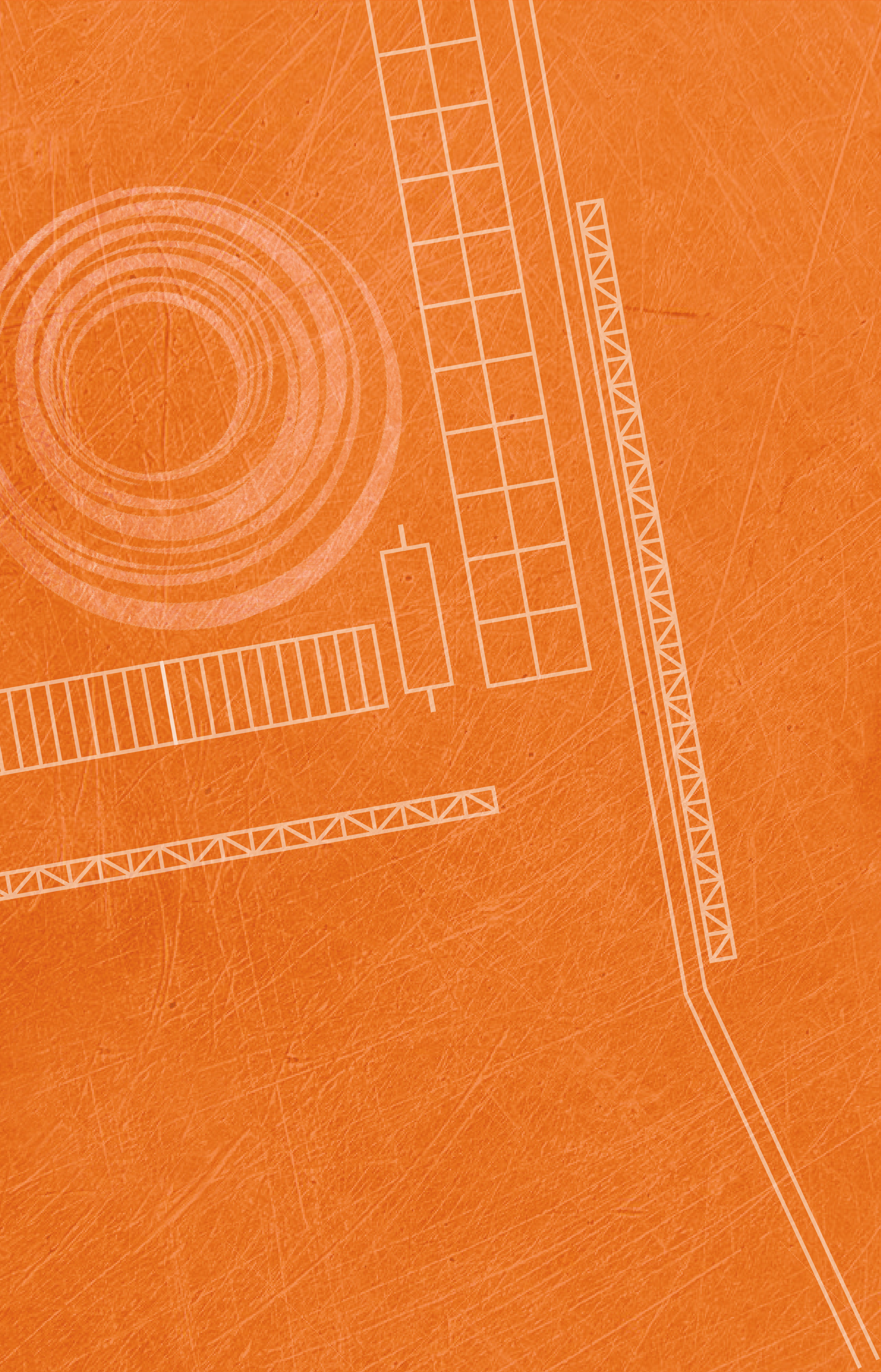
ANNUAL REPORT
U. S. STEEL KOŠICE

2012



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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U. S. Steel Košice
ALITNÁ

PRESIDENT'S FOREWORD

Do what´s right. And communicate it transparently. This is our commitment as a socially responsible company, which we have been fulfilling for many years. This Annual Report 2019 is one of our communication tools, and we submit it to all stakeholders involved in our business. It is our common interest to make employees, customers, suppliers, other partners and communities understand why and how we act, and what our successes as well as challenges mean. Sustainability of our business also depends on their understanding and cooperation.

In 2019 as well, our ambition was to be the best in what we were doing, focusing on safety, quality, delivery and costs. In our efforts we acted in compliance with the corporate S.T.E.E.L. Principles: Safety First as the highest value, Trust and respect towards our employees and partners, Environmentally friendly activities in steelmaking operations, and overall Ethical behavior and Lawful business conduct.

First and foremost, I want to emphasize how proud I am of our employees and their long-term efforts and focus on safety. Thanks to this we finished 2019 with the result of zero days away from work. This strengthened our confidence that the aim of zero injuries is also achievable in other indicators. Every employee working in any of our operations has the right to come home from work safely, and I want to praise my colleagues from several divisions who managed to work millions of hours without any injury. They did so even if they had to work in non-standard environments requiring increased flexibility and alertness due to the ongoing maintenance transformation process, as well as to the adjustment of connected operations after the idling of one our blast furnaces.

Yes, due to the complicated situation in the European steel industry we had to make difficult decisions. In June we had to temporarily idle Blast Furnace 2, in July we announced reduction of the labor force by 2500 employees within three years, in August we completed the divestment of our radiator works, we introduced shortened working weeks for several months, and a year after announcing the construction of a new dynamo line we had to say we were postponing the investment. These measures were necessitated by worsened conditions on the steel market, high prices for raw materials and energy, and mainly continuous massive steel imports from counties outside the European Union, where producers are favored by state subsidies, do not contribute to protection of the global environment, and damage fair market conditions with their prices.

Staying competitive is our challenge for 2020 as well, when we celebrate 20 years of doing business in Slovakia. Whether we manage another 20 successful years depends mainly on the priority given to the steel sector by governments in Slovakia and the European Union. If they support EU producers by creating conditions for equal competition where importers must compete by the same rules, and if they take measures to secure the competitiveness and profitability of their EU producers, then these will be able to invest in the technologies necessary for carbon footprint reduction, in line with the EU's ambitious environmental plans and commitments. Moreover, at the beginning of 2020 the global economy, including steel production and markets, was hit by the unprecedented global Coronavirus outbreak, which is expected to impact the majority of producers.

As for us, we continue to focus on what we have in our hands, on what we can control. We stay focused on safety at work during the transformation which is still necessary in the dynamically changing market environment. We will produce quality products and implement innovative solutions according to our customers' requirements. We will continue with projects protecting all components of the environment, which have so far already resulted in more than 90 percent reduction of solid pollutant emissions, 25 percent reduction of waste water and 40 percent reduction of waste for each ton of steel produced. We intend to increase energy efficiency in our steelmaking operations, thus saving both company and natural resources. We will remain a responsible community partner in eastern Slovakia, where our help and support has already brought visible change in education, social care and healthcare, culture, and sports. We have clear plans, we have determination, and we just need all steel producers competing with the same rules. With this I am confident we will win and continue on our journey to be the best. Our success brings prosperity for our employees, customers, suppliers, shareholders and our community.

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

GROUP PROFILE

The U. S. Steel Košice group consists of 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. In 2019 the company also produced 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. Operation facilities include 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 till August 1, 2019 also 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 inscribed in the Commercial Register of 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, 2019 the sole shareholder in the Company was 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, 2019 U. S. Steel Košice, s.r.o. had nine subsidiaries, six of them in Slovakia and three 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. Their activities are closely linked with the business and production of the Company.

- 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

The subsidiary U. S. Steel Europe - Italy S.r.l. entered into liquidation on June 1, 2019 and the process was completed in November 2019.

U. S. Steel Europe - Bohemia s.r.o. entered into liquidation as of January 1, 2020.

As of January 1, 2020 the activities of U. S. Steel Services s.r.o. were transferred to U. S. Steel Košice, s.r.o. including the related transfer of rights and obligations from employment relationships with the affected employees.

The subsidiaries are actively involved in all programs and activities of U. S. Steel Košice, s.r.o. Additional information about the subsidiary companies is provided in Note No. 8 to the Separate Financial Statements and Note No. 8 to the Consolidated Financial Statements.

The statutory representatives as of December 31, 2019 were as follows:

James E. Bruno	President
Ing. Silvia Gaálová, FCCA	Vice President and Chief Financial Officer
Ing. Marcel Novosad	Vice President Operations
Ing. Július Lang	Vice President Commercial and Customer Technical Service
JUDr. Elena Petrášková, LL.M	Vice President Subsidiaries and General Counsel
RNDr. Miroslav Kiraľvarga, MBA	Vice President External Affairs, Administration and Business Development
David E. Hathaway	Vice President Engineering and Innovation
Karl George Kocsis	Vice President Human Resources and Transformation

During the year 2019 the following changes took place in the structure of the statutory representatives: Karl George Kocsis and Ing. Július Lang became new company officers of USSK as of April 1, 2019 and July 1, 2019 respectively. The following company officers gave up their positions: Marianne Slivková as of June 18, 2019, Ing. Martin Pitorák, MBA and Christian Korn as of September 11, 2019, and Richard Carl Shank as of December 9, 2019.

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 the 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 2019 are described in subsequent 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 with the relevant icons.

SUSTAINABLE DEVELOPMENT GOALS







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 were blended together into a unique Carnegie Way method to give us the tools to sustain and compete in the complicated business environment.

In 2019 we launched another successful wave of continuous improvement called MDCC (Moving Down Cost Curve). The objective was cost reduction and strengthening our competitiveness in the difficult market situation. The MDCC project is set up for a three-year period (2019 -2021). During the first month, we identified projects with a run rate benefit of USD 145 million to be achieved by the end of 2021. The team identified 419 ideas, 283 of which are going to be implemented in the three-year period, and 225 of them have already been producing benefits since 2019.

● 225 projects / USD 114 million in 2019

Best MDCC projects:

- **Blast Furnaces - fuel rate optimization - furnace control model**
- **Blast Furnaces - increased consumption of powder coal injection**
- **Increase A scrap specific consumption**
- **Coking coal imports from USA**
- **Yield Steel Shop basic oxygen process increase**
- **Major repairs execution by frame contract work orders**

IMPACT OF THE COMPANY IN THE SOCIAL SPHERE

U. S. Steel Košice Group is one of the largest private employers in Slovakia, and is the largest employer in eastern Slovakia. 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 scope of activities ranging from supporting students in our 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 a core value in the Group's cooperation with its partners and the community. Since its establishment, it has also been the leader in fostering working and business ethics.

4 QUALITY EDUCATION

Through long-term and systematic cooperation with technical secondary schools and universities we have been preparing specialists for modern industry.

5 GENDER EQUALITY

Women are fully engaged in USSK development, being members of both top management and working teams.

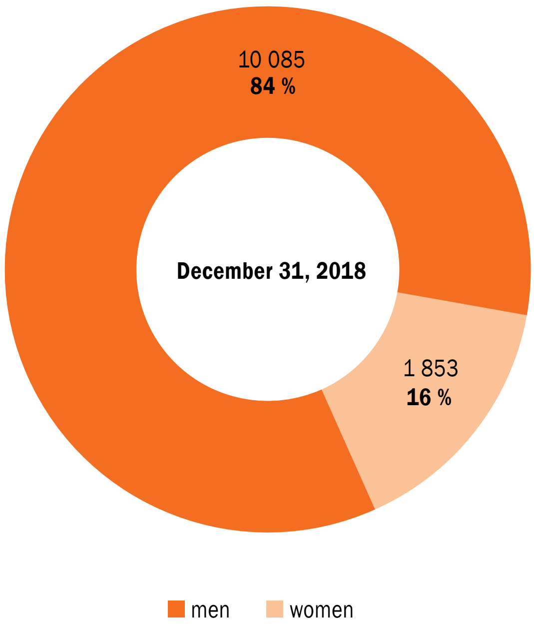
16 PEACE, JUSTICE AND STRONG INSTITUTIONS

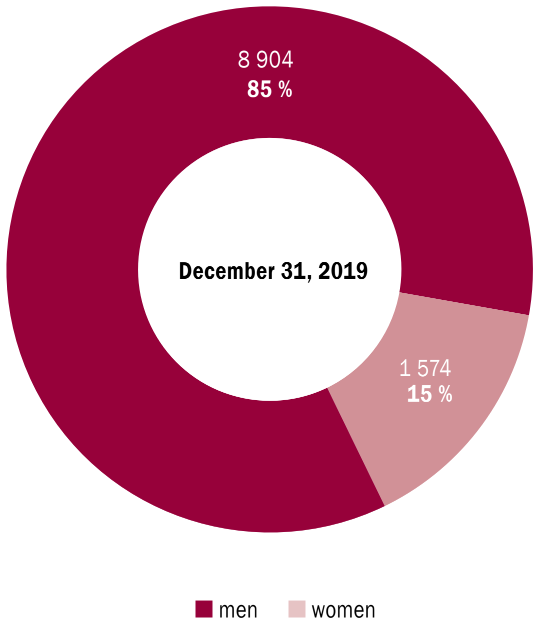
USSK has been a leader in enforcing business ethics and anti-corruption practices.

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

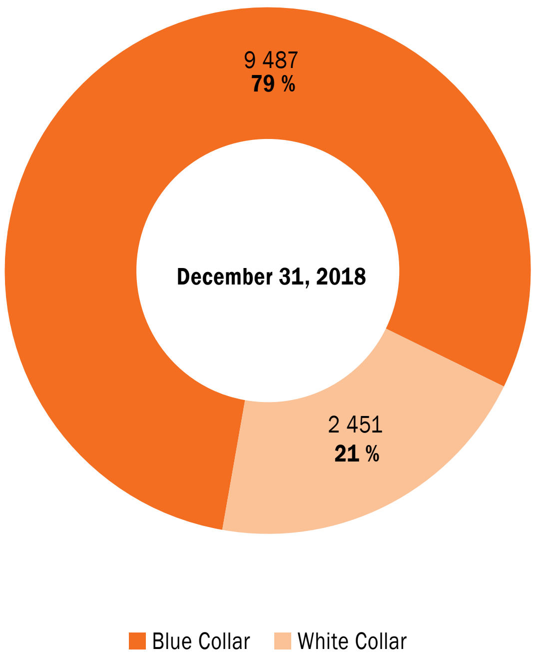
U. S. Steel Košice Group: Active Employees Total
December 31, 2019
10 478

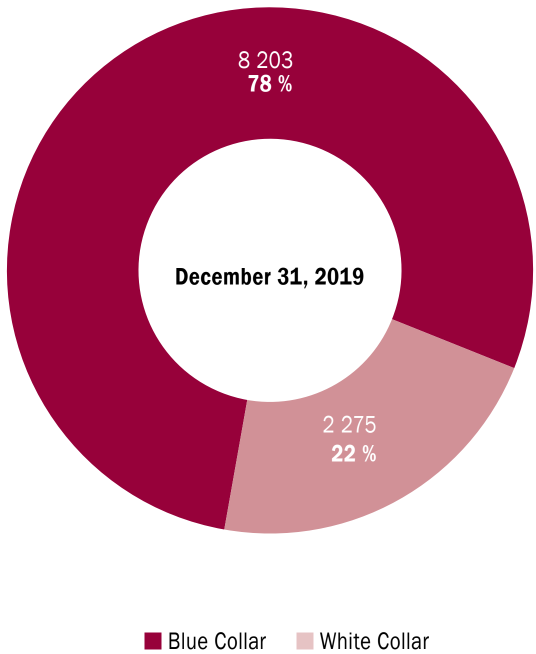
Employees by gender

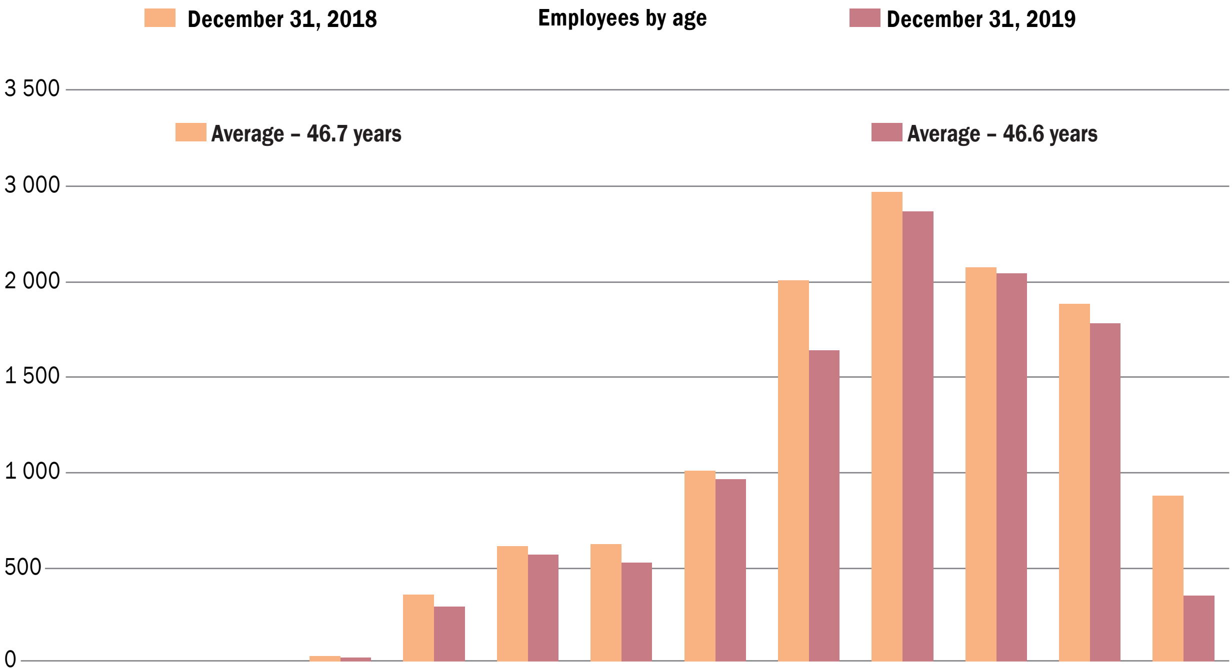




Employees by category

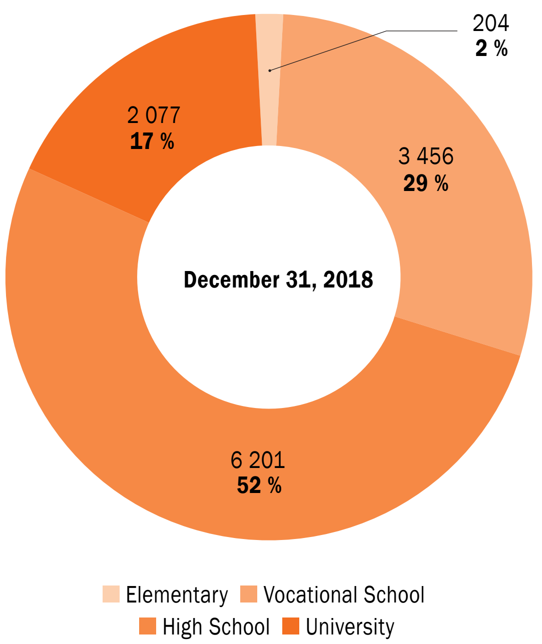


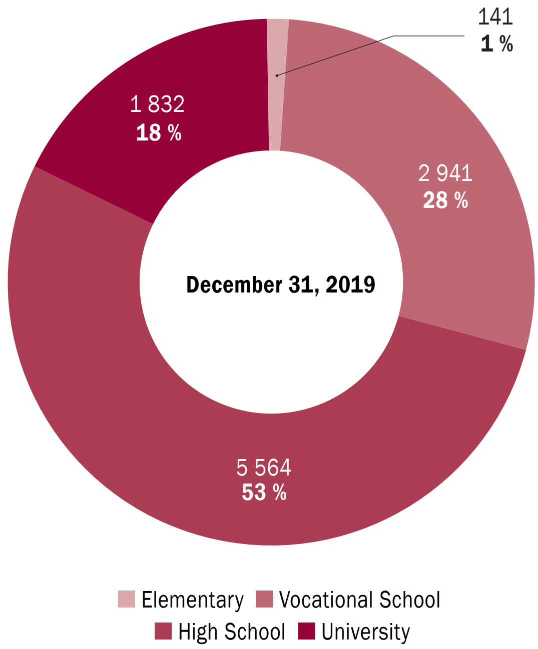




	up 20	20 – 24	25 – 29	30 – 34	35 – 39	40 – 44	45 – 49	50 – 54	55 – 59	over 60
# of employees **December 31, 2018**	17	350	632	621	1 006	2 008	2 465	2 078	1 877	884
# of employees **December 31, 2019**	11	282	596	531	914	1 626	2 379	2 016	1 737	386

Employees by educational background













OCCUPATIONAL SAFETY AND HEALTH PROTECTION

Occupational safety and health protection is given the highest priority at U. S. Steel Košice, which ultimately brings benefits in the form of improved employee wellbeing and working efficiency. In 2019 the Company marked up its historically best results in occupational safety and health protection with record achievements in key indicators.

Thanks to constant efforts by all employees, for the first time since the establishment of USSK we managed to finish the year without a Days Away From Work injury as defined by the Occupational Safety and Health Administration (OSHA). The new record set for the frequency of all injuries as per OSHA was 0.10. Previously the best result of 0.13 for this indicator was achieved in 2017. The Company achieved the lowest OSHA Recordable result with 10 injuries, breaking the record of 12 from 2017. We managed to achieve another milestone in the number of days without OSHA Recordable Injuries. While in 2017 it was 85 days, in 2019 we were able to work up to 124 days without OSHA Recordable Injuries.

Comparing the years 2019 and 2001, the Company recorded a **96 % decrease in injury frequency** for all OSHA Injuries (Recordable + DAWF) and DAFW Injuries.

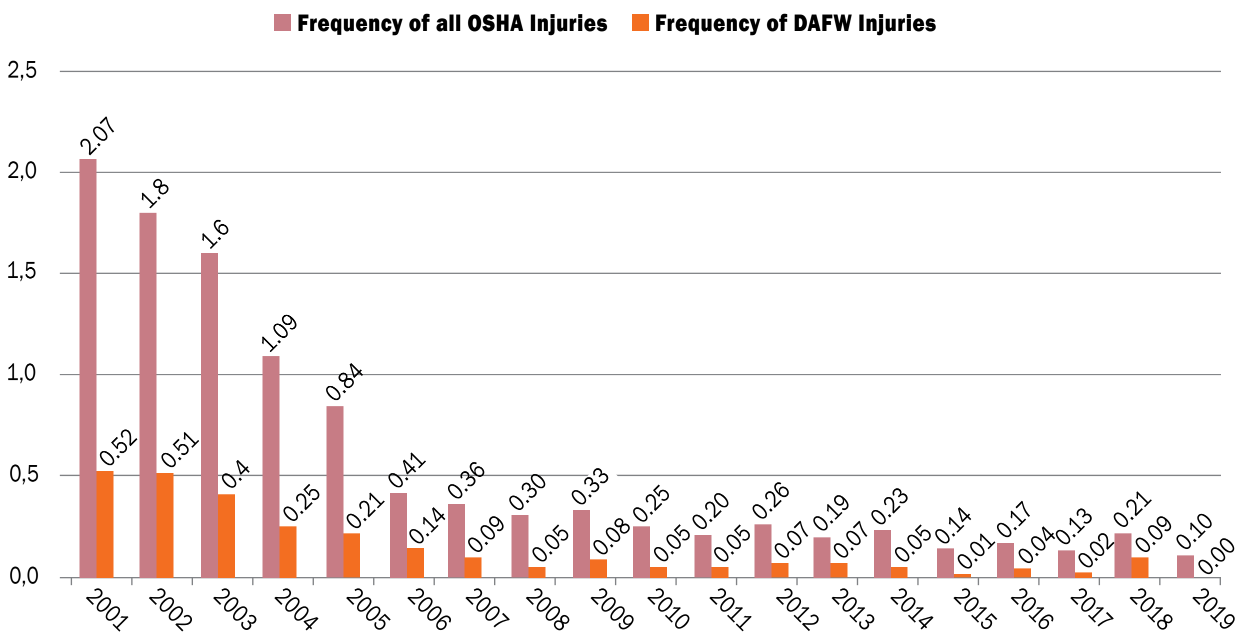
Excellent results in the occupational safety field with more than one million five hundred thousand employee-hours worked without injury were achieved by the employees in the Shipment Division. **The Coke Plant, Hot Rolling Mill, Cold Rolling Mill, Transportation and Maintenance employees managed to work the entire year without OSHA Recordable Injury. Transportation Division employees have been able to work without any injury for more than four years.**

During 2019 the Company conducted four internal Fatality Prevention Audits (FPA) in compliance with corporate rules and procedures for preventing fatal injuries. We assessed and eliminated risks and hazards in the areas of Elevated Work and Fall Prevention, Railway Transport, Confined Space Entry and Energy Lockout. Teams were constituted out of 135 experts from various areas and carried out 108 audits on Life Threatening Programs. The team members implemented 96 measures in total. The key role in Risk Identification is played by the Employees‘ Safety Representatives. **From the overall number of 1,311 safety-related initiatives/suggestions for improvement identified by the Employees‘ Safety Representatives, 1,274 were completed by the end of 2019, which accounts for more than 97 % of all initiatives.** USSK Divisions continued to improve their practices in the 5S Audit Housekeeping area. While in 2018 the average divisional success rate was 79.66 %, in 2019 it went up to 82.49 %.

In 2019 the Group also focused on **Contractor Safety.** The divisional employees and experts in Safety conducted more than 800 thorough audits focusing on Life Threatening Programs compliance, which was 100 audits more than in 2018. With contractor motivation to enhance Safety in mind, USSK continued with granting awards for safety to contractors.

In connection with the excellent results in occupational safety and health protection, in December all USSK employees symbolically received the **“Safety Champion”** Award for their exemplary attitude to Safety throughout the year 2019.

● For the first time in Company history we achieved zero OSHA Days Away From Work Injuries in 2019.



During the year, the Group continued to promote **Safety Culture of Caring – Approaching Others** development through quarterly safety campaigns in all operations. Several weeks of concentrated activities with daily topics to discuss were focused on enhancement of employee awareness, reversing the injury rate trend, prevention of fatalities and fire protection, as well as the Safety Culture of Caring – Approaching Others itself.

CULTURE OF CARING – APPROACHING OTHERS

I Care

I have genuine respect and concern for the well being of those that I work with.

I have the Commitment

I take personal responsibility for my own safety and those I work with. I will approach others and I will be receptive to feedback when I am approached.

I have the Courage

I have the strength to speak up, intervene and STOP THE JOB.

EDUCATION AND HUMAN RESOURCES DEVELOPMENT

Our **recruitment system** is based on long-standing good cooperation with selected partner secondary 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 Vocational School in Košice Šaca. In 2019 we expanded the existing range of specializations, namely the Mechatronics Mechanic and Electrotechnical Mechanic courses at the Secondary Vocational School in Košice-Šaca and the Department of Machines and Equipment Mechanics at the Secondary Vocational School for Railway Transport in Košice. Within the two main partner schools, altogether 233 students already study under USSK supervision in the dual education system in the 2019/2020 school year. This concerns the courses for steelmaking equipment operators, machines and facilities mechanics, electrical mechanics and mechatronic mechanics, which have expanded by 145 pupils per year. We have also started working with the Watsonova Street Business Academy in the field of dual education for finances.

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 gain work experience in Company 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 teamwork skills during a summer stay called the **Summer Internship Program**.

In 2019 we continued with a successful project called **A Year of Work Experience**. The project is for 3rd, 4th and 5th year university students, and 67 of them had the chance to get involved regularly in projects and activities at production facilities and administrative departments. This proactive approach to working with students has proved effective. On the one hand, students of secondary schools and universities get the chance to join in the practical activities of the Group in order to gain experience and acquire skills that provide a competitive advantage in the labor market. On the other hand, this approach allows the Group to find talents among students of secondary schools and universities and to meet future employment needs.

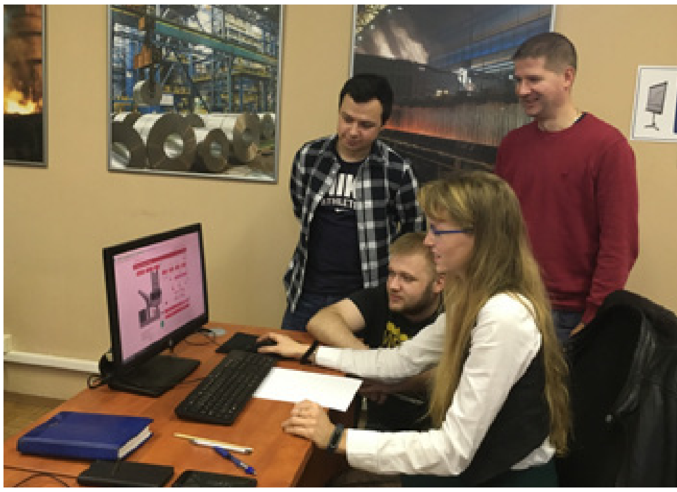
The company supports the **training and development of all its employees** through various programs focusing on managerial, professional and vocational skills and knowledge. Lessons were organized in 2019 to ensure that legally-required safety and vocational requirements were met, as well as requirements 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 2019 these programs were extended to employees of contractors engaged in manufacturing and maintenance work on U. S. Steel Košice Group premises.

In 2019 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 managerial development in 2019 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. A new **Leadership Academy 202** development program was implemented for middle-level managers, focusing on building positive working relationships, enhancing communication skills, and establishing clear direction when leading

their teams. In 2019 we continued with the **Mentoring program** focusing on helping mentees to develop not only professional skills and general orientation but also to better utilize their potential. Mentoring is a specific development activity with the aim of transferring the unique experience of mentors to newly-appointed managers or newly-hired graduates. In 2019 we continued with **Internal Coaching**, focusing on 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 were identified, for whom the development program was prepared. In order to promote professional metallurgy skills, we organized **Operational Academies** for machine operators. Sessions were led by our internal staff from Operations and Research and Development as well as external experts in specific 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 June 2019, collective bargaining resulted in Addendum No. 6 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 2019 accordingly. From the point of view of the agreements with the labor unions, the year was very important for the other subsidiaries as well, as the addenda to the valid collective labor agreements were signed during June 2019 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 every area of its activities, and considers conciliation as a necessary condition for effective business. At all



In 2019 the Group presented various awards to hundreds of its employees.

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 – 30, 35, 40 and 45 years. In 2019, 418 employees took part in gala dinners with entertainment and gifts, and in total 850 long-serving employees were acknowledged. USSK also **rewards employees** who participate in the achievement of excellent results in various areas through the quality of their work. During 2019 there was quarterly recognition of employees involved in the best projects supporting the Carnegie Way transformation. 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 its 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 for those employees who are regular blood donors.

Various events also help to build team spirit and USSK allegiance, among them 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 the special policies and goals of the Group, and we organize them in excess of the legal requirements.

The Group regularly informs the employees and general public about its business through the intranet, the company 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 various groups of its employees, also from the gender and age points of view, taking into account their education, qualifications and working skills.

Although the proportion of women in the total USSK workforce is only 15 percent, these employees 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, 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 2019 the proportion of women in USSK top management was 30 % (2018: 30 %, 2017: 20 %) with responsibilities in finance, law and subsidiaries management.

In USSK Protected Workshop we create working conditions for employees who once worked in various USSK divisions, but after changes in their state of health could not continue in their previous work. In the Protected Workshop they get work which they can do even with disabilities, and they are useful in the provision of supporting services, such as waste separation and recycling, checking of safety harnesses, cutting of filtration sacks for the blast furnaces, or running

the protective equipment center for visitors. They appreciate the opportunity to work for the Company, as they might have problems finding appropriate jobs on the open labor market. From USSK as employer this requires flexibility and an individual approach to each employee, taking into account his/her abilities and potential. In 2019 we provided work for 50 employees with changed state of health.

We support inclusion of colleagues with disabilities.

BUSINESS ETHICS

The Code of Ethical Business Conduct, as a fundamental internal regulation of U. S. Steel Košice, constitutes a cornerstone of confidence necessary for the long-term success of our Company. It is also specially aimed at respecting the human rights of employees by prohibiting slavery, child labor and emphasis on the battle against corruption and bribery. The commitment to act in an ethical manner has helped to ensure that USSK confirms its reputation as a company respecting its employees, shareholders, business partners and the communities which it operates in. USSK's collective commitment to perform business activity in an ethical manner must be and is fulfilled without reservation. The year 2019 was exceptional because the **updated Code of Ethical Business Conduct of U. S. Steel Košice** was issued, redesigned and aligned with the current United States Steel Corporation's Code of Ethical Business Conduct. The introduced **S.T.E.E.L. principles** – Safety First, Trust and Respect, Environmentally Friendly Activities, Ethical Behavior, and Lawful Business Conduct – form the foundation of the Code of Ethical Business Conduct. The new Code became effective as of October 23rd 2019, and in the period from November 5th 2019 to December 2nd 2019 employees became familiar with it and selected internal policies during **the Annual Certification**, and confirmed their commitment to complying with its provisions, as well as the provisions of the Policies. This certification was again extended to all employees, 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.

U. S. Steel Košice 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 information campaigns in the corporate newspaper "Oceľ Východu", employees are regularly informed about news in the ethics & compliance area. The quarterly on-line newsletter named "Ethically Speaking", Compliance Tips and the new-format Ethics & Compliance Reporter also deal with current ethical topics. Employees could also expand their knowledge through online training, such as on the new Code.

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

2019 was the year of the 9th **Ethics and Compliance Week**, which the Company again participated in together with other plants within the United States Steel Corporation. From November 4th to 8th, employees were reminded in different ways, such as emails from top corporation managers, Compliance Tips on the growing topic of personal data protection, and a training video about harassment and other forms of discrimination about our joint commitment to "Do What´s Right".

Integrity and ethical conduct are fundamental to our core values and vital to our continued success as we maintain an intense focus on the key business drivers that make us a better, more competitive company.

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 service centers and the construction, 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 which lead to improved quality of goods and services, sustainable profitability improvements and better financial and liquidity positions of the Group.

8 DECENT WORK AND ECONOMIC GROWTH

USSK as the biggest employer brings the whole region economic growth, working stability and fair remuneration for thousands of employees.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Our applied research and development provide innovative solutions for customers and safe materials for end-users.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

We produce steel, a 100-percent recyclable material, and support the circular economy.

In 2019, USSK produced 3.54 million metric tons of raw steel slabs.

RESEARCH, INNOVATIONS AND CUSTOMER SOLUTIONS

USSK recognizes the significance and importance of research and development for maintaining competitiveness and succeeding on the market. This has been confirmed by an **investment of 2.14 million EUR in the upgrade and expansion of laboratories and pilot lines** for the research and development of new materials, coatings and surface treatments, mainly for the automotive, electrical engineering, power, packaging, construction and consumer industries, including household appliances. Pilot lines will ensure significant acceleration and streamlining of the research and development of new materials by enabling the production and processing of small volumes of new steel grades in a short period of time, simulating real industrial production conditions. In 2019 the pilot line for hot rolling was upgraded from single-stand to two-stand mill, and at the same time a new pilot line for cold rolling was installed. Both lines are designed mainly for rolling high-strength, high-alloyed automotive and electrical steels. The laboratory process simulator of continuous annealing has been upgraded by adding a pot for the application of metal coatings, and serves for testing the conditions affecting the quality of metal plating. The stampability laboratory was upgraded significantly, with new optical equipment and software enabling comprehensive testing of stampability of various steel grades using experimental forming limit curves and stress-strain analysis. Since the beginning of 2019, the results of these analyses in the form of extended material data have been provided to customers mainly from the automotive industry for their computer simulations when designing new products. Building a database of material cards for computer simulations will continue in the next period for other steel grades as well. Our metallographic laboratories have been equipped with new devices for sample preparation.

Research and development in the area of primary production in 2019 focused on reducing production costs, reducing the content of harmful substances and on extending the life of the refractory materials used. Examples include the use of low-quality coal and additives in the coal charge to minimize costs without adversely affecting the coke production process and its quality, or research into sinter and blast furnace raw materials with the aim of minimizing the content of harmful elements and compounds such as zinc, sulfur, phosphorus, alkalis and chlorides, and of assessing their impact on processes and refractory materials. Another particularly important goal was to reduce CO_2 emissions by optimizing the charge composition. An optimization model of the sinter and blast furnace charge was developed for this purpose. In order to increase the recycling of wastes and by-products, technology for producing cold-pressed blast furnace briquettes has been developed. Very important progress has been achieved in research into technology for the production and casting of steel with very low carbon, sulfur and nitrogen contents for electrical steels, and optimizing the production and casting processes of steel with high internal purity and homogeneity with a minimum content of non-metallic inclusions.

Investment into research infrastructure amounting to 2.14 million euros confirms the importance of research for USSK.

The use of advanced analytical methods and artificial intelligence in the modeling of metallurgical processes has become an integral part of research and development. In cooperation with the Technical University of Košice, Faculty of Materials, Metallurgy and Recycling, a physical model of a casting mold has been developed and built on a 1:1 scale. This model will be used to study the flow of steel in the mold under various casting conditions. Based on the physical modeling, a numerical model of the mold has been prepared as well.

In the area of hot-rolled and hot-dip galvanized sheets, the research and optimization of steels with increased strength and plastic properties (AHSS) has continued, especially for the automotive industry. Direct communication with customers in order to know and precisely define their needs has become crucial. It also includes the extended material data (material cards) for the individual steel grades, which significantly improve cooperation. In addition to developing new and optimizing existing AHSS steels, new technology has been introduced that has allowed expansion of the product mix to include thin and wide coils. The development of a model for sample-free certification of hot-rolled and pickled sheets has continued, which allows the determination of mechanical properties with sufficient accuracy by calculation instead of physical testing. The range of steel grades thus evaluated is gradually expanding, producing cost savings and increased occupational safety by elimination of sampling for mechanical testing.

Successful trial deliveries of steel intended for wind turbines were made in the area of non-oriented silicon steels for electrical engineering, and the grade was included in the production program. Research and development of a new generation of electrical steels intended for electric vehicles and hybrid vehicles according to the requirements of several customers has intensively continued. Some of them have already been successfully homologized, while trial production for other customers has been carried out and the material is in the qualification process.

● In 2019 we progressed in developing electrical steel for wind turbines, as well as for electric and hybrid vehicles.

Production of sheets with permanent surface treatment - Thin Organic Coating (TOC) - has continued not only in transparent but also in colored versions. This treatment, in addition to excellent corrosion resistance, lubricating and anti-fingerprint properties, also satisfies customers' aesthetic and special technical requirements. In this area of surface treatment we also tested so-called „two-in-one" products which, in addition to their permanent surface treatment, can if necessary provide temporary passivation protection, required only during transport and storage of the material.

New types of paints have been successfully tested in the area of prepainted sheets. Examples include paints with higher reflectance of solar radiation, preventing roof overheating (cool roof paints), or high-coverage paints.

In the tinplate segment, USSK is one of the leading European manufacturers and has long been a member of the Association of

European Producers of Steel for Packaging (APEAL). During 2019 research activities were carried out in several areas. Based on customer requirements, the development of high-strength grades with improved elongation continued, as well as research and testing of very thin tin coatings (Low Tin Steel - LTS), a possible alternative for TFS (Tin-Free Steel). In accordance with REACH legislation, testing and optimization of the new chromium-free passivation technology continued at USSK. Intense testing of Cr-free tinplate by customers has escalated to achieve its successful qualification. Currently, Cr-free tinned material is commercially available for technical applications, while the optimization of chromium-free passivation technology for food applications is continuing.

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. The Company also holds several dozen individual product certificates for final and by-products, and several of its laboratories are accredited in compliance with the EN ISO/IEC 17025 standard. In 2019 the Company successfully passed the surveillance audit in accordance with EN ISO 9001:2015 and IATF 16949:2016, thus confirming the suitability and effectiveness of the established processes.

● For technical applications we supply tinplate sheets with chromium-free passivation.

Based on a customer's request, a new grade for enameling was developed and successfully introduced into production in 2019. In addition to the required mechanical properties at the time of delivery and good enameling ability, its development was focused mainly on stability and guarantee of mechanical properties after enameling.

The Group also spent significant amounts on projects aiming to ensure our competitiveness and stable position in the market. The projects named Pickling Line 1 Upgrade – DP600, Hot Strip Mill Tension Reel Slide Discs, Increased Efficiency of Strip Cutting on Shearing Lines 4 and 7 at the Cold Rolling Mill and New Air Knife for Hot-Dip Galvanizing Line 2 were completed, supporting our

As for internal quality, when internal goals were set up, the quality of USSK deliveries was assessed positively by our customers. The objective of 1.09 % (Divert) was exceeded, with the result of 1.15 %, and the 0.58 % goal in the Retreat category at the end of 2019 became 0.51 %. The main reason why the Divert objective was missed lay in issues related to surface quality of the most demanding products – tin plate and hot-dip galvanized coils.

As for external quality, in 2019 a positive trend in customer claims was recorded. The claim rate for all products in 2019 reached 0.12 %, which is an 8 % improvement over 2018, and significant achievements were made as to the number of claims received,

● In 2019, the operational costs associated with research amounted to EUR 3.1 million.

where we incurred 13 % fewer claims than in 2018. The Customer Satisfaction Survey which measures customer satisfaction is a significant and inherent external quality parameter of supplied products and services. The response rate in 2019 reached the same record level of 98 % as in the previous year, and the customer satisfaction rating reached a value of 1.76 on a scale of 1 – excellent down to 5 – poor. This result is one of the best customer satisfaction survey ratings since U. S. Steel took over the Košice plant.

To improve our productivity and moreover to protect our employees to the maximum extent, in 2019 we implemented two fundamental changes in relation to our suppliers. On the one hand we started transferring some services from external suppliers to our internal employees, and on the other hand we worked intensively with the remaining suppliers, looking for opportunities to reduce costs. This was intended to positively influence our mutual positions and help maintain competitiveness of business on both sides.

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 standards implemented in their processes for quality, ethics, occupational safety and environmental protection. Their performance is regularly assessed, and this long-term partnership is seen as a basis for development on both sides.

IMPACT OF THE COMPANY IN THE ENVIRONMENTAL AND ENERGY SPHERES

ENVIRONMENTAL PROTECTION

Environmental protection is one of principal strategic goals of the Group, and the main commitments in this area are stated in our **Quality, Environmental and Energy Policy**. In October 2019 TÜV SÜD Slovakia s.r.o. carried out a surveillance audit of the USSK **Environmental Management System**, in compliance with the 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 revalidated.

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 Group activities with the valid legislation is also regularly inspected by the Slovak Environmental Inspection Office, which carried out eighteen inspections in 2019.

We improve energy efficiency of steel production by tangible measures.

We contribute to the goal fulfilment of the National Climate and Energy Plan of the Slovak Republic.

Implementation of the following projects to ensure air quality improvement, which were co-funded from EU funds, has been completed:

● Since 2000 the Group has invested more than USD 689 million in dozens of environmental projects.

In 2019 we continued with the implementation of **investment projects** aimed at protecting the environment in compliance with the environmental requirements of the European Union. Modernization of the boiler plant belonging to our subsidiary Ferroenergy s. r. o. in 2016 to 2018, and operation of gas boilers K1 to K3 and new boilers K6 and K7, resulted in **year-to-year reduction in the amount of emissions released from the plant by 43.5 % per ton of produced steel compared to the year 2018.**

- Emission control of Ladle Steel Preparation at Steel Shop 1,
- Emission control of Ladle Steel Preparation at Steel Shop 2.

OPERATIONAL PROGRAMME QUALITY OF ENVIRONMENT

European Union

The most important actions also completed by approval decisions in 2019 included implementation of emission control projects for:

- ore bridges of Blast Furnaces 1 and 3,
- Blast Furnace Division Coal Preparation Plant,
- exits of Sinter Strands 1-2 and 3-4,
- Sinter Strand 4.

These projects were also co-funded from EU funds and contributed to significant reduction of pollutant emissions, mainly dust.

In 2019 we also continued with implementation of other investments with completion planned in 2020. These projects included:

- emission control of ore bridges at Blast Furnace 2,
- dedusting of Sinter Strands 1 - 3,
- dedusting of hot iron desulfurization at Steel Shop 2,
- dedusting of coke supply to Coke Batteries 1 and 3.

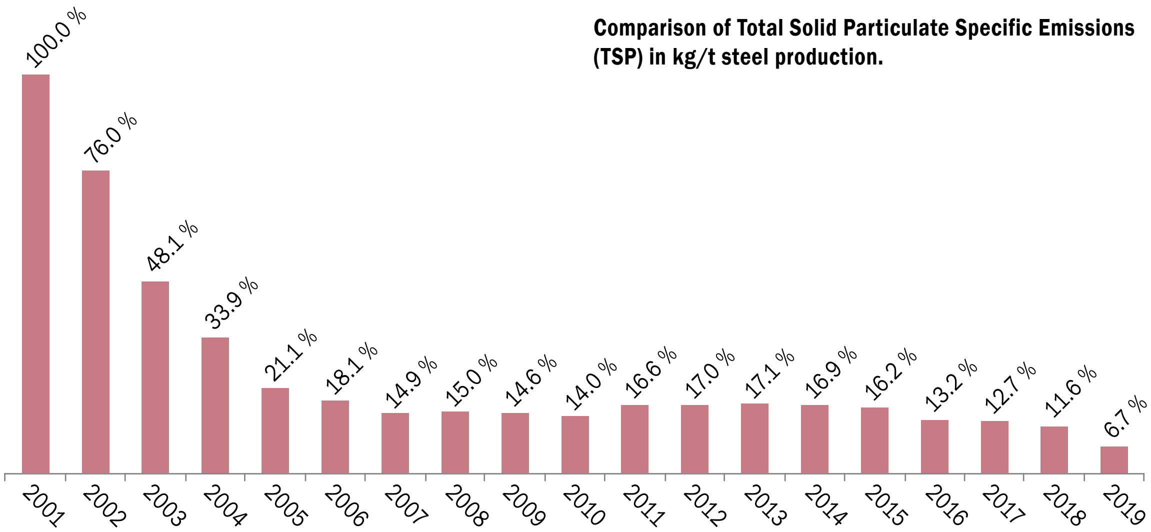
Compared to the year 2001 the specific amount of emissions of solid pollutants decreased in 2019 to 6.7 %, in numerical terms to 0.297 ton per 1,000 tons of produced steel. Since 2001 we have reduced pollution of air by solid pollutants in the vicinity of USSK by 15,600 tons of dust in total.

In addition to the monitoring of emissions (pollutants released into the air), the Group also monitors imissions (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 2019 are shown in the following graph.

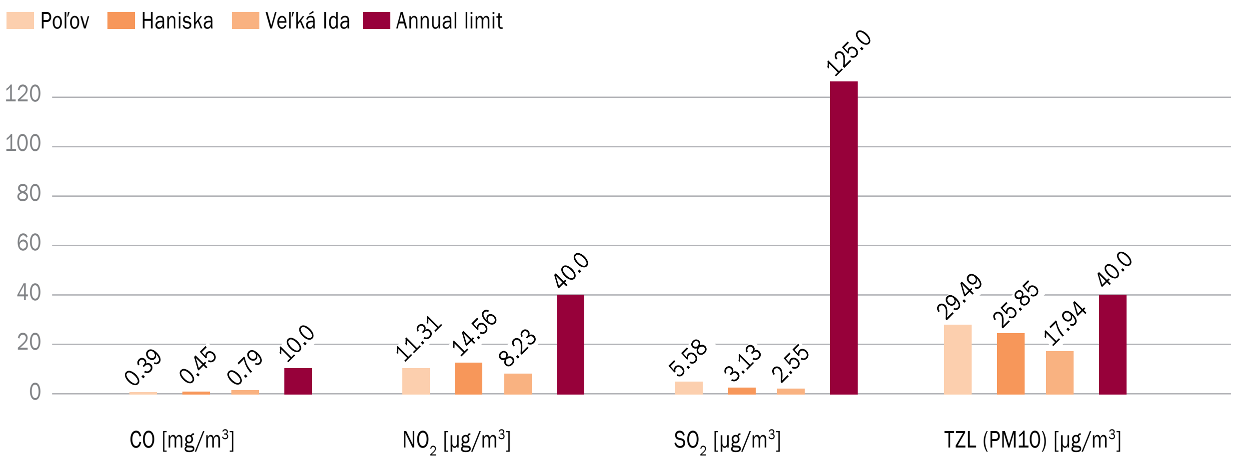
Significant results in **water protection** include the re-use of so-called return water from the Sokoľany Waste-water Treatment Plant. The amount of treated waste water returned to U. S. Steel Košice accounts for 22.5 % of the total amount of waste water produced, i.e. an increase of 12.9 % compared to the year 2018.

● Our efforts resulted in 93 % reduction of solid emissions since 2001.

Comparison of Total Solid Particulate Specific Emissions (TSP) in kg/t steel production.



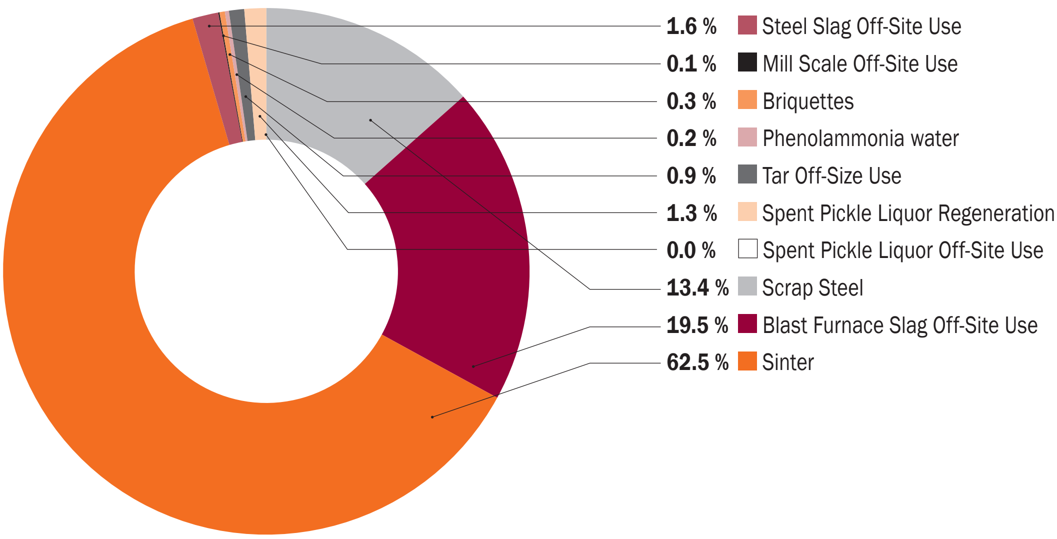
Imissions monitoring in nearby villages.



In the **waste management** area, we have achieved remarkable results. The amount of externally recycled blast-furnace sludge and steel dust has increased from the previous record 7,341t (year 2018) to 9,829t (year 2019). Until now this sludge and dust ended up in landfills. The sludge and dust briquetting project, developed during 2019 and put into operation in December 2019, is a major step contributing to higher Cold Rolling Mill, Hot Rolling Mill and Blast Furnaces by-product recycling rates. Annually it will be possible to reuse more than 8,000t of by-products in the metallurgical cycle, which previously ended up in landfills.

Projects included LED Lights Ferroenergy, LED Lights 2019, Blast Furnace No. 1 Stoves Preheating System, Blast Furnace No. 1 Coke Oven Gas supply line upgrade, Cold Rolling Mill Mixed Gas Turboblower, GPS for Locomotives, and Wire Feeding Machine for Ladle Metallurgy at Steel Shop No. 1 and No. 2. Investments were also made in the Group's **infrastructure** through projects such as the De-bricking Machine, Renewal of Vehicle Fleet, Scrap Loader No. 2, Gravel Processing Plant Relocation, USSK Research – equipment purchase, and the Coke Plant Cooling Water System Upgrade. These projects will significantly boost the overall technical condition of our production facilities.

Recycled materials in 2019 (5,548,666 tons)



In 2019 we also separated and externally recycled 120 tons of paper and cardboard, thus saving about 1,600 trees. Regarding plastic bottles recycling, we managed to collect and send 25 tons for further processing, which is a 50 % increase compared to 2018.

Our activities continued in the area of **Landfill management**. We have successfully closed and re-cultivated the first part of the new Non-hazardous Waste landfill. We obtained more than 95,000 tons of material suitable for re-cultivation purposes by starting the process of Waste-water Treatment Plant sludge recovery. We achieved dust reduction as well as greening of the landfill sloping by using this material in the area of the Dry Landfill.

As far as chemicals used in USSK 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 that Agency an update of registration dossiers including additional testing of steelmaking and blast furnace slimes and sludges. We updated Safety data sheets for our manufactured products. 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.

● We recycle waste water, metallurgical sludge and dust, as well as other materials. Additionally, in 2019 we planted out 3,000 new trees and saved 1,600 more by recycling paper and cardboard.

In the area of nature and landscape protection, in 2019 we oversaw the care of 205,191 m^2 of forestry land, 545,593 m^2 of other woodland and 28,432 m^2 of other land in the vicinity of USSK. In 2019 we planted 3,000 sapling trees as part of the care of these lands. In addition to this work, maintenance of roads and fire belts in woodland, access roads, and full area mowing and cutting was carried out in 2019.

In addition to the environmental investments, investments to improve **the efficiency of energy** and raw materials usage also made up a considerable part of the Group's capital expenditure in 2019.

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.

Amendment to the Directive regulating the legal framework of the next fourth trading period (2021-2030) was 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

● In 2019 we invited the mayors of neighboring villages and representatives of the city of Košice to visit our operations in person to keep them informed about our activities focusing on environmental protection.

EUROPEAN UNION CO_2 EMISSIONS TRADING SYSTEM

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 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 of 21 % in greenhouse gases (GHG) for the ETS sectors by 2020 compared to 2005 emissions. The EU has imposed limitations under the ETS for the period 2013-2020

the value of the Linear Reduction Factor from 1.74 % 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 the NER300 Program), Modernization Fund and Art. 10c Mechanisms for new member states. All amendments enter into force as of January 1, 2021.

The Slovak Republic elected to support heavy industry by increasing the Modernisation Fund budget with a portion of auctioning revenues that are income for the Environmental Fund. The overall budget will consist of 59 million European Emission Allowances for the 2021-2030 period. This measure is part of

(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 has begun employing centralized allocation rather than national allocation plans, and auctioning as the basic principle for allocating emissions allowances, with some transitional free allocation provided on the basis of benchmarks for manufacturing industries exposed to 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 amendment to Emissions Trading Law 414/2012. Increased financial resources will be the priority, to be used for electricity producers. USSK actively participates in setting and implementing the rules deriving from the above mentioned Law.

During 2019 new implementation rules for the trading period 2021-2030 were adopted. In order to receive free allocations, USSK and Ferroenergy prepared and submitted NIM data verified by an independent auditor to the Ministry for Environment in June. Afterwards the Ministry submitted all NIMs from Slovak companies to the European Commission. A final decision is expected in Q1 2021. For the years 2021 – 2025 the baseline is average production for 2014-2018, and for the years 2026-2030 the baseline will be average production for 2019-2023. Another new element is dynamic allocation, which takes into account the rolling average of the two preceding years and compares this with the baseline production 2014-2018. In case the actual production is 15 % higher, then the allocation will increase, and in case the actual is 15 % lower, the allocation will be decreased. This comparison will apply for the first time in 2021.

The newly-appointed European Commission has presented an ambitious program called Green Deal. Among other features it calls for an increase in reduction efforts to 50-55 % by 2030 and to achieve carbon neutrality by 2050. For the steelmaking sector it will be important to watch the Cross-Border Adjustment measures for imported goods from countries with low environmental or climate standards.

● United States Steel Corporation committed to reducing greenhouse gas emissions by 20 % by 2030 (compared to 2018).

● In addition to the Company's commitment, employees themselves contribute to reducing CO_2 emissions. In September alone they made 3,968 journeys to and from work by bicycle. Dozens of bicycles are also used for more ecological movement of employees around Company operations.

International negotiations to replace the 1997 Kyoto Protocol were concluded in December 2015 in Paris at the Conference of Parties to the United Nations Framework Convention on Climate Change (COP21) summit on global warming, where new goals for global GHG reduction were proposed. Contrary to the Kyoto Protocol setting the overall 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. 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. This summit took place in Madrid in December 2019, but no major agreement was reached.

In 2019 the specialized USSK CO_2 reduction team again analyzed the short-term, medium and long-term strategic future policy for the company, with the aim of reducing the CO_2 burden on the environment, while maintaining the present level of steel production. The Team carried out detailed analyzes of the CO_2 intensity of individual processes based on divisions, plants and production lines, and analysis of CO_2 intensity of production by individual products and intermediates, including all types of energy used in the plant. They developed models for predicting CO_2 emissions production and CO_2 intensity in the short and long term. They proposed immediate and systematic technical and organizational solutions to reduce CO_2 emissions in all areas of production. The Team prepared a series of key projects with significant impact on CO_2 emissions reduction in the upcoming period, in cooperation with the specialist departments. Interim results of the Team's activities are presented periodically at the level of vice presidents and the Company president, which clearly represents the seriousness of the Company's approach to reducing CO_2 emissions.

ENERGY EFFICIENCY

Energy management is also very important for the U. S. Steel Košice Group in the long term, both in terms of quantity and cost of consumption. Since 2013 U. S. Steel Košice has implemented a system of energy management according to the international standard EN ISO 50001, which creates conditions for comprehensive, systemic solutions for efficient energy management. The second re-certification audit of the energy

management system was carried out by TÜV SÜD Slovakia s.r.o. in March 2019 with a positive result, and the Company had the validity of the certificate confirmed until August 20, 2021. The auditors did not find any deviations from the requirements of the standard, and they drew attention to eight positive observations presenting the Company's strengths in the evaluation of the process and energy management system at U. S. Steel Košice:
1/ adoption of a long-term business strategy;
2/adopting organizational change and centralizing energy efficiency monitoring and establishing CO_2 management;
3/ raising staff awareness and skills by developing new programs for further education in energy management;
6/ mutual cooperation of individual divisional plants in ensuring the continuity of production and ultimately achieving the required energy efficiency;
7/ continuing to reduce energy operating costs by implementing energy projects, seeking to further reduce energy consumption through the gradual installation of LED lights, mounting frequency inverters, replacing higher efficiency motors or eliminating power losses on distribution systems;
8/ gradual implementation of the requirements of the new standard ISO 50001: 2018 into the internal control documentation focused on risk assessment - application of SW QRISK also for the area of energy management.

By capturing secondary metallurgical gases resulting from the production of coke, iron and steel and their subsequent use to heat production technical equipment, we were able to save 28.9 mil. GJ of natural gas in 2019.

4/ cooperation of the R&D department with professional universities, external research institutes and divisional plants of the Company in the application of development and implementation of new technologies;
5/ keeping internal documentation in the process of energy efficiency, its timeliness, quick availability, transparency as well as access to information;

To achieve the energy goal in 2019, the transformation journey contributed greatly to the new growth-oriented corporate strategy of U. S. Steel Košice. The cost transformation MDCC also contributed to the Company's strategy, as well as the Carnegie Way continuous improvement program.

The plan of 5.8 million USD savings for 2019 was fulfilled to 129 %, as we saved 1.7 million USD more than planned.

Energy projects with significant cost savings included in particular:

- **Reduction of compressed air consumption for oxygen production at separation unit 8**
- **Increased calorific value of basic oxygen furnace gas**
- **Reduction of steam boilers specific consumption at Heating Plant**
- **Utilization of water from the granulation circuit at the blast furnace gas cleaning station**
- **Optimization of sampler cooling with demi water at boilers 6 and 7**

IMPACT OF THE COMPANY ON THE COMMUNITY AND THE REGION

In relation to the community we act in line with our principles of equal opportunities and diversity support.

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 the **U. S. Steel Košice Foundation**. The priorities in the area of donations and sponsorship are public-benefit projects for children, and support for health-care, education and science, culture and sport. The Group has become a partner to many non-profit organizations which are active in solving problems and providing innovative solutions for community development and social care for disabled people and seniors.

In support of education, the Group works actively with selected technical secondary schools and colleges in Košice in line with targeted employee recruiting. We have also been cooperating in research with the Technical University of Košice and Pavol Jozef Šafárik University in Košice. 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, technical studies being preferred. In the academic year 2018/2019, thirty-four new scholarships were granted, and thirty-two more in 2019/2020. Scholarship holders were involved in company beneficial events and several of them gained experience in the Company during practical training.

In support of health care, the Group focuses mainly on specialized medical institutions in the region. Thanks to the pre-Christmas fund-raising, which was supported by thousands of steelmakers who together collected EUR 24,028, the Urology Clinic of the Louis Pasteur University Hospital could buy ultrasound and other special equipment for diagnostics and treatment of patients with kidney and urinary problems. Finally, it could spend EUR 84,028, since the Company Foundation appreciated the generosity of the employees and contributed another EUR 60,000 to 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 2019, the collection among employees raised the sum of EUR 5,450.

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. In 2019, this hut helped to present various regional organizations of the Archdiocesan Charity of Košice and proceeds from public fund-raising went to support their activities. In addition, children from two foster homes presented their Christmas decorations directly in the Company premises, and proceeds from voluntary contributions also help to further develop children's creativity. 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 2019 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 nine families also received financial support totaling EUR 35,000. The Company has also reacted very quickly to the tragic situation of families after a gas explosion in an apartment house in Prešov, donating EUR 25,000 to the affected residents.

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, Art Film Fest international film 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. U. S. Steel Košice has been the main partner of the Košice Peace Marathon, which is the oldest marathon in Europe and is 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 2019 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 198,979 towards club membership fees and sports equipment for 556 children, which also included EUR 5,490 for 13 children in 2019.

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 thirteenth time on May 17-18, 2019. 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. In 2019, when Košice became the European Capital of Volunteering, USSK led corporate volunteering and shared its experience as well as proven solutions on an international level.

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 2019, six other community projects with active involvement of USSK employees were supported in towns and villages around Eastern Slovakia, and since 2008 altogether 107 developing initiatives have been implemented, supported with EUR 268,400.

The U. S. Steel Košice Group has also been helping the region in other ways. It has donated surplus pallet wood to several villages, helping their socially disadvantaged citizens mainly in winter. In 2019 donations amounted to 512 tons with a value of EUR 11,947.

● We have been adding empathy and selfless support to our fair business. We help to make lives of thousands of people in eastern Slovakia better.

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, 2019**	**Dec 31, 2018**	**Dec 31, 2017**	**Dec 31, 2019**	**Dec 31, 2018**	**Dec 31, 2017**
Property, plant and equipment, incl. investment property	869	786	727	1,000	928	878
Intangible assets	123	162	76	200	278	76
Long-term receivables	6	3	42	6	3	42
Other non-current assets	142	147	149	0	6	5
Inventories	385	458	354	394	466	362
Short-term receivables	293	471	439	266	455	428
Short-term loans and borrowings	0	17	1	0	0	0
Cash and cash equivalents	215	92	301	217	96	303
Other current assets	10	12	3	13	13	6
Total Assets	**2,043**	**2,148**	**2,092**	**2,096**	**2,245**	**2,100**
Equity	937	1,124	1,344	945	1,142	1,356
Trade and other payables	336	483	482	328	485	456
Long-term loans and borrowings	484	200	0	484	200	0
Other liabilities	286	341	266	339	418	288
Total Equity and Liabilities	**2,043**	**2,148**	**2,092**	**2,096**	**2,245**	**2,100**

Compared to the previous accounting period, the carrying amount of property, plant and equipment of the Group increased by EUR 72 million (2018: EUR 50 million). In 2019 the Group invested EUR 152 million (2018: EUR 95 million). As of December 31, 2019, the Group purchased EUA emissions allowances totaling EUR 14 million (2018: EUR 82 million). Emissions allowances allocated by Government in 2019 totaled EUR 124 million (2018: EUR 57 million).

Change in inventories reflects mainly the impact of lower volumes of purchased inventories and steel inventories due to the shutdown of Blast Furnace 2 (BF2) in 2019. Short-term receivables decreased mainly as a result of the worsening business environment and steel demand affected by the ineffective EU safeguard measures, the ongoing downturn in the manufacturing sector in the EU and the Group's working capital improvement efforts during 2019. Decrease in trade payables in 2019 was primarily due to decreased purchasing of key raw materials as a result of the BF2 shutdown.

On September 26, 2018, the Company together with Ferroenergy s.r.o. as guarantor entered into a EUR 460 million revolving credit facility (the Credit Agreement) with a syndicate of banks, replacing the previous EUR 200 million revolving credit facility. The Credit Agreement has a maturity date of September 26, 2023. As of December 31, 2019 borrowings totaling EUR 350 million were drawn against this Credit Agreement (December 31, 2018: EUR 200 million).

On December 23, 2019, the Company entered into a USD 150 million Loan Agreement with United States Steel Corporation. This agreement will mature on September 27, 2023. As of December 31, 2019, borrowings totaling USD 150 million (i.e. EUR 134 million using the exchange rate valid at the end of the reporting period) were drawn against this credit facility.

Detailed information on long-term loans and borrowings of the Group are disclosed in Note 16 to the 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	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
Revenues and other income	2,318	2,781	2,643	2,288	2,747	2,642
Operating (loss) / Profit	(94)	162	561	(103)	129	563
(Loss) / Profit for the Year	**(63)**	**127**	**450**	**(78)**	**89**	**448**

The Group made a loss of EUR 78 million in 2019 compared to a profit of EUR 89 million in 2018. The decrease in the financial result in 2019 compared to 2018 was primarily due to the negative trend in steel demand and the ongoing downturn in the manufacturing sector in the EU.

PROPOSAL FOR 2019 LOSS SETTLEMENT

In EUR million	**2019**
Loss for 2019	(63)
Contribution to Legal Reserve Fund	0
Retained Losses	(63)
Settlement with Other Changes in 2019 Directly Accounted for in Retained Earnings	79
Retained Earnings Total	16

SIGNIFICANT EVENTS AFTER THE 2019 REPORTING PERIOD AND EXPECTED DEVELOPMENTS IN 2020

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

Flat steel consumption fell by 3.7 % year-on-year in 2019. The ongoing negative trend in steel demand was the result of the continued slump in the EU's manufacturing sector due to weakened exports and investment, which became more pronounced during the year 2019. The current downturn in the manufacturing sector in the EU is not likely to bottom out in the very short term.

In view of the unprecedented situation connected with the coronavirus pandemic, the impact of COVID-19 on the steel industry and its value chains, such as automotive and construction, is expected to be enormous. The virus outbreak in 2020 is very likely to cause a sharp drop in EU steel demand and steel production.

ANNUAL REPORT 2019

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 2020

U. S. Steel Košice, s.r.o.

Separate financial statements
for the year ended December 31, 2019

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 2019, 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 2019;
- 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 2019 is consistent with the separate financial statements; and
- the annual report has been prepared in accordance with the Accounting Act.

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

Management's responsibilities for the separate financial statements

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

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

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

Ing. Monika Smižanská, FCCA
Licence UDVA No. 1015

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

Bratislava, 26 May 2020

Note

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

U. S. Steel Košice, s.r.o.

SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

Separate financial statements for the year ended December 31, 2019, were prepared in accordance with International Financial Reporting Standards as adopted by the European Union on May 26, 2020, 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 26, 2020. Neither the Company's shareholder nor the executives have the power to amend the separate financial statements after issue.

Košice, May 26, 2020

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 Taxes (responsible for accounting)	Ing. Beáta Marčáková Director General Accounting and Financial Reporting (responsible for financial statements preparation)

U. S. Steel Košice, s.r.o.

SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

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

STATEMENT OF FINANCIAL POSITION

	Note	December 31, 2019	December 31, 2018
ASSETS			
Non-Current Assets			
Property, plant and equipment	5	**865,636**	783,651
Investment property	6	**3,279**	2,564
Intangible assets	7	**122,588**	161,854
Investments	8	**141,374**	141,367
Unquoted financial instruments	27	**259**	259
Long-term receivables	12	**6,140**	2,800
Restricted cash	10	**-**	5,334
Total non-current assets		**1,139,276**	**1,097,829**
Current Assets			
Inventories	11	**385,322**	457,553
Trade and other receivables	12	**293,122**	471,167
Derivative financial instruments	13	**3,971**	10,729
Short-term loans to related parties	29	**394**	17,244
Restricted cash	10	**-**	1,213
Current Income Tax Receivables		**5,400**	-
Prepaid expense		**1,432**	998
Cash and cash equivalents	14	**214,508**	91,747
Total current assets		**904,149**	**1,050,651**
TOTAL ASSETS		**2,043,425**	**2,148,480**

	Note	December 31, 2019	December 31, 2018
EQUITY AND LIABILITIES			
Equity			
Share capital	15	**839,357**	839,357
Reserve funds	15	**82,461**	148,510
(Accumulated losses) / retained earnings		**15,671**	135,778
Total Equity		**937,489**	**1,123,645**
Liabilities			
Non-Current Liabilities			
Long-term loans and borrowings	16	**483,523**	200,000
Long-term provisions for liabilities and charges	17	**7,234**	7,118
Long-term deferred income - Environmental projects	5	**79,682**	82,546
Long-term employee benefits payable	18	**32,986**	35,862
Deferred income tax liability	9	**21,896**	43,687
Long-term trade and other payables	19	**18,559**	1,182
Total non-current liabilities		**643,880**	**370,395**
Current Liabilities			
Trade and other payables	19	**317,020**	482,707
Current income tax liability		**-**	2,162
Derivative financial instruments	13	**1,033**	215
Deferred income		**3**	4
Short-term borrowings	16	**4,839**	6,289
Short-term borrowings from related parties	29	**13,884**	13,533
Short-term provisions for liabilities	17	**124,128**	148,112
Short-term employee benefits payable	18	**1,149**	1,418
Total current liabilities		**462,056**	**654,440**
TOTAL EQUITY AND LIABILITIES		**2,043,425**	**2,148,480**

The accompanying notes on pages SF-11 to SF-66 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	2019	2018
Revenue from contracts with customers	20	**2,138,732**	2,712,068
Other income	20	**179,763**	69,812
Materials and energy consumed	21	**(1,619,053)**	(1,731,488)
Salaries and other employees benefits	22	**(311,055)**	(323,328)
Depreciation and amortization	5, 6, 7	**(81,647)**	(69,204)
Repairs and maintenance		**(66,936)**	(87,972)
Transportation services		**(78,057)**	(101,276)
Advisory services		**(7,723)**	(9,445)
Foreign exchange losses		**(1,830)**	(4,948)
Charge for provision for CO_2 emissions	17	**(122,966)**	(147,078)
Other operating expenses	23	**(122,741)**	(145,054)
(Loss) / profit from operations		**(93,513)**	**162,087**
Dividend income		**5,838**	1,898
Interest income		**512**	698
Interest expense		**(5,718)**	(2,068)
(Loss) / profit before tax		**(92,881)**	**162,615**
Income tax benefits / (expense)	24	**29,732**	(35,784)
(Loss) / profit after tax		**(63,149)**	**126,831**
Items that will not be reclassified to profit or loss			
Remeasurements of post employment benefit obligations	24	**1,706**	(2,514)
Revaluation of intangible assets	7, 24	**12,732**	76,970
Items that may be subsequently reclassified to profit or loss			
Changes in fair value of derivative hedging derivatives	24	**(6,044)**	15,402
Other Comprehensive Income, net of tax		**8,394**	**89,858**
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		**(54,755)**	**216,689**

The accompanying notes on pages SF-11 to SF-66 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	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, 2019	**839,357**	**148,510**	**135,778**	**1,123,645**
Loss for 2019	**-**	**-**	(63,149)	**(63,149)**
Other comprehensive income	-	6,688	1,706	**8,394**
Total comprehensive (loss) / income for the year	**-**	**6,688**	**(61,443)**	**(54,755)**
Adjustments:				
Release of revaluation reserve - CO_2 emission allowances	-	(79,080)	79,080	**-**
Other adjustments / movements	-	-	(1,966)	**(1,966)**
Total adjustments	**-**	**(79,080)**	**77,114**	**(1,966)**
Transactions with owners:				
Dividends	-	-	(129,435)	**(129,435)**
Contribution to legal reserve fund	-	6,343	(6,343)	**-**
Total transactions with owners	**-**	**6,343**	**(135,778)**	**(129,435)**
Balance as of December 31, 2019	**839,357**	**82,461**	**15,671**	**937,489**

The accompanying notes on pages SF-11 to SF-66 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	
		2019	2018
(Loss) / profit before tax		**(92,881)**	**162,615**
Non-cash adjustments for			
Depreciation of property, plant and equipment and investment property	5, 6	**72,593**	67,053
Depreciation of right of use assets	5	**6,585**	-
Amortization of intangible assets	7	**2,469**	2,151
Amortization of deferred income - CO_2 emission allowances	20	**(122,930)**	(56,365)
Amortization of deferred income - Environmental projects	5, 20	**(2,830)**	(408)
Charge for provision for CO_2 emissions emitted	17	**122,966**	147,078
Impairment reversal of investments		**(7)**	(179)
Gain on disposal of property, plant and equipment, intangible assets and investment property	20	**(1,922)**	(5,793)
Loss on disposal from sales of bussiness units	5, 23	**1,750**	-
Gain from changes in fair value of derivative financial instruments	20	**(22,362)**	(871)
Dividend income and distribution of profit		**(5,923)**	(1,898)
Interest income		**(512)**	(698)
Interest expense		**5,718**	2,068
Changes in working capital			
(Increase) / decrease in inventories	11	**67,988**	(103,690)
(Increase) / decrease in trade and other receivables and other current assets	12	**138,710**	(10,485)
(Decrease) in trade and other payables and other current liabilities	19	**(156,383)**	(12,954)
Cash generated from operating activities		**13,029**	**187,624**
Interest paid		**(4,015)**	(651)
Income taxes received / (paid)		**802**	(67,451)
Lease payments not included in the measurement of the lease liabilities	5	**(779)**	-
Net receipts from derivative financial instruments		**22,303**	1,068
Net cash generated from operating activities		**31,340**	**120,590**
Cash flows from / (used in) investing activities			
Short-term loans provided to related parties	29	**(43,096)**	(107,136)
Short-term loans repaid by related parties	29	**59,909**	91,135
Purchases of property, plant and equipment	5	**(151,667)**	(87,402)
Proceeds from sale of property, plant and equipment		**49**	5,892
Proceeds from sale of CO2 emissions		**32,005**	-
Proceeds from sales of disposal of bussiness units		**2,570**	-
Purchases of intangible assets	7	**(2,393)**	(10,851)
Change in restricted cash, net	10	**6,547**	1,766
Change in landfill receivable		**(6,140)**	-
Receipts - Environmental projects	12	**41,704**	19,019
Interest received		**544**	668
Proceeds from decrease of share capital in subsidiaries		**-**	773
Dividends received and distribution of profit		**5,923**	1,898
Net cash (used in) investing activities		**(54,045)**	**(84,238)**
Cash flows from / (used in) financing activities			
Proceeds from borrowings	16, 26, 29	**380,757**	378,302
Repayment of borrowings	16, 26, 29	**(99,264)**	(186,231)
Payments for the principal portion of the lease liabilities	5, 16	**(6,592)**	-
Dividends paid to the Company's shareholder	15, 29	**(129,435)**	(437,306)
Net cash generated from / (used in) financing activities		**145,466**	**(245,235)**
Net increase in cash and cash equivalents		**122,761**	**(208,883)**
Cash and cash equivalents at beginning of year	14, 27	**91,747**	300,630
Cash and cash equivalents at end of year	14, 27	**214,508**	**91,747**

The accompanying notes on pages SF-11 to SF-66 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, 2019 were as follows:

James Edward Bruno	President
Ing. Silvia Gaálová, FCCA	Vice President and Chief Financial Officer
Ing. Marcel Novosad	Vice President Operations
Ing. Július Lang	Vice President Commercial and Customer Technical Service
JUDr. Elena Petrášková, LL.M	Vice President Subsidiaries and General Counsel
RNDr. Miroslav Kiraľvarga, MBA	Vice President External Affairs, Administration and Business Development
David Earle Hathaway	Vice President Engineering and Innovation
Karl George Kocsis	Vice President Human Resources and Transformation

Emoluments of statutory representatives are disclosed in Note 29.

Shareholder of the Company

As of December 31, 2019 and 2018, 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 May 15, 2019, 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, 2019 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, 2019 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, 2019 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.

Property, plant and equipment, intangible assets and investment properties are tested for impairment by the Company whenever changes in circumstances indicate that the carrying amount may not be recoverable or there are indicators which will enable to reverse recognized impairment loss. If it is determined that the assets carrying amounts materially exceed their recoverable amount, an impairment loss is recognized. 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 inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

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 (35 years). The depreciation period and method are reviewed at the end of each reporting period.

Where the Company uses only an insignificant part of a property it owns, the whole property is 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 (2 - 15 years). 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

General and specific 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.

Borrowing costs eligible for capitalization are reduced by income on the temporary investment of those borrowings pending their incurring the expenses relating to qualifying assets.

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

2.10 Accounting for Leases

a. Reporting period beginning January 1, 2019

Initial recognition and measurement

The Company has applied *IFRS 16 Leases* using the simplified transition approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

On adoption of *IFRS 16 Leases*, the Company recognized lease liabilities in relation to leases which had previously been classified as “operating lease” under the principles of IAS 17 (Note 28). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rates valid as of December 31, 2018. The weighted average incremental borrowing rate of 2.14 percent was applied by the Company to lease liabilities recognized at the date of initial application of a new standard.

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

Measurement of lease liability

	January 1, 2019
Finance lease commitments disclosed as at December 31, 2018	-
Operating lease commitments disclosed as at December 31, 2018	**17,658**
(Less): immaterial leases	**(6)**
(Less): variable lease payments	**(287)**
Add: adjustments as a result of a different treatment of extension and termination options	**5,733**
Undiscounted lease liabilities as of January 1, 2019	**23,098**
(Less): effect of discount rate	**(1,144)**
Lease liability recognized as of January 1, 2019	**21,954**
of which are:	
Current lease liabilities	**5,605**
Non-current lease liabilities	**16,349**

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as of December 31, 2018.

In applying *IFRS 16 Leases,* the Company has used the following practical expedients permitted by the standard:

- the Company has elected not to separate non-lease components and account for lease and non-lease components as a single lease component,
- the Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. EUR 10,000 was set as low-value threshold by the Company. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term in profit or loss,
- the Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17 and interpretation *IFRIC 4 Determining whether an Arrangements contains a Lease.*

According to the IFRS 16 the Company recognizes a right-of-use asset and a lease liability at the lease commencement date for all new lease contracts arised after January 1, 2019, with exception of short-term and low-value leases.

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.

Each lease payment is allocated between the lease liability and interest expense. The interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, incremental borrowing rate is used. The incremental borrowing rate of the Company 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.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option;

Some vehicles leases contain variable payment terms that are linked to mileage. Variable lease payments are recognized in profit or loss in the period in which the condition that triggers those payments occurs.

Lease terms, extension and termination options

IFRS 16 defines a lease term as the noncancelable period for which the lessee has the right to use an underlying asset including optional periods when an entity is reasonably certain to exercise an option to extend a lease or not to exercise an option to terminate a lease. Lease terms in the contracts are negotiated on an individual basis and may contain different terms and conditions. When determining the lease term, the Company (lessee) considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The option is reassessed if a significant event or a significant change in circumstances occurs that are within the control of the lessee.

As the exercise of an extension option in the existing contracts depend on the mutual lessee and lessor approval, the Company did not include extension option in the lease term calculation.

Lease contracts in the Company are typically made for periods of 1 to 5 years. The Company has set the internal rule for contracts with undefined lease term. Based on the Strategic plan periodicity the Company decided to use 5 years as the lease term for these contracts.

Subsequent measurement

The lease liability is measured in subsequent periods using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The Company has chosen to present the right-of-use assets as part of property, plant and equipment and the lease liabilities as other liabilities in the statement of financial position. The related detailed information is provided in the Note 5.

b. Reporting period ending December 31, 2018

Leases of assets were 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 were recognized as assets at the commencement date of the lease at the lower of their fair value or the present value of the minimum lease payments.

Each lease payment was 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 was charged to profit or loss as finance cost over the lease period. The asset acquired under finance lease was depreciated over the shorter of the useful life of the asset or the lease term. Subsequent to initial recognition, the asset was 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) were recognized as revenue or expense on a straight-line basis over the lease term.

2.11 Investments

Subsidiaries

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 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

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 include 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 loss allowance 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 loss allowance 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 loss allowance 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 loss allowance 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.

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 repayable on demand and other short-term highly liquid investments that are not subject to significant risk of changes in value and have maturity less than three months 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

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.

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

Derecognition of financial liabilities

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.

2.17 Dividends and Profit Distribution

Dividends and profit distribution are recognized in the Company's accounts in the period in which they are approved by general meeting. Dividend and profit distribution 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 for liabilities

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 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, or directly in equity in which case the tax is also recognized in other comprehensive income, or directly in equity.

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

<u>Defined contribution pension plan</u>

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.

Work and life jubilee benefits

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

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

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

Termination benefits

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

Profit sharing and bonus plans

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

2.22 Revenue Recognition

Revenue is 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 that the Company retains after paying a principal of the given service. Revenue from services performed as an agent is recognized in the period in which such 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 basis.

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.

Interest income

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

Dividend income and distribution of profit

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

2.23 Contingent Liabilities and Contingent Assets

Contingent liabilities are not recognized in these 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 unless they are virtually certain. 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 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),
- receivables subject to factoring arrangements (Notes 2.12, 12 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 2.5, 2.6, 2.7, 2.8, 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, 2019 is approximately 20 years (as of December 31, 2018: 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 4.0 million (2018: EUR 3.7 million). If estimated average useful life of these assets would decrease by 1 year, the annual depreciation charge would have been higher by EUR 4.4 million (2018: EUR 4.1 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.

In 2019, market conditions started to deteriorate, as the dislocation between steel selling prices and raw material costs continued to result in significant margin compression. Level of steel imports into Europe continued to be high as a result of low effectiveness of EU safeguards, profitability within the steel making industry have been declining steadily. Weakening automotive industry and slowdown in other key consuming industries is weighing on the already depressed steel market.

Due to economic downturn, one out of three blast furnaces has been temporarily idled since June 2019. Consequently, the overall production capacity of the Company has been reduced by approx. one third. This was considered to be a temporary arrangement; however, it is expected that the Company will continue to run the operation with 2 blast furnaces in 2020. Even if the production was significantly reduced, the actions taken by the Company are considered to be temporary to adjust operation footprint to continue with the solid production level to satisfy customer requirements and address current unfavorable market conditions.

As a consequence of the adverse conditions, there were deemed to be impairment indicators and impairment test was performed.

As part of the impairment evaluation, recoverable amount of the Company has been determined. The recoverable amount is the higher of fair value less costs of disposal or value in use. Due to interdependence between individual Division Plants, the Company has been considered as a single cash generating unit.

The fair value calculation uses cash flow projections based on actual operating results, the most recent business plans approved by management and an appropriate discount rate which reflects the time value of money and risks associated with future economic and operating conditions. Projected cash flows also reflect assumptions that market participants would use in estimating the fair value.

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

- Cash flow projections based on business plans cover a period of 5 years, which assume economic recovery across the EU with a corresponding increase in steel prices and improvements in steel demand.
- Cash flow projections beyond the five-year period have been extrapolated taking into account a terminal growth rate of 2.0 percent for sales and production costs and reflect the best estimates for stable perpetual growth of the Company. This percentage is consistent with long-term average growth rates for countries in which the Company sells the majority of its production.
- Cash flow projections also reflect the initiated shareholder value creation strategy: earn the right to grow, and drive and sustain profitable growth. Through a disciplined approach 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 2019 was estimated in nominal terms at 7.0 percent based on the risk-adjusted post-tax weighted average cost of capital. The discount rate in 2019 reflects higher uncertainty inherent in the Company's cash flow projections arising from industry downturn, unfair traded imports and higher political risks resulting from increased uncertainty in the EU relating to BREXIT.

The Company performed sensitivity analysis where the Company examined impact on impairment simulating change of discount rate and terminal growth percentage. This analysis is a part of asset impairment test. The Company has determined that the non-financial assets were not impaired as the recoverable amount of the assets group exceeded their carrying amounts. As the result of impairment evaluation, the Company did not recognize any impairment in 2019.

There were no impairment indicators identified in 2018.

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).

As of December 31, 2019, if the discount rate developed with a bond yield curve of high quality European corporate bonds had been 1 percent higher / lower with all other variables held constant, it would have resulted to EUR 2,640 thousand lower / EUR 3,142 thousand higher net present value of estimated future employee benefits obligations.

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).

As of December 31, 2019, if the average interest rate on borrowings drawn against revolving credit facilities had been 1 percent higher / lower, with all other variables held constant, it would have resulted to EUR 742 thousand lower / EUR 875 thousand higher net present value of the estimated future landfill restoration expenditures.

Leases

A contract is, or contains, a lease if the contract conveys the right to control the use an identified asset for a period of time in exchange for consideration. At inception of a contract, the Company applied judgement when assessing whether a contract is or conveys a lease (Note 5).

IFRS 16 defines a lease term as the noncancelable period for which the lessee has the right to use an underlying asset including optional periods when an entity is reasonably certain to exercise an option to extend (or not to terminate) a lease. Lease terms in the contracts are negotiated on an individual basis and may contain different terms and conditions. Management uses its own judgment when determining the lease term. The lease term is reassessed if a significant event or a significant change in circumstances occurs that are within the control of the Company (lessee).

The Company tested various contractual agreements for compliance with requirements of *IFRS 16 Leasing*. Following strict rules of the standard it has determined that the Contract on delivery of energy media concluded with subsidiary Ferroenergy, s.r.o. is a contract which contains a lease and related costs of the energy purchased are classified as variable lease payments expense (Note 21) in these financial statements.

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.

Allowance 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 forecasted 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, 2019

The following new standards and interpretations became effective from January 1, 2019:

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 are 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 adopted the standard effective January 1, 2019. The Company applied the simplified transition approach and did not restate comparative amounts for the year prior to first adoption. The Company recognized 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 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.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on June 7, 2017 and effective in EU for annual periods beginning on or after January 1, 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. There is no material impact of the implementation of the Interpretation to the financial statements.

Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on October 12, 2017 and effective in EU for annual periods beginning on or after January 1, 2019). The amendments enable measurement at amortized cost of certain loans and debt securities that can be prepaid at an amount below amortized cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortized cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The. There is no material impact of the implementation of the amendments to the financial statements.

Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on October 12, 2017 and effective in EU for annual periods beginning on or after January 1, 2019). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares. There is no material impact of the implementation of the amendments to the 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 capitalization only until the specific asset is substantially complete. There is no material impact of the implementation of the amendments to the financial statements.

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. There is no material impact of the implementation of the amendments to the financial statements.

4.2 Standards, amendments and interpretationsof standards issued but not effective until the financial year beginning January 1, 2020 or later and not early adopted by the Company

Revised Conceptual Framework and Amendments to References to the Conceptual Framework in IFRS Standards (issued on March 29, 2018 and effective for annual periods beginning on or after January 1, 2020). The revised version includes comprehensive changes to the previous Conceptual Framework, issued in 1989 and partly revised in 2010. The aim of the revision was to underpin highlevel concepts with sufficient detail for it to set standards and to help users to better understand and interpret the standards. The key changes include:

- increasing the prominence of stewardship in the objective of financial reporting,
- reinstating prudence as a component of neutrality,
- defining a reporting entity, which may be a legal entity, or a portion of an entity,
- revising the definitions of an asset and a liability,
- removing the probability threshold for recognition and adding guidance on derecognition,
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. The Company is currently assessing the impact of the ammendments on its financial statements.

Definition of a Business –Amendments to IFRS 3 Business Combinations (issued on October 22, 2018 and effective for annual periods beginning on or after January 1, 2020). Ammendment is aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term ‘outputs’ is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The Company is currently assessing the impact of the ammendments on its financial statements.

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (issued on October 31, 2018 and effective for annual periods beginning on or after January 1, 2020). Amendments clarify the definition of ‘material’ to align the definition used in the Conceptual Framework and the standards themselves. In particular, the amendments clarify, that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and the meaning of primary users of general purpose financial statements’ to whom those financial statements are directed, by defining them as existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need. 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)

Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS* 7 *(issued on September 26, 2019 and effective for annual periods beginning on or after January 1, 2020). The amendments are designed to support the provision of useful financial information by companies during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs). The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The Company is currently assessing the impact of the amendments on its financial statements.

Classification of Liabilities as Current or Non-current – Amendments to IAS 1 (issued on January 23, 2020 and effective for annual periods beginning on or after January 1, 2022). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. The Company is currently assessing the impact of the amendments on its financial statements.

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

Note 5 Property, Plant and Equipment

Movements in property, plant and equipment during 2019 are as follows:

	Land and buildings	Machinery, equipment and motor vehicles	Other tangible assets	Construction in progress	Right of use assets	Total
Cost						
December 31, 2018	**460,279**	**1,168,285**	**17,486**	**84,268**	**-**	**1,730,318**
Effect of IFRS 16 adoption	-	-	-	-	21,954	**21,954**
January 1, 2019	**460,279**	**1,168,285**	**17,486**	**84,268**	**21,954**	**1,752,272**
Additions	-	-	60	133,418	7,472	**140,950**
Disposals	(1,040)	(15,663)	(24)	-	(468)	**(17,195)**
Transfer to / from investment property	(1,824)	-	-	-	-	**(1,824)**
Transfers to base	30,378	112,096	-	(142,474)	-	**-**
December 31, 2019	**487,793**	**1,264,718**	**17,522**	**75,212**	**28,958**	**1,874,203**
Accumulated Depreciation						
January 1, 2019	**(165,869)**	**(767,596)**	**(13,202)**	**-**	**-**	**(946,667)**
Depreciation for the year	(13,252)	(58,900)	(310)	-	(6,585)	**(79,047)**
Disposals	1,040	14,327	-	-	802	**16,169**
Transfer to / from investment property	978	-	-	-	-	**978**
December 31, 2019	**(177,103)**	**(812,169)**	**(13,512)**	**-**	**(5,783)**	**(1,008,567)**
Carrying amount	**310,690**	**452,549**	**4,010**	**75,212**	**23,175**	**865,636**

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

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**

Movements in right of use assets during 2019 are as follows:

	Land and buildings	Machinery, equipment and motor vehicles	Other right-of-use assets	Total
Cost				
January 1, 2019	**342**	**20,941**	**671**	**21,954**
Additions	-	7,472	-	**7,472**
Disposals	(14)	(430)	(24)	**(468)**
December 31, 2019	**328**	**27,983**	**647**	**28,958**
Accumulated Depreciation				
January 1, 2019	-	-	-	**-**
Depreciation	(98)	(6,203)	(284)	**(6,585)**
Disposals	15	763	24	**802**
December 31, 2019	**(83)**	**(5,440)**	**(260)**	**(5,783)**
Carrying amount	**245**	**22,543**	**387**	**23,175**

Borrowing costs totaling EUR 213 thousand were capitalized in 2019 (2018: EUR 5 thousand).

No property, plant and equipment were pledged in favor of a creditor or restricted in its use as of December 31, 2019 or December 31, 2018.

Purchases of property, plant and equipment in the Statement of Cash Flows excludes an acquisition of assets directly related to leasing totaling EUR 7.5 million and a non-cash change in accrued capital expenditures and a change in unpaid capital expenditures in the amount of EUR 18 million for the year ended December 31, 2019 (for the year ended December 31, 2018: EUR 38 million).

On August 1, 2019 U. S. Steel Košice, s.r.o. sold its radiators production facilities, including PP&E and inventories to the new owner KORAD Radiators s.r.o. that took over the production of heating radiators in full extent. The selling price of EUR 2.57 million consisted of selling price of PP&E in the amount of EUR 1.43 million and inventories in the amount of EUR 1.14 million. The total loss on disposal of the asset was EUR 1.75 million. The asset was neither classified as held for sale nor as discontinued operations as of December 31, 2018 as the conditions were not met that time.

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

Impairment of property, plant and equipment

The Company evaluates non-financial assets for impairment whenever changes in circumstances indicate that the carrying amounts of the assets exceed their recoverable amount. During 2019, changes in external business environment, significant reduction in production capacity resulting from idling a blast furnace and headcount reductions were considered triggering events indicating impairment and the Company performed the analysis to test the assets for impairment. The analysis included significant estimates and judgments made by the management as disclosed in Note 3. The Company has determined that the assets were not impaired as the recoverable amount of the assets group exceeded their carrying amounts.

There were no impairment indicators identified in 2018.

Insurance

Property, plant and equipment are insured by KOOPERATIVA poisťovňa, a.s. Vienna Insurance Group. The insurance covers damage caused by theft, disaster and other causes of machinery and equipment failure while maximum insurance compensation for one insurance claim is USD 150 million, i.e. EUR 134 million (2018: USD 200 million, i.e. EUR 175 million) using the exchange rate at the end of reporting period. Compensation sub limits for individual risks are specified in the insurance contract. Self-insurance is USD 75 million, i.e. EUR 67 million (2018: 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 150 million, i.e. EUR 134 million (2018: 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 600 million, i.e. EUR 534 million (2018: USD 650 million, i.e. EUR 568 million).

Environmental 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 – 2 and 3 - 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, 2019.

In 2019, the Company invested EUR 45,367 thousand (2018: EUR 45,081 thousand) in Property, plant and equipment related to projects aiming to improve environmental conditions beyond Best Available Techniques (BAT) requirements and the amount of EUR 35,434 thousand (2018: EUR 35,723 thousand) was capitalized from the funds generally available in the market.

The deferred income amortized to Other income in 2019 totaled EUR 2,830 thousand (2018: EUR 408 thousand). Change of total Environmental project costs resulted in reduction of deferred income balance by EUR 34 thousand in 2019 (2018: reduction of EUR 13,271 thousand). The Company believes that it complied with all relevant conditions and in 2019 it did not recognize any additional deferred income (2018: EUR 402 thousand) (Notes 12 and 28).

Movements in deferred income relating to Environmental projects during 2019 and 2018 are as follows:

	2019	2018
Opening balance as of January 1	**82,546**	**96,225**
Net change in contracts relating to Environmental projects	**(34)**	(13,271)
Amortization to Other income	**(2,830)**	(408)
Closing balance as of December 31	**79,682**	**82,546**

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

Lease

The statement of financial position shows the following amounts relating to leases:

	December 31, 2019	January 1, 2019
Right-of-use assets *		
Land and buildings	**245**	342
Machinery, equipment and motor vehicles	**22,543**	20,941
Other right-of-use assets	**387**	671
Total Right-of-use assets	**23,175**	**21,954**
Lease liabilities **		
Current	**7,474**	5,605
Non-current	**17,389**	16,349
Total lease liabilities	**24,863**	**21,954**

* included in the line item ‘Property, plant and equipment’ in the statement of financial position.
** included in the line item ‘Trade and other payables’ in the statement of financial position.

The Company leases various warehouses, vehicles, railroad cars and equipment. On adoption of *IFRS 16 Leases*, as of January 1, 2019 the Company recognized lease liabilities and right-of-use assets totaling EUR 22 million in relation to leases which had been classified as “operating lease” under the principles of IAS 17 as of December 31, 2018 (Note 28) and the Company did not recognize any right-of-use assets and lease liabilities in relation to leases that are classified as ‘finance leases’ under IAS 17, as the Company did not recognize such leases as of December 31, 2018. Adjustments recognized on adoption of IFRS 16 are disclosed in Note 2.10.

None of the existing Company’s lease contract comprises variable lease payments that are based on an index or a rate.

Additions to the right-of-use assets were EUR 7,472 thousand as of December 31, 2019.

The Statement of profit or loss and other comprehensive income shows the following amounts relating to leases:

	December 31, 2019
Depreciation charge of right-of-use assets ***	
Land and buildings	**101**
Machinery, equipment and motor vehicles	**6,202**
Other right-of-use assets	**282**
Total Depreciation charge of right-of-use assets	**6,585**
Interest expense ****	**(492)**
Expense relating to short-term leases (included in other operating expenses in Note 23)	**(116)**
Expense relating to leases of low-value assets that are not short-term leases (included in other operating expenses in Note 23)	**(26)**
Expense relating to variable lease payments not included in lease liabilities (included in other operating expenses in Note 23)	**(637)**
Expense relating to variable lease payments for energy consumed not included in lease liabilities (EUR 169.3 million included in energy consumed in Note 21 and EUR 2.0 million included in net sales of merchandise in Note 20)	**(171,322)**

*** included in the line item ‘Depreciation and amortization’ in the statement of other comprehensive income.

**** included in the line item ‘Interest expense’ in the statement of other comprehensive income.

The total cash outflow for leases in 2019 was EUR 7,371 thousand.

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

Lease liability maturities is as follows:

	December 31, 2019
Not later than 1 year	**7,474**
Later than 1 year and not later than 5 years	**16,769**
Later than 5 years	**620**
Present value of lease liability **	**24,863**

** included in the line item 'Trade and other payables' in the statement of financial position.

Note 6 Investment Properties

Movements in investment properties during 2019 and 2018 are as follows:

	2019	2018
Cost		
Opening balance as of January 1	**3,624**	**3,623**
Transfers to property, plant and equipment	**(5)**	(1,086)
Transfers from property, plant and equipment	**1,829**	1,087
Closing balance as of December 31	**5,448**	**3,624**
Accumulated Depreciation and Impairment Losses		
Opening balance as of January 1	**(1,060)**	**(1,191)**
Depreciation for the year	**(131)**	(72)
Transfers to property, plant and equipment	**-**	207
Transfers from property, plant and equipment	**(978)**	(4)
Closing balance as of December 31	**(2,169)**	**(1,060)**
Carrying amount	**3,279**	**2,564**

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 9,520 thousand as of December 31, 2019 (December 31, 2018: EUR 4,473 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.

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.

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

Note 7 Intangible Assets

Movements in intangible assets during 2019 are as follows:

	Software	Emission allowances	Other intangible assets	Intangible assets not yet available for use	Total
Cost					
January 1, 2019	**37,334**	**153,080**	**641**	**1,680**	**192,735**
Additions	-	122,930	-	2,393	**125,323**
Disposals	(651)	(175,564)	-	-	**(176,215)**
Revaluation surplus	-	13,446	-	-	**13,446**
Transfers to base	2,706	-	5	(2,711)	**-**
December 31, 2019	**39,389**	**113,892**	**646**	**1,362**	**155,289**
Accumulated Amortization					
January 1, 2019	**(30,410)**	**-**	**(471)**	**-**	**(30,881)**
Amortization for the year	(2,435)	-	(34)	-	**(2,469)**
Disposals	649	-	-	-	**649**
December 31, 2019	**(32,196)**	**-**	**(505)**	**-**	**(32,701)**
Carrying amount	**7,193**	**113,892**	**141**	**1,362**	**122,588**

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**

The Company considers the individual intangible asset with recognized acquisition cost more than EUR 500,000 to be material to the financial statements.

No borrowing costs were capitalized in 2019 and 2018.

No intangible assets were pledged in favor of a creditor or restricted in their use as of December 31, 2019 or December 31, 2018.

<u>Insurance</u>

Intangible assets are not insured.

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

Emission allowances

In 2019, 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 21.59 per ton (2018: EUR 9.70 per ton). Emission allowances allocated by the Slovak Government in 2019 totaled EUR 123 million (2018: EUR 56 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 the projected future production levels and sufficient emission allowances inventory necessary to meet annual compliance submission in the future the Company decided to sell EUA in the volume of 350 thousand tons totaling EUR 8.72 million and in the volume of 750 thousand tons totaling EUR 18.36 million to its subsidiary Ferroenergy s.r.o. in June and December 2019, respectively and EUA in the volume of 185 thousand tons totaling EUR 4.93 million to the external subject in December 2019. In 2019 the Company did not purchase any emission allowances. In 2018, the Company purchased 1 million of EUAs totaling EUR 8 million.

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

	December 31, 2019	December 31, 2018
Emission allowances (intangible asset)	**113,892**	153,080
Liability from the obligation to deliver allowances (provision) (Note 17)	**122,966**	147,078

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, 2019

	Level 1	Level 2	Level 3	Total
Assets				
Emission allowances	113,892	-	-	**113,892**
Total	**113,892**	**-**	-	**113,892**

December 31, 2018

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

During 2019 and 2018, 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 100,445 thousand as of December 31, 2019 (December 31, 2018: EUR 59,988 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, 2019	December 31, 2018
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)	**146**	197
	Equity	**3,383**	4,077
U.S. Steel Košice – SBS, s.r.o., Slovakia, Security services			
	Ownership interest (%)	**98.00**	98.00
	Carrying amount	**34**	34
	Profit/(loss)	**53**	59
	Equity	**113**	340
RMS Košice s.r.o., Slovakia, Maintenance and vulcanization services, refractory production			
	Ownership interest (%)	**76.01**	76.01
	Carrying amount	**1,185**	1,185
	Profit/(loss)	**(377)**	1,665
	Equity	**14,734**	16,508
U. S. Steel Services s.r.o., Slovakia, Various services			
	Ownership interest (%)	**99.96**	99.96
	Carrying amount	**1,804**	1,804
	Profit/(loss)	**67**	97
	Equity	**2,671**	2,696
U. S. Steel Obalservis s.r.o., Slovakia, Packaging			
	Ownership interest (%)	**99.97**	99.97
	Carrying amount	**5,037**	5,037
	Profit/(loss)	**668**	1,608
	Equity	**4,085**	6,930
Ferroenergy s.r.o., Slovakia, Production of Electricity, Steam, Hot Water and Technical Gases			
	Ownership interest (%)	**99.99**	99.99
	Carrying amount	**121,810**	121,810
	Profit/(loss)	**(7,259)**	(37,767)
	Equity	**132,358**	135,438
U. S. Steel Europe – Bohemia s.r.o., Czech Republic, Sales Agent			
	Ownership interest (%)	**100.00**	100.00
	Carrying amount	**4**	4
	Profit/(loss)	**23**	52
	Equity	**187**	214
U. S. Steel Europe – France S.A., France, Sales Agent			
	Ownership interest (%)	**99.94**	99.94
	Carrying amount	**212**	212
	Profit/(loss)	**14**	18
	Equity	**182**	187
U. S. Steel Europe – Germany GmbH, Germany, Sales Agent			
	Ownership interest (%)	**100.00**	100.00
	Carrying amount	**650**	545
	Profit/(loss)	**34**	35
	Equity	**1,252**	1,253
U. S. Steel Europe – Italy S.r.l. , Italy, Sales Agent			
	Ownership interest (%)	**-**	100.00
	Carrying amount	**-**	98
	Profit/(loss)	**(63)**	8
	Equity	**144**	129
Total carrying amount of investments		**132,986**	**132,979**

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.

Where required by the law financial information of the USSK's subsidiaries is audited for the year 2019 and 2018.

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

None of the Company's ownership interests in subsidiaries were pledged as of December 31, 2019 or December 31, 2018.

As of June 1, 2019, the company U. S. Steel Europe - Italy S.r.l. entered into liquidation. The liquidation of the U. S. Steel Europe - Italy S.r.l. was finished on the shareholder meeting as of November 13, 2019 after completion of liquidation process. Liquidation balance was EUR 84,486.

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.

As of September 1, 2018, U. S. Steel Europe – Bohemia a.s. changed the name and legal form to U. S. Steel Europe – 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.

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, 2019 (December 31, 2018: 21 percent).

The tax effect of the movements in the temporary differences during 2019 is as follows:

	January 1, 2019	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2019
Property, plant and equipment	**(55,365)**	10,793	-	**(44,572)**
Leases	**-**	155	-	**155**
Inventories	**1,856**	2,027	-	**3,883**
Employee benefits	**7,751**	45	(454)	**7,342**
Deferred charges	**259**	(144)	-	**115**
Provision for impairment to receivables	**27**	18	-	**45**
Unused tax loss 2019	**-**	3,156	-	**3,156**
Research and development 2020 - 2023	**-**	2,309	-	**2,309**
Emission allowances transactions	**(247)**	996	(714)	**35**
Derivative financial instruments	**(2,208)**	-	1,591	**(617)**
Provisions	**5,913**	1,116	-	**7,029**
Other temporary differences	**(1,673)**	897	-	**(776)**
Total	**(43,687)**	**21,368**	**423**	**(21,896)**
Deferred tax asset / (liability)	**(43,687)**			**(21,896)**

(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**
Emission allowances transactions	**52**	15,823	(16,122)	**(247)**
Derivative financial instruments	**1,834**	-	(4,042)	**(2,208)**
Provisions	**4,926**	987	-	**5,913**
Other temporary differences	**(2,859)**	1,186	-	**(1,673)**
Total	**(39,388)**	**15,196**	**(19,495)**	**(43,687)**
Deferred tax asset / (liability)	**(39,388)**			**(43,687)**

The Company has unrecognized potential deferred tax liability of EUR 1,096 thousand related to subsidiaries as of December 31, 2019 (December 31, 2018: deferred tax liability of EUR 988 thousand).

Tax loss carry forward

By the end of the 2019, the Company recognized a deferred tax asset for the tax losses in accordance with *IAS 12 Income taxes*. The 2019 cumulative tax loss amounted to EUR 20,036 thousand. The Company plans to utilize the deferred tax asset from 2021 to 2023 in the ¾ of the cumulative tax loss as it estimates that there will not be sufficient taxable profit in 2020 against which the unused loss can be utilized.

Note 10 Restricted Cash

	December 31, 2019	December 31, 2018
Cash restricted in its use - long-term portion	**-**	5,334
Cash restricted in its use - short-term portion	**-**	1,213
Total (Notes 26 and 27)	**-**	**6,547**

In 2018, cash restricted in its use represented cash deposits made by the Company which could be used only for closure of landfills, reclamation and monitoring after their closure (Note 17). During 2019 the Company transferred restricted cash from Company's bank accounts into the State Treasury account based on change in legislation. The amount totaling EUR 6.2 million was reclassified from Restricted cash to Other receivables (Note 12) as the definition of Cash and cash equivalents was no longer met.

Note 11 Inventories

	December 31, 2019	December 31, 2018
Raw materials	165,316	196,947
Work-in-progress	42,689	56,718
Semi-finished production	66,887	66,482
Finished goods	116,682	136,259
Merchandise	2,836	4,150
Inventory allowance	(9,088)	(3,003)
Total	**385,322**	**457,553**

No inventories were pledged in favor of a creditor or restricted in their use as of December 31, 2019 or December 31, 2018.

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

Inventory as of December 31, 2019 is shown net of write-down allowances resulting from lower net realizable values totaling EUR 9,088 thousand (December 31, 2018: EUR 3,003 thousand). Gross value of inventories written down were EUR 164 million as of December 31, 2019 (December 31, 2018: EUR 9 million).

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

	Raw materials	Work in progress	Semi-finished production	Finished products	Total
January 1, 2019	**318**	**1,037**	**1,286**	**362**	**3,003**
Allowance made	638	1,589	2,281	4,101	**8,609**
Allowance used	(739)	(356)	(1,002)	(150)	**(2,247)**
Allowance reversed	(14)	(134)	(83)	(46)	**(277)**
December 31, 2019	**203**	**2,136**	**2,482**	**4,267**	**9,088**

	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**

Usage of write-down allowances is recognized when inventory is removed from the accounting books (e.g. sale, disposal, donation, damage, consumption) or reversal is recognized when the indication that the inventories impairment loss recognized in prior periods no longer exists or may have decreased.

Note 12 Trade and Other Receivables

	December 31, 2019	December 31, 2018
Trade receivables	**200,638**	348,423
Trade receivables that are subject of factoring arrangements	**13,790**	9,154
Related party accounts receivable (Note 29)	**12,392**	20,785
Total trade receivables	**226,820**	**378,362**
Other receivables - Environmental projects	**16,463**	58,201
Other receivables - Funds for landfill restoration	**6,140**	-
Other receivables from related parties (Note 29)	**18,391**	-
Other receivables	**10,225**	1,095
Trade and other receivables - financial (gross)	**278,039**	**437,658**
Loss allowance for trade receivables	**(14,671)**	(15,314)
Loss allowance for other receivables	**(1)**	(5)
Trade and other receivables - financial (net)	**263,367**	**422,339**
VAT receivable	**31,507**	45,984
Advance payments made	**4,388**	5,644
Other receivables - non-financial	**35,895**	**51,628**
Trade and other receivables (net)	**299,262**	**473,967**
Long-term receivables (financial)	**6,140**	2,800
Short-term receivables (financial and non-financial)	**293,122**	471,167

No receivables of the Company were pledged in favor of a bank or other entities as of December 31, 2019 or December 31, 2018. Information about collateral or other credit enhancements and the overall credit risk of the Company is disclosed in Note 26. The valuation falls within Level 3 of the fair value hierarchy. There was no significant movement between fair value measurement categories during 2019. Additional information about measurement of the trade receivables is disclosed in Note 27.

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

Trade receivables and other receivables

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

	December 31, 2019	December 31, 2018
No or low-risk counterparties	**99,718**	166,633
Increased risk counterparties	**113,312**	202,575
Trade receivables at amortized costs	**213,030**	**369,208**
No or low-risk counterparties	**7,160**	9,154
Increased risk counterparties	**6,630**	-
Trade receivables at FV through other comprehensive income	**13,790**	**9,154**
Total	**226,820**	**378,362**

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 an allowance for expected credit losses to trade receivables and other receivables in amount of EUR 14,672 thousand as of December 31, 2019 (December 31, 2018: EUR 15,319 thousand).

The movements of loss allowances were as follows:

	Trade receivables	Other receivables	Total
January 1, 2019	**15,314**	**5**	**15,319**
Increase in loss allowance	95	**-**	**95**
Receivables written-off	(730)	(4)	**(734)**
Unused amount reversed	(8)	-	**(8)**
December 31, 2019	**14,671**	**1**	**14,672**

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

The recognized loss allowance relates to individually impaired receivables.

For the rest of the trade receivables and the other receivables, which almost all are falling within due (or few days overdue) category, 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 historical 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 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. Based on the consideration the Company adjusted the historical loss rates and estimated expected credit loss by applying adjusted rates (0.001% applied) to the receivables balances as of December 31, 2019. The general expected credit loss allowance calculated by the Company is considered to be immaterial as of December 31, 2019.

In 2018, the impact of the general expected credit loss allowance was also immaterial and recognized allowance related only to individually impaired receivables.

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

Other Receivables - Environmental Projects

Other receivables include amounts arising from contractual agreements relating to Environmental projects (Note 5) which will mitigate future capital expenditures by EUR 16 million as of December 31, 2019 (December 31, 2018: EUR 58 million) if USSK complies with certain financial covenants, which are assessed annually. USSK complied with these covenants as of December 31, 2019. Other receivables decreased by EUR 42 million due to cash received and EUR 34 thousand due to net change in contracts relating to Environmental projects (2018: EUR 19 million and EUR 13 million, respectively). The receivables were denominated in Euro and were neither subject to substantial credit risk nor currency risk (Note 26). Receivables resulting from Environmental projects are receivables due from Slovak Republic with the credit rating A2 according to Moody's, that represents low credit risk. The Company therefore considers expected credit loss to be immaterial as of December 31, 2019.

Other Receivables – Funds for landfill restoration

The Company is required to maintain funds to cover closing and clean-up costs at the end of a landfill site's useful life. During 2019 the Company transferred funds for landfill restoration from Company's bank accounts into the State Treasury account based on change in legislation. The amount totaling EUR 6.2 million was reclassified from Restricted cash (Note 10) to Other receivables as the definition of Cash and cash equivalents was no longer met. Funds for landfill restoration are receivables due from Slovak Republic with the credit rating A2 according to Moody's, that represents low credit risk. The Company therefore considers expected credit loss to be immaterial as of December 31, 2019.

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, 2019 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, 2019 and December 31, 2018 recognized in other comprehensive income and accumulated in revaluation reserves in equity were reclassified into profit or loss in 2019 and 2018, respectively. The actual value recognized in Other operating income in 2019 amounts to EUR 22,362 thousand (2018: income of EUR 871 thousand). The amount consists of reclassification of income of EUR 8,365 thousand (2018: loss of EUR 7,037 thousand) from reserve funds into profit or loss related to forward transactions entered into during previous year where the asset acquired affected current year profit or loss, and income of EUR 13,997 thousand (2018: income of EUR 7,908) related to forward transactions entered into during 2019 (2018) where the asset acquired affected profit or loss in 2019 (2018).

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, 2019		December 31, 2018	
	Assets	Liabilities	Assets	Liabilities
Foreign exchange forwards - cash flow hedges	**3,971**	**1,033**	10,729	215
Total	**3,971**	**1,033**	**10,729**	**215**

Balances as of December 31, 2019 and December 31, 2018 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, 2019 and December 31, 2018. As of December 31, 2019, the financial derivatives for

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

ING Bank N.V. and J.P. Morgan represent more than 25 percent of value of total financial derivatives. The ratings of the banks are A-2 and better (according to Standard & Poor's) as of December 31, 2019 (December 31, 2018: BBB+ and better). Information about the fair value hierarchy as of December 31, 2019 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, 2019	December 31, 2018
Payable on settlement in EUR thousand	**(281,567)**	(285,778)
Receivable on settlement in USD thousand	**287,186**	343,750

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 2019 matured in 2019, resulting in an expense in total amount of EUR 604 thousand (2018: expense of EUR 227 thousand).

Note 14 Cash and Cash Equivalents

	December 31, 2019	December 31, 2018
Cash on hand	**91**	68
Cash at bank	**214,417**	91,679
Total (Note 27)	**214,508**	**91,747**

Interest rates on bank accounts were approximately 0.00 percent per annum for EUR deposits, 1.25 percent per annum for USD deposits and 0.09 percent per annum for CZK deposits as of December 31, 2019 (December 31, 2018: 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). 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 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.

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, 2019.

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

Reserve funds

The movements in reserve funds are as follows:

	Other capital funds	Legal reserve fund	Derivative hedging instruments	CO_2 emission allowances	Total
January 1, 2019	**44**	**63,131**	**8,365**	**76,970**	**148,510**
Changes in fair value of derivative hedging instruments	-	-	2,321	-	**2,321**
Changes in fair value of CO_2 allowances	-	-	-	12,732	**12,732**
Realization of CO_2 allowances revaluation	-	-	-	(79,080)	**(79,080)**
Release of fair value of derivative hedging instruments	-	-	(8,365)	-	**(8,365)**
Contribution to legal reserve fund	-	6,343	-	-	**6,343**
December 31, 2019	**44**	**69,474**	**2,321**	**10,622**	**82,461**

	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**

Dividends

Dividends totaling EUR 129,435 thousand were paid to U. S. Steel Global Holdings VI B.V. in September 2019 (Dividends totaling EUR 437,306 thousand were paid to U. S. Steel Global Holdings VI B.V. in 2018). There were no declared but unpaid dividends as of December 31, 2019 and December 31, 2018.

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

Note 16 Loans and Borrowings

The movement in liabilities from financing activities is as follows:

	Long-term loans and borrowings	Intercompany loan from U.S.Steel (Note 29)	Supplier payable financing program	Related parties (Note 29)	Lease liabilities (Note 5, 19)	Total
December 31, 2018	**200,000**	**-**	**5,554**	**13,508**	**-**	**219,062**
Effect of IFRS 16 adoption	-	-	-	-	21,954	**21,954**
January 1, 2019	**200,000**	**-**	**5,554**	**13,508**	**21,954**	**241,016**
Proceeds	150,000	133,523	23,020	74,214	**-**	**380,757**
Repayments	-	-	(25,408)	(73,856)	-	**(99,264)**
Lease acquisitions	-	-	-	-	9,501	**9,501**
Lease payments	-	-	-	-	(6,592)	**(6,592)**
December 31, 2019	**350,000**	**133,523**	**3,166**	**13,866**	**24,863**	**525,418**
Long-term	350,000	133,523	-	-	17,389	**500,912**
Short-term	-	-	3,166	13,866	7,474	**24,506**
Interest	1,565	108	-	18	-	**1,691**
December 31, 2019 including interest	**351,565**	**133,631**	**3,166**	**13,884**	**24,863**	**527,109**

	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, U. S. Steel Košice, s.r.o., a subsidiary of United States Steel Corporation and Ferroenergy s.r.o., subsidiary of U. S. Steel Košice, s.r.o. as guarantor, entered into a EUR 460 million 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. Borrowings drawn within the Credit Agreement bear interest rate spread over the applicable IBOR + margin 2.5 percent per annum (2018: applicable IBOR + margin 1.7 percent per annum).

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.

On December 23, 2019 U. S. Steel Košice, s.r.o., a subsidiary of United States Steel Corporation and Ferroenergy s.r.o., a subsidiary of U. S. Steel Košice, s.r.o. and Commerzbank Finance & Covered Bond S.A. as facility agent, entered into a supplemental agreement (the “Supplemental Agreement”), relating to the Senior multicurrency revolving credit facility agreement originally dated September 26, 2018 in the amount of EUR 460 million (“the Credit Agreement”). The Supplemental Agreement amends and restates the Credit Agreement to, among other things, (a) increase the maximum leverage ratio (defined as the ratio of Net Debt to EBITDA) to 6.50 to 1.00 beginning June 30, 2021 and declining to 3.50 to 1.00 thereafter, and (b) pledge certain Company trade receivables and inventory as collateral in support of Company’s obligations (Note 30).

If the 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, 2019 and December 31, 2018. As of December 31, 2019, borrowings totaling EUR 350 million were drawn against the EUR 460 million Credit Agreement (December 31, 2018: totaling EUR 200 million were drawn against the EUR 460 million Credit Agreement). As of December 31, 2019, the Company had availability of EUR 110 million under the Credit Agreement (as of December 31, 2018, the Company had availability of EUR 260 million under the Credit Agreement).

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

On December 23, 2019, the Company entered into a USD 150 million Loan Agreement with United States Steel Corporation. This agreement will mature on September 27, 2023. Interest on borrowings under the facility is 3 month LIBOR plus margin 2.9 percent per annum and the agreement contains customary terms and conditions. As of December 31, 2019, borrowings totaling USD 150 million (i.e. EUR 134 million using the exchange rate valid at the end of the reporting period) were drawn against this credit facility.

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, 2019, the credit facility has been used in the amount of EUR 1,882 thousand for bank guarantees (December 31, 2018: the credit facility has been used in the amount of EUR 1,207 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, 2019, the credit facility has not been used (December 31, 2018: EUR 891 thousand has been used for bank guarantees).

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 2019 and 2018 the Company had no borrowings under its EUR 20 million and EUR 10 million credit facilities. Only credit facility in the amount of EUR 20 million has been used for bank guarantees.

The Company utilizes a structured supplier payable financing program from Citibank Europe plc. (Note 2.16). Short-term borrowings of EUR 3.2 million as of December 31, 2019 (December 31, 2018: EUR 5.6 million) 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, 2019	**7,130**	**953**	**147,078**	**69**	**155,230**
Provision made	156	199	122,966	505	**123,826**
Provision used / reversed	(19)	(100)	(147,078)	(497)	**(147,694)**
December 31, 2019	**7,267**	**1,052**	**122,966**	**77**	**131,362**
Long-term provisions	7,234	-	-	-	**7,234**
Short-term provisions	33	1,052	122,966	77	**124,128**

	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**

The movement of provisions caused by the passage of time (i.e. accretion expense) in 2019 and 2018 was immaterial.

Provision reversals for the year 2019 and 2018 were immaterial.

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

Landfill

The provision for closing, reclamation and after-close monitoring of landfills is recognized based on the Law on Waste. In 2019, 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 2019, 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 2019. 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 Liabilities

Employee retirement liability

The Company is committed to make payments to employees upon retirement in accordance with the Labor Code and Collective Labor Agreement. The defined benefit liability 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 liability except that actuarial gains and losses and past services costs are recognized immediately in profit or loss for the current period.

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

	2019	2018
Opening balance as of January 1	**37,280**	**33,725**
Total expense charged in profit or loss – pension	**1,734**	2,069
Total expense charged in profit or loss – jubilee	**461**	654
Total expense charged in profit or loss – termination	**17,603**	(1)
Remeasurements of post employment benefit liabilities	**(2,010)**	3,243
Benefits paid	**(20,933)**	(2,410)
Closing balance as of December 31	**34,135**	**37,280**
Long-term employee benefits payable	**32,986**	35,862
Short-term employee benefits payable	**1,149**	1,418

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

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

	December 31, 2019	December 31, 2018
Present value of the liability – pension	**19,936**	20,819
Present value of the liability – jubilee	**8,273**	8,458
Present value of the liability – termination	**94**	11
Remeasurements of post employment benefit liabilities	**5,832**	7,992
Total liability in the statement of financial position	**34,135**	**37,280**

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

	2019	2018
Current service costs – pension	**1,405**	1,552
Current service costs – jubilee	**375**	573
Current service costs – termination	**17,603**	(1)
Interest costs	**415**	454
Net actuarial losses / (gains)	**150**	60
Pension recalculation change	**-**	144
Remeasurements of post employment benefit liabilities	**(2,160)**	3,183
Total	**17,788**	**5,965**

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 interest expense line of the statement of profit or loss and other comprehensive income.

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

	2019	2018
Discount rate - pension	**0.64%**	1.45%
Discount rate - jubilee	**0.42%**	1.06%
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 liabilities 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, 2019 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.

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

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.

<u>Defined contribution pension plan</u>

Throughout the year, the Company made contributions to the mandatory government and private defined contribution plans representing 24.2 percent (2018: 25 percent) of total salaries and other employee benefits up to a monthly salary limit of EUR 6,678 (2018: EUR 6,384).

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 2019 (2018: 1.6 percent).

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

Information for pension plans with an accumulated employee benefits liabilities:

	December 31, 2019	December 31, 2018
Accumulated employee benefits liabilities	**25,264**	27,671
Effects of future compensation	**8,777**	9,598
Projected employee benefits liabilities	**34,041**	**37,269**
Termination	**94**	11
Total liability in the statement of financial position	**34,135**	**37,280**

Note 19 Trade and Other Payables

	December 31, 2019	December 31, 2018
Trade payables	**125,586**	195,899
Related party accounts payable (Note 29)	**19,561**	23,952
Assigned trade payables (1)	**47,997**	59,611
Accrued discounts and rebates	**12,601**	14,100
Uninvoiced deliveries and other accrued expenses	**71,810**	142,472
Trade payables and accruals (Note 26)	**277,555**	**436,034**
Lease liabilities	**24,863**	**-**
Other payables	**1,432**	4,660
Financial liabilities	**26,295**	**4,660**
Liability to employees and social security institutions	**23,713**	35,837
Advance payments received	**3,190**	1,354
VAT and other taxes and fees	**4,826**	6,004
Non-financial liabilities	**31,729**	**43,195**
Total	**335,579**	**483,889**

(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, 2019. 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, 2019	December 31, 2018
Short-term trade and other payables	**317,020**	482,707
Long-term trade and other payables	**18,559**	1,182
Total	**335,579**	**483,889**

Long-term trade and other payables represent lease liabilities (as of December 31, 2019: EUR 17,389 thousand) and 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, 2019	December 31, 2018
Trade and other payables not yet due	**330,431**	479,152
Trade and other payables past due	**5,148**	4,737
Total	**335,579**	**483,889**

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

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

	December 31, 2019	December 31, 2018
EUR	**235,800**	346,596
USD	**40,878**	77,998
Other	**877**	11,440
Total	**277,555**	**436,034**

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

	2019	2018
Opening balance as of January 1	**167**	**163**
Company contribution (company costs)	**1,580**	1,736
Employees contribution (repayments)	**17**	31
Withdrawals	**(1,682)**	(1,763)
Closing balance as of December 31	**82**	**167**

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 and spiral welded pipes. In addition, the Company distributes 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.

Revenue from contracts with customers consists of the following:

	2019	2018
Sales of own production	**2,124,753**	2,695,420
Sales of merchandise	**253**	425
Rendering of services	**13,726**	16,223
Total	**2,138,732**	**2,712,068**

In 2019 and 2018, sales of merchandise represented net sales of power coal and natural gas sold to the Ferroenergy s.r.o. subsidiary, external net sales of electricity, heat and steam produced by Ferroenergy, s.r.o.

In 2019 and 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.

<u>Timing of revenue recognition</u>

	2019	2018
Performance obligation satisfied at a point in time	**2,125,006**	2,695,845
Performance obligation satisfied over time	**13,726**	16,223
Total	**2,138,732**	**2,712,068**

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

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

Segments and Products	2019	2018
Hot-rolled sheets and plates	**876,937**	1,101,800
Cold-rolled sheets	**250,107**	322,547
Coated sheets	**533,486**	624,506
Tin mill products	**352,944**	352,330
Standard and line pipe	**35,439**	40,664
Semi-finished products	**9,468**	145,292
Other	**66,372**	108,281
Total	**2,124,753**	**2,695,420**

Market	2019	2018
Steel Service Centers	**369,707**	449,432
Transportation (including automotive)	**430,031**	468,875
Further conversion - trade customers	**109,923**	161,443
Containers	**362,852**	363,944
Construction and construction products	**568,101**	885,038
Appliances and electrical equipment	**147,272**	176,386
Oil, gas and petrochemicals	**306**	7,264
All other	**136,561**	183,038
Total	**2,124,753**	**2,695,420**

Other income

Other income consists of the following:

	2019	2018
Amortization of deferred income - CO_2 emission allowances (Note 7)	**122,930**	56,365
Amortization of deferred income - Environmental projects (Note 5)	**2,830**	408
Gain on disposal of property, plant and equipment, investment property and intangible assets	**1,922**	5,793
Gain on derivative financial instruments (Note 13)	**22,362**	871
Rental income	**1,536**	1,434
Income from contractual penalties	**514**	257
Energy compensation from Ministry of Industry	**12,423**	-
Repayment of CO_2 tax	**9,891**	-
Miscellaneous income	**5,355**	4,684
Total	**179,763**	**69,812**

The Company recognized revenue in amount of EUR 1,354 thousand in 2019 that was included in the contract liability balance at the beginning of the period.

Note 21 Materials and Energy Consumed

Materials and energy consumed is comprised of the following:

	2019	2018
Materials consumed	**(1,292,945)**	(1,523,489)
Energy consumed *	**(286,110)**	(280,759)
Costs of merchandise sold	**-**	7
Changes in internally produced inventory	**(31,666)**	74,900
Inventory write-down allowance (Note 11)	**(8,332)**	(2,147)
Total	**(1,619,053)**	**(1,731,488)**

*The line Energy consumed includes a variable lease payment expense and services related to operating of leased asset totaling EUR (169.3) million (2018: EUR (184.8) million).

(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:

	2019	2018
Wages and salaries	**(202,983)**	(208,004)
Profit sharing expense	**-**	(18,910)
Termination benefits (Note 18)	**(17,603)**	1
Mandatory social and health insurance to all insurance funds (Note 18)	**(75,123)**	(80,731)
Other social expenses	**(13,416)**	(13,355)
Pension expenses – retirement and w ork and life jubilees (Note 18)	**(1,930)**	(2,329)
Total	**(311,055)**	**(323,328)**

The number of active employees of the Company as of December 31, 2019 was 8,929 (December 31, 2018: 10,147). The average number of the Company's employees for 2019 was 9,640 (2018: 9,960).

Note 23 Other Operating Expenses

Other operating expenses during 2019 and 2018 are as follows:

	2019	2018
Packaging	**(15,000)**	(16,206)
Cleaning and w aste disposal	**(8,129)**	(9,165)
Advertising and promotion	**(2,290)**	(3,012)
Intermediary fees	**(2,351)**	(2,319)
Training	**(865)**	(1,048)
Impairment of receivables release (Note 12)	**(87)**	12
Loss on disposal from sales of bussiness units	**(1,750)**	-
Real estate tax and other taxes	**(4,269)**	(5,663)
Intangible assets, licences, trade marks, licence support	**(4,030)**	(14,347)
Laboratory and heat tests	**(6,309)**	(6,689)
External processing	**(14,231)**	(12,937)
Costs of processing of steel slag, sludge and dust	**(4,573)**	(5,349)
Audit fees	**(621)**	(621)
Other services provided by the auditor	**(5)**	(3)
Short-term leases (Note 5)	**(116)**	-
Low value leases (Note 5)	**(26)**	-
Variable lease payments (Note 5)	**(637)**	-
Traveling costs	**(732)**	(1,540)
Warehousing and handling of finished products	**(3,599)**	(3,658)
Insurance costs	**(3,039)**	(4,122)
Service activities	**(12,341)**	(9,518)
Security services - premises	**(2,856)**	(3,277)
Commitment fee - the Credit Agreement	**(3,081)**	(3,904)
Scarffing of conti-slabs	**(2,645)**	(3,070)
Telephone, fax, telex, postage, data processing	**(3,829)**	(3,955)
Costs of employee intracompany transportation	**(1,076)**	(849)
Crane operation	**(3,609)**	(3,363)
Chromium plating of rolls	**(1,420)**	(1,524)
Service of heavy machines	**(967)**	(788)
Chemical treatment of w ater circuits	**(568)**	(668)
Other operating expenses (1)	**(17,690)**	(27,471)
Total	**(122,741)**	**(145,054)**

(1) Other operating expenses include various types of services not exceeding EUR 2 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:

	2019	2018
Current tax	**(566)**	(50,980)
Deferred tax (Note 9)	**21,368**	15,196
Total current year tax	**20,802**	**(35,784)**
Prior year current tax correction	**8,930**	-
Total	**29,732**	**(35,784)**

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:

	2019	2018
(Loss) / Profit before tax	**(92,881)**	162,615
Tax calculated at 21 percent tax rate	**19,505**	(34,149)
Permanent differences	**1,323**	1,233
Other	**(26)**	(2,868)
Tax (charge) / credit	**20,802**	**(35,784)**

The effective tax rate was 22 percent in 2019 (2018: 22 percent).

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

	2019			2018		
	Before tax	Tax (charge) / credit	After tax	Before tax	Tax (charge) / credit	After tax
Changes in fair value of derivative hedging instruments	**(7,635)**	**1,591**	**(6,044)**	19,444	(4,042)	15,402
Changes in actuarial gains and losses	**2,160**	**(454)**	**1,706**	(3,183)	669	(2,514)
Revaluation of intangible assets	**13,446**	**(714)**	**12,732**	93,092	(16,122)	76,970
Other comprehensive income	**7,971**	**423**	**8,394**	**109,353**	**(19,495)**	**89,858**

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 compared to 2018.

The capital structure of the Company consists of debt that comprises long-term loans and borrowings, intercompany loan from U. S. Steel, borrowings from related parties, supplier payable financing program and leases (Notes 16 and 29) totaling EUR 527,109 thousand as of December 31, 2019 (December 31, 2018: 219,062 EUR thousand) and equity (Note 15) totaling EUR 937,488 thousand as of December 31, 2019 (December 31, 2018: EUR 1,123,645 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, 2019 and December 31, 2018.

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.

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

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

Credit risk

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 Environmental 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 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 Company mitigates credit risk for approximately 73 percent (2018: 67 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:

	2019	2018
Credit insurance	**65%**	60%
Letters of credit and documentary collection	**2%**	2%
Bank guarantees	**2%**	2%
Other credit enhancements	**4%**	3%
Credit enhanced sales	**73%**	**67%**
Unsecured sales	**27%**	33%
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, 2019	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)	-	185,967	13,790
Related party accounts receivables (net)	-	30,783	-
Other receivables – Environmental projects	-	16,463	-
Other receivables (net)	-	16,364	-
Derivative financial instruments (Note 13)			
Forward foreign exchange	3,971	-	-
Short-term loans (Note 29)			
Short-term loans provided to related parties	-	394	-
Cash and cash equivalents (Note 14)			
Cash and cash equivalents	-	214,508	-
Total	**3,971**	**464,479**	**13,790**

December 31, 2019	Cash and cash equivalents at amortized cost
ING Bank N.V.	39,178
COMMERZBANK	32,058
Citibank (Slovakia) a.s.	39,975
Slovenská sporiteľňa, a.s.	68,127
Komerční Banka, a.s.	3,727
Československá obchodná banka, a.s.	7,498
Všeobecná úverová banka, a.s.	23,499
Other banks	355
Cash on hand	91
Total (Note 14)	**214,508**

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

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 – Environmental 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	-	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	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, a.s.	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	1,312
ING Bank N.V.	107
Cash restricted in its use (Note 10)	**6,547**
Total	**98,294**

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 2019, the Company drew short-term borrowings as a part of the Group's cash pooling strategy of EUR 74,214 thousand and repaid EUR 73,856 thousand and provided to its subsidiaries the amount of EUR 43,096 thousand and received EUR 59,909 thousand. During 2018, the Company drew short-term borrowings as a part of the Group'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. Borrowings drawn within the Group'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, 2020 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, 2019

	0 – 1 year	1 – 5 years	over 5 years	Total
Assets				
Cash and cash equivalents	214,508	-	-	**214,508**
Trade receivables (net)	212,149	-	-	**212,149**
Other receivables – Environmental projects	16,463	-	-	**16,463**
Other receivables (net)	34,755	-	-	**34,755**
Derivative financial instruments	287,186	-	-	**287,186**
Intercompany short - term loans provided	394	-	-	**394**
Total	**765,455**	**-**	**-**	**765,455**
Liabilities				
Trade payables and accruals	258,996	18,559	-	**277,555**
Other financial liabilities	1,432	-	-	**1,432**
Derivative financial instruments	281,567	-	-	**281,567**
Lease liability (Note 5)	7,474	16,769	620	**24,863**
Loans and borrow ings (Note16)	31,946	525,221	-	**557,167**
Total	**581,415**	**560,549**	**620**	**1,142,584**

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 – Environmental 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**
Other financial liabilities	4,660	-	-	**4,660**
Derivative financial instruments	285,778	-	-	**285,778**
Loans and borrow ings	19,087	200,735	-	**219,822**
Total	**744,377**	**201,917**	**-**	**946,294**

<u>Market risk</u>

a) Interest rate risk

The Company is subject to the effects of interest rate fluctuations on borrowings drawn against revolving credit facilities (Note 16). If the interest rate had been 1 percent higher / lower as of December 31, 2019, it would have resulted to EUR 2.5 million higher/lower interest expense. If the interest rate had been 1 percent higher / lower as of December 31, 2018, it would have resulted to EUR 0.4 million higher/lower interest expense.

(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, 2019 and December 31, 2018.

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, 2019

	Cash and cash equivalents
EUR	105,740
USD	99,348
CZK	9,347
other	73
Total	**214,508**

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**

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 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, 2019, the Company had open USD forward purchase contracts for Euros in total notional value of approximately EUR 282 million (December 31, 2018: EUR 286 million).

On December 23, 2019, the Company entered into a USD 150 million Loan Agreement with United States Steel Corporation. As of December 31, 2019, borrowings totaling USD 150 million (i.e. EUR 134 million using the exchange rate valid at the end of the reporting period) were drawn against this credit facility.

As of December 31, 2019, if the EUR had weakened / strengthened by 7 percent against the U.S. dollar with all other variables held constant, this movement would have resulted in a EUR 15 million credit / EUR 14 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, 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.

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

c) Other price risk

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

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

The Company is exposed to a fluctuation of Iron Ore, Zinc and Tin purchase prices. An increase in these commodity prices would have an adverse impact on the Company's profitability. In order to mitigate the 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. All commodity forwards commenced in 2019 matured in 2019. All commodity forwards commenced in 2018 matured in 2018.

In 2019 and 2018, 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, 2019 and December 31, 2018, 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, 2019

	Amortized cost	FV through profit or loss	FV through other comprehensive income	Total
Assets				
Unquoted financial instruments	-	259	-	**259**
Trade receivables (net)	185,967	-	13,790	**199,757**
Related party accounts receivables (net)	30,783	-	-	**30,783**
Other receivables – Environmental projects	16,463	-	-	**16,463**
Other receivables (net)	16,364	-	-	**16,364**
Cash and cash equivalents	214,508	-	-	**214,508**
Restricted cash	-	-	-	**-**
Short-term loans provided to related parties	394	-	-	**394**
Derivative financial instruments	-	3,971	-	**3,971**
Total	**464,479**	**4,230**	**13,790**	**482,499**

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

	Amortized cost	FV through profit or loss	Total
Liabilities			
Trade payables and accruals	277,555	-	**277,555**
Other financial liabilities	1,432	-	**1,432**
Derivative financial instruments	-	1,033	**1,033**
Short-term borrowings			
Supplier payable financing program	3,166	-	**3,166**
Related parties (Note 29)	13,866	-	**13,866**
Leases (Note 5, 19)	7,474	-	**7,474**
Long-term borrowings			
Long-term borrow ings	350,000	-	**350,000**
Intercompany loan from U.S.Steel (Note 29)	133,523	-	**133,523**
Leases (Note 5, 19)	17,389	-	**17,389**
Total	**804,405**	**1,033**	**805,438**

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 – Environmental 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**
Other financial liabilities	4,660	-	**4,660**
Derivative financial instruments	-	215	**215**
Short-term borrowings			
Supplier payable financing program	5,554	-	**5,554**
Related parties (Note 29)	13,533	-	**13,533**
Long-term borrowings			
Long-term borrow ings	200,735	-	**200,735**
Total	**660,516**	**215**	**660,731**

(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, 2019

	Level 1	Level 2	Level 3	Total
Assets				
Trade receivables that are subject of factoring arrangements (Note 12)	-	-	13,790	**13,790**
Hedging derivatives	-	3,971	-	**3,971**
Total	**-**	**3,971**	**13,790**	**17,761**
Liabilities				
Hedging derivatives	-	1,033	-	**1,033**
Total	**-**	**1,033**	**-**	**1,033**

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**

During 2019 and 2018, 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, 2019 and December 31, 2018. Fair values of these instruments as of December 31, 2019 and December 31, 2018 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) were as follows:

	2018
Not later than 1 year	5,140
Later than 1 year and not later than 5 years	12,439
Later than 5 years	79
Total	**17,658**

Capital Commitments

Capital expenditures of EUR 21 million had been committed under contractual arrangements as of December 31, 2019 (December 31, 2018: EUR 66 million).

Environmental Commitments

The Company is in compliance with environmental legislation. In 2019, the environmental expenses represented mainly by air, water pollution and solid waste handling fees totaled approximately EUR 10 million (2018: EUR 11 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. Updates of dossiers in 2019 in order to remain compliant with REACH requirements were not subject to the fee. In 2018 the Company performed several updates of dossiers totaling EUR 117 thousand. The Company cannot reliably estimate the potential additional cost of complying with these measures at this time.

The Waste Act effective from January 1, 2016 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 financial impact of the new disposal fees on USSK's operations was EUR 0.3 million.

Carbon Dioxide (CO_2) Emissions

The European Commission (EC) has created an Emissions Trading Scheme (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 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. Based on projected total production levels, the Company started to purchase emission allowances in the third quarter of 2017 to meet the annual compliance submission in the future. As of December 31, 2019, the Company purchased 6 million European Union Allowances (EUA) totaling EUR 45 million (as of December 31, 2018 the Company purchased 6 million European Union Allowances (EUA) totaling EUR 45 million) to cover estimated shortfall of emission allowances. The Company estimates that the total shortfall will be approximately 3.9 million allowances for the Phase III period. The full cost of complying with the ETS regulations will depend on future production levels and future emissions intensity levels.

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 to comply with or go beyond the BAT requirements is EUR 138 million over the actual program period. These costs may be mitigated if the Company complies with certain financial covenants, which are assessed annually. The Company complied with these covenants as of December 31, 2019 and 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.

(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:

		2019	2018
United States Steel Corporation, Ultimate parent company			
	Revenues	**1,422**	13,637
	Expenses	**108,754**	47,452
	Receivables	**314**	562
	Payables	**499**	11,168
	Borrowings received including interest (Note 16)	**133,631**	-
USS International Services, LLC, Company under common control of U. S. Steel			
	Expenses	**2,838**	3,052
	Receivables	**110**	77
	Payables	**412**	337
Subsidiaries under control of the Company (Note 8)			
	Revenues	**117,552**	106,640
	Expenses	**234,916**	256,318
	Receivables	**30,359**	20,146
	Payables	**18,650**	12,447
	Borrowings received including interest (Note 16)	**13,884**	13,533
	Loans provided	**394**	17,244
Total			
	Revenues	**118,974**	**120,277**
	Expenses	**346,508**	**306,822**
	Receivables	**30,783**	**20,785**
	Payables	**19,561**	**23,952**
	Borrowings received including interest	**147,515**	**13,533**
	Loans provided	**394**	**17,244**

Dividends totaling EUR 129,435 thousand were paid to U. S. Steel Global Holdings VI B.V. in September 2019 (Dividends totaling EUR 437,306 thousand were paid to U. S. Steel Global Holdings VI B.V. in 2018) (Note 15).

Transactions with United States Steel Corporation relate mainly to rendering of services (2019: EUR 1,422 thousand; 2018: EUR 1,574 thousand), purchases of raw material (2019: EUR 106,008 thousand; 2018: EUR 33,188 thousand) and licenses (2018: EUR 9,971 thousand), managerial services (2019: 2,746 thousand; 2018: EUR 4,293 thousand) and sales of own products (2018: EUR 12,063 thousand).

USS International Services, LLC provides managerial services to U. S. Steel Košice, s.r.o. (2019: EUR 2,838 thousand; 2018: EUR 3,052 thousand).

All related party transactions were realized on arm’s length basis.

On December 23, 2019, the Company entered into a USD 150 million Loan Agreement with United States Steel Corporation. This agreement will mature on September 27, 2023. Interest on borrowings under the facility is 3 month LIBOR plus margin 2.9 percent per annum and the agreement contains customary terms and conditions. As of December 31, 2019, borrowings totaling USD 150 million (i.e. EUR 134 million using the exchange rate valid at the end of the reporting period) were drawn against this credit facility and the interest expense was USD 122 thousand (i.e. EUR 108 thousand using the exchange rate valid at the end of the reporting period).

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 2019 and as of December 31, 2019, no loans were drawn against this facility. As of December 31, 2018, there were no loans provided under this facility.

(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.

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 Group’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, 2020 with the option to be prolonged. During 2019, the Company as a part of the Group’s cash pooling strategy drew from its subsidiaries the amount of EUR 74,214 thousand and repaid amount of EUR 73,856 thousand and provided to its subsidiaries the amount of EUR 43,096 thousand and received EUR 59,909 thousand. During 2018, the Company as a part of the Group’s cash pooling strategy 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.

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 2019 and 2018 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:

	2019	2018
Wages and salaries	**13,973**	17,406
Mandatory social and health insurance to all insurance funds	**4,311**	4,935
Total	**18,284**	**22,341**

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

Effective from January 1, 2020, U.S. Steel Europe – Bohemia s.r.o. started liquidation process and changed its name to “U.S. Steel Europe – Bohemia s.r.o. in liquidation”. The impact of the U.S. Steel Europe – Bohemia s.r.o. liquidation on the financial statements is immaterial.

On January 22, 2020 the Company as pledgor and Commerzbank Finance & Covered Bond S.A as pledgee signed the Agreement on creation of pledge over trade receivables. Collateral comprises all of the existing trade receivables and all of the future trade receivables in each case including appurtenances and any contractual or statutory security created or existing for the benefit of the pledgor. As of May 31, 2020, the book value of trade receivables involved in collateral will be determined and reported for the first time with the subsequent monthly frequency.

On January 22, 2020 the Company as pledgor and Commerzbank Finance & Covered Bond S.A as pledgee signed the Agreement on creation of pledge over movable assets. Collateral comprises all consolidated assets treated as inventory including stock of raw materials, work in progress, semi-finished production and finished products, that the pledgor currently owns or will own in the future, including their appurtenances and all documents necessary for their use and disposal. As of March 31, 2020, the book value of inventory involved in collateral was EUR 279 million.

On February 28, 2020, the 2020 CO_2 emission allowances were credited to the Company account in the volume of 5,576,436 tons totaling EUR 131.4 million. On April 15, 2020, the Company delivered 5,023,141 tons of CO_2 emission allowances for 2019 to the Slovak Government fulfilling its obligation for the sixth year of the Phase III period.

In March 2020, U. S. Steel Košice, s.r.o. announced its intention to continue to focus on its core steel production activities and its plan to start the independent process of selling its subsidiary RMS Košice s.r.o. as well as its pipe production facilities, including the related PP&E and inventories. The activities of the RMS Košice s.r.o include the production of progressive refractory materials and maintenance services for primary steelmaking operations. U. S. Steel Košice, s.r.o. pipe division focuses on production of spiral-welded pipes. Given that the intended sale of these two asset groups is in an early stage and significant changes to the plan might occur, it is not certain that the sale will be completed within a one year period, the assets are not available for immediate sale, and a reasonable selling price was not yet determined, the assets were neither classified as held for sale nor discontinued operations in these financial statements.

An addendum No.11 to the valid Collective Labor Agreement (the CLA Addendum) became effective on April 16, 2020 and enables employee to receive one-time wage benefit for years of service if his/her labor contract with the Company has lasted for 5 uninterrupted years or more as of the date of submitting the application for the termination of labor contract pursuant to the CLA Addendum. In case the CLA Addendum is used, an employee will terminate his/her labor contract by agreement as of June 30, 2020.

A new subsidiary, Tubular s.r.o. was established on April 16, 2020. Majority (85 percent) of the share in total registered capital of EUR 5,000 is owned by USSK, remaining minority share (15 percent) is owned by USSK's subsidiary Ferroenergy s.r.o. The only asset is the cash representing registered capital amount and the subsidiary has not started its operation yet.

A new coronavirus (COVID-19) emerged from China in early 2020. COVID-19 consisted of a limited number of cases of an unknown virus that had been reported to the World Health Organization at year-end, however, the virus has spread significantly across China and the globe since then, causing disruptions to business and economic activity. The Company considers this outbreak to be a non-adjusting post balance sheet event. The Company has taken specific measures to ensure health and safety of the employees as well as the Company’s operations. While this is still an evolving situation, the impact to the Company’s operation and results has been mitigated by the Company’s actions taken and the future impacts cannot be reliably estimated and quantified at the time of issuing these financial statements. The Company does not expect an impact on its ability to continue to operate as a going concern.

After December 31, 2019, no other significant events have occurred that would require recognition or disclosure in the 2019 separate financial statements.

U. S. Steel Košice, s.r.o.

Consolidated financial statements for the year ended December 31, 2019

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

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

Independent Auditor's Report

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

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of U. S. Steel Košice, s.r.o. and its subsidiaries (together - the "Group") as at 31 December 2019, 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 2019;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Reporting on other information in the annual report

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

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

Translation Note:
This version of our report is a translation from the original, which was prepared in Slovak. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

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 2019 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.
Licence SKAU No. 161

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

Ing. Monika Smižanská, FCCA
Licence UDVA No. 1015

Bratislava, 26 May 2020

Note

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, 2019

Consolidated financial statements for the year ended December 31, 2019, were prepared in accordance with International Financial Reporting Standards as adopted by the European Union on May 26, 2020, 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 26, 2020. Neither the Company's shareholder nor the executives have the power to amend the consolidated financial statements after issue.

Košice, May 26, 2020

James Edward Bruno	Ing. Silvia Gaálová, FCCA
President (statutory representative)	Vice President and Chief Financial Officer (statutory representative)
Ing. Adam Dudič, FCCA	Ing. Beáta Marčáková
General Manager General Accounting and Taxes (responsible for accounting)	Director General Accounting and Financial Reporting (responsible for financial statements preparation)

U. S. Steel Košice, s.r.o.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

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U. S. Steel Košice, s.r.o.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(all amounts are in thousands of EUR if not stated otherwise)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	December 31, 2019	December 31, 2018
ASSETS			
Non-Current Assets			
Property, plant and equipment	5	**997,462**	925,735
Investment property	6	**2,879**	2,270
Intangible assets	7	**200,357**	278,181
Unquoted financial instruments	27	**259**	259
Long-term receivables	12	**6,140**	2,800
Restricted cash	10	**-**	5,334
Total non-current assets		**1,207,097**	**1,214,579**
Current Assets			
Inventories	11	**394,099**	466,436
Trade and other receivables	12	**265,727**	455,012
Derivative financial instruments	13	**3,971**	10,729
Restricted cash	10	**-**	1,213
Current Income Tax Receivables		**6,769**	-
Prepaid expense		**1,463**	1,152
Cash and cash equivalents	14	**217,183**	96,002
Total current assets		**889,212**	**1,030,544**
TOTAL ASSETS		**2,096,309**	**2,245,123**

	Note	December 31, 2019	December 31, 2018
EQUITY AND LIABILITIES			
Equity			
Share capital	15	**839,357**	839,357
Reserve funds	15	**95,706**	195,763
(Accumulated losses) / retained earnings		**10,020**	106,745
Total Equity		**945,083**	**1,141,865**
Liabilities			
Non-Current Liabilities			
Long-term loans and borrowings	16	**483,523**	200,000
Long-term provisions for liabilities and charges	17	**7,234**	7,157
Long-term deferred income - Environmental projects	5	**79,682**	82,546
Long-term employee benefits payable	18	**37,630**	40,778
Deferred income tax liability	9	**23,542**	46,393
Long-term trade and other payables	19	**18,920**	1,182
Total non-current liabilities		**650,531**	**378,056**
Current Liabilities			
Trade and other payables	19	**309,449**	484,703
Current income tax liability		**-**	2,876
Derivative financial instruments	13	**1,033**	215
Deferred income		**3**	4
Short-term borrowings	16	**4,839**	6,289
Short-term provisions for liabilities	17	**184,147**	229,672
Short-term employee benefits payable	18	**1,224**	1,443
Total current liabilities		**500,695**	**725,202**
TOTAL EQUITY AND LIABILITIES		**2,096,309**	**2,245,123**

The accompanying notes on pages CF-11 to CF-63 are an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2019	2018
Revenue from contracts with customers	20	**2,112,270**	2,678,946
Other income	20	**175,667**	68,078
Materials and energy consumed	21	**(1,508,955)**	(1,628,257)
Salaries and other employees benefits	22	**(354,096)**	(373,535)
Depreciation and amortization	5, 6, 7	**(93,937)**	(79,909)
Repairs and maintenance		**(65,069)**	(79,794)
Transportation services		**(78,680)**	(101,809)
Advisory services		**(8,101)**	(10,019)
Foreign exchange gains losses		**(1,930)**	(5,109)
Charge for provision for CO_2 emissions	17	**(182,985)**	(228,638)
Other operating expenses	23	**(97,461)**	(111,439)
(Loss) / profit from operations		**(103,277)**	**128,515**
Interest income		**311**	493
Interest expense		**(5,614)**	(1,907)
(Loss) / profit before tax		**(108,580)**	**127,101**
Income tax benefits / (expense)	24	**30,454**	(37,874)
(Loss) / profit after tax		**(78,126)**	**89,227**
Profit after tax is attributable to:			
- Equity holders of the Company		**(78,126)**	89,227
Total (loss) / profit after tax		**(78,126)**	**89,227**
Items that will not be reclassified to profit or loss			
Remeasurements of post employment benefit obligations	24	**1,910**	(2,809)
Revaluation of intangible assets	7,24	**16,877**	121,569
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translation of foreign operations	24	**1**	(231)
Change in fair value of derivative hedging instruments	24	**(6,044)**	15,402
Other Comprehensive income, net of tax		**12,744**	**133,931**
Total comprehensive (loss) / income for the year		**(65,382)**	**223,158**
Total comprehensive (loss) / income is attributable to:			
- Equity holders of the Company		**(65,382)**	223,158
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		**(65,382)**	**223,158**

The accompanying notes on pages CF-11 to CF-63 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	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	Reserve funds	Retained earnings / (accumulated losses)	Total
Balance as of January 1, 2019	**839,357**	**195,763**	**106,745**	**1,141,865**
Loss for 2019	-	-	(78,126)	**(78,126)**
Other comprehensive income	-	10,834	1,910	**12,744**
Total comprehensive (loss) / income for the year	**-**	**10,834**	**(76,216)**	**(65,382)**
Adjustments:				
Release of revaluation reserve - CO_2 emission allowances	-	(117,627)	117,627	**-**
Other adjustments / movements	-	-	(1,965)	**(1,965)**
Total adjustments	**-**	**(117,627)**	**115,662**	**(1,965)**
Transactions with owners:				
Dividends	-	-	(129,435)	**(129,435)**
Contribution to legal reserve fund	-	6,736	(6,736)	**-**
Total transactions with owners	**-**	**6,736**	**(136,171)**	**(129,435)**
Balance as of December 31, 2019	**839,357**	**95,706**	**10,020**	**945,083**

The accompanying notes on pages CF-11 to CF-63 are an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Total	
		2019	**2018**
(Loss) / profit before tax		**(108,580)**	127,101
Non-cash adjustments for			
Depreciation of property, plant and equipment and investment property	5, 6	**84,519**	77,710
Depreciation of right of use assets	5	**6,901**	-
Amortization of intangible assets	7	**2,517**	2,199
Amortization of deferred income - CO_2 emission allowances	20	**(123,586)**	(56,674)
Amortization of deferred income - Environmental projects	5, 20	**(2,830)**	(408)
Charge of provision for CO_2 emissions emitted	17	**182,985**	228,638
Loss on disposal from sales of bussiness units	5, 23	**1,750**	-
(Gain) / loss on disposal of property, plant and equipment, intangible assets and investment property	20, 23	**648**	(5,969)
Gain from changes in fair value of derivative financial instruments	20	**(22,362)**	(871)
Interest income		**(311)**	(493)
Interest expense		**5,614**	1,907
Changes in working capital			
(Increase) / decrease in inventories	11	**68,094**	(104,059)
(Increase) / decrease in trade and other receivables and other current assets	12	**150,038**	(6,778)
(Decrease) in trade and other payables and other current liabilities	19	**(166,559)**	(1,894)
Cash generated from operating activities		**78,838**	**260,409**
Interest paid		**(3,843)**	(486)
Income taxes paid		**(1,570)**	(67,502)
Lease payments not included in the measurement of the lease liabilities	5	**(779)**	-
Net receipts from derivative financial instruments		**22,303**	1,068
Net cash generated from operating activities		**94,949**	**193,489**
Cash flows from / (used in) investing activities			
Purchases of property, plant and equipment	5	**(152,323)**	(95,286)
Proceeds from sale of property, plant and equipment		**49**	6,167
Purchases of intangible assets	7	**(16,231)**	(84,844)
Proceeds from sales of disposal of bussiness units		**2,570**	-
Proceeds from CO2 transactions	7	**4,930**	-
Change in restricted cash, net	10	**6,547**	1,766
Change in landfill receivable		**(6,140)**	-
Receipts - Environmental projects	12	**41,704**	19,019
Interest received		**344**	492
Net cash (used in) investing activities		**(118,550)**	**(152,686)**
Cash flows from / (used in) financing activities			
Proceeds from borrowings	16, 26, 29	**306,543**	291,952
Repayment of borrowings	16, 26, 29	**(25,408)**	(102,939)
Payments for the principal portion of the lease liabilities	5, 16	**(6,918)**	-
Dividends paid to the Company´s shareholder	15, 29	**(129,435)**	(437,306)
Net cash generated from / (used in) financing activities		**144,782**	**(248,293)**
Net (increase)/decrease in cash and cash equivalents		**121,181**	(207,490)
Cash and cash equivalents at beginning of year	14, 27	**96,002**	303,492
Cash and cash equivalents at end of year	14, 27	**217,183**	**96,002**

The accompanying notes on pages CF-11 to CF-63 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, 2019 were as follows:

James Edward Bruno	President
Ing. Silvia Gaálová, FCCA	Vice President and Chief Financial Officer
Ing. Marcel Novosad	Vice President Operations
Ing. Július Lang	Vice President Commercial and Customer Technical Service
JUDr. Elena Petrášková, LL.M	Vice President Subsidiaries and General Counsel
RNDr. Miroslav Kiraľvarga, MBA	Vice President External Affairs, Administration and Business Development
David Earle Hathaway	Vice President Engineering and Innovation
Karl George Kocsis	Vice President Human Resources and Transformation

Emoluments of statutory representatives are disclosed in Note 29.

Shareholder of the Company

As of December 31, 2019 and 2018, 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 May 15, 2019, 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, 2019 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, 2019 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., (functional currency is Czech crown – "CZK") 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.

Transactions within the consolidated group, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated but they are considered as an impairment indicator of the transferred assetd. 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. 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.

Property, plant and equipment, intangible assets and investment properties are tested for impairment by the Group whenever changes in circumstances indicate that the carrying amount may not be recoverable or there are indicators which will enable to reverse recognized impairment loss. If it is determined that the assets carrying amounts materially exceed their recoverable amount, an impairment loss is recognized. 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 inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

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 (35 years). 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 (2 - 15 years). 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 are probable to 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.

<u>Emission allowances</u>

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).

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

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

General and specific 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.

Borrowing costs eligible for capitalization are reduced by income on the temporary investment of those borrowings pending their incurring the expenses relating to qualifying assets.

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

2.11 Accounting for Leases

a. Reporting period beginning January 1, 2019

Initial recognition and measurement

The Group has applied *IFRS 16 Leases* using the simplified transition approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

On adoption of *IFRS 16 Leases*, the Group recognized lease liabilities in relation to leases which had previously been classified as "operating lease" under the principles of IAS 17 (Note 28). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rates valid as of December 31, 2018. The weighted average incremental borrowing rate of 2.11 percent was applied by the Group to lease liabilities recognized at the date of initial application of a new standard.

Measurement of lease liability

	January 1, 2019
Finance lease commitments disclosed as at December 31, 2018	**-**
Operating lease commitments disclosed as at December 31, 2018	**18,356**
(Less): immaterial leases	**(242)**
(Less): variable lease payments	**(287)**
Add: adjustments as a result of a different treatment of extension and termination options	**6,359**
Undiscounted lease liabilities as of January 1, 2019	**24,186**
(Less): effect of discount rate	**(1,193)**
Lease liability recognized as of January 1, 2019	**22,993**
of which are:	
Current lease liabilities	**5,930**
Non-current lease liabilities	**17,063**

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as of December 31, 2018.

In applying *IFRS 16 Lease*, the Group has used the following practical expedients permitted by the standard:

- the Group has elected not to separate non-lease components and account for lease and non-lease components as a single lease component,
- the Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. EUR 10,000 was set as low-value threshold by the Group. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term in profit or loss,
- the Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and interpretation *IFRIC 4 Determining whether an Arrangements contains a Lease.*

According to the IFRS 16 the Group recognizes a right-of-use asset and a lease liability at the lease commencement date for all new lease contracts arised after January 1, 2019 with exception of short-term and low-value leases.

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.

Each lease payment is allocated between the lease liability and interest expense. The interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, incremental borrowing rate is used. The incremental borrowing rate of the Group 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.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option;

Some vehicles leases contain variable payment terms that are linked to mileage. Variable lease payments are recognized in profit or loss in the period in which the condition that triggers those payments occurs.

<u>Lease terms, extension and termination options</u>

IFRS 16 defines a lease term as the noncancelable period for which the lessee has the right to use an underlying asset including optional periods when an entity is reasonably certain to exercise an option to extend a lease or not to exercise an option to terminate a lease. Lease terms in the contracts are negotiated on an individual basis and may contain different terms and conditions. When determining the lease term, the Group (lessee) considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The option is reassessed if a significant event or a significant change in circumstances occurs that are within the control of the lessee.

As the exercise of an extension option in the existing contracts depend on the mutual lessee and lessor approval, the Group did not include extension option in the lease term calculation.

Lease contracts in the Group are typically made for periods of 1 to 5 years. The Group has set the internal rule for contracts with undefined lease term. Based on the Strategic plan periodicity the Group decided to use 5 years as the lease term for these contracts.

Subsequent measurement

The lease liability is measured in subsequent periods using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The Group has chosen to present the right-of-use assets as part of property, plant and equipment and the lease liabilities as other liabilities in the statement of financial position. The related detailed information is provided in the Note 5.

b. Reporting period ending December 31, 2018

Leases of assets were 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 were recognized as assets at the commencement date of the lease at the lower of their fair value or the present value of the minimum lease payments.

Each lease payment was allocated between the lease obligation liability and finance charges to achieve a constant rate of interest on the remaining liability balance. The interest element was charged to profit or loss as finance cost over the lease period. The asset acquired under finance lease was depreciated over the shorter of the useful life of the asset or the lease term. Subsequent to initial recognition, the asset was 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) were recognized as revenue or expense on a straight-line basis over the lease term.

2.12 Financial Assets

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 include 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 loss allowance 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 loss allowance 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 loss allowance 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 loss allowance 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.

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 repayable on demand and other short-term highly liquid investments that are not subject to significant risk of changes in value and have maturity less than three months 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

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.

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

Derecognition of financial liabilities

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.

2.17 Dividends and Profit Distribution

Dividends and profit distribution 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 and profit distribution 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 for liabilities

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, or directly in equity, in which case the tax is also recognized in other comprehensive income, or directly in equity.

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

Defined contribution pension plan

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

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

Employee retirement obligation

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

Upon 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 actual development from the original assumptions and changes in actuarial assumptions are charged to profit or loss when incurred. Amendments to the work and life jubilees benefit plan are charged to profit or loss immediately.

Termination benefits

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

Profit sharing and bonus plans

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

2.22 Revenue Recognition

Revenue is 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 that the Group retains after paying a principal of the given service. Revenue from services performed as an agent is recognized in the period in which such 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 basis.

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.

<u>Interest income</u>

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

2.23 Contingent Liabilities and Contingent Assets

Contingent liabilities are not recognized in these 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 unless they are virtually certain. 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 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.

<u>Hedge accounting</u>

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),
- receivables subject to factoring arrangements (Notes 2.12, 12 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 2.6, 2.7, 2.8, 2.9, 5, 6 and 7).

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

2.26 Events After the Reporting Period

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

Note 3 Significant Accounting Estimates and Judgments

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

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

The average useful life of depreciable property, plant and equipment and investment property as of December 31, 2019 is approximately 20 years (as of December 31, 2018: 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 4.0 million (2018: EUR 3.7 million). If estimated average useful life of these assets would decrease by 1 year, the annual depreciation charge would have been higher by EUR 4.4 million (2018: EUR 4.1 million).

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

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

In 2019, market conditions started to deteriorate, as the dislocation between steel selling prices and raw material costs continued to result in significant margin compression. Level of steel imports into Europe continued to be high as a result of low effectiveness of EU safeguards, profitability within the steel making industry have been declining steadily. Weakening automotive industry and slowdown in other key consuming industries is weighing on the already depressed steel market.

Due to economic downturn, one out of three blast furnaces has been temporarily idled since June 2019. Consequently, the overall production capacity of the Group has been reduced by approx. one third. This was considered to be a temporary arrangement; however, it is expected that the Group will continue to run the operation with 2 blast furnaces in 2020. Even if the production was significantly reduced, the actions taken by the Group are considered to be temporary to adjust operation footprint to continue with the solid production level to satisfy customer requirements and address current unfavorable market conditions.

As a consequence of the adverse conditions, there were deemed to be impairment indicators and impairment test was performed.

As part of the impairment evaluation, the Group 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.

The first cash-generating unit, U.S.Steel Košice, s.r.o. is represented by production process from coke-making to flat rolled products and spiral welded pipes, up to shipments to customers. The second cash-generating unit, Ferroenergy s.r.o., is represented by production and distribution of energy media.

The fair value calculation uses cash flow projections based on actual operating results, the most recent business plans approved by management and an appropriate discount rate which reflects the time value of money and risks associated with future economic and operating conditions. Projected cash flows also reflect assumptions that market participants would use in estimating the fair value.

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

- Cash flow projections based on business plans cover a period of 5 years, which assume economic recovery across the EU with a corresponding increase in steel prices and improvements in steel demand.
- Cash flow projections beyond the five-year period have been extrapolated taking into account a terminal growth rate of 2.0 percent for sales and production costs and reflect the best estimates for stable perpetual growth of the Group. This percentage is consistent with long-term average growth rates for countries in which the Group sells the majority of its production
- Cash flow projections also reflect the initiated shareholder value creation strategy: earn the right to grow, and drive and sustain profitable growth. Through a disciplined approach 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 2019 was estimated in nominal terms at 7.0 percent based on the risk-adjusted post-tax weighted average cost of capital. The discount rate in 2019 reflects higher uncertainty inherent in the Group's cash flow projections arising from industry downturn, unfair traded imports nad higher political risks resulting from increased uncertainty in the EU relating to BREXIT.

The Group performed sensitivity analysis where the Group examined impact on impairment simulating change of discount rate and terminal growth percentage. This analysis is a part of asset impairment test. The Group has determined that the assets were not impaired as the recoverable amount of the CGUs' non-financial assets exceeded their carrying amounts. As the result of impairment evaluation, the Group did not recognize any impairment in 2019.

There were no impairment indicators identified in 2018.

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 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).

As of December 31, 2019, if the discount rate developed with a bond yield curve of high quality European corporate bonds had been 1 percent higher / lower with all other variables held constant, it would have resulted to EUR 2,928 thousand lower / EUR 3,484 thousand higher net present value of estimated future employee benefits obligations.

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).

As of December 31, 2019, if the average interest rate on borrowings drawn against revolving credit facilities had been 1 percent higher / lower, with all other variables held constant, it would have resulted to EUR 742 thousand lower / EUR 875 thousand higher net present value of the estimated future landfill restoration expenditures.

Leases

A contract is, or contains, a lease if the contract conveys the right to control the use an identified asset for a period of time in exchange for consideration. At inception of a contract, the Group applied judgement when assessing whether a contract is or conveys a lease (Note 5).

IFRS 16 defines a lease term as the noncancelable period for which the lessee has the right to use an underlying asset including optional periods when an entity is reasonably certain to exercise an option to extend (or not to terminate) a lease. Lease terms in the contracts are negotiated on an individual basis and may contain different terms and conditions. Management uses its own judgment when determining the lease term. The lease term is reassessed if a significant event or a significant change in circumstances occurs that are within the control of the Group (lessee).

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.

Allowance 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 forecasted 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, 2019

The following new standards and interpretations became effective from January 1, 2019:

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 are 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 adopted the standard effective January 1, 2019. The Group applied the simplified transition approach and did not restate comparative amounts for the year prior to first adoption. The Group recognized a right-of-use assets and corresponding lease liability totaling EUR 23 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 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.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on June 7, 2017 and effective in EU for annual periods beginning on or after January 1, 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. There is no material impact of the implementation of the Interpretation to the consolidated financial statements.

Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on October 12, 2017 and effective in EU for annual periods beginning on or after January 1, 2019). The amendments enable measurement at amortized cost of certain loans and debt securities that can be prepaid at an amount below amortized cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortized cost that do not result in the derecognition will result in a gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. There is no material impact of the implementation of the amendments to the consolidated financial statements.

Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on October 12, 2017 and effective in EU for annual periods beginning on or after January 1, 2019).The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares. There is no material impact of the implementation of the amendments to the consolidated 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 capitalization only until the specific asset is substantially complete. There is no material impact of the implementation of the amendments to the consolidated financial statements.

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. There is no material impact of the implementation of the amendments to the consolidated financial statements.

4.2 Standards, amendments and interpretations of standards issued but not effective until the financial year beginning January 1, 2020 or later and not early adopted by the Group

Revised Conceptual Framework and Amendments to References to the Conceptual Framework in IFRS Standards (issued on March 29, 2018 and effective for annual periods beginning on or after January 1, 2020). The revised version includes comprehensive changes to the previous Conceptual Framework, issued in 1989 and partly revised in 2010. The aim of the revision was to underpin highlevel concepts with sufficient detail for it to set standards and to help users to better understand and interpret the standards. The key changes include:

- increasing the prominence of stewardship in the objective of financial reporting,
- reinstating prudence as a component of neutrality,
- defining a reporting entity, which may be a legal entity, or a portion of an entity,
- revising the definitions of an asset and a liability,
- removing the probability threshold for recognition and adding guidance on derecognition,
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. The Group is currently assessing the impact of the ammendments on its consolidated financial statements.

Definition of a Business –Amendments to IFRS 3 Business Combinations (issued on October 22, 2018 and effective for annual periods beginning on or after January 1, 2020). Ammendment is aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term ‘outputs’ is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The Group is currently assessing the impact of the ammendments on its consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (issued on October 31, 2018 and effective for annual periods beginning on or after January 1, 2020). Amendments clarify the definition of ‘material’ to align the definition used in the Conceptual Framework and the standards themselves. In particular, the amendments clarify, that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and the meaning of ‘primary users of general purpose financial statements’ to whom those financial statements are directed, by defining them as ‘existing and potential investors, lenders and other creditors’ that must rely on general purpose financial statements for much of the financial information they need. The Group is currently assessing the impact of the ammendments on its consolidated financial statements.

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

Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on September 26, 2019 and effective for annual periods beginning on or after January 1, 2020). The amendments are designed to support the provision of useful financial information by companies during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs). The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Classification of Liabilities as Current or Non-current – Amendments to IAS 1 (issued on January 23, 2020 and effective for annual periods beginning on or after January 1, 2022). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. . A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

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

Note 5 Property, Plant and Equipment

Movements in property, plant and equipment during 2019 are as follows:

	Land and buildings	Machinery, equipment and motor vehicles	Other tangible assets	Construction in progress	Right of use assets	Total
Cost						
December 31, 2018	**494,638**	**1,350,158**	**17,789**	**84,395**	**-**	**1,946,980**
Effect of IFRS 16 adoption	-	-	-	-	22,993	**22,993**
January 1, 2019	**494,638**	**1,350,158**	**17,789**	**84,395**	**22,993**	**1,969,973**
Additions	-	-	60	134,382	7,642	**142,084**
Disposals	(1,044)	(16,738)	(147)	(1)	(814)	**(18,744)**
Transfer to / from investment property	(1,705)	-	-	-	-	**(1,705)**
Transfers to base	30,566	112,568	18	(143,152)	-	**-**
December 31, 2019	**522,455**	**1,445,988**	**17,720**	**75,624**	**29,821**	**2,091,608**
Accumulated Depreciation						
January 1, 2019	**(175,811)**	**(832,089)**	**(13,345)**	**-**	**-**	**(1,021,245)**
Depreciation for the year	(14,303)	(69,912)	(185)	-	(6,901)	**(91,301)**
Disposals	923	15,633	-	-	867	**17,423**
Transfer to / from investment property	977	-	-	-	-	**977**
December 31, 2019	**(188,214)**	**(886,368)**	**(13,530)**	**-**	**(6,034)**	**(1,094,146)**
Carrying amount	**334,241**	**559,620**	**4,190**	**75,624**	**23,787**	**997,462**

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

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 right of use assets during 2019 are as follows:

	Land and buildings	Machinery, equipment and motor vehicles	Other right-of-use assets	Total
Cost				
January 1, 2019	**901**	**21,422**	**670**	**22,993**
Additions	115	7,527	-	**7,642**
Disposals	(260)	(530)	(24)	**(814)**
December 31, 2019	**756**	**28,419**	**646**	**29,821**
Accumulated Depreciation				
January 1, 2019	**-**	**-**	**-**	**-**
Depreciation	(230)	(6,389)	(282)	**(6,901)**
Disposals	35	809	23	**867**
December 31, 2019	**(195)**	**(5,580)**	**(259)**	**(6,034)**
Carrying amount	**561**	**22,839**	**387**	**23,787**

Borrowing costs totaling EUR 213 thousand were capitalized in 2019 (2018: EUR 5 thousand).

No property, plant and equipment were pledged in favor of a creditor or restricted in its use as of December 31, 2019 or December 31, 2018.

Purchases of property, plant and equipment in the Statement of Cash Flows excludes an acquisition of assets directly related to leasing totaling EUR 7.6 million and a non-cash change in accrued capital expenditures and a change in unpaid capital expenditures in the amount of EUR 18 million for the year ended December 31, 2019 (for the year ended December 31, 2018: EUR 31 million).

On August 1, 2019 U. S. Steel Košice, s.r.o. sold its radiators production facilities, including PP&E and inventories to the new owner KORAD Radiators s.r.o. that took over the production of heating radiators in full extent. The selling price of EUR 2.57 million consisted of selling price of PP&E in the amount of EUR 1.43 million and inventories in the amount of EUR 1.14 million. The total loss on disposal of the asset was EUR 1.75 million. The asset was neither classified as held for sale nor as discontinued operations as of December 31, 2018 as the conditions were not met that time.

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

Impairment of property, plant and equipment

The Group evaluates non-financial assets for impairment whenever changes in circumstances indicate that the carrying amounts of the assets exceed their recoverable amount. During 2019, changes in external business environment, significant reduction in production capacity resulting from idling a blast furnace and headcount reductions were considered triggering events indicating impairment and the Group performed the analysis to test the assets for impairment. The analysis included significant estimates and judgments made by the management as disclosed in Note 3. The Group has determined that the assets were not impaired as the recoverable amount of the assets group exceeded their carrying amounts.

There were no impairment indicators identified in 2018.

Insurance

Property, plant and equipment are insured by KOOPERATIVA poisťovňa, a.s. Vienna Insurance Group. The insurance covers damage caused by theft, disaster and other causes of machinery and equipment failure while maximum insurance compensation for one insurance claim is USD 150 million, i.e. EUR 134 million (2018: USD 200 million, i.e. EUR 175 million) using the exchange rate at the end of the reporting period. Compensation sublimits for individual risks are specified in the insurance contract. Self-insurance is USD 75 million, i.e. EUR 67 million (2018: 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 150 million, i.e. EUR 134 million (2018: 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 600 million, i.e. EUR 534 million (2018: USD 650 million, i.e. EUR 568 million).

Environmental 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 - 2 and 3 - 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, 2019.

In 2019, the Group invested EUR 45,367 thousand (2018: EUR 45,081 thousand) in Property, plant and equipment related to projects aiming to improve environmental conditions beyond Best Available Techniques (BAT) requirements and the amount of EUR 35,434 thousand (2018: EUR 35,723 thousand) was capitalized from the funds generally available in the market.

The deferred income amortized to Other income in 2019 totaled EUR 2,830 thousand (2018: EUR 408 thousand). Change of total Environmental project costs resulted in reduction of deferred income balance by EUR 34 thousand in 2019 (2018: reduction of EUR 13,271 thousand). The Group believes that it complied with all relevant conditions and in 2019 it did not recognize any additional deferred income (2018: EUR 402 thousand) (Notes 12 and 28).

Movements in deferred income relating to Environmental projects during 2019 and 2018 are as follows:

	2019	2018
Opening balance as of January 1	**82,546**	**96,225**
Net change in contracts relating to Environmental projects	**(34)**	(13,271)
Amortization to Other income	**(2,830)**	(408)
Closing balance as of December 31	**79,682**	**82,546**

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

Leases

The statement of financial position shows the following amounts relating to leases:

	December 31, 2019	January 1, 2019
Right-of-use assets *		
Land and buildings	**561**	901
Machinery, equipment and motor vehicles	**22,839**	21,422
Other right-of-use assets	**387**	670
Total Right-of-use assets	**23,787**	**22,993**
Lease liabilities **		
Current	**7,759**	5,930
Non-current	**17,749**	17,063
Total lease liabilities	**25,508**	**22,993**

* included in the line item ‘Property, plant and equipment’ in the statement of financial position.

** included in the line item ‘Trade and other payables’ in the statement of financial position.

The Group leases various warehouses, vehicles, railroad cars and equipment. On adoption of *IFRS 16 Leases*, as of January 1, 2019 the Group recognized lease liabilities and right-of-use assets totaling EUR 23 million in relation to leases which had been classified as “operating lease” under the principles of IAS 17 as of December 31 ,2018 (Note 28) and the Group did not recognize any right-of-use assets and lease liabilities in relation to leases that are classified as ‘finance leases’ under IAS 17, as the Group did not recognize such leases as of December 31, 2018. Adjustments recognized on adoption of IFRS 16 are disclosed in Note 2.10.

None of the existing Company’s lease contracts comprises variable lease payments that are based on an index or a rate.

Additions to the right-of-use assets were EUR 7,642 thousand as of December 31, 2019.

The Statement of profit or loss and other comprehensive income shows the following amounts relating to leases:

	December 31, 2019
Depreciation charge of right-of-use assets ***	
Land and buildings	**230**
Machinery, equipment and motor vehicles	**6,389**
Other right-of-use assets	**282**
Total Depreciation charge of right-of-use assets	**6,901**
Interest expense ****	**(509)**
Expense relating to short-term leases (included in other operating expenses in Note 23)	**(116)**
Expense relating to leases of low-value assets that are not short-term leases (included in other operating expenses in Note 23)	**(26)**
Expense relating to variable lease payments not included in lease liabilities (included in other operating expenses in Note 23)	**(637)**

*** included in the line item ‘Depreciation and amortization’ in the statement of other comprehensive income.

**** included in the line item ‘Interest expense’ in the statement of other comprehensive income.

The total cash outflow for leases in 2019 was EUR 7,695 thousand.

Lease liability maturities are as follows:

	December 31, 2019
Not later than 1 year	**7,759**
Later than 1 year and not later than 5 years	**17,130**
Later than 5 years	**619**
Present value of lease liability **	**25,508**

** included in the line item ‘Trade and other payables’ in the statement of financial position.

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

Note 6 Investment Properties

Movements in investment properties during 2019 and 2018 are as follows:

	2019	2018
Cost		
Opening balance as of January 1	**3,161**	**2,783**
Transfers to property, plant and equipment	**(5)**	(709)
Transfers from property, plant and equipment	**1,710**	1,087
Closing balance as of December 31	**4,866**	**3,161**
Accumulated Depreciation and Impairment Losses		
Opening balance as of January 1	**(891)**	**(919)**
Depreciation for the year	**(119)**	(62)
Transfers to property, plant and equipment	**-**	94
Transfers from property, plant and equipment	**(977)**	(4)
Closing balance as of December 31	**(1,987)**	**(891)**
Carrying amount	**2,879**	**2,270**

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 8,339 thousand as of December 31, 2019 (December 31, 2018: EUR 3,617 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 2019 are as follows:

	Software	Emission allowances	Other intangible assets	Intangible assets not yet available for use	Total
Cost					
January 1, 2019	**37,819**	**269,255**	**1,095**	**1,681**	**309,850**
Additions	-	137,328	-	2,489	**139,817**
Disposals	(662)	(232,632)	-	-	**(233,294)**
Revaluation surplus	-	17,510	-	-	**17,510**
Transfers to base	2,711	-	5	(2,716)	**-**
December 31, 2019	**39,868**	**191,461**	**1,100**	**1,454**	**233,883**
Accumulated Amortization					
January 1, 2019	**(30,863)**	**-**	**(806)**	**-**	**(31,669)**
Amortization for the year	(2,445)	-	(72)	-	**(2,517)**
Disposals	660	-	-	-	**660**
December 31, 2019	**(32,648)**	**-**	**(878)**	**-**	**(33,526)**
Carrying amount	**7,220**	**191,461**	**222**	**1,454**	**200,357**

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**

No borrowing costs were capitalized in 2019 and 2018.

No intangible assets were pledged in favor of a creditor or restricted in their use as of December 31, 2019 or December 31, 2018.

Insurance

Intangible assets are not insured.

Emission allowances

In 2019, 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 21.59 per ton (2018: EUR 9.70 per ton). Emission allowances allocated by the Slovak Government in 2019 totaled EUR 124 million (2018: EUR 57 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.

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

Based on the projected future production levels and sufficient emission allowances inventory necessary to meet annual compliance submission in the future, the Group purchased 0.7 million EUAs totaling EUR 13.7 million (2018: 6 million EUAs totaling EUR 82 million) and sold EUAs in the volume of 185 thousand tons totaling EUR 4.93 million to the external subject.

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

	December 31, 2019	December 31, 2018
Emission allowances (intangible asset)	**191,461**	269,255
Liability from the obligation to deliver allowances (provision) (Note 17)	**182,985**	228,638

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, 2019	Level 1	Level 2	Level 3	Total
Assets				
Emission allowances	191,461	-	-	**191,461**
Total	**191,461**	**-**	-	**191,461**

December 31, 2018	Level 1	Level 2	Level 3	Total
Assets				
Emission allowances	269,255	-	-	**269,255**
Total	**269,255**	**-**	-	**269,255**

During 2019 and 2018, 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 164,131 thousand as of December 31, 2019 (December 31, 2018: EUR 131,465 thousand).

Note 8 Group Structure

List of subsidiaries

The following subsidiaries have been consolidated as of December 31, 2019:

Entity	Place of Incorporation	Principal activities	Group's Ownership Interest	
			December 31, 2019	December 31, 2018
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%

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

None of the Company's ownership interests in subsidiaries were pledged as of December 31, 2019 or December 31, 2018.

As of June 1, 2019, the company U. S. Steel Europe - Italy S.r.l. entered into liquidation. The liquidation of the U. S. Steel Europe - Italy S.r.l. was finished on the shareholder meeting as of November 13, 2019 after completion of liquidation process. Liquidation balance was EUR 84,486.

As of September 1, 2018, U. S. Steel Europe – Bohemia a.s. changed the name and legal form to U. S. Steel Europe – 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.

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, 2019 (December 31, 2018: 21 percent).

The tax effect of the movements in the temporary differences during 2019 is as follows:

	January 1, 2019	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2019
Property, plant and equipment	**(58,803)**	11,707	-	**(47,096)**
Leases	**-**	155	-	**155**
Inventories	**1,875**	2,052	-	**3,927**
Employee benefits	**8,015**	(162)	(485)	**7,368**
Deferred charges	**248**	(182)	-	**66**
Provision for impairment of receivables	**35**	(42)	-	**(7)**
Unused tax loss 2019	**-**	3,156	-	**3,156**
Research and development 2020 - 2023	**-**	2,309	-	**2,309**
Emission allowances transactions	**(223)**	893	(633)	**37**
Derivative financial instruments	**(2,208)**	-	1,591	**(617)**
Provisions	**5,913**	1,116	-	**7,029**
Other temporary differences	**(1,245)**	1,376	-	**131**
Total	**(46,393)**	**22,378**	**473**	**(23,542)**
Deferred tax liability	**(46,393)**			**(23,542)**

(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)**
Provisions	**4,926**	987	-	**5,913**
Other temporary differences	**(2,366)**	1,121	-	**(1,245)**
Total	**(41,145)**	**14,269**	**(19,517)**	**(46,393)**
Deferred tax asset / (liability)	**(41,145)**			**(46,393)**

Tax loss carry forward

By the end of the 2019, the Group recognized a deferred tax asset for the tax losses in accordance with *IAS 12 Income taxes*. The 2019 cumulative tax loss amounted to EUR 20,036 thousand. The Group plans to utilize the deferred tax asset from 2021 to 2023 in the ¾ of the cumulative tax loss as it estimates that there will not be sufficient taxable profit in 2020 against which the unused loss can be utilized.

Note 10 Restricted Cash

	December 31, 2019	December 31, 2018
Cash restricted in its use - long-term portion	**-**	5,334
Cash restricted in its use - short-term portion	**-**	1,213
Total (Notes 26 and 27)	**-**	**6,547**

In 2018, cash restricted in its use represented cash deposits made by the Group which could be used only for closure of landfills, reclamation and monitoring after their closure (Note 17). During 2019 the Group transferred restricted cash from Group's bank accounts into the State Treasury account based on change in legislation. The amount totaling EUR 6.2 million was reclassified from Restricted cash to Other receivables (Note 12) as the definition of Cash and cash equivalents was no longer met.

Note 11 Inventories

	December 31, 2019	December 31, 2018
Raw materials	**172,248**	203,982
Work-in-progress	**43,698**	57,559
Semi-finished production	**66,887**	66,641
Finished products	**118,425**	137,864
Merchandise	**2,845**	4,165
Inventory allowance	**(10,004)**	(3,775)
Total	**394,099**	**466,436**

No inventories were pledged in favor of a creditor or restricted in their use as of December 31, 2019 or December 31, 2018.

Inventory as of December 31, 2019 is shown net of write-down allowances resulting from lower net realizable values totaling EUR 10,004 thousand (December 31, 2018: EUR 3,775 thousand). Gross value of inventories written down were EUR 164 million as of December 31, 2019 (December 31, 2018: EUR 9 million).

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

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

	Raw materials	Work in progress	Semi-finished production	Finished products	Merchandise	Total
January 1, 2019	**506**	**971**	**1,444**	**854**	**-**	**3,775**
Allowance made	684	1,589	2,221	4,202	-	**8,696**
Allowance used	(679)	(223)	(1,101)	(100)	-	**(2,103)**
Allowance reversed	(25)	(136)	(83)	(120)	-	**(364)**
December 31, 2019	**486**	**2,201**	**2,481**	**4,836**	**-**	**10,004**

	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**

Usage of write-down allowances is recognized when inventory is removed from the accounting books (e.g. sale, disposal, donation, damage, consumption) or reversal is recognized when the indication that the inventories impairment loss recognized in prior periods no longer exists or may have decreased.

Note 12 Trade and Other Receivables

	December 31, 2019	December 31, 2018
Trade receivables	**202,935**	351,455
Trade receivables that are subject of factoring arrangements	**13,790**	9,154
Related party accounts receivable (Note 29)	**424**	945
Total trade receivables	**217,149**	**361,554**
Other receivables – Environmental projects	**16,463**	58,201
Other receivables - Funds for landfill restoration	**6,140**	-
Other receivables	**11,034**	1,700
Trade and other receivables - financial (gross)	**250,786**	**421,455**
Loss allowance for trade receivables	**(15,007)**	(15,642)
Loss allowance for other receivables	**(9)**	(14)
Trade and other receivables - financial (net)	**235,770**	**405,799**
VAT receivable	**31,673**	46,313
Advance payments made	**4,424**	5,700
Other receivables - non-financial	**36,097**	**52,013**
Trade and other receivables (net)	**271,867**	**457,812**
Long-term receivables (financial)	**6,140**	2,800
Short-term receivables (financial and non-financial)	**265,727**	455,012

No receivables of the Group were pledged in favor of a bank or other entities as of December 31, 2019 or December 31, 2018. Information about collateral or other credit enhancements and the overall credit risk of the Group is disclosed in Note 26. The valuation falls within Level 3 of the fair value hierarchy. There was no significant movement between fair value measurement categories during 2019. Additional information about measurement of the trade receivables is disclosed in Note 27.

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

Trade receivables and other receivables

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

	December 31, 2019	December 31, 2018
No or low-risk counterparties	**90,046**	157,909
Increased risk counterparties	**113,313**	194,491
Trade receivables at amortized costs	**203,359**	**352,400**
No or low-risk counterparties	**7,160**	9,154
Increased risk counterparties	**6,630**	-
Trade receivables at FV through other comprehensive income	**13,790**	**9,154**
Total	**217,149**	**361,554**

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 an allowance for expected credit losses to trade receivables and other receivables in amount of EUR 15,016 thousand as of December 31, 2019 (December 31, 2018: EUR 15,656 thousand).

The movements of loss allowances were as follows:

	Trade receivables	Other receivables	Total
January 1, 2019	**15,642**	**14**	**15,656**
Increase in loss allowance	105	-	**105**
Receivables written-off	(730)	(4)	**(734)**
Unused amount reversed	(10)	(1)	**(11)**
December 31, 2019	**15,007**	**9**	**15,016**

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

The recognized loss allowance relates to individually impaired receivables.

For the rest of the trade receivables and the other receivables, which almost all are falling within due (or few days overdue) category, 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 historical 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 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. Based on the consideration the Group adjusted the historical loss rates and estimated expected credit loss by applying adjusted rates (0.001% applied) to the receivables balances as of December 31, 2019. The general expected credit loss allowance calculated by the Group is considered to be immaterial as of December 31, 2019.

In 2018, the impact of the general expected credit loss allowance was also immaterial and recognized allowance related only to individually impaired receivables.

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

Other Receivables - Environmental Projects

Other receivables include amounts arising from contractual agreements relating to Environmental projects (Note 5) which will mitigate future capital expenditures by EUR 16 million as of December 31, 2019 (December 31, 2018: EUR 58 million) if USSK complies with certain financial covenants, which are assessed annually. USSK complied with these covenants as of December 31, 2019. Other receivables decreased by EUR 42 million due to cash received and by EUR 34 thousand due to net change in contracts relating to Environmental projects (2018: EUR 19 million and 13 million, respectively). The receivables were denominated in Euro and were neither subject to substantial credit risk nor currency risk (Note 26). Receivables resulting from Environmental projects are receivables due from Slovak Republic with the credit rating A2 according to Moody's, that represents low credit risk. The Group therefore considers expected credit loss to be immaterial as of December 31, 2019.

Other Receivables – Funds for landfill restoration

The Group is required to maintain funds to cover closing and clean-up costs at the end of a landfill site's useful life. During 2019 the Group transferred funds for landfill restoration from Group's bank accounts into the State Treasury account based on change in legislation. The amount totaling EUR 6.2 million was reclassified from Restricted cash (Note 10) to Other receivables as the definition of Cash and cash equivalents was no longer met. Funds for landfill restoration are receivables due from Slovak Republic with the credit rating A2 according to Moody's, that represents low credit risk. The Group therefore considers expected credit loss to be immaterial as of December 31, 2019.

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, 2019 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, 2019 and December 31, 2018 recognized in other comprehensive income and accumulated in revaluation reserves in equity were reclassified into profit or loss in 2019 and 2018, respectively. The actual value recognized in Other operating income in 2019 amounts to EUR 22,362 thousand (2018: income of EUR 871 thousand). The amount consists of reclassification of income of EUR 8,365 thousand (2018: loss of EUR 7,037 thousand) from reserve funds into profit or loss related to forward transactions entered into during previous year where the asset acquired affected current year profit or loss , and income of EUR 13,997 thousand (2018: income of EUR 7,908 thousand) related to forward transactions entered into during 2019 (2018) where the asset acquired affected profit or loss in 2019 (2018).

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, 2019		December 31, 2018	
	Assets	Liabilities	Assets	Liabilities
Foreign exchange forwards - cash flow hedges	**3,971**	**1,033**	10,729	215
Total	**3,971**	**1,033**	**10,729**	**215**

Balances as of December 31, 2019 and December 31, 2018 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, 2019 and December 31, 2018. As of December 31, 2019, the financial derivatives for ING Bank N.V. and J.P. Morgan represent more than 25 percent of value of total financial derivatives. The ratings of the banks are A-2 and better (according to Standard & Poor's) as of December 31, 2019

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

(December 31, 2018: BBB+ and better). Information about the fair value hierarchy as of December 31, 2019 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, 2019	December 31, 2018
Payable on settlement in EUR thousand	**(281,567)**	(285,778)
Receivable on settlement in USD thousand	**287,186**	343,750

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 2019 matured in 2019, resulting in an expense in total amount of EUR 604 thousand (2018: expense of EUR 227 thousand).

Note 14 Cash and Cash Equivalents

	December 31, 2019	December 31, 2018
Cash on hand	**95**	79
Cash at bank	**217,088**	95,923
Total (Note 27)	**217,183**	**96,002**

Interest rates on bank accounts were approximately 0.00 percent per annum for EUR deposits, 1.25 percent per annum for USD deposits and 0.09 percent per annum for CZK deposits as of December 31, 2019 (December 31, 2018: 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). 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, 2019.

Reserve funds

The movements in reserve funds are as follows:

	Other capital funds	Legal reserve fund	Derivative hedging instruments	CO_2 emission allowances	Translation reserve	Total
January 1, 2019	**319**	**65,257**	**8,365**	**121,569**	**253**	**195,763**
Changes in fair value of derivative hedging instruments	-	-	2,321	-	-	**2,321**
Changes in fair value of CO_2 allowances	-	-	-	16,877	-	**16,877**
Realization of CO_2 allowances revaluation	-	-	-	(117,627)	-	**(117,627)**
Release of fair value of derivative hedging instruments	-	-	(8,365)	-	-	**(8,365)**
Contribution to legal reserve fund	-	6,736	-	-	-	**6,736**
Translation reserve	-	-	-	-	1	**1**
December 31, 2019	**319**	**71,993**	**2,321**	**20,819**	**254**	**95,706**

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

	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 derivative hedging instruments	-	-	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**

<u>Dividends</u>

Dividends totaling EUR 129,435 thousand were paid to U. S. Steel Global Holdings VI B.V. in September 2019 (Dividends totaling EUR 437,306 thousand were paid to U. S. Steel Global Holdings VI B.V. in 2018). There were no declared but unpaid dividends as of December 31, 2019 and December 31, 2018.

Note 16 Loans and Borrowings

The movement in liabilities from financing activities is as follows:

	Long-term loans and borrowings	Intercompany loan from U.S.Steel (Note 29)	Supplier payable financing program	Lease liabilities (Note 5, 19)	Total
December 31, 2018	200,000	-	5,554	-	**205,554**
Effect of IFRS 16 adoption	-	-	-	22,993	**22,993**
January 1, 2019	**200,000**	**-**	**5,554**	**22,993**	**228,547**
Proceeds	150,000	133,523	23,020	-	**306,543**
Repayments	-	-	(25,408)	-	**(25,408)**
Lease acquisitions	-	-	-	9,433	**9,433**
Lease payments	-	-	-	(6,918)	**(6,918)**
December 31, 2019	**350,000**	**133,523**	**3,166**	**25,508**	**512,197**
Long-term	350,000	133,523	-	17,749	**501,272**
Short-term	-	-	3,166	7,759	**10,925**
Interest	1,565	108	-	-	**1,673**
December 31, 2019 including interest	**351,565**	**133,631**	**3,166**	**25,508**	**513,870**

	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, U. S. Steel Košice, s.r.o. a subsidiary of United States Steel Corporation and Ferroenergy s.r.o., a subsidiary of U. S. Steel Košice, s.r.o. as guarantor entered into a EUR 460 million 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. Borrowings drawn within the Credit Agreement bear interest rate spread over the applicable IBOR + margin 2.5 percent per annum (2018: applicable IBOR + margin 1.7 percent per annum).

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.

On December 23, 2019, U. S. Steel Košice, s.r.o., a subsidiary of United States Steel Corporation and Ferroenergy s.r.o., a subsidiary of U. S. Steel Košice, s.r.o. and Commerzbank Finance & Covered Bond S.A. as facility agent, entered into a supplemental agreement (the “Supplemental Agreement”), relating to the Senior multicurrency revolving credit facility agreement originally dated September 26, 2018 in the amount of EUR 460 million (“the Credit Agreement”). The Supplemental Agreement amends and restates the Credit Agreement to, among other things, (a) increase the maximum leverage ratio (defined as the ratio of Net Debt to EBITDA) to 6.50 to 1.00 beginning June 30, 2021 and declining to 3.50 to 1.00 thereafter, and (b) pledge certain Company trade receivables and inventory as collateral in support of Company’s obligations (Note 30).

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, 2019 and December 31, 2018. As of December 31, 2019, borrowings totaling EUR 350 million were drawn against the EUR 460 million Credit Agreement (December 31, 2018: totaling EUR 200 million were drawn against the EUR 460 million Credit Agreement). As of December 31, 2019, the Group had availability of EUR 110 million under the Credit Agreement (as of December 31, 2018, the Group had availability of EUR 260 million under the Credit Agreement).

On December 23, 2019, the Group entered into a USD 150 million Loan Agreement with United States Steel Corporation. This agreement will mature on September 27, 2023. Interest on borrowings under the facility is 3 month LIBOR plus margin 2.9 percent per annum and the agreement contains customary terms and conditions. As of December 31, 2019, borrowings totaling USD 150 million (i.e. EUR 134 million using the exchange rate valid at the end of the reporting period) were drawn against this credit facility.

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, 2019, the credit facility has been used in the amount of EUR 1,882 thousand for bank guarantees (December 31, 2018: the credit facility has been used in the amount of EUR 1,207 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, 2019, the credit facility has not been used (December 31, 2018: EUR 891 thousand has been used for bank guarantees).

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 2019 and 2018 the Group had no borrowings under its EUR 20 million and EUR 10 million credit facilities. Only credit facility in the amount of EUR 20 million has been used for bank guarantees.

The Group utilizes a structured supplier payable financing program from Citibank Europe plc. (Note 2.16). Short-term borrowings of EUR 3.2 million as of December 31, 2019 (December 31, 2018: EUR 5.6 million) 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.

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

Note 17 Provisions for Liabilities

Movements in provisions for liabilities were as follows:

	Landfill	Litigation	CO_2 emissions	Other	Total
January 1, 2019	**7,130**	**992**	**228,638**	**69**	**236,829**
Provision made	156	199	182,985	506	**183,846**
Provision used / reversed	(19)	(139)	(228,638)	(498)	**(229,294)**
December 31, 2019	**7,267**	**1,052**	**182,985**	**77**	**191,381**
Long-term provisions	7,234	-	-	-	**7,234**
Short-term provisions	33	1,052	182,985	77	**184,147**

	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**

The movement of provisions caused by the passage of time (i.e. accretion expense) in 2019 and 2018 was immaterial.

Provision reversals for the year 2019 and 2018 were immaterial.

Landfill

The provision for closing, reclamation and after-close monitoring of landfills is recognized based on the Law on Waste. In 2019, 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 2019, 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 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 2019. 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 Liabilities

Employee retirement liability

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

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

Work and life jubilee benefits

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

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

	2019	2018
Opening balance as of January 1	**42,221**	**38,743**
Total expense charged in profit or loss – pension	**1,923**	1,908
Total expense charged in profit or loss – jubilee	**544**	552
Total expense charged in profit or loss – termination	**19,674**	(1)
Remeasurements of post employment benefit liabilities	**(2,218)**	3,631
Benefits paid	**(23,290)**	(2,612)
Closing balance as of December 31	**38,854**	**42,221**
Long-term employee benefits payable	**37,630**	40,778
Short-term employee benefits payable	**1,224**	1,443

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

	December 31, 2019	December 31, 2018
Present value of the liability - pension	**22,277**	23,199
Present value of the liability - jubilee	**9,830**	10,008
Present value of the liability - termination	**140**	11
Remeasurements of post employment benefit liabilities	**6,607**	9,003
Total liability in the statement of financial position	**38,854**	**42,221**

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

	2019	2018
Current service costs – pension	**1,557**	1,334
Current service costs – jubilee	**442**	454
Current service costs – termination	**19,674**	(1)
Interest costs	**468**	515
Net actuarial losses / (gains)	**177**	76
Pension recalculation change	**-**	157
Remeasurements of post employment benefit liabilities	**(2,395)**	3,555
Total	**19,923**	**6,090**

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 interest expense line of the statement of profit or loss and other comprehensive income.

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

	2019	2018
Discount rate - pension	**0.64%**	1.45%
Discount rate - jubilee	**0.42%**	1.06%
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 liabilities 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, 2019 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 Group made contributions to the mandatory government and private defined contribution plans representing 23.8 percent (2018: 24.7 percent) of total salaries and other employee benefits up to a monthly salary limit of EUR 6,678 (2018: EUR 6,384).

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 2019 (2018: 1.6 percent).

Information for pension plans with an accumulated employee benefits liabilities:

	December 31, 2019	December 31, 2018
Accumulated employee benefits liabilities	**28,582**	31,460
Effects of future compensation	**10,132**	10,750
Projected employee benefits liabilities	**38,714**	**42,210**
Termination	**140**	11
Total liability in the statement of financial position	**38,854**	**42,221**

Note 19 Trade and Other Payables

	December 31, 2019	December 31, 2018
Trade payables	**130,539**	202,101
Related party accounts payable (Note 29)	**910**	11,505
Assigned trade payables (1)	**49,057**	61,057
Accrued discounts and rebates	**12,601**	14,100
Uninvoiced deliveries and other accrued expenses	**73,108**	143,934
Trade payables and accruals (Note 26)	**266,215**	**432,697**
Lease liabilities	**25,508**	-
Other payables	**1,490**	4,727
Financial liabilities	**26,998**	**4,727**
Liability to employees and social security institutions	**26,789**	40,585
Advance payments received	**3,214**	1,549
VAT and other taxes and fees	**5,153**	6,327
Non-financial liabilities	**35,156**	**48,461**
Total	**328,369**	**485,885**

(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, 2019. 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, 2019	December 31, 2018
Short-term trade and other payables	**309,449**	484,703
Long-term trade and other payables	**18,920**	1,182
Total	**328,369**	**485,885**

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

Long-term trade and other payables represent lease liabilities (as of December 31, 2019: EUR 17,749 thousand) and the retention portion of capital expenditures for which different due dates were agreed upon in trade contracts, longer than 12 months.

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

	December 31, 2019	December 31, 2018
Trade and other payables not yet due	**323,090**	481,090
Trade and other payables past due	**5,279**	4,795
Total	**328,369**	**485,885**

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

	December 31, 2019	December 31, 2018
EUR	**224,136**	342,248
USD	**41,202**	78,946
Other	**877**	11,503
Total	**266,215**	**432,697**

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

	2019	2018
Opening balance as of January 1	**593**	**384**
Group contribution (group costs)	**1,900**	2,146
Employees contribution (repayments)	**26**	57
Withdrawals	**(2,082)**	(2,164)
Other	**196**	170
Closing balance as of December 31	**633**	**593**

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 and spiral welded pipes. In addition, the Group also produces and distributes electricity, heat and gas. The Group also produces coke which is primarily used in the steel making process, produces refractories and provides maintenance of blast furnaces and provides packaging of semi-finished and finished steel products. The Group also provides certain functional support services to its ultimate parent company.

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:

	2019	2018
Sales of own production	**2,091,760**	2,648,831
Sales of merchandise	**473**	1,761
Rendering of services	**20,037**	28,354
Total	**2,112,270**	**2,678,946**

In 2019 and 2018, sales of merchandise represent primarily external net sales of electricity, heat and steam produced by Ferroenergy s.r.o.

In 2019 and 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.

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

Timing of revenue recognition

	2019	2018
Performance obligation satisfied at a point in time	**2,092,233**	2,650,592
Performance obligation satisfied over time	**20,037**	28,354
Total	**2,112,270**	**2,678,946**

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

Segments and Products	2019	2018
Hot-rolled sheets and plates	**876,938**	1,101,800
Cold-rolled sheets	**250,107**	322,547
Coated sheets	**533,486**	624,506
Tin mill products	**352,944**	352,330
Standard and line pipe	**35,439**	40,664
Semi-finished products	**9,468**	145,292
Other	**33,378**	61,692
Total	**2,091,760**	**2,648,831**

Market	2019	2018
Steel Service Centers	**369,708**	449,432
Transportation (including automotive)	**430,031**	468,875
Further conversion - trade customers	**109,923**	161,443
Containers	**362,852**	363,944
Construction and construction products	**568,101**	885,038
Appliances and electrical equipment	**147,272**	176,386
Oil, gas and petrochemicals	**306**	7,264
All other	**103,567**	136,449
Total	**2,091,760**	**2,648,831**

Other income

Other income consists of the following:

	2019	2018
Amortization of deferred income - CO_2 emission allowances (Note 7)	**123,586**	56,674
Amortization of deferred income - Environmental projects (Note 5)	**2,830**	408
Gain on disposal of property, plant and equipment, investment property and intangible assets	**-**	5,969
Gain on derivative financial instruments (Note 13)	**22,362**	871
Rental income	**1,227**	1,061
Income from contractual penalties	**519**	258
Energy compensation from Ministry of Industry	**12,423**	-
Repayment of CO_2 tax	**9,891**	-
Miscellaneous income	**2,829**	2,837
Total	**175,667**	**68,078**

The Group recognized revenue in amount of EUR 1,549 thousand in 2019 that was included in the contract liability balance at the beginning of the period.

Note 21 Materials and Energy Consumed

Materials and energy consumed is comprised of the following:

	2019	2018
Materials consumed	**(1,296,362)**	(1,534,594)
Energy consumed	**(170,617)**	(163,845)
Costs of merchandise sold	**(2,077)**	(1,944)
Changes in internally produced inventory	**(31,567)**	74,339
Inventory write-down allowance (Note 11)	**(8,332)**	(2,213)
Total	**(1,508,955)**	**(1,628,257)**

(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:

	2019	2018
Wages and salaries	**(232,295)**	(241,946)
Profit sharing expense	**-**	(21,645)
Termination benefits (Note 18)	**(19,674)**	1
Mandatory social and health insurance to all insurance funds (Note 18)	**(84,401)**	(92,074)
Other social expenses	**(15,550)**	(15,850)
Pension expenses – retirement and w ork and life jubilees (Note 18)	**(2,176)**	(2,021)
Total	**(354,096)**	**(373,535)**

The number of active employees of the Group as of December 31, 2019 was 10,478 (December 31, 2018: 11,938). The average number of employees of the Group for 2019 was 11,314 (2018: 11,993).

	2019	2018
U. S. Steel Košice, s.r.o.	**9,640**	9,960
Other Group companies	**1,674**	2,033
Total	**11,314**	**11,993**

Note 23 Other Operating Expenses

Other operating expenses during 2019 and 2018 are as follows:

	2019	2018
Packaging	**(562)**	(570)
Cleaning and w aste disposal	**(7,861)**	(10,206)
Advertising and promotion	**(2,410)**	(3,174)
Intermediary fees	**(804)**	(238)
Training	**(875)**	(1,088)
Impairment of receivables release (Note 12)	**(94)**	52
Loss on disposal on property, plant and equipment and intangible assets	**(648)**	-
Loss on disposal from sales of bussiness units	**(1,750)**	-
Real estate tax and other taxes	**(5,026)**	(6,645)
Intangible assets, licences, trade marks, licence support	**(4,146)**	(14,387)
Laboratory and heat tests	**(6,802)**	(6,741)
External processing	**(14,450)**	(12,610)
Costs of processing of steel slag, sludge and dust	**(4,573)**	(5,349)
Audit fees	**(621)**	(787)
Other services provided by the auditor	**(5)**	(11)
Short-term leases (Note 5)	**(116)**	-
Low value leases (Note 5)	**(26)**	-
Variable lease payments (Note 5)	**(637)**	-
Traveling costs	**(805)**	(1,656)
Warehousing and handling of finished products	**(3,599)**	(3,659)
Insurance costs	**(3,054)**	(4,146)
Service activities	**(5,068)**	(5,106)
Commitment fee - the Credit Agreement	**(3,093)**	(6,422)
Scarffing of conti-slabs	**(2,645)**	(3,070)
Telephone, fax, telex, postage, data processing	**(4,034)**	(4,173)
Costs of employee intracompany transportation	**(1,249)**	(980)
Crane operation	**(3,609)**	(3,363)
Chromium plating of rolls	**(1,420)**	(1,524)
Services of heavy machines	**(982)**	(810)
Chemical treatment of w ater circuits	**(751)**	(896)
Other operating expenses (1)	**(15,746)**	(13,880)
Total	**(97,461)**	**(111,439)**

(1) Other operating expenses include various types of services not exceeding EUR 2 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:

	2019	2018
Current tax	**(854)**	(52,143)
Deferred tax (Note 9)	**22,378**	14,269
Total current year tax	**21,524**	**(37,874)**
Prior year current tax correction	**8,930**	-
Total	**30,454**	**(37,874)**

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

	2019	2018
(Loss) / Profit before tax	**(108,580)**	127,101
Tax calculated at 21 percent tax rate	**22,802**	(26,691)
Permanent differences	**1,310**	1,233
Revaluation of purchased CO_2 emission allowances	**(835)**	(9,409)
Other	**(1,753)**	(3,007)
Tax (charge)/credit	**21,524**	**(37,874)**

The effective tax rate was 20 percent (2018: 30 percent). Higher effective tax rate in 2018 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:

	2019			2018		
	Before tax	Tax (charge) / credit	After tax	Before tax	Tax (charge) / credit	After tax
Changes in fair value of derivative hedging instruments	**(7,635)**	**1,591**	**(6,044)**	19,444	(4,042)	15,402
Changes in actuarial gains and losses	**2,395**	**(485)**	**1,910**	(3,555)	746	(2,809)
Revaluation of intangible assets	**17,510**	**(633)**	**16,877**	137,790	(16,221)	121,569
Translation reserve	**1**	**-**	**1**	(231)	-	(231)
Other comprehensive income	**12,271**	**473**	**12,744**	**153,448**	**(19,517)**	**133,931**
Deferred tax (Note 9)	**-**	**473**	**-**	-	(19,517)	-

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 compared to 2018.

The capital structure of the Group consists of debt that comprises long-term loans and borrowings, intercompany loan from U. S. Steel, supplier payable financing program and leases (Notes 16 and 29) totaling EUR 513,870 thousand as of December 31, 2019 (December 31, 2018: EUR 205,554 thousand) and equity (Note 15) totaling EUR 945,083 thousand as of December 31, 2019 (December 31, 2018: EUR 1,141,865 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, 2019 and December 31, 2018.

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.

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

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

Credit risk

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 Environmental 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 73 percent (2018: 67 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:

	2019	2018
Credit insurance	65%	60%
Letters of credit and documentary collection	2%	2%
Bank guarantees	2%	2%
Other credit enhancements	4%	3%
Credit enhanced sales	73%	67%
Unsecured sales	27%	33%
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, 2019

	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)	-	187,928	13,790
Related party accounts receivables (net)	-	424	-
Other receivables – Environmental projects	-	16,463	-
Other receivables (net)	-	17,165	-
Derivative financial instruments (Note 13)			
Forward foreign exchange	3,971	-	-
Cash and cash equivalents (Note 14)			
Cash and cash equivalents	-	217,183	-
Total	**3,971**	**439,163**	**13,790**

December 31, 2019

	Cash and cash equivalents at amortized cost
ING Bank N.V.	40,222
COMMERZBANK	32,058
Citibank (Slovakia) a.s.	41,152
Slovenská sporiteľňa, a.s.	68,157
Komerční Banka, a.s.	3,878
Československá obchodná banka, a.s.	7,498
Všeobecná úverová banka, a.s.	23,499
Other banks	624
Cash on hand	95
Total (Note 14)	**217,183**

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 – Environmental 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	-	102,549	-
Total	**10,729**	**499,195**	**9,154**

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

December 31, 2018	Cash and cash equivalents and restricted cash at amortized cost
ING Bank N.V.	9,221
COMMERZBANK	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, a.s.	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	1,312
ING Bank N.V.	107
Cash restricted in its use (Note 10)	**6,547**
Total	**102,549**

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.

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

December 31, 2019	0 – 1 year	1 – 5 years	over 5 years	Total
Assets				
Cash and cash equivalents	217,183	-	-	**217,183**
Trade receivables (net)	202,142	-	-	**202,142**
Other receivables – Environmental projects	16,463	-	-	**16,463**
Other receivables (net)	17,165	-	-	**17,165**
Derivative financial instruments	287,186	-	-	**287,186**
Total	**740,139**	**-**	**-**	**740,139**
Liabilities				
Trade payables and accruals	247,295	18,920	-	**266,215**
Other financial liabilities	1,490	-	-	**1,490**
Derivative financial instruments	281,567	-	-	**281,567**
Lease liability (Note 5)	7,759	17,130	619	**25,508**
Loans and borrowings (Note 16)	18,062	525,221	-	**543,283**
Total	**556,173**	**561,271**	**619**	**1,118,063**

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

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 – Environmental 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**
Other financial liabilities	4,727	-	-	**4,727**
Derivative financial instruments	285,778	-	-	**285,778**
Loans and borrowings	5,554	200,735	-	**206,289**
Total	**727,574**	**201,917**	**-**	**929,491**

Market risk

a) Interest rate risk

The Group is subject to the effects of interest rate fluctuations on borrowings drawn against revolving credit facilities (Note 16). If the interest rate had been 1 percent higher / lower as of December 31, 2019, it would have resulted to EUR 2.5 million higher / lower interest expense. If the interest rate had been 1 percent higher / lower as of December 31, 2018, it would have resulted to EUR 0.4 million higher / lower interest expense.

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, 2019 and December 31, 2018.

b) Currency risk

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

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

December 31, 2019

	Cash and cash equivalents
EUR	108,263
USD	99,373
CZK	9,474
other	73
Total	**217,183**

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**

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, 2019, the Group had open USD forward purchase contracts for Euros in total notional value of approximately EUR 282 million (December 31, 2018: EUR 286 million).

On December 23, 2019, the Group entered into a USD 150 million Loan Agreement with United States Steel Corporation. As of December 31, 2019, borrowings totaling USD 150 million (i.e. EUR 134 million using the exchange rate valid at the end of the reporting period) were drawn against this credit facility.

As of December 31, 2019, if the EUR had weakened / strengthened by 7 percent against the U.S. dollar with all other variables held constant, this movement would have resulted in a EUR 15 million credit / EUR 14 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, 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.

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 2019 matured in 2019. All commodity forwards commenced in 2018 matured in 2018.

In 2019 and 2018, 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, 2019 and December 31, 2018, respectively.

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

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, 2019

	Amortized cost	FV through profit or loss	FV through other comprehensive income	Total
Assets				
Unquated financial instruments	-	259	-	**259**
Trade receivables (net)	187,928	-	13,790	**201,718**
Related party accounts receivables (net)	424	-	-	**424**
Other receivables - Environmental projects	16,463	-	-	**16,463**
Other receivables (net)	17,165	-	-	**17,165**
Cash and cash equivalents	217,183	-	-	**217,183**
Restricted cash	-	-	-	**-**
Derivative financial instruments	-	3,971	-	**3,971**
Total	**439,163**	**4,230**	**13,790**	**457,183**

	Amortized cost	FV through profit or loss	Total
Liabilities			
Trade payables and accruals	266,215	-	**266,215**
Other financial liabilties	1,490	-	**1,490**
Derivative financial instruments	-	1,033	**1,033**
Short-term borrowings			
Supplier payable financing program	3,166	-	**3,166**
Leases (Note 5, 19)	7,759	-	**7,759**
Long-term borrowings			
Long-term borrowings	350,000	-	**350,000**
Intercompany loan from U.S.Steel (Note 29)	133,523	-	**133,523**
Leases (Note 5, 19)	17,749	-	**17,749**
Total	**779,902**	**1,033**	**780,935**

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 - Environmental 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**

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

	Amortized cost	FV through profit or loss	Total
Liabilities			
Trade payables and accruals	432,697	-	**432,697**
Other financial liabilties	4,727	-	**4,727**
Derivative financial instruments	-	215	**215**
Short-term borrowings			
Supplier payable financing program	5,554	-	**5,554**
Long-term borrowings			
Long-term borrow ings	200,735	-	**200,735**
Total	**643,713**	**215**	**643,928**

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, 2019

	Level 1	Level 2	Level 3	Total
Assets				
Trade receivables that are subject of factoring arrangements (Note 12)	-	-	13,790	**13,790**
Hedging derivatives	-	3,971	-	**3,971**
Total	**-**	**3,971**	**13,790**	**17,761**
Liabilities				
Hedging derivatives	-	1,033	-	**1,033**
Total	**-**	**1,033**	**-**	**1,033**

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**

During 2019 and 2018, 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, 2019 and December 31, 2018. Fair values of these instruments as of December 31, 2019 and December 31, 2018 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) were as follows:

	2018
Not later than 1 year	5,375
Later than 1 year and not later than 5 years	12,868
Later than 5 years	113
Total	**18,356**

Capital Commitments

Capital expenditures of EUR 23 million had been committed under contractual arrangements as of December 31, 2019 (December 31, 2018: EUR 69 million).

Environmental Commitments

The Group is in compliance with environmental legislation. In 2019, the environmental expenses represented by air, water pollution and solid waste handling fees totaled approximately EUR 12 million (2018: EUR 14 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. Updates of dossiers in 2019 in order to remain compliant with REACH requirements were not subject to the fee. In 2018 the Group performed several updates of dossiers totaling EUR 117 thousand. The Group cannot reliably estimate the potential additional cost of complying with these measures at this time.

The Waste Act effective from January 1, 2016 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 financial impact of the new disposal fees on Group’s operations was EUR 0.3 million.

Carbon Dioxide (CO2) Emissions

The European Commission (EC) has created an Emissions Trading Scheme (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 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. Based on projected total production levels, the Group started to purchase emission allowances in the third quarter of 2017 to meet the annual compliance submission in the future. As of December 31, 2019, the Group purchased 11.7 million European Union Allowances (EUA) totaling EUR 132 million (as of December 31, 2018 the Company purchased 11 million European Union Allowances (EUA) totaling EUR 118 million) to cover estimated shortfall of emission allowances. The Group estimates that the total shortfall will be approximately 12.5 million allowances for the Phase III period. The full cost of complying with the ETS regulations depends on future production levels and future emissions intensity levels.

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

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 to comply with or go beyond the BAT requirements is EUR 138 million over the actual program period. These costs may be mitigated if the Group complies with certain financial covenants, which are assessed annually. The Group complied with these covenants as of December 31, 2019 and 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.

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:

		2019	2018
United States Steel Corporation, Ultimate parent company			
	Revenues	**2,408**	14,849
	Expenses	**110,105**	48,615
	Receivables	**314**	868
	Payables	**498**	11,168
	Borrow ings received including interest (Note 16)	**133,631**	-
USS International Services, LLC, Company under common control of U. S. Steel			
	Expenses	**2,838**	3,052
	Receivables	**110**	77
	Payables	**412**	337
Total			
	Revenues	**2,408**	14,849
	Expenses	**112,943**	51,667
	Receivables	**424**	945
	Payables	**910**	11,505
	Borrowings received including interest	**133,631**	-

Dividends totaling EUR 129,435 thousand were paid to U. S. Steel Global Holdings VI B.V. in September 2019 (Dividends totaling EUR 437,306 thousand were paid to U. S. Steel Global Holdings VI B.V. in 2018) (Note 15).

Transactions with United States Steel Corporation relate mainly to rendering of services (2019: EUR 1,422 thousand; 2018: EUR 1,574 thousand), purchases of raw material (2019: EUR 106,008 thousand; 2018: EUR 33,188 thousand), licenses (2018: EUR 9,971 thousand), managerial services (2019: EUR 2,746 thousand; 2018: EUR 4,293 thousand), sales of own products (2019: EUR 986 thousand; 2018: EUR 13,275 thousand) and cost of sales of own products (2019: EUR 1,351 thousand; 2018: EUR 1,163 thousand).

USS International Services, LLC provides managerial services to U. S. Steel Košice, s.r.o. (2019: EUR 2,838 thousand; 2018: EUR 3,052 thousand).

All related party transactions were realized on arm's length basis.

On December 23, 2019, the Company entered into a USD 150 million Loan Agreement with United States Steel Corporation. This agreement will mature on September 27, 2023. Interest on borrowings under the facility is 3 month LIBOR plus margin 2.9 percent per annum and the agreement contains customary terms and conditions. As of December 31, 2019, borrowings totaling USD 150 million (i.e. EUR 134 million using the exchange rate valid at the end of the reporting period) were drawn against this credit facility and the interest expense was USD 122 thousand (i.e. EUR 108 thousand using the exchange rate valid at the end of the reporting period).

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

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 2019 and as of December 31, 2019, no loans were drawn against this facility. As of December 31, 2018, there were no loans provided under this facility.

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 2019 and 2018 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:

	2019	2018
Wages and salaries	**15,190**	19,068
Profit sharing expense	**7**	38
Mandatory social and health insurance to all insurance funds	**4,740**	5,530
Total	**19,937**	**24,636**

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

Effective from January 1, 2020, U.S. Steel Europe – Bohemia s.r.o. started liquidation process and change its name to "U.S. Steel Europe – Bohemia s.r.o. in liquidation". The impact of the U.S. Steel Europe – Bohemia s.r.o. liquidation on the consolidated financial statements is immaterial.

On January 22, 2020 the Group as pledgor and Commerzbank Finance & Covered Bond S.A as pledgee signed the Agreement on creation of pledge over trade receivables. Collateral comprises all of the existing trade receivables and all of the future trade receivables in each case including appurtenances and any contractual or statutory security created or existing for the benefit of the pledgor. As of May 31, 2020, the book value of trade receivables comprised in collateral will be determined and reported for the first time with subsequent monthly frequency.

On January 22, 2020 the Group as pledgor and Commerzbank Finance & Covered Bond S.A as pledgee signed the Agreement on creation of pledge over movable assets. Collateral comprises all consolidated assets treated as inventory including stock of raw materials, work in progress, semi-finished production and finished products that the pledgor currently owns or will own in the future, including their appurtenances and all documents necessary for their use and disposal. As of March 31, 2020, the book value of inventory involved in collateral was EUR 279 million.

On February 28, 2020, the 2020 CO_2 emission allowances were credited to the U. S. Steel Košice, s.r.o. account in the volume of 5,576,436 tons totaling EUR 131.4 million and to the Ferroenergy s.r.o. account in volume of 28,985 tons totaling EUR 683 thousand. On April 15, 2020, the Group delivered 7,474,886 tons of CO_2 emission allowances for 2019 to the Slovak Government fulfilling its obligation for the sixth year of the Phase III period.

In March 2020, U. S. Steel Košice, s.r.o. announced its intention to continue to focus on its core steel production activities and its plan to start the independent process of selling its subsidiary RMS Košice s.r.o. as well as its pipe production facilities, including the related PP&E and inventories. The activities of the RMS Košice s.r.o include the production of progressive refractory materials and maintenance services for primary steelmaking operations. U. S. Steel Košice, s.r.o. pipe division focuses on production of spiral-welded pipes. Given that the intended sale of these two asset groups is in an early stage and significant changes to the plan might occur, it is not certain that the sale will be completed within a one year period, the assets are not available for immediate sale, and a reasonable selling price was not yet determined, the assets were neither classified as held for sale nor as discontinued operations in these consolidated financial statements.

An Addendum No. 11 to the valid Collective Labor Agreement for U. S. Steel Košice, s.r.o., Ferroenergy s.r.o. U. S. Steel Košice – Labortest, s.r.o. and U.S. Steel Košice – SBS, s.r.o. and an Addendum No. 5 valid for U. S. Steel Obalservis s.r.o. and RMS Košice s.r.o. (the CLA Addendum) became effective on April 16, 2020 and enables employee to receive one-time wage benefit for years of service if his/her labor contract with the respective company has lasted for 5 uninterrupted years or more as of the date of submitting the application for the termination of labor contract pursuant to the CLA Addendum. In case the CLA Addendum is used, an employee will terminate his/her labor contract by agreement as of June 30, 2020.

A new subsidiary, Tubular s.r.o. was established on April 16, 2020. Majority (85 percent) of the share in total registered capital of EUR 5,000 is owned by USSK, remaining minority share (15 percent) is owned by USSK's subsidiary Ferroenergy s.r.o. The only asset is the cash representing registered capital amount and the subsidiary has not started its operation yet.

A new coronavirus (COVID-19) emerged from China in early 2020. COVID-19 consisted of a limited number of cases of an unknown virus that had been reported to the World Health Organization at year-end, however, the virus has spread significantly across China and the globe since then, causing disruptions to business and economic activity. The Group considers this outbreak to be a non-adjusting post balance sheet event. The Group has taken specific measures to ensure health and safety of the employees as well as the Group’s operations. While this is still an evolving situation, the impact to the Group’s operation and results has been mitigated by the Group’s action taken and the future impacts cannot be reliably estimated and quantified at the time of issuing these consolidated financial statements. The Group does not expect an impact on its ability to continue to operate as a going concern.

After December 31, 2019, no other significant events have occurred that would require recognition or disclosure in the 2019 consolidated financial statements.