communities, but on the market, together with other producers in the EU, we compete with steel from countries in which there are no similar strict environmental standards. In our opinion these are unfair conditions and we ask for the same rules for all producers.

We came into 2019 with the determination to be better than we were. We will support our employees so they are able and ready to deliver innovative solutions for our customers' current and developing needs. We will be implementing measures to improve our labor productivity and cost efficiency. We will concentrate on further improvement in performance in line with our high-level quality, environmental and energy management systems. We will focus on everything we can influence through our work and our decisions to keep steel production in Košice modern and sustainable. This is our responsibility towards our stockholders, customers, our employees and the local community.

James E. Bruno,
President U. S. Steel Košice

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, one dynamo line, 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, 2018 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, 2018 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, nor other remote production sites.

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

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

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

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.

Domestic subsidiaries RMS Košice s.r.o. and U. S. Steel Obalservis s.r.o. as of 1.10.2018 changed their legal form from a joint-stock company (akciová spoločnosť, a.s.) to a limited liability company (spoločnosť s ručením obmedzeným, s.r.o.) and reduced their registered capital. At the same time, the activities and tasks of some of their operations and centers were transferred to U. S. Steel Košice, s.r.o. including the related transfer of rights and obligations from employment relationships to the affected employees.

U. S. Steel Europe - Bohemia s.r.o., one of the subsidiary companies located abroad, as of 1.9.2018 changed its legal form from a joint-stock company to a limited liability company and reduced its registered capital.

Additional information about subsidiary companies is provided in Note No. 8 to the Separate Fnancial Statements and Note No. 8 to the Consolidated Fnancial Statements.

The statutory representatives as of December 31, 2018 were as follows:

James E. Bruno	President
Ing. Silvia Gaálová, FCCA	Vice President and Chief Financial Officer
Ing. Marcel Novosad	Vice President Operations
Christian Korn	Vice President Commercial
JUDr. Elena Petrašková, 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

During the year 2018 and in January 2019 there were the following changes in the structure of the statutory representatives:
Ing. Silvia Gaálová, FCCA, became a new company officer replacing Samir Kalra in the position of Vice President and Chief Financial Officer. Outgoing President and company officer Scott D. Buckiso was replaced by James E. Bruno as of October 1, 2018. Company officer Marianne Slivková became the General Counsel of USSK as of January 1, 2019. As of February 1, 2019 the position of company officer Christian Korn as Vice President was changed to Senior Advisor for Strategy. As of April 1, 2019 Karl George Kocsis was appointed as a new company officer.

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 2018 are described in the following chapters.

We believe that a responsible and sustainable way of achieving success is crucial for our business. It delivers not only economic growth, but also motivation and commitment of our employees, satisfaction and loyalty of customers, understanding with the community where we work and live, and of course, benefits for our shareholders.

We do our business in line with worldwide sustainable development goals (SDG) adopted by the United Nations member states within the 2030 Agenda, and which are also implemented in the Slovak Republic. We contribute through our activities to achieving these goals, and this is highlighted in our report by the relevant icons.

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 a complicated business environment.

As our journey continued in 2018, an exciting team atmosphere and cadence was created to help turn approximately 940 employee ideas into real value creation for all the Group's stakeholders. Savings from employee initiatives exceeded the value of USD 129 million. Additional tools are being made available that will further empower and engage our employees. Our teams were energized by their performance in 2018 and are looking forward to the challenges of 2019 and beyond.

● 940 projects / USD 129 million / 6 areas

2018 Best Carnegie Way projects:

- **Safe blast furnace slag granulation**
  Area of implementation: Safety
- **Delivering slabs to important customer**
  Area of implementation: Increasing company revenues and cash generation
- **Iron ore pellets replacement with lump ore**
  Area of implementation: Cost Reduction
- **Ensuring oxygen supply during planned as well as unplanned shutdowns of Air Separation Unit 8**
  Area of implementation: Enhancing the quality of products and Customer service
- **Utilization of hydrocyclone and belt press to separate and dewater high-zinc blast furnace sludge**
  Area of implementation: Innovations
- **Increased internal usage of heavy scales from Hot Rolling Mill**
  Area of implementation: Energy and Environment

IMPACT OF THE COMPANY IN THE SOCIAL SPHERE

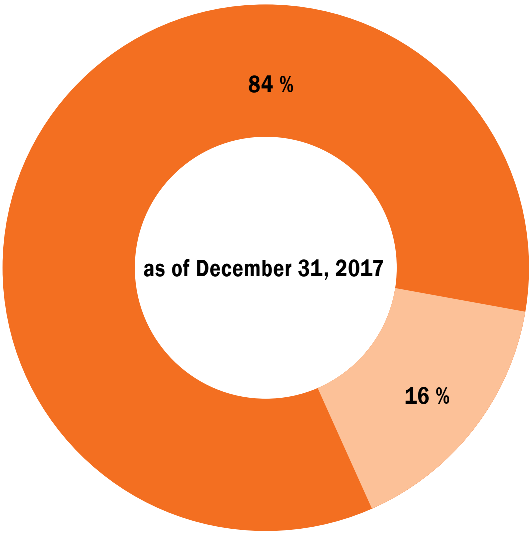
U. S. Steel Košice Group is one of the largest private employers in Slovakia and the largest employer in the East Slovakian region. Several generations of employees with excellent professional knowledge and skills have contributed to the success of the Group. The Group pays constant attention to management 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.

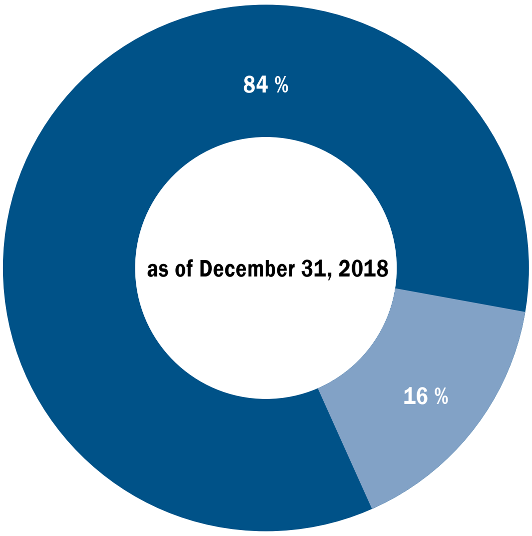
● Moving up the talent curve, support for diversity and an inclusive working environment, as well as the culture of caring are all pillars of our new corporate strategy in human resources development.

U. S. Steel Košice Group:
Active Employees as of December 31, 2017
12 028

U. S. Steel Košice Group:
Active Employees as of December 31, 2018
11 938

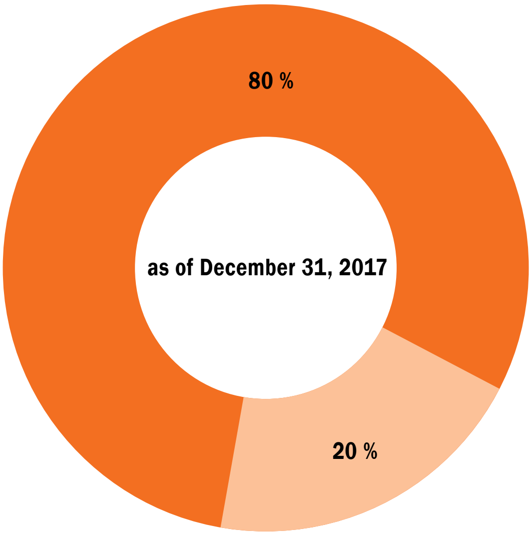
Employees by gender

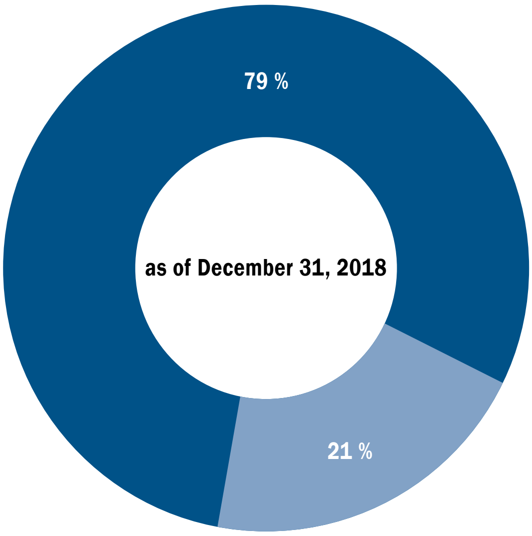




Men Women

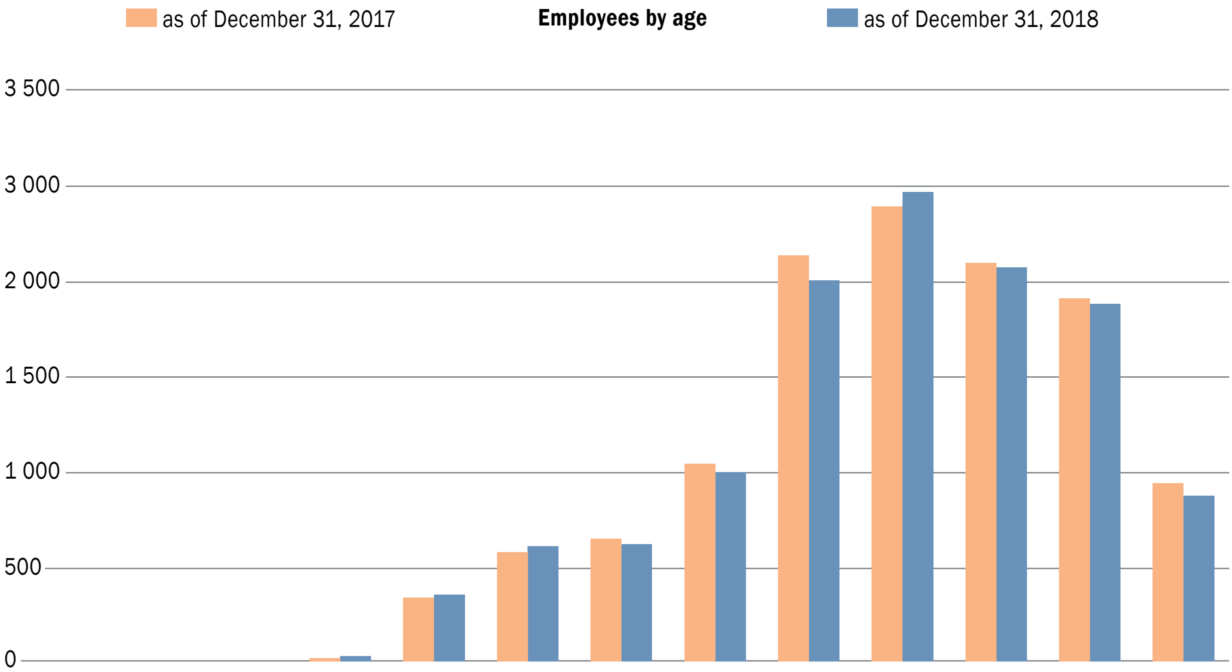
Employees by category





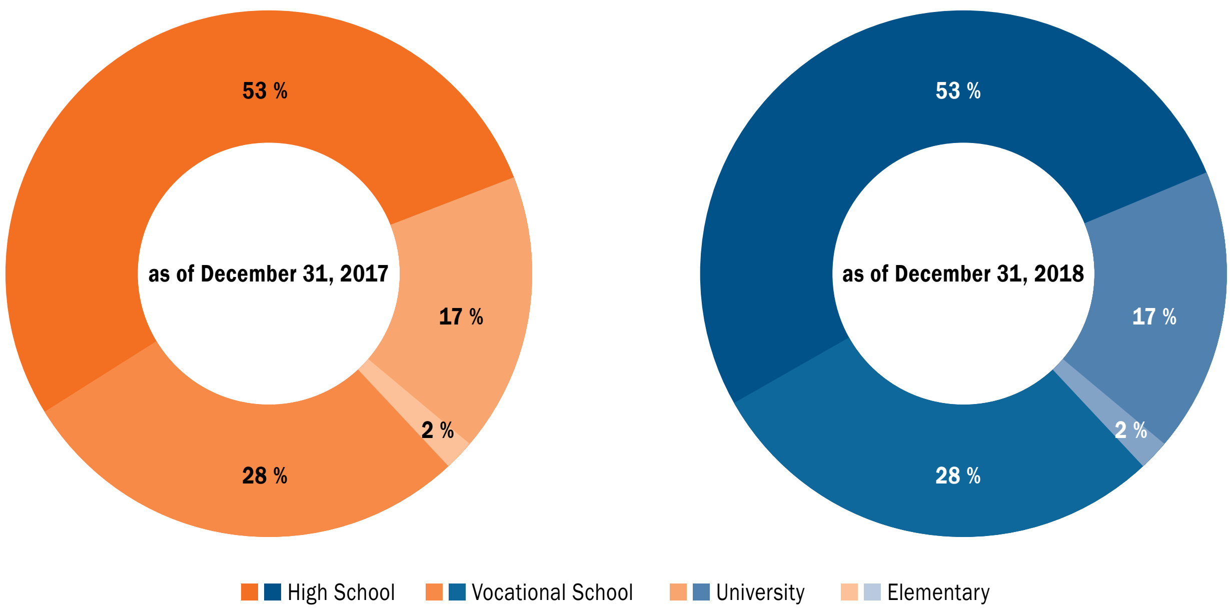
Blue Collar White Collar

Employees by age



	< 20	20 – 24	25 – 29	30 – 34	35 – 39	40 – 44	45 – 49	50 – 54	55 – 59	> 60
# of employees **as of December 31, 2017**	8	328	565	640	1 031	2 137	2 391	2 091	1 910	927
# of employees **as of December 31, 2018**	17	350	632	621	1 006	2 008	2 465	2 078	1 877	884

Employees by educational background








FAMILY SAFETY DAY
2. jún 2018






OCCUPATIONAL SAFETY AND HEALTH PROTECTION

Occupational Safety and Health protection of employees and contractors has always been the **primary core value at U. S. Steel Košice Group**. Making this value a reality day in and day out is only possible through effective safety engagement of all our employees as well as the contractors and visitors to our plant site.

USSK set very aggressive safety performance goals in 2018 in line with our continuous improvement process. Although not all of the established statistical objectives and indicators were achieved, progress was made in areas that support our commitment to safety excellence and sustainability. Contractors working on the USSK plant site established a new record for the Occupational Safety and Health Administration (OSHA) Recordable Injury Rate as well as the fewest occupational injuries in a calendar year.

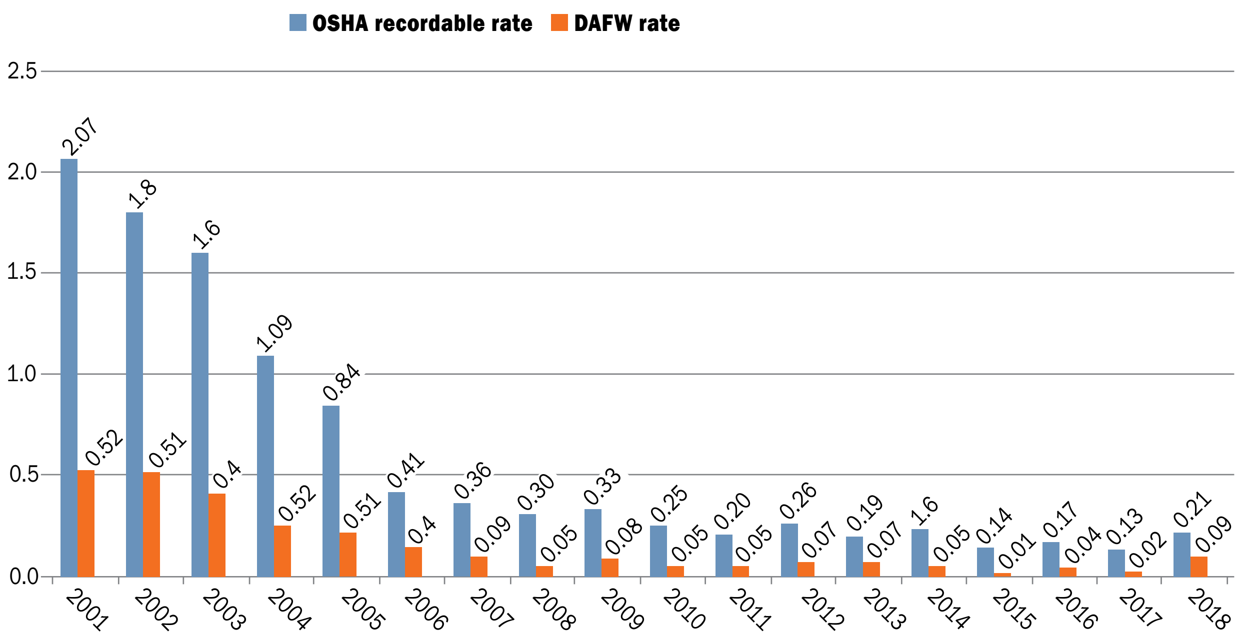
As shown in the graph below, since 2001 U. S. Steel Košice has reduced Days Away from Work Injury frequency by 90 % and OSHA Recordable Injury frequency by almost 83 %. This means that every year 100 more of our co-workers go home safely compared to 2001. Comparing 2018 to 2017, USSK saw an increase in OSHA Recordable Injuries (19 compared to 12) and Days Away from Work Injuries (8 compared to 2). Half of those OSHA Recordable Injuries were associated with slips/trips on walking/working surfaces.

In the course of the year, several company divisions achieved safety milestones. The USSK subsidiary companies reached **three million working hours without a recordable injury**. Due to ongoing efforts by our employees, several divisions (Subsidiaries, Radiator and Pipe Mill, Transportation, Shipping, Tin Mill and Mechanics) managed to work all year without an OSHA Recordable Injury. At the end of 2018, the Radiator and Pipe Mill employees extended their injury-free period to more than four years. Transportation and Shipping employees have now worked more than three years without an occupational injury. Coated Products and Tin Mill, Mechanics and Subsidiaries employees have achieved more than one year without an injury.

As mentioned above, **contractor safety** efforts in 2018 also resulted in record performance. Over the course of the year, more than 600 contractor jobsites were audited, focusing on compliance with Life Threatening Standard Practices and cardinal safety rules. Over 9,000 contractor employees received safety training and testing. USSK also established a Contractor Employee Safety Award to recognize positive contractor employee performance and contributions to jobsite safety. The formation of a Contractor Safety Council has helped open the lines of communication and provides feedback to make safety improvements. These changes are driving positive results to enhance worksite safety throughout the contractor community and within USSK facilities.

5S auditing activities continued to be a focal point in 2018. All divisions across USSK have absorbed the 5S philosophy and seen year-on-year improvement in audit scoring since its inception in 2015. The Fatality Prevention Audit (FPA) process continued in 2018, helping operations focus on hazards that have the potential to cause life-altering consequences. In 2018 cross-functional audit teams focused on Safe Electrical Work Practices, Mobile Equipment and Energy Control, and 95 % of audit findings were completed by the end of 2018.

● Mobile equipment and machines will no longer move unless drivers use their seat-belts. This idea for improving safety scored highly in the U. S. Steel corporate safety competition.



Further steps were taken in 2018 to develop a **Culture of Caring** across USSK facilities. The Culture of Caring is where employees and everyone on our site looks out for and supports each other every day. Quarterly employee engagement initiatives were developed and implemented to help employees begin talking to one another about personal safety through participation in daily safety activities. As an example, during the **"March to Zero"** process, Employees' Representatives for Safety worked with newly-hired employees to ensure they understood jobsite hazards. During the "Fall into Safety" initiative, employees did personal protective equipment reviews with each other to ensure they were equipped for the potential hazards they might face that day. The goal was to develop safe working habits through active participation and positive re-enforcement.

The annual Family Safety Day event, "Where my Mom and Dad Work?", was held on June 2, 2018. Attendance was over 5,000 steelmakers and their family members. This annual event is a celebration and recognition of safety at work, as well as in other activities. It also provides family members with the opportunity to tour some USSK plants and workplaces and see where mom and dad work. Walking and bus tours visited Galvanizing line 3 and the Hot Rolling Mill. Other events also included presentations of USSK firefighters including their rescue equipment. A variety of entertainment and interactive attractions were prepared for the children.

Approaching Others

Actively Caring

Nobody Gets Hurt

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, altogether 89 students already study under the supervision of USSK in the dual education system in the 2018/2019 school year. This concerns the steelmaking equipment operator, mechanic for machines and facilities 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 Košice, s.r.o. 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 2018 we continued with a successful project called **A Year of Work Experience**. The project is for 3rd, 4th and 5th year university students, and 81 of them had the chance to get involved regularly in projects and activities at production facilities and administrative

● The result of intensive cooperation between USSK and the Faculty of Materials, Metallurgy and Recycling at the Technical University of Košice has been an increase in student numbers and more attractive courses, supported by a new Interactive Recycling Auditorium.

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 company 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 2018 to ensure that legally-required safety and vocational requirements were met, 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 focusing on cardinal rules and life-threatening situations. In 2018 these programs were extended to employees of contractors engaged in manufacturing and maintenance work on U. S. Steel Košice Group premises.

In 2018 the **Carnegie Way 101 training** continued, intended for all employees of USSK and subsidiaries for better understanding of improvement initiatives for processes and procedures. 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 2018 we conducted 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 subordinates' skills. In 2018 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 2018 **Internal Coaching** was introduced within the Company, aimed at developing the personal or work potential of employees. The introduction of a coaching culture into a business not only promotes the development of leaders but also reinforces their support for their employee development and the development of their skills within the organization. In order to maintain the specialized knowledge and skills of key employees, a program aimed at sharing knowledge and skills 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 **Operational Academies** for machine operators. Sessions were taken by our internal staff from Operations and Research and Development as well as external experts in specifc fields.

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 May 2018, collective bargaining resulted in Addendum No. 4 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., U. S. Steel Košice - Labortest, s.r.o. and Ferroenergy s.r.o., and pay adjustments were made in 2018 accordingly. From the point of view of the agreements with the labor unions the year 2018 was very important for the other subsidiaries as well, as the addenda to the valid collective labor agreements were signed during May 2018 and thereafter the pay adjustments were made also for employees in these companies. 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 2018 for the three best projects in six key areas supporting the Carnegie Way initiative. During a festive evening held in March 2019, in the presence of the Company President and top management, awards were extended to 18 projects in which over 240 employees participated. During 2018 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 through 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.

● How to lead a team in the process of change, how to prevent burn-out, how to optimize the work-life balance, how to deal with complicated interpersonal relations were some of the many topics treated in a series of lectures and individual consultations within the Employee Care Program.

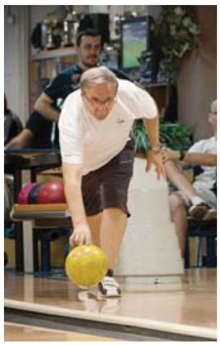
Various events also help to build team spirit and USSK allegiance, among them the event called **Families Do Sport**, and the Company **Summer and Winter Games** (which include soccer and ice-hockey tournaments for the President's Cup) with several hundred amateur sportspeople participating. Many of 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 2010 they can also get support from USSK Women's Network, a part of the Corporation's **Women's Inclusion Network**, whose mission is to cultivate an inclusive environment that enables women to maximize their professional success through networking, education, recruitment, leadership opportunities and community involvement.

● In 2018 the proportion of women in USSK top management was 30 % (2017: 20 %) with responsibilities in finance, law and subsidiaries management.

BUSINESS ETHICS

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

U. S. Steel Košice, s.r.o. is one of the leading companies enforcing **business ethics and anti-corruption practices** in Slovakia. Through USSK's intranet site (Ethics & Compliance section), as well as on-line training programs and information campaigns in the corporate newspaper "Oceľ Východu", employees are regularly informed about the news in the ethics & compliance area. The quarterly on-line newsletter "Ethically Speaking" also deals with current ethical topics.

Any form of prohibited or unethical behavior can be reported to a supervisor or by using the U. S. Steel **Ethics Line**, either by telephone, mail or internet. In addition to Group employees, external persons may also use the U. S. Steel Ethics Line to report unethical or unauthorized practices in relation to USSK.

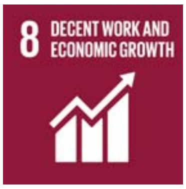
In 2018 our company again joined other plants within the United States Steel Corporation for the 8th **Ethics and Compliance Week**. From November 5th to 9th, employees were reminded in different ways, such as emails from top corporation managers, the newsletter "Ethically Speaking" or by participating in the ethical culture survey, of our joint commitment to "Do What´s Right". At the same time, several employees from USS facilities including USSK who served as examples of strong moral character and behavior were awarded the title of Ethics and Compliance Champion.

On October 12, 2018, one of the basic company documents, the revised **Working Order** of U. S. Steel Košice, s.r.o. was issued, effective as of December 1, 2018. This working order together with the Code of Ethical Business Conduct and corporate policies were subject to Annual Certification of the Code and Policies, which began on November 8 and ended on December 7, 2018. This certification was again extended to all employees, who confirmed their compliance with the above-mentioned documents, including employees of the domestic subsidiaries and foreign affiliations. All these activities foster further discussions between managers and employees about how to "Do What´s Right" during performance of their work for the Group.

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.

The Group serves several steel-consuming sectors including the construction, service center, automotive, transportation, container, further processing, and home appliance industries. To maintain its competitive position in challenging market conditions, it focuses on continuous improvement projects and activities as the main tool helping to make decisions and implement projects which lead to improved quality of goods and services, sustainable profitability improvements and better financial and liquidity positions of the Group.



● **In 2018, USSK produced 4.56 million metric tons of raw steel slabs.**

RESEARCH, INNOVATIONS AND CUSTOMER SOLUTIONS

The activities of Research and Development in 2018 primarily focused on the strategic industries: automotive, electrotechnical and power engineering. Innovative R&D projects in the field of packaging tinplate sheets, sheets for appliances and the construction industry, special-use sheets, pipes and radiators, were under way as well. All the projects concentrated on product and/or production technology innovation in close connection with the customers, as this is the key to acquiring a better market share.

The **automotive sheet** research was focused mainly on high-strength pickled hot-rolled and hot-dip galvanized steel grades (AHSS) with increased plasticity for stamped parts of car bodies and car wheels. This material provides better formability while maintaining high strength. To improve the cooperation, we provided the automotive customers with expanded material data of the selected steel grades in order to run computer simulations. These data contain all tensile test results in three directions and the experimental curves of the limit deformations (FLC - Forming Limit Curve). In the near future, a database of expanded material properties of the selected steel grades will be developed for a wide array of customers. Besides developing new and optimizing current AHSS steel grades, R&D worked intensively on expanding the product portfolio with light-gauge and wide coils.

Another area of research pertained to **ZINKOMAG® sheets with ZnAlMg coatings**, as this material provides excellent corrosion resistance and improved stamping abilities. Due to these properties, these grades are more and more frequently used in the automotive industry, mostly for car body parts that are prone to corrosion. Research was focused mainly on parameters of joining technologies used in the automotive industry, such as weldability, solderability, sticking and binding, as well as optimization of the coating chemistry.

In the field of **non-grain oriented silicone grades** for the electrical industry, customer-oriented research was completed and successful verification production of a special type of magnetically soft steel grade with high permeability for wind turbines followed. Research into a new grade for reluctance motors was also completed, and the material was successfully produced. Significant progress in the R&D of the new generation of electrical steel grades for e-cars and hybrid vehicles resulted in the approval of the investment into a new Dynamo Line at USSK. The new line will produce progressive types of electrical steel grades.

Production of **sheet with transparent permanent Thin Organic Coating (TOC)** surface finish successfully continued. The properties of this product, especially its corrosion resistance, lubrication and anti-fingerprint capability, are better than those of the galvanized material treated with regular passivation. As customer demand keeps increasing, in 2018 the portfolio of TOC products, mainly for appliances and electronic goods, was expanded to include several color tones as well. These coatings, in addition to the above-mentioned properties, also meet customers' special technical and surface-appearance requirements.

In the **tinplate** segment, USSK has been amongst the top European producers for a long time. Moreover, it is also one of the long-term members of APEAL (The Association of European Producers of Steel for Packaging). In 2018 research activities in several fields of this industry took place. Based on customers' requests, development of new high-strength steel grades with improved elongation continued, as well as research and testing of ultrathin tin coatings (LTS – Low Tin Steel). The electrolytic tinning

process was modernized. In accordance with REACH legislation, activities focused on testing and optimizing the new chrome-free passivation in USSK continued, as well as testing of Cr-free tinplate on customers' premises to have the product successfully qualified.

Of the other new products, we can mention for instance the new type of hot-rolled steel for pressure vessel production, capable of achieving high strength and toughness after heat treatment. In the field of galvanized sheets with organic coating, production of several 4-coat systems with new polyester coat thicknesses tailored to specific interior and exterior uses started in 2018.

new process control methods is also represented by the proposed device for automated welding of thick plates which shortened the welding time by 90%, improved the weld quality, resulted in material and energy saving and removed the safety risks posed by handling of heavy loads, work with molten metal and hot toxic gases.

With regard to **radiators**, production with color decorative printing on the flat front wall was fully implemented in 2018. Other activities were focused on modification of the flat front wall anchoring and related design change of the Plan radiator type.

● In 2018, the total cost associated with research amounted to EUR 3.7 million.

These research activities were also supported by **development and implementation of new laboratory analytical methods** that allow sophisticated evaluation of microstructure, phase composition, texture and surface properties of the new sheet types. Automatic analysis of inclusions was implemented; through the use of the developed alloy quantification schemes, it enables production quality improvement of various steel types.

Center of Excellence for Technical Design and Measurement Systems proposed many technical modifications of the production lines and equipment, focused on increased production efficiency, maintenance and repairs, product and process quality improvement, as well as occupation safety improvement. Amongst the most interesting solutions is the new design of cooling staves for the Blast Furnaces which allows the exchange of damaged staves without limiting the charging process. Implementation of

Other modifications resulted in a new design of the upper radiator cover and different attachment of its side covers.

The Group also spent significant amounts on projects aiming to ensure our competitiveness and stable position in the market. The project named Online Strip Mechanical Properties Measurement on Hot-dip Galvanizing Line 3 was completed, supporting our products sales and customer-oriented approach. New technical improvements will increase the added value of our products.

USSK has implemented and certificated its **Quality Management System (QMS)** in accordance with the standards of EN ISO 9001 and IATF 16949 for the automotive industry, the performance of which is reviewed once a year by an accredited certification body. In the area of pipes production, USSK has maintained the API Spec Q1 certificate also with the American Petroleum Institute (Washington). The Company also holds several dozen individual product certificates for final and by-products and several of its laboratories are accredited in compliance with EN ISO/IEC 17025 standard. In 2018 USSK finished the implementation of new requirements stated in revised IATF 16949:2016 and it successfully passed the re-certification audit and transfer to the new version of the standard. The Company also successfully passed the supervisory audit in accordance with EN ISO 9001:2015, thus confirming the suitability and effectiveness of the processes.

When demanding internal goals were set up, the **quality of deliveries** was assessed positively by our customers. The objective of 1.14 % (Divert) was exceeded, with the result of 1.11 %, and the 0.58 % goal in the Retreat category at the end of 2018 was 0.61%. The main reason why the Retreat objective was missed lay in issues related to coiling quality and transportation of hot-rolled coils. In 2018 two new camera inspection systems were installed at the Pickling Lines, and these contribute to the positive results and satisfaction of both internal and external customers.

As for external quality, in 2018 a **positive trend in customer claims** was reached. The claim rate for all products in 2018 reached 0.13 %, which is a 13 % improvement over 2017, and significant achievements were made as to the number of claims received, where we got 3 % fewer claims than in 2017. The Customer Satisfaction Survey which measures customer satisfaction is a significant external quality parameter of supplied products and services. The response rate in 2018 reached a level of 98 % and the customer satisfaction rating reached a value of 1.63, scale 1 – excellent, 5 – poor. This excellent result is the best customer satisfaction survey rating 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 about 70 % of total suppliers in 2018. 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 principal strategic goals of the Group, and main commitments in this area are stated in the Quality, Environmental and Energy Policy. In October 2018 TÜV SÜD Slovakia s.r.o. carried out a re-certification audit of the USSK

● Since 2000 the Group has invested more than USD 665 million in dozens of environmental projects.

Environmental Management System, in compliance with the updated standard STN EN ISO 14001:2016, which confirmed the high performance of this system and continuous improvement of processes. Based on the audit results the Environmental Management System Certificate was issued for USSK for a new three-year period.

The greatest achievement in targeted care for various elements of the environment at USSK is the fact that since 2008 there has been no ecological accident at U. S. Steel Košice. Compliance of the Group activities with the valid legislation is also regularly inspected by the Slovak Environmental Inspection Office, which carried out eleven inspections in 2018.

In 2018 we continued in the implementation of **investment projects** aimed at protection of the environment in compliance with environmental requirements of the European Union. The most important investments included reconstruction and modernization of the Boiler House. In 2018 the final inspection was completed at Boiler No. 6, which together with Boiler No. 7 significantly contributes (in addition to increasing heat and electric power generation efficiency whilst reducing costs) to the reduction of emissions and the amount of generated waste in compliance with the Best Available Techniques (BAT) conclusions for large combustion plants. The following projects were completed to ensure air quality improvement: Emission Control of Ladle Steel Preparation at Steel Shop 1 and Emission Control of Steel Shop 2 Ladle Steel Desulfurization, which were co-funded from EU funds.

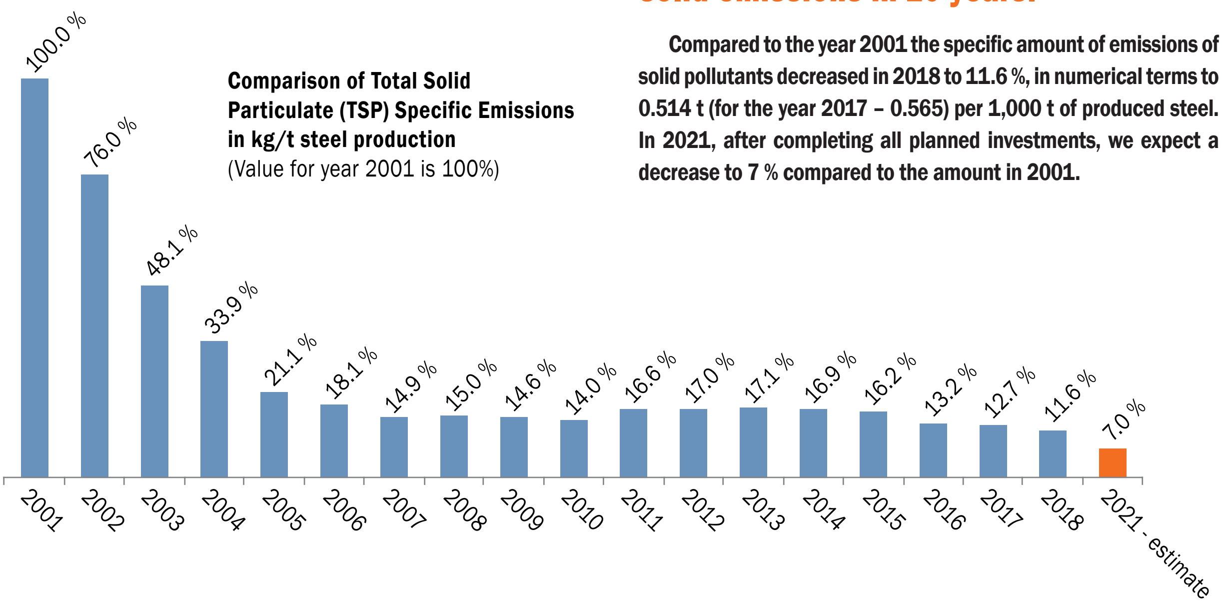
OPERAČNÝ PROGRAM KVALITA ŽIVOTNÉHO PROSTREDIA

Európska únia

Work continued on projects focusing on emission control of the ore bridges for blast furnaces 1-3, the coal preparation plant, the ends of sinter strands 1-4 and of the sinter strands themselves, and the beginning of implementation of emission control of the coke supply to coke batteries 1 and 3. We managed to reduce the amount of CO emissions from the sinter strands through the optimization of sintering processes by 12 percent, which means a reduction in released emissions of CO by approximately 7,000 t.

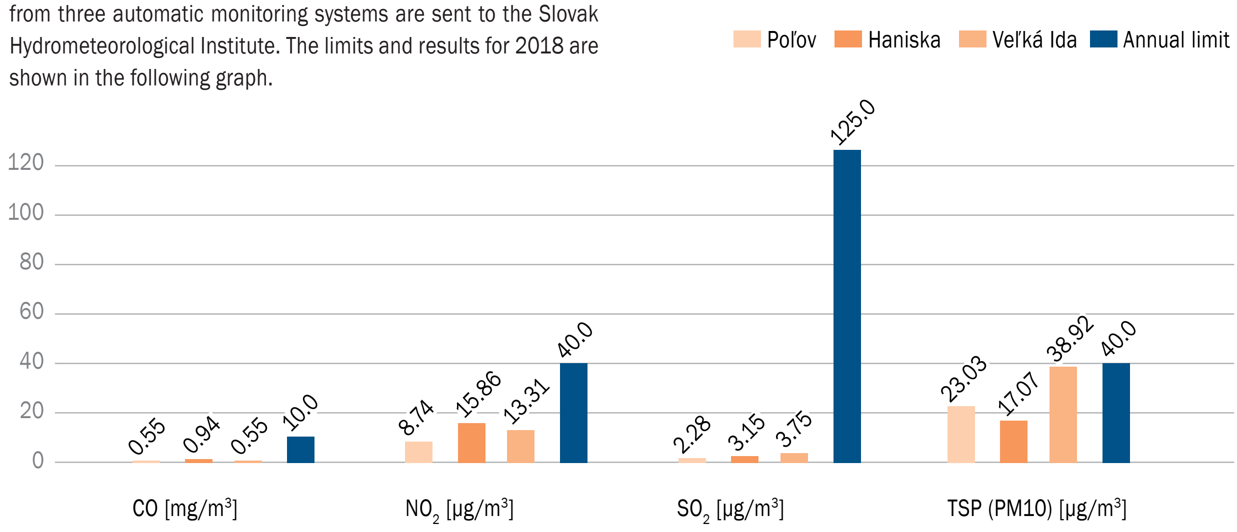
● Our aim is 93 percent reduction in solid emissions in 20 years.

Compared to the year 2001 the specific amount of emissions of solid pollutants decreased in 2018 to 11.6 %, in numerical terms to 0.514 t (for the year 2017 – 0.565) per 1,000 t of produced steel. In 2021, after completing all planned investments, we expect a decrease to 7 % compared to the amount in 2001.



Comparison of Total Solid Particulate (TSP) Specific Emissions in kg/t steel production
(Value for year 2001 is 100%)

In addition to the monitoring of emissions (pollutants released into the air), the Group also monitors **immissions** (pollutants contained and transferred in air) in nearby villages, and data from three automatic monitoring systems are sent to the Slovak Hydrometeorological Institute. The limits and results for 2018 are shown in the following graph.



Significant results in **water protection** include the re-use of so-called return water from the Sokoľany Waste Water Treatment Plant back to Company production plants. The amount of the treated waste water returned to U. S. Steel Košice accounts for 17.3 % of the total amount of released waste water. Last year we completed (without any non-compliance being found) the re-accreditation and extension of accreditation of the Environmental Laboratory in the area of waste water analyses, sampling of waters and waste. In the next few

years this will support both the reduction of potential water-related emergency situations and streamlining of activities and, last but not least, cost reduction.

In the **waste management** area, through the use of hydro-cyclone separation and belt press operations in the Sintering Shop, there was a significant increase in the re-use of sludge in sinter production from blast-furnace sludge processing. At the same time, compared to 2017 there was also an increase in the amount of blast-furnace sludge which we sold to an external company for recycling, i.e. from the original 3,727 tons in 2017 to 7,341 tons in 2018. Until recently these sludges ended up at landfills. In 2018 the waste (sludge from the Sokoľany Waste Water Treatment Station) stabilization line was put into operation in USSK, and 30,630 tons of waste were processed on this line. It will be used as a substitute for the soil layer in re-cultivation of landfills.

During the year, due to continuing initiatives of the IT Green Team we reduced printing by another 600 000 pages and saved more than 400 trees. The Internal Audit team became the winner of the First Print-free Week, reducing printing by 82 percent.

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's capital expenditure in 2018. Projects included Hot Strip Mill New Vertical Stand V3, Pickling Lines No. 1 and No. 3 Surface Inspection System, LED Lights Cold Rolling Mill, Transfer Bar Thickness and Wedge Measurement Downstream of the fifth roughing stand at the Hot Strip Mill, Wire Feeding Machine in Steel Shop 1, Heating and Cooling of Coating Cabs on the Paint Line, Oxygen Connection from Air Separation Units 5 and 6 to Blast Furnace Turboblowers. Investments were also made in the Group's infrastructure through projects Blast Furnace Stove No. 13 Rebuild, Coke Battery 3 Thru-Wall Replacement - Phase 6, Scrap Loader and Air Conditioning Units for Cranes. 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 the general public about environmental performance through the company newspaper Oceľ Východu and on its website www.usske.sk.

EUROPEAN UNION CO_2 EMISSIONS TRADING SYSTEM AND REACH LEGISLATION IMPLEMENTATION

U. S. Steel Košice Group is subject to regulation in the area of environment and human health protection applicable in Slovakia and the EU. Greenhouse gases emissions are being regulated by EU Directive 2003/87/ES establishing the Emissions Trading System (ETS), which was transposed into the Slovak legal system through Law 414/2012 Coll. (Emissions Trading Law). The main goal is 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) which are more stringent than those in the 2008 - 2012 period (NAP II), reducing the number of free allowances allocated to operators to cover their GHG 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 ex-posed to the transfer of production to other countries with fewer 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 activities exposed to significant risk of carbon leakage, but the EU ETS is still expected to impose additional costs for steel companies in Europe.

The long awaited and drafted Amendment to the Directive regulating the legal framework of the next fourth trading period (2021-2030) was finally published in the Official Journal of the EU on March 19, 2018. In comparison with the previous regulation, the new one is more stringent. It increases the value of the Linear Reduction Factor from 1.78 % to 2.2 % p.a. in order to achieve the overall EU reduction targets by 2030. Compared to 2018, the benchmarks set for the steel industry will be decreased by 0.2 % annually. On the other hand, this revision brings new opportunities to finance the gradual de-carbonization of the industry: the Innovation Fund (known as NER300 Program), Modernization Fund and Art. 10c Mechanisms for new member states. All amendments enter into force as of January 1, 2021. The final closing of the whole legislation process will occur after issuing the implementing laws.

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. Contrary to the Kyoto Protocol setting the over-all binding target, the Paris Agreement adopted a bottom-up approach, where each of the signatory states declares its own binding target, which should be gradually achieved and tightened. The Paris Agreement entered into force in November 2016 and by the end of 2018 it had been ratified by 185 states. The last COP 25 summit took place in December

The USSK CO_2 Reduction Team analyses CO_2 intensity according to divisions, lines and processes, and provides technical and organizational solutions for emissions reduction. In cooperation with other departments it also evaluates environmental aspects of purchased fuels and materials.

2018 in Katowice. Even though some progress was observed in the area of the Agreement's implementation and adoption of the Rulebook, some important issues such as consensus on international emissions trading was moved to COP 26 in Chile in 2019.

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 prepared and submitted to the European Chemical Agency an update of four registration dossiers including new additional testing of steelmaking and blast furnace slimes and sludges. 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 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 prepared and submitted 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 the new classification and labeling of chemical substances and preparation, and they are well aware of how to use chemicals safely.

● In 2018 USSK won the national round of the Healthy Workplaces Manage Dangerous Substances competition organized by the European Agency for Safety and Health at Work (EU-OSHA).

ENERGY EFFICIENCY

Energy management is very important in 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 an **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. The fourth supervisory audit of the Energy Management System took place in April 2018 with a positive result, and the validity of the Company's certificate was extended for the next year. Auditors did not find any deviations from the standard and, on the contrary, they highlighted several strong points in the Energy Management System application.

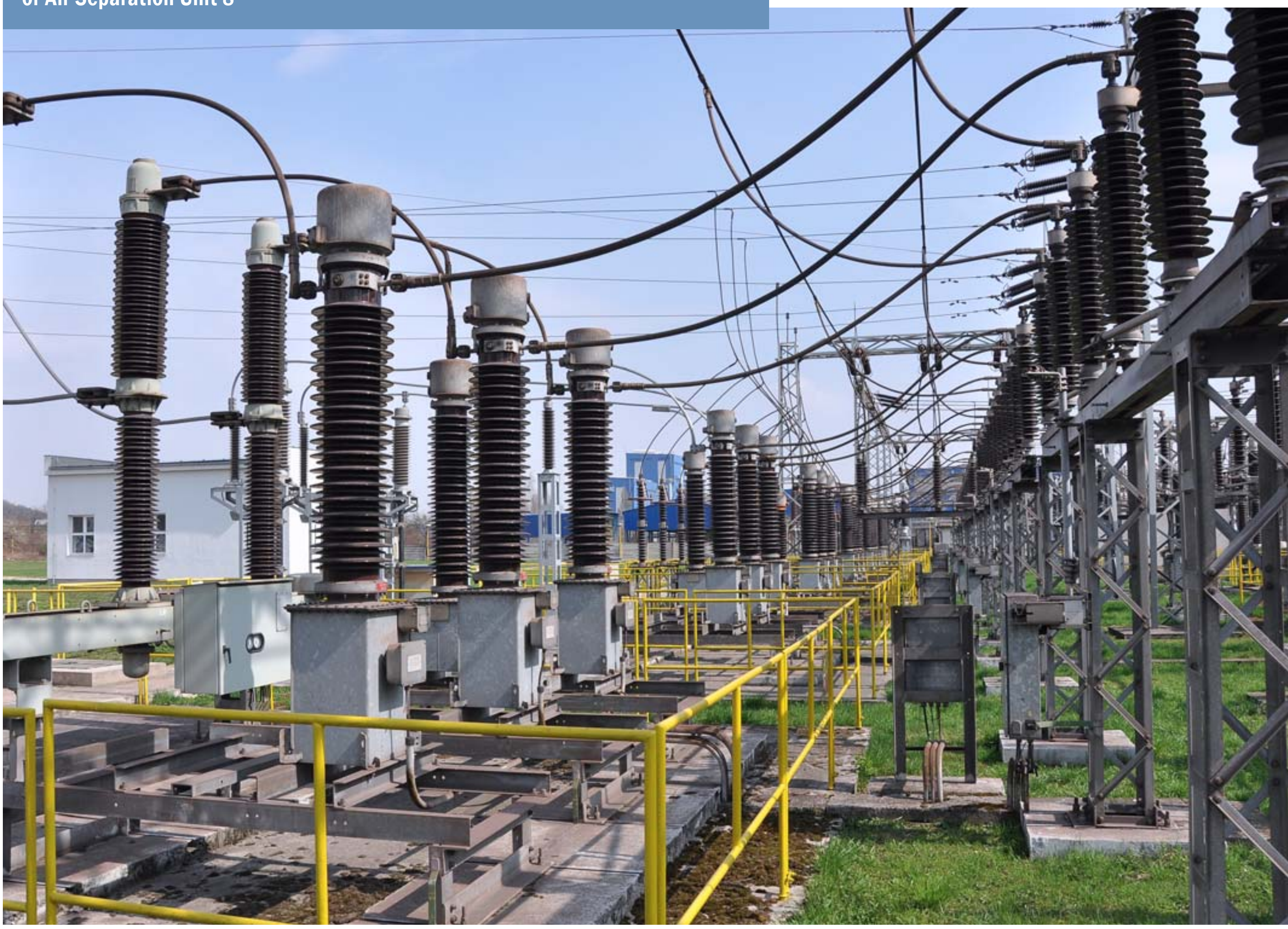
These included progress in general awareness of the Energy Management System and savings achieved at all levels of management and operational staff. They also appreciated the continuous updating of control system documentation and its adaptation to existing as well as changed circumstances. The auditors extended the strengths of the audited divisions and organizational units with their positive evaluation of the reliability of specific technical equipment after repairs at the Mechanics Plant, optimization of routes of vehicles by the Transport Division, or the research itself into the coke production process optimization.

The Carnegie Way continuous improvement program largely contributed to the achievement of energy targets in 2018. **We implemented 146 energy projects with overall savings of USD 11.2 million. The plan for 2018 was exceeded, achieving 177 %, and we saved an extra USD 4.9 million compared to the target**.

By capturing secondary metallurgical gases arising from production of coke, iron and steel, and subsequently utilizing them for heating productional equipment, we were able to save 37 million GJ of natural gas energy.

The energy projects with significant cost saving mainly included:

- Increasing availability of energy for providing support activities
- Reducing losses of energy utilities (STEAM) at USSK
- Increasing the Turbo Generator 1 efficiency
- Reducing specific consumption of heat for steam generation
- Ensuring oxygen supply during planned as well as unplanned shutdowns of Air Separation Unit 8



IMPACT OF THE COMPANY ON THE COMMUNITY AND THE REGION

10 REDUCED INEQUALITIES

11 SUSTAINABLE CITIES AND COMMUNITIES

17 PARTNERSHIPS FOR THE GOALS

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 Nadácia U. S. Steel Košice**. 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 2017/2018, twenty-five new scholarships were granted, and thirty-four more in 2018/2019.

In support of health care, the Group focuses mainly on specialized medical institutions in the region. Thanks to the 2018 pre-Christmas fund-raising, which was supported by 7,732 steelmakers who together collected EUR 40,909, the University Children's Hospital could establish an audio-center equipped with quality medical devices to enable quicker diagnostics and treatment of children with hearing disabilities. Finally, it could spend EUR 122,728, since both the Group and the Foundation matched the generosity of the employees and tripled 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 2018, the collection among employees raised the sum of EUR 5,091.

In support of social care, USSK directs its assistance mainly towards supporting foster homes and their children by organizing activities and experience events for them during the whole year. It also provides long-term support to the Autumn of Life civic association, whose members are retired USSK employees. For many years, 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 also manifests itself 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 2018 this meant almost 160 youngsters in the foster homes at Podolínec and Uralská Street in Košice as well as the halfway house in Košice, 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 three institutions and ten families also received financial support totaling EUR 37,000.

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 our employees and business 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, both talented and disadvantaged young sports people. Our own program called Your Chance to Play continued in 2018 as well, and provided equal opportunities for children from both socially-disadvantaged and steelmakers' families to play ice-hockey, basketball and soccer. Since 2006, the Group has contributed EUR 193,489 towards club membership fees and sports equipment for 543 children, which also included EUR 4,410 for 12 children in 2018.

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 twelfth time on May 18-19, 2018. 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 another 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 supporting 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 children from our partner foster homes take part in the U. S. Steel Family Run mini-marathon, which covers one tenth of the full marathon course.

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, promoting environmental protection and increasing safe behavior in all activities. In 2018, six other community projects with active involvement of USSK employees were supported in towns and villages around Eastern Slovakia, and since 2008 altogether 101 developing initiatives have been implemented, supported with EUR 255,400.

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. In 2018 deliveries amounted to 538 tons with a value of EUR 12,227.

SELECTED FINANCIAL INFORMATION

STATEMENT OF FINANCIAL POSITION

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

	Separate Financial Statements			**Consolidated Financial Statements**		
In EUR million	**Dec 31, 2018**	**Dec 31, 2017**	**Dec 31, 2016**	**Dec 31, 2018**	**Dec 31, 2017**	**Dec 31, 2016**
Property, plant and equipment, incl. investment property	786	727	557	928	878	557
Intangible assets	162	76	48	278	76	48
Long-term receivables	3	42	68	3	42	68
Other non-current assets	147	149	49	6	5	49
Inventories	458	354	330	466	362	330
Short-term receivables	471	439	345	455	428	345
Short-term loans and borrowings	17	1	250	-	-	250
Cash and cash equivalents	92	301	116	96	303	116
Other current assets	13	3	11	13	6	11
Total Assets	**2,148**	**2,092**	**1,774**	**2,245**	**2,100**	**1,774**
Equity	1,124	1,344	1,173	1,142	1,356	1,173
Trade and other payables	483	482	389	485	456	389
Long-term loans and borrowings	200	-	-	200	-	-
Other liabilities	341	266	212	418	288	212
Total Equity and Liabilities	**2,148**	**2,092**	**1,774**	**2,245**	**2,100**	**1,774**

Compared to previous accounting period, carrying amount of property, plant and equipment of the Group increased by EUR 50 million (2017: EUR 321 million). In 2018, the Group's capital expenditure amounted EUR 95 million (2017: EUR 76 million, 2016: EUR 87 million). As of December 31, 2018, the Group purchased emissions allowances EUA totaling EUR 82 million (2017: EUR 36 million). Emissions allowances allocated by Government in 2018 totaled EUR 57 million (2017: EUR 30 million). Significant increase in emissions allowance value per ton in 2018 also contributed to the significant increase in the intangible assets balance.

Change in inventories reflects mainly impact of higher volumes and higher actual cost of steel inventories in 2018 compared to 2017. Short-term receivables have decreased in 2018 mainly as result of better receivables management and collection. Increase in trade payables in 2018 is primarily due to increased purchase prices of key raw materials.

On September 26, 2018, Company, and Ferroenergy s.r.o., as guarantor, entered into a EUR 460 million unsecured revolving credit facility (the Credit Agreement) with syndicate of banks, replacing EUR 200 million revolving credit facility. The Credit Agreement has a maturity date of September 26, 2023 and contains terms and conditions substantially similar to the prior EUR 200 million revolving credit facility. As of December 31, 2018 borrowings totaling EUR 200 million were drawn against this Credit Agreement (December 31, 2017: there were no borrowings against the Credit Agreement). 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 and Loss and Other Comprehensive Income for the last three years are:

	Separate Statement of Profit and Loss			Consolidated Statement of Profit and Loss		
In EUR million	**2018**	**2017**	**2016**	**2018**	**2017**	**2016**
Revenues and other income	2,782	2,643	2,060	2,747	2,642	2,060
Operating profit	162	561	344	129	563	344
Profit for the Year	**127**	**450**	**271**	**89**	**448**	**271**

The Group had profit of EUR 89 million for the year ended December 31, 2018 compared to profit of EUR 448 million for the year ended December 31, 2017. The decrease in the financial result in 2018 compared to 2017 was primarily due to full reversal of impairment of property, plant and equipment and intangible assets in 2017 and the unfavorable impact of significant increase in emissions allowance prices during 2018.

PROPOSAL FOR 2018 PROFIT DISTRIBUTION

In EUR million	**2018**
Profit for 2018	127
Contribution to Legal Reserve Fund	(6)
Proposed Dividends for U. S. Global Holdings VI B.V.	0
Contribution to Retained Earnings	(121)

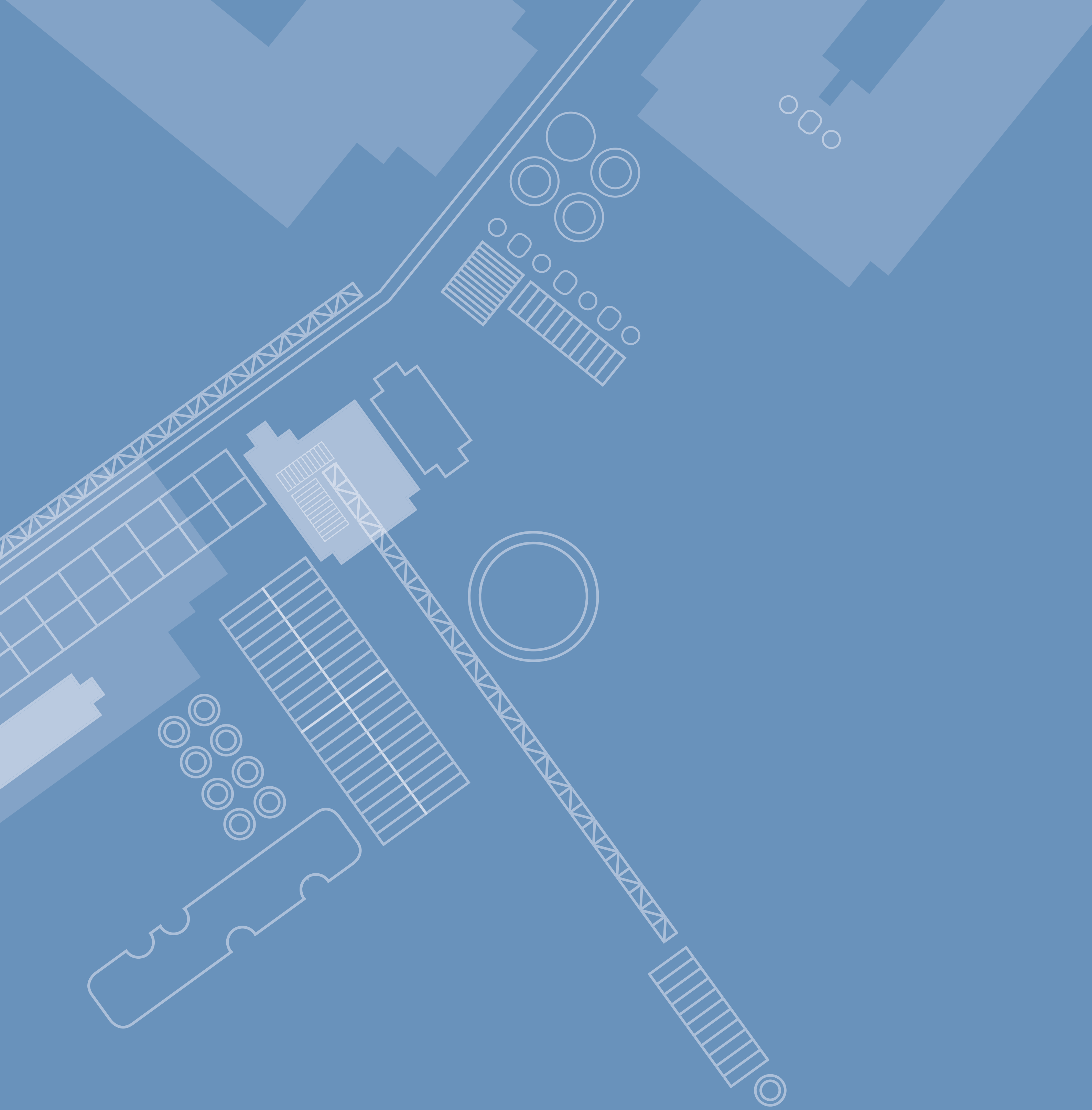
SIGNIFICANT EVENTS AFTER 2018 REPORTING PERIOD AND EXPECTED DEVELOPMENT IN 2019

Significant events after the reporting period are disclosed in Note 30 of the Separate or Consolidated Financial Statements.

The EU28 steel market rose by 2.6 % in 2018. The increase in steel demand predominantly benefited third country suppliers owing to a rise of 12.3 % in imports, whereas domestic producers gained from the growth in domestic steel demand only a 0.6 % increase in their deliveries to the EU28 market. The sharp year-on-year increase in imports in the second half of the year clearly illustrates that in spite of the preliminary safeguard measures imposed by the European Commission in July 2018, the EU market remained significantly affected by imports.

Looking ahead, hard data and forward-looking indicators suggest that the EU economy has entered the late-cycle phase of the rebound that started in 2014. Economic fundamentals should remain supportive to continued but slowing growth in domestic demand and, to a lesser extent, to international trade in 2019. Nevertheless, several factors could lead to a faster and more severe reversal of economic conditions than currently expected. The greatest risks stem from a global economic context which has become more uncertain due to rising outside-EU protectionism, potentially leading to a further escalation of trade tensions in the world. Other risks include the increased volatility in financial markets and the particular vulnerability of the emerging economies to deterioration in financial conditions, as well as geopolitical instability.

Apparent steel consumption growth is forecast to slow to only 0.5 % in 2019. This very modest growth scenario in combination with a global steel market suffering from overcapacity, slowing demand and trade tensions has the potential to develop into a major risk for EU market stability over the forecast period.



ANNUAL REPORT 2018
U. S. Steel Košice Group

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

May 2019

U. S. Steel Košice, s.r.o.

Separate financial statements for the year ended December 31, 2018

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 2018, 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 2018;
- 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.

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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 2018 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.

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

Ing. Monika Smižanská, FCCA
UDVA licence No. 1015

Bratislava, 13 May 2019

U. S. Steel Košice, s.r.o.

SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Separate financial statements for the year ended December 31, 2018, were prepared in accordance with International Financial Reporting Standards as adopted by the European Union on May 13, 2019, and have been approved and authorized for issue by the statutory representatives of U. S. Steel Košice, s.r.o. ("the Company" or "USSK") on May 15, 2019. Neither the Company's shareholder nor the executives have the power to amend the separate financial statements after issue.

Košice, May 13, 2019

James Edward Bruno 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, 2018

Table of Contents

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

STATEMENT OF FINANCIAL POSITION

	Note	December 31, 2018	December 31, 2017
ASSETS			
Non-Current Assets			
Property, plant and equipment	5	**783,651**	724,244
Investment property	6	**2,564**	2,432
Intangible assets	7	**161,854**	75,689
Investments	8	**141,367**	143,586
Unquoted financial instruments	27	**259**	-
Financial assets available-for-sale		**-**	259
Long-term receivables	12	**2,800**	41,587
Restricted cash	10	**5,334**	4,747
Total non-current assets		**1,097,829**	**992,544**
Current Assets			
Inventories	11	**457,553**	353,863
Trade and other receivables	12	**471,167**	439,130
Derivative financial instruments	13	**10,729**	48
Short-term loans to related parties	29	**17,244**	1,206
Restricted cash	10	**1,213**	3,566
Prepaid expense		**998**	1,164
Cash and cash equivalents	14	**91,747**	300,630
Total current assets		**1,050,651**	**1,099,607**
TOTAL ASSETS		**2,148,480**	**2,092,151**

EQUITY AND LIABILITIES			
Equity			
Share capital	15	**839,357**	839,357
Reserve funds	15	**148,510**	45,104
Retained earnings		**135,778**	459,801
Total Equity		**1,123,645**	**1,344,262**
Liabilities			
Non-Current Liabilities			
Long-term loans and borrowings	16	**200,000**	-
Long-term provisions for liabilities and charges	17	**7,118**	5,762
Long-term deferred income - BAT projects	5	**82,546**	96,225
Long-term employee benefits payable	18	**35,862**	32,454
Deferred income tax liability	9	**43,687**	39,388
Long-term trade and other payables	19	**1,182**	1,441
Total non-current liabilities		**370,395**	**175,270**
Current Liabilities			
Trade and other payables	19	**482,707**	480,116
Current income tax liability		**2,162**	18,633
Derivative financial instruments	13	**215**	8,782
Deferred income		**4**	4
Short-term borrowings	16, 25	**6,289**	-
Short-term borrowings from related parties	29	**13,533**	10,478
Short-term provisions for liabilities	17	**148,112**	53,335
Short-term employee benefits payable	18	**1,418**	1,271
Total current liabilities		**654,440**	**572,619**
TOTAL EQUITY AND LIABILITIES		**2,148,480**	**2,092,151**

The accompanying notes on pages SF-11 to SF-63 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	2018	2017
Revenue from contracts with customers	20	**2,712,068**	2,612,248
Other income	20	**69,812**	30,903
Materials and energy consumed	21	**(1,731,488)**	(1,617,091)
Salaries and other employees benefits	22	**(323,328)**	(298,837)
Depreciation and amortization	5, 6, 7	**(69,204)**	(43,116)
Repairs and maintenance		**(87,972)**	(71,449)
Transportation services		**(101,276)**	(126,319)
Advisory services		**(9,445)**	(9,807)
Foreign exchange gains/(losses)		**(4,948)**	8,025
Impairment reversal	5, 7	**-**	290,210
Charge for provision for CO_2 emissions	17	**(147,078)**	(72,343)
Other operating expenses	23	**(145,054)**	(141,417)
Profit from operations		**162,087**	**561,007**
Dividend income		**1,898**	1,813
Interest income		**698**	3,476
Interest expense		**(2,068)**	(1,116)
Profit before tax		**162,615**	**565,180**
Income tax expense	24	**(35,784)**	(115,259)
Profit after tax		**126,831**	**449,921**
Items that will not be reclassified to profit or loss			
Remeasurements of post employment benefit obligations	24	**(2,514)**	(236)
Revaluation of intangible assets	7, 24	**76,970**	14,606
Items that may be subsequently reclassified to profit or loss			
Changes in fair value of derivative hedging derivatives	24	**15,402**	(13,736)
Other Comprehensive Income / (loss), net of tax		**89,858**	**634**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**216,689**	**450,555**

The accompanying notes on pages SF-11 to SF-63 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, 2018	**839,357**	**45,104**	**459,801**	**1,344,262**
Profit for 2018	**-**	**-**	126,831	**126,831**
Other comprehensive income	-	92,372	(2,514)	**89,858**
Total comprehensive income for the year	**-**	**92,372**	**124,317**	**216,689**
Adjustments:				
Release of revaluation reserve - CO_2 emission allowances	-	(11,462)	11,462	**-**
Total adjustments	**-**	**(11,462)**	**11,462**	**-**
Transactions with owners:				
Dividends	-	-	(437,306)	**(437,306)**
Contribution to legal reserve fund	-	22,496	(22,496)	**-**
Total transactions with owners	**-**	**22,496**	**(459,802)**	**(437,306)**
Balance as of December 31, 2018	**839,357**	**148,510**	**135,778**	**1,123,645**

	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**
Adjustments:				
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**

The accompanying notes on pages SF-11 to SF-63 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 2018	Total 2017
Profit before tax		**162,615**	**565,180**
Non-cash adjustments for			
Depreciation of property, plant and equipment and investment property	5, 6	**67,053**	41,139
Amortization of intangible assets	7	**2,151**	1,977
Amortization of deferred income - CO_2 emission allowances	20	**(56,365)**	(30,038)
Amortization of deferred income - BAT projects	5, 20	**(408)**	5,660
Charge for provision for CO_2 emissions emitted	17	**147,078**	72,343
Reversal of impairment of property, plant and equipment	5	**-**	(290,197)
Reversal of impairment of intangible assets	7	**-**	(13)
Impairment loss/ (reversal) of investments		**(179)**	55
(Gain) / loss on disposal of property, plant and equipment, intangible assets and investment property	20, 23	**(5,793)**	1,229
(Gain) / loss from changes in fair value of derivative financial instruments	20, 23	**(871)**	2,917
Dividend income and distribution of profit		**(1,898)**	(1,813)
Interest income		**(698)**	(3,476)
Interest expense		**2,068**	1,116
Changes in working capital			
(Increase) / decrease in inventories	11	**(103,690)**	(23,419)
(Increase) / decrease in trade and other receivables and other current assets	12	**(10,485)**	(67,476)
Increase / (decrease) in trade and other payables and other current liabilities	19	**(12,954)**	100,405
Cash generated from operations		**187,624**	**375,589**
Interest paid		**(651)**	(402)
Income taxes paid		**(67,451)**	(53,847)
Net (disbursements) / receipts from derivative financial instruments		**1,068**	(3,088)
Net cash generated from / (used in) operating activities		**120,590**	**318,252**
Cash flows from / (used in) investing activities			
Intercompany loans provided	29	**(107,136)**	(1,593)
Intercompany loans repayment	29	**91,135**	250,387
Acquisition of a subsidiary/increase of base capital	29	**-**	(49)
Purchases of property, plant and equipment	5	**(87,402)**	(69,921)
Proceeds from sale of property, plant and equipment		**5,892**	134
Purchases of intangible assets	7	**(10,851)**	(38,395)
Change in restricted cash, net	10	**1,766**	(958)
Receipts - BAT projects	12	**19,019**	441
Interest received		**668**	3,800
Proceeds from decrease of share capital in subsidiaries		**773**	-
Dividends received and distribution of profit		**1,898**	1,813
Net cash generated from / (used in) investing activities		**(84,238)**	**145,659**
Cash flows from / (used in) financing activities			
Proceeds from borrowings	16, 26, 29	**378,302**	74,623
Repayment of borrowings	16, 26, 29	**(186,231)**	(74,340)
Dividends paid to the Company's shareholder	15, 29	**(437,306)**	(279,337)
Net cash generated from / (used in) financing activities		**(245,235)**	**(279,054)**
Net increase in cash and cash equivalents		**(208,883)**	**184,857**
Cash and cash equivalents at beginning of year	14, 27	**300,630**	115,773
Cash and cash equivalents at end of year	14, 27	**91,747**	**300,630**

The accompanying notes on pages SF-11 to SF-63 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
Slovak Republic
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, 2018 were as follows:

James Edward Bruno	President
Ing. Silvia Gaálová, FCCA	Vice President and Chief Financial Officer
Ing. Marcel Novosad	Vice President Operations
Christian Korn	Vice President Commercial
JUDr. Elena Petrašková, 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 December 31, 2018 and 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 June 13, 2018, 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 ("the Group") in accordance with IFRS as adopted by the EU. In the consolidated financial statements, subsidiaries have been fully consolidated. Users of these separate financial statements should read them together with the Group's consolidated financial statements for the year ended December 31, 2018 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

The Company publishes and deposits financial statements, annual reports and reports of the auditor in accordance with Law No. 431/2002 Coll. 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, 2018 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, 2018 in compliance with IFRS as adopted by the EU.

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

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

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

2.3 Changes in Accounting Policies

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

2.4 Foreign Currency Translations

Functional and presentation currency

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

Transactions and balances

The accounting books and records are kept in 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 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 will be received, and that the Company will comply with the conditions attaching to the allowance, are recognized as emission allowances receivable at fair value when the above-mentioned conditions are met. The entire 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. If the total amount of allocated and purchased allowances exceeds the amount of allowances to be delivered to the Slovak government, the allocated allowances are considered to be delivered first, and accordingly the related deferred income is recognized in full.

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 the reporting period. When the emission allowances are delivered to the Slovak Government in settlement of the liability for emissions, both the provision and the intangible asset are reduced in equal amounts.

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 (Notes 2.25 and 7).

The revaluation reserve is transferred to retained earnings as the surplus is realized. Realization 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*. The transaction costs are capitalized as part of the cost of the investment. The transaction costs are the costs directly attributable to the acquisition of the investment such a professional fees for legal services, transfer taxes and other acquisition related costs. The investments are tested for impairment whenever there are indicators that the recoverable amount of an investment (the higher of its fair value less cost of disposal and its value in use) is less than its carrying amount, the carrying amount is reduced to its recoverable amount. 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.

The carrying amount of an investment is derecognized on disposal. The difference between the fair value of the sale proceeds and the disposed share of the carrying amount of the investment is recognized in profit or loss as gain or loss on disposal.

2.12 Financial Assets

a. Reporting period beginning January 1, 2018

Recognition and initial measurement

Financial assets are recognized in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument.

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Classification and subsequent measurement

Financial assets are classified as measured at amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

The Company measures financial assets that are debt instruments at amortized cost if the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired. The Company's financial assets measured at amortized cost includes trade and other receivables, loans provided to related parties, cash, cash equivalents and restricted cash.

Trade receivables that are subject of factoring arrangements without recourse are measured at fair value through other comprehensive income as they are held within a business model with the objective to both sell financial assets or collect contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. In a non-recourse factoring arrangement, the transferor does not provide any guarantee about the receivables' performance. In other words, the transferor assumes no obligations whatsoever to repay any sums received from the factor regardless of the timing or the level of collections from the underlying debts. In that situation, the Company has transferred substantially all the risks and rewards of ownership of the receivables and de-recognizes the receivables in their entirety.

Investments in equity instruments are classified as measured at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair value at the end of each reporting period. Any change in fair value and dividends are recognized in other income/expenses in the statement of profit or loss as applicable.

For accounting policy related to derivative financial instruments refer to Note 2.24.

Impairment

The Company estimates expected credit losses for financial assets measured at amortized cost. The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward‑looking information. The exposure at default is represented by the assets' gross carrying amount at the reporting date.

For trade receivables, an individual provision is established when debtor entered bankruptcy or financial reorganization or in case of significant financial difficulties of the debtor. Financial situation of debtor with payments outstanding for more than 180 days after agreed due date is examined and when internal and external information indicates that the Company is unlikely to collect all amounts due according to the originally agreed terms, an individual provision is also recognized.

For the rest of trade receivables, the Company applies a simplified approach based on lifetime expected credit loss at each reporting date. The expected credit loss is estimated using a provision matrix that is based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For all other financial assets, the Company recognizes lifetime expected credit loss when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial asset at an amount equal to 12‑month expected credit loss. To assess whether there was a significant increase in credit risk the Company compares the risk of a default occurring on the financial asset as at the reporting date with the risk of default as at the date of initial recognition considering available reasonable and supportive forward-looking information, that is available without undue cost or effort. The Company assumes that the credit risk on a financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date. The carrying amount of the asset is reduced using a provision account, and the amount of the individual impairment loss and expected credit loss is recognized in profit or loss. When the loans or receivables are uncollectible, they are written off against the related provision account.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

b. Reporting period ending December 31, 2017

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

The Company classified 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 depended on the purpose for which the financial assets were acquired and whether the assets were quoted in an active market. Management determined the classification of its financial assets at initial recognition.

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

Loans and receivables

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

After initial measurement, loans and receivables were 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 was established when there was objective evidence that the Company would not be able to collect all amounts due according to the originally agreed terms.

Significant financial difficulties of the debtor, probability that the debtor would enter bankruptcy or financial reorganization and payments outstanding for more than 180 days after agreed due date were considered to be indicators the loan or the receivable was impaired. The amount of the provision was 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 was reduced using a provision account, and the amount of the impairment loss was recognized in profit or loss. When the loans and receivables were uncollectible, they were written off against the related provision account.

Financial assets at fair value through profit or loss

This asset category had two sub-categories: financial assets held for trading, and those assets designated at fair value through profit or loss at inception. A financial asset was 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 were carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

Hedging derivatives

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

Financial assets available-for-sale

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

Derecognition of financial assets

Financial assets were derecognized when (a) the assets were redeemed or the rights to cash flows from the assets otherwise expired or (b) the Company had 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 was retained if the counterparty did 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 are financial assets that include 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.

Interests, 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 formed in accordance 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

a. Reporting period beginning January 1, 2018

Recognition and initial measurement

Financial liabilities are recognized in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Classification and subsequent measurement

Loans and borrowings, trade and other payables and accruals are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gain and losses are recognized in profit or loss.

Payables included in a structured supplier payable financing program arranged by the Company are classified as financial liabilities to a bank. When the obligation to settle payables is transferred to a financial institution, the Company presents operating cash outflow and financing cash inflow to reflect the receipt of the borrowing and the settlement of payables arising from operating activities. When the payable is paid to the financial institiution, related cash outflows are presented as cash flows used in financing activities.

The Company currently does not have any financial liabilities to be measured at fair value through profit or loss.

For accounting policy related to derivative financial instruments refer to Note 2.24.

Derecognition

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expired. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

b. Reporting period ending December 31, 2017

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

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

Loans and borrowings were classified as current liabilities unless the Company had 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 were recognized when the counterparty had performed its obligations under the contract and were carried at amortized cost.

Derecognition of financial liabilities

A financial liability was derecognized when the obligation under the liability was 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

In general, to the extent that the Company received government grants or assistance, such grants or assistance are recognized only if there is a reasonable assurance that they will be received, and the Company will comply with the attached conditions. Non-monetary assistance is recognized at the fair value of the asset received. Government grants or assistance 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 or assistance 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, the grant or assistance is again recognized in deferred income to match the reversed amount. Income related to government grants or assistance 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 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 based on the 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 deferred income tax asset is realized, or the deferred income tax 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 the 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. Equally, upon the 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.

In addition, employee could be entitled to both retirement and termination benefit upon fulfillment of agreed conditions.

Payment at first voluntary termination of labor contract before and in the month of entitlement to an old age pension

Upon the first voluntary termination of labor contract by mutual agreement at latest in the month of entitlement to an old age pension, the Company will pay the retirement benefit, in the maximum amount of five times of average monthly wage, which depends on the number of months till reaching the month of entitlement to an old age pension, whereby the maximum number of month till reaching the month of entitlement to an old age pension is 36.

Payment at first voluntary termination of labor contract after reaching the entitlement to disability retirement

Upon the first termination of labor contract by mutual agreement after 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 Company will pay the retirement benefit, in the maximum amount of five times of average monthly wage, which depends on the number of months till reaching the month of entitlement to an old age pension, whereby the maximum number of month till reaching the month of entitlement to an old age pension is not stated.

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 Company recognizes related restructuring cost or termination benefits.

<u>Work and life jubilee benefits</u>

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.

<u>Termination benefits</u>

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.

<u>Profit sharing and bonus plans</u>

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

<u>a. Reporting period beginning January 1, 2018</u>

Revenue is income arising in the course of the Company's ordinary activities and is recognized at transaction price. Transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. Revenue is recognized net of discounts, rebates, returns and value added taxes.

In accordance with *IFRS 15 Revenue from Contracts with Customers*, the Company recognizes revenue applying the five step process: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the performance obligations are satisfied.

The Company evaluates its revenue arrangements whether it acts as a principal or an agent. If the Company is a principal, it recognizes revenue at transaction price for the goods or services net of taxes, discounts, rebates and returns and records corresponding direct costs of satisfying the contract. If the Company is an agent, relating revenue is recognized in the amount of the net consideration it retains after paying a principal of the given service. Revenue from services performed as an agent is recognized in the period in which the services are rendered.

Revenue from the sales of own production and goods is recognized at the point in time when the Company transfers control of the own production and goods to a buyer and retains no managerial involvement nor effective control over the own production and goods sold. The Company recognizes revenue from rendering of service over time, in the period in which the services are rendered. Revenue is measured based on the following or combination of the following: units delivered, labour hours spent, actual costs incurred, machine hours used, time elapsed, or quantities of materials used.

Performance obligations identified in a contract with a customer may not be limited to the goods or services that are explicitly stated in the contract. The Company considers whether there are other promises in the contracts with customers that meets criteria for separate performance obligation and shall be accounted for separately (Notes 3 and 20). Total transaction price is allocated to performance obligation on a relative standalone selling price.

The key element of variable consideration is represented by retrospective volume rebates provided to certain customers according to rebate agreements (Note 19). The rebates are provided once all conditions stated in rebate agreements are met (the quantity of products purchased during a certain period exceeds specified thresholds, all invoices are paid, etc.). The Company adjusts its revenue for volume rebates based on the most likely amount of the volume rebates to be given to its customers. The estimate is based on the amount of tonnage shipped and is calculated on a customer by customer basis, or an order by order basis. As the rebate agreements are the short-term agreements (annual or shorter), there are no uncertainties at the year-end around the amount of annual revenue to be recognized. There are also some instances where the Company provides for certain seasonal discounts within its customer contracts (Note 19). The Company does not grant any discounts for prompt payments. Contract liability arising from the discounts and rebates is classified within trade and other payables (Note 19).

Contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (advance payments received) from the customer (Note 19). If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is made. Contract liabilities are recognized as revenue when the Company fulfills its contract obligations.

<u>Interest income</u>

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

<u>Dividend income and distribution of profit</u>

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

<u>b. Reporting period ending December 31, 2017</u>

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

<u>Sale of own production and goods</u>

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

Rendering of service

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

Interest income

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

Dividend income and distribution of profit

Dividend income and distribution of profit were recognized in profit or loss when the shareholder's right to receive payment was 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 derivative 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 (Notes 2.7 and 7),
- derivative financial instruments (Notes 2.24, 13 and 27),
- fair value disclosures for investment properties measured using the cost model (Notes 2.6 and 6),
- fair value disclosures for financial instruments measured at amortized cost (Note 27),
- impairment of property, plant and equipment, intangible assets and investment properties (Notes 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.

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, 2018 is approximately 20 years (as of December 31, 2017: 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 3.7 million (2017: EUR 3.6 million). If estimated average useful life of these assets would decrease by 1 year, the annual depreciation charge would have been higher by EUR 4.1 million (2017: EUR 4.0 million).

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

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.

There were no impairment indicators identified in 2018.

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 was represented by production process from coke-making to hot rolled products. The second cash-generating unit was 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 used cash flow projections based on actual operating results, the most recent business plans approved by management and an appropriate discount rate which reflected the time value of money and risks associated with future economic and operating conditions. Projected cash flows also reflected assumptions that market participants would use in estimating the fair value.

The following key assumptions and estimates were used by management in the calculation for 2017:

- Cash flow projections based on business plans covered a period of five years, which assumed 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 in 2017 for sales and production costs and reflected the best estimates for stable perpetual growth of the Company. This percentage was consistent with long-term average growth rates for countries in which the Company sold 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.
- Cash flow projections also reflected the initiated shareholder value creation strategy: earn the right to grow, and drive and sustain profitable growth. Through a disciplined approach, 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 based on the risk-adjusted post-tax weighted average cost of capital. The discount rate in 2017 reflected higher uncertainty inherent in the Company’s cash flow projections arising from geopolitical situation in Ukraine, which might 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. It was also adjusted to reflect recent steel market improvements in the 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 was 12.4 percent.

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.

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 (Note 9). 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 (Notes 2.21 and 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).

Revenue from contract with customers

The Company evaluates when the customer obtains control of the goods. It determined that the point in time to transfer the control to the customer depends primarily on delivery terms stated in the customer contracts, including consignment agreements, or in the individual purchase orders, as follows:

- "C" delivery terms – upon shipment of goods,
- "D" delivery terms – upon delivery to a destination stated in a purchase order,
- EXW delivery term – upon loading to carrier,
- Consignment warehouses – upon withdrawal from a consignment warehouse or by expiration of the agreed free storage time, whichever occurs earlier.

The Company applied judgement when assessing the indicators to determine it is a principal or an agent. It determined that it is a principal in majority of its revenue arrangements covering sales of own production and rendering of service, because it controls goods or services before transferring them to a customer. Regarding the revenue from the sales of merchandise, the Company determined that it is an agent for most of the sold merchandise. The judgment was also applied for arranging of transportation service as a separate performance obligation related to sales of own production or goods. The Company concluded that it acts as a principal, except for the sales with the "C" delivery terms, where it acts as an agent because the Company negotiates the transportation arrangements on behalf of a customer, has no discretion of establishing transportation prices for the transportation service and all risks related to the transportation service (quality, delivery, damages, lost) are borne by the transportation provider. Therefore, the Company merely arranges the transportation service on behalf of its customers and does not control the transportation service.

Provision for expected credit losses of trade receivables

The Company uses a provision matrix to calculate expected credit loss for trade receivables (Note 12). The provision matrix is based on the Company's historical observed default rates, adjusted for forward-looking information. It estimates the correlation between historical observed default rates, forecast economic conditions and expected credit losses. The amount of expected credit losses is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

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, 2018

The following new standards and interpretations became effective from January 1, 2018:

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

Key features of the new standard are as follows:

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

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

The Company has applied IFRS 9 retrospectively effective January 1, 2018. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated and the Company has chosen as its accounting policy to continue to apply the hedge accounting requirements of IAS 39. The Company has adjusted accounting policy accordingly (Note 2.12) and provided required material disclosures (Notes 12 and 27).

The opening balance of equity was not adjusted at the date of initial application as the impact was immaterial.

The Company applied new model for recognition of impairment losses, which resulted in immaterial change of the provision to trade receivables at the date of initial application compared to the model used previously.

The assessment of the Company's business model was made as of the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of IFRS 9 did not have a significant impact to the Company. Upon the adoption of IFRS 9 as of January 1, 2018, the Company had the following reclassifications:

	IFRS 9 measurement category		
IAS 39 measurement category	**Amortized cost**	**Fair value through other comprehensive income**	**Fair value through profit or loss**
Trade and other receivables	469,980	-	-
Trade receivables that are subject of factoring arrangements	-	10,737	-
Short-term loans provided to related parties	1,206	-	-
Restricted cash	8,313	-	-
Financial assets available for sale	-	-	259

IFRS 15 "Revenue from Contracts with Customers" (issued on May 28, 2014 and effective for the periods beginning on or after January 1, 2018). The new standard introduces the core principle that revenue must be recognized 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 recognized, 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 recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

Amendments to IFRS 15 "Revenue from Contracts with Customers" (issued on April 12, 2016 and effective for annual periods beginning on or after January 1, 2018). The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether an entity 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 recognized 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 an entity when it first applies the new standard.

The Company has adopted the new rules using modified approach and applied the standard effective January 1, 2018. The opening balance of equity was not adjusted at the date of initial application as the impact was immaterial. The Company has implemented new standard requirements into its revenue recognition accounting policy (Note 2.22), assessed, reviewed and tested all aspects of revenue recognition (Note 3) and adjusted relating balances and disclosures, as appropriate (Note 20).

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 new amendments did not have a material impact on the Company's financial statements.

4.2 Standards, amendments and interpretations issued but not effective until the financial year beginning January 1, 2019 or later and not early adopted by the Company

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after January 1, 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognize: (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 Statement of profit or loss. 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 will apply the standard effective January 1, 2019. The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. The Company is currently assessing the impact of the new standard on its separate financial statements for the year ended December 31, 2019. The Company estimates to recognize a right-of-use assets and corresponding lease liability totaling EUR 22 million as of January 1, 2019 in relation to lease which had previously been classified as operating lease under the principles of *IAS 17 Leases* in Statement of Financial Position. The Company expects that approximately EUR 4 million p.a. will be reclassified from operating expenses to depreciation expense in Statement of profit or loss. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using incremental borrowing rate as of January 1, 2019. The incremental borrowing rate is calculated for groups of lease agreements depending on their maturity. Incremental borrowing rate calculation is based on the evaluation of the risk of bank loans provided to the Company by bank partners and outlook of EURIBOR trend for respective maturity. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset on the site on which it is located, less any lease incentives received.

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. The Company is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on December 12, 2017 and effective for annual periods beginning on or after January 1, 2019). The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognizes all income tax consequences of dividends where it has recognized the transactions or events that generated the related distributable profits, eg in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Company is currently assessing the impact of the ammendments on its financial statements.

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

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

Note 5 Property, Plant and Equipment

Movements in property, plant and equipment during 2018 are as follows:

	Land and buildings	Machinery, equipment and motor vehicles	Other tangible assets	Construction in progress	Total
Cost					
January 1, 2018	**452,816**	**1,115,814**	**16,377**	**24,779**	**1,609,786**
Additions	-	-	1,109	125,602	**126,711**
Disposals	(190)	(5,969)	-	(19)	**(6,178)**
Transfer to / from investment property	(1)	-	-	-	**(1)**
Transfers to base	7,654	58,440	-	(66,094)	**-**
December 31, 2018	**460,279**	**1,168,285**	**17,486**	**84,268**	**1,730,318**
Accumulated Depreciation					
January 1, 2018	**(153,839)**	**(719,200)**	**(12,503)**	**-**	**(885,542)**
Depreciation for the year	(11,936)	(54,344)	(701)	-	**(66,981)**
Disposals	109	5,948	2	-	**6,059**
Transfer to / from investment property	(203)	-	-	-	**(203)**
December 31, 2018	**(165,869)**	**(767,596)**	**(13,202)**	**-**	**(946,667)**
Carrying amount	**294,410**	**400,689**	**4,284**	**84,268**	**783,651**

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

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**
Contribution to Ferroenergy s.r.o.	6,399	34,248	-	-	**40,647**
Transfer to / from investment property	(178)	-	-	-	**(178)**
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**

Borrowing costs totaling EUR 5 thousand were capitalized in 2018 (2017: EUR 0).

No property, plant and equipment was pledged in favor of a creditor or restricted in its use as of December 31, 2018 or December 31, 2017.

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 38 million for the year ended December 31, 2018 (for the year ended December 31, 2017: EUR 5 million).

In 2018, no impairment of property, plant and equipment, investment properties and intangible assets was recognized.

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 of the Company resulting from improved steel markets and reduced risks and uncertainty inherent in appropriate discount rate.

<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 200 million, i.e. EUR 175 million using the exchange rate at the end of reporting period (2017: USD 150 million, i.e. EUR 125 million using the exchange rate as of December 31, 2017). Compensation sub limits for individual risks are specified in the insurance contract. Self-insurance is USD 25 million, i.e. EUR 22 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 200 million, i.e. EUR 175 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 568 million.

<u>Best Available Techniques (BAT) Projects</u>

In 2016, the Ministry of Environment of the Slovak Republic approved the Company's applications to participate in Operational Program Environment Quality for ten projects, which included 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 applications were approved for following Company's projects: Steel Shop No. 2 Dedusting – Hot Metal Desulphurization, Coal Preparation Emission Control, Coke Handling Dedusting at Coke Batteries No. 1 and 3 and Emission Control for Ore Bridges of Blast Furnace No. 2. Future capital expenditures will be mitigated if USSK complies with certain financial covenants, which are assessed annually (Note 12). USSK complied with these covenants as of December 31, 2018.

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

In 2018, the Company invested EUR 45,081 thousand (2017: EUR 6,433 thousand) in Property, plant and equipment related to projects aiming to improve environmental conditions and the amount of EUR 35,723 thousand (2017: EUR 3,831 thousand) was capitalized from the funds generally available in the market.

The deferred income amortized to Other income in 2018 totaled EUR 408 thousand (2017: EUR 367 thousand). In 2017 as a result of full reversal of impairment, the amount of EUR 5,660 thousand previously amortized in Other income was again recognized in deferred income. Change of total BAT project costs resulted in reduction of deferred income balance by EUR 13,271 thousand in 2018 (2017: increase of EUR 19,956 thousand). The Company believes that it complied with all relevant conditions and in 2018 it recognized additional deferred income totaling EUR 402 thousand (2017: EUR 19,956 thousand) (Notes 12 and 28).

Movements in deferred income relating to BAT projects during 2018 and 2017 are as follows:

	2018	2017
Opening balance as of January 1	**96,225**	**70,976**
Net change in contracts relating to BAT projects	**(13,271)**	19,956
Amortization reversal due to reversed PP&E impairment	**-**	5,660
Amortization to Other income	**(408)**	(367)
Closing balance as of December 31	**82,546**	**96,225**

Note 6 Investment Properties

Movements in investment properties during 2018 and 2017 are as follows:

	2018	2017
Cost		
Opening balance as of January 1	**3,623**	**4,014**
Transfers to property, plant and equipment	**(1,086)**	(488)
Transfers from property, plant and equipment	**1,087**	97
Closing balance as of December 31	**3,624**	**3,623**
Accumulated Depreciation and Impairment Losses		
Opening balance as of January 1	**(1,191)**	**(1,285)**
Depreciation for the year	**(72)**	(84)
Transfers to property, plant and equipment	**207**	227
Transfers from property, plant and equipment	**(4)**	(49)
Closing balance as of December 31	**(1,060)**	**(1,191)**
Carrying amount	**2,564**	**2,432**

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 losses.

The fair value of the investment properties totaled EUR 5,436 thousand as of December 31, 2018 (December 31, 2017: EUR 5,240 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 the Company's 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 Company has no restrictions on the realizability 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 2018 are as follows:

	Software	Emission allowances	Other intangible assets	Intangible assets not yet available for use	Total
Cost					
January 1, 2018	**35,680**	**67,275**	**641**	**1,237**	**104,833**
Additions	34	64,705	-	2,477	**67,216**
Disposals	(414)	(71,992)	-	-	**(72,406)**
Revaluation surplus	-	93,092	-	-	**93,092**
Transfers to base	2,034	-	-	(2,034)	**-**
December 31, 2018	**37,334**	**153,080**	**641**	**1,680**	**192,735**
Accumulated Amortization					
January 1, 2018	**(28,713)**	**-**	**(431)**	**-**	**(29,144)**
Amortization for the year	(2,111)	-	(40)	-	**(2,151)**
Disposals	414	-	-	-	**414**
December 31, 2018	**(30,410)**	**-**	**(471)**	**-**	**(30,881)**
Carrying amount	**6,924**	**153,080**	**170**	**1,680**	**161,854**

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	13	-	-	-	**13**
December 31, 2017	**(28,713)**	**-**	**(431)**	**-**	**(29,144)**
Carrying amount	**6,967**	**67,275**	**210**	**1,237**	**75,689**

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

No borrowing costs were capitalized in 2018 and 2017.

No intangible assets were pledged in favor of a creditor or restricted in their use as of December 31, 2018 or December 31, 2017.

Insurance

Intangible assets are not insured.

Emission allowances

In 2018, the Company received 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 9.70 per ton (2017: EUR 5.04 per ton). Emission allowances allocated by the Slovak Government in 2018 totaled EUR 56 million (2017: EUR 30 million). The emission 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 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 additional emission allowances in the third quarter of 2017 to meet the annual compliance submission in the future. In 2018, the Company purchased 1 million European Union Allowances (EUA) totaling EUR 8 million (2017: 5 million European Union Allowances (EUA) totaling EUR 36 million).

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

	December 31, 2018	December 31, 2017
Emission allowances (intangible asset)	**153,080**	67,275
Liability from the obligation to deliver allowances (provision) (Note 17)	**147,078**	48,684

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, 2018

	Level 1	Level 2	Level 3	Total
Assets				
Emission allowances	153,080	-	-	**153,080**
Total	**153,080**	**-**	-	**153,080**

December 31, 2017

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

During 2018 and 2017, there were no transfers between Level 1 and Level 2 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 59,988 thousand as of December 31, 2018 (December 31, 2017: EUR 52,589 thousand).

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

Note 8 Investments

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

Entity, Country of incorporation, Principal activities		December 31, 2018	December 31, 2017 [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)	**197**	189
	Equity	**4,077**	4,059
U.S. Steel Košice – SBS, s.r.o., Slovakia, Security services			
	Ownership interest (%)	**98.00**	98.00
	Carrying amount	**34**	34
	Profit/(loss)	**59**	53
	Equity	**340**	334
RMS Košice s.r.o., Slovakia, Maintenance and vulcanization services			
	Ownership interest (%)	**76.01**	76.01
	Carrying amount	**1,185**	1,995
	Profit/(loss)	**1,665**	432
	Equity	**16,508**	16,341
U. S. Steel Services s.r.o., Slovakia, Various services			
	Ownership interest (%)	**99.96**	99.96
	Carrying amount	**1,804**	1,804
	Profit/(loss)	**97**	189
	Equity	**2,696**	2,779
U. S. Steel Obalservis s.r.o., Slovakia, Packaging			
	Ownership interest (%)	**99.97**	100.00
	Carrying amount	**5,037**	6,106
	Profit/(loss)	**1,608**	510
	Equity	**6,930**	6,612
Ferroenergy s.r.o. [1], Slovakia, Production of Electricity, Steam, Hot Water and Technical Gases			
	Ownership interest (%)	**99.99**	99.99
	Carrying amount	**130,198**	130,198
	Profit/(loss)	**(37,505)**	(1,995)
	Equity	**135,175**	128,132
U. S. Steel Europe – Bohemia s.r.o. [1], Czech Republic, Sales Agent			
	Ownership interest (%)	**100.00**	100.00
	Carrying amount	**4**	387
	Profit/(loss)	**52**	64
	Equity	**214**	1,639
U. S. Steel Europe – France S.A. [1], France, Sales Agent			
	Ownership interest (%)	**99.94**	99.94
	Carrying amount	**212**	212
	Profit/(loss)	**18**	35
	Equity	**187**	204
U. S. Steel Europe – Germany GmbH [1], Germany, Sales Agent			
	Ownership interest (%)	**100.00**	100.00
	Carrying amount	**545**	490
	Profit/(loss)	**35**	36
	Equity	**1,253**	1,255
U. S. Steel Europe – Italy S.r.l. [1], Italy, Sales Agent			
	Ownership interest (%)	**100.00**	100.00
	Carrying amount	**98**	110
	Profit/(loss)	**8**	8
	Equity	**129**	121
Total carrying amount of investments		**141,367**	**143,586**

Profit / (loss) and equity of subsidiaries are presented under local accounting standards with the exception of Ferroenergy s.r.o. which is presented based on IFRS.

(1) Financial information for the year 2018 is unaudited.

(2) Financial information for the year 2017 is audited.

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

The change in carrying amounts of investments in U. S. Steel Europe – Germany GmbH and U. S. Steel Europe – Italy S.r.l. as of December 31, 2018 relates to adjustments made in the provisions for impairment to the investments.

None of the Company's ownership interests in subsidiaries were pledged as of December 31, 2018 or December 31, 2017.

As of September 1, 2018, U. S. Steel Europe – Bohemia a.s. changed the name and legal form to U. S. Steel – Bohemia s.r.o.and decreased the share capital from CZK 20,000 thousand to CZK 100 thousand.

As of October 1, 2018, RMS, a.s. Košice changed the name and legal form to RMS Košice s.r.o. and decreased the share capital from EUR 3,165 thousand to EUR 2,100 thousand.

As of October 1, 2018, OBAL-SERVIS, a.s. Košice changed the name and legal form to U. S. Steel Obalservis s.r.o. and decreased the share capital from EUR 3,731 thousand to EUR 2,900 thousand.

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.

A 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 its subsidiary, U. S. Steel Obalservis s.r.o. 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 USSK book value of contributed net assets totalled EUR 130,198 thousand.

Contribution of assets and liabilities to Ferroenergy s.r.o.	
Property, plant and equipment and Intangible assets	140,373
Receivables	1,758
Trade payables	(5,191)
Provisions and accruals	(5,412)
Liabilities to employees and social security institutions	(557)
Other	(773)
Total	**130,198**

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

Note 9 Deferred Income Tax

Differences between IFRS as adopted by the EU and Slovak tax laws give rise to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is recorded at the rate of 21 percent as of December 31, 2018 (December 31, 2017: 21 percent).

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

The tax effect of the movements in the temporary differences during 2018 is as follows:

	January 1, 2018	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2018
Property, plant and equipment	**(53,095)**	(2,270)	-	**(55,365)**
Inventories	**2,510**	(654)	-	**1,856**
Employee benefits	**7,058**	24	669	**7,751**
Deferred charges	**132**	127	-	**259**
Provision for impairment to receivables	**54**	(27)	-	**27**
Unused tax loss 2012 and 2013	**-**	-	-	**-**
Emission allowances transactions	**52**	15,823	(16,122)	**(247)**
Derivative financial instruments	**1,834**	-	(4,042)	**(2,208)**
Other temporary differences	**2,067**	2,173	-	**4,240**
Total	**(39,388)**	**15,196**	**(19,495)**	**(43,687)**
Deferred tax asset / (liability)	**(39,388)**			**(43,687)**

Deferred tax liability from revaluation of allocated emission allowances to fair value recognized in other comprehensive income totaled EUR 16,122 thousand and deferred tax asset from emission allowances provision recognized in profit or loss totaled EUR 15,823 thousand.

The tax effect of the movements in the temporary differences during 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 to 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)**

The Company has unrecognized potential deferred tax liability of EUR 988 thousand related to subsidiaries as of December 31, 2018 (December 31, 2017: deferred tax liability of EUR 951 thousand).

Tax loss carryforward

The Company did not report a tax loss in 2018 and 2017*.* In 2017, the tax loss carryforward from 2016 was fully utilized.

Impairment of property, plant and equipment

In 2018, no impairment of property, plant and equipment was recognized therefore the Company did not recognize a deferred tax asset for the impairment of property, plant and equipment in accordance with *IAS 12 Income taxes.* The deferred tax asset recognized by the end of 2016 was fully reversed in 2017.

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

Note 10 Restricted Cash

	December 31, 2018	December 31, 2017
Cash restricted in its use - long-term portion	**5,334**	4,747
Cash restricted in its use - short-term portion	**1,213**	3,566
Total (Notes 26 and 27)	**6,547**	**8,313**

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.

The restricted cash has been deposited to banks with the rating A2 and better according to Moody's, that represents low credit risk. The Company therefore considers expected credit loss to be immaterial. Further information on the credit risk of cash restricted in its use is disclosed in Note 26.

Note 11 Inventories

	December 31, 2018	December 31, 2017
Raw materials	**196,630**	167,626
Work-in-progress	**55,680**	46,794
Semi-finished production	**65,197**	39,864
Finished goods	**135,896**	97,160
Merchandise	**4,150**	2,419
Total	**457,553**	**353,863**

No inventories were pledged in favor of a creditor or restricted in their use as of December 31, 2018 or December 31, 2017.

Inventory as of December 31, 2018 is shown net of write-down allowances resulting from lower net realizable values totaling EUR 3,003 thousand (December 31, 2017: EUR 1,941 thousand).

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

	Raw materials	Work in progress	Semi-finished production	Finished products	Total
January 1, 2018	**652**	**323**	**626**	**340**	**1,941**
Allowance made	165	876	1,163	56	**2,260**
Allowance used	(445)	(137)	(490)	(13)	**(1,085)**
Allowance reversed	(54)	(25)	(13)	(21)	**(113)**
December 31, 2018	**318**	**1,037**	**1,286**	**362**	**3,003**

	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**

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

Note 12 Trade and Other Receivables

	December 31, 2018	December 31, 2017
Trade receivables	**348,423**	345,125
Trade receivables that are subject of factoring arrangements	**9,154**	-
Related party accounts receivable (Note 29)	**20,785**	18,643
Total trade receivables	**378,362**	**363,768**
Advance payments made	**5,644**	5,374
VAT receivable	**45,984**	38,693
Other receivables - BAT projects	**58,201**	90,491
Other receivables	**1,095**	2,156
Trade and other receivables (gross)	**489,286**	**500,482**
Provision for impairment of trade receivables	**(15,314)**	(19,760)
Provision for impairment of other receivables	**(5)**	(5)
Trade and other receivables (net)	**473,967**	**480,717**
Long-term receivables	**2,800**	41,587
Short-term receivables	**471,167**	439,130

No receivables of the Company were pledged in favor of a bank or other entities as of December 31, 2018 or December 31, 2017. Information about collateral or other credit enhancements and the overall credit risk of the Company is disclosed in Note 26. Information about measurement of the trade receivables is disclosed in Note 27.

Trade Receivables and Other Receivables

The carrying amount of trade and other receivables (gross) is denominated in the following currencies:

	December 31, 2018	December 31, 2017
EUR	**470,041**	488,554
USD	**1,354**	2,464
Other	**17,891**	9,464
Total	**489,286**	**500,482**

The structure of trade receivables including related party accounts receivable is as follows:

	December 31, 2018	January 1, 2018
No or low -risk counterparties	**166,633**	156,500
Increased risk counterparties	**202,575**	207,268
Trade receivables at amortized costs	**369,208**	**363,768**
No or low -risk counterparties	**9,154**	**-**
Increased risk counterparties	**-**	**-**
Trade receivables at FV through other comprehensive income	**9,154**	**-**
Total	**378,362**	**363,768**

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.

The Company recognized a provision for expected credit losses to trade receivables and other receivable in amount of EUR 15,319 thousand as of December 31, 2018 (December 31, 2017: EUR 19,765 thousand).

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

The movement of provision was as follows:

	Trade receivables	Related party accounts receivable	Other receivables	Total
January 1, 2018	**19,727**	**33**	**5**	**19,765**
Provision made	532	1	-	**533**
Receivables written-off	(4,435)	(23)	-	**(4,458)**
Provision reversed	(510)	(11)	-	**(521)**
December 31, 2018	**15,314**	**-**	**5**	**15,319**

	Trade receivables	Related party accounts receivable	Other receivables	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**

The recognized provision relates to individually impaired receivables. No provision was recognized for trade receivables measured at fair value through other comprehensive income in 2018.

For the rest of the trade receivables and the other receivables the Company estimated expected credit losses using a provision matrix. The provision matrix specifies loss rates depending on shared credit risk characteristics represented by internal rating of customers and the days past due. The expected loss rates were based on the payment profiles of sales over a period of 12 months before December 31, 2016 and the corresponding historical credit losses. The period was selected due to the macroeconomic and the industry situation similar to the expected situation during the first months of the 2019 when the majority of the receivables balance as of December 31, 2018 is due. The Company performed regular review of customers' internal rating and considered historical, current and forward-looking information on macroeconomic and the industry development, such as the GDP in the European Union, Manufacturing Purchasing Managers' Index, Industrial Production Index, The Economic Sentiment Indicator, etc. The Company concluded that the historical loss rates could be applied to the receivables balances as of December 31, 2018 without adjustment. The general expected credit loss provision calculated by the Company is considered to be immaterial and was not recognized as of December 31, 2018.

Comparative information under IAS 39

The structure of trade receivables as of December 31, 2017 was as follows:

	December 31, 2017
Receivables not yet due and not impaired	
No or low-risk counterparties	144,216
Increased risk counterparties	167,840
Receivables past due but not impaired	13,342
Receivables individually impaired	19,727
Trade receivables	**345,125**
Receivables not yet due and not impaired	
No or low-risk counterparties	5,796
Increased risk counterparties	12,474
Receivables past due but not impaired	340
Receivables individually impaired	33
Related party accounts receivable	**18,643**
Total	**363,768**

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

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

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

Aging structure of trade receivables past due but not impaired and individually impaired as of December 31, 2017 was as follows:

	Past due in days					
	0 - 30	30 - 90	90 - 180	180 - 365	over 365	Total
Past due but not impaired	12,971	271	75	25	-	**13,342**
Individually impaired	-	-	-	-	19,727	**19,727**
Trade receivables	**12,971**	**271**	**75**	**25**	**19,727**	**33,069**
Past due but not impaired	340	-	-	-	-	**340**
Individually impaired	-	-	-	-	33	**33**
Related party accounts receivable	**340**	**-**	**-**	**-**	**33**	**373**
Total	**13,311**	**271**	**75**	**25**	**19,760**	**33,442**

Discounted present value of receivables past due is not materially different from their book values as of December 31, 2018 and December 31, 2017.

Advance Payments Made

Based on historical experience the Company believes that risk of default in case of advance payment made is remote and therefore no provision for expected credit losses related to advance payments was recognized as of December 31, 2018.

Other Receivables - Best Available Techniques (BAT) Projects

Other receivables include amounts arising from contractual agreements relating to BAT projects (Note 5) which will mitigate future capital expenditures by EUR 58 million as of December 31, 2018 (December 31, 2017: EUR 90 million) if USSK complies with certain financial covenants, which are assessed annually. USSK complied with these covenants as of December 31, 2018. Other receivables decreased by EUR 19 million due to cash received and EUR 13 million due to net change in contracts relating to BAT projects (Note 5). Majority of receivables from BAT projects which were classified as long-term in 2017, were reclassified as short-term in 2018 as they are expected to be collected within 1 year. The receivables were denominated in Euro and were neither subject to substantial credit risk nor currency risk (Note 26). Receivables resulting from BAT projects are receivables due from Slovak Republic with the credit rating A2 with positive outlook according to Moody’s, that represents low credit risk. The Company therefore considers expected credit loss to be immaterial and did not recognize any related provision as of December 31, 2018.

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, 2018 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, 2018 and December 31, 2017 recognized in other comprehensive income and accumulated in revaluation reserves in equity were reclassified into profit or loss in 2018 and 2017 respectively. The actual value recognized in Other operating income in 2018 amounts to EUR 871 thousand (2017: loss of EUR 3 million). The actual value recognized in Other operating income in 2018 amounts to EUR 871 thousand (2017: loss of EUR 3 million). The amount consists of reclassification of loss of EUR 7,037 thousand from reserve funds into profit or loss related to forward transactions entered into during 2017 where the asset acquired affected profit or loss in 2018, and income of EUR 7,908 thousand related to forward transactions entered into during 2018 where the asset acquired affected profit or loss in 2018

(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 Company's forward foreign exchange contracts:

	December 31, 2018		December 31, 2017	
	Assets	Liabilities	Assets	Liabilities
Foreign exchange forwards - cash flow hedges	10,729	215	48	8,782
Total	**10,729**	**215**	**48**	**8,782**

Balances as of December 31, 2018 and December 31, 2017 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, Goldman Sachs Bank USA, J.P. Morgan, Komerční banka, a.s. and Commerzbank as of December 31, 2018 and with ING Bank N.V., Citibank Europe plc and Commerzbank as of December 31, 2017. As of December 31, 2018, the financial derivatives for each counterparty represents less than 25 percent of value of total financial derivatives. The ratings of the banks are BBB+ and better (according to Standard & Poor's) as of December 31, 2018 (December 31, 2017: BBB+ and better). Information about the fair value hierarchy as of December 31, 2018 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, 2018	December 31, 2017
Payable on settlement in EUR thousand	**(285,778)**	(233,812)
Receivable on settlement in USD thousand	**343,750**	273,000

The Company is exposed to a fluctuation of tin purchase prices. In order to eliminate the Company's exposure to tin prices fluctuation, the Company entered into commodity swaps to protect its profit margin. All commodity swaps commenced in 2018 matured in 2018, resulting in an expense in total amount of EUR 227 thousand (no commodity swaps commenced nor matured in 2017).

Note 14 Cash and Cash Equivalents

	December 31, 2018	December 31, 2017
Cash on hand	**68**	57
Cash at bank	**91,679**	300,573
Total (Note 27)	**91,747**	**300,630**

Interest rates on bank accounts were approximately 0.13 percent per annum for EUR deposits, 2.11 percent per annum for USD deposits and 0.09 percent per annum for CZK deposits as of December 31, 2018 (December 31, 2017: 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). 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.

The cash has been deposited to banks with the short-term rating Prime-2 and better according to Moody's, that represents high ability to repay short-term debt. The Company therefore considers expected credit loss to be immaterial. Further information on 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, 2018.

Reserve funds

The movement in reserve funds is as follows:

	Other capital funds	Legal reserve fund	Derivative hedging instruments	CO_2 emission allowances	Total
January 1, 2018	**44**	**40,635**	**(7,037)**	**11,462**	**45,104**
Changes in fair value of derivative hedging instruments	-	-	8,365	-	**8,365**
Changes in fair value of CO_2 allowances	-	-	-	76,970	**76,970**
Realization of CO_2 allowances revaluation	-	-	-	(11,462)	**(11,462)**
Release of fair value of derivative hedging instruments	-	-	7,037	-	**7,037**
Contribution to legal reserve fund	-	22,496	-	-	**22,496**
December 31, 2018	**44**	**63,131**	**8,365**	**76,970**	**148,510**

	Other capital funds	Legal reserve fund	Derivative hedging instruments	CO_2 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 allowances	-	-	-	11,462	**11,462**
Realization of CO_2 allowances revaluation	-	-	-	(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**

Dividends

Dividends totaling EUR 250,000 thousand and EUR 187,306 thousand were approved for distribution and paid to U. S. Steel Global Holdings VI B.V. in June 2018 and October 2018, respectively (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, 2018 (December 31, 2017: no declared but unpaid dividends).

Note 16 Loans and Borrowings

	Long-term loans and borrowings	Supplier payable financing program	Related parties (Note 29)	Total
January 1, 2018	**-**	**16,541**	**10,450**	**26,991**
Proceeds	200,000	91,952	86,350	**378,302**
Repayments	-	(102,939)	(83,292)	**(186,231)**
December 31, 2018	**200,000**	**5,554**	**13,508**	**219,062**

On September 26, 2018, Company, and Ferroenergy s.r.o., as guarantor, entered into a EUR 460 million unsecured revolving credit facility (the Credit Agreement) with Commerzbank, ING Bank N.V., Slovenská sporiteľňa a.s., Komerční banka, a.s., Unicredit Bank, Československá obchodná banka, a.s. and Citibank Europe plc, replacing EUR 200 million revolving credit facility. The Credit Agreement has a maturity date of September 26, 2023 and contains terms and conditions substantially similar to the prior EUR 200 million revolving credit facility. Borrowings drawn within the Credit Agreement bear interest rate spread over the applicable IBOR + margin.

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

The Credit Agreement contains certain financial covenants calculated from consolidated financial statements prepared in accordance with US GAAP, including a maximum net debt to EBITDA ratio and a minimum stockholders' equity to assets ratio. EBITDA is a “non GAAP measure” representing consolidated operating profit before taxation after adding back depreciation and amortization of the assets of the Group for that measurement period excluding (a) non-cash losses or expenses or (b) income or gains from any unusual, extraordinary or otherwise non-recurring items. The covenants are measured semi-annually for the period covering the last twelve calendar months and calculated as set forth in the Credit Agreement. If Company does not comply with the Credit Agreement financial covenants, it may not draw on the facility until the next measurement date, outstanding borrowings may be accelerated, or the margin on outstanding borrowings may be increased. The Company complied with the financial covenants as of December 31, 2018. As of December 31, 2018 borrowings totaling EUR 200 million were drawn against the EUR 460 million Credit Agreement (December 31, 2017: there were no borrowings against the EUR 200 million revolving credit facility). As of December 31, 2018, the Company had availability of EUR 260 million under the Credit Agreement.

Concurrent with the execution of the Credit Agreement, Company reduced the size of a separate EUR 40 million unsecured credit facility to EUR 20 million. The existing credit facility in the amount of EUR 20 million may be used for working capital financing, drawing bank overdraft, and issuing of bank guarantees and letters of credit until December 7, 2021. As of December 31, 2018, the credit facility has been used in the amount of EUR 1,207 thousand for bank guarantees (December 31, 2017: the EUR 40 million credit facility has been used in the amount of EUR 328 thousand for bank guarantees).

On December 11, 2018 the Company entered into an amendment No.4 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 31, 2018 to December 31, 2021. As of December 31, 2018, the credit facility has been used in the amount of EUR 891 thousand for bank guarantees (December 31, 2017: EUR 1,975 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. 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 2018 and 2017 the Company had no borrowings under its EUR 20 million and EUR 10 million unsecured credit facilities.

The Company utilizes a structured supplier payable financing program from Citibank Europe plc. (Note 2.16). Short-term borrowings of EUR 5.6 million as of December 31, 2018 represent the outstanding balance of trade payables included in this program.

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, 2018	**9,232**	**1,131**	**48,684**	**50**	**59,097**
Provision made	1,344	1,355	147,078	388	**150,165**
Provision used / reversed	(3,446)	(1,533)	(48,684)	(369)	**(54,032)**
December 31, 2018	**7,130**	**953**	**147,078**	**69**	**155,230**
Long-term provisions	7,118	-	-	-	**7,118**
Short-term provisions	12	953	147,078	69	**148,112**

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

	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)**
Allocation 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**

The movement of provisions caused by the passage of time (i.e. accretion expense) in 2018 and 2017 was immaterial.

Provision reversals for the year 2018 and 2017 were immaterial.

Landfill

The provision for closing, reclamation and after-close monitoring of landfills is recognized based on the Law on Waste. In 2018, 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. During the year 2018, the closure and reclamation of the 1st and the 2nd stage of second non-hazardous landfill was performed. Reclamation cost was charged against the provision. The short-term portion of the provision represents expenditures that are expected to be settled within 12 months.

Litigation

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

CO_2 emissions

A provision was recognized for CO_2 emissions emitted in 2018. The provision was 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 Operating expenses. Amortization of related deferred income from allocated CO_2 emission allowances is recognized in Other income (Note 20). In 2017, the Company has allocated CO_2 emission allowances totaling 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 which were used to fulfill 2017 obligation.

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.

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

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

	2018	2017
Opening balance as of January 1	**33,725**	**33,305**
Total expense charged in profit or loss – pension	**2,069**	1,280
Total expense charged in profit or loss – jubilee	**654**	467
Total expense charged in profit or loss – termination	**(1)**	(8)
Remeasurements of post employment benefit obligations	**3,243**	513
Benefits paid	**(2,410)**	(1,235)
Contribution to Ferroenergy s.r.o.	**-**	(597)
Closing balance as of December 31	**37,280**	**33,725**
Long-term employee benefits payable	**35,862**	32,454
Short-term employee benefits payable	**1,418**	1,271

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

	December 31, 2018	December 31, 2017
Present value of the obligation – pension	**20,819**	20,946
Present value of the obligation – jubilee	**8,458**	8,635
Present value of the obligation – termination	**11**	22
Remeasurements of post employment benefit obligations	**7,992**	4,719
Contribution to Ferroenergy s.r.o.	**-**	(597)
Total liability in the statement of financial position	**37,280**	**33,725**

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

	2018	2017
Current service costs – pension	**1,552**	1,194
Current service costs – jubilee	**573**	384
Current service costs – termination	**(1)**	(8)
Interest costs	**454**	443
Net actuarial losses / (gains)	**60**	214
Pension recalculation change	**144**	(274)
Remeasurements of post employment benefit obligations	**3,183**	299
Total	**5,965**	**2,252**

Current service cost, net actuarial losses and pension recalculation change 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:

	2018	2017
Discount rate - pension	**1.45%**	1.50%
Discount rate - jubilee	**1.06%**	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, 2018 developed by Buck Global. The curve plots yield rates as a function of time. Each point on the curve represents a spot rate that can be used to discount a benefit amount expected to be paid at that time. The curve is constructed by examining the yields on selected highly rated corporate bonds.

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

Profit sharing and bonus plans

A liability for employee benefits in the form of profit sharing and bonus plans is recognized in liability to employees and social security institutions (Note 19). Liabilities for profit sharing and bonus plans are measured at the amounts expected to be paid when they are settled.

The amount of profit sharing and bonus plans is presented in Note 22.

Defined contribution pension plan

Throughout the year, the Company made contributions to the mandatory government and private defined contribution plans representing 25.0 percent (2017: 24.9 percent) of total salaries and other employee benefits up to a monthly salary limit of EUR 6,384 (2017: EUR 6,181). The monthly salary limit for calculation of the health insurance contribution was canceled since 2017.

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

In addition, with respect to employees who have chosen to participate in a supplementary pension scheme, the Company made contributions to the supplementary scheme amounting to 1.6 percent of the monthly accounted wage in 2018 (2017: 1.7 percent).

Information for pension plans with an accumulated benefit obligation:

	December 31, 2018	**December 31, 2017**
Accumulated benefit obligation	**27,671**	25,033
Effects of future compensation	**9,598**	8,670
Projected benefit obligation	**37,269**	**33,703**
Termination	**11**	22
Total liability in the statement of financial position	**37,280**	**33,725**

Note 19 Trade and Other Payables

	December 31, 2018	**December 31, 2017**
Trade payables	**195,899**	158,003
Related party accounts payable (Note 29)	**23,952**	57,451
Assigned trade payables (1)	**59,611**	88,632
Accrued discounts and rebates	**14,100**	13,060
Uninvoiced deliveries and other accrued expenses	**142,472**	116,984
Trade payables and accruals (Note 26)	**436,034**	**434,130**
Contract liabilities (Advance payments received)	**1,354**	3,710
Liability to employees and social security institutions	**35,837**	31,162
VAT and other taxes and fees	**6,004**	5,968
Other payables	**4,660**	6,587
Total	**483,889**	**481,557**

(1) Assigned trade payables are trade payables which are not going to be paid to original supplier because receivables against the Company were requested by the supplier to be transferred to other creditor and the transfer was approved by the Company.

The Company provided or will provide discounts and rebates to the customers which fulfilled all requirements stated in sale contracts as of December 31, 2018. Issued credit invoices are offset with receivables as of the due date of the respective credit note or paid in cash when there are no outstanding receivables.

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

	December 31, 2018	December 31, 2017
Short-term trade and other payables	**482,707**	480,116
Long-term trade and other payables	**1,182**	1,441
Total	**483,889**	**481,557**

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, 2018	December 31, 2017
Trade and other payables not yet due	**479,152**	462,979
Trade and other payables past due	**4,737**	18,578
Total	**483,889**	**481,557**

No trade and other payables past due as of December 31, 2018 were paid on January 2, 2019. Trade and other payables past due as of December 31, 2017 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, 2018	December 31, 2017
EUR	**346,596**	333,657
USD	**77,998**	95,246
Other	**11,440**	5,227
Total	**436,034**	**434,130**

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

	2018	2017
Opening balance as of January 1	**163**	**72**
Company contribution (company costs)	**1,736**	1,650
Employees contribution (repayments)	**31**	47
Withdrawals	**(1,763)**	(1,606)
Closing balance as of December 31	**167**	**163**

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 from Contracts with Customers 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 distributed electricity, heat and gas. Effective December 1, 2017, electricity and heat is produced by its subsidiary Ferroenergy s.r.o. 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.

For most of its revenue arrangements, the Company acts as a principal, however, the Company also acts as an agent arranging for the transportation service related to the sales of own production with the "C" delivery terms (Note 3) and in the sale of merchandise and records as revenue the net consideration it retains after paying the suppliers.

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

Revenue from contracts with customers consists of the following:

	2018	2017
Sales of ow n production	**2,695,420**	2,585,612
Sales of merchandise	**425**	3,161
Rendering of services	**16,223**	23,475
Total	**2,712,068**	**2,612,248**

In 2018, if IAS 18 guidance had been applied, sales of own production and merchandise would have been EUR 2,720,826 thousand and EUR 42,556 thousand, respectively.

In 2018, sales of merchandise represented sales of power coal sold to the subsidiary Ferroenergy s.r.o., sales of electricity and natural gas. In 2017, sales of merchandise represented primarily sales of electricity.

In 2018, rendering of services comprised of technology consulting services, distribution of media (natural gas, electricity, water), repairs, and administration services provided to the Company's subsidiaries or external customers and arranging transportation services to customers.

Timing of revenue recognition

	2018	2017
Performance obligation satisfied at a point in time	**2,695,845**	-
Performance obligation satisfied over time	**16,223**	-
Total	**2,712,068**	**-**

Disaggregation of the revenue from contracts with customers – sales of own production

Segments and Products	2018	2017
Hot-rolled sheets and plates	**1,101,800**	1,073,835
Cold-rolled sheets	**322,547**	290,551
Coated sheets	**624,506**	588,686
Tin mill products	**352,330**	331,140
Standard and line pipe	**40,664**	34,796
Semi-finished products	**145,292**	203,881
Other	**108,281**	62,723
Total	**2,695,420**	**2,585,612**

Market	2018	2017
Steel Service Centers	**449,432**	407,307
Transportation (including automotive)	**468,875**	442,623
Further conversion - Trade customers	**161,443**	149,029
Containers	**363,944**	340,158
Construction and construction products	**885,038**	934,957
Appliances & Electrical equipment	**176,386**	159,986
Oil, gas and petrochemicals	**7,264**	4,990
All other	**183,038**	146,562
Total	**2,695,420**	**2,585,612**

Other income

Other income consists of the following:

	2018	2017
Amortization of deferred income - CO_2 emission allow ances	**56,365**	30,038
Amortization of deferred income - BAT projects (Note 5)	**408**	(5,293)
Gain on disposal of property, plant and equipment, investment property and intangible assets	**5,793**	-
Gain on derivative financial instruments	**871**	-
Rental income	**1,434**	1,443
Income from contractual penalties	**257**	358
Other income	**4,684**	4,357
Total	**69,812**	**30,903**

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

Note 21 Materials and Energy Consumed

Materials and energy consumed is comprised of the following:

	2018	2017
Materials consumed	**(1,523,489)**	(1,487,532)
Energy consumed	**(280,759)**	(133,045)
Costs of merchandise sold	**7**	(3,477)
Changes in internally produced inventory	**74,900**	6,802
Inventory write-down allowance (Note 11)	**(2,147)**	161
Total	**(1,731,488)**	**(1,617,091)**

Note 22 Salaries and Other Employee Benefits

Salaries and employee benefits are comprised of the following:

	2018	2017
Wages and salaries	**(208,004)**	(197,101)
Profit sharing expense	**(18,910)**	(13,556)
Termination benefits (Note 18)	**1**	8
Mandatory social and health insurance to all insurance funds (Note 18)	**(80,731)**	(74,483)
Other social expenses	**(13,355)**	(12,187)
Pension expenses – retirement and work and life jubilees (Note 18)	**(2,329)**	(1,518)
Total	**(323,328)**	**(298,837)**

The number of active employees of the Company as of December 31, 2018 was 10,147 (December 31, 2017: 9,912). The average number of the Company's employees for 2018 was 9,960 (2017: 10,059).

Note 23 Other Operating Expenses

Other operating expenses during 2018 and 2017 are as follows:

	2018	2017
Packaging	**(16,206)**	(14,086)
Cleaning and waste disposal	**(9,165)**	(8,637)
Rent	**(1,479)**	(1,661)
Advertising and promotion	**(3,012)**	(2,841)
Intermediary fees	**(2,319)**	(2,233)
Training	**(1,048)**	(1,007)
Impairment of receivables release (Note 12)	**12**	13
Fair value (gains)/losses on derivative financial instruments	**-**	(2,917)
Loss on disposal on property, plant and equipment and intangible assets	**-**	(1,229)
Loss on sale of material	**-**	-
Real estate tax and other taxes	**(5,663)**	(5,111)
Intangible assets, licences, trade marks, licence support	**(14,347)**	(12,025)
Laboratory and heat tests	**(6,689)**	(6,294)
External processing	**(12,937)**	(15,018)
Costs of processing of steel slag, sludge and dust	**(5,349)**	(5,312)
Audit fees	**(621)**	(729)
Other services provided by the auditor	**(3)**	(6)
Other operating expenses (1)	**(66,228)**	(62,324)
Total	**(145,054)**	**(141,417)**

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

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

Note 24 Income Tax

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

	2018	2017
Current tax	**(50,980)**	(44,734)
Deferred tax (Note 9)	**15,196**	(70,525)
Total	**(35,784)**	**(115,259)**

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:

	2018	2017
Profit before tax	**162,615**	565,180
Tax calculated at 21 percent tax rate	**(34,149)**	(118,688)
Non-deductible expenses	**1,233**	5,818
Other	**(2,868)**	(2,389)
Tax (charge) / credit	**(35,784)**	**(115,259)**

The effective tax rate was 22 percent in 2018 (2017: 21 percent).

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

	2018			2017		
	Before tax	Tax (charge) / credit	After tax	Before tax	Tax (charge) / credit	After tax
Changes in fair value of derivative hedging instruments	**19,444**	**(4,042)**	**15,402**	(17,342)	3,606	(13,736)
Changes in actuarial gains and losses	**(3,183)**	**669**	**(2,514)**	(299)	63	(236)
Revaluation of intangible assets	**93,092**	**(16,122)**	**76,970**	14,686	(80)	14,606
Other comprehensive income	**109,353**	**(19,495)**	**89,858**	**(2,955)**	**3,589**	**634**

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 2017.

The capital structure of the Company consists of debt (Notes 16 and 29) totaling EUR 219,062 thousand as of December 31, 2018 (December 31, 2017: 10,478 EUR thousand) and equity (Note 15) totaling EUR 1,123,645 thousand as of December 31, 2018 (December 31, 2017: EUR 1,344,262 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, 2018 and December 31, 2017.

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.

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

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is essentially exposed to credit risk from its operating activities (primarily trade receivables). Remaining credit risk relates mainly to receivables resulting from BAT projects (Note 12), deposits with banks (Notes 10 and 14) and derivative financial instruments (Note 13).

Credit risk related to receivables 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 mitigates credit risk for approximately 67 percent (2017: 69 percent) of its revenues by requiring credit insurance, letters of credit, bank guarantees, prepayments or other collateral. The acceptable ratings of the banks are BBB- and better (according to Standard & Poor's or equivalent of it per other rating agencies). The ratings of banks are monitored on a monthly basis or if circumstances change. Information about collateral or other credit enhancements is as follows:

	2018	2017
Credit insurance	**60%**	59%
Letters of credit and documentary collection	**2%**	5%
Bank guarantees	**2%**	2%
Other credit enhancements	**3%**	3%
Credit enhanced sales	**67%**	**69%**
Unsecured sales	**33%**	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.

Expected credit losses related to trade and other receivables are estimated at the end of each reporting period using a provision matrix. Significant accounting estimates and judgements are applied in the estimation (Note 3).

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

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

December 31, 2018	Derivative financial instruments measured at FV through profit or loss	Financial assets measured at amortized cost	Financial assets measured at FV through other comprehensive income
Trade and other receivables (Note 12)			
Trade receivables (net)	-	333,109	9,154
Related party accounts receivables (net)	-	20,785	-
Other receivables – BAT projects	-	58,201	-
Other receivables (net)	-	1,018	-
Derivative financial instruments (Note 13)			
Forward foreign exchange	10,729	-	-
Short-term loans (Note 29)			
Short-term loans provided to related parties	-	17,244	-
Cash and cash equivalents and restricted cash (Notes 10 and 14)			
Cash and cash equivalents and restricted cash (Notes 10 and 14)	-	98,294	-
Total	**10,729**	**528,651**	**9,154**

December 31, 2018	Cash and cash equivalents and restricted cash at amortized cost
ING Bank N.V.	6,730
COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky	7,455
Citibank (Slovakia) a.s.	20,007
Slovenská sporiteľňa, a.s.	15,951
Komerční Banka, a.s.	3,798
Československá obchodná banka, a.s.	19,467
Všeobecná úverová banka	18,254
Other banks	17
Cash on hand	68
Cash and cash equivalents (Note 14)	**91,747**
Slovenská sporiteľňa, a.s.	803
Všeobecná úverová banka, a.s.	4,325
COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky	1,312
ING Bank N.V.	107
Cash restricted in its use (Note 10)	**6,547**
Total	**98,294**

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

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 – BAT projects	-	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 and restricted cash (Notes 10 and 14)		
Cash and cash equivalents and restricted cash (Notes 10 and 14)	-	308,943
Total	**48**	**746,799**

December 31, 2017

	Cash and cash equivalents and restricted cash
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 and cash equivalents (Note 14)	**300,630**
Slovenská sporiteľňa, a.s.	831
Všeobecná úverová banka, a.s.	6,214
COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky	1,201
ING Bank N.V.	67
Cash restricted in its use (Note 10)	**8,313**
Total	**308,943**

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.

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.

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

During 2018, the Company drew short-term borrowings as a part of the Company's cash pooling strategy of EUR 86,350 thousand and repaid EUR 82,195 thousand and provided to its subsidiaries the amount of EUR 107,136 thousand and received EUR 91,135 thousand. 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 received EUR 387 thousand. 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, 2019 with the option to be prolonged.

Other 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, 2018

	0 – 1 year	1 – 5 years	over 5 years	Total
Assets				
Cash and cash equivalents	91,747	-	-	**91,747**
Restricted cash	1,213	-	5,334	**6,547**
Trade receivables (net)	363,048	-	-	**363,048**
Other receivables – BAT projects	55,401	2,800	-	**58,201**
Derivative financial instruments	343,750	-	-	**343,750**
Intercompany short - term loans provided	17,244	-	-	**17,244**
Total	**872,403**	**2,800**	**5,334**	**880,537**
Liabilities				
Trade payables and accruals	434,852	1,182	-	**436,034**
Derivative financial instruments	285,778	-	-	**285,778**
Loans and borrow ings	19,087	200,000	-	**219,087**
Total	**739,717**	**201,182**	**-**	**940,899**

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 – BAT projects	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 borrow ings	10,478	-	-	**10,478**
Total	**676,977**	**1,443**	**-**	**678,420**

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). If the interest rate had been 1 percent higher / lower during 2018, it would have resulted to EUR 0.4 million higher/lower interest expense. As the Company did not draw any variable interest rate borrowings in 2017, operating cash flow was not affected by changes in market interest rates.

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

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, 2018 and December 31, 2017.

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.

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

December 31, 2018

	Cash and cash equivalents	Cash restricted in its use
EUR	85,190	6,547
USD	438	-
CZK	6,032	-
other	87	-
Total	**91,747**	**6,547**

December 31, 2017

	Cash and cash equivalents	Restricted cash
EUR	209,487	8,313
USD	83,529	-
CZK	7,552	-
other	62	-
Total	**300,630**	**8,313**

The Company manages its exposure to certain currency price fluctuations in cooperation with U. S. Steel's Corporate Finance, 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 operating 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 monthly.

As of December 31, 2018, the Company had open USD forward purchase contracts for Euros in total notional value of approximately EUR 286 million (December 31, 2017: EUR 234 million).

As of March 31, 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 expiration date.

As of December 31, 2018, if the EUR had weakened / strengthened by 10 percent against the U.S. dollar with all other variables held constant, this movement would have resulted in a EUR 17 million credit / EUR 12 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, 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.

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.

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

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 Company's exposure to Iron Ore, Zinc and Tin price fluctuation, the Company entered into commodity forwards to protect its profit margin. By participating in this hedging program the Company fixed the price for the portion of the Company's Iron Ore, Zinc and Tin requirements, which helped the Company's profitability objectives (Note 13). All commodity forwards commenced in 2018 matured in 2018. All commodity forwards commenced in 2017 matured in 2017.

In 2018 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, 2018 and December 31, 2017, respectively.

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 *IFRS 9 Financial Instruments:*

December 31, 2018	Amortized cost	FV through profit or loss	FV through other comprehensive income	Total
Assets				
Unquoted financial instruments	-	259	-	**259**
Trade receivables (net)	333,109	-	9,154	**342,263**
Related party accounts receivables (net)	20,785	-	-	**20,785**
Other receivables – BAT projects	58,201	-	-	**58,201**
Cash and cash equivalents	91,747	-	-	**91,747**
Restricted cash	6,547	-	-	**6,547**
Short-term loans provided to related parties	17,244	-	-	**17,244**
Derivative financial instruments	-	10,729	-	**10,729**
Total	**527,633**	**10,988**	**9,154**	**547,775**

	Amortized cost	FV through profit or loss	Total
Liabilities			
Trade payables and accruals	436,034	-	**436,034**
Short-term borrowings	19,087	-	**19,087**
Long-term borrowings	200,000	-	**200,000**
Derivative financial instruments	-	215	**215**
Total	**655,121**	**215**	**655,336**

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

December 31, 2017

	Loans and receivables	Hedging derivatives	Financial assets available-for-sale	Total
Assets				
Unquoted financial instruments	-	-	259	**259**
Trade receivables (net)	325,365	-	-	**325,365**
Related party accounts receivables (net)	18,643	-	-	**18,643**
Other receivables – BAT projects	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 accepted from related parties	-	10,478	**10,478**
Derivative financial instruments	8,782	-	**8,782**
Total	**8,782**	**444,608**	**453,390**

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, 2018

	Level 1	Level 2	Level 3	Total
Assets				
Trade receivables that are subject of factoring arrangements (Note 12)	-	-	9,154	**9,154**
Hedging derivatives	-	10,729	-	**10,729**
Total	**-**	**10,729**	**9,154**	**19,883**
Liabilities				
Hedging derivatives	-	215	-	**215**
Total	**-**	**215**	**-**	**215**

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**

During 2018 and 2017, 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 and trade receivables that are subject of factoring arrangements, are measured at amortized cost as of December 31, 2018 and December 31, 2017. Fair values of these instruments as of December 31, 2018 and December 31, 2017 approximate their carrying amounts.

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

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:

	2018	2017
Not later than 1 year	**5,140**	6,078
Later than 1 year and not later than 5 years	**12,439**	13,589
Later than 5 years	**79**	1,399
Total	**17,658**	**21,066**

Capital Commitments

Capital expenditures of EUR 66 million had been committed under contractual arrangements as of December 31, 2018 (December 31, 2017: EUR 105 million).

Environmental Commitments

The Company is in compliance with environmental legislation. In 2018, the environmental expenses represented by air, water pollution and solid waste handling fees totaled approximately EUR 11 million (2017: 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 well in advance. Efforts are ongoing to identify, test and prove the feasibility of replacement substances. In 2018 the Company performed several updates of dossiers totaling EUR 117 thousand in order to remain compliant with REACH requirements. The Company cannot reliably estimate the potential additional cost of complying with these measures at this time.

In March 2015, the Slovak Republic adopted a new Waste Act 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 adopted an amended Law on Waste disposal fees that became effective on January 1, 2019. The Company estimates that waste disposal fees will increase by EUR 0,5 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 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 emission allowances allocated to companies to cover their CO_2 emissions.

In September 2013, the EC issued EU wide legislation further reducing the expected allocation for Phase III by an average of approximately 12 percent. Under the Emission Trading Scheme (ETS) the Company's final allocation of allowances for the Phase III period, which covers the years 2013 through 2020 is 48 million tons of emission allowances. In 2017, the Company estimated 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. Based on projected total production levels during Phase III, 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, 2018, the Company purchased 1 million European Union Allowances (EUA) totaling EUR 8 million (2017: 5 million European Union Allowances (EUA) totaling EUR 36 million). By establishing a new subsidiary Ferroenergy s.r.o. the Company changed the estimation of shortfall for the Phase III period. As of December 31, 2018 the Company does not estimates any shortfall of allowances for the period 2019-2020. 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.

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. The most recent broad estimate of capital expenditures for projects that go beyond the BAT requirements is EUR 138 million over the 2017 to 2020 program. These costs will be mitigated if the Company complies with certain financial covenants, which are assessed annually. The Company complied with these covenants as of December 31, 2018. If the Company is unable to meet these covenants in the future, Company might be required to provide additional collateral (e.g. bank guarantee) to secure the full value of estimated expenditures. There could 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 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)). The allowable amount of discharged emissions from existing boilers will decrease each year until mid 2020. These projects will result in a reduction in electricity, carbon dioxide (CO_2) emissions and operating, maintenance, and waste disposal costs. The construction of the both boilers is complete with a total final installed cost of EUR 128 million.

(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 as of December 31 of the relevant financial year:

		2018	2017
United States Steel Corporation, Ultimate parent company			
	Revenues	**13,637**	21,913
	Expenses	**47,452**	66,668
	Receivables	**562**	460
	Payables	**11,168**	8,621
U. S. Steel Holdings, Inc., Company under common control of U. S. Steel			
	Loans provided	**-**	-
	Interest income	**-**	3,194
USS International Services, LLC, Company under common control of U. S. Steel			
	Revenues	**-**	-
	Expenses	**3,052**	2,875
	Receivables	**77**	197
	Payables	**337**	520
Subsidiaries under control of the Company (Note 8)			
	Revenues	**106,640**	10,267
	Expenses	**256,318**	75,784
	Receivables	**20,146**	17,986
	Payables	**12,447**	48,310
	Borrowings accepted including interest (Note 16)	**13,533**	10,478
	Loans provided	**17,244**	1,206
Total			
	Revenues	**120,277**	**35,374**
	Expenses	**306,822**	**145,327**
	Receivables	**20,785**	**18,643**
	Payables	**23,952**	**57,451**
	Borrowings accepted including interest	**13,533**	**10,478**
	Loans provided	**17,244**	**1,206**

Dividends totaling EUR 250,000 thousand and EUR 187,306 thousand were approved for distribution and paid to U. S. Steel Global Holdings VI B.V. in June 2018 and October 2018, respectively (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 (2018: EUR 1,574 thousand; 2017: EUR 1,667 thousand), purchases of raw material (2018: EUR 33,188 thousand; 2017: EUR 53,767 thousand) and licences (2018: EUR 9,971 thousand; 2017: EUR 8,718 thousand), managerial services (2018: EUR 4,293 thousand; 2017: EUR 4,755 thousand) and sales of own products (2018: EUR 12,063 thousand; 2017: 20,247 thousand).

As of June 10, 2016, the Company entered into a EUR 200 million unsecured revolving credit agreement with the U. S. Steel Corporation. Interest on borrowings under the facility was based on EURIBOR + 4 percent p.a. The contract was valid until December 30, 2017.

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 percent p.a. In 2018 and as of December 31, 2018, no loans were drawn against this facility. As of December 31, 2017, there were no loans provided under this facility.

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 year 2017) unsecured revolving credit agreement with the U. S. Steel Europe - Bohemia s.r.o. The contract was valid until December 31, 2018. Interest on borrowings under the facility was based on PRIBOR plus margin. The loan was fully repaid in 2018 and as of December 31, 2018, there were no borrowings against this facility. As of December 31, 2017, the Company had drawings totaling CZK 28 milion, i.e. EUR 1,097 thousand (using the exchange rate at the end of year 2017) against this credit agreement.

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, 2019 with the option to be prolonged. During 2018, the Company under these borrowings drew from its subsidiaries the amount of EUR 86,350 thousand and repaid amount of EUR 82,195 thousand and provided to its subsidiaries the amount of EUR 107,136 thousand and received EUR 91,135 thousand. 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 received EUR 387 thousand.

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 2018 and 2017 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:

	2018	2017
Wages and salaries	**17,406**	15,488
Mandatory social and health insurance to all insurance funds	**4,935**	4,624
Total	**22,341**	**20,112**

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

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

Note 30 Events after the Reporting Period

On February 28, 2019, the 2019 CO_2 emission allowances were credited to the Company account in the volume of 5,693,849 tons totaling EUR 122.9 million. On April 3, 2019, the Company delivered 5,969,066 tons of CO_2 emission allowances for 2018 to the Slovak Government fulfilling its obligation for the sixth year of the Phase III period.

On March 28, 2019, in accordance with Law on Waste No. 79/2015 Coll. the Company as an owner of four landfills transferred related restricted cash from Company's bank accounts in Všeobecná úverová banka a.s. into the State Treasury account. As a result of the transfer, the amount totaling EUR 6.2 million was reclassified from Restricted cash to Short-term receivables in Statement of financial position in March 2019.

On April 1, 2019, Karl George Kocsis was incorporated as a new statutory representative of U. S. Steel Košice, s.r.o. in the Commercial Register.

After December 31, 2018, no other significant events have occurred that would require recognition or disclosure in the 2018 separate financial statements.

U. S. Steel Košice, s.r.o.

Consolidated financial statements
for the year ended December 31, 2018

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

Independent Auditor's Report

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

Our opinion

In our opinion, the 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 2018, 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 2018;
- 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.

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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 2018 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.
SKAU licence No. 161

Ing. Monika Smižanská, FCCA
UDVA licence No. 1015

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

Bratislava, 13 May 2019

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, 2018

Consolidated financial statements for the year ended December 31, 2018, were prepared in accordance with International Financial Reporting Standards as adopted by the European Union on May 13, 2019, and have been approved and authorized for issue by the statutory representatives of U. S. Steel Košice, s.r.o. ("the Company" or "USSK") on May 15, 2019. Neither the Company's shareholder nor the executives have the power to amend the consolidated financial statements after issue.

Košice, May 13, 2019

James Edward Bruno 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, 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	December 31, 2018	December 31, 2017
ASSETS			
Non-Current Assets			
Property, plant and equipment	5	**925,735**	876,624
Investment property	6	**2,270**	1,864
Intangible assets	7	**278,181**	75,878
Unquoted financial instruments	27	**259**	-
Financial assets available-for-sale		**-**	259
Long-term receivables	12	**2,800**	41,588
Restricted cash	10	**5,334**	4,747
Total non-current assets		**1,214,579**	**1,000,960**
Current Assets			
Inventories	11	**466,436**	362,377
Trade and other receivables	12	**455,012**	428,296
Derivative financial instruments	13	**10,729**	48
Restricted cash	10	**1,213**	3,566
Prepaid expense		**1,152**	1,322
Cash and cash equivalents	14	**96,002**	303,492
Total current assets		**1,030,544**	**1,099,101**
TOTAL ASSETS		**2,245,123**	**2,100,061**

	Note	December 31, 2018	December 31, 2017
EQUITY AND LIABILITIES			
Equity			
Share capital	15	**839,357**	839,357
Reserve funds	15	**195,763**	47,569
Retained earnings		**106,745**	469,087
Total Equity		**1,141,865**	**1,356,013**
Liabilities			
Non-Current Liabilities			
Long-term loans and borrowings	16	**200,000**	**-**
Long-term provisions for liabilities	17	**7,157**	5,765
Long-term deferred income - BAT projects	5	**82,546**	96,225
Long-term employee benefits payable	18	**40,778**	37,446
Deferred income tax liability	9	**46,393**	41,145
Long-term trade and other payables	19	**1,182**	1,468
Total non-current liabilities		**378,056**	**182,049**
Current Liabilities			
Trade and other payables	19	**484,703**	454,301
Current income tax liability		**2,876**	18,237
Derivative financial instruments	13	**215**	8,782
Deferred income		**4**	40
Short-term borrowings	16, 25	**6,289**	-
Short-term provisions for liabilities	17	**229,672**	79,342
Short-term employee benefits payable	18	**1,443**	1,297
Total current liabilities		**725,202**	**561,999**
TOTAL EQUITY AND LIABILITIES		**2,245,123**	**2,100,061**

The accompanying notes on pages CF-11 to CF-61 are an integral part of these consolidated financial statements.

U. S. Steel Košice, s.r.o.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(all amounts are in thousands of EUR if not stated otherwise)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2018	2017
Revenue from contracts with customers	20	**2,678,946**	2,611,610
Other income	20	**68,078**	30,609
Materials and energy consumed	21	**(1,628,257)**	(1,612,792)
Salaries and other employees benefits	22	**(373,535)**	(340,330)
Depreciation and amortization	5, 6, 7	**(79,909)**	(45,169)
Repairs and maintenance		**(79,794)**	(58,442)
Transportation services		**(101,809)**	(126,599)
Advisory services		**(10,019)**	(10,277)
Foreign exchange gains / (losses)		**(5,109)**	7,960
Impairment reversal	5, 7	**-**	290,210
Charge for provision for CO_2 emissions	17	**(228,638)**	(74,663)
Other operating expenses	23	**(111,439)**	(109,383)
Profit from operations		**128,515**	**562,734**
Interest income		**493**	3,500
Interest expense		**(1,907)**	(943)
Profit before tax		**127,101**	**565,291**
Income tax expense	24	**(37,874)**	(117,665)
Profit after tax		**89,227**	**447,626**
Profit after tax is attributable to:			
- Equity holders of the Company		**89,227**	447,626
Total profit after tax		**89,227**	**447,626**
Items that will not be reclassified to profit or loss			
Remeasurements of post employment benefit obligations	24	**(2,809)**	(340)
Revaluation of intangible assets	7,24	**121,569**	14,606
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translation of foreign operations	24	**(231)**	86
Change in fair value of derivative hedging instruments	24	**15,402**	(13,736)
Other Comprehensive Income / (loss), net of tax		**133,931**	**616**
Total comprehensive income for the year		**223,158**	**448,242**
Total comprehensive income / (loss) is attributable to:			
- Equity holders of the Company		**223,158**	448,242
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**223,158**	**448,242**

The accompanying notes on pages CF-11 to CF-61 are an integral part of these consolidated financial statements.

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

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, 2018	**839,357**	**47,569**	**469,087**	**1,356,013**
Profit for 2018	-	-	89,227	**89,227**
Other comprehensive income	-	136,740	(2,809)	**133,931**
Total comprehensive income for the year	**-**	**136,740**	**86,418**	**223,158**
Adjustments:				
Release of revaluation reserve - CO_2 emission allowances	-	(11,462)	11,462	**-**
Total adjustments	**-**	**(11,462)**	**11,462**	**-**
Transactions with owners:				
Dividends	-	-	(437,306)	**(437,306)**
Contribution to legal reserve fund	-	22,916	(22,916)	**-**
Total transactions with owners	**-**	**22,916**	**(460,222)**	**(437,306)**
Balance as of December 31, 2018	**839,357**	**195,763**	**106,745**	**1,141,865**

	Attributable to equity holder of the Company			
	Share capital	Other reserves	Retained earnings	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**

The accompanying notes on pages CF-11 to CF-61 are an integral part of these consolidated financial statements.

U. S. Steel Košice, s.r.o.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(all amounts are in thousands of EUR if not stated otherwise)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Total	
		2018	**2017**
Profit before tax		**127,101**	**565,292**
Non-cash adjustments for			
Depreciation of property, plant and equipment and investment property	5, 6	**77,710**	43,152
Amortization of intangible assets	7	**2,199**	2,017
Amortization of deferred income - CO_2 emission allowances	20	**(56,674)**	(30,038)
Amortization of deferred income - BAT projects	5, 20	**(408)**	5,660
Charge of provision for CO_2 emissions emitted	17	**228,638**	74,663
Reversal of impairment of property, plant and equipment	5	**-**	(290,197)
Reversal of impairment of intangible assets	7	**-**	(13)
(Gain) / loss on disposal of property, plant and equipment, intangible assets and investment property	20, 23	**(5,969)**	1,210
(Gain) / loss from changes in fair value of derivative financial instruments	20, 23	**(871)**	2,917
Interest income		**(493)**	(3,476)
Interest expense		**1,907**	914
Other non-cash adjustments		**-**	10,920
Changes in working capital			
(Increase) / decrease in inventories	11	**(104,059)**	(31,933)
(Increase) / decrease in trade and other receivables and other current assets	12	**(6,778)**	(56,802)
Increase / (decrease) in trade and other payables and other current liabilities	19	**(1,894)**	89,534
Cash generated from operations		**260,409**	**383,820**
Interest paid		**(486)**	(173)
Income taxes paid		**(67,502)**	(54,651)
Net (disbursements) / receipts from derivative financial instruments		**1,068**	(3,088)
Net cash generated from / (used in) operating activities		**193,489**	**325,908**
Cash flows from / (used in) investing activities			
Intercompany loans repayment	29	**-**	250,000
Purchases of property, plant and equipment	5	**(95,286)**	(73,825)
Proceeds from sale of property, plant and equipment		**6,167**	134
Purchases of intangible assets	7	**(84,844)**	(38,445)
Change in restricted cash, net	10	**1,766**	(958)
Receipts - BAT projects	12	**19,019**	441
Interest received		**492**	3,801
Net cash generated from / (used in) investing activities		**(152,686)**	**141,148**
Cash flows from / (used in) financing activities			
Proceeds from borrowings	16, 26, 29	**291,952**	-
Repayment of borrowings	16, 26, 29	**(102,939)**	-
Dividends paid to the Company´s shareholder	15, 29	**(437,306)**	(279,337)
Net cash generated from / (used in) financing activities		**(248,293)**	**(279,337)**
Net (increase)/decrease in cash and cash equivalents		**(207,490)**	**187,719**
Cash and cash equivalents at beginning of year	14, 27	**303,492**	115,773
Cash and cash equivalents at end of year	14, 27	**96,002**	**303,492**

The accompanying notes on pages CF-11 to CF-61 are an integral part of these consolidated 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
Slovak Republic
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, 2018 were as follows:

James Edward Bruno	President
Ing. Silvia Gaálová, FCCA	Vice President and Chief Financial Officer
Ing. Marcel Novosad	Vice President Operations
Christian Korn	Vice President Commercial
JUDr. Elena Petrašková, 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 December 31, 2018 and 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 June 13, 2018, 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

These Group's consolidated financial statements are prepared in accordance with the IFRS as adopted by the EU for U. S. Steel Košice, s.r.o. and its controlled companies.

The Group publishes and deposits the financial statements, annual reports and reports of the auditor in accordance with Law No. 431/2002 Coll. 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, 2018 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, 2018 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 consolidated 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, which is the functional currency of all the Group's entities except for U. S. Steel Europe – Bohemia s.r.o., 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.

<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 s.r.o. 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 recognizes 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 recognized 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.

<u>Software</u>

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 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 will be received, and that the Group will comply with the conditions attaching to the allowance, are recognized as emission allowances receivable at fair value when the above-mentioned conditions are met. The entire 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. If the total amount of allocated and purchased allowances exceeds the amount of allowances to be delivered to the Slovak Government, the allocated allowances are considered to be delivered first, and accordingly the related deferred income is recognized in full.

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 the reporting period. When the emission allowances are delivered to the Slovak Government in settlement of liability for emissions, both the provision and the intangible asset are reduced in equal amounts.

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 (Notes 2.25 and 7).

The revaluation reserve is transferred to retained earnings as the surplus is realized. Realization 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

a. Reporting period beginning January 1, 2018

Recognition and initial measurement

Financial assets are recognized in the Group’s statement of financial position when the Group becomes a party to the contractual provisions of the financial instrument.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Classification and subsequent measurement

Financial assets are classified as measured at amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The classification depends on the Group’s business model for managing the financial assets and the contractual terms of the cash flows.

The Group measures financial assets that are debt instruments at amortized cost if the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired. The Group’s financial assets measured at amortized cost includes trade and other receivables, loans provided to related parties, cash, cash equivalents and restricted cash.

Trade receivables that are subject of factoring arrangements without recourse are measured at fair value through other comprehensive income as they are held within a business model with the objective to both sell financial assets or collect contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. In a non-recourse factoring arrangement, the transferor does not provide any guarantee about the receivables’ performance. In other words, the transferor assumes no obligations whatsoever to repay any sums received from the factor regardless of the timing or the level of collections from the underlying debts. In that situation, the Group has transferred substantially all the risks and rewards of ownership of the receivables and de-recognizes the receivables in their entirety.

Investments in equity instruments are classified as measured at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair value at the end of each reporting period. Any change in fair value and dividends are recognized in other income/expenses in the statement of profit or loss as applicable.

For accounting policy related to derivative financial instruments refer to Note 2.24.

Impairment

The Group estimates expected credit losses for financial assets measured at amortized cost. The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. The exposure at default is represented by the assets' gross carrying amount at the reporting date.

For trade receivables, an individual provision is established when debtor entered bankruptcy or financial reorganization or in case of significant financial difficulties of the debtor. Financial situation of debtor with payments outstanding for more than 180 days after agreed due date is examined and when internal and external information indicates that the Group is unlikely to collect all amounts due according to the originally agreed terms, an individual provision is also recognized.

For the rest of trade receivables, the Group applies a simplified approach based on lifetime expected credit loss at each reporting date. The expected credit loss is estimated using a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For all other financial assets, the Group recognizes lifetime expected credit loss when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial asset at an amount equal to 12-month expected credit loss. To assess whether there was a significant increase in credit risk the Group compares the risk of a default occurring on the financial asset as at the reporting date with the risk of default as at the date of initial recognition considering available reasonable and supportive forward-looking information, that is available without undue cost or effort. The Group assumes that the credit risk on a financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date. The carrying amount of the asset is reduced using a provision account, and the amount of the individual impairment loss and expected credit loss is recognized in profit or loss. When the loans or receivables are uncollectible, they are written off against the related provision account.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

b. Reporting period ending December 31, 2017

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

The Group classified 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 depended on the purpose for which the financial assets were acquired and whether the assets were quoted in an active market. Management determined the classification of its financial assets at initial recognition.

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

Loans and receivables

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

After initial measurement, loans and receivables were 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 was established when there was objective evidence that the Group would not be able to collect all amounts due according to the originally agreed terms. Significant financial difficulties of the debtor, probability that the debtor would enter bankruptcy or financial reorganization and payments outstanding for more than 180 days after agreed due date were considered to be indicators the loan or the receivable was impaired. The amount of the provision was 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 was reduced using a provision account, and the amount of the impairment loss was recognized in profit or loss. When the loans and receivables were uncollectible, they were written off against the related provision account.

Financial assets at fair value through profit or loss

This asset category had two sub-categories: financial assets held for trading and those assets designated at fair value through profit or loss at inception. A financial asset was 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 were carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

Hedging derivatives

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

Financial assets available-for-sale

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

Derecognition of financial assets

Financial assets were derecognized when (a) the assets were redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group had 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 was retained if the counterparty did 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 are financial assets that include 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.

Interests, 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 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

a. Reporting period beginning January 1, 2018

Recognition and initial measurement

Financial liabilities are recognized in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the financial instrument.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Classification and subsequent measurement

Loans and borrowings, trade and other payables and accruals are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gain and losses are recognized in profit or loss.

Payables included in a structured supplier payable financing program arranged by the Group are classified as financial liabilities to a bank. When the obligation to settle payables is transferred to a financial institution, the Group presents operating cash outflow and financing cash inflow to reflect the receipt of the borrowing and the settlement of payables arising from operating activities. When the payable is paid to the financial institution, related cash outflows are presented as cash flows used in financing activities.

The Group currently does not have any financial liabilities to be measured at fair value through profit or loss.

For accounting policy related to derivative financial instruments refer to Note 2.24.

Derecognition

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired. The Group also derecognizes a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

b. Reporting period ending December 31, 2017

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

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

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

Trade and other payables

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

Derecognition of financial liabilities

A financial liability was derecognized when the obligation under the liability was 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

In general, to the extent that the Group received government grants or assistance, such grants or assistance are recognized only if there is a reasonable assurance that they will be received, and the Group will comply with the attached conditions. Non-monetary assistance is recognized at the fair value of the asset received. In these consolidated financial statements, government grants or assistance 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 or assistance 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, the grant or assistance is again recognized in deferred income to match the reversed amount. Income related to government grants or assistance 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 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 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 based on the 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 deferred income tax asset is realized, or the deferred income tax 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

<u>Defined contribution pension plan</u>

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.

<u>Employee retirement obligation</u>

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

Upon the 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. Equally, upon the 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.

In addition, employee could be entitled to both retirement and termination benefit upon fulfillment of agreed conditions.

Payment at first voluntary termination of labor contract before and in the month of entitlement to an old age pension

Upon the first voluntary termination of labor contract by mutual agreement at latest in the month of entitlement to an old age pension, the Group will pay the retirement benefit, in the maximum amount of five times of average monthly wage, which depends on the number of months till reaching the month of entitlement to an old age pension, whereby the maximum number of month till reaching the month of entitlement to an old age pension is 36.

Payment at first voluntary termination of labor contract after reaching the entitlement to disability retirement

Upon the first termination of labor contract by mutual agreement after 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 Group will pay the retirement benefit, in the maximum amount of five times of average monthly wage, which depends on the number of months till reaching the month of entitlement to an old age pension, whereby the maximum number of month till reaching the month of entitlement to an old age pension is not stated.

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

a. Reporting period beginning January 1, 2018

Revenue is income arising in the course of the Group's ordinary activities and is recognized at transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. Revenue is recognized net of discounts, rebates, returns and value added taxes.

In accordance with *IFRS 15 Revenue from Contracts with Customers*, the Group recognizes revenue applying the five step process: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the performance obligations are satisfied.

The Group evaluates its revenue arrangements whether it acts as a principal or an agent. If the Group is a principal, it recognizes revenue at transaction price for the goods or services net of taxes, discounts, rebates and returns and records corresponding direct costs of satisfying the contract. If the Group is an agent, relating revenue is recognized in the amount of the net consideration it retains after paying a principal of the given service. Revenue from services performed as an agent is recognized in the period in which the services are rendered.

Revenue from the sales of own production and goods is recognized at the point in time when the Group transfers control of the own production and goods to a buyer and retains no managerial involvement nor effective control over the own production and goods sold. The Group recognizes revenue from rendering of service over time, in the period in which the services are rendered. Revenue is measured based on the following or combination of the following: units delivered, labor hours spent, actual costs incurred, machine hours used, time elapsed, or quantities of materials used.

Performance obligations identified in a contract with a customer may not be limited to the goods or services that are explicitly stated in the contract. The Group considers whether there are other promises in the contracts with customers that meets criteria for separate performance obligation and shall be accounted for separately (Notes 3 and 20). Total transaction price is allocated to performance obligation on a relative standalone selling price.

The key element of variable consideration is represented by retrospective volume rebates provided to certain customers according to rebate agreements (Note 19). The rebates are provided once all conditions stated in rebate agreements are met (the quantity of products purchased during a certain period exceeds specified thresholds, all invoices are paid, etc.). The Group adjusts its revenue for volume rebates based on the most likely amount of the volume rebates to be given to its customers. The estimate is based on the amount of tonnage shipped and is calculated on a customer by customer basis, or an order by order basis. As the rebate agreements are the short-term agreements (annual or shorter), there are no uncertainties at the year-end around the amount of annual revenue to be recognized. There are also some instances where the Group provides for certain seasonal discounts within its customer contracts. The Group does not grant any discounts for prompt payments. Contract liability arising from the discounts and rebates is classified within trade and other payables (Note 19).

Contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (advance payments received) from the customer (Note 19). If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made. Contract liabilities are recognized as revenue when the Group fulfills its contract obligations.

Interest income

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

b. Reporting period ending December 31, 2017

Revenue was recognized when it was probable that the economic benefits associated with the transaction would flow to the Group and the amount of the revenue could be measured reliably. Revenue was 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 was recognized when the Group transferred significant risks and rewards of ownership to the buyer and retained neither continuing managerial involvement nor effective control over the own production and goods sold.

Rendering of services

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

Interest income

Interest income was recognized using the effective interest method. Interest income was included in finance income in Statement of 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 derivative 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 (Notes 2.8 and 7),
- derivative financial instruments (Notes 2.24, 13 and 27),
- fair value disclosures for investment properties measured using the cost model (Notes 2.7 and 6),
- fair value disclosures for financial instruments measured at amortized cost (Note 27),
- impairment of property, plant and equipment, intangible assets and investment properties (Notes 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.

<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, 2018 is approximately 20 years (as of December 31, 2017: 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 3.7 million (2017: EUR 3.6 million). If estimated average useful life of these assets would decrease by 1 year, the annual depreciation charge would have been higher by EUR 4.1 million (2017: EUR 4.0 million).

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

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.

There were no impairment indicators identified in 2018.

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. Thus, the first cash-generating unit was represented by production process from coke-making to hot rolled products. The second cash-generating unit was 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 used cash flow projections based on actual operating results, the most recent business plans approved by management and an appropriate discount rate which reflected the time value of money and risks associated with future economic and operating conditions. Projected cash flows also reflected assumptions that market participants would use in estimating the fair value.

The following key assumptions and estimates were used by management in the calculation for 2017:

- Cash flow projections based on business plans covered a period of five years, which assumed 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 in 2017 for sales and production costs and reflected the best estimates for stable perpetual growth of the Group. This percentage was consistent with long-term average growth rates for countries in which the Group sold 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.
- Cash flow projections also reflected the initiated shareholder value creation strategy: earn the right to grow, and drive and sustain profitable growth. Through a disciplined approach, 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 based on the risk-adjusted post-tax weighted average cost of capital. The discount rate in 2017 reflected higher uncertainty inherent in the Group’s cash flow projections arising from the geopolitical situation in Ukraine, which might 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. It was also adjusted to reflect recent steel market improvements 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 was 12.4 percent.

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.

<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 (Note 9). 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 (Notes 2.21 and 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).

Revenue from contracts with customers

The Group evaluates when the customer obtains control of the goods. It determined that the point in time to transfer the control to the customer depends primarily on delivery terms stated in the customer contracts, including consignment agreements, or in the individual purchase orders, as follows:

- “C” delivery terms – upon shipment of goods,
- “D” delivery terms – upon delivery to a destination stated in a purchase order,
- EXW delivery terms – upon loading to carrier,
- Consignment warehouses – upon withdrawal from a consignment warehouse or by expiration of the agreed free storage time, whichever occurs earlier.

The Group applied judgement when assessing the indicators to determine it is a principal or an agent. It determined that it is a principal in majority of its revenue arrangements covering sales of own production and rendering of service, because it controls goods or services before transferring them to a customer. Regarding the revenue from the sales of merchandise, the Group determined that it is an agent for most of the sold merchandise. In respect of sale of services, the Group acts as a principal only for the sales of produced energy media sold to external customers. The judgment was also applied for arranging of transportation service as a separate performance obligation related to sales of own production or goods. The Group concluded that it acts as a principal, except for the sales with the “C” delivery terms, where it acts as an agent because the Group negotiates the transportation arrangements on behalf of a customer, has no discretion of establishing transportation prices for the transportation service and all risks related to the transportation service (quality, delivery, damages, lost) are borne by the transportation provider. Therefore, the Group merely arranges the transportation service on behalf of its customers and does not control the transportation service.

Provision for expected credit losses of trade receivables

The Group uses a provision matrix to calculate expected credit loss for trade receivables (Note 12). The provision matrix is based on the Group’s historical observed default rates, adjusted for forward-looking information. It estimates the correlation between historical observed default rates, forecast economic conditions and expected credit losses. The amount of expected credit losses is sensitive to changes in circumstances and of forecast economic conditions. The Group’s historical credit loss experience and forecast of economic conditions may also not be representative of customer’s actual default in the future.

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, 2018

The following new standards and interpretations became effective from January 1, 2018:

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

Key features of the new standard are as follows:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortized cost, those to be measured subsequently at fair value through other comprehensive income and those to be measured subsequently at fair value through profit or loss.
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). If a debt instrument is held to collect, it may be carried at amortized 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 Group has applied IFRS 9 retrospectively effective January 1, 2018. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated and the Group has chosen as its accounting policy to continue to apply the hedge accounting requirements of IAS 39. The Group adjusted accounting policy accordingly (Note 2.12) and provided required material disclosures (Notes 12 and 27).

The opening balance of equity was not adjusted at the date of initial application as the impact was immaterial.

The Group applied new model for recognition of impairment losses, which resulted in immaterial change of the provision to trade receivables at the date of initial application compared to the model used previously.

The assessment of the Group's business model was made as of the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

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

The classification and measurement requirements of IFRS 9 did not have a significant impact to the Group. Upon the adoption of IFRS 9 as of January 1, 2018, the Group had the following reclassifications:

	IFRS 9 measurement category		
IAS 39 measurement category	**Amortized cost**	**Fair value through other comprehensive income**	**Fair value through profit or loss**
Trade and other receivables	459,147	-	-
Trade receivables that are subject of factoring arrangements	-	10,737	-
Restricted cash	8,313	-	-
Financial assets available for sale	-	-	259

IFRS 15 "Revenue from Contracts with Customers" (issued on May 28, 2014 and effective for the periods beginning on or after January 1, 2018). The new standard introduces the core principle that revenue must be recognized 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 recognized, 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 recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

Amendments to IFRS 15 "Revenue from Contracts with Customers" (issued on April 12, 2016 and effective for annual periods beginning on or after January 1, 2018). The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether an entity 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 license should be recognized 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 an entity when it first applies the new standard.

The Group has adopted the new rules using modified approach and applied the standard effective January 1, 2018. The opening balance of equity was not adjusted at the date of initial application as the impact was immaterial. The Group has implemented new standard requirements into its revenue recognition accounting policy (Note 2.22), assessed, reviewed and tested all aspects of revenue recognition (Note 3) and adjusted relating balances and disclosures, as appropriate (Note 20).

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 new amendments did not have a material impact on the Group's financial statements.

4.2 Standards, amendments and interpretations issued but not effective until the financial year beginning January 1, 2019 or later and not early adopted by the Group

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after January 1, 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognize: (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 Statement of profit or loss. 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 will apply the standard effective January 1, 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. The Group is currently assessing the impact of the new standard on its consolidated financial statements for the year ended December 31, 2019. The Group estimates to recognize a right-of-use assets and corresponding lease liability totaling EUR 23 million in relation to lease which had previously been classified as operating lease under the principles of *IAS 17 Leases* in Statement of Financial Position. The Group expects that approximately EUR 5 million p.a. will be reclassified from operating expenses to depreciation expense in Statement of profit or loss. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using incremental borrowing rate as of January 1, 2019. The incremental borrowing rate is calculated for groups of lease agreements depending on their maturity. Incremental borrowing rate calculation is based on the evaluation of the risk of bank loans provided to the Group by bank partners and outlook of EURIBOR trend for respective maturity. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset on the site on which it is located, less any lease incentives received.

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. The Group is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on December 12, 2017 and effective for annual periods beginning on or after January 1, 2019). The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognizes all income tax consequences of dividends where it has recognized the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalization only until the specific asset is substantially complete. The Group 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 Group'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 2018 are as follows:

	Land and buildings	Machinery, equipment and motor vehicles	Other tangible assets	Construction in progress	Total
Cost					
January 1, 2018	**487,164**	**1,251,813**	**16,734**	**71,120**	**1,826,831**
Additions	-	-	1,109	126,145	**127,254**
Disposals	(189)	(6,484)	(54)	-	**(6,727)**
Transfer to / from investment property	(378)	-	-	-	**(378)**
Transfers to base	8,041	104,829	-	(112,870)	**-**
December 31, 2018	**494,638**	**1,350,158**	**17,789**	**84,395**	**1,946,980**
Accumulated Depreciation					
January 1, 2018	**(162,874)**	**(774,643)**	**(12,690)**	**-**	**(950,207)**
Depreciation for the year	(13,098)	(63,848)	(702)	-	**(77,648)**
Disposals	251	6,402	47	-	**6,700**
Transfer to / from investment property	(90)	-	-	-	**(90)**
December 31, 2018	**(175,811)**	**(832,089)**	**(13,345)**	**-**	**(1,021,245)**
Carrying amount	**318,827**	**518,069**	**4,444**	**84,395**	**925,735**

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**

Borrowing costs totaling EUR 5 thousand were capitalized in 2018 (2017: EUR 0).

No property, plant and equipment was pledged in favor of a creditor or restricted in its use as of December 31, 2018 or December 31, 2017.

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 31 million for the year ended December 31, 2018 (for the year ended December 31, 2017: EUR 5 million).

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

In 2018, no impairment of property, plant and equipment, investment properties and intangible assets was recognized.

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 of the Group resulting from improved steel markets and reduced risks and uncertainty inherent in appropriate discount rate.

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 200 million, i.e. EUR 175 million using the exchange rate at the end of the reporting period (2017: USD 150 million, i.e. EUR 125 million, using the exchange rate as of December 31, 2017). Compensation sublimits for individual risks are specified in the insurance contract. Self-insurance is USD 25 million, i.e. EUR 22 million using the exchange rate at the end of the reporting period, per claim. All Risk Property Damage Insurance and Business Interruption Insurance including Machinery Breakdown excess of USD 200 million, i.e. EUR 175 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 568 million.

Best Available Techniques (BAT) Projects

In 2016, the Ministry of Environment of the Slovak Republic approved the Company's applications to participate in Operational Program Environment Quality for ten projects, which included 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 applications were approved for the following Company's projects: Steel Shop No. 2 Dedusting – Hot Metal Desulphurization, Coal Preparation Emission Control, Coke Handling Dedusting at Coke Batteries No. 1 and 3 and Emission Control for Ore Bridges of Blast Furnace No. 2. Future capital expenditures will be mitigated if the Group complies with certain financial covenants, which are assessed annually (Note 12). The Group complied with these covenants as of December 31, 2018.

In 2018, the Group invested EUR 45,081 thousand (2017: EUR 6,433 thousand) in Property, plant and equipment related to projects aiming to improve environmental conditions and the amount of EUR 35,723 thousand (2017: EUR 3,831 thousand) was capitalized from the funds generally available in the market.

The deferred income amortized to Other income in 2018 totaled EUR 408 thousand (2017: EUR 367 thousand). In 2017, as a result of full reversal of impairment, the amount of EUR 5,660 thousand previously amortized in Other income was again recognized in deferred income. Change of total BAT project costs resulted in reduction of deferred income balance by EUR 13,271 thousand in 2018 (2017: increase of EUR 19,956 thousand). The Group believes that it complied with all relevant conditions and in 2018 it recognized additional deferred income totaling EUR 402 thousand (2017: EUR 19,956 thousand) (Notes 12 and 28).

Movements in deferred income relating to BAT projects during 2018 and 2017 are as follows:

	2018	2017
Opening balance as of January 1	**96,225**	**70,976**
Net change in contracts relating to BAT projects	**(13,271)**	19,956
Amortization reversal due to reversed PP&E impairment	**-**	5,660
Amortization to Other income	**(408)**	(367)
Closing balance as of December 31	**82,546**	**96,225**

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

Note 6 Investment Properties

Movements in investment properties during 2018 and 2017 are as follows:

	2018	2017
Cost		
Opening balance as of January 1	**2,783**	**4,014**
Transfers to property, plant and equipment	**(709)**	(7)
Transfers from property, plant and equipment	**1,087**	9
Other	**-**	(1,233)
Closing balance as of December 31	**3,161**	**2,783**
Accumulated Depreciation and Impairment Losses		
Opening balance as of January 1	**(919)**	**(1,285)**
Depreciation for the year	**(62)**	(65)
Transfers to property, plant and equipment	**94**	-
Transfers from property, plant and equipment	**(4)**	-
Other	**-**	431
Closing balance as of December 31	**(891)**	**(919)**
Carrying amount	**2,270**	**1,864**

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 losses.

The fair value of the investment properties totaled EUR 3,617 thousand as of December 31, 2018 (December 31, 2017: EUR 3,922 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 the Group's 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 Group has no restrictions on the realizability 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 2018 are as follows:

	Software	Emission allowances	Other intangible assets	Intangible assets not yet available for use	Total
Cost					
January 1, 2018	**36,168**	**67,275**	**1,095**	**1,241**	**105,779**
Additions	47	138,899	-	2,572	**141,518**
Disposals	(470)	(74,709)	-	(58)	**(75,237)**
Revaluation surplus	-	137,790	-	-	**137,790**
Transfers to base	2,074	-	-	(2,074)	**-**
December 31, 2018	**37,819**	**269,255**	**1,095**	**1,681**	**309,850**
Accumulated Amortization					
January 1, 2018	**(29,173)**	**-**	**(728)**	**-**	**(29,901)**
Amortization for the year	(2,121)	-	(78)	-	**(2,199)**
Disposals	431	-	-	-	**431**
December 31, 2018	**(30,863)**	**-**	**(806)**	**-**	**(31,669)**
Carrying amount	**6,956**	**269,255**	**289**	**1,681**	**278,181**

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	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**

No borrowing costs were capitalized in 2018 and 2017 (Note 16).

No intangible assets were pledged in favor of a creditor or restricted in their use as of December 31, 2018 or December 31, 2017.

<u>Insurance</u>

Intangible assets are not insured.

<u>Emission allowances</u>

In 2018, the Group received 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 9.70 per ton (2017: EUR 5.04 per ton). Emission allowances allocated by the Slovak Government in 2018 totaled

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

EUR 57 million (2017: EUR 30 million). The emission 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 emission 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 additional emission allowances in the third quarter of 2017 to meet the annual compliance submission in the future. In 2018, the Group purchased 6 million European Union Allowances (EUA) totaling EUR 82 million (2017: 5 million European Union Allowances (EUA) totaling EUR 36 million).

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

	December 31, 2018	December 31, 2017
Emission allowances (intangible asset)	**269,255**	67,275
Liability from the obligation to deliver allowances (provision) (Note 17)	**228,638**	74,663

<u>Fair value of intangible assets</u>

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, 2018	Level 1	Level 2	Level 3	Total
Assets				
Emission allowances	269,255	-	-	**269,255**
Total	**269,255**	**-**	-	**269,255**

December 31, 2017	Level 1	Level 2	Level 3	Total
Assets				
Emission allowances	67,275	-	-	**67,275**
Total	**67,275**	**-**	-	**67,275**

During 2018 and 2017, 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 131,465 thousand as of December 31, 2018 (December 31, 2017: EUR 52,589 thousand).

Note 8 Group Structure

<u>List of subsidiaries</u>

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, 2018:

Entity	Place of Incorporation	Principal activities	Group's Ownership Interest	
			December 31, 2018	December 31, 2017
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 Košice s.r.o.	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%
U. S. Steel Obalservis s.r.o.	Slovakia	Packaging	**100.00%**	100.00%
Ferroenergy s.r.o.	Slovakia	Production of Electricity, Steam, Hot Water and Technical Gases	**100.00%**	100.00%
U. S. Steel Europe – Bohemia s.r.o.	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%

None of the Company's ownership interests in subsidiaries were pledged as of December 31, 2018 or December 31, 2017.

As of September 1, 2018, U. S. Steel Europe – Bohemia a.s. changed the name and legal form to U. S. Steel – Bohemia s.r.o. and decreased the share capital from CZK 20,000 thousand to CZK 100 thousand.

As of October 1, 2018, RMS, a.s. Košice changed the name and legal form to RMS Košice s.r.o. and decreased the share capital from EUR 3,165 thousand to EUR 2,100 thousand.

As of October 1, 2018, OBAL-SERVIS, a.s. Košice changed the name and legal form to U. S. Steel Obalservis s.r.o. and decreased the share capital from EUR 3,731 thousand to EUR 2,900 thousand.

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 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 totaling EUR 121,809 thousand is owned by USSK, remaining minority share (0.01 percent) is owned by its subsidiary, U. S. Steel Obalservis s.r.o.

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, 2018 (December 31, 2017: 21 percent).

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

The tax effect of the movements in the temporary differences during 2018 is as follows:

	January 1, 2018	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2018
Property, plant and equipment	**(55,451)**	(3,352)	-	**(58,803)**
Inventories	**2,515**	(640)	-	**1,875**
Employee benefits	**7,194**	75	746	**8,015**
Deferred charges	**97**	151	-	**248**
Provision for impairment of receivables	**54**	(19)	-	**35**
Emission allowances transactions	**52**	15,946	(16,221)	**(223)**
Derivative financial instruments	**1,834**	-	(4,042)	**(2,208)**
Other temporary differences	**2,560**	2,108	-	**4,668**
Total	**(41,145)**	**14,269**	**(19,517)**	**(46,393)**
Deferred tax asset / (liability)	**(41,145)**			**(46,393)**

Deferred tax liability from revaluation of allocated emission allowances to fair value recognized in other comprehensive income totaled EUR 16,221 thousand and deferred tax asset from emission allowances provision recognized in profit or loss totaled EUR 15,946 thousand.

The tax effect of the movements in the temporary differences during 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**	-	-	**214**
Total	**27,762**	**(72,523)**	**3,616**	**(41,145)**
Deferred tax asset / (liability)	**27,762**			**(41,145)**

<u>Tax loss carryforward</u>

The Group did not report a tax loss in 2018 and 2017. In 2017, the tax loss carryforward from 2016 was fully utilized.

<u>Impairment of property, plant and equipment</u>

In 2018, no impairment of property, plant and equipment was recognized therefore the Group did not recognize a deferred tax asset for the impairment of property, plant and equipment in accordance with *IAS 12 Income taxes.* The deferred tax asset recognized by the end of 2016 was fully reversed in 2017.

Note 10 Restricted Cash

	December 31, 2018	December 31, 2017
Cash restricted in its use - long-term portion	**5,334**	4,747
Cash restricted in its use - short-term portion	**1,213**	3,566
Total (Notes 26 and 27)	**6,547**	**8,313**

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

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.

The restricted cash has been deposited to banks with the rating A2 and better according to Moody's, that represents low credit risk. The Group therefore considers expected credit loss to be immaterial. Further information on the credit risk of cash restricted in its use is disclosed in Note 26.

Note 11 Inventories

	December 31, 2018	December 31, 2017
Raw materials	**203,476**	173,476
Work-in-progress	**56,588**	47,505
Semi-finished production	**65,197**	39,864
Finished products	**137,010**	99,099
Merchandise	**4,165**	2,433
Total	**466,436**	**362,377**

No inventories were pledged in favor of a creditor or restricted in their use as of December 31, 2018 or December 31, 2017.

Inventory as of December 31, 2018 is shown net of write-down allowances resulting from lower net realizable values totaling EUR 3,775 thousand (December 31, 2017: EUR 2,669 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, 2018	**889**	**323**	**626**	**827**	**4**	**2,669**
Allowance made	121	810	1,321	12	-	**2,264**
Allowance used	(464)	(137)	(490)	(13)	(3)	**(1,107)**
Allowance reversed	(40)	(25)	(13)	28	(1)	**(51)**
December 31, 2018	**506**	**971**	**1,444**	**854**	**-**	**3,775**

	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**

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

Note 12 Trade and Other Receivables

	December 31, 2018	December 31, 2017
Trade receivables	**351,455**	348,340
Trade receivables that are subject of factoring arrangements	**9,154**	-
Related party accounts receivable (Note 29)	**945**	695
Total trade receivables	**361,554**	**349,035**
Advance payments made	**5,700**	5,780
VAT receivable	**46,313**	40,687
Other receivables – BAT projects	**58,201**	90,491
Other receivables	**1,700**	3,953
Trade and other receivables (gross)	**473,468**	**489,946**
Provision for impairment of trade receivables	**(15,642)**	(20,048)
Provision for impairment of other receivables	**(14)**	(14)
Trade and other receivables (net)	**457,812**	**469,884**
Long-term receivables	**2,800**	41,588
Short-term receivables	**455,012**	428,296

No receivables of the Group were pledged in favor of a bank or other entities as of December 31, 2018 or December 31, 2017. Information about collateral or other credit enhancements and the overall credit risk of the Group is disclosed in Note 26. Information about measurement of the trade receivables is disclosed in Note 27.

Trade receivables and other receivables

The carrying amount of trade and other receivables (gross) is denominated in the following currencies:

	December 31, 2018	December 31, 2017
EUR	**454,223**	477,981
USD	**1,354**	2,501
Other	**17,891**	9,464
Total	**473,468**	**489,946**

The structure of trade receivables, including related party accounts receivables, is as follows:

	December 31, 2018	January 1, 2018
No or low -risk counterparties	**157,909**	153,953
Increased risk counterparties	**194,491**	195,082
Trade receivables at amortized cost	**352,400**	**349,035**
No or low -risk counterparties	**9,154**	-
Increased risk counterparties	**-**	-
Trade receivables at FV through other comprehensive income	**9,154**	**-**
Total	**361,554**	**349,035**

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.

The Group recognized a provision for expected credit losses to trade receivables and other receivable in amount of EUR 15,656 thousand as of December 31, 2018 (December 31, 2017: EUR 20,062 thousand).

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

The movement of provision was as follows:

	Trade receivables	Related party accounts receivable	Other receivables	Total
January 1, 2018	**20,015**	**33**	**14**	**20,062**
Provision made	572	1	-	**573**
Receivables written-off	(4,435)	(23)	-	**(4,458)**
Provision reversed	(510)	(11)	-	**(521)**
December 31, 2018	**15,642**	**-**	**14**	**15,656**

	Trade receivables	Related party accounts receivable	Other receivables	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**

The recognized provision relates to individually impaired receivables. No provision was recognized for trade receivables measured at fair value through other comprehensive income in 2018.

For the rest of the trade receivables and the other receivables the Group estimated expected credit losses using a provision matrix. The provision matrix specifies loss rates depending on shared credit risk characteristics represented by internal rating of customers and the days past due. The expected loss rates were based on the payment profiles of sales over a period of 12 months before December 31, 2016 and the corresponding historical credit losses. The period was selected due to the macroeconomic and the industry situation similar to the excepted situation during the first months of the 2019 when the majority of the receivables balance as of December 31, 2018 is due. The Group performed regular review of customers' internal rating and considered historical, current and forward-looking information on macroeconomic and the industry development, such as the GDP in the European Union, Manufacturing Purchasing Managers' Index, Industrial Production Index, The Economic Sentiment Indicator, etc. The Group concluded that the historical loss rates could be applied to the receivables balances as of December 31, 2018 without adjustment. The general expected credit loss provision calculated by the Group is considered to be immaterial and was not recognized as of December 31, 2018.

Comparative information under IAS 39

The structure of trade receivables as of December 31, 2017 was as follows:

	December 31, 2017
Receivables not yet due and not impaired	
No or low-risk counterparties	146,996
Increased risk counterparties	167,840
Receivables past due but not impaired	13,489
Receivables individually impaired	20,015
Trade receivables	**348,340**
Receivables not yet due and not impaired	
No or low-risk counterparties	-
Increased risk counterparties	342
Receivables past due but not impaired	320
Receivables individually impaired	33
Related party accounts receivable	**695**
Total	**349,035**

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

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

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

Aging structure of trade receivables past due but not impaired and individually impaired as of December 31, 2017 was as follows:

	Past due in days					
	0 - 30	**30 - 90**	**90 - 180**	**180 - 365**	**over 365**	**Total**
Past due but not impaired	13,084	296	75	34	-	**13,489**
Individually impaired	-	-	-	-	20,015	**20,015**
Trade receivables	**13,084**	**296**	**75**	**34**	**20,015**	**33,504**
Past due but not impaired	307	13	-	-	-	**320**
Individually impaired	-	-	-	-	33	**33**
Related party accounts receivable	**307**	**13**	**-**	**-**	**33**	**353**
Total	**13,391**	**309**	**75**	**34**	**20,048**	**33,857**

Discounted present value of receivables past due is not materially different from their book values. as of December 31, 2018 and December 31, 2017.

Advance Payments Made

Based on historical experience the Group believes that risk of default in case of advance payment made is remote and therefore no provision for expected credit losses related to advance payments was recognized as of December 31, 2018.

Other Receivables - Best Available Techniques (BAT) Projects

Other receivables include amounts arising from contractual agreements relating to BAT projects (Note 5) which will mitigate future capital expenditures by EUR 58 million as of December 31, 2018 (December 31, 2017: EUR 90 million) if USSK complies with certain financial covenants, which are assessed annually. USSK complied with these covenants as of December 31, 2018. Other receivables decreased by EUR 19 million due to cash received and by EUR 13 million due to net change in contracts relating to BAT projects (Note 5). Majority of receivables from BAT projects which were classified as long-term in 2017, were reclassified as short-term in 2018 as they are expected to be collected within 1 year. The receivables were denominated in Euro and were neither subject to substantial credit risk nor currency risk (Note 26). Receivables resulting from BAT projects are receivables due from Slovak Republic with the credit rating A2 with positive outlook according to Moody's, that represents low credit risk. The Group therefore considers expected credit loss to be immaterial and did not recognize any related provision as of December 31, 2018.

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, 2018 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, 2018 and December 31, 2017 recognized in other comprehensive income and accumulated in revaluation reserves in equity were reclassified into profit or loss in 2018 and 2017, respectively. The actual value recognized in Other operating income in 2018 amounts to EUR 871 thousand (2017: loss of EUR 3 million). The amount consists of reclassification of loss of EUR 7,037 thousand from reserve funds into profit or loss related to forward transactions entered into during 2017 where the asset acquired affected profit or loss in 2018, and income of EUR 7,908 related to forward transactions entered into during 2018 where the asset acquired affected profit or loss in 2018.

(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, 2018		December 31, 2017	
	Assets	Liabilities	Assets	Liabilities
Foreign exchange forwards - cash flow hedges	**10,729**	**215**	48	8,782
Total	**10,729**	**215**	**48**	**8,782**

Balances as of December 31, 2018 and December 31, 2017 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, Goldman Sachs Bank USA, J.P. Morgan, Komerční banka, a.s. and Commerzbank as of December 31, 2018 and with ING Bank N.V., Citibank Europe plc and Commerzbank as of December 31, 2017. As of December 31, 2018, the financial derivatives for each counterparty represents less than 25 percent of value of total financial derivatives. The ratings of the banks are BBB+ and better (according to Standard & Poor's) as of December 31, 2018 (December 31, 2017: BBB+ and better). Information about the fair value hierarchy as of December 31, 2018 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, 2018	December 31, 2017
Payable on settlement in EUR thousand	**(285,778)**	(233,812)
Receivable on settlement in USD thousand	**343,750**	273,000

The Group is exposed to a fluctuation of tin purchase prices. In order to eliminate the Group's exposure to tin prices fluctuation, the Group entered into commodity swaps to protect its profit margin. All commodity swaps commenced in 2018 matured in 2018, resulting in an expense in total amount of EUR 227 thousand (no commodity swaps commenced nor matured in 2017).

Note 14 Cash and Cash Equivalents

	December 31, 2018	December 31, 2017
Cash on hand	**79**	94
Cash at bank	**95,923**	303,398
Total (Note 27)	**96,002**	**303,492**

Interest rates on bank accounts were approximately 0.13 percent per annum for EUR deposits, 2.11 percent per annum for USD deposits and 0.09 percent per annum for CZK deposits as of December 31, 2018 (December 31, 2017: 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). 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.

The cash has been deposited to banks with the rating Prime-2 and better according to Moody's, that represents high ability to repay short-term debt. The Group therefore considers expected credit loss to be immaterial. Further information on 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, 2018.

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

Reserve funds

The movement in reserve funds is as follows:

	Other capital funds	Legal reserve fund	Derivative hedging instruments	CO_2 emission allowances	Translation reserve	Total
January 1, 2018	**319**	**42,341**	**(7,037)**	**11,462**	**484**	**47,569**
Changes in fair value of derivative hedging instruments	-	-	8,365	-	-	**8,365**
Changes in fair value of CO_2 allowances	-	-	-	121,569	-	**121,569**
Realization of CO_2 allowances revaluation	-	-	-	(11,462)	-	**(11,462)**
Release of fair value of hedging derivatives	-	-	7,037	-	-	**7,037**
Contribution to legal reserve fund	-	22,916	-	-	-	**22,916**
Translation reserve	-	-	-	-	(231)	**(231)**
December 31, 2018	**319**	**65,257**	**8,365**	**121,569**	**253**	**195,763**

	Other capital funds	Legal reserve fund	Derivative hedging instruments	CO_2 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 allowances	-	-	-	11,462	-	**11,462**
Realization of CO_2 allowances revaluation	-	-	-	(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**

Dividends

Dividends totaling EUR 250,000 thousand and EUR 187,306 thousand were approved for distribution and paid to U. S. Steel Global Holdings VI B.V. in June 2018 and October 2018, respectively (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, 2018 (December 31, 2017: no declared but unpaid dividends).

Note 16 Loans and Borrowings

	Long-term loans and borrowings	Supplier payable financing program	Total
January 1, 2018	**-**	**16,541**	**16,541**
Proceeds	200,000	91,952	**291,952**
Repayments	-	(102,939)	**(102,939)**
December 31, 2018	**200,000**	**5,554**	**205,554**

On September 26, 2018, the Group entered into a EUR 460 million unsecured revolving credit facility (the Credit Agreement) with Commerzbank, ING Bank N.V., Slovenská sporiteľňa a.s., Komerční banka, a.s., Unicredit Bank, Československá obchodná banka, a.s. and Citibank Europe plc, replacing EUR 200 million revolving credit facility. The Credit Agreement has a maturity date of September 26, 2023 and contains terms and conditions substantially similar to the prior EUR 200 million revolving credit facility. Borrowings drawn within the Credit Agreement bear interest rate spread over the applicable IBOR + margin.

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

The Credit Agreement contains certain financial covenants calculated from consolidated financial statements prepared in accordance with US GAAP, including a maximum net debt to EBITDA ratio and a minimum stockholders' equity to assets ratio. EBITDA is a “non GAAP measure” representing consolidated operating profit before taxation after adding back depreciation and amortization of the assets of the Group for that measurement period excluding (a) non-cash losses or expenses or (b) income or gains from any unusual, extraordinary or otherwise non-recurring items. The covenants are measured semi-annually for the period covering the last twelve calendar months and calculated as set forth in the Credit Agreement. If the Group does not comply with the Credit Agreement financial covenants, it may not draw on the facility until the next measurement date, outstanding borrowings may be accelerated, or the margin on outstanding borrowings may be increased. The Group complied with the financial covenants as of December 31, 2018. As of December 31, 2018, borrowings totaling EUR 200 million were drawn against the EUR 460 million Credit Agreement (December 31, 2017: there were no borrowings against the EUR 200 million revolving credit facility). As of December 31, 2018, the Group had availability of EUR 260 million under the Credit Agreement.

Concurrent with the execution of the Credit Agreement, Company reduced the size of a separate EUR 40 million unsecured credit facility to EUR 20 million. The existing credit facility in the amount of EUR 20 million may be used for working capital financing, drawing bank overdraft, and issuing of bank guarantees and letters of credit until December 7, 2021. As of December 31, 2018, the credit facility has been used in the amount of EUR 1,207 thousand for bank guarantees (December 31, 2017: the EUR 40 million credit facility has been used in the amount of EUR 328 thousand for bank guarantees).

On December 11, 2018, the Group entered into an amendment No.4 to its Bilateral Loan Agreement in the amount of EUR 10 million between the Group and Commerzbank to extend the agreement’s final maturity date from December 31, 2018 to December 31, 2021. As of December 31, 2018, the credit facility has been used in the amount of EUR 891 thousand for bank guarantees (December 31, 2017: EUR 1,975 thousand).

Within available credit facilities, the Group can draw loans with terms of not more than six months with interest fixed for each particular loan. Each of these facilities bear interest at the applicable inter-bank offer rate plus a margin and contains customary terms and conditions. The Group 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 2018 and 2017 the Group had no borrowings under its EUR 20 million and EUR 10 million unsecured credit facilities.

The Group utilizes a structured supplier payable financing program from Citibank Europe plc. (Note 2.16). Short-term borrowings of EUR 5.6 million as of December 31, 2018 represent the outstanding balance of trade payables included in this program.

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, 2018	**9,232**	**1,160**	**74,663**	**52**	**85,107**
Provision made	1,344	1,394	228,638	388	**231,764**
Provision used / reversed	(3,446)	(1,562)	(74,663)	(371)	**(80,042)**
December 31, 2018	**7,130**	**992**	**228,638**	**69**	**236,829**
Long-term provisions	7,118	39	-	-	**7,157**
Short-term provisions	12	953	228,638	69	**229,672**

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

	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**

The movement of provisions caused by the passage of time (i.e. accretion expense) in 2018 and 2017 was immaterial.

Provision reversals for the year 2018 and 2017 were immaterial.

Landfill

The provision for closing, reclamation and after-close monitoring of landfills is recognized based on the Law on Waste. In 2018, 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. During the year 2018, the closure and reclamation of 1st and 2nd stage of second non-hazardous landfill was performed. Reclamation cost was charged against the provision. The short-term portion of the provision represents expenditures that are expected to be settled within 12 months.

Litigation

The 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 2018. The provision was 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 Operating expenses. Amortization of related deferred income from allocated 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.

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

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

	2018	2017
Opening balance as of January 1	**38,743**	**33,305**
Total expense charged in profit or loss – pension	**1,908**	1,347
Total expense charged in profit or loss – jubilee	**552**	553
Total expense charged in profit or loss – termination	**(1)**	84
Remeasurements of post employment benefit obligations	**3,631**	684
Benefits paid	**(2,612)**	(1,430)
Other	**-**	4,200
Closing balance as of December 31	**42,221**	**38,743**
Long-term employee benefits payable	**40,778**	37,446
Short-term employee benefits payable	**1,443**	1,297

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

	December 31, 2018	December 31, 2017
Present value of the obligation - pension	**23,199**	23,069
Present value of the obligation - jubilee	**10,008**	10,208
Present value of the obligation - termination	**11**	22
Remeasurements of post employment benefit obligations	**9,003**	5,444
Total liability in the statement of financial position	**42,221**	**38,743**

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

	2018	2017
Current service costs – pension	**1,334**	1,252
Current service costs – jubilee	**454**	454
Current service costs – termination	**(1)**	84
Interest costs	**515**	498
Net actuarial losses / (gains)	**76**	254
Pension recalculation change	**157**	(304)
Remeasurements of post employment benefit obligations	**3,555**	430
Total	**6,090**	**2,668**

Current service cost, net actuarial losses and pension recalculation change 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:

	2018	2017
Discount rate - pension	**1.45%**	1.50%
Discount rate - jubilee	**1.06%**	1.00%
Annual w age 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, 2018 developed by Buck Global. 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 liability to employees and social security institutions (Note 19). Liabilities for profit sharing and bonus plans are measured at the amounts expected to be paid when they are settled.

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

The amount of profit sharing and bonus plans is presented in Note 22.

Defined contribution pension plan

Throughout the year, the Group made contributions to the mandatory government and private defined contribution plans representing 24.7 percent (2017: 24.6 percent) of total salaries and other employee benefits up to a monthly salary limit of EUR 6,384 (2017: EUR 6,181). The monthly salary limit for calculation of the health insurance contribution was canceled since 2017.

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 2018 (2017: 1.6 percent).

Information for pension plans with an accumulated benefit obligation:

	December 31, 2018	December 31, 2017
Accumulated benefit obligation	**31,460**	28,927
Effects of future compensation	**10,750**	9,794
Projected benefit obligation	**42,210**	**38,721**
Termination	**11**	22
Total liability in the statement of financial position	**42,221**	**38,743**

Note 19 Trade and Other Payables

	December 31, 2018	December 31, 2017
Trade payables	**202,101**	158,448
Related party accounts payable (Note 29)	**11,505**	9,141
Assigned trade payables (1)	**61,057**	69,407
Accrued discounts and rebates	**14,100**	13,060
Uninvoiced deliveries and other accrued expenses	**143,934**	152,633
Trade payables and accruals (Note 26)	**432,697**	**402,689**
Contract liabilities (Advance payments received)	**1,549**	3,917
Liability to employees and social security institutions	**40,585**	36,115
VAT and other taxes and fees	**6,327**	6,363
Other payables	**4,727**	6,685
Total	**485,885**	**455,769**

(1) Assigned trade payables are trade payables which are not going to be paid to original supplier because receivables against the Group were requested by the supplier to be transferred to other creditor and the transfer was approved by the Group.

The Group provided or will provide discounts and rebates to the customers which fulfilled all requirements stated in sale contracts as of December 31, 2018. Issued credit invoices are offset with receivables as of the due date of the respective credit note or paid in cash when there are no outstanding receivables.

	December 31, 2018	December 31, 2017
Short-term trade and other payables	**484,703**	454,301
Long-term trade and other payables	**1,182**	1,468
Total	**485,885**	**455,769**

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

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

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

	December 31, 2018	December 31, 2017
Trade and other payables not yet due	**481,090**	436,970
Trade and other payables past due	**4,795**	18,799
Total	**485,885**	**455,769**

No trade and other payables past due as of December 31, 2018 were paid on January 2, 2019. Trade and other payables past due as of December 31, 2017 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, 2018	December 31, 2017
EUR	**342,248**	301,996
USD	**78,946**	95,452
Other	**11,503**	5,241
Total	**432,697**	**402,689**

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

	2018	2017
Opening balance as of January 1	**384**	**72**
Group contribution (group costs)	**2,146**	2,002
Employees contribution (repayments)	**57**	81
Withdrawals	**(2,164)**	(1,929)
Other	**170**	158
Closing balance as of December 31	**593**	**384**

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 from Contracts with Customers 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, and panel radiators. In addition, the Group also produced and distributed 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.

For most of its revenue arrangements, the Group acts as a principal, however, the Group also acts as an agent arranging for the transportation service related to the sales of own production with the "C" delivery terms (Note 3) and in the sale of merchandise and records as revenue the net consideration it retains after paying the suppliers.

Revenue from contracts with customers consists of the following:

	2018	2017
Sales of own production	**2,648,831**	2,584,527
Sales of merchandise	**1,761**	2,311
Rendering of services	**28,354**	24,772
Total	**2,678,946**	**2,611,610**

In 2018, if IAS 18 guidance had been applied, sales of own production and sales of merchandise would have been EUR 2,674,236 thousand and EUR 42,543 thousand, respectively.

In 2018 and 2017, sales of merchandise represent primarily sales of electricity.

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

In 2018, rendering of services comprised of technology consulting services, support services related to production of electricity, distribution of media (natural gas, electricity, water), repairs provided to external customers and arranging transportation services to customers.

Timing of revenue recognition

	2018	2017
Performance obligation satisfied at a point in time	**2,650,592**	-
Performance obligation satisfied over time	**28,354**	-
Total	**2,678,946**	**-**

Disaggregation of the revenue from contracts with customers – sales of own production

Segments and Products	2018	2017
Hot-rolled sheets and plates	**1,101,800**	1,073,835
Cold-rolled sheets	**322,547**	290,551
Coated sheets	**624,506**	588,686
Tin mill products	**352,330**	331,140
Standard and line pipe	**40,664**	34,796
Semi-finished products	**145,292**	203,881
Other	**61,692**	61,638
Total	**2,648,831**	**2,584,527**

Market	2018	2017
Steel Service Centers	**449,432**	407,307
Transportation (including automotive)	**468,875**	442,623
Further conversion - Trade customers	**161,443**	149,029
Containers	**363,944**	340,158
Construction and construction products	**885,038**	934,957
Appliances & Electrical equipment	**176,386**	159,986
Oil, gas and petrochemicals	**7,264**	4,990
All other	**136,449**	145,477
Total	**2,648,831**	**2,584,527**

Other income

Other income consists of the following:

	2018	2017
Amortization of deferred income - CO_2 emission allowances	**56,674**	30,038
Amortization of deferred income - BAT projects (Note 5)	**408**	(5,293)
Gain on disposal of property, plant and equipment, investment property and intangible assets	**5,969**	-
Gain on derivative financial instruments	**871**	-
Rental income	**1,061**	1,013
Income from contractual penalties	**258**	358
Other income	**2,837**	4,493
Total	**68,078**	**30,609**

Note 21 Materials and Energy Consumed

Materials and energy consumed is comprised of the following:

	2018	2017
Materials consumed	**(1,534,594)**	(1,493,197)
Energy consumed	**(163,845)**	(122,567)
Costs of merchandise sold	**(1,944)**	(3,917)
Changes in internally produced inventory	**74,339**	6,729
Inventory write-down allowance (Note 11)	**(2,213)**	160
Total	**(1,628,257)**	**(1,612,792)**

(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:

	2018	2017
Wages and salaries	**(241,946)**	(226,171)
Profit sharing expense	**(21,645)**	(14,327)
Termination benefits (Note 18)	**1**	(84)
Mandatory social and health insurance to all insurance funds (Note 18)	**(92,074)**	(83,789)
Other social expenses	**(15,850)**	(14,303)
Pension expenses – retirement and w ork and life jubilees (Note 18)	**(2,021)**	(1,656)
Total	**(373,535)**	**(340,330)**

The number of active employees of the Group as of December 31, 2018 was 11,938 (December 31, 2017: 12,028). The average number of employees of the Group was 11,993 (2017: 11,948).

	2018	2017
U. S. Steel Košice, s.r.o.	**9,960**	10,059
Other Group companies	**2,033**	1,889
Total	**11,993**	**11,948**

Note 23 Other Operating Expenses

Other operating expenses during 2018 and 2017 are as follows:

	2018	2017
Packaging	**(570)**	(1)
Cleaning and w aste disposal	**(10,206)**	(7,714)
Rent	**(2,604)**	(2,775)
Advertising and promotion	**(3,174)**	(2,981)
Intermediary fees	**(238)**	(248)
Training	**(1,088)**	(1,067)
Impairment of receivables release (Note 12)	**52**	11
Loss on disposal on property, plant and equipment and intangible assets	**-**	(1,210)
Fair value losses on derivative financial instruments	**-**	(2,917)
Real estate tax and other taxes	**(6,645)**	(5,505)
Intangible assets, licences, trade marks, licence support	**(14,387)**	(12,065)
Laboratory and heat tests	**(6,741)**	(6,299)
External processing	**(12,610)**	(15,236)
Costs of processing of steel slag, sludge and dust	**(5,349)**	(5,314)
Audit fees	**(787)**	(757)
Other services provided by the auditor	**(11)**	(8)
Other operating expenses (1)	**(47,081)**	(45,297)
Total	**(111,439)**	**(109,383)**

(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:

	2018	2017
Current tax	**(52,143)**	(45,142)
Deferred tax (Note 9)	**14,269**	(72,523)
Total	**(37,874)**	**(117,665)**

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

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:

	2018	2017
Profit before tax	**127,101**	565,291
Tax calculated at 21 percent tax rate	**(26,691)**	(118,711)
Non-deductible expenses	**1,233**	5,818
Revaluation of purchased CO_2 emission allowances	**(9,409)**	-
Other	**(3,007)**	(4,772)
Tax (charge) / credit	**(37,874)**	**(117,665)**

The effective tax rate was 30 percent (2017: 21 percent). Higher effective tax rate resulted from the revaluation of purchased CO_2 emission allowances which impacted statutory tax base and the current tax calculation, however for the IFRS reporting purposes it is included in the Other comprehensive income.

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

	2018			2017		
	Before tax	Tax (charge) / credit	After tax	Before tax	Tax (charge) / credit	After tax
Changes in fair value of derivative hedging instruments	**19,444**	**(4,042)**	**15,402**	(17,342)	3,606	(13,736)
Changes in actuarial gains and losses	**(3,555)**	**746**	**(2,809)**	(430)	90	(340)
Revaluation of intangible assets	**137,790**	**(16,221)**	**121,569**	14,686	(80)	14,606
Translation reserve	**(231)**	**-**	**(231)**	86	-	86
Other comprehensive income	**153,448**	**(19,517)**	**133,931**	**(3,000)**	**3,616**	**616**
Deferred tax (Note 9)	**-**	**(19,517)**	**-**	-	3,616	-

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 2017.

The capital structure of the Group consists of debt (Notes 16 and 29) totaling EUR 205,554 thousand as of December 31, 2018 (December 31, 2017: EUR 0) and equity (Note 15) totaling EUR 1,141,865 thousand as of December 31, 2018 (December 31, 2017: EUR 1,356,013 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, 2018 and December 31, 2017.

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.

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

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is essentially exposed to credit risk from its operating activities (primarily trade receivables). Remaining credit risk relates mainly to receivables resulting from BAT projects (Note 12), deposits with banks (Notes 10 and 14) and derivative financial instruments (Note 13).

Credit risk related to receivables 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 daily 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 Group mitigates credit risk for approximately 67 percent (2017: 69 percent) of its revenues by requiring credit insurance, letters of credit, bank guarantees, prepayments or other collateral. The acceptable ratings of the banks are BBB- and better (according to Standard & Poor's or equivalent of it per other rating agencies). The ratings of banks are monitored monthly or if circumstances change. Information about collateral or other credit enhancements is as follows:

	2018	2017
Credit insurance	**60%**	59%
Letters of credit and documentary collection	**2%**	5%
Bank guarantees	**2%**	2%
Other credit enhancements	**3%**	3%
Credit enhanced sales	**67%**	**69%**
Unsecured sales	**33%**	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.

Expected credit losses related to trade and other receivables are estimated at the end of each reporting period using a provision matrix. Significant accounting estimates and judgements are applied in the estimation (Note 3).

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

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

December 31, 2018	Derivative financial instruments measured at FV through profit or loss	Financial assets measured at amortized cost	Financial assets measured at FV through other comprehensive income
Trade and other receivables (Note 12)			
Trade receivables (net)	-	335,813	9,154
Related party accounts receivables (net)	-	945	-
Other receivables – BAT projects	-	58,201	-
Other receivables (net)	-	1,687	-
Derivative financial instruments (Note 13)			
Forward foreign exchange	10,729	-	-
Cash and cash equivalents and restricted cash (Notes 10 and 14)			
Cash and cash equivalents and restricted cash (Note 10 and 14)	-	102,549	-
Total	**10,729**	**499,195**	**9,154**

December 31, 2018	Cash and cash equivalents and restricted cash at amortized cost
ING Bank N.V.	9,221
COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky	7,455
Citibank (Slovakia) a.s.	21,308
Slovenská sporiteľňa, a.s.	16,004
Komerční Banka, a.s.	3,936
Československá obchodná banka, a.s.	19,467
Všeobecná úverová banka	18,254
Other banks	182
Cash on hand	175
Cash and cash equivalents (Note 14)	**96,002**
Slovenská sporiteľňa, a.s.	803
Všeobecná úverová banka, a.s.	4,325
COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky	1,312
ING Bank N.V.	107
Cash restricted in its use (Note 10)	**6,547**
Total	**102,549**

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

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 – BAT projects	-	90,491
Other receivables (net)	-	3,939
Derivative financial instruments (Note 13)		
Forward foreign exchange	48	-
Cash and cash equivalents and restricted cash (Notes 10 and 14)		
Cash and cash equivalents and restricted cash (Notes 10 and 14)	-	311,805
Total	**48**	**735,222**

December 31, 2017

	Cash and cash equivalents and restricted cash
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, a.s.	43,800
Other banks	417
Cash on hand	94
Cash and cash equivalents (Note 14)	**303,492**
Slovenská sporiteľňa, a.s.	831
Všeobecná úverová banka, a.s.	6,214
COMMERZBANK Aktiengesellschaft, pobočka zahraničnej banky	1,201
ING Bank N.V.	67
Cash restricted in its use (Note 10)	**8,313**
Total	**311,805**

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.

<u>Liquidity risk</u>

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.

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, 2018

	0 – 1 year	1 – 5 years	over 5 years	Total
Assets				
Cash and cash equivalents	96,002	-	-	**96,002**
Restricted cash	1,213	-	5,334	**6,547**
Trade receivables (net)	345,912	-	-	**345,912**
Other receivables – BAT projects	55,401	2,800	-	**58,201**
Derivative financial instruments	343,750	-	-	**343,750**
Total	**842,278**	**2,800**	**5,334**	**850,412**
Liabilities				
Trade payables and accruals	431,515	1,182	-	**432,697**
Derivative financial instruments	285,778	-	-	**285,778**
Loans and borrowings	5,552	200,000	-	**205,552**
Total	**722,845**	**201,182**	**-**	**924,027**

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 – BAT projects	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**

<u>Market risk</u>

a) Interest rate risk

The Group is subject to the effects of interest rate fluctuations on borrowings drawn against revolving credit facilities (Note 16). If the interest rate had been 1 percent higher / lower during 2018, it would have resulted to EUR 0.4 million higher / lower interest expense. As the Group did not draw any variable interest rate borrowings in 2017, 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, 2018 and December 31, 2017.

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 most 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, 2018

	Cash and cash equivalents	Cash restricted in its use
EUR	89,304	6,547
USD	494	-
CZK	6,118	-
other	86	-
Total	**96,002**	**6,547**

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**

The Group manages its exposure to certain currency price fluctuations in cooperation with U. S. Steel's Corporate Finance, 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 based on highly probable cash flow forecast transactions. These cash flows are planned in the form of the annual operating 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 monthly.

As of December 31, 2018, the Group had open USD forward purchase contracts for Euros in total notional value of approximately EUR 286 million (December 31, 2017: EUR 234 million).

As of March 31, 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 expiration date.

As of December 31, 2018, if the EUR had weakened / strengthened by 10 percent against the U.S. dollar with all other variables held constant, this movement would have resulted in a EUR 17 million credit / EUR 12 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, 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.

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. By participating in this hedging program, the Group 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 2018 matured in 2018. All commodity forwards commenced in 2017 matured in 2017.

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

In 2018 and 2017, 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, 2018 and December 31, 2017, respectively.

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 *IFRS 9 Financial Instruments:*

December 31, 2018

	Amortized cost	FV through profit or loss	FV through other comprehensive income	Total
Assets				
Unquated financial instruments	-	259	-	**259**
Trade receivables (net)	335,813	-	9,154	**344,967**
Related party accounts receivables (net)	945	-	-	**945**
Other receivables - BAT projects	58,201	-	-	**58,201**
Cash and cash equivalents	96,002	-	-	**96,002**
Restricted cash	6,547	-	-	**6,547**
Derivative financial instruments	-	10,729	-	**10,729**
Total	**497,508**	**10,988**	**9,154**	**517,650**

	Amortized cost	FV through profit or loss	Total
Liabilities			
Trade payables and accruals	432,697	-	**432,697**
Short-term borrow ings	5,554	-	**5,554**
Long-term borrow ings	200,000	-	**200,000**
Derivative financial instruments	-	215	**215**
Total	**638,251**	**215**	**638,466**

December 31, 2017

	Loans and receivables	Hedging derivatives	Financial assets available-for-sale	Total
Assets				
Unquated financial instruments	-	-	259	**259**
Trade receivables (net)	328,292	-	-	**328,292**
Related party accounts receivables (net)	695	-	-	**695**
Other receivables - BAT projects	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**

(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, 2018

	Level 1	Level 2	Level 3	Total
Assets				
Trade receivables that are subject of factoring arrangements (Note 12)	-	-	9,154	**9,154**
Hedging derivatives	-	10,729	-	**10,729**
Total	**-**	**10,729**	**9,154**	**19,883**
Liabilities				
Hedging derivatives	-	215	-	**215**
Total	**-**	**215**	**-**	**215**

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**

During 2018 and 2017, 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 and trade receivables that are subject of factoring arrangements, are measured at amortized cost as of December 31, 2018 and December 31, 2017. Fair values of these instruments as of December 31, 2018 and December 31, 2017 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:

	2018	2017
Not later than 1 year	**5,375**	6,287
Later than 1 year and not later than 5 years	**12,868**	13,845
Later than 5 years	**113**	1,428
Total	**18,356**	**21,560**

Capital Commitments

Capital expenditures of EUR 69 million had been committed under contractual arrangements as of December 31, 2018 (December 31, 2017: EUR 110 million).

Environmental Commitments

The Group is in compliance with environmental legislation. In 2018, the environmental expenses represented by air, water pollution and solid waste handling fees totaled approximately EUR 14 million (2017: 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 well in advanced. Efforts are ongoing to identify, test and prove the feasibility of replacement substances. In 2018 the Group performed several updates of dossiers totaling EUR 117 thousand in order to remain compliant with REACH requirements. The Group cannot reliably estimate the potential additional cost of complying with these measures at this time.

In March 2015, the Slovak Republic adopted a new Waste Act 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 adopted an amended Law on Waste disposal fees that became effective on January 1, 2019. The Group estimates that waste disposal fees will increase by EUR 0.5 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 allowances allocated to companies to cover their CO_2 emissions.

In September 2013, the EC issued EU wide legislation further reducing the expected allocation for Phase III by an average of approximately 12 percent. Under the Emission Trading Scheme (ETS) the Group's final allocation of allowances for the Phase III period, which covers the years 2013 through 2020 is 48 million tons of emission allowances. In 2017, the Group estimated 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. In 2018, the Group changed the estimation of shortfall for the Phase III period from 16 to 15 million tons of emission allowances. Based on projected total production levels during Phase III, 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, 2018, the Group purchased 6 million European Union Allowances (EUA) totaling EUR 82 million (2017: 5 million European Union Allowances (EUA) totaling EUR 36 million). Actually, the Group estimates a shortfall of approximately 4 million allowances for the period 2019-2020 totaling EUR 99 million, using fair value of EUR 24,64 per ton as of December 31, 2018. 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. The most recent broad estimate of capital expenditures for projects that go beyond the BAT requirements is EUR 138 million over the 2017 to 2020 program. These costs will be mitigated if the Group complies with certain financial covenants, which are assessed annually. The Group complied with these covenants as of December 31, 2018. If the Group is unable to meet these covenants in the future, the Group might be required to provide additional collateral (e.g. bank guarantee) to secure the full value of estimated expenditures. There could 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.

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

Due to other EU legislation, BAT for Large Combustion Plants (LCP), the Group was 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 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 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)) The allowable amount of discharged emissions from existing boilers will decrease each year until middle of 2020. These projects will result in a reduction in electricity, carbon dioxide (CO_2) emissions and operating, maintenance, and waste disposal costs. The construction of both boilers is complete with a total final installed cost of EUR 128 million.

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 as of December 31 of the relevant financial year:

		2018	2017
United States Steel Corporation, Ultimate parent company			
	Revenues	**14,849**	23,000
	Expenses	**48,615**	67,609
	Receivables	**868**	498
	Payables	**11,168**	8,621
U. S. Steel Holdings, Inc., Company under common control of U. S. Steel			
	Interest income	**-**	3,194
USS International Services, LLC, Company under common control of U. S. Steel			
	Expenses	**3,052**	2,875
	Receivables	**77**	197
	Payables	**337**	520
Total			
	Revenues	**14,849**	**26,194**
	Expenses	**51,667**	**70,484**
	Receivables	**945**	**695**
	Payables	**11,505**	**9,141**

Dividends totaling EUR 250,000 thousand and EUR 187,306 thousand were approved for distribution and paid to U. S. Steel Global Holdings VI B.V. in June 2018 and October 2018, respectively (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 (2018: EUR 1,574 thousand; 2017: EUR 1,813 thousand), purchases of raw material (2018: EUR 33,188 thousand; 2017: EUR 53,767 thousand), licenses (2018: EUR 9,971 thousand; 2017: EUR 8,718 thousand), managerial services (2018: EUR 4,293 thousand; 2017: EUR 4,755 thousand), sales of own products (2018: EUR 13,275 thousand; 2017: EUR 21,187 thousand) and cost of sales of own products (2018: EUR 1,163 thousand; 2017: EUR 942 thousand).

As of June 10, 2016, the Group entered into a EUR 200 million unsecured revolving credit agreement with the U. S. Steel Corporation. Interest on borrowings under the facility was based on EURIBOR + 4 percent p.a. The contract was valid until December 30, 2017.

As of December 14, 2016, the Group 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 percent p.a. In 2018 and as of December 31, 2018, no loans were drawn against this facility. As of December 31, 2017, there were no loans provided under this facility.

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)

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 2018 and 2017 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 the compensation of Slovak statutory representatives:

	2018	2017
Wages and salaries	**19,068**	16,968
Profit sharing expense	**38**	18
Mandatory social and health insurance to all insurance funds	**5,530**	5,136
Total	**24,636**	**22,122**

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

On February 28, 2019, the 2019 CO_2 emission allowances were credited to the U. S. Steel Košice, s.r.o. account in the volume of 5,693,849 tons totaling EUR 122.9 million and to the Ferroenergy s.r.o. account in volume of 30,396 tons totaling EUR 656 thousand. On April 3, 2019, the Group delivered 9,279,123 tons of CO_2 emission allowances for 2018 to the Slovak Government fulfilling its obligation for the sixth year of the Phase III period.

On March 28, 2019, in accordance with Law on Waste No. 79/2015 Coll. the Group as an owner of four landfills transferred related restricted cash from Group's bank accounts in Všeobecná úverová banka a.s. into the State Treasury account. As a result of the transfer, the amount totaling EUR 6.2 million was reclassified from Restricted cash to Short-term receivables in Statement of financial position in March 2019.

On April 1, 2019, Karl George Kocsis was incorporated as a new statutory representative of U. S. Steel Košice, s.r.o. in the Commercial Register.

After December 31, 2018, no other significant events have occurred that would require recognition or disclosure in the 2018 consolidated financial statements.