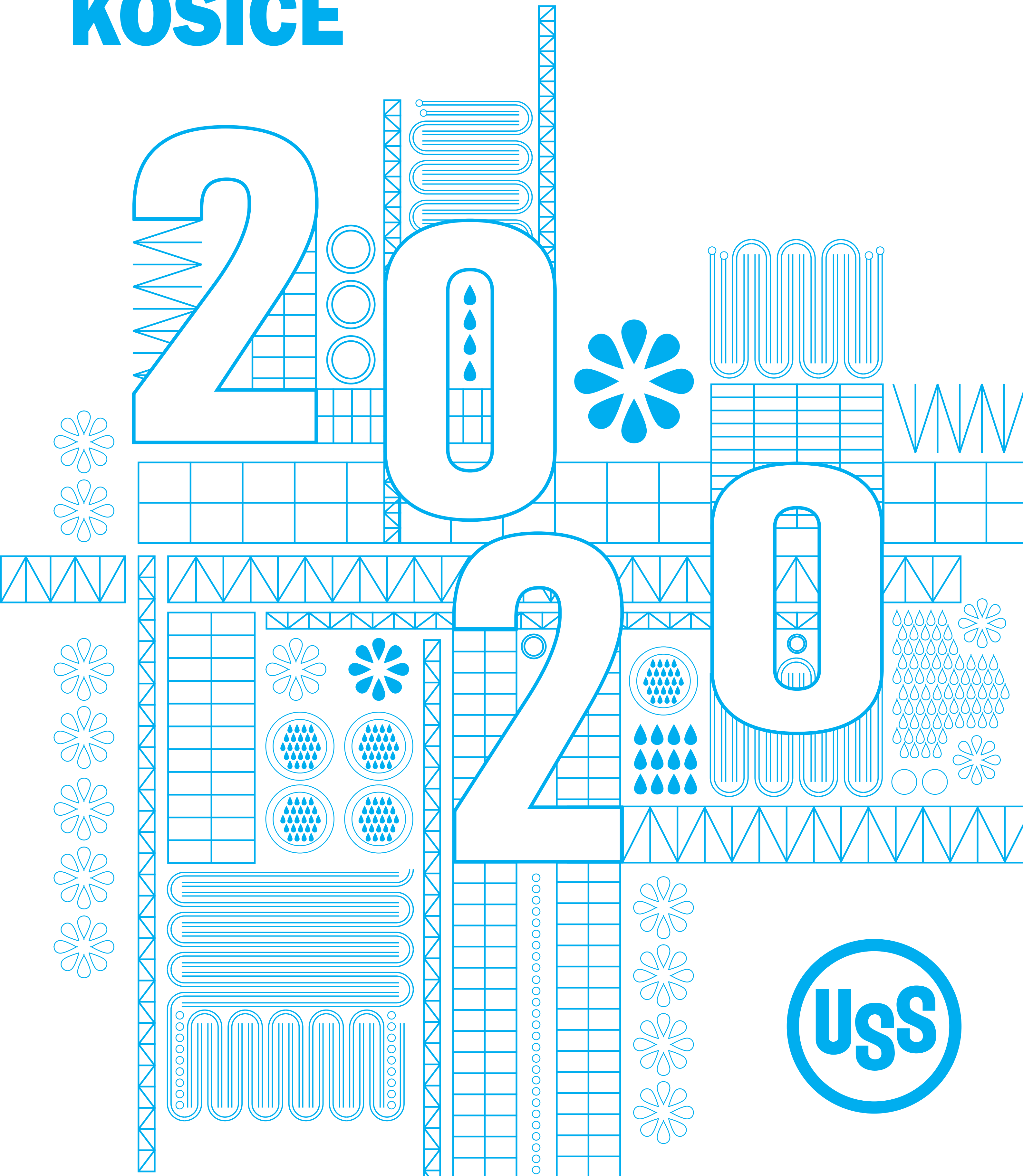
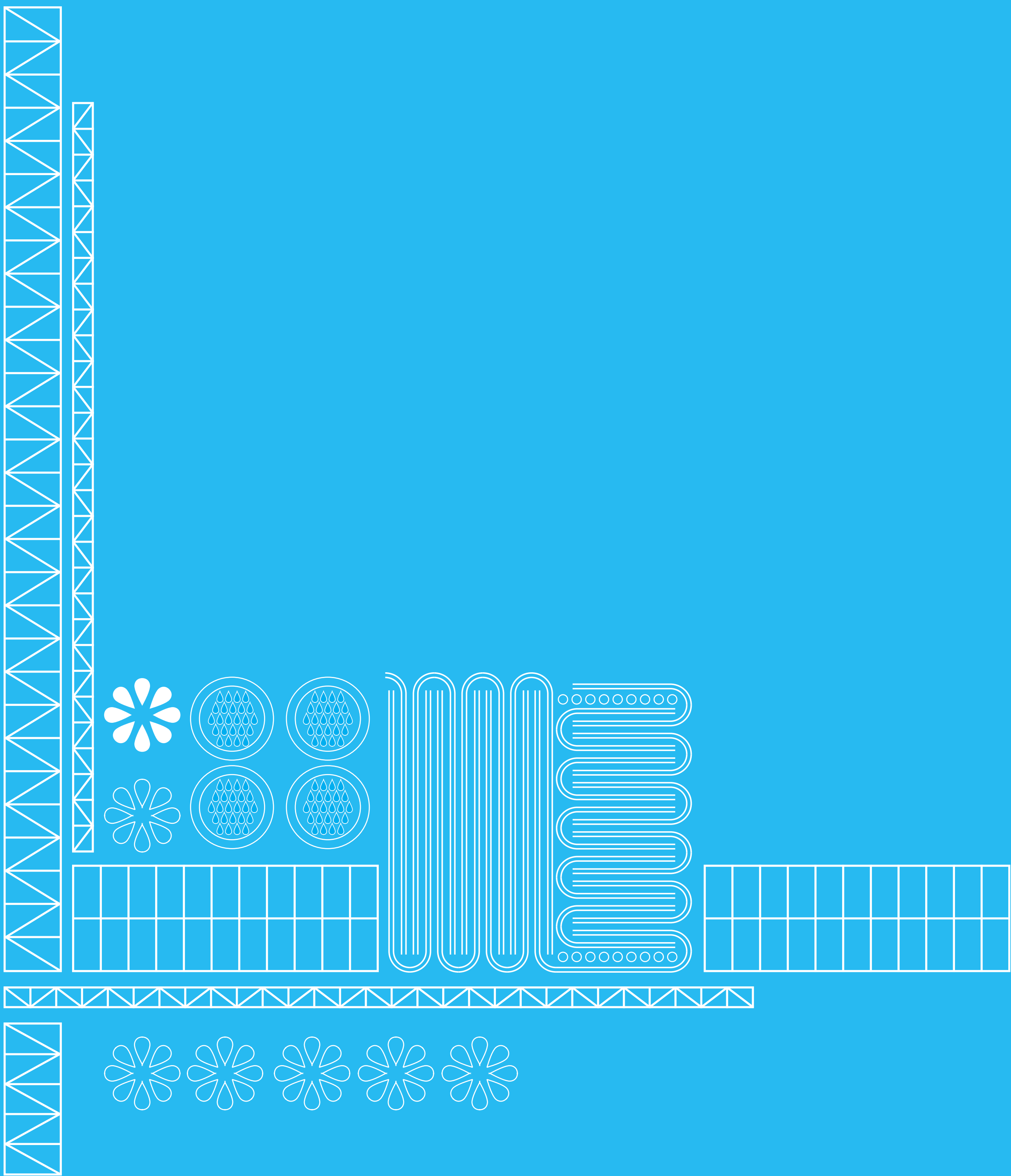
ANNUAL REPORT

U. S. STEEL KOŠICE





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".

TABLE OF CONTENTS

PRESIDENT’S FOREWORD

Every year we produce our annual report to inform all our stakeholders about our business results and impacts. We believe doing business in a transparent and socially responsible way forges the path toward our sustainable future, built on the firm ground of our S.T.E.E.L. principles: Safety first as the highest value, Trust and respect toward our employees and partners, Environmentally friendly activities in steelmaking operations, and overall Ethical behavior and Lawful business conduct.

I would like to start by acknowledging and thanking my colleagues for ending 2020 with yet more safety records. I am so proud of our employees for completing their second year in a row with zero days away from work cases. Our culture of caring is making a difference.

We celebrated the twentieth anniversary of our business in Slovakia in 2020. Since the beginning of our time here, U. S. Steel Košice has been a stabilizing force for the economic and social well-being in this region. We provide safe, stable, and reliable working conditions for thousands of employees. U. S. Steel Košice has been the leader in occupational safety, setting high-level safety standards and reducing injury frequency by 98 percent. We have also been a leader in business ethics in Slovakia, sharing these values with our suppliers and customers. U. S. Steel Košice is a respected member of the community, a leader in volunteering and long-term supporter of education, health care, social well-being, culture and sports, having contributed 48 million euros in support of our community.

2020 was another challenging year for the steel industry, which saw the onset of the unprecedented COVID-19 pandemic. We demonstrated our commitment to the community without hesitation by aiding local hospitals, schools and charities. Through years of cooperation with these institutions, we quickly determined their needs and provided the necessary medical equipment, safety materials and targeted financial support.

The safety of our employees and production processes is our highest priority. At the first sign of the pandemic in 2020, our team commenced preparations, constantly monitoring developments in Slovakia and abroad. Next, we quickly implemented a wide range of new health and safety measures to protect the lives and livelihoods of our employees. Our strong safety culture, coupled with our engaged workforce, quickly incorporated many new procedures to protect our employees, including a permanent COVID-19 testing point at U. S. Steel Košice. We established daily communications with employees on how to behave safely during the pandemic.

Our efforts and our employees’ dedication limited the spread of COVID-19 within our organization. Our early actions allowed us to continue uninterrupted production and delivery of high-quality steel to our customers. Our pandemic team, partnering with our IT organization, quickly upgraded our infrastructure to allow more than a thousand of our employees to work from home. These enhancements and the lessons learned have made us a stronger and more flexible enterprise. Nevertheless, we are looking forward to vaccinations and a return to normal life.

Of course, the pandemic hit us hard financially in the second quarter. Demand went down during lockdowns. One of our three blast furnaces remained idled for the entire year. As a result, our steel production capacity utilization dropped to 67 percent in 2020, down 11 percentage points from the previous year. Due to a shortened work regime, our employees worked the equivalent of nine months. Fortunately, we emerged from this period with the national government’s “kurzarbeit” mechanism, which provides wage compensation to employers forced to temporarily reduce working hours by external factors, which the pandemic did. The fast and flexible performance of our team positioned us to capitalize on the rebound of steel demand in the third and fourth quarters.

Throughout this challenging period, we focused on optimizing our costs through maintenance and production labor transformations. Our staff further enhanced labor productivity and eliminated 1,000 permanent positions, sustainably reducing our labor costs. We also focused deeply on equipment reliability and efficiency, division by division.

We strengthened our Advanced Analytics team, which implemented new solutions to improve our operations and deliver sustainable savings. At the year's end, we began a modernization of our Enterprise Resource Planning information system by incorporating modern analytical tools and procedures, with the goal of making better and faster decisions.

2020 was another year with a significant focus on our future sustainability and environmental protection. At USSK, we are committed to producing steel in compliance with environmental requirements and laws. We completed several investment projects in 2020 which significantly improved air quality, primarily at the sinter plant. At the end of the year, the European Union (EU) set the ambitious objective of a 55 percent reduction of greenhouse gas emissions by 2030, which will inform and guide our future enhancements to our steel making and energy production technologies.

Our engineers have established a clear plan to significantly reduce our CO_2 emissions and continually focus on becoming a greener steel producer. We believe EU financial tools will be available to support modernization and transformation of our energy-intensive industry. We will continue to advance our plans, and work proactively with EUROFER and the Government of Slovakia to attain our sustainability goals and those of the EU, ensuring the success of our mill and the industry in Slovakia.

Since 90 percent of worldwide greenhouse gas emissions are produced outside the EU, it is extremely important to protect the EU market from foreign steel produced without stringent environmental controls. Certain steel producers from outside the EU are not bound by EU environmental and investment obligations. For years, we have called for responsible measures to secure the independence of crucial industry sectors and millions of jobs in the EU. We remain active participants in EUROFER, advocating to the EU Commission to properly and fairly recognize how the environmental policies are unfairly jeopardizing many industries and hundreds of thousands of jobs within the EU.

Steel is the world's most recyclable material and is a fundamental material for the development of humankind. It matters where and how it is produced.

Our team at U. S. Steel Košice is dedicated to producing high-quality steel in a safe and environmentally friendly manner. Our applied research and innovations offer solutions both for our customers and for end users. Thanks to this forward-looking approach, steel products can be stronger, lighter, more formable and recyclable – always – to the benefit of our customers and the planet.

Join us on our steel journey. You will find more about the key milestones in the following pages.

James E. Bruno
President U. S. Steel Košice, s.r.o.

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 2020, the company also produced spiral welded pipes.

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 and two spiral-welded pipe lines. 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, 2020 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, 2020, U. S. Steel Košice, s.r.o. had 10 subsidiaries, 7 of them in Slovakia and 3 abroad. The Company does not have other remote production sites.

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

- Ferroenergy s.r.o.
- RMS Košice s.r.o.
- U. S. Steel Obalservis s.r.o. (in liquidation)
- U. S. Steel Košice – Labortest, s.r.o.
- U.S. Steel Košice – SBS, s.r.o.
- U. S. Steel Services s.r.o. (in liquidation)
- Tubular 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. (in liquidation)
- U. S. Steel Europe – France S.A.
- U. S. Steel Europe - Germany GmbH

Their activities are closely linked with the business and production of U. S. Steel Košice, s.r.o.

As of January 1, 2020, the activities and tasks 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.

U. S. Steel Europe - Bohemia s.r.o., the subsidiary company located abroad, entered into liquidation as of January 1, 2020.

On April 16, 2020, a new subsidiary Tubular s.r.o. was incorporated.

U. S. Steel Services s.r.o. subsidiary entered into liquidation as of August 1, 2020.

As of September 1, 2020, the activities and responsibilities of U. S. Steel Obalservis 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.

U. S. Steel Obalservis s.r.o. subsidiary entered into liquidation as of January 1, 2021.

The active subsidiaries are involved in all programs and activities of U. S. Steel Košice, s.r.o. Additional information about the subsidiary companies is provided in Note 8 to the Separate Financial Statements and Note 8 to the Consolidated Financial Statements.

The statutory representatives as of December 31, 2020, 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 G. Kocsis	Vice President Human Resources and Transformation

CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Group has implemented a responsible approach in doing business since its establishment in Košice, following the principles of ethical and transparent business espoused by Elbert Gary, the first U. S. Steel Board Chairman, at the beginning of the 20th century. USSK is the largest employer and company in eastern Slovakia, and regularly informs stakeholders about the impacts of its business on the economy, society and the environment through CSR reports, including four that covered 2001-2010. Since 2011, CSR has been integrated into our annual reports.

USSK is one of the founding members of the Business Leaders Forum, which has systematically promoted the CSR approach in Slovakia since 2004.

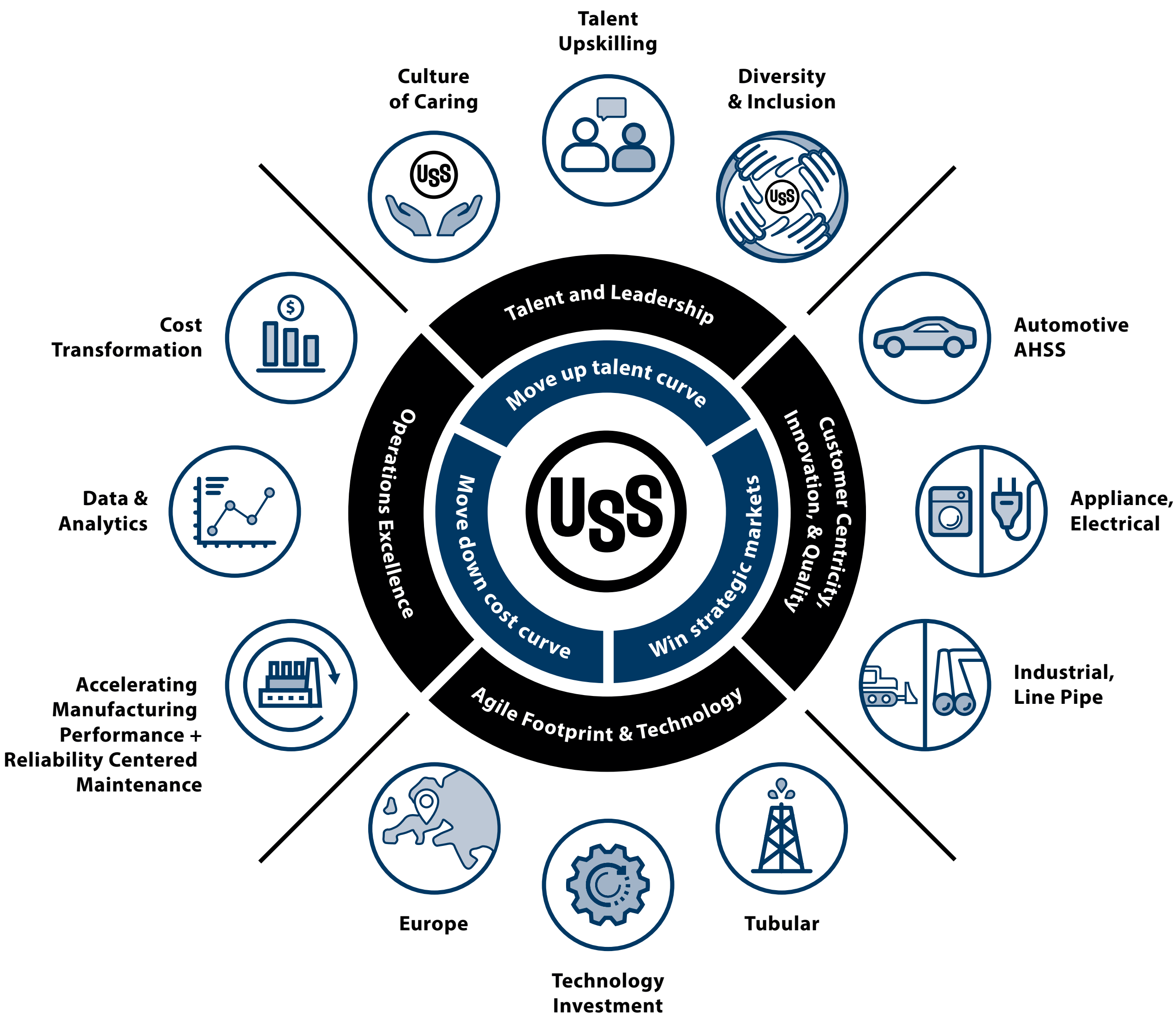
We believe that a responsible and sustainable way of achieving success is crucial for our business. It not only delivers economic growth, but engenders motivation and commitment among our employees, creates satisfaction and loyalty among our customers, fosters understanding with the community where we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

We do our business in line with worldwide sustainable development goals (SDG) adopted by United Nations member states in the 2030 Agenda, and which are also being implemented in the Slovak Republic. We contribute through our activities toward those goals.

CORPORATE STRATEGY

The U. S. Steel Košice Group in its day-to-day business pursues a corporate strategy which focuses on:

- Using advanced steelmaking techniques to improve its business capabilities and deliver a better product than the competition;
- Becoming the leader in the most strategic steel markets;
- Being more cost-competitive, and
- Succeeding, no matter the business cycle.



THE CARNEGIE WAY

We launched the Carnegie Way in 2013 to transform the way we do business to achieve sustainable short- and long-term profitability, regardless of 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 our position and compete in a complicated business environment.

From 2019 onwards, we successfully continued with a wave of continuous improvement called Moving Down Cost Curve (MDCC). The objective was to strengthen our competitiveness by cutting costs, and we set up a three-year period (2019 -2021). From the beginning, we identified projects with a three-year benefit of $ 688 million. The team identified 699 ideas, 498 of which are being implemented in this three-year period.

342 projects / $273 million in 2020 (Only projects that improve EBIT)

Most Successful MDCC Projects:

- **Minntac pellets utilization**
- **Long-term contract for iron ore supply**
- **Increase A-grade scrap specific consumption**
- **Coking coal imports from the USA**
- **Steel Shop basic oxygen process yield increases**
- **Labor force optimization projects**

THE COMPANY'S SOCIAL IMPACT

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, training and development of its human resources, which include a wide scope of activities ranging from supporting students in our partner schools to become potential employees to working closely with labor unions to create a motivated workforce. We put a special focus 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. The Group has been a leader in fostering business ethics and anti-corruption practices in Slovakia.

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

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

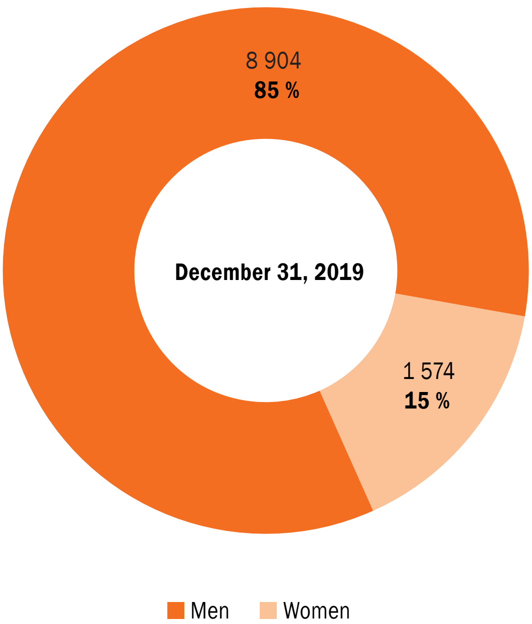
USSK has been a leader in enforcing business ethics and anti-corruption practices.

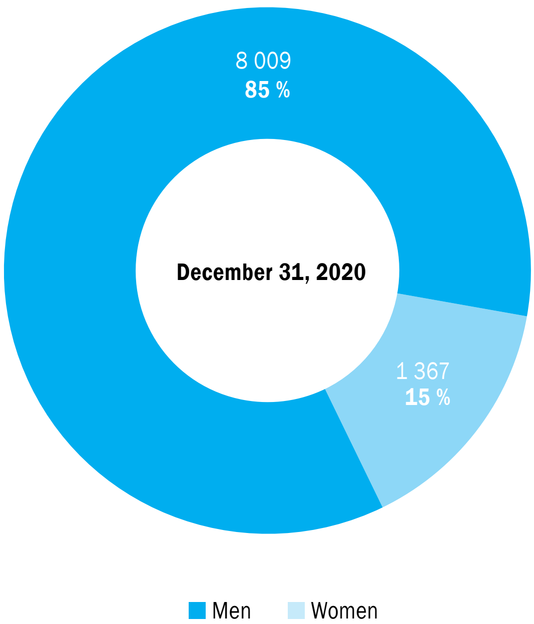
WORKFORCE CHARACTERISTICS

U. S. Steel Košice Group Active Employees: 10 478 (2019)

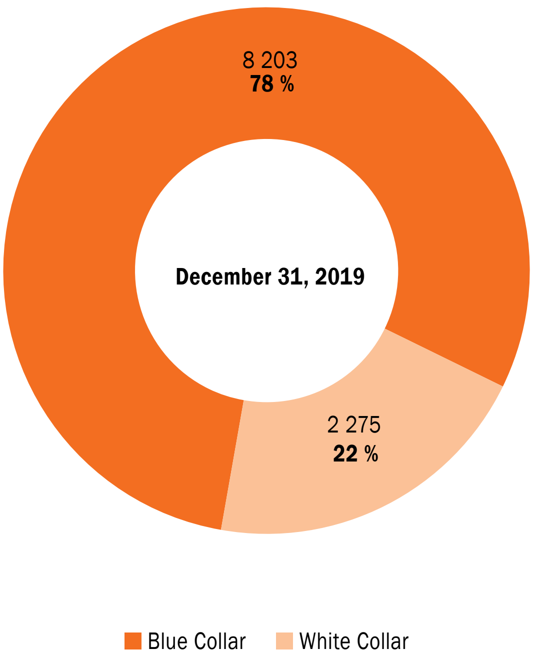
U. S. Steel Košice Group Active Employees: 9 376 (2020)

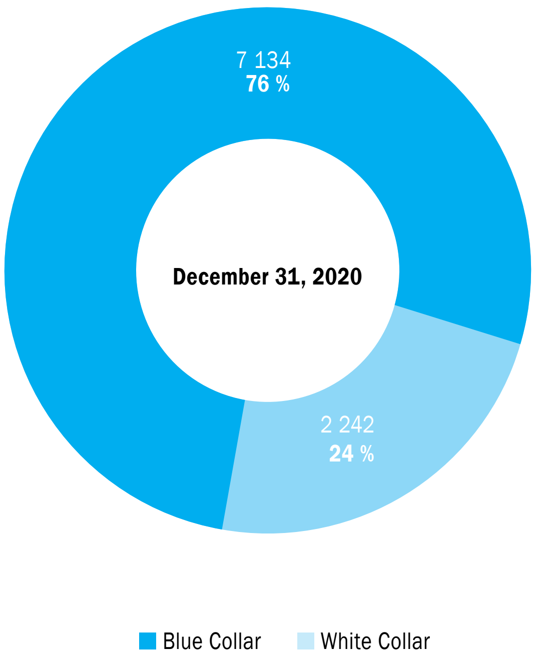
Employees by gender



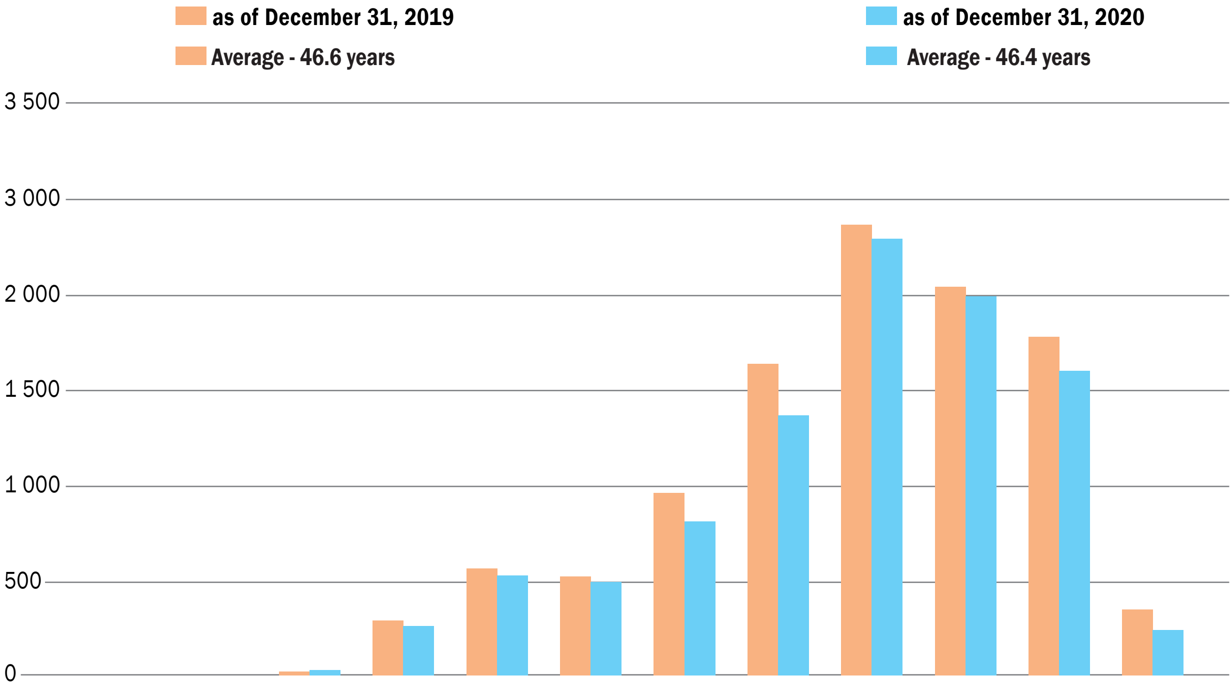


Employees by category



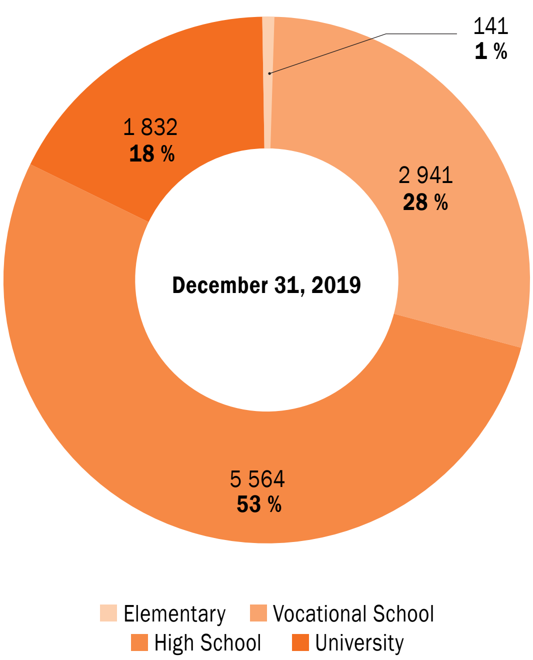


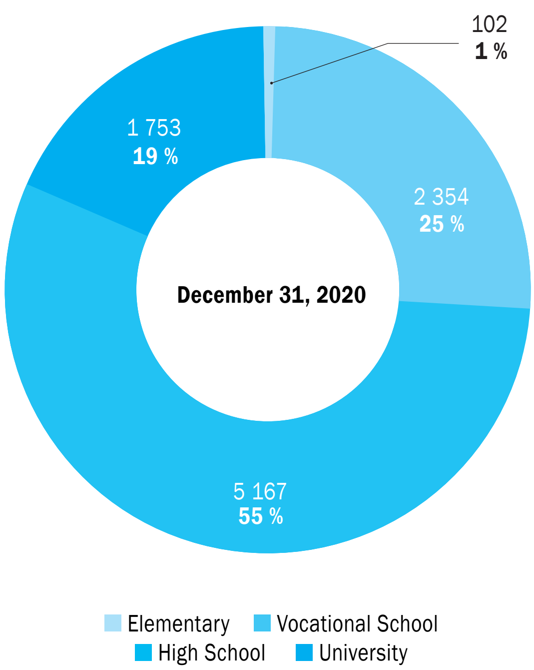
Employees by age



	up 20	20 – 24	25 – 29	30 – 34	35 – 39	40 – 44	45 – 49	50 – 54	55 – 59	over 60
# of employees **December 31, 2019**	11	282	596	531	914	1 626	2 379	2 016	1 737	386
# of employees **December 31, 2020**	10	208	521	504	801	1 337	2 257	2 005	1 561	172

Employees by educational background






DOPRAVA


50

OCCUPATIONAL SAFETY AND HEALTH PROTECTION

At U. S. Steel Košice, safety is primary and the most important value in protecting life and health at work. Thanks to this approach, our Company in 2020 achieved the best results for key indicators in its history. For the second year in a row, we ended the year without days away from work (DAFW) injuries. The new record for the frequency of all injuries, according to Occupational Safety and Health Administration (OSHA) methodology, was 0.062. Our Company achieved the lowest number of OSHA Recordable injuries and that is 4, which broke the record from 2019, when we recorded 8 injuries. We managed to achieve another milestone in the number of days worked without OSHA Recordable injuries. We worked for 169 days without any OSHA Recordable injuries in 2020, longer than the 124 days recorded the year before.

The overall results which our Company achieved for the occupational injury rates are among the best in our 20-year history. As shown in the graph, comparing 2020 with 2001, the Company recorded a **98 percent decrease in the injury rate** (Recordable + DAFW) by the end of 2020.

In 2020, the Transportation Division employees set a record in terms of working hours without a single injury and became the first in the Group to work 6 million hours without an injury. The Company Management and Subsidiaries employees worked 3 million hours without an injury. Employees at the Hot Rolling Mill, Steel Shops, Maintenance, Coated Products and Tin Mill and the Coke Plant worked more than 1.5 million hours without injury. The employees of several divisional plants managed to work the entire year without OSHA Recordables. Coke Plant and Hot Rolling Mill employees worked for more than two years without an occupational injury, while Transportation employees reached more than five years.

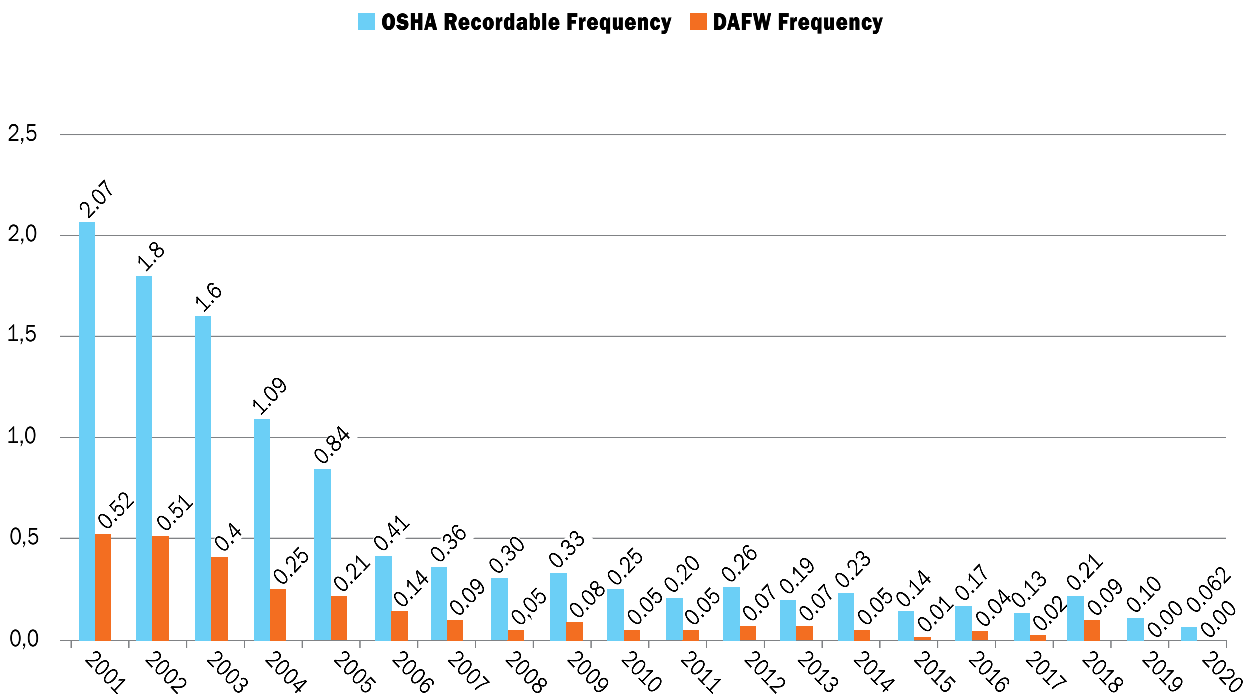
The Company performed two internal **Fatality Prevention Audits** (FPA) in cooperation with division representatives, trade unions, SBS Security and the Plant Fire Department in 2020. These audits also focused on external companies working on USSK premises. We assessed and eliminated hazards in the areas of work near Mobile Equipment, Energy Control, Confined Space Entry and around the worksites. The teams of experts from various fields performed 102 audits on Life-Threatening Prevention Programs. The team members assigned 29 measures in total. The audits did not identify any critical findings related to Life-Threatening Prevention Programs.

In 2020, USSK fulfilled demanding criteria and won the U. S. Steel CEO Safety Award.

Our activities continued to make the Occupational Safety and Health Protection processes more efficient. In cooperation with experts from various areas and quality management system managers, we focused on implementation of our **Safety Management System (SMS)**.

The coronavirus pandemic affected our working lives. The Company implemented many measures to protect employees from **COVID-19**. These were communicated to employees through intranet, safety contacts and safety huddles. In addition to routine activities, Safety Department staff, in cooperation with Security and the Plant Fire Department, focused also on compliance with the measures to prevent COVID-19 from spreading.

The Representatives of Employees for Safety also played a key role in the results we achieved. They contributed to risk and hazard identification, and suggested ways to eliminating



them. **We resolved nearly 96 percent of 1,051 improvement initiatives identified by the employee safety representatives by the end of the year.**

Active employees in the field of Occupational Safety and Health Protection were rewarded for their exemplary attitude and approach by being designated **Safety Champions**.

In 2020, our Company continued with special efforts on the issue of **Contractor Safety**. Safety experts performed 391 in-depth audits focusing on compliance with the Life-Threatening Prevention Programs principles. As part of the implementation of the SMS, an external audit confirmed the effectiveness of the implemented system. In the interest of positively motivating contractors to prevent injuries, our Company continued evaluating contractor employees on the basis of compliance with Occupational Safety and Health Protection requirements and by acknowledging them with the Contractor Safety Award.

We ran Safety Campaigns in all operational areas to continue to promote our **Safety Culture**. Targeted activities were highlighted as reminders of principles, rules or procedures in the area of serious injury prevention, fire protection, enhancement of employee awareness as well the Safety Culture and approach to others. We underscored the importance of the “Stop & Act” principle to prevent injuries and incidents in the event of danger.

● Up-to-date information on the Company web site, safety alerts and guidelines sent via text messages and e-mails have helped employees to work responsibly during the pandemic and in line with the health and safety precautions.

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 of Industrial Technologies 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 the recruitment of students to our partner secondary schools. In 2016, USSK first entered into the dual education system in cooperation with the Secondary Vocational School for Railway Transport in Košice. The dual education combines theoretical lessons at school with practical experience in real company operation. In 2017, we expanded the dual education system and included cooperation with the Secondary Vocational School in Košice-Šaca. In 2020, we expanded our cooperation in the field of dual education with the specialization of Processing and Welding Machine Programmer at the Secondary Vocational School of Industrial Technologies in Košice-Šaca and the specialization of automechanics at the Secondary Vocational School of Automotive Engineering in Košice. Within the main partner schools, 301 students studied under USSK supervision in the dual education system in the 2020/2021 school year. These included courses for steelmaking equipment operators, machines and equipment mechanics, electrical mechanics and mechatronic mechanics, which have expanded by 68 pupils year-on-year. We continue 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, we enable them to participate in plant tours and gain work experience in our operations, and to work on their dissertations and theses on steelworks topics. Moreover, selected university students increase their theoretical knowledge, practical experience, communication and teamwork skills during the **Summer Internship Program**. In 2020, up to 34 new fourth-year students from a total of 14 universities from all over Europe and Slovakia expanded their experience and skills through this program.

In 2020, we also continued a successful project called **Year-Long Internship for University Students**, which is intended for students in their third to fifth years of university. We selected a total of 91 students to participate in the projects and activities of individual production facilities and administration departments over the course of a year.

This approach to working with students has proven effective. On the one hand, students of secondary schools and universities get the chance to join in the practical activities of the Group to gain experience and acquire skills which provide a competitive advantage in the labor market. On the other hand, this approach allows us to find the talent we need for future employment requirements.

Systematic cooperation with secondary schools and universities secures an inflow of young talent into our teams.

The Company supports the **training and development of all its employees** through various programs focusing on managerial, professional and vocational skills and knowledge. In 2020, due to the COVID-19 pandemic, training in particular areas continued in a limited manner. USSK introduced several new e-learning courses in the field of occupational safety and health to ensure the availability of crucial training for employees while significant re-

strictions were in force due to the pandemic. Employees who enter operations or maintenance premises attended the annual corporate safety awareness training focusing on cardinal rules and life-threatening situations. In 2020, these programs were extended to employees of contractors engaged in manufacturing and maintenance work on U. S. Steel Košice Group premises.

As part of managerial development in 2020, we conducted the **Front-Line Leadership Development program**. These front-line managers were progressively trained in several modules that gave them the opportunity to develop their skills in effective communication, understanding of best practice, giving constructive feedback, building favorable labor relations and developing their subordinates' skills. Unlike previous years, the development of foremen was performed through e-learning modules instead of classrooms. In 2020, we continued with the **Mentoring** program focusing on helping newly-appointed managers or newly-hired graduates to develop professional skills and better utilize their potential by learning from their mentors´ unique experience. In 2020, we continued with **Internal Coaching**, focusing on developing the personal or work potential of employees. 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.

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 August 2020, collective bargaining resulted in the new **Collective Labor Agreement** for 2020–2024, which is applicable to 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. Subsequently, a new Collective Agreement was also agreed with the union representatives for the subsidiary RMS. In compliance with legal requirements, the Group fully accepts its role as partner in every area of its activities and considers cooperation a necessary condition for effective business. At all managerial levels, cooperation is used to fulfill the Collective Labor Agreement commitments and resolve labor issues in compliance with relevant legal requirements. In joint committees 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 stay 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 – by inviting them to meetings with top management. In 2020, these meetings could not take place due to the COVID-19 emergency. USSK also **rewards employees** who participate in the achievement of excellent results in various areas through the quality of their work. During 2020 there was quarterly recognition of employees involved in the most successful projects supporting the Carnegie Way transformation program. 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 recreational activities. As part of its social policy, USSK supports voluntary blood donorship through its participation in Jansky and Knazovicky Plaque award ceremonies, and at the same time provides vouchers for recreational activities for those employees who are regular blood donors.

Various events also help to build team spirit, among them **the Company Summer and Winter Games** (which include soccer and ice-hockey tournaments for the President's Cup) in which several hundred amateur sportspeople participate. 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 in the Association of Corporate Media Competition.

DIVERSITY AND EQUAL OPPORTUNITY

U. S. Steel Košice Group guarantees every employee's rights under their employment contract without restriction, prohibits direct or indirect discrimination in compliance with the applicable laws, including those covering personal data protection. All employees are treated equally and without discrimination on the basis of age or gender.

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 have been able to derive support from the USSK Women's Network, part of the U. S. Steel Corporation's Women's Inclusion Network, the mission of which is to cultivate an inclusive environment enabling women to maximize their professional success through networking, education, leadership opportunities and community involvement. In 2020, our Women's Network entered its second decade with a new leadership team and a new ambition to reflect the rapidly-changing working environment.

In the 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 roles. In the Protected Workshop, they get work which they can

● In 2020, the proportion of women in USSK top management was 25 percent (2019: 30 percent, 2018: 30 percent) with responsibilities in finance, law and subsidiaries management.

perform with disabilities, such as waste separation and recycling, checking of safety gear, sewing of filtration sacks for the blast furnaces, or running the protective equipment center for visitors. Their continued employment with U. S. Steel Košice forestalls any challenges they may have finding appropriate jobs in the labor market.

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, e-mail or internet. In addition to Group employees, external persons may also use the U. S. Steel Ethics Line to report unethical or unauthorized practices related to USSK.

We support inclusion of colleagues with disabilities.

This requires flexibility and an individual approach to each employee, taking into account his/her abilities and potential. In 2020, we provided work for 35 employees whose health conditions had rendered them unable to carry out their previous responsibilities.

BUSINESS ETHICS

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 which make us a better, more competitive company.

U. S. Steel Košice, s.r.o. is one of the leading companies **enforcing business ethics and anti-corruption** practices in Slovakia. Employees are regularly informed about ethics and compliance topics and other ethics-related issues through USSK's intranet site (Ethics & Compliance section), the quarterly online newsletter named "Ethically Speaking" and regular communication in the form of Compliance Tips or the Ethics & Compliance Reporter delivered through intranet and by e-mail. In 2020, employees could also expand their knowledge through online training sessions on topics such as sexual harassment, fair competition and economic sanctions.

In 2020, the Company together with other plants within the U. S. Steel Corporation joined the tenth edition of the annual **Ethics and Compliance Week**. From November 16 to November 20, employees received e-mails and video links from senior corporate representatives and attended online sexual harassment training, part of our shared commitment to "Do What's Right". Moreover, during the Ethics and Compliance Week, the process of **Annual Certification** was started, during which all Group employees became acquainted with selected USSK Policies and the Code of Ethical Business Conduct and confirmed their commitment to comply with them at all times.

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 the Group. It is also aimed at respecting the human rights of employees generally by proscribing slavery and child labor, and placing emphasis on the battle against corruption and bribery. The commitment to act in an ethical manner has helped to ensure that U. S. Steel Košice upholds its reputation as a company that respects its employees, shareholders, business partners and the communities in which it operates. USSK's collective commitment to perform business activities in an ethical manner must be and is fulfilled without reservation. The corporate S.T.E.E.L. Principles form the foundation of the USSK Code of Ethical Business Conduct.

- **Safety First is the highest value,**
- **Trust and respect form the basis of approach towards employees and partners,**
- **Environmentally friendly activities in steelmaking operations,**
- **Ethical behavior in everything we do,**
- **Lawful business conduct.**

USSK, as a subsidiary of United States Steel Corporation, is committed to legal and ethical compliance in all its business practices and will comply with applicable U. S. laws (The Dodd-Frank Wall Street Reform and Consumer Protection Act, HR 4173 § 1502 (the "Dodd-Frank Act")) and EU legislation (EU Conflict Minerals Regulation no. 2017/821 ("EU Conflict Minerals Regulation")) regarding **conflict minerals**. Based on USSK's reasonable efforts to investigate the sourcing of materials through its supply chain, the only products manufactured by USSK containing conflicts minerals and therefore subject to the Dodd-Frank Act and EU Conflict Minerals Regulation are its tin mill products whitch have a tin coating.

Based on USSK's reasonable due diligence, to the best of its knowledge, throughout 2020, USSK did not manufacture any products using conflict minerals (as defined in the Dodd-Frank Act and EU Conflict Minerals Regulation) sourced from the Democratic Republic of Congo or its adjoining countries that financed or benefitted armed groups in that region or other high-risk or conflict-affected areas. In accordance with the legislation and implementing regulations, USSK will continue to monitor its supply chain to ascertain the origin of conflict minerals used by USSK in manufacturing its products and provide any required disclosures and updates. USSK will continue to work proactively with its suppliers and customers to verify the sources of conflict minerals in its supply chain.

THE COMPANY´S ECONOMIC IMPACT

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, 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, processing and home appliance industries. To maintain its competitive position in challenging market conditions, U. S. Steel Košice Group focuses on continuous improvement projects and activities as the main tools to make decisions and implement programs which lead to higher-quality goods and sustainable profitability improvements that improve the Group´s financial positions.

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

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

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

● In 2020, USSK produced 3.054 million metric tons of raw steel slabs.

RESEARCH, INNOVATIONS AND CUSTOMER SOLUTIONS

Research and development for primary operations in 2020 focused on reducing pollutants, lowering production costs, optimizing product portfolio, increasing steel purity and extending the lifetime of refractory materials.

Research into coke production focused on learning more about how various types of coal can improve the coal blend optimization and reduce pollutants. The objective was to reduce the raw materials cost while ensuring the optimal quality and quantity of products, as well as the safe operation of production lines.

In the field of pig iron production, we focused on optimizing sintering and the blast-furnace blend. Thanks to artificial intelligence and machine learning, we were able to perform complex modeling of sintering and blast-furnace processes to optimize the charge blend, reduce costs and minimize CO_2 generation. The newly-developed technology of producing cold-stamped blast-furnace briquettes increased the proportion of recyclable waste and by-products.

Very important success was achieved **in research into steel making and casting technology** of grades with very low quantities of carbon, sulfur, nitrogen and titanium for electrical steel, and in optimization of production and casting of steel grades with high inner purity and homogeneity with minimal content of non-metallic inclusions and modification using calcium carbide. Another important milestone was the achievement of technical progress and stabilization of the production of high-strength dual-phase grades with improved formability. The use of modern analytical methods and artificial intelligence for metallurgical process modeling has become an integral part of research and development. We continued the development of image analysis to identify steel and slag during casting with the aim of increasing steel yield, and we developed a dynamic thermal model of a continuous slab. The 1:1 physical model of a mold, which was developed and built in cooperation with the Faculty of Materials, Metallurgy and Recycling at the Technical University of Košice, helps in studying the steel flow in the mold under various casting conditions. In connection with physical modeling, we focused on numerical modeling using CFD methods.

In the field of refractories, we implemented bottom stirring in the iron ladles. We tested new, modern stirring segments in ladles with the objective of improving the steel purity. We also participated in research aimed at expanding the portfolio of insulating bricks for pusher furnaces. The extension of refractory materials' working life was achieved through the optimization of treatment practices and of slag removal systems.

● In 2020, we significantly progressed in developing and producing galvanized material with advanced strength and improved plasticity for the automotive industry.

In hot rolling, research and development of products and production technology focused on expanding the portfolio of thinner and/or wider products, as well as products with improved strength properties and better formability. Laboratory simulations of the rolling processes, adaptation of the TMEiC control model and operational trials were used to optimize the hot rolling technology, especially high-strength

grades for automotive customers and grades for electrical appliances. Thanks to our online system which can determine mechanical properties of hot-rolled steel strips, non-specific inspection and certification of customer-requested mechanical properties was expanded with grades for pipe production. In 2020, sample-free certification replaced over 26 percent of all tests of hot-rolled material and it became an inherent part of the quality management system. On top of saving material and testing, it allows faster shipping of material and increases operational safety.

In the field of hot-dip galvanized sheets, we continued in optimizing and improving the properties of these sheets with advanced strength properties (AHSS), mainly for the automotive industry. Ongoing direct communication with our customers helps us fulfill their needs. Part of that included dealing with individual customers' requests regarding surface micro-geometry, as well as development of material cards. In 2020, material cards containing material data for each steel grade, enabling computer simulations of forming processes, were delivered to customers for the first time, upon request and by sharing the cards over the web via a simulation software provider. The development of hot-dip galvanized sheets also focused on increasing productivity and reducing overall costs on all production lines.

In 2020, the production of galvanized sheets coated with **permanent Thin Organic Coating (TOC)** was increased again. In comparison with regularly-used passivating coatings, this versatile coating provides not only increased corrosion resistance, but also lubricating and anti-fingerprint properties, and is used (mainly the transparent version) for the production of white appliances. Besides the transparent version, galvanized sheets with color TOC coatings were also produced. These have been developed to satisfy customers' specific requests, such as lower reflectivity of the LED diode light in some LCD TV models. The color TOC also satisfies customers' demands related to product aesthetics.

In the field of non-grain oriented silicon steel grades for the electrical industry, in 2020 we focused on research and development of a new material generation intended for applications in e-mobility. Besides the production of steel with high silicon levels and high purity, research activities were dedicated mostly to pickling and cold rolling. Successful homologization of several grades was achieved.

We offered a new generation of steel for electromotors to the producers of electric and hybrid vehicles.

In the Tin Mill division, high priority was given to the project of optimization of new chrome-free passivation which meets the valid REACH legislation. Cr-free tinplate for technical applications is already commercially available, but optimization of chrome-free passivation for the food industry is still ongoing. In 2020 we focused on improving the homogeneity of the passivation layer and SnO_x on the surface, as well as on intensive testing of Cr-free tinplate at customers' facilities to ensure its successful qualification. Based on customers' requests we continued developing high-strength steel grades with improved drawing properties, and we started successful commercial production of Low-Tin Steel coatings (LTS). Trial production of LTS coating in combination with chrome-free passivation was also performed; in the future this may serve as an environmentally-friendly replacement for Tin-Free Steel (TFS).

nal stress and surface properties of steel sheets. The metallographic laboratory is accredited for the methods of ferritic grain size measurement, as well as the measurement of the non-metallic inclusion content and micro-hardness in accordance with ISO/IEC 17025:2017. We implemented a new methodology of identification of complex phases in micro-alloyed steel grades using color etching

● In 2020, the operational costs associated with research amounted to 2.6 million euros.

In the field of pre-painted sheets, in 2020 we successfully tested paints with higher reflectivity of sunshine compared to regular paints in metallic finish. Thanks to this special feature, these paints prevent overheating of buildings (cool roof paints). We also successfully tested new color shades, as well as paints from new suppliers. A laboratory for testing coated sheets was established at in 2020 to test the physical properties of sheets coated with organic paints during various profiling operations. The lab is equipped with modern testing equipment

and minority compounds of the dual-phase steel microstructure using the measurement of microhardness and nanoindentation. We optimized the classification schemes of automated evaluation of the purity of various types of steel using electron microscopy together with the Feature method. New equipment improving the quality of sample preparation for microscopic evaluation as well as enhancing occupational safety was installed in the Metallographic Sample Preparation laboratory.

(Erichsen tester, Impact tester, bend tester, coating adhesion tester using the grid method), used to simulate the material´s behavior during its processing by our customers.

Research activities were also supported by the **implementation of a new laboratory and analytical methods** which allow sophisticated evaluation of microstructure, phase composition, texture, inter-

The Group also spent significant amounts on projects aiming to ensure our competitiveness and stable position in the market. The Degasser Modernization project was completed, supporting our products sales and customer-oriented approach. New technical improvements will increase the added value of our products.

USSK has implemented and certificated its **Quality Management System (QMS)** in accordance with the standards of EN ISO 9001 and IATF 16949 for the automotive industry, the performance of which is reviewed once a year by an accredited certification body. 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 2020, 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.

As for internal quality, when internal goals were set up, the quality of USSK deliveries was assessed positively by our customers. The objective of 1.65 percent Divert was exceeded with a result of 1.41 percent, and the 0.97 percent goal in the Retreat category became 0.94 percent at the end of 2020 .

As for external quality, in 2020 a positive trend in customer claims was recorded. Significant achievements were made in terms of claims received, which fell by 12 percent from 2019 levels. The Customer Satisfaction Survey is a significant external quality parameter of supplied products and services. The response rate in 2020 reached the same record level of 98 percent as the previous year, and the customer satisfaction rating reached a value of 1.69 on a scale of 1 – excellent down to 5 – poor. This result is again one of the best customer satisfaction survey ratings since U. S. Steel took over the Košice plant, 4 percent better than the result achieved in 2019.

PROCUREMENT AND SUPPLIER RELATIONS

Transparent and effective procurement and the building of long-term relations with suppliers significantly contributes to fulfilling Group strategy economically. Together with suppliers, we are finding ways to reduce the overall costs of materials, spare parts, services, repairs and capital expenditures. We also work together to improve the effective use of financial resources and to discover innovative solutions. The Group expects its suppliers to implement standards for quality, ethics, occupational safety and environmental protection. Their performance is regularly assessed, and this long-term partnership is viewed as a basis for development by both parties.

THE COMPANY´S ENVIRONMENTAL AND ENERGY IMPACT

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 December 2020, consultants TÜV SÜD Slovakia s.r.o. re-audited the USSK **Environmental Management System**, in compliance with the standard STN EN ISO 14001:2016, which confirmed the system´s high performance and our continuous process improvement. Based on the audit results our Environmental Management System Certificate was renewed.

The greatest environmental achievement relates directly to our targeted attention to various elements of the environment, resulting in zero accidents impacting the environment at U. S. Steel Košice since 2008. Group activities have been in full compliance with the relevant laws and regulations, confirmed by the 14 inspections carried out in 2020 by the Slovak Environmental Inspection Office.

In 2020, we continued to make **investments to protect the environment** and meet the European Union´s regulatory standards. Our most recent flue gas cleaning on the individual sintering lines produced a **99 percent year-on-year reduction in particulate matter emissions from sintering per ton of sinter produced, as compared to 2019**.

7 AFFORDABLE AND CLEAN ENERGY

We improve the energy efficiency of steel production with tangible measures.

13 CLIMATE ACTION

We contribute to fulfilling the goals of the National Climate and Energy Plan of the Slovak Republic.

Since 2000 the Group has invested more than $694 million in dozens of environmental projects.

The most significant undertakings in 2020 included projects to reduce pollutants (mainly dust) in emissions from:

- Sintering Lines 1, 2 and 3,
- Steel Shop 2 – De-dusting of pig iron desulphurization
- The Quenching Tower for Coke Battery 3.

OPERATIONAL PROGRAMME
QUALITY OF ENVIRONMENT

European Union

In 2020, we also implemented other investment projects, the completion of which is planned for 2021, including:
- Blast Furnace 2 – Ore bridges emission control,
- De-dusting of Coke Handling - Coke Batteries 1 and 3.

These projects were co-funded by the EU funds and contributed to significant emissions reductions.

The specific amount of particulate matter emissions decreased in 2020 to 1.9 percent of the level recorded in 2001, which in numerical terms is 0.083 ton per 1,000 tons of steel produced. Since 2001, we have reduced air pollution by particulate matters in the vicinity of USSK by a total of 16,417 tons of dust.

Significant results in **water protection** include the re-use of return water from the Sokoľany Wastewater Treatment Plant in the USSK works. The amount of treated wastewater returned to USSK equals 14.1 percent of the total wastewater produced.

In the area of **waste management**, in 2020 we implemented a change in how we fulfill our obligations as a packaging manufacturer by obtaining approvals for the handling of two additional by-products, namely sludge from a wet level separator containing ferrous particles and abrasive sludge from metal machining. Both are cycled back into the USSK production process.

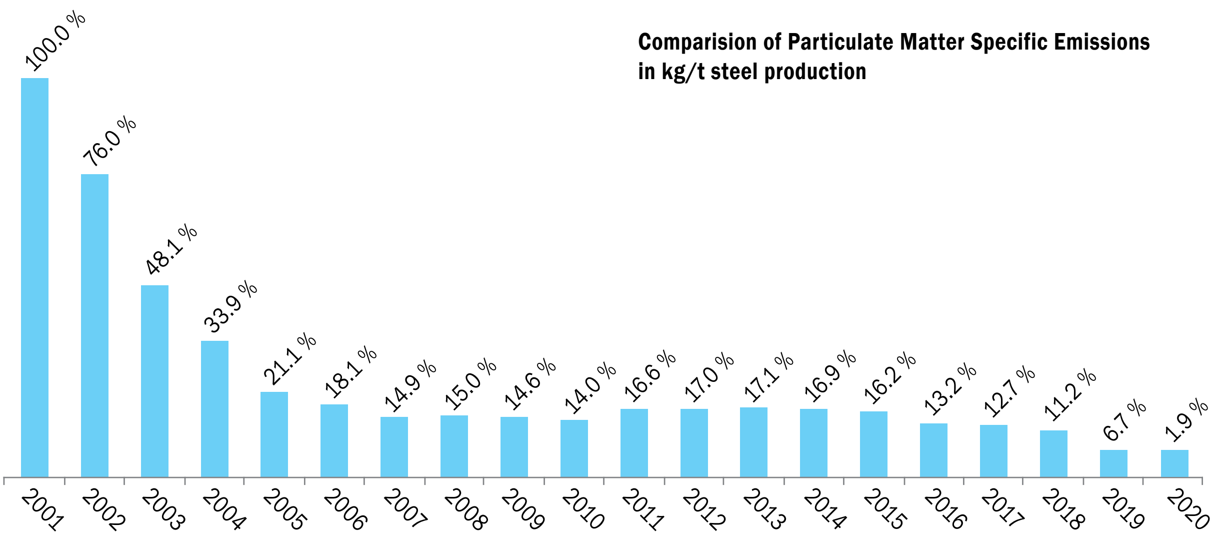
As part of the handling of approved by-products, by the end of 2020, we already had 30 approved by-products. The project for

We have achieved a 98 percent reduction in particulate matter emissions since 2001.

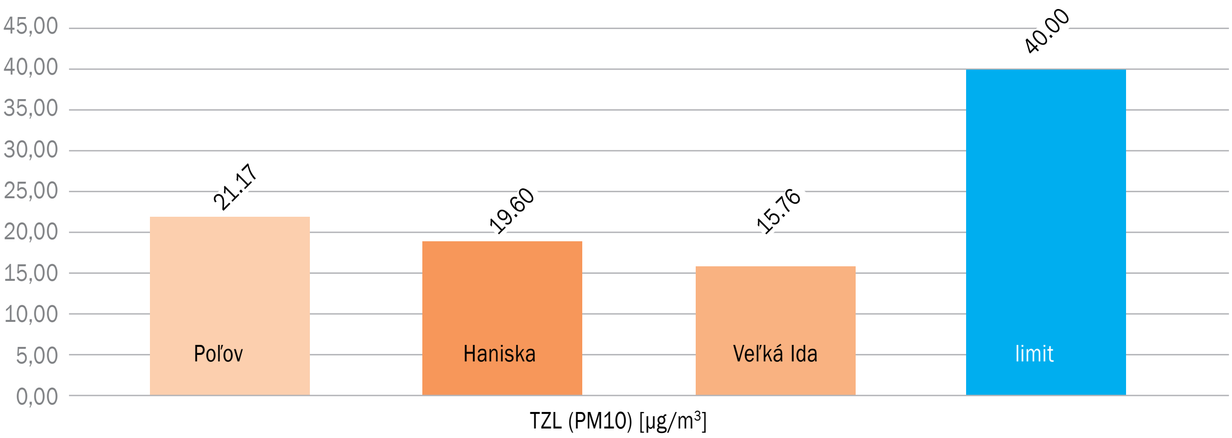
In addition to emissions monitoring, the Group also monitors imissions (pollutants contained and transferred by air) in nearby villages, and data from three automatic monitoring systems are sent to the Slovak Hydrometeorological Institute. The results for 2020 are shown in the graph below.

briquetting of sludge and dust, which was put into operation in December 2019, continuously contributed to the increase in recycling of by-products from the operations of the Cold Rolling Mill, the Hot Rolling Mill and the Blast Furnaces. The amount of blast furnace sludge and steel dust recycled by an external processor

Comparision of Particulate Matter Specific Emissions in kg/t steel production



Imissions Monitoring in Nearby Villages



Note: The local authority in 2020 decided that long-term measurements showed background levels of gaseous imissions, so USSK terminated monitoring as a result.

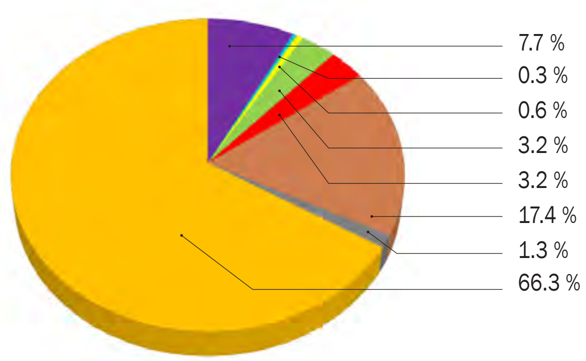
outside USSK increased to 40,359 tons in 2020 from the 35,654 tons in 2019. There was also a year-on-year increase in steel fine sludge recycled outside USSK to 32,145 tons in 2020 from 26,760 tons. There was a significant increase in the recycling of steel slag outside USSK, to 106,522 tons in 2020 from 82,081 tons in 2019.

A total of 2,093,034 tons of material were recycled within USSK and by an external processor outside USSK, specifically 841,414 tons inside and 1,251,620 tons outside.

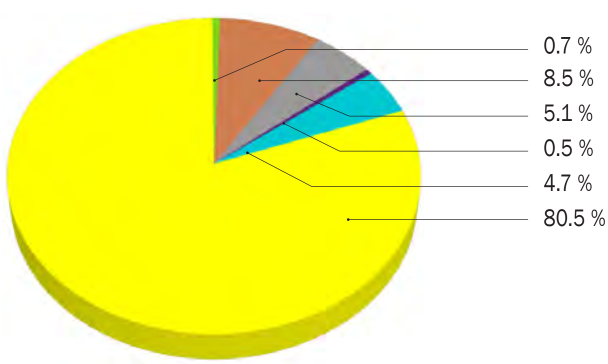
USSK remains in compliance with the **REACH legislation** (1907/2006 Registration, Evaluation and Authorization of Chemicals), which requires every chemical substance manufactured and placed on the EU market to be registered with the European Chemicals Agency. To that end, we have cooperated with companies in our consortium to update registrations. As the lead registrant for steel dust, we prepared the sale of our registration data to another steel company preparing to register it. 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 within the legally required 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 participated in the preparation and submission of applications for authorization of their use in our operations. Suppliers of hexavalent chromium-containing substances in the EU have applied for their continued use until another suitable alternative is found. The European Commission has approved authorization for our suppliers to continue using sodium dichromate and chromium oxide for steel for packaging until 2024. However, efforts continue to identify, test and verify the suitability of alternatives.

In line with legislative requirements, the Group continuously monitors environmental performance and shares this information with employees as well as general and expert audience through the company newspaper Oceľ Východu and via the Company website, **www.usske.sk**.

Recycled materials inside USSK



Recycled materials outside USSK



Scale mixture / Cokery residues / Blast furnace slag / Blast furnace sludge / Blast furnace dust
Steelmaking slag / Steelmaking dust and sludge / Steel scarp

Our activities continued in **landfill management**. Since the start of the waste water treatment plant sludge recovery process, we have obtained more than 143,000 tons of material suitable for reclamation. The use of this material in the Dry Landfill area reduced dust, as well as the greening of the heap slopes over an area of approximately 26,500 m^2.

In the area of **nature and landscape protection**, in 2020 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 near USSK. As part of the care for these plots, we planted 190 tree seedlings, maintained roads and firebelts in the woodlands, and extended the grass-cutting.

● We recycle wastewater and metallurgical residues, as well as other materials. Additionally, in 2020 we planted 190 new trees and saved 1,400 more by recycling paper and cardboard.

In addition to the environmental investments, spending to improve the **efficiency of energy and raw materials usage** also made up a considerable part of the Group's capital expenditure in 2020. Projects included the Steel Shop´s 1 and 2 Desulphurization Stations´ Bottom Stirring and an Automatic Sampling System for Blast Furnaces. Investments were also made in the Group's infrastructure through projects such as the Ammonia Still and Boilers for Coke Oven Gas Desulphurization, the T02 Substation Upgrade, the Blast Furnace 2 Stove Rebuild and the No. 4 Rail Bridge Upgrade. These projects significantly boosted the overall conditions and efficiency of our production facilities.

EUROPEAN UNION CO_2 EMISSIONS TRADING SYSTEM

U. S. Steel Košice Group is subject to regulation in the areas of environmental and human health protection applicable in Slovakia and the EU. Greenhouse gas emissions are regulated by **EU Directive 2003/87/ES establishing the Emissions Trading System (ETS)**, which was brought into the Slovak legal system through Law 414/2012 Coll. (Emissions Trading Law). The main goal was to achieve an overall 21 percent reduction of greenhouse gases (GHG) for the ETS sectors by 2020 compared to 2005 emission levels. The target for 2030 was a 40 percent GHG reduction for the ETS sectors. In 2020, there was an ongoing discussion regarding this goal, centered on stricter reduction efforts of 55–60 percent from 1990 emission levels. The final decision is expected during 2021.

The EU has imposed limitations under the ETS for the period 2013-2020 (Phase III) which are more stringent than those in the 2008-2012 period, 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 allocations provided on the basis of benchmarks for manufacturing industries exposed to the transfer of production to other countries with fewer constraints on GHG emissions. This phenomenon is 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 carbon leakage risk, but the EU ETS is still expected to impose additional costs for steel companies in Europe.

An amendment to the Directive regulating the legal framework of the fourth trading period (2021-2030) was published in the Official Journal of the EU on March 19, 2018. The new regulation is far more stringent. It increases the value of the Linear Reduction Factor from 1.74 percent to 2.2 percent per annum to achieve the overall EU reduction targets by 2030. The benchmarks set for the steel industry will be decreased by 0.2 percent annually. This revision brings new opportunities to finance the gradual decarbonization of the industry: the Innovation Fund (known as the NER300 Program), the Modernization Fund and Article 10c Mechanisms for new member states. All amendments entered into force as of January 1, 2021. Some legislative changes regarding the legal framework of the fourth trading period are still being prepared and the European Commission is behind schedule compared to the original legislative plan. This concerns an important part of the legislation, dealing with the free allocations, the setting of benchmarks and the possible application of a cross-sectoral correction factor.

In 2019, the Slovak Republic elected to support heavy industry by increasing the Modernization Fund budget with a portion of auction revenues, which will become 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 the amendment to Emissions Trading Law 414/2012. Increased financial resources are expected to be used primarily by electricity producers. In fact, only projects in the fields of heat and electricity production will be financed in the first round of the Modernization Fund distribution. USSK actively participated in setting and implementing the rules deriving from the above-mentioned law.

Since 2019, new implementation rules for the trading period 2021-2030 have been specified. 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 on free allocation is expected during 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 of 2014-2018. In cases where the actual production is 15 percent higher, then the allocation will increase. Equally, actual production that is 15 percent lower will result in a lower allocation. This process will be applied for the first time in 2021. The principle of legal certainty and predictability is largely affected by the fact that this rule was adopted at the end of 2019, meaning that the allocation for 2021 is already set with regard to the production volumes of 2019 and 2020. The reduction in production at USSK in 2020 due to the COVID-19 pandemic may therefore have a negative impact on our free allocation distributions.

The newly-reconstituted European Commission has presented an ambitious program called the European Green Deal. Among other features, it calls for greater emissions reduction efforts to 55–60 percent by 2030 and a goal of 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 lower environmental or climate standards. This proposal has already been passed by the European Parliament's Committee on Environment.

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 goals and tools for global GHG reduction were proposed. In contrast 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 2020, it had been ratified by 190 states. The United States is expected to announce its targets under new President Joseph R. Biden´s Administration. 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 the next COP summit, due to be held in 2021 in Glasgow.

In 2020, **the USSK specialist CO_2 reduction team** again analyzed the short-, medium- and long-term strategic future policy for the Group, with the aim of reducing CO_2 output 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 analyzed production CO_2 intensity by individual products and intermediates, including all types of energy used in the plant. They developed models for predicting CO_2 emissions production and intensity in the short and long terms. 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.

ENERGY EFFICIENCY

The energy efficiency of our processes and equipment is an integral part how we manage energy and regulate its use at U. S. Steel Košice Group. Energy costs and the resulting CO_2 emissions produced from energy consumption significantly influence the Group´s business and the environment. In 2020, our Energy Team faced production constraints caused by the COVID-19 pandemic, which had a significant negative impact on the energy intensity of our production plant,

● In 2020, U. S. Steel Košice Group produced 11.5 percent fewer CO_2 emissions than the previous year, an absolute reduction of 866,662 tons as a result of systematic efforts to reduce emissions as well as the pandemic imposition of reduced steel production.

which is more efficient and cost-effective at optimal levels of production. Equipment operating efficiently with nominal production does not allow for an adequate reduction in energy consumption at low power, and therefore, the energy consumption per unit of product increases. Despite these extreme limitations, power engineers collaborated with colleagues from production plants to create new, operationally cost-effective projects tailored to the changed operating conditions. Their motto, **„Money Based on Energy Regulation and Control,“** gained significant importance in 2020. A change in production at any divisional plant causes a change in all other divisional plants, but at the same time, a highly-efficient project at a single divisional plant may not ultimately mean energy savings across the entire Group. The **Energy Balance and Strategy Department** analyzed all potential energy-saving projects in depth, evaluated all the pros and cons and comprehensively described both divisional and overall benefits and savings in energy. A very important component of our power engineers´s activities was their participation in **Energy War Room**, a regular weekly meeting at which our energy professionals discussed potential improvements with technicians, specialists and top managers of the Group. The Energy War Room directly supports the activities of the Central War Room, where selected projects from all divisional plants are discussed.

Since 2013, U. S. Steel Košice has implemented an **Energy Management System** in accordance with the international standard EN ISO 50001, on the basis of which conditions are created for comprehensive, systemic solutions for efficient energy management. The fifth supervisory audit of the Company's EnMS was performed by external consultants TÜV SÜD Slovakia, s.r.o. in August 2020. Its goal was to check the compliance of U. S. Steel Košice's EnMS with the requirements of the standard, to evaluate its effectiveness and ability to ensure that USSK conforms with the applicable legislation and other requirements, and to identify potential areas for improvement. The auditors did not find any deviations from the standard, and they provided several positive observations:

- Progress in the digitalization of data collection (Industry 4.0)
- EnMS system care, including evaluation
- Maintenance planning processes (quarterly and annual) with the involvement of energy engineers from individual divisions
- Monitoring of specific energy consumption

An important source for production of more than 25 types of internal energies is the capture of metallurgical gases generated during the production of coke, iron and steel. In 2020, even with reduced production, use of metallurgical gases saved the equivalent of 20.34 million gigajoules of energy produced by natural gas.

The transformation path within the framework of the established corporate strategy, focusing on the growth, greatly contributed to the achievement of the energy goal in 2020. The Moving Down Cost Curve transformation also contributed to the fulfillment of the strategy.

In 2020, we achieved total savings of $8.8 million from MDCC projects.

We beat our 2020 energy saving target of $7.1 million by 12.9 percent, or almost a million dollars.

The largest energy savings and CO_2 emission decreases in 2020 were achieved through following projects:

- **Reduction of charges for fluctuation in electricity purchasing by regulating production**
- **Increasing the efficiency of equipment and reducing the specific consumption of coal in the steam boilers of the heating plant**
- **Regulation of the calorific value of converter gas by planning of melts**
- **Increased cooling efficiency in oxygen production**

THE COMPANY´S COMMUNITY AND REGIONAL IMPACT

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

The **COVID-19 pandemic** radically affected philanthropic activities in 2020. The Group reacted very flexibly and helped immediately in the first wave. It donated 22,000 euros to the Technical University of Košice to buy 3D printers and produce protective face coverings. It contributed 50,000 euros to Šaca Hospital to buy personal protective

In relation to the community, we act in line with our principles of equal opportunity and supporting diversity.

Since 2004, through its foundation, the Company has been developing its own **Scholarship Program** to provide access to higher education for talented students from socially-disadvantaged families in eastern Slovakia. Since 2007, this has been extended to include children of USSK employees, with technical studies being strongly preferred. In the 2019/2020 academic year, 32 new scholarships were granted, and 25 more in 2020/2021. Scholarship awardees were involved in

● We have been in close contact with the Košice community for many years, so we knew where to give support to be most effective after the COVID-19 pandemic outbreak. We left it up to the hospital professionals to choose what they needed most.

material and special medical equipment for the diagnosis and treatment of coronavirus. It also handed over a set of new equipment with a value exceeding 65,000 euros for the Infectious Diseases and Travel Medicine Clinic in L. Pasteur University Hospital, where the paramedics´ efforts to treat patients suffering from COVID-19 were concentrated in the Košice region. The new ultrasonic and ECG devices, mobile systems for body temperature measurement, a ramp for wheelchair patients, a hospital ward camera system and further equipment served the paramedics in terms of prompter treatment and better patient care. During the national coronavirus screening, the Company set up a testing point within the USSK Public Access area. During the most critical period of the pandemic, it was used by thousands of employees as well as other residents of the region.

In support of education, the Group works actively with selected technical secondary schools and colleges in Košice in line with targeted employee recruiting. In May 2020, the Group made a long-term commitment to invest in the development of technical talent in the region. Together with the Faculty of Materials, Metallurgy and Recycling at the Technical University of Košice, it presented an innovative educational project entitled **Technical Talents 2020+**, aimed at popularizing science, actively engaging students of high schools and universities in

● U. S. Steel Košice continues supporting young people so that they are empowered to choose study specializations that will ensure their future in any industrial company. They get plenty of relevant information from our experts, and together with researchers, they will find sustainable solutions for the future.

the discovery of technical subjects, and helping them understand their roles in building a permanently sustainable future. The Group extended support for the Faculty by 50,000 euros per year, and committed to allocate 250,000 euros in the next five years to find, retain and develop technical talent.

the Company's volunteer events, and several of them gained practical experience at USSK during summer or year-long internships.

In support of health care, the Group focuses on specialized medical institutions in the region. Thanks to the USSK Foundation and pre-Christmas fund-raising, which steelmakers joined online for the first time due to pandemic restrictions, the University Children´s Hospital could buy 63,000 euros worth of special equipment for its otolaryngology department, which enables diagnosis of hearing problems after injuries, as well as the treatment of larynx tumors and swallowing disabilities.

In support of social care, USSK directs its assistance mainly towards supporting foster homes and their children in eastern Slovakia. 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. Since 2006, during the Advent Market on the Main Street in Košice, in its Christmas Charity Hut, the Company has provided space for many non-profit organizations to present their products and services, and supported them by organizing voluntary public fund-raising. In 2020 due to the pandemic related prohibition of public events, the USSK Charity Hut could not be opened in December, and the Wishing Trees traditional project could not be organized either. However, the We are with You at the Right Time project for steelmaker families in difficult life situations continued to a limited extent. One family meeting was held in 2020 at the Medzev training site, where parents with children could relax for a while. At the end of the year we donated 2,000 euros to each of eight new families in the project.

In support of culture, the Group 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.

Support for sports has been focused on traditional sports and events in the Košice region. For many years U. S. Steel Košice has been the main partner of the Košice Peace Marathon, which is the oldest marathon in Europe and is very popular among our employees and business partners. The Company is also a long-term partner of the HC Košice ice-hockey club, which has won the Slovak national league several times. Sporting life was also affected by the pandemic in 2020, with many events being cancelled or organized in a restricted manner. Our own program called Your Chance to Play continued providing equal opportunities for both children from socially-disadvantaged families and sports-gifted children of steelmakers to play ice-hockey, basketball and soccer. Since 2006, USSK has contributed 202,851 euros towards club membership fees and sports equipment for 564 children, which includes the 3,872 euros give to eight children in 2020.

Voluntary programs are part of our community support. Our largest corporate volunteer event is the Volunteer Days – Steelmakers for Košice, held for the fourteenth time at a delayed date on September 18-19, 2020. Employees of the Group helped eight organizations with public benefit activities, including donating blood in the “Steelmakers’ Drop of Blood” donor drive, collecting used clothing and other things, needed to help families for both the community centers and charity house, as well as improving the premises and surroundings of a local foster home. They also helped out at the children’s historical railway, the botanical gardens, the zoo and the animal sanctuary.

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 activities for children and teenagers, promoting environmental protection and encouraging safe behavior. In 2020, six more community projects with the active involvement of USSK employees were supported in towns and villages around eastern Slovakia, and since 2008, altogether 113 developing initiatives have been implemented and supported with 281,400 euros of donations.

● Thanks to the “Steelmakers’ Drop of Blood”, the hospital in Šaca benefited from 32 litres of this precious liquid and used it for critical patients. This was even more appreciated during the pandemic, as the number of other donors declined by 10.5 percent from the previous year.

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 (millions)	**Dec 31, 2020**	**Dec 31, 2019**	**Dec 31, 2018**	**Dec 31, 2020**	**Dec 31, 2019**	**Dec 31, 2018**
Property, plant and equipment, incl. investment property	835	869	786	955	1 000	928
Intangible assets	164	123	162	271	200	278
Long-term receivables	7	6	3	7	6	3
Other non-current assets	142	142	147	0	0	6
Inventories	377	385	458	380	394	466
Short-term receivables	288	293	471	275	266	455
Short-term loans and borrowings	7	0	17	0	0	0
Cash and cash equivalents	217	215	92	220	217	96
Other current assets	2	10	12	2	13	13
Total Assets	**2,039**	**2,043**	**2,148**	**2,110**	**2,096**	**2,245**
Equity	904	937	1 124	915	945	1 142
Trade and other payables	419	336	483	409	328	485
Long-term loans and borrowings	422	484	200	422	484	200
Other liabilities	294	286	341	364	339	418
Total Equity and Liabilities	**2,039**	**2,043**	**2,148**	**2,110**	**2,096**	**2,245**

Compared to the previous accounting period, the carrying amount of the Group's property, plant and equipment decreased by 45 million euros primarily due to lower capital expenditures. In 2020, the Group's capital expenditure amounted to 66 million euros versus 152 million euros in 2019 and 95 million euros in 2018. As of December 31, 2020, the Group had purchased EUA emissions allowances totaling 47 million euros, versus 14 million euros' worth in 2019. Emissions allowances allocated by the Government in 2020 totaled 132 million euros, against 124 million euros in 2019. A 33 percent increase in the value per ton of the emissions allowances in 2020 compared to the 2019 value also contributed to our much higher intangible assets balance.

The increase in trade payables and other payables in 2020 was primarily due to higher raw material purchases related to restart of third blast furnace in January 2021.

In 2020, the Group made 50 million euros repayment of borrowings drawn from a 460 million euros Credit Agreement. Detailed information on long-term loans and borrowings of the Group are disclosed in Note 16 to the Separate or Consolidated Financial Statements. Additional repayments made in the course of 2021 are presented in Note 31.

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:

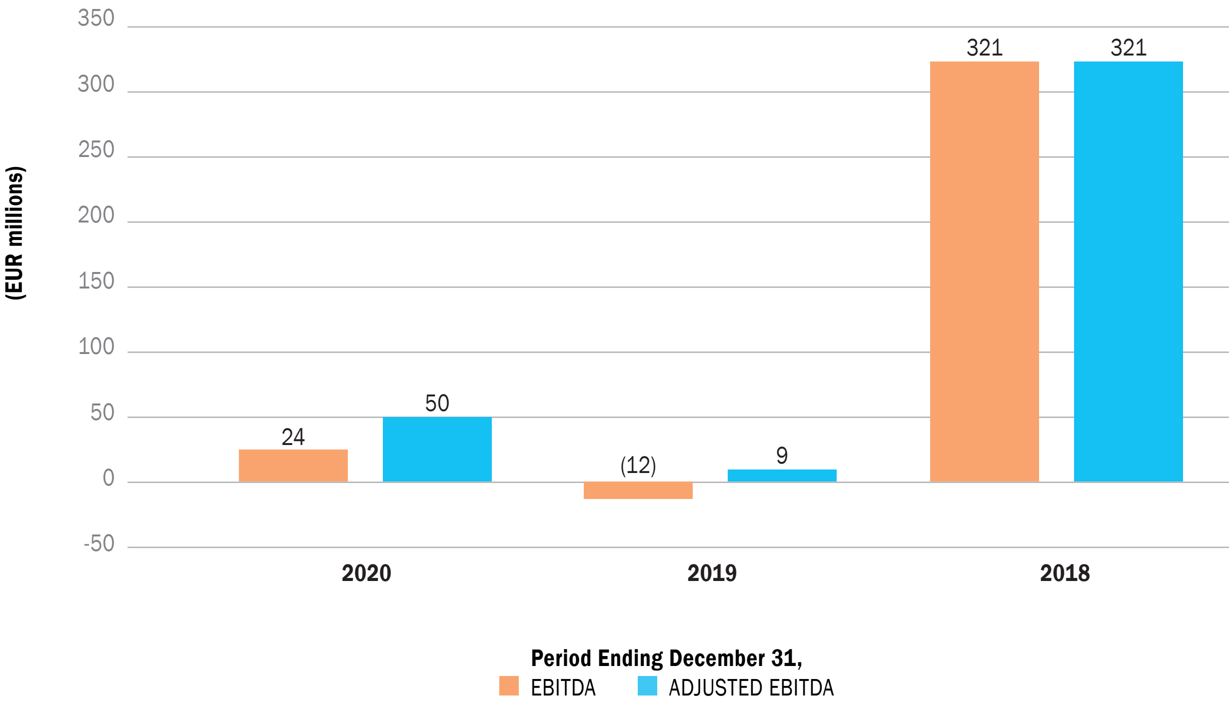
	Separate Statement of Profit and Loss			Consolidated Statement of Profit and Loss		
In EUR (millions)	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**
Revenues and other income	1,889	2,318	2,782	1,868	2,288	2,747
Operating (Loss) / Profit	(67)	(94)	162	(93)	(103)	129
Net (Loss) / Profit for the Year	**(55)**	**(63)**	**127**	**(85)**	**(78)**	**89**
Total Comprehensive (Loss) / Income	**(34)**	**(55)**	**217**	**(30)**	**(65)**	**223**

The Group incurred a net loss of 85 million euros in the year ended December 31, 2020 compared to a net loss of 78 million euros in the year ended December 31, 2019. The 2020 loss resulted mainly from unfavorable business conditions during the first half of the year, when the Group experienced low demand and low selling prices, resulting in a low production utilization level. The demand rebound in the second half, together with continuously improving selling prices, helped to significantly reduce unfavorable impacts on the full year results. Year on year change in net loss was driven mainly by negative impact of CO_2 emissions allowances, accounting for which was partially offset with positive impacts recorded in other comprehensive income.

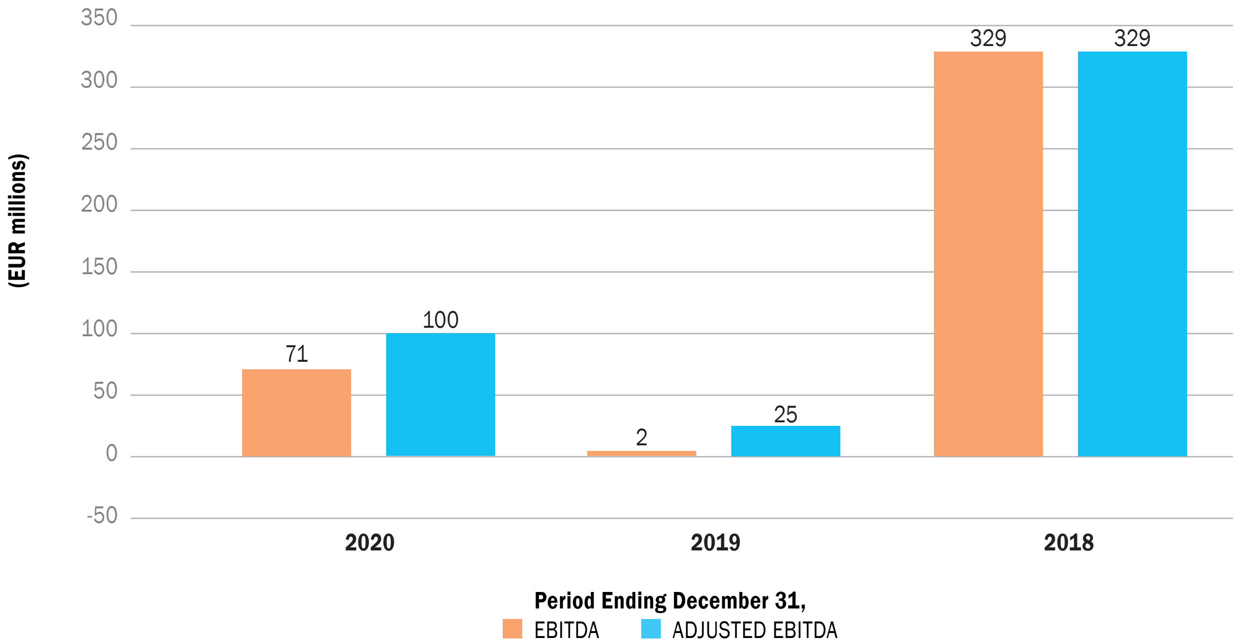
Key financial performance indicators for the last three years are:

	Separate key financial performance indicators			Consolidated key financial performance indicators		
In EUR (millions)	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**
EBITDA	**24**	**(12)**	**321**	**71**	**2**	**329**
Adjusted EBITDA	**50**	**9**	**321**	**100**	**25**	**329**

EBITDA and Adjusted EBITDA from Separate Financial Statements



EBITDA and Adjusted EBITDA from Consolidated Financial Statements



The Group's EBITDA increased in 2020 compared to 2019 mainly due to favorable impacts of lower raw materials costs, primary cost-control measures, fewer planned outages, COVID-19 relief and lower energy costs, which were partially offset by unfavorable impacts of reduced shipments and lower average selling prices.

Key financial performance indicators are presented in Note 30 to the Separate or Consolidated Financial Statements.

PROPOSAL FOR 2020 LOSS SETTLEMENT

In EUR (millions)	2020
Loss for 2020	(55)
Usage of /(Contribution to) Legal Reserve Fund	27
Other Changes in 2020 Directly Accounted for in Retained Earnings	12
Settlement with:	
- Retained Earnings as of December 31, 2019	16
Retained Earnings as of December 31, 2020 Total	0

SIGNIFICANT EVENTS AFTER THE 2020 REPORTING PERIOD AND 2021 OUTLOOK

In 2020, the European steel market recorded its worst year since the 2009 crisis. As a result of the economic and industrial lockdown in response to the COVID-19 pandemic, EU steel consumption fell by 13 percent compared to 2019 due to serious disruptions in steel production and falling end-user demand, especially in the second quarter of 2020, which decreased by 25 percent year-on-year. This was the most severe drop in EU steel consumption ever recorded. Industrial activity restarted during the third and fourth quarters, when governments lifted some pandemic measures. Figures for that period show a considerable rebound in GDP as well in industrial production, compared to the record lows observed in the second quarter.

Steel demand in Europe has clearly revived year-on-year in 2021 so far, but it is not exceeding pre-COVID levels yet. Steel mills have recovered from the operational downtime incurred during the lockdowns and the recovery of the downstream industries is faster than expected.

Tight availability of material has generated conditions for dynamic steel-price increases, but the uptrend in the iron-ore market and costs of emissions allowances is also very strong. In general, the market is expected to remain firm also in the upcoming months.

Significant events after the reporting period are disclosed in Note 31 to the Separate or Consolidated Financial Statements.

ANNUAL REPORT 2020
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 2021

U. S. Steel Košice, s.r.o.

Separate financial statements
for the year ended December 31, 2020

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 2020, and the Company's financial performance and 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 2020;
- 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 (ISAs). 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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (Code of Ethics) and the ethical requirements of the Slovak Act on Statutory Audit No. 423/2015 and on amendments and supplements to Slovak Act on Accounting No. 431/2002, as amended (hereafter the "Act on Statutory Audit") 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 the Code of Ethics and the ethical requirements of Act on Statutory Audit.

Reporting on other information including the Annual Report

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the separate financial statements and our auditor's report thereon).

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

In connection with our audit of the separate financial statements, our responsibility is to read the other information identified above and, in doing so, to 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 Slovak Act on Accounting No. 431/2002, as amended (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 financial year for which the separate financial statements are prepared, 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 regard.

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 the 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 ISAs 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 an audit in accordance with ISAs, 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.

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

PricewaterhouseCoopers Slovensko, s.r.o. Licence SKAU No. 161	Ing. Monika Smižanská, FCCA Licence UDVA No. 1015

25 May 2021
Bratislava, Slovak Republic

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.

U. S. Steel Košice, s.r.o.

SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

Separate financial statements for the year ended December 31, 2020, were prepared in accordance with International Financial Reporting Standards as adopted by the European Union on May 25, 2021, 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 25, 2021. Neither the Company's shareholder nor the executives have the power to amend the separate financial statements after issue.

Košice, May 25, 2021

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, 2020

Table of Contents

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

SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	December 31, 2020	December 31, 2019
ASSETS			
Non-Current Assets			
Property, plant and equipment	5	**832,571**	865,636
Investment property	6	**2,847**	3,279
Intangible assets	7	**163,946**	122,588
Investments	8	**141,263**	141,374
Unquoted financial instruments	27	**259**	259
Long-term receivables	12	**7,105**	6,140
Total non-current assets		**1,147,991**	**1,139,276**
Current Assets			
Inventories	11	**377,481**	385,322
Trade and other receivables	12	**288,248**	293,122
Derivative financial instruments	13	**3**	3,971
Short-term loans to related parties	29	**6,872**	394
Restricted cash	10	**533**	-
Current income tax receivables		**-**	5,400
Prepaid expense		**1,644**	1,432
Cash and cash equivalents	14	**216,702**	214,508
Total current assets		**891,483**	**904,149**
TOTAL ASSETS		**2,039,474**	**2,043,425**

EQUITY AND LIABILITIES			
Equity			
Share capital	15	**839,357**	839,357
Reserve funds	15	**91,533**	82,461
(Accumulated losses) / retained earnings		**(27,085)**	15,671
Total Equity		**903,805**	**937,489**
Liabilities			
Non-Current Liabilities			
Long-term loans and borrowings	16	**422,239**	483,523
Long-term provisions for liabilities and charges	17	**10,770**	7,234
Long-term deferred income - environmental projects	5	**75,153**	79,682
Long-term employee benefits payable	18	**34,011**	32,986
Deferred income tax liability	9	**2,064**	21,896
Long-term trade and other payables	19	**13,397**	18,559
Total non-current liabilities		**557,634**	**643,880**
Current Liabilities			
Trade and other payables	19	**405,596**	317,020
Derivative financial instruments	13	**14,312**	1,033
Deferred income		**3**	3
Short-term borrowings	16	**2,647**	4,839
Short-term borrowings from related parties	29	**10,405**	13,884
Short-term provisions for liabilities	17	**143,071**	124,128
Short-term employee benefits payable	18	**2,001**	1,149
Total current liabilities		**578,035**	**462,056**
TOTAL EQUITY AND LIABILITIES		**2,039,474**	**2,043,425**

The accompanying notes on pages SF-11 to SF-69 are an integral part of these separate financial statements.

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

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2020	2019
Revenue from contracts with customers	20	**1,711,145**	2,138,732
Other income	20	**177,926**	179,763
Materials and energy consumed	21	**(1,230,290)**	(1,619,053)
Salaries and other employees benefits	22	**(301,405)**	(311,055)
Depreciation and amortization	5, 6, 7	**(79,617)**	(81,647)
Repairs and maintenance		**(51,178)**	(66,936)
Transportation services		**(59,531)**	(78,057)
Advisory services		**(6,810)**	(7,723)
Foreign exchange gains / (losses)		**12,442**	(1,830)
Charge for provision for CO_2 emissions	17	**(142,988)**	(122,966)
Other operating expenses	23	**(96,692)**	(122,741)
(Loss) / profit from operations		**(66,998)**	**(93,513)**
Dividend income		**955**	5,838
Interest income		**463**	512
Interest expense		**(14,564)**	(5,718)
(Loss) / profit before tax		**(80,144)**	**(92,881)**
Income tax benefits / (expense)	24	**24,939**	29,732
(Loss) / profit after tax		**(55,205)**	**(63,149)**
Items that will not be reclassified to profit or loss			
Remeasurements of post employment benefit obligations	24	**1,827**	1,706
Revaluation of intangible assets	7, 24	**33,319**	12,732
Items that may be subsequently reclassified to profit or loss			
Changes in fair value of derivative hedging derivatives	24	**(13,625)**	(6,044)
Other Comprehensive Income, net of tax		**21,521**	**8,394**
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		**(33,684)**	**(54,755)**

The accompanying notes on pages SF-11 to SF-69 are an integral part of these separate financial statements.

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

SEPARATE STATEMENT OF CHANGES IN EQUITY

	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**

	Share capital	Reserve funds	Retained earnings / (accumulated losses)	Total
Balance as of January 1, 2020	**839,357**	**82,461**	**15,671**	**937,489**
Loss for 2020	**-**	**-**	(55,205)	**(55,205)**
Other comprehensive income	-	19,694	1,827	**21,521**
Total comprehensive (loss) / income for the year	**-**	**19,694**	**(53,378)**	**(33,684)**
Adjustments:				
Release of revaluation reserve - CO_2 emission allowances	-	(10,622)	10,622	**-**
Total adjustments	**-**	**(10,622)**	**10,622**	**-**
Balance as of December 31, 2020	**839,357**	**91,533**	**(27,085)**	**903,805**

The accompanying notes on pages SF-11 to SF-69 are an integral part of these separate financial statements.

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

SEPARATE STATEMENT OF CASH FLOWS

	Note	Total	
		2020	2019
(Loss) / profit before tax		**(80,144)**	**(92,881)**
Non-cash adjustments for			
Depreciation of property, plant and equipment and investment property	5, 6	**70,916**	72,593
Depreciation of right of use assets	5	**6,246**	6,585
Amortization of intangible assets	7	**2,455**	2,469
Amortization of deferred income - CO_2 emission allowances	7, 20, 30	**(131,437)**	(122,930)
Amortization of deferred income - environmental projects	5, 20	**(4,368)**	(2,830)
Charge for provision for CO_2 emissions emitted	17, 30	**142,988**	122,966
Impairment (reversal of impairment) of investments		**110**	(7)
Loss / (gain) on disposal of property, plant and equipment, intangible assets and investment property	20, 23	**492**	(1,922)
Loss on disposal from sales of bussiness units	5, 23	**-**	1,750
Gain from changes in fair value of derivative financial instruments	20	**(2,123)**	(22,362)
Dividend income and distribution of profit		**(955)**	(5,923)
Interest income		**(463)**	(512)
Interest expense		**14,564**	5,718
Foreign exchange gain	16	**(11,284)**	-
Changes in working capital			
(Increase) / decrease in inventories	11	**7,841**	67,988
(Increase) / decrease in trade and other receivables and other current assets	12	**(11,429)**	138,710
Increase/ (Decrease) in trade and other payables and other current liabilities	19	**115,660**	(156,383)
Cash generated from operating activities		**119,069**	**13,029**
Interest paid		**(13,453)**	(4,015)
Income taxes received		**5,333**	802
Lease payments not included in the measurement of the lease liabilities	5, 23	**(501)**	(779)
Net receipts from derivative financial instruments		**2,123**	22,303
Net cash generated from operating activities		**112,571**	**31,340**
Cash flows from / (used in) investing activities			
Short-term loans provided to related parties	29	**(59,202)**	(43,096)
Short-term loans repaid by related parties	29	**52,742**	59,909
Purchases of property, plant and equipment	5	**(64,943)**	(151,667)
Proceeds from sale of property, plant and equipment		**61**	49
Proceeds from sale of CO_2 emissions	7	**20,693**	32,005
Proceeds from sales of disposal of bussiness units		**-**	2,570
Purchases of intangible assets	7	**(12,480)**	(2,393)
Change in restricted cash, net	10	**(533)**	6,547
Change in landfill receivable	12	**(964)**	(6,140)
Receipts - environmental projects	12	**16,088**	41,704
Interest received		**450**	544
Dividends received and distribution of profit		**955**	5,923
Net cash used in investing activities		**(47,133)**	**(54,045)**
Cash flows from / (used in) financing activities			
Proceeds from borrowings	16, 26, 29	**159,008**	380,757
Repayment of borrowings	16, 26, 29	**(215,657)**	(99,264)
Payments for the principal portion of the lease liabilities	5, 16	**(6,595)**	(6,592)
Dividends paid to the Company's shareholder	15, 29	**-**	(129,435)
Net cash generated from / (used in) financing activities		**(63,244)**	**145,466**
Net increase in cash and cash equivalents		**2,194**	**122,761**
Cash and cash equivalents at beginning of year	14, 27	**214,508**	91,747
Cash and cash equivalents at end of year	14, 27	**216,702**	**214,508**

The accompanying notes on pages SF-11 to SF-69 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, 2020 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, 2020 and 2019, 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 27, 2020, 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, 2020 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, 2020 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, 2020 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 for the current period.

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.

The conditions for a tangible asset item (other than major parts and land) to be recognized in property, plant and equipment category are minimum value of EUR 1,700 per individual item and utilization more than one year.

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. The value limit for capitalization of major spare parts is EUR 40,000.

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 for the current period.

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 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.

The conditions for an intangible asset item (other than emission allowances and intangible assets not yet available for use) to be recognized in intangible asset category are minimum value of EUR 2,400 per individual item and utilization more than one year.

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 at initial recognition. 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 for the current period.

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 either granted or purchased 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 when the emission allowances are returned or sold.

Following the local tax regulation, the tax treatment of granted and purchased emission allowances differ. Revaluation surplus of purchased allowances represents the taxable income of respective period, whereas no revaluation is recognised for local tax purposes in relation to granted allowances, therefore the recognized revaluation surplus related to granted allowances is a part of deferred tax calculation through equity.

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 other than goodwill 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 they incurred.

2.10 Accounting for Leases

<u>Initial recognition and measurement</u>

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 arose 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.

<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 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.

<u>Subsequent measurement</u>

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.

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 receivables risk ratio 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 Act No. 513/1991 Coll., the Commercial Code, as amended. 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 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 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

Defined contribution pension plan

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

For employees of the Company who have signed participation supplementary pension savings agreement, 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 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 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 for the current period. The Company continues to apply IAS 39 continuously in 2020 and 2019, as there was no change to hedge policy and portfolio of hedged assets.

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

The preparation of the financial statements includes an assessment of certain accounting matters which require the Company to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at year-end and the reported amounts of revenues and expenses during the year. Assumptions made by the Company are continually evaluated using all available information including consideration of forecasted financial information in context with other information reasonably available under the circumstances. They are based on historical experience and other factors, including consideration of the unknown future impacts of the COVID-19 pandemic. The resulting accounting estimates will, by definition, rarely equal the related actual results. All such adjustments are of a normal recurring nature unless disclosed otherwise.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year as well as certain significant judgments made by the Company in applying its accounting policies are outlined below.

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

The average useful life of depreciable property, plant and equipment and investment property as of December 31, 2020 is approximately 19 years (as of December 31, 2019: 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 4.6 million (2019: EUR 4.0 million). If estimated average useful life of these assets would decrease by 1 year, the annual depreciation charge would have been higher by EUR 5.1 million (2019: EUR 4.4 million).

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

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

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 was weighing on the already depressed steel market.

Due to economic downturn, one out of three blast furnaces have been temporarily idled since June 2019. Consequently, the overall production capacity of the Company has been reduced by approx. one third. Even if the production was significantly reduced, the Company took temporary actions to adjust operation footprint to continue with the solid production level to satisfy customer requirements and address 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.

In 2020, the steel industry experienced impacts of pandemic. The Company was running two out of its three blast furnaces whole year and faced record low annual capacity utilization at level of 67 percent. In second half of 2020 market started to recover with both demand and prices gradually improving which supported restart of third blast furnace in January 2021. Operations returned to standard production volumes that allow the Company to benefit from volume efficiencies. Profitability is also supported by sustainable cost improvements achieved through cost reduction programs in prior periods. There were no impairment indicators identified in 2020.

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 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, 2020, if the discount rate developed on high quality European corporate bonds had been 1 percent higher / lower with all other variables held constant, it would have resulted to EUR 3,232 thousand lower / EUR 3,899 thousand higher net present value of estimated future employee benefits obligations. As of December 31, 2019, if the stated discount rate had been 1 percent higher / lower with all other variables held constant, it would have resulted to EUR 2,966 thousand lower / EUR 3,529 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, 2020, 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 459 thousand lower / EUR 529 thousand higher net present value of the estimated future landfill restoration expenditures. 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 Leases*. 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 contracts 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

In 2020, the Company adjusted procedure for the calculation of expected credit loss for trade receivables (Note 12). The basis of the new calculation remains receivables risk classification according to internal risk rate (Note 26). The resultant matrix reflects assessment of the security status of receivables and trend in receivables aging taking into consideration its historical values. It represents the correlation between risk level, predicted financial ratios 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, 2020

The following new standards and interpretations became effective from January 1, 2020:

Revised Conceptual Framework and Amendments to References to the Conceptual Framework in IFRS Standards (issued on March 29, 2018 and effective for annual reporting 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 high level 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.

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

Definition of a Business –Amendments to IFRS 3 Business Combinations (issued on October 22, 2018 and effective for annual reporting periods beginning on or after January 1, 2020). Amendment 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. There is no material impact of the implementation of the amendments to the 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 reporting periods beginning on or after January 1, 2020). The 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. There is no material impact of the implementation of the amendments to the financial statements.

Interest Rate Benchmark Reform - Amendments to IFRS 7, IFRS 9 and IAS 39 (issued on September 26, 2019 and effective for annual reporting 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. There is no material impact of the implementation of the amendments to the financial statements.

Amendment to IFRS 16 - COVID-19 - Related Rent Concessions (issued on May 28, 2020 and effective for annual reporting periods beginning on or after June 1, 2020). The amendment permits lessees not to assess whether eligible COVID-19 related rent concessions are lease modifications, and account for them as if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

Eligible rent concessions are those arising as a direct consequence of COVID-19 and for which:

- the revised consideration for the lease remains 'substantially the same' or is less than the consideration for the lease before the concession;
- any reduced payments were originally due on or before June 30, 2021; and
- there are no substantive changes to other terms and conditions of the lease.

For lessees, this is an optional practical expedient to be applied consistently to all lease contracts with similar characteristics and in similar circumstances. The practical expedient is not available to lessors. The amendment is to be applied retrospectively in accordance with IAS 8. The Company did not receive any COVID-19 related rent concessions during the reporting period.

4.2 Standards, amendments and interpretations of standards issued but not effective until the financial year beginning January 1, 2021 or later and not early adopted by the Company

IFRS 17 Insurance Contracts (issued on May 18, 2017 and effective for annual reporting periods beginning on or after January 1, 2023). IFRS 17 was issued as replacement for *IFRS 4 Insurance Contracts* and provides the first comprehensive guidance to accounting for insurance contracts under IFRS Standards. It aims to increase transparency and to reduce diversity in the accounting for insurance contracts. It requires a current measurement model where estimates are re-measured in each reporting period. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. The Company does not expect any impact of this standard on its financial statements as the Company does not issue insurance and reinsurance contracts.

Amendments to IFRS 17 (issued on May 18, 2017 and effective for annual reporting periods beginning on or after January 1, 2023). Amendments address concerns and implementation challenges that were identified after *IFRS 17 Insurance Contracts* was published. The Company does not expect any impact of this standard on its financial statements as the Company does not issue insurance and reinsurance contracts.

Classification of Liabilities as Current or Non-current – Amendments to IAS 1 (issued on January 23, 2020 and effective for annual reporting periods beginning on or after January 1, 2022 but on July 15, 2020 delayed to January 1, 2023 due to COVID-19 pandemic). 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.

Proceeds before Intended Use - Amendments to IAS 16 (issued on May 14, 2020 and effective for annual reporting periods beginning on or after January 1, 2022). The amendment prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. Instead such proceeds should be recognized in profit or loss, together with the costs of producing those items (to which IAS 2 applies). Accordingly, a company will need to distinguish between costs of producing and selling items before the PPE is available for its intended use and costs of making the PPE available for its intended use.

It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities. The Company is currently assessing the impact of the amendments on its financial statements.

Onerous Contracts — Cost of Fulfilling a Contract - Amendments to IAS 37 (issued on May 14, 2020 and effective for annual reporting periods beginning on or after January 1, 2022). Amendments clarify that when assessing if a contract is onerous, the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract. The Company is currently assessing the impact of the amendments on its financial statements.

Reference to the Conceptual Framework - Amendments to IFRS 3 (issued on May 14, 2020 and effective for annual reporting periods beginning on or after January 1, 2022). Amendments update an outdated reference in IFRS 3 to the revised *Conceptual Framework for Financial Reporting* and add an exception for the recognition of liabilities and contingent liabilities within the scope of *IAS 37 Provisions,* Contingent Liabilities and Contingent Assets and *IFRIC 21 Levies*. The amendments also confirm that contingent assets should not be recognized at the acquisition date. The Company is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRS Standards 2018–2020 Cycle – Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on May 14, 2020 and effective for annual reporting periods beginning on or after January 1, 2022).

IFRS 1 First-time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

IFRS 9 Financial Instruments – clarifies which fees should be included in the 10 percent test for derecognition of financial liabilities.

IFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

IAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

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

Interest Rate Benchmark (IBOR) Reform – Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on August 27, 2020 and effective for annual reporting periods beginning on or after January 1, 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The Company is currently assessing the impact of the amendments on its financial statements.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2 (issued on February 12, 2021 and effective for annual reporting periods beginning on or after January 1, 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, *IFRS Practice Statement 2, 'Making Materiality Judgements'* was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The Company is currently assessing the impact of the amendments on its financial statements.

Definition of Accounting Estimates – Amendments to IAS 8 (issued on February 12, 2021 and effective for annual reporting periods beginning on or after January 1, 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates. The Company is currently assessing the impact of the amendments on its financial statements.

COVID-19-Related Rent Concessions – Amendments to IFRS 16 (issued on March 31, 2021 and effective for annual reporting periods beginning on or after April 1, 2021). In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022. The Company is currently assessing the impact of the amendments on its financial statements.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on May 7, 2021 and effective for annual reporting periods beginning on or after January 1, 2023). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The Company is currently assessing the impact of the amendments on its financial statements.

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

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

Note 5 Property, Plant and Equipment

Movements in property, plant and equipment during 2020 are as follows:

	Land and buildings	Machinery, equipment and motor vehicles	Other tangible assets	Construction in progress	Right of use assets	Total
Cost						
January 1, 2020	**487,793**	**1,264,718**	**17,522**	**75,212**	**28,958**	**1,874,203**
Additions	-	-	311	44,215	1,254	**45,780**
Disposals	(191)	(7,383)	(9)	(1,743)	(755)	**(10,081)**
Transfer (to) / from investment property	767	-	-	-	-	**767**
Transfers to base	13,641	64,429	7	(78,077)	-	**-**
December 31, 2020	**502,010**	**1,321,764**	**17,831**	**39,607**	**29,457**	**1,910,669**
Accumulated Depreciation						
January 1, 2020	**(177,103)**	**(812,169)**	**(13,512)**	**-**	**(5,783)**	**(1,008,567)**
Depreciation for the year	(13,837)	(55,797)	(1,175)	-	(6,246)	**(77,055)**
Disposals	88	7,095	-	-	783	**7,966**
Transfer to / (from) investment property	(442)	-	-	-	-	**(442)**
December 31, 2020	**(191,294)**	**(860,871)**	**(14,687)**	**-**	**(11,246)**	**(1,078,098)**
Carrying amount	**310,716**	**460,893**	**3,144**	**39,607**	**18,211**	**832,571**

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 right of use assets during 2020 are as follows:

	Land and buildings	Machinery, equipment and motor vehicles	Other right-of-use assets	Total
Cost				
January 1, 2020	**328**	**27,983**	**647**	**28,958**
Additions	-	1,254	-	**1,254**
Disposals	-	(755)	-	**(755)**
December 31, 2020	**328**	**28,482**	**647**	**29,457**
Accumulated Depreciation				
January 1, 2020	**(83)**	**(5,440)**	**(260)**	**(5,783)**
Depreciation for the year	(101)	(5,897)	(248)	**(6,246)**
Disposals	-	783	-	**783**
December 31, 2020	**(184)**	**(10,554)**	**(508)**	**(11,246)**
Carrying amount	**144**	**17,928**	**139**	**18,211**

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 for the year	(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 753 thousand were capitalized in 2020 (2019: EUR 213 thousand).

No property, plant and equipment were pledged in favor of a creditor or restricted in its use as of December 31, 2020 or December 31, 2019.

Purchases of property, plant and equipment in the Statement of Cash Flows excludes an acquisition of assets directly related to leasing totaling EUR 1.3 million (for the year ended December 31, 2019: 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 20 million for the year ended December 31, 2020 (for the year ended December 31, 2019: EUR 18 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.

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. In 2020, no indicators were identified to recognize impairment of property, plant and equipment. 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.

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

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 122 million (2019: USD 150 million, i.e. EUR 134 million) using the exchange rate at the end of reporting period. Compensation sublimits for individual risks are specified in the insurance contract. Self-insurance is USD 75 million, i.e. EUR 61 million (2019: USD 75 million, i.e. EUR 67 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 122 million (2019: USD 150 million, i.e. EUR 134 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 450 million, i.e. EUR 367 million (2019: USD 600 million, i.e. EUR 534 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. 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, 2020 and December 31, 2019.

In 2020, the Company invested EUR 4,564 thousand (2019: EUR 45,367 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 2,467 thousand (2019: EUR 35,434 thousand) was capitalized from the funds generally available in the market.

The deferred income amortized to Other income in 2020 totaled EUR 4,368 thousand (2019: EUR 2,830 thousand). Change of total Environmental project costs resulted in reduction of deferred income balance by EUR 161 thousand in 2020 (2019: reduction of EUR 34 thousand). The Company believes that it complied with all relevant conditions. The Company did not recognize any additional deferred income in 2020 and 2019 (Notes 12 and 28).

Movements in deferred income relating to Environmental projects during 2020 and 2019 are as follows:

	2020	2019
Opening balance as of January 1	**79,682**	**82,546**
Net change in contracts relating to environmental projects	**(161)**	(34)
Amortization to Other income	**(4,368)**	(2,830)
Closing balance as of December 31	**75,153**	**79,682**

(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, 2020	December 31, 2019
Right-of-use assets *		
Land and buildings	**144**	245
Machinery, equipment and motor vehicles	**17,928**	22,543
Other right-of-use assets	**139**	387
Total Right-of-use assets	**18,211**	**23,175**
Lease liabilities **		
Current	**7,235**	7,474
Non-current	**12,806**	17,389
Total lease liabilities	**20,041**	**24,863**

* 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. Information about lease measurement is 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.

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

	2020	2019
Depreciation charge of right-of-use assets ***		
Land and buildings	**101**	98
Machinery, equipment and motor vehicles	**5,897**	6,203
Other right-of-use assets	**248**	284
Total Depreciation charge of right-of-use assets	**6,246**	**6,585**
Interest expense ****	**(503)**	(492)
Expense relating to short-term leases (included in other operating expenses in Note 23)	**(9)**	(116)
Expense relating to leases of low-value assets that are not short-term leases (included in other operating expenses in Note 23)	**(10)**	(26)
Expense relating to variable lease payments not included in lease liabilities (included in other operating expenses in Note 23)	**(482)**	(637)
Expense relating to variable lease payments for energy consumed not included in lease liabilities (Note 21: EUR 150.9 million and EUR 169.3 million included in energy consumed in 2020 and 2019, respectively; Note 20: EUR 2.0 million included in net sales of merchandise in 2020 and 2019)	**(154,850)**	(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 2020 was EUR 7,096 thousand (2019: EUR 7,371 thousand).

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

Lease liability maturities are as follows:

	December 31, 2020	December 31, 2019
Not later than 1 year	**7,235**	7,474
Later than 1 year and not later than 5 years	**12,776**	16,769
Later than 5 years	**30**	620
Present value of lease liability **	**20,041**	**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 2020 and 2019 are as follows:

	2020	2019
Cost		
Opening balance as of January 1	**5,448**	**3,624**
Transfers to property, plant and equipment	**(786)**	(5)
Transfers from property, plant and equipment	**19**	1,829
Closing balance as of December 31	**4,681**	**5,448**
Accumulated Depreciation and Impairment Losses		
Opening balance as of January 1	**(2,169)**	**(1,060)**
Depreciation for the year	**(107)**	(131)
Transfers to property, plant and equipment	**444**	-
Transfers from property, plant and equipment	**(2)**	(978)
Closing balance as of December 31	**(1,834)**	**(2,169)**
Carrying amount	**2,847**	**3,279**

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 8,601 thousand as of December 31, 2020 (December 31, 2019: EUR 9,520 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 2020 are as follows:

	Software	Emission allowances	Other intangible assets	Intangible assets not yet available for use	Total
Cost					
January 1, 2020	**39,389**	**113,892**	**646**	**1,362**	**155,289**
Additions	-	142,400	-	1,517	**143,917**
Disposals	(72)	(141,720)	(263)	(11)	**(142,066)**
Revaluation surplus (Note 24)	-	41,627	-	-	**41,627**
Transfers to base	1,812	-	-	(1,812)	**-**
December 31, 2020	**41,129**	**156,199**	**383**	**1,056**	**198,767**
Accumulated Amortization					
January 1, 2020	**(32,196)**	**-**	**(505)**	**-**	**(32,701)**
Amortization for the year	(2,428)	-	(27)	-	**(2,455)**
Disposals	71	-	264	-	**335**
December 31, 2020	**(34,553)**	**-**	**(268)**	**-**	**(34,821)**
Carrying amount	**6,576**	**156,199**	**115**	**1,056**	**163,946**

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 (Note 24)	-	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**

No borrowing costs were capitalized in 2020 and 2019.

No intangible assets were pledged in favor of a creditor or restricted in their use as of December 31, 2020 or December 31, 2019.

<u>Insurance</u>

Intangible assets are not insured.

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

Emission allowances

In 2020, 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 23.57 per ton (2019: EUR 21.59 per ton). Emission allowances allocated by the Slovak Government in 2020 totaled EUR 131.40 million (2019: EUR 123 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 purchased 400 thousand tons EUAs totaling EUR 11 million. The Company decided to sell EUA in the volume of 300 thousand tons totaling EUR 7.95 million and in the volume of 510 thousand tons totaling EUR 12.74 million to its subsidiary Ferroenergy s.r.o. in August and October 2020, respectively. In 2019 the Company did not purchase any emission allowances. The Company sold 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.

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

	December 31, 2020	December 31, 2019
Emission allowances (intangible asset)	**156,199**	113,892
Liability from the obligation to deliver allowances (provision) (Note 17)	**142,988**	122,966

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, 2020

	Level 1	Level 2	Level 3	Total
Assets				
Emission allowances	156,199	-	-	**156,199**
Total	**156,199**	**-**	-	**156,199**

December 31, 2019

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

During 2020 and 2019, 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 114,571 thousand as of December 31, 2020 (December 31, 2019: EUR 100,445 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, 2020	December 31, 2019
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)	**117**	146
	Equity	**3,360**	3,383
U.S. Steel Košice – SBS, s.r.o., Slovakia, Security services			
	Ownership interest (%)	**98.00**	98.00
	Carrying amount	**34**	34
	Profit/(loss)	**46**	53
	Equity	**106**	113
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)	**(161)**	(377)
	Equity	**14,573**	14,734
U. S. Steel Services s.r.o. in liquidation, Slovakia, Various services			
	Ownership interest (%)	**99.96**	99.96
	Carrying amount	**1,804**	1,804
	Profit/(loss)	**(34)**	67
	Equity	**2,573**	2,671
U. S. Steel Obalservis s.r.o., Slovakia, Packaging			
	Ownership interest (%)	**99.97**	99.97
	Carrying amount	**5,037**	5,037
	Profit/(loss)	**1,186**	668
	Equity	**4,603**	4,085
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)	**(21,645)**	(7,259)
	Equity	**140,014**	132,358
Tubular s.r.o., Slovakia, Metal processing			
	Ownership interest (%)	**85.00**	-
	Carrying amount	**4**	-
	Profit/(loss)	**(1)**	-
	Equity	**4**	-
U. S. Steel Europe – Bohemia s.r.o. in liquidation, Czech Republic, Sales Agent			
	Ownership interest (%)	**100.00**	100.00
	Carrying amount	**4**	4
	Profit/(loss)	**(152)**	23
	Equity	**25**	187
U. S. Steel Europe – France S.A., France, Sales Agent			
	Ownership interest (%)	**99.94**	99.94
	Carrying amount	**212**	212
	Profit/(loss)	**16**	14
	Equity	**184**	182
U. S. Steel Europe – Germany GmbH, Germany, Sales Agent			
	Ownership interest (%)	**100.00**	100.00
	Carrying amount	**535**	650
	Profit/(loss)	**32**	34
	Equity	**1,257**	1,252
U. S. Steel Europe – Italy S.r.l. , Italy, Sales Agent			
	Ownership interest (%)	**-**	-
	Carrying amount	**-**	-
	Profit/(loss)	**-**	(63)
	Equity	**-**	144
Total carrying amount of investments		**132,875**	**132,986**

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 2020 and 2019.

(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, 2020 or December 31, 2019.

Effective from January 1, 2020, U. S. Steel Europe – Bohemia s.r.o. entered into liquidation 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. in liquidation on the financial statements is immaterial.

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.

Effective from August 1, 2020, U. S. Steel Services s.r.o. entered into liquidation and changed its name to "U. S. Steel Services s.r.o. in liquidation". The impact of the U. S. Steel Services s.r.o. in liquidation on the financial statements is immaterial.

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 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, 2020 (December 31, 2019: 21 percent).

The tax effect of the movements in the temporary differences during 2020 is as follows:

	January 1, 2020	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2020
Property, plant and equipment	**(44,572)**	11,890	-	**(32,682)**
Leases	**155**	484	-	**639**
Inventories	**3,883**	(1,642)	-	**2,241**
Employee benefits	**7,342**	1,057	(488)	**7,911**
Deferred charges	**115**	(125)	-	**(10)**
Provision for impairment to receivables	**45**	(24)	-	**21**
Tax loss 2019	**3,156**	59	-	**3,215**
Research and development 2021 - 2023	**2,309**	3,742	-	**6,051**
Emission allowances transactions	**35**	8,234	(8,308)	**(39)**
Derivative financial instruments	**(617)**	-	3,622	**3,005**
Provisions	**7,029**	647	-	**7,676**
Other temporary differences	**(776)**	684	-	**(92)**
Total	**(21,896)**	**25,006**	**(5,174)**	**(2,064)**
Deferred tax asset / (liability)	**(21,896)**			**(2,064)**

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

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)**

The Company has unrecognized potential deferred tax liability of EUR 1,072 thousand related to subsidiaries as of December 31, 2020 (December 31, 2019: deferred tax liability of EUR 1,096 thousand).

Tax loss carry forward

By the end of the 2020, the Company recognized a deferred tax asset for the 2019 tax loss in accordance with *IAS 12 Income taxes*. As the Company reported taxable base of EUR 20,183 thousand in 2020 and the 2019 tax loss amounted to EUR 20,412 thousand, the Company utilized ¼ of the tax loss available in amount of EUR 5.1 million, in line with valid tax regulation. The Company recognized only ¾ of the tax loss in a deferred tax as of December 31, 2019 as the utilization in 2020 was assessed as not probable in 2019 assessment. The Company plans to utilize the remaining tax loss from 2021 to 2023 in line with tax regulations.

Note 10 Restricted Cash

Cash restricted in its use in amount of EUR 533 thousand (December 31, 2019: 0 EUR) represents cash deposits on an auxiliary account created to an existing current bank account based on VAT Act amendment regarding the Split Payment Mechanism in Poland. The auxiliary bank account is used for executing incoming and outgoing transactions associated with VAT in Poland.

Note 11 Inventories

	December 31, 2020	December 31, 2019
Raw materials	**173,027**	165,316
Work-in-progress	**41,525**	42,689
Semi-finished production	**59,582**	66,887
Finished goods	**104,604**	116,682
Merchandise	**2,952**	2,836
Inventory allowance	**(4,209)**	(9,088)
Total	**377,481**	**385,322**

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 are governed by Slovak law and that the pledgor currently owns or will own in the future, including their appurtenances and all documents necessary for their use and disposal. The book value of inventory involved in collateral is determined and reported with monthly frequency and its value was EUR 264 million as of December 31, 2020. No inventories were pledged in favor of a creditor or restricted in their use as of December 31, 2019.

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

Inventory as of December 31, 2020 is shown net of write-down allowances resulting from lower net realizable values totaling EUR 4,209 thousand (December 31, 2019: EUR 9,088 thousand). Gross value of inventories written down were EUR 11 million as of December 31, 2020 (December 31, 2019: EUR 164 million).

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

	Raw materials	Work in progress	Semi-finished production	Finished products	Total
January 1, 2020	**203**	**2,136**	**2,482**	**4,267**	**9,088**
Allowance made	1,271	2,390	137	1,645	**5,443**
Allowance used	(16)	(923)	(1,661)	(362)	**(2,962)**
Allowance reversed	-	(2,813)	(122)	(4,425)	**(7,360)**
December 31, 2020	**1,458**	**790**	**836**	**1,125**	**4,209**

	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**

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, 2020	December 31, 2019
Trade receivables	**225,888**	200,638
Trade receivables that are subject of factoring arrangements	**7,776**	13,790
Related party trade receivable (Note 29)	**23,273**	12,392
Total trade receivables	**256,937**	**226,820**
Other receivables - environmental projects	**236**	16,463
Other receivables - funds for landfill restoration	**7,105**	6,140
Other receivables from related parties (Note 29)	**-**	18,391
Other receivables	**372**	10,225
Trade and other receivables - financial (gross)	**264,650**	**278,039**
Loss allowance for trade receivables	**(13,719)**	(14,671)
Loss allowance for other receivables	**(3)**	(1)
Trade and other receivables - financial (net)	**250,928**	**263,367**
VAT receivable	**36,404**	31,507
Advance payments made	**8,021**	4,388
Other receivables - non-financial	**44,425**	**35,895**
Trade and other receivables (net)	**295,353**	**299,262**
Long-term receivables (financial)	**7,105**	6,140
Short-term receivables (financial and non-financial)	**288,248**	293,122

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 certain trade receivables that are subject to Transaction Security. Collateral comprises the existing trade receivables and the future trade receivables in each case including appurtenances and any contractual or statutory security created or existing for the benefit of the pledgor. The book value of trade receivables subject to Transaction Security is determined and reported with monthly frequency and its value was EUR 200 million as of December 31, 2020. No receivables of the Company were pledged in favor of a bank or other entities as of December 31, 2019.

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

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 2020. Additional information about measurement of the trade receivables is disclosed in Note 27.

Trade receivables and other receivables

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

	December 31, 2020	December 31, 2019
No or low-risk counterparties	**137,813**	99,718
Increased risk counterparties	**111,348**	113,312
Trade receivables at amortized costs	**249,161**	**213,030**
No or low-risk counterparties	**2,493**	7,160
Increased risk counterparties	**5,283**	6,630
Trade receivables at FV through other comprehensive income	**7,776**	**13,790**
Total	**256,937**	**226,820**

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 13,722 thousand as of December 31, 2020 (December 31, 2019: EUR 14,672 thousand).

The movements of loss allowances were as follows:

	Trade receivables	Other receivables	Total
January 1, 2020	**14,671**	**1**	**14,672**
Increase in loss allowance	448	3	**451**
Receivables written-off	(1,399)	(1)	**(1,400)**
Unused amount reversed	(1)	-	**(1)**
December 31, 2020	**13,719**	**3**	**13,722**

	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**

A part of recognized loss allowance in amount of EUR 13,299 thousand (December 31, 2019: EUR 14,672 thousand) 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 credit enhancement matrix. The matrix specifies loss rates depending on shared credit risk characteristics represented by internal rating of customers and the days past due.

Oscillation of portion receivables after due date was significantly improved compared to the last ten years. Ten years median of pastdue trade receivables to total trade receivables ratio is 3.95 percent, median for the year 2020 is 2.4 percent (2019: 2.3 percent). The expected credit loss rate was determined based on risk analysis of receivables currently after due date.

The Company performed regular review of customers' internal rating and considered historical, current and forward-looking information on its and the industry development. Based on the consideration the Company adjusted the historical loss rates and estimated expected credit loss by applying adjusted rates (0.57 percent applied) to the receivables balances as of December 31, 2020. The general expected credit loss allowance calculated by the Company is EUR 423 thousand as of December 31, 2020.

In 2019, the impact of the general expected credit loss allowance was immaterial and recognized allowance related only to individually impaired receivables.

Other Receivables - Environmental Projects

Other receivables include amounts arising from contractual agreements relating to Environmental projects (Note 5) which will mitigate capital expenditures by EUR 236 thousand as of December 31, 2020 (December 31, 2019: EUR 16 million) if USSK complies with certain financial covenants, which are assessed annually. USSK complied with these covenants as of December 31, 2020. Other receivables decreased by EUR 16 million due to cash received and by EUR 152 thousand due to net change in contracts relating to Environmental projects (2019: EUR 42 million and EUR 34 thousand, 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, 2020 (December 31, 2019: immaterial).

Other Receivables – Funds for landfill restoration

As required by legislation the Company deposited funds to cover closing and clean-up costs at the end of a landfill site’s useful life into the State Treasury account. The Company will receive funds based on request once approved landfill expenditures occur. 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, 2020 (December 31, 2019: immaterial).

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, 2020 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, 2020 and December 31, 2019 recognized in other comprehensive income and accumulated in revaluation reserves in equity were reclassified into profit or loss in 2020 and 2019, respectively. The actual value recognized in Other operating income in 2020 amounts to EUR 2,123 thousand (2019: income of EUR 22,362 thousand). The amount consists of reclassification of income of EUR 2,321 thousand (2019: income of EUR 8,365 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 expense of EUR 198 thousand (2019: income of EUR 13,997 thousand) related to forward transactions entered into during 2020 (2019) where the asset acquired affected profit or loss in 2020 (2019).

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.

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

The table below sets out fair values, at the end of the reporting period, of the Company's forward foreign exchange contracts:

	December 31, 2020		December 31, 2019	
	Assets	Liabilities	Assets	Liabilities
Foreign exchange forwards - cash flow hedges	**3**	**14,312**	3,971	1,033
Total	**3**	**14,312**	**3,971**	**1,033**

Balances as of December 31, 2020 and December 31, 2019 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, 2020 and December 31, 2019. As of December 31, 2020, the financial derivatives for ING Bank N.V. and Komerční banka, a.s. represent more than 76 percent of value of total financial derivatives. The ratings of the banks are BBB- and better (according to Standard & Poor's) as of December 31, 2020 (December 31, 2019: A-2 and better). Information about the fair value hierarchy as of December 31, 2020 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, 2020	December 31, 2019
Payable on settlement in EUR thousand	**(242,271)**	(281,567)
Receivable on settlement in USD thousand	**228,832**	287,186

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 2020 matured in 2020, resulting in an expense in total amount of EUR 3 thousand (2019: expense of EUR 604 thousand).

Note 14 Cash and Cash Equivalents

	December 31, 2020	December 31, 2019
Cash on hand	**68**	91
Cash at bank	**216,634**	214,417
Total (Note 27)	**216,702**	**214,508**

Interest rates on bank accounts were approximately 0.00 percent per annum for EUR deposits, 0.10 percent per annum for USD deposits and 0.00 percent per annum for CZK deposits as of December 31, 2020 (December 31, 2019: 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). 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, 2020.

(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, 2020	**44**	**69,474**	**2,321**	**10,622**	**82,461**
Changes in fair value of derivative hedging instruments	-	-	(11,304)	-	**(11,304)**
Changes in fair value of CO_2 allowances	-	-	-	33,319	**33,319**
Realization of CO_2 allowances revaluation	-	-	-	(10,622)	**(10,622)**
Release of fair value of derivative hedging instruments	-	-	(2,321)	-	**(2,321)**
Contribution to legal reserve fund	-	-	-	-	**-**
December 31, 2020	**44**	**69,474**	**(11,304)**	**33,319**	**91,533**

	Other capital funds	Legal reserve fund	Derivative hedging instruments	CO2 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 CO2 allowances	-	-	-	12,732	**12,732**
Realization of CO2 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**

Dividends

No dividends were paid to U. S. Steel Global Holdings VI B.V. in 2020 (Dividends totaling EUR 129,435 thousand were paid to U. S. Steel Global Holdings VI B.V. in 2019). There were no declared but unpaid dividends as of December 31, 2020 and December 31, 2019.

(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
January 1, 2020	**351,565**	**133,631**	**3,166**	**13,884**	**24,863**	**527,109**
Proceeds	75,000	-	7,903	76,105	-	**159,008**
Repayments	(125,000)	-	(11,069)	(79,588)	-	**(215,657)**
Lease acquisitions	-	-	-	-	1,773	**1,773**
Lease payments	-	-	-	-	(6,595)	**(6,595)**
Exchange rate impact	-	(11,284)	-	-	-	**(11,284)**
Interest increase / (decrease)	1,039	(65)	-	4	-	**978**
December 31, 2020	**302,604**	**122,282**	**-**	**10,405**	**20,041**	**455,332**
Long-term	300,000	122,239	-	-	12,806	**435,045**
Short-term	2,604	43	-	10,405	7,235	**20,287**
December 31, 2020	**302,604**	**122,282**	**-**	**10,405**	**20,041**	**455,332**

	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	**200,735**	**-**	**5,554**	**13,533**	**-**	**219,822**
Effect of IFRS 16 adoption	-	-	-	-	21,954	**21,954**
January 1, 2019	**200,735**	**-**	**5,554**	**13,533**	**21,954**	**241,776**
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)**
Interest increase / (decrease)	830	108	-	(7)	-	**931**
December 31, 2019	**351,565**	**133,631**	**3,166**	**13,884**	**24,863**	**527,109**
Long-term	350,000	133,523	-	-	17,389	**500,912**
Short-term	1,565	108	3,166	13,884	7,474	**26,197**
December 31, 2019	**351,565**	**133,631**	**3,166**	**13,884**	**24,863**	**527,109**

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 (2019: applicable IBOR + margin 2.5 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 means, in relation to a measurement period, operating profit of the Group before taxation after (a) adding back any losses or expenses from any unusual, extraordinary or otherwise nonrecurring items, (b) adding back any amount attributable to the depreciation or amortization of the assets of the Group for that measurement period and (c) excluding 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 11 and 12). The Second Supplemental Agreement that affected parties entered into on November 30, 2020 (the "Second Supplemental Agreement") amends among other things EBITDA definition to the form as stated in the paragraph above.

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, 2020 and December 31, 2019. As of December 31, 2020, borrowings totaling EUR 300 million were drawn against the EUR 460 million Credit Agreement (December 31, 2019: totaling EUR 350 million were drawn against the EUR 460 million Credit Agreement). As of December 31, 2020, the Company had availability of EUR 160 million under the Credit Agreement (as of December 31, 2019, the Company had availability of EUR 110 million under the Credit Agreement).

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. As of December 31, 2020, borrowings totaling USD 150 million (i.e. EUR 122 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, 2020, the credit facility has been used in the amount of EUR 7,063 thousand for bank guarantees (December 31, 2019: the credit facility has been used in the amount of EUR 1,882 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, 2020 and December 31, 2019, the credit facility has not been used.

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. 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 2020 and 2019 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 utilized a structured supplier payable financing program from Citibank Europe plc. (Note 2.16). On December 31, 2020 all trade payables of the Company included in this program were repaid and Company did not recognize any short-term borrowings from these payables. Short-term borrowings of EUR 3.2 million as of December 31, 2019 represented 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.

(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, 2020	**7,267**	**1,052**	**122,966**	**77**	**131,362**
Provision made	477	2,008	142,988	469	**145,942**
Provision used / reversed	(1)	(2)	(122,966)	(494)	**(123,463)**
December 31, 2020	**7,743**	**3,058**	**142,988**	**52**	**153,841**
Long-term provisions	7,712	3,058	-	-	**10,770**
Short-term provisions	31	-	142,988	52	**143,071**

	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**

The movement of provisions caused by the passage of time (i.e. accretion expense) in 2020 and 2019 was immaterial.

Provision reversals for the year 2020 and 2019 were immaterial.

Landfill

The provision for closing, reclamation and after-close monitoring of landfills is recognized based on the Law No. 79/2015 Coll. on Waste, as amended. 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. In February 2020, the 4th stage of non-hazardous landfill was opened and a new provision in the amount of EUR 2.1 million was recognized. The new provision represents a present value of estimated total closure and monitoring costs of the 4th stage of non-hazardous landfill. 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 has recorded provisions accordingly. The provisions are considered immaterial to the Company's financial statements. Based on the 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.

Emission allowances

A provision was recognized for CO_2 emissions emitted in 2020 in order to settle obligation by granted CO_2 emission allowances. 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.

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

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 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:

	2020	2019
Opening balance as of January 1	**34,135**	**37,280**
Total expense charged in profit or loss – pension	**2,528**	1,734
Total expense charged in profit or loss – jubilee	**1,105**	461
Total expense charged in profit or loss – termination	**22,504**	17,603
Remeasurements of post employment benefit liabilities	**(1,531)**	(2,010)
Benefits paid	**(22,729)**	(20,933)
Closing balance as of December 31	**36,012**	**34,135**
Long-term employee benefits payable	**34,011**	32,986
Short-term employee benefits payable	**2,001**	1,149

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

	December 31, 2020	December 31, 2019
Present value of the liability – pension	**21,987**	19,936
Present value of the liability – jubilee	**9,436**	8,273
Present value of the liability – termination	**1,073**	94
Remeasurements of post employment benefit liabilities	**3,516**	5,832
Total liability in the statement of financial position	**36,012**	**34,135**

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

	2020	2019
Current service costs – pension	**2,356**	1,405
Current service costs – jubilee	**1,068**	375
Current service costs – termination	**22,504**	17,603
Interest costs	**209**	415
Net actuarial losses / (gains)	**784**	150
Remeasurements of post employment benefit liabilities	**(2,315)**	(2,160)
Total	**24,606**	**17,788**

Current service cost and net actuarial losses 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:

	2020	2019
Discount rate - pension	**0.34%**	0.64%
Discount rate - jubilee	**(0.02%)**	0.42%
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.

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

For calculating the discount rate for euro-denominated pension and postretirement liabilities in accordance with *IAS 19 Employee benefits,* the Company used suitable Euro indices which benchmark highly rate corporate bonds. The indices selected were iBoxx Euro indices based on the duration of the pension and jubilee liability. For pension, the selected iBoxx index was the Corp AA 10+ year and for jubilees the selected index was the Corp AA 7-10 year.

Profit sharing and bonus plans

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

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

Defined contribution pension plan

Throughout the year, the Company made contributions to the mandatory government and private defined contribution plans representing 23.6 percent (2019: 24.2 percent) of total salaries and other employee benefits up to a monthly salary limit of EUR 7,091 (2019: EUR 6,678).

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 1.4 percent of the monthly accounted wage in 2020 (2019: 1.6 percent).

Information for pension plans with an accumulated employee benefits liabilities:

	December 31, 2020	December 31, 2019
Accumulated employee benefits liabilities	**23,614**	25,264
Effects of future compensation	**11,325**	8,777
Projected employee benefits liabilities	**34,939**	**34,041**
Termination	**1,073**	94
Total liability in the statement of financial position	**36,012**	**34,135**

Note 19 Trade and Other Payables

	December 31, 2020	December 31, 2019
Trade payables	**170,449**	125,586
Related party accounts payable (Note 29)	**27,337**	19,561
Assigned trade payables (1)	**36,126**	47,997
Accrued discounts and rebates	**10,382**	12,601
Uninvoiced deliveries and other accrued expenses	**89,568**	71,810
Trade payables and accruals (Note 26)	**333,862**	**277,555**
Lease liabilities	**20,041**	24,863
Other payables	**4,920**	1,432
Financial liabilities	**24,961**	**26,295**
Liability to employees and social security institutions	**45,713**	23,713
Advance payments received (Contract liability)	**3,211**	3,190
VAT and other taxes and fees	**11,246**	4,826
Non-financial liabilities	**60,170**	**31,729**
Total	**418,993**	**335,579**

(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, 2020. Issued credit invoices are offset with receivables as of the due date of the respective credit note or paid in cash when there are no outstanding receivables.

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

	December 31, 2020	December 31, 2019
Short-term trade and other payables	**405,596**	317,020
Long-term trade and other payables	**13,397**	18,559
Total	**418,993**	**335,579**

Long-term trade and other payables represent lease liabilities (as of December 31, 2020: EUR 12,806 thousand and 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, 2020	December 31, 2019
Trade and other payables not yet due	**414,354**	330,431
Trade and other payables past due	**4,639**	5,148
Total	**418,993**	**335,579**

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

	December 31, 2020	December 31, 2019
EUR	**260,140**	235,800
USD	**67,956**	40,878
Other	**5,766**	877
Total	**333,862**	**277,555**

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

	2020	2019
Opening balance as of January 1	**82**	**167**
Company contribution (company costs)	**1,278**	1,580
Employees contribution (repayments)	**10**	17
Withdrawals	**(1,309)**	(1,682)
Closing balance as of December 31	**61**	**82**

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:

	2020	2019
Sales of own production	**1,699,557**	2,124,753
Sales of merchandise	**316**	253
Rendering of services	**11,272**	13,726
Total	**1,711,145**	**2,138,732**

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

In 2020 and 2019, sales of merchandise represented net sales of power coal and natural gas sold to the Ferroenergy s.r.o. subsidiary, net sales of electricity, heat and steam produced by Ferroenergy, s.r.o. to the external parties.

In 2020 and 2019, rendering of services comprised of technology consulting services, distribution of media (natural gas, electricity, water), repairs, and administration services provided to the Company's subsidiaries or external customers and arranging transportation services to customers.

Timing of revenue recognition

	2020	2019
Performance obligation satisfied at a point in time	**1,699,873**	2,125,006
Performance obligation satisfied over time	**11,272**	13,726
Total	**1,711,145**	**2,138,732**

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

Segments and Products	2020	2019
Hot-rolled sheets and plates	**682,079**	876,937
Cold-rolled sheets	**140,804**	250,107
Coated sheets	**448,551**	533,486
Tin mill products	**331,571**	352,944
Standard and line pipe	**35,004**	35,439
Semi-finished products	**1,854**	9,468
Other	**59,694**	66,372
Total	**1,699,557**	**2,124,753**

Market	2020	2019
Steel Service Centers	**307,910**	369,707
Transportation (including automotive)	**292,484**	430,031
Further conversion - trade customers	**90,974**	109,923
Containers	**329,175**	362,852
Construction and construction products	**392,943**	568,101
Appliances and electrical equipment	**116,609**	147,272
Oil, gas and petrochemicals	**2,920**	306
All other	**166,542**	136,561
Total	**1,699,557**	**2,124,753**

The Company recognized revenue in amount of EUR 3,182 thousand in 2020 that was included in the contract liability balance as of January 1, 2020 (January 1, 2019: EUR 1,354 thousand).

Other income

Other income consists of the following:

	2020	2019
Amortization of deferred income from CO_2 emission allowances (Note 7)	**131,437**	122,930
Amortization of deferred income - environmental projects (Note 5)	**4,368**	2,830
Gain on disposal of property, plant and equipment, investment property and intangible assets	**-**	1,922
Gain on derivative financial instruments (Note 13)	**2,123**	22,362
Rental income	**1,703**	1,536
Income from contractual penalties	**133**	514
Energy compensation from Ministry of Economy	**11,487**	12,423
Repayment of CO_2 tax	**-**	9,891
COVID-19 compensation*	**17,759**	-
Trade mark and Intellectual Property license	**7,563**	-
Miscellaneous income	**1,353**	5,355
Total	**177,926**	**179,763**

*national government's „kurzarbeit"mechanism providing compensation to the Company for wages to employers forced to temporarily reduce working hours

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

Note 21 Materials and Energy Consumed

Materials and energy consumed is comprised of the following:

	2020	2019
Materials consumed	**(968,870)**	(1,292,945)
Energy consumed *	**(246,057)**	(286,110)
Costs of merchandise sold	**(115)**	-
Changes in internally produced inventory	**(17,165)**	(31,666)
Inventory write-down allowance (Note 11)	**1,917**	(8,332)
Total	**(1,230,290)**	**(1,619,053)**

*The line Energy consumed includes a variable lease payment expense and services related to operating of leased asset totaling EUR (150.9) million (2019: EUR (169.3) million).

Note 22 Salaries and Other Employee Benefits

Salaries and employee benefits are comprised of the following:

	2020	2019
Wages and salaries	**(192,243)**	(202,983)
Termination benefits (Note 18)	**(22,504)**	(17,603)
Mandatory social and health insurance to all insurance funds (Note 18)	**(71,112)**	(75,123)
Other social expenses	**(11,338)**	(13,416)
Pension expenses – retirement and work and life jubilees (Note 18)	**(4,208)**	(1,930)
Total	**(301,405)**	**(311,055)**

The number of active employees of the Company as of December 31, 2020 was 8,534 (December 31, 2019: 8,929). The average number of the Company's employees for 2020 was 8,638 (2019: 9,640).

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

Note 23 Other Operating Expenses

Other operating expenses during 2020 and 2019 are as follows:

	2020	2019
Packaging	**(9,792)**	(15,000)
Cleaning and w aste disposal	**(7,106)**	(8,129)
Advertising and promotion	**(1,056)**	(2,290)
Intermediary fees	**(1,436)**	(2,351)
Training	**(494)**	(865)
Impairment of receivables release (Note 12)	**(450)**	(87)
Loss on disposal from sales of bussiness units (Note 5)	**-**	(1,750)
Loss on disposal of property, plant and equipment, investment property and intangible assets	**(492)**	-
Real estate tax and other taxes	**(7,280)**	(4,269)
Intangible assets, licences, trade marks, licence support	**(3,388)**	(4,030)
Laboratory and heat tests	**(5,203)**	(6,309)
External processing	**(10,836)**	(14,231)
Costs of processing of steel slag, sludge and dust	**(3,917)**	(4,573)
Audit fees	**(546)**	(621)
Other services provided by the auditor	**(1)**	(5)
Short-term leases (Note 5)	**(9)**	(116)
Low value leases (Note 5)	**(10)**	(26)
Variable lease payments (Note 5)	**(482)**	(637)
Creation & reversal of provision for litigation (non-tax)	**(2,056)**	(89)
Warehousing and handling of finished products	**(2,881)**	(3,599)
Insurance costs	**(4,111)**	(3,039)
Service activities	**(8,919)**	(12,341)
Security services - premises	**(2,490)**	(2,856)
Commitment fee - the Credit Agreement	**(2,429)**	(3,081)
Scarffing of conti-slabs	**(2,156)**	(2,645)
Telephone, fax, telex, postage, data processing	**(3,095)**	(3,829)
Costs of employee intracompany transportation	**(1,161)**	(1,076)
Crane operation	**(2,567)**	(3,609)
Chromium plating of rolls	**(1,274)**	(1,420)
Service of heavy machines	**(759)**	(967)
Chemical treatment of w ater circuits	**(546)**	(568)
Other operating expenses [(1)]	**(9,750)**	(18,333)
Total	**(96,692)**	**(122,741)**

[(1)] Other operating expenses include various types of services not exceeding EUR 2 million individually.

Note 24 Income Tax

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

	2020	2019
Current tax	**(67)**	(566)
Deferred tax (Note 9)	**23,384**	21,368
Total current year tax	**23,317**	**20,802**
Prior year current tax correction	**-**	8,930
Prior year deferred tax correction	**1,622**	-
Total	**24,939**	**29,732**

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

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

	2020	2019
(Loss) / Profit before tax	**(80,144)**	(92,881)
Tax calculated at 21 percent tax rate	**16,830**	19,505
Permanent differences	**4,869**	1,323
Other	**1,618**	(26)
Tax (charge) / credit	**23,317**	**20,802**

The effective tax rate was 29 percent in 2020 (2019: 22 percent). The increase of effective tax rate percentage was caused by significant increase of permanent differences in 2020.

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

	2020			2019		
	Before tax	Tax (charge) / credit	After tax	Before tax	Tax (charge) / credit	After tax
Changes in fair value of derivative hedging instruments	**(17,247)**	**3,622**	**(13,625)**	(7,635)	1,591	(6,044)
Changes in actuarial gains and losses	**2,315**	**(488)**	**1,827**	2,160	(454)	1,706
Revaluation of intangible assets (Note 7)	**41,627**	**(8,308)**	**33,319**	13,446	(714)	12,732
Other comprehensive income	**26,695**	**(5,174)**	**21,521**	**7,971**	**423**	**8,394**

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 2019.

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 455,332 thousand as of December 31, 2020 (December 31, 2019: EUR 527,109 thousand) and equity (Note 15) totaling EUR 903,805 thousand as of December 31, 2020 (December 31, 2019: EUR 937,489 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, 2020 and December 31, 2019.

Note 26 Financial Risk Management

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

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

Credit risk

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).

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

Credit risk related to receivables is managed by the Credit & Collection 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 and likewise.

The Company mitigates credit risk for approximately 76 percent (2019: 73 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:

	2020	2019
Credit insurance	**68%**	65%
Letters of credit and documentary collection	**1%**	2%
Bank guarantees	**2%**	2%
Other credit enhancements	**5%**	4%
Credit enhanced sales	**76%**	**73%**
Unsecured sales	**24%**	27%
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, 2020	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)	-	212,169	7,776
Related party accounts receivables (net)	-	23,273	-
Other receivables – environmental projects	-	236	-
Other receivables (net)	-	7,474	-
Derivative financial instruments (Note 13)			
Forward foreign exchange	3	-	-
Short-term loans (Note 29)			
Short-term loans provided to related parties	-	6,872	-
Cash and cash equivalents and restricted cash (Notes 10 and 14)			
Cash and cash equivalents and restricted cash	-	217,235	-
Total	**3**	**467,259**	**7,776**

December 31, 2020	Cash and cash equivalents and restricted cash at amortized cost
ING Bank N.V.	22,382
COMMERZBANK	15,176
Citibank (Slovakia) a.s.	30,532
Slovenská sporiteľňa, a.s.	4,766
Komerční Banka, a.s.	41,665
Československá obchodná banka, a.s.	39,779
Všeobecná úverová banka, a.s.	61,397
Other banks	937
Cash on hand	68
Cash and cash equivalents (Note 14)	**216,702**
Citibank (Poland S.A.)	533
Cash restricted in its use (Note 10)	**533**
Total	**217,235**

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

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**

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.

During 2020, the Company drew short-term borrowings as a part of the Group's cash pooling strategy of EUR 76,105 thousand and repaid EUR 79,588 thousand and provided to its subsidiaries the amount of EUR 59,202 thousand and received EUR 52,742 thousand. 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. Borrowings drawn within the Group's cash pooling strategy bear interest rate spread over EUR LIBOR plus margin 2.25 percent per annum. Borrowing contracts are valid until May 31, 2021 with the option to be prolonged.

Other borrowings are disclosed in Note 16.

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

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

	0 – 1 year	1 – 5 years	over 5 years	Total
Assets				
Cash and cash equivalents	216,702	-	-	**216,702**
Restricted cash	533	-	-	**533**
Trade receivables (net)	243,218	-	-	**243,218**
Other receivables – environmental projects	236	-	-	**236**
Other receivables (net)	7,474	-	-	**7,474**
Derivative financial instruments	228,832	-	-	**228,832**
Intercompany short - term loans provided	6,872	-	-	**6,872**
Total	**703,867**	**-**	**-**	**703,867**
Liabilities				
Trade payables and accruals	320,465	13,397	-	**333,862**
Other financial liabilities	4,920	-	-	**4,920**
Derivative financial instruments	242,271	-	-	**242,271**
Lease liability (Note 5)	7,235	12,776	30	**20,041**
Loans and borrow ings (Note16)	23,124	459,965		**483,089**
Total	**598,015**	**486,138**	**30**	**1,084,183**

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**

Market risk

a) Interest rate risk

The Company is subject to the effects of interest rate fluctuations on borrowings drawn against revolving credit facilities (Note 16). If the interest rate had been 1 percent higher / lower as of December 31, 2020, it would have resulted to EUR 5.1 million higher/lower interest expense. 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.

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, 2020 and December 31, 2019.

b) Currency risk

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

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

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

December 31, 2020

	Cash and cash equivalents	Cash restricted in its use
EUR	209,360	-
USD	4,107	-
CZK	3,151	-
other	84	533
Total	**216,702**	**533**

December 31, 2019

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

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, 2020, the Company had open USD forward purchase contracts for Euros in total notional value of approximately EUR 242 million (December 31, 2019: EUR 282 million).

On December 23, 2019, the Company entered into a USD 150 million Loan Agreement with United States Steel Corporation. As of December 31, 2020, borrowings totaling USD 150 million (i.e. EUR 122 million using the exchange rate valid at the end of the reporting period) were drawn against this credit facility.

As of December 31, 2020, 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 4 million credit / EUR 3 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, 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.

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.

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

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 2020 matured in 2020. All commodity forwards commenced in 2019 matured in 2019.

In 2020 and 2019, 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, 2020 and December 31, 2019, 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, 2020

	Amortized cost	FV through profit or loss	FV through other comprehensive income	Total
Assets				
Unquoted financial instruments	-	259	-	**259**
Trade receivables (net)	212,169	-	7,776	**219,945**
Related party accounts receivables (net)	23,273	-	-	**23,273**
Other receivables – environmental projects	236	-	-	**236**
Other receivables (net)	7,474	-	-	**7,474**
Cash and cash equivalents	216,702	-	-	**216,702**
Restricted cash	533	-	-	**533**
Short-term loans provided to related parties	6,872	-	-	**6,872**
Derivative financial instruments	-	3	-	**3**
Total	**467,259**	**262**	**7,776**	**475,297**

	Amortized cost	FV through profit or loss	Total
Liabilities			
Trade payables and accruals	333,862	-	**333,862**
Other financial liabilities	4,920	-	**4,920**
Derivative financial instruments	-	14,312	**14,312**
Short-term borrowings			
Related parties (Note 29)	10,383	-	**10,383**
Leases (Note 5, 19)	7,235	-	**7,235**
Long-term borrowings			
Long-term borrowings	300,000	-	**300,000**
Intercompany loan from U.S.Steel (Note 29)	122,239	-	**122,239**
Leases (Note 5, 19)	12,806	-	**12,806**
Total	**791,445**	**14,312**	**805,757**

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

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**
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**

	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 borrowings	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**

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, 2020

	Level 1	Level 2	Level 3	Total
Assets				
Trade receivables that are subject of factoring arrangements (Note 12)	-	-	7,776	**7,776**
Hedging derivatives	-	3	-	**3**
Total	**-**	**3**	**7,776**	**7,779**
Liabilities				
Hedging derivatives	-	14,312	-	**14,312**
Total	**-**	**14,312**	**-**	**14,312**

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

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**

During 2020 and 2019, 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, 2020 and December 31, 2019. Fair values of these instruments as of December 31, 2020 and December 31, 2019 approximate their carrying amounts.

Note 28 Contingent Liabilities and Contingent Assets

Capital Commitments

Capital expenditures of EUR 52 million had been committed under contractual arrangements as of December 31, 2020 (December 31, 2019: EUR 21 million).

Environmental Commitments

The Company is in compliance with environmental legislation. In 2020, the environmental expenses represented mainly by air, water pollution and solid waste handling fees totaled approximately EUR 6 million (2019: EUR 10 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. European Commission approved Authorization for the Company suppliers to use sodium dichromate for packaging steel until April 14, 2024 and chromium trioxide for packaging steel until September 21, 2024. The Company can still use hexavalent chromium substances in the selected processes until the suitable alternative is qualified for use. On May 25, 2020 the Company filled an independent Application for Authorization to be permitted to continue using sodium dichromate and chromium trioxide for packaging steel until 2027. Efforts are ongoing to identify, test and prove the feasibility of replacement substances. Membership contributions to consortiums for registration update testing were EUR 18 thousand in 2020 and 10 thousand in 2019. The Company cannot reliably estimate the potential additional registration costs of produced and purchased substances. The Company is preparing proposals for further testing of substances in cases, where the Company is lead registrant.

Effective from January 1, 2020, the Company transferred, within the framework of fulfilling the obligations of a packaging producers, from the collective system to an individual system of fulfillment of obligations. The impact of the above change, as well as the optimization of keeping records of packaging placed on the Slovak market, led to decrease of packaging producer obligation fulfillment costs related to the consequent packaging waste collection, sorting and recovery to EUR 128 thousand in 2020 (waste disposal costs in 2019: EUR 416 thousand). In addition, the Slovak Republic has adopted amendment to the waste legislation that became effective on December 12, 2020. The Company estimates the financial impact of this amendment to the Waste Act on its operations in the amount of approximately EUR 70 thousand. Effective from January 1, 2019, the Slovak Republic adopted an amended Law on Waste disposal fees. The financial impact of the new disposal fees on USSK's operations was EUR 0.3 million in 2019.

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. As of December 31, 2020, the Company has 6 million of purchased European Union Allowances (EUA) totaling EUR 45 million (as of December 31, 2019: 6 million of purchased (EUA) totaling EUR 45 million) available to cover the estimated Phase III period shortfall of emission allowances.

The Phase IV EU ETS period spans 2021-2030 and began on January 1, 2021. The final EU decision on the free allocation amount for 2021-2025 is expected in the second quarter of 2021. In the fourth quarter of 2020 the Company started with purchases of allowances for the Phase IV period. As of December 31, 2020, the Company has pre-purchased approximately 0.4 million EUA totaling EUR 11 million. Currently, the overall target is a 40 percent reduction of 1990 emissions by 2030. Ongoing political discussions indicate that an even more stringent target of 60 percent may be instituted. At this time, carbon neutrality of the EU industry is set to be achieved by 2050.

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. Total capital expenditures for projects to comply with or go beyond the BAT requirements were EUR 138 million over the actual program period. These costs were partially offset by the EU funding received and may be mitigated over the next measurement period if the Company complies with certain financial covenants, which are assessed annually. The Company complied with these covenants as of December 31, 2020 and December 31, 2019. 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 50 percent of the EU funding received.

Impact of Coronavirus (COVID-19)

The global pandemic resulting from the coronavirus designated as COVID-19 has had a significant impact on economies, businesses and individuals around the world. Efforts by governments around the world to contain the virus have involved, among other things, border closings and other significant travel restrictions; mandatory stay-at-home and work-from-home orders; mandatory business closures; public gathering limitations; and prolonged quarantines. These efforts and other governmental, business and individual responses to the COVID-19 pandemic have led to significant disruptions to commerce, lower consumer demand for goods and services and general uncertainty regarding the short-term and long-term impact of the COVID-19 virus on the domestic and international economy and on public health. The Company implemented a comprehensive response to the pandemic focused on protecting health and safety of the employees, preserving cash and liquidity, ensuring the Company's operations and supporting our customers and community. U. S. Steel Košice, s.r.o. was identified by the Slovak government as a strategic and critical company, essential to economic prosperity, and continued to operate.

The duration, severity, speed and scope of the COVID-19 pandemic remains highly uncertain and the extent to which COVID-19 will affect the Company depends on future developments, such as potential surges of the outbreak and the speed of the development, distribution and effectiveness of vaccine and treatment options, which cannot be predicted at this time. Although the Company has continued to operate, it experienced a significant reduction in demand and low selling prices at the on set of the pandemic. Demand went down due to economic and industrial lockdowns. One of three blast furnaces of the Company remained idled for the entire year. As a result, steel production capability utilization dropped to 67 percent in 2020, which represented an 11 percentage points decline from the previous year. Company emerged from this unfavorable period with the support of the state “kurzarbeit” mechanism which provided wage compensation to employers forced to temporarily reduce working hours by external factors, which the pandemic did (Note 20). Throughout this challenging period, Company focused on optimizing costs through maintenance and production labor transformations. New processes, procedures, and controls were implemented to respond to changes in business environment.

Since the second quarter, demand has continued to accelerate especially in key markets like automotive, appliance and construction. The demand rebound in the second half, together with continuously improved selling prices, helped to reduce significant unfavorable impacts on the full year results.

The nature, extent and duration of the effects of the COVID-19 pandemic on the Company was highly uncertain, however due to an active management of credit risks, its effective monitoring and controlling through credit evaluation and rating of customers Company did not experienced any credit loss in 2020 (Note 26).

The Company does not expect an impact on its ability to continue to operate as a going concern.

(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:

		2020	2019
United States Steel Corporation, Ultimate parent company			
	Revenues	**8,842**	1,422
	Expenses	**138,482**	108,754
	Receivables	**7,610**	314
	Payables	**7,114**	499
	Borrowings received including interest (Note 16)	**122,282**	133,631
USS International Services, LLC, Company under common control of U. S. Steel			
	Expenses	**2,931**	2,838
	Receivables	**85**	110
	Payables	**447**	412
Subsidiaries under control of the Company (Note 8)			
	Revenues	**50,217**	117,552
	Expenses	**194,724**	234,916
	Receivables	**15,578**	30,359
	Payables	**19,776**	18,650
	Borrowings received including interest (Note 16)	**10,405**	13,884
	Loans provided	**6,872**	394
Total			
	Revenues	**59,059**	**118,974**
	Expenses	**336,137**	**346,508**
	Receivables	**23,273**	**30,783**
	Payables	**27,337**	**19,561**
	Borrowings received including interest	**132,687**	**147,515**
	Loans provided	**6,872**	**394**

No dividends were paid to U. S. Steel Global Holdings VI B.V. in 2020 (Dividends totaling EUR 129,435 thousand were paid to U. S. Steel Global Holdings VI B.V. in 2019) (Note 15).

Transactions with United States Steel Corporation relate mainly to rendering of services (2020: EUR 8,842 thousand; 2019: EUR 1,422 thousand), purchases of raw material (2020: EUR 131,025 thousand; 2019: EUR 106,008 thousand), managerial services (2020: EUR 2,329 thousand; 2019: EUR 2,746 thousand) and interest expense (2020: EUR 5,128 thousand).

USS International Services, LLC provides managerial services to U. S. Steel Košice, s.r.o. (2020: EUR 2,931 thousand; 2019: EUR 2,838 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. As of December 31, 2020, borrowings totaling USD 150 million (i.e. EUR 122 million using the monthly average exchange rate) were drawn against this credit facility and the interest expense was USD 5,811 thousand (i.e. EUR 5,128 thousand using the monthly average exchange rate).

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 agreement was valid until December 30, 2020. Interest on loans provided under the facility is based on EURIBOR + 4 percent p.a. In 2020 and as of December 31, 2020, no loans were drawn against this facility. As of December 31, 2019, there were no loans provided under this facility.

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

Transactions with subsidiaries of U. S. Steel Košice, s.r.o. include sales of steel products and purchases of 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 are valid until May 31, 2021 with the option to be prolonged. During 2020, the Company as a part of the Group's cash pooling strategy drew from its subsidiaries the amount of EUR 76,105 thousand and repaid amount of EUR 79,588 thousand and provided to its subsidiaries the amount of EUR 59,202 thousand and received EUR 52,742 thousand. 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 (Note 16).

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 2020 and 2019 that arise from their positions as 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:

	2020	**2019**
Wages and salaries	**15,207**	13,973
Mandatory social and health insurance to all insurance funds	**4,133**	4,311
Total	**19,340**	**18,284**

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 Financial Performance Indicators

USSK management believes that EBITDA considered along with the net earnings (loss), Earnings Before Interest and Taxes (EBIT) and Earnings Before Taxes (EBT) are relevant indicators of trends relating to Company's financial performance and cash generating activity. These performance indicators provide management and investors with additional information for comparison of our operating results to the operating results of other companies. These measures are not intended to evaluate the Company's liquidity position.

EBITDA is determined from net earnings (loss) as adjusted for income taxes, net interest income (loss), dividend income and significant non-cash items which do not affect cash generating activity. Adjustments include depreciation, amortization, asset impairment charge or reversal and non-cash charges recorded in line with emission allowances accounting policy. Earnings Before Interest and Taxes (EBIT) is a measure of a Company's profitability determined from EBITDA adding back depreciation, amortization and asset impairment charge or reversal. Earnings Before Tax (EBT) is further adjusted adding back net financial income (expense) and dividend income.

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

The reconciliation of EBITDA, EBIT and EBT is as follows:

	2020	2019
Net Loss	**(55,205)**	**(63,149)**
Income tax	**(24,939)**	(29,732)
Interest expense and other financial costs	**14,564**	5,718
Interest income	**(463)**	(512)
Dividend income	**(955)**	(5,838)
Depreciation and amortization	**79,617**	81,647
Non cash portion of CO_2 provision charge (Note 17)	**142,988**	122,966
Amortization of deferred income - CO_2 emission allowances (Note 20)	**(131,437)**	(122,930)
EBITDA	**24,170**	**(11,830)**
Depreciation & Amortization	**(79,617)**	(81,647)
EBIT	**(55,447)**	**(93,477)**
Interest expense and other financial costs	**(14,564)**	(5,718)
Interest income	**463**	512
Dividend income	**955**	5,838
EBT	**(68,593)**	**(92,845)**

Adjusted EBITDA provides additional information by excluding the effects of non-recurring adjusting items or one-off events that can obscure underlying trends, e.g. restructuring and other charges, or income/gains or expenses/losses from any items unusual because of their nature, size or incidence or other nonrecurring items.

The reconciliation of adjusted EBITDA is as follows:

EBITDA	**24,170**	**(11,830)**
Restructuring and other charges (Note 18)	**25,685**	20,545
Adjusted EBITDA	**49,855**	**8,715**

EBITDA and Adjusted EBITDA amounts are derived from net loss shown on page SF-8. EBITDA improved in 2020 compared to 2019 mainly due to favorable impact of lower costs of raw materials, favorable impact of cost control measures, fewer planned outages, COVID-19 relief and lower energy costs which were partially offset by unfavorable impact of reduced shipments and lower average selling prices.

Note 31 Events after the Reporting Period

Effective from January 1, 2021, U. S. Steel Obalservis s.r.o. entered into liquidation and changed its name to “U. S. Steel Obalservis s.r.o. in liquidation”.

The Company partially repaid borrowings totaling EUR 250 million during the first and second quarter 2021. After these repayments, EUR 50 million drawing remained outstanding against the EUR 460 million Credit Agreement.

On April 8, 2021, the Company delivered 4,390,171 tons of CO_2 emission allowances for 2020 to the Slovak Government fulfilling its obligation for the seventh year of the Phase III period. 2021 free CO_2 allocation was not credited to the Company’s account to the date of signature of the separate financial statements for the year 2020.

The completion of liquidation process of the company U. S. Steel Europe - Bohemia s.r.o. in liquidation is estimated by the end of June 2021.

After December 31, 2020, no other significant events have occurred that would require recognition or disclosure in the 2020 separate financial statements.

U. S. Steel Košice, s.r.o.

Consolidated financial statements for the year ended December 31, 2020

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. (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2020, and the Group's consolidated financial performance and 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 2020;
- 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 (ISAs). 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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (Code of Ethics) and the ethical requirements of the Slovak Act on Statutory Audit No. 423/2015 and on amendments and supplements to Slovak Act on Accounting No. 431/2002, as amended (hereafter the "Act on Statutory Audit") 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 the Code of Ethics and the ethical requirements of Act on Statutory Audit.

Reporting on other information including the Annual Report

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon).

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, to 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 Slovak Act on Accounting No. 431/2002, as amended (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 financial year for which the consolidated financial statements are prepared 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 regard.

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 ISAs 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 an audit in accordance with ISAs, 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.

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

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

Ing. Monika Smižanská, FCCA
Licence UDVA No. 1015

25 May 2021
Bratislava, Slovak Republic

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.

U. S. Steel Košice, s.r.o.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

Consolidated financial statements for the year ended December 31, 2020, were prepared in accordance with International Financial Reporting Standards as adopted by the European Union on May 25, 2021, 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 25, 2021. Neither the Company's shareholder nor the executives have the power to amend the consolidated financial statements after issue.

Košice, May 25, 2021

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)

Table of Contents

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	December 31, 2020	December 31, 2019
ASSETS			
Non-Current Assets			
Property, plant and equipment	5	**951,949**	997,462
Investment property	6	**2,560**	2,879
Intangible assets	7	**270,727**	200,357
Unquoted financial instruments	27	**259**	259
Long-term receivables	12	**7,105**	6,140
Total non-current assets		**1,232,600**	**1,207,097**
Current Assets			
Inventories	11	**380,213**	394,099
Trade and other receivables	12	**274,975**	265,727
Derivative financial instruments	13	**3**	3,971
Restricted cash	10	**533**	-
Current income tax receivables		**-**	6,769
Prepaid expense		**1,666**	1,463
Cash and cash equivalents	14	**219,717**	217,183
Total current assets		**877,107**	**889,212**
TOTAL ASSETS		**2,109,707**	**2,096,309**

	Note	December 31, 2020	December 31, 2019
EQUITY AND LIABILITIES			
Equity			
Share capital	15	**839,357**	839,357
Reserve funds	15	**127,996**	95,706
(Accumulated losses) / retained earnings		**(52,246)**	10,020
Total Equity		**915,107**	**945,083**
Liabilities			
Non-Current Liabilities			
Long-term loans and borrowings	16	**422,239**	483,523
Long-term provisions for liabilities and charges	17	**10,771**	7,234
Long-term deferred income - environmental projects	5	**75,153**	79,682
Long-term employee benefits payable	18	**36,671**	37,630
Deferred income tax liability	9	**6,560**	23,542
Long-term trade and other payables	19	**13,497**	18,920
Total non-current liabilities		**564,891**	**650,531**
Current Liabilities			
Trade and other payables	19	**395,065**	309,449
Current income tax liability		**254**	-
Derivative financial instruments	13	**14,312**	1,033
Deferred income		**3**	3
Short-term borrowings	16	**2,647**	4,839
Short-term provisions for liabilities	17	**215,313**	184,147
Short-term employee benefits payable	18	**2,115**	1,224
Total current liabilities		**629,709**	**500,695**
TOTAL EQUITY AND LIABILITIES		**2,109,707**	**2,096,309**

The accompanying notes on pages CF-11 to CF-66 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	2020	2019
Revenue from contracts with customers	20	**1,687,821**	2,112,270
Other income	20	**180,635**	175,667
Materials and energy consumed	21	**(1,129,587)**	(1,508,955)
Salaries and other employees benefits	22	**(334,792)**	(354,096)
Depreciation and amortization	5, 6, 7	**(91,181)**	(93,937)
Repairs and maintenance		**(50,511)**	(65,069)
Transportation services		**(60,177)**	(78,680)
Advisory services		**(8,242)**	(8,101)
Foreign exchange gains / (losses)		**12,402**	(1,930)
Charge for provision for CO_2 emissions	17	**(215,230)**	(182,985)
Other operating expenses	23	**(84,334)**	(97,461)
(Loss) / profit from operations		**(93,196)**	**(103,277)**
Interest income		**391**	311
Interest expense		**(14,292)**	(5,614)
(Loss) / profit before tax		**(107,097)**	**(108,580)**
Income tax benefits / (expense)	24	**21,870**	30,454
(Loss) / profit after tax		**(85,227)**	**(78,126)**
(Loss) / profit after tax is attributable to:			
- Equity holders of the Company		**(85,227)**	(78,126)
Total (loss) / profit after tax		**(85,227)**	**(78,126)**
Items that will not be reclassified to profit or loss			
Remeasurements of post employment benefit obligations	24	**2,124**	1,910
Revaluation of intangible assets	7,24	**66,763**	16,877
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translation of foreign operations	24	**(11)**	1
Change in fair value of derivative hedging instruments	24	**(13,625)**	(6,044)
Other Comprehensive income, net of tax		**55,251**	**12,744**
Total comprehensive (loss) / income for the year		**(29,976)**	**(65,382)**
Total comprehensive (loss) / income is attributable to:			
- Equity holders of the Company		**(29,976)**	(65,382)
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		**(29,976)**	**(65,382)**

The accompanying notes on pages CF-11 to CF-66 are an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holder of the Company			
	Share capital	Reserve funds	Retained earnings / (accumulated losses)	Total
Balance as of January 1, 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**

	Attributable to equity holder of the Company			
	Share capital	Reserve funds	Retained earnings / (accumulated losses)	Total
Balance as of January 1, 2020	**839,357**	**95,706**	**10,020**	**945,083**
Loss for 2020	-	-	(85,227)	**(85,227)**
Other comprehensive income	-	53,127	2,124	**55,251**
Total comprehensive (loss) / income for the year	**-**	**53,127**	**(83,103)**	**(29,976)**
Adjustments:				
Release of revaluation reserve - CO_2 emission allowances	-	(20,848)	20,848	**-**
Total adjustments	**-**	**(20,848)**	**20,848**	**-**
Transactions with owners:				
Contribution to legal reserve fund	-	11	(11)	**-**
Total transactions with owners	**-**	**11**	**(11)**	**-**
Balance as of December 31, 2020	**839,357**	**127,996**	**(52,246)**	**915,107**

The accompanying notes on pages CF-11 to CF-66 are an integral part of these consolidated financial statements.

U. S. Steel Košice, s.r.o.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020
(all amounts are in thousands of EUR if not stated otherwise)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Total	
		2020	2019
(Loss) / profit before tax		**(107,097)**	(108,580)
Non-cash adjustments for			
Depreciation of property, plant and equipment and investment property	5, 6	**82,169**	84,519
Depreciation of right of use assets	5	**6,499**	6,901
Amortization of intangible assets	7	**2,513**	2,517
Amortization of deferred income - CO_2 emission allowances	7, 20	**(132,120)**	(123,586)
Amortization of deferred income - environmental projects	5, 20	**(4,368)**	(2,830)
Charge of provision for CO_2 emissions emitted	17	**215,230**	182,985
Loss on disposal from sales of bussiness units	5, 23	**-**	1,750
Loss on disposal of property, plant and equipment, intangible assets and investment property	20, 23	**2,028**	648
Gain from changes in fair value of derivative financial instruments	20	**(2,123)**	(22,362)
Interest income		**(391)**	(311)
Interest expense		**14,292**	5,614
Foreign exchange gain	16	**(11,284)**	-
Changes in working capital			
(Increase) / decrease in inventories	11	**13,886**	68,094
(Increase) / decrease in trade and other receivables and other current assets	12	**(25,544)**	150,038
Increase / (decrease) in trade and other payables and other current liabilities	19	**112,619**	(166,559)
Cash generated from operating activities		**166,309**	**78,838**
Interest paid		**(13,169)**	(3,843)
Income taxes received / (paid)		**6,582**	(1,570)
Lease payments not included in the measurement of the lease liabilities	5, 23	**(501)**	(779)
Net receipts from derivative financial instruments		**2,123**	22,303
Net cash generated from operating activities		**161,344**	**94,949**
Cash flows from / (used in) investing activities			
Purchases of property, plant and equipment	5	**(65,530)**	(152,323)
Proceeds from sale of property, plant and equipment		**61**	49
Purchases of intangible assets	7	**(48,301)**	(16,231)
Proceeds from sales of disposal of bussiness units		**-**	2,570
Proceeds from CO_2 emission transactions	7	**-**	4,930
Change in restricted cash, net	10	**(533)**	6,547
Change in landfill receivable	12	**(964)**	(6,140)
Receipts - environmental projects	12	**16,088**	41,704
Interest received		**396**	344
Net cash used in investing activities		**(98,783)**	**(118,550)**
Cash flows from / (used in) financing activities			
Proceeds from borrowings	16, 26, 29	**82,903**	306,543
Repayment of borrowings	16, 26, 29	**(136,069)**	(25,408)
Payments for the principal portion of the lease liabilities	5, 16	**(6,861)**	(6,918)
Dividends paid to the Company´s shareholder	15, 29	**-**	(129,435)
Net cash generated from / (used in) financing activities		**(60,027)**	**144,782**
Net increase in cash and cash equivalents		**2,534**	121,181
Cash and cash equivalents at beginning of year	14, 27	**217,183**	96,002
Cash and cash equivalents at end of year	14, 27	**219,717**	**217,183**

The accompanying notes on pages CF-11 to CF-66 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 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 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, 2020 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, 2020 and 2019, 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 27, 2020, 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 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, 2020 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, 2020 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 entities operate ("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. in liquidation, (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 for the current period.

<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. in liquidation 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 assets. 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.

The conditions for a tangible asset item (other than major parts and land) to be recognized in property, plant and equipment category are minimum value of EUR 1,700 per individual item and utilization more than one year.

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. The value limit for capitalization of major spare parts is EUR 40,000.

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 for the current period.

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 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.

The conditions for an intangible asset item (other than emission allowances and intangible assets not yet available for use) to be recognized in intangible asset category are minimum value of EUR 2,400 per individual item and utilization more than one year.

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 Group has sufficient resources to complete the project, to sell it or to utilize its results internally, are capitalized up to the amount that is expected to be recovered from future economic benefits. If the conditions for capitalization are not fulfilled, development costs are expensed in the period in which they are incurred.

Software

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

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

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

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

Emission allowances

Purchases, sales or swaps of emission allowances are recognized on the trade-date. Purchased emission allowances are recognized as intangible assets at cost at initial recognition. 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 for the current period.

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 the liability for emissions, both the provision and the intangible asset are reduced in equal amounts.

The intangible asset representing the emission allowances either granted or purchased 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 when the emission allowances are returned or sold.

Following the local tax regulation, the tax treatment of granted and purchased emission allowances differ. Revaluation surplus of purchased allowances represents the taxable income of respective period, whereas no revaluation is recognised for local tax purposes in relation to granted allowances, therefore the recognized revaluation surplus related to granted allowances is a part of deferred tax calculation through equity.

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 other than goodwill 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

<u>Initial recognition and measurement</u>

In applying *IFRS 16 Leases*, 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 arose 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.

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 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.

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.

<u>Impairment</u>

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 receivables risk ratio 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.

<u>Derecognition</u>

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 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 of companies based in Slovakia is formed in accordance with the Act No. 513/1991 Coll., the Commercial Code, as amended, 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 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 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

<u>Defined contribution pension plan</u>

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

For employees of the Group who have signed participation supplementary pension savings agreement, the Group makes monthly contributions to the supplementary pension savings scheme in amounts determined in the respective Collective Labor Agreement.

<u>Employee retirement obligation</u>

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

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

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

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

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

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

Upon the first termination of labor contract by mutual agreement after reaching the entitlement to disability retirement, if the employee’s long-term health condition results in a reduced ability to perform earning activity by more than 40 percent compared to healthy individuals, the Group will pay the retirement benefit, in the maximum amount of five times of average monthly wage, which depends on the number of months till reaching the month of entitlement to an old age pension, whereby the maximum number of month till reaching the month of entitlement to an old age pension is not stated.

The liability in respect to this employee benefit represents the present value of the defined benefit obligation at the end of a reporting period, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually 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 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, 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 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.

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.

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.

Hedge accounting

The Group utilizes derivative forward transactions to hedge future cash flows. The criteria to meet the application of hedge accounting are: (a) the hedging relationship between the hedged item and the hedging instrument is clearly documented and (b) the hedge is highly effective. The hedging instruments are measured at fair value. Gains or losses relating to the effective portion of the derivatives are initially recognized in other comprehensive income. If a hedge of forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, then the Group reclassifies the associated gains and losses that were recognized directly in other comprehensive income into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. To the extent that the hedge is ineffective, changes in fair value are recognized in profit or loss for the current period. The Group continues to apply IAS 39 continuously in 2020 and 2019, as there was no change to hedge policy and portfolio of hedged assets.

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

The preparation of the consolidated financial statements includes an assessment of certain accounting matters which require the Group to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at year-end and the reported amounts of revenues and expenses during the year. Assumptions made by the Group are continually evaluated using all available information including consideration of forecasted financial information in context with other information reasonably available under the circumstances. They are based on historical experience and other factors, including consideration of the unknown future impacts of the COVID-19 pandemic. The resulting accounting estimates will, by definition, rarely equal the related actual results. All such adjustments are of a normal recurring nature unless disclosed otherwise.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year as well as certain significant judgments made by the Group in applying its accounting policies are outlined below.

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

The average useful life of depreciable property, plant and equipment and investment property as of December 31, 2020 is approximately 19 years (as of December 31, 2019: 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 4.6 million (2019: EUR 4.0 million). If estimated average useful life of these assets would decrease by 1 year, the annual depreciation charge would have been higher by EUR 5.1 million (2019: EUR 4.4 million).

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

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

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 was weighing on the already depressed steel market.

Due to economic downturn, one out of three blast furnaces have been temporarily idled since June 2019. Consequently, the overall production capacity of the Group has been reduced by approx. one third. Even if the production was significantly reduced, the Group took temporary actions to adjust operation footprint to continue with the solid production level to satisfy customer requirements and address 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 and 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 non-financial 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.

In 2020, the steel industry experienced impacts of pandemic. The Group was running two out of its three blast furnaces whole year and faced record low annual capacity utilization at level of 67 percent. In second half of 2020 market started to recover with both demand and prices gradually improving which supported restart of third blast furnace in January 2021. Operations returned to standard production volumes that allow the Group to benefit from volume efficiencies. Profitability is also supported by sustainable cost improvements achieved through cost reduction programs in prior periods. There were no impairment indicators identified in 2020.

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 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, 2020, if the discount rate developed on high quality European corporate bonds had been 1 percent higher / lower with all other variables held constant, it would have resulted to EUR 3,458 thousand lower / EUR 4,172 thousand higher net present value of estimated future employee benefits obligations. As of December 31, 2019, if the stated discount rate had been 1 percent higher / lower with all other variables held constant, it would have resulted to EUR 3,289 thousand lower / EUR 3,914 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, 2020, 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 459 thousand lower / EUR 529 thousand higher net present value of the estimated future landfill restoration expenditures. 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 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 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

In 2020, the Group adjusted procedure for the calculation of expected credit loss for trade receivables (Note 12). The basis of the new calculation remains receivables risk classification according to internal risk rate (Note 26). The resultant matrix reflects assessment of the security status of receivables and trend in receivables aging taking into consideration its historical values. It represents the correlation between risk level, predicted financial ratios 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, 2020

The following new standards and interpretations became effective from January 1, 2020:

Revised Conceptual Framework and Amendments to References to the Conceptual Framework in IFRS Standards (issued on March 29, 2018 and effective for annual reporting 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 high level 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.

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

Definition of a Business –Amendments to IFRS 3 Business Combinations (issued on October 22, 2018 and effective for annual reporting periods beginning on or after January 1, 2020). Amendment 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. There is no material impact of the implementation of the amendments to the 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 reporting periods beginning on or after January 1, 2020). The 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. There is no material impact of the implementation of the amendments to the consolidated financial statements.

Interest Rate Benchmark Reform - Amendments to IFRS 7, IFRS 9 and IAS 39 and IFRS 7 (issued on September 26, 2019 and effective for annual reporting 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. There is no material impact of the implementation of the amendments to the consolidated financial statements.

Amendment to IFRS 16 - COVID-19 - Related Rent Concessions (issued on May 28, 2020 and effective for annual reporting periods beginning on or after June 1, 2020). The amendment permits lessees not to assess whether eligible COVID-19 related rent concessions are lease modifications, and account for them as if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

Eligible rent concessions are those arising as a direct consequence of COVID-19 and for which:

- the revised consideration for the lease remains 'substantially the same' or is less than the consideration for the lease before the concession;
- any reduced payments were originally due on or before June 30, 2021; and
- there are no substantive changes to other terms and conditions of the lease.

For lessees, this is an optional practical expedient to be applied consistently to all lease contracts with similar characteristics and in similar circumstances. The practical expedient is not available to lessors. The amendment is to be applied retrospectively in accordance with IAS 8. The Group did not receive any COVID-19 related rent concessions during the reporting period.

4.2 Standards, amendments and interpretations of standards issued but not effective until the financial year beginning January 1, 2021 or later and not early adopted by the Group

IFRS 17 Insurance Contracts (issued on May 18, 2017 and effective for annual reporting periods beginning on or after January 1, 2023). IFRS 17 was issued as replacement for *IFRS 4 Insurance Contracts* and provides the first comprehensive guidance to accounting for insurance contracts under IFRS Standards. It aims to increase transparency and to reduce diversity in the accounting for insurance contracts. It requires a current measurement model where estimates are re-measured in each reporting period. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. The Group does not expect any impact of this standard on its financial statements as the Group does not issue insurance and reinsurance contracts.

Amendments to IFRS 17 (issued on May 18, 2017 and effective for annual reporting periods beginning on or after January 1, 2023). Amendments address concerns and implementation challenges that were identified after *IFRS 17 Insurance Contracts* was published. The Group does not expect any impact of this standard on its financial statements as the Group does not issue insurance and reinsurance contracts.

Classification of Liabilities as Current or Non-current – Amendments to IAS 1 (issued on January 23, 2020 and effective for annual reporting periods beginning on or after January 1, 2022 but on July 15, 2020 delayed to January 1, 2023 due to COVID-19 pandemic). 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.

Proceeds before Intended Use - Amendments to IAS 16 (issued on May 14, 2020 and effective for annual reporting periods beginning on or after January 1, 2022). The amendment prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. Instead such proceeds should be recognized in profit or loss, together with the costs of producing those items (to which IAS 2 applies). Accordingly, a company will need to distinguish between costs of producing and selling items before the PPE is available for its intended use and costs of making the PPE available for its intended use.

It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Onerous Contracts — Cost of Fulfilling a Contract - Amendments to IAS 37 (issued on May 14, 2020 and effective for annual reporting periods beginning on or after January 1, 2022). Amendments clarify that when assessing if a contract is onerous, the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Reference to the Conceptual Framework - Amendments to IFRS 3 (issued on May 14, 2020 and effective for annual reporting periods beginning on or after January 1, 2022). Amendments update an outdated reference in IFRS 3 to the revised *Conceptual Framework for Financial Reporting* and add an exception for the recognition of liabilities and contingent liabilities within the scope of *IAS 37 Provisions,* Contingent Liabilities and Contingent Assets and *IFRIC 21 Levies*. The amendments also confirm that contingent assets should not be recognized at the acquisition date. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Annual Improvements to IFRS Standards 2018–2020 Cycle – Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on May 14, 2020 and effective for annual reporting periods beginning on or after January 1, 2022).

IFRS 1 First-time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

IFRS 9 Financial Instruments – clarifies which fees should be included in the 10 percent test for derecognition of financial liabilities.

IFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

IAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

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

Interest Rate Benchmark (IBOR) Reform – Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on August 27, 2020 and effective for annual reporting periods beginning on or after January 1, 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2 (issued on February 12, 2021 and effective for annual reporting periods beginning on or after January 1, 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, *IFRS Practice Statement 2, 'Making Materiality Judgements'* was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

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

Definition of Accounting Estimates – Amendments to IAS 8 (issued on February 12, 2021 and effective for annual reporting periods beginning on or after January 1, 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

COVID-19-Related Rent Concessions – Amendments to IFRS 16 (issued on March 31, 2021 and effective for annual reporting periods beginning on or after April 1, 2021). In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022. The Group is currently assessing the impact of the amendments on its financial statements.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on May 7, 2021 and effective for annual reporting periods beginning on or after January 1, 2023). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The Group is currently assessing the impact of the amendments on its financial statements.

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

Note 5 Property, Plant and Equipment

Movements in property, plant and equipment during 2020 are as follows:

	Land and buildings	Machinery, equipment and motor vehicles	Other tangible assets	Construction in progress	Right of use assets	Total
Cost						
January 1, 2020	**522,455**	**1,445,988**	**17,720**	**75,624**	**29,821**	**2,091,608**
Additions	-	-	311	45,483	1,359	**47,153**
Disposals	(1,269)	(8,406)	(37)	(1,682)	(1,168)	**(12,562)**
Transfer (to) / from investment property	594	-	-	-	-	**594**
Transfers to base	13,641	66,015	7	(79,750)	-	**(87)**
December 31, 2020	**535,421**	**1,503,597**	**18,001**	**39,675**	**30,012**	**2,126,706**
Accumulated Depreciation						
January 1, 2020	**(188,214)**	**(886,368)**	**(13,530)**	**-**	**(6,034)**	**(1,094,146)**
Depreciation for the year	(15,310)	(65,585)	(1,175)	-	(6,499)	**(88,569)**
Disposals	413	6,916	18	-	985	**8,332**
Transfer to / (from) investment property	(374)	-	-	-	-	**(374)**
December 31, 2020	**(203,485)**	**(945,037)**	**(14,687)**	**-**	**(11,548)**	**(1,174,757)**
Carrying amount	**331,936**	**558,560**	**3,314**	**39,675**	**18,464**	**951,949**

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

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**

Movements in right of use assets during 2020 are as follows:

	Land and buildings	Machinery, equipment and motor vehicles	Other right-of-use assets	Total
Cost				
January 1, 2020	**756**	**28,419**	**646**	**29,821**
Additions	-	1,359	-	**1,359**
Disposals	(322)	(846)	-	**(1,168)**
December 31, 2020	**434**	**28,932**	**646**	**30,012**
Accumulated Depreciation				
January 1, 2020	**(195)**	**(5,580)**	**(259)**	**(6,034)**
Depreciation for the year	(209)	(6,042)	(248)	**(6,499)**
Disposals	144	841	-	**985**
December 31, 2020	**(260)**	**(10,781)**	**(507)**	**(11,548)**
Carrying amount	**174**	**18,151**	**139**	**18,464**

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

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 for the year	(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 753 thousand were capitalized in 2020 (2019: EUR 213 thousand).

No property, plant and equipment were pledged in favor of a creditor or restricted in its use as of December 31, 2020 or December 31, 2019.

Purchases of property, plant and equipment in the Statement of Cash Flows excludes an acquisition of assets directly related to leasing totaling EUR 1.4 million (for the year ended December 31, 2019: 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 21 million for the year ended December 31, 2020 (for the year ended December 31, 2019: EUR 18 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.

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. In 2020, no indicators were identified to recognize impairment of property, plant and equipment. 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.

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 122 million (2019: USD 150 million, i.e. EUR 134 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 61 million (2019: USD 75 million, i.e. EUR 67 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 122 million (2019: USD 150 million, i.e. EUR 134 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 450 million, i.e. EUR 367 million (2019: USD 600 million, i.e. EUR 534 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

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

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. 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, 2020 and December 31, 2019.

In 2020, the Group invested EUR 4 564 thousand (2019: EUR 45,367 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 2 467 thousand (2019: EUR 35,434 thousand) was capitalized from the funds generally available in the market.

The deferred income amortized to Other income in 2020 totaled EUR 4,368 thousand (2019: EUR 2,830 thousand). Change of total Environmental project costs resulted in reduction of deferred income balance by EUR 161 thousand in 2020 (2019: reduction of EUR 34 thousand). The Group believes that it complied with all relevant conditions. The Group did not recognize any additional deferred income in 2020 and 2019. (Notes 12 and 28).

Movements in deferred income relating to Environmental projects during 2020 and 2019 are as follows:

	2020	2019
Opening balance as of January 1	**79,682**	**82,546**
Net change in contracts relating to environmental projects	**(161)**	(34)
Amortization to Other income	**(4,368)**	(2,830)
Closing balance as of December 31	**75,153**	**79,682**

Leases

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

	December 31, 2020	December 31, 2019
Right-of-use assets *		
Land and buildings	**174**	561
Machinery, equipment and motor vehicles	**18,151**	22,839
Other right-of-use assets	**139**	387
Total Right-of-use assets	**18,464**	**23,787**
Lease liabilities **		
Current	**7,417**	7,759
Non-current	**12,905**	17,749
Total lease liabilities	**20,322**	**25,508**

* 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. Information about lease measurement is disclosed in Note 2.11.

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

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

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

	2020	2019
Depreciation charge of right-of-use assets * **		
Land and buildings	**209**	230
Machinery, equipment and motor vehicles	**6,042**	6,389
Other right-of-use assets	**248**	282
Total Depreciation charge of right-of-use assets	**6,499**	**6,901**
Interest expense ****	**(514)**	(509)
Expense relating to short-term leases (included in other operating expenses in Note 23)	**(9)**	(116)
Expense relating to leases of low-value assets that are not short-term leases (included in other operating expenses in Note 23)	**(10)**	(26)
Expense relating to variable lease payments not included in lease liabilities (included in other operating expenses in Note 23)	**(482)**	(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 2020 was EUR 7,362 thousand (2019: EUR 7,695 thousand).

Lease liability maturities are as follows:

	December 31, 2020	December 31, 2019
Not later than 1 year	**7,417**	7,759
Later than 1 year and not later than 5 years	**12,875**	17,130
Later than 5 years	**30**	619
Present value of lease liability **	**20,322**	**25,508**

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

Note 6 Investment Properties

Movements in investment properties during 2020 and 2019 are as follows:

	2020	2019
Cost		
Opening balance as of January 1	**4,866**	**3,161**
Transfers to property, plant and equipment	**(613)**	(5)
Transfers from property, plant and equipment	**19**	1,710
Closing balance as of December 31	**4,272**	**4,866**
Accumulated Depreciation and Impairment Losses		
Opening balance as of January 1	**(1,987)**	**(891)**
Depreciation for the year	**(99)**	(119)
Transfers to property, plant and equipment	**376**	-
Transfers from property, plant and equipment	**(2)**	(977)
Closing balance as of December 31	**(1,712)**	**(1,987)**
Carrying amount	**2,560**	**2,879**

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 7,672 thousand as of December 31, 2020 (December 31, 2019: EUR 8,339 thousand).

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

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 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.

Note 7 Intangible Assets

Movements in intangible assets during 2020 are as follows:

	Software	Emission allowances	Other intangible assets	Intangible assets not yet available for use	Total
Cost					
January 1, 2020	**39,868**	**191,461**	**1,100**	**1,454**	**233,883**
Additions	-	178,820	-	1,601	**180,421**
Disposals	(122)	(182,648)	(263)	(13)	**(183,046)**
Revaluation surplus (Note 24)	-	75,126	-	-	**75,126**
Transfers to base	1,924	-	-	(1,924)	**-**
December 31, 2020	**41,670**	**262,759**	**837**	**1,118**	**306,384**
Accumulated Amortization					
January 1, 2020	**(32,648)**	**-**	**(878)**	**-**	**(33,526)**
Amortization for the year	(2,448)	-	(65)	-	**(2,513)**
Disposals	118	-	264	-	**382**
December 31, 2020	**(34,978)**	**-**	**(679)**	**-**	**(35,657)**
Carrying amount	**6,692**	**262,759**	**158**	**1,118**	**270,727**

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 (Note 24)	-	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**

No borrowing costs were capitalized in 2020 and 2019.

No intangible assets were pledged in favor of a creditor or restricted in their use as of December 31, 2020 or December 31, 2019.

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

Insurance

Intangible assets are not insured.

Emission allowances

In 2020, 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 23.57 per ton (2019: EUR 21.59 per ton). Emission allowances allocated by the Slovak Government in 2020 totaled EUR 132.1 million (2019: EUR 124 million). The emission allowances are revalued at the end of each reporting period. The European Climate Exchange is used to obtain the fair value of the emission allowances. The liability for the obligation to deliver the emission allowances is settled within a few months after the end of the reporting period in accordance with applicable legislation.

Based on the projected future production levels and sufficient emission allowances inventory necessary to meet annual compliance submission in the future, the Group purchased 2 million EUAs totaling EUR 46.7 million in 2020 (2019: 0.7 million EUAs totaling EUR 13.7 million) and sold no EUAs to the external subject (2019: 185 thousand tons totaling EUR 4.93 million).

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

	December 31, 2020	**December 31, 2019**
Emission allowances (intangible asset)	**262,759**	191,461
Liability from the obligation to deliver allowances (provision) (Note 17)	**215,230**	182,985

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, 2020

	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Emission allowances	262,759	-	-	**262,759**
Total	**262,759**	**-**	-	**262,759**

December 31, 2019

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

During 2020 and 2019, 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 190,246 thousand as of December 31, 2020 (December 31, 2019: EUR 164,131 thousand).

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

Note 8 Group Structure

List of subsidiaries

The following subsidiaries have been consolidated as of December 31, 2020:

Entity	Place of Incorporation	Principal activities	Group's Ownership Interest	
			December 31, 2020	December 31, 2019
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. in liquidation	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 w ater and technical gases	**100.00%**	100.00%
Tubular s.r.o.	Slovakia	Metal processing	**100.00%**	-
U. S. Steel Europe – Bohemia s.r.o. in liquidation	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%

None of the Company's ownership interests in subsidiaries were pledged as of December 31, 2020 or December 31, 2019.

Effective from January 1, 2020, U. S. Steel Europe – Bohemia s.r.o. entered into liquidation 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. in liquidation on the consolidated financial statements is immaterial.

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.

Effective from August 1, 2020, U. S. Steel Services s.r.o. entered into liquidation and changed its name to "U. S. Steel Services s.r.o. in liquidation". The impact of the U. S. Steel Services s.r.o. in liquidation on the financial statements is immaterial.

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 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, 2020 (December 31, 2019: 21 percent).

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

The tax effect of the movements in the temporary differences during 2020 is as follows:

	January 1, 2020	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2020
Property, plant and equipment	**(47,096)**	10,492	-	**(36,604)**
Leases	**155**	484	-	**639**
Inventories	**3,927**	(2,557)	-	**1,370**
Employee benefits	**7,368**	695	(587)	**7,476**
Deferred charges	**66**	(145)	-	**(79)**
Provision for impairment of receivables	**(7)**	(24)	-	**(31)**
Tax loss 2019	**3,156**	59	-	**3,215**
Research and development 2021 - 2023	**2,309**	3,742	-	**6,051**
Emission allowances transactions	**37**	8,104	(8,363)	**(222)**
Derivative financial instruments	**(617)**	-	3,622	**3,005**
Provisions	**7,029**	647	-	**7,676**
Other temporary differences	**131**	813	-	**944**
Total	**(23,542)**	**22,310**	**(5,328)**	**(6,560)**
Deferred tax liability	**(23,542)**			**(6,560)**

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)**

Tax loss carry forward

By the end of the 2020, the Group recognized a deferred tax asset for the 2019 tax loss in accordance with *IAS 12 Income taxes*. As the Group reported taxable base of EUR 20,183 thousand in 2020 and the 2019 tax loss amounted to EUR 20,412 thousand, the Group utilized ¼ of the tax loss available in amount of EUR 5.1 million, in line with valid tax regulation. The Group recognized only ¾ of the tax loss in a deferred tax as of December 31, 2019 as the utilization in 2020 was assessed as not probable in 2019 assessment. The Group plans to utilize the remaining tax loss from 2021 to 2023 in line with tax regulations.

Note 10 Restricted Cash

Cash restricted in its use in amount of EUR 533 thousand (December 31, 2019: 0 EUR) represents cash deposits on an auxiliary account created to an existing current bank account based on VAT Act amendment regarding the Split Payment Mechanism in Poland. The auxiliary bank account is used for executing incoming and outgoing transactions associated with VAT in Poland.

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

Note 11 Inventories

	December 31, 2020	December 31, 2019
Raw materials	**177,728**	172,248
Work-in-progress	**41,412**	43,698
Semi-finished production	**57,844**	66,887
Finished products	**105,152**	118,425
Merchandise	**2,959**	2,845
Inventory allowance	**(4,882)**	(10,004)
Total	**380,213**	**394,099**

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 are governed by Slovak law and that the pledgor currently owns or will own in the future, including their appurtenances and all documents necessary for their use and disposal. The book value of inventory involved in collateral is determined and reported with monthly frequency and its value was EUR 264 million as of December 31, 2020. No inventories were pledged in favor of a creditor or restricted in their use as of December 31, 2019.

Inventory as of December 31, 2020 is shown net of write-down allowances resulting from lower net realizable values totaling EUR 4,882 thousand (December 31, 2019: EUR 10,004 thousand). Gross value of inventories written down were EUR 11 million as of December 31, 2020 (December 31, 2019: EUR 164 million).

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

	Raw materials	Work in progress	Semi-finished production	Finished products	Merchandise	Total
January 1, 2020	**486**	**2,201**	**2,481**	**4,836**	**-**	**10,004**
Allowance made	1,244	2,390	137	1,645	-	**5,416**
Allowance used	(20)	(923)	(1,661)	(362)	-	**(2,966)**
Allowance reversed	(72)	(2,844)	(171)	(4,485)	-	**(7,572)**
December 31, 2020	**1,638**	**824**	**786**	**1,634**	**-**	**4,882**

	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**

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.

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

Note 12 Trade and Other Receivables

	December 31, 2020	December 31, 2019
Trade receivables	**227,603**	202,935
Trade receivables that are subject of factoring arrangements	**7,776**	13,790
Related party trade receivable (Note 29)	**7,694**	424
Total trade receivables	**243,073**	**217,149**
Other receivables – environmental projects	**236**	16,463
Other receivables - funds for landfill restoration	**7,105**	6,140
Other receivables	**1,066**	11,034
Trade and other receivables - financial (gross)	**251,480**	**250,786**
Loss allowance for trade receivables	**(14,017)**	(15,007)
Loss allowance for other receivables	**(11)**	(9)
Trade and other receivables - financial (net)	**237,452**	**235,770**
VAT receivable	**36,581**	31,673
Advance payments made	**8,047**	4,424
Other receivables - non-financial	**44,628**	**36,097**
Trade and other receivables (net)	**282,080**	**271,867**
Long-term receivables (financial)	**7,105**	6,140
Short-term receivables (financial and non-financial)	**274,975**	265,727

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 certain trade receivables that are subject to Transaction Security. Collateral comprises the existing trade receivables and the future trade receivables in each case including appurtenances and any contractual or statutory security created or existing for the benefit of the pledgor. The book value of trade receivables subject to Transaction Security is determined and reported with monthly frequency and its value was EUR 200 million as of December 31, 2020. No receivables of the Group were pledged in favor of a bank or other entities as of December 31, 2019.

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 2020. Additional information about measurement of the trade receivables is disclosed in Note 27.

Trade receivables and other receivables

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

	December 31, 2020	December 31, 2019
No or low-risk counterparties	**123,949**	90,046
Increased risk counterparties	**111,348**	113,313
Trade receivables at amortized costs	**235,297**	**203,359**
No or low-risk counterparties	**2,493**	7,160
Increased risk counterparties	**5,283**	6,630
Trade receivables at FV through other comprehensive income	**7,776**	**13,790**
Total	**243,073**	**217,149**

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 14,028 thousand as of December 31, 2020 (December 31, 2019: EUR 15,016 thousand).

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

The movements of loss allowances were as follows:

	Trade receivables	Other receivables	Total
January 1, 2020	**15,007**	**9**	**15,016**
Increase in loss allowance	416	3	**419**
Receivables written-off	(1,405)	(1)	**(1,406)**
Unused amount reversed	(1)	-	**(1)**
December 31, 2020	**14,017**	**11**	**14,028**

	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**

A part of recognized loss allowance in amount of EUR 13,637 thousand (December 31, 2019: EUR 15,016 thousand) 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 credit enhancement matrix. The matrix specifies loss rates depending on shared credit risk characteristics represented by internal rating of customers and the days past due.

Oscillation of portion receivables after due date was significantly improved compared to the last ten years. Ten years median of pastdue trade receivables to total trade receivables ratio is 3.95 percent, median for the year 2020 is 2.4 percent (2019: 2.3 percent). The expected credit loss rate was determined based on risk analysis of receivables currently after due date.

The Group performed regular review of customers' internal rating and considered historical, current and forward-looking information on its and the industry development. Based on the consideration the Group adjusted the historical loss rates and estimated expected credit loss by applying adjusted rates (0.57 percent applied) to the receivables balances as of December 31, 2020. The general expected credit loss allowance calculated by the Group is EUR 391 thousand as of December 31, 2020.

In 2019, the impact of the general expected credit loss allowance was immaterial and recognized allowance related only to individually impaired receivables.

<u>Other Receivables - Environmental Projects</u>

Other receivables include amounts arising from contractual agreements relating to Environmental projects (Note 5) which will mitigate capital expenditures by EUR 236 thousand as of December 31, 2020 (December 31, 2019: EUR 16 million) if USSK complies with certain financial covenants, which are assessed annually. USSK complied with these covenants as of December 31, 2020. Other receivables decreased by EUR 16 million due to cash received and by EUR 152 thousand due to net change in contracts relating to Environmental projects (2019: EUR 42 million and 34 thousand, 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, 2020 (December 31, 2019: immaterial).

<u>Other Receivables – Funds for landfill restoration</u>

As required by legislation the Group deposited funds to cover closing and clean-up costs at the end of a landfill site's useful life into the State Treasury account. The Group will receive funds based on request once approved landfill expenditures occur. 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, 2020 (December 31, 2019: immaterial).

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

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, 2020 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, 2020 and December 31, 2019 recognized in other comprehensive income and accumulated in revaluation reserves in equity were reclassified into profit or loss in 2020 and 2019, respectively. The actual value recognized in Other operating income in 2020 amounts to EUR 2,123 thousand (2019: income of EUR 22,362 thousand). The amount consists of reclassification of income of EUR 2,321 thousand (2019: income of EUR 8,365 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 expense of EUR 198 thousand (2019: income of EUR 13,997 thousand) related to forward transactions entered into during 2020 (2019) where the asset acquired affected profit or loss in 2020 (2019).

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, 2020		December 31, 2019	
	Assets	Liabilities	Assets	Liabilities
Foreign exchange forwards - cash flow hedges	3	14,312	3,971	1,033
Total	**3**	**14,312**	**3,971**	**1,033**

Balances as of December 31, 2020 and December 31, 2019 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, 2020 and December 31, 2019. As of December 31, 2020, the financial derivatives for ING Bank N.V. and Komerční banka, a.s. represent more than 76 percent of value of total financial derivatives. The ratings of the banks are BBB- and better (according to Standard & Poor's) as of December 31, 2020 (December 31, 2019: A-2 and better). Information about the fair value hierarchy as of December 31, 2020 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, 2020	December 31, 2019
Payable on settlement in EUR thousand	**(242,271)**	(281,567)
Receivable on settlement in USD thousand	**228,832**	287,186

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 2020 matured in 2020, resulting in an expense in total amount of EUR 3 thousand (2019: expense of EUR 604 thousand).

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

Note 14 Cash and Cash Equivalents

	December 31, 2020	December 31, 2019
Cash on hand	**82**	95
Cash at bank	**219,635**	217,088
Total (Note 27)	**219,717**	**217,183**

Interest rates on bank accounts were approximately 0.00 percent per annum for EUR deposits, 0.10 percent per annum for USD deposits and 0.00 percent per annum for CZK deposits as of December 31, 2020 (December 31, 2019: 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). 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, 2020.

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, 2020	**319**	**71,993**	**2,321**	**20,819**	**254**	**95,706**
Changes in fair value of derivative hedging instruments	-	-	(11,303)	-	-	**(11,303)**
Changes in fair value of CO_2 allowances	-	-	-	66,763	-	**66,763**
Realization of CO_2 allowances revaluation	-	-	-	(20,848)	-	**(20,848)**
Release of fair value of derivative hedging instruments	-	-	(2,322)	-	-	**(2,322)**
Contribution to legal reserve fund	-	11	-	-	-	**11**
Translation reserve	-	-	-	-	(11)	**(11)**
December 31, 2020	**319**	**72,004**	**(11,304)**	**66,734**	**243**	**127,996**

	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 CO2 allowances	-	-	-	16,877	-	**16,877**
Realization of CO2 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)

Dividends

No dividends were paid to U. S. Steel Global Holdings VI B.V. in 2020 (Dividends totaling EUR 129,435 thousand were paid to U. S. Steel Global Holdings VI B.V. in 2019). There were no declared but unpaid dividends as of December 31, 2020 and December 31, 2019.

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
January 1, 2020	**351,565**	**133,631**	**3,166**	**25,508**	**513,870**
Proceeds	75,000	-	7,903	-	**82,903**
Repayments	(125,000)	-	(11,069)	-	**(136,069)**
Lease acquisitions	-	-	-	1,675	**1,675**
Lease payments	-	-	-	(6,861)	**(6,861)**
Exchange rate impact	-	(11,284)	-	-	**(11,284)**
Interest increase / (decrease)	1,039	(65)	-	-	**974**
December 31, 2020	**302,604**	**122,282**	**-**	**20,322**	**445,208**
Long-term	300,000	122,239	-	12,905	**435,144**
Short-term	2,604	43	-	7,417	**10,064**
December 31, 2020	**302,604**	**122,282**	**-**	**20,322**	**445,208**

	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	**200,735**	**-**	**5,554**	**-**	**206,289**
Effect of IFRS 16 adoption	-	-	-	22,993	**22,993**
January 1, 2019	**200,735**	**-**	**5,554**	**22,993**	**229,282**
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)**
Interest increase / (decrease)	830	108	-	-	**938**
December 31, 2019	**351,565**	**133,631**	**3,166**	**25,508**	**513,870**
Long-term	350,000	133,523	-	17,749	**501,272**
Short-term	1,565	108	3,166	7,759	**12,598**
December 31, 2019	**351,565**	**133,631**	**3,166**	**25,508**	**513,870**

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 (2019: applicable IBOR + margin 2.5 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 means, in relation to a measurement period, operating profit of the Group before taxation after (a) adding back any losses or expenses from any unusual, extraordinary or otherwise nonrecurring items, (b) adding back any amount attributable to the depreciation or amortization of the assets of the Group for that measurement period and (c) excluding 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 11 and 12). The Second Supplemental Agreement that affected parties entered into on November 30, 2020 (the "Second Supplemental Agreement") amends among other things EBITDA definition to the form as stated in the paragraph above.

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, 2020 and December 31, 2019. As of December 31, 2020, borrowings totaling EUR 300 million were drawn against the EUR 460 million Credit Agreement (December 31, 2019: totaling EUR 350 million were drawn against the EUR 460 million Credit Agreement). As of December 31, 2020, the Group had availability of EUR 160 million under the Credit Agreement (as of December 31, 2019, the Group had availability of EUR 110 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 annumand the agreement. As of December 31, 2020, borrowings totaling USD 150 million (i.e. EUR 122 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, 2020, the credit facility has been used in the amount of EUR 7,063 thousand for bank guarantees (December 31, 2019: the credit facility has been used in the amount of EUR 1,882 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, 2020 and December 31, 2019, the credit facility has not been used.

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. 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 2020 and 2019 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 utilized a structured supplier payable financing program from Citibank Europe plc. (Note 2.16). On December 31, 2020 all trade payables of the Group included in this program were repaid and Group did not recognize any short-term borrowings from these payables. Short-term borrowings of EUR 3.2 million as of December 31, 2019 represented 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, 2020	**7,267**	**1,052**	**182,985**	**77**	**191,381**
Provision made	477	2,008	215,230	471	**218,186**
Provision used / reversed	(1)	(2)	(182,985)	(495)	**(183,483)**
December 31, 2020	**7,743**	**3,058**	**215,230**	**53**	**226,084**
Long-term provisions	7,712	3,058	-	1	**10,771**
Short-term provisions	31	-	215,230	52	**215,313**

	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**

The movement of provisions caused by the passage of time (i.e. accretion expense) in 2020 and 2019 was immaterial.

Provision reversals for the year 2020 and 2019 were immaterial.

Landfill

The provision for closing, reclamation and after-close monitoring of landfills is recognized based on the Law No. 79/2015 Coll. on Waste as amended. In 2020, 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. In February 2020, the 4th stage of non-hazardous landfill was opened and a new provision in the amount of EUR 2.1 million was recognized. The new provision represents a present value of estimated total closure and monitoring costs of the 4th stage of non-hazardous landfill 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 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 Group.

Emission allowances

A provision was recognized for CO_2 emissions emitted in 2020 in order to settle obligation by granted CO_2 emission allowances in amount of EUR 205,205 thousand (2019: EUR 134,613 thousand) and by purchased CO_2 emission allowances in amount of EUR 10,025 thousand (2019: EUR 48,372 thousand). 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.

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

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 using the projected unit credit method.

Work and life jubilee benefits

The Group also pays certain work and life jubilee benefits. The liability is calculated consistently with the employee retirement 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:

	2020	2019
Opening balance as of January 1	**38,854**	**42,221**
Total expense charged in profit or loss – pension	**1,605**	1,923
Total expense charged in profit or loss – jubilee	**467**	544
Total expense charged in profit or loss – termination	**25,226**	19,674
Remeasurements of post employment benefit liabilities	**(1,852)**	(2,218)
Benefits paid	**(25,514)**	(23,290)
Closing balance as of December 31	**38,786**	**38,854**
Long-term employee benefits payable	**36,671**	37,630
Short-term employee benefits payable	**2,115**	1,224

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

	December 31, 2020	December 31, 2019
Present value of the liability - pension	**23,391**	22,277
Present value of the liability - jubilee	**10,335**	9,830
Present value of the liability - termination	**1,163**	140
Remeasurements of post employment benefit liabilities	**3,897**	6,607
Total liability in the statement of financial position	**38,786**	**38,854**

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

	2020	2019
Current service costs – pension	**1,421**	1,557
Current service costs – jubilee	**427**	442
Current service costs – termination	**25,226**	19,674
Interest costs	**224**	468
Net actuarial losses / (gains)	**859**	177
Remeasurements of post employment benefit liabilities	**(2,711)**	(2,395)
Total	**25,446**	**19,923**

Current service cost and net actuarial losses 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:

	2020	2019
Discount rate - pension	**0.34%**	0.64%
Discount rate - jubilee	**(0.02%)**	0.42%
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.

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

For calculating the discount rate for euro-denominated pension and postretirement liabilities in accordance with *IAS 19 Employee benefits,* the Group used suitable Euro indices which benchmark highly rate corporate bonds. The indices selected were iBoxx Euro indices based on the duration of the pension and jubilee liability. For pension, the selected iBoxx index was the Corp AA 10+ year and for jubilees the selected index was the Corp AA 7-10 year.

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.

<u>Defined contribution pension plan</u>

Throughout the year, the Group made contributions to the mandatory government and private defined contribution plans representing 23.8 percent (2019: 23.8 percent) of total salaries and other employee benefits up to a monthly salary limit of EUR 7,091 (2019: EUR 6,678).

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 1.5 percent of the monthly accounted wage in 2020 (2019: 1.6 percent).

Information for pension plans with an accumulated employee benefits liabilities:

	December 31, 2020	December 31, 2019
Accumulated employee benefits liabilities	**25,499**	28,582
Effects of future compensation	**12,124**	10,132
Projected employee benefits liabilities	**37,623**	**38,714**
Termination	**1,163**	140
Total liability in the statement of financial position	**38,786**	**38,854**

Note 19 Trade and Other Payables

	December 31, 2020	December 31, 2019
Trade payables	**175,835**	130,539
Related party accounts payable (Note 29)	**7,561**	910
Assigned trade payables (1)	**36,648**	49,057
Accrued discounts and rebates	**10,382**	12,601
Uninvoiced deliveries and other accrued expenses	**90,103**	73,108
Trade payables and accruals (Note 26)	**320,529**	**266,215**
Lease liabilities	**20,322**	25,508
Other payables	**4,960**	1,490
Financial liabilities	**25,282**	**26,998**
Liability to employees and social security institutions	**47,873**	26,789
Advance payments received (Contract liability)	**3,246**	3,214
VAT and other taxes and fees	**11,632**	5,153
Non-financial liabilities	**62,751**	**35,156**
Total	**408,562**	**328,369**

(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, 2020. Issued credit invoices are offset with receivables as of the due date of the respective credit note or paid in cash when there are no outstanding receivables.

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

	December 31, 2020	December 31, 2019
Short-term trade and other payables	**395,065**	309,449
Long-term trade and other payables	**13,497**	18,920
Total	**408,562**	**328,369**

Long-term trade and other payables represent lease liabilities (as of December 31, 2020: 12,906 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 aging structure of trade and other payables is presented in the table below:

	December 31, 2020	December 31, 2019
Trade and other payables not yet due	**403,753**	323,090
Trade and other payables past due	**4,809**	5,279
Total	**408,562**	**328,369**

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

	December 31, 2020	December 31, 2019
EUR	**246,539**	224,136
USD	**68,225**	41,202
Other	**5,765**	877
Total	**320,529**	**266,215**

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

	2020	2019
Opening balance as of January 1	**633**	**593**
Group contribution (group costs)	**1,610**	1,900
Employees contribution (repayments)	**11**	26
Withdrawals	**(1,663)**	(2,082)
Other	**125**	196
Closing balance as of December 31	**716**	**633**

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.

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

Revenue from contracts with customers consists of the following:

	2020	2019
Sales of own production	**1,667,160**	2,091,760
Sales of merchandise	**871**	473
Rendering of services	**19,790**	20,037
Total	**1,687,821**	**2,112,270**

In 2020 and 2019, sales of merchandise represent primarily external net sales of electricity, heat and steam.

In 2020 and 2019, rendering of services comprised of technology consulting services, support services related to production of electricity, distribution of media (natural gas, electricity, water), repairs provided to external customers and arranging transportation services to customers.

Timing of revenue recognition

	2020	2019
Performance obligation satisfied at a point in time	**1,668,031**	2,092,233
Performance obligation satisfied over time	**19,790**	20,037
Total	**1,687,821**	**2,112,270**

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

Segments and Products	2020	2019
Hot-rolled sheets and plates	**682,080**	876,938
Cold-rolled sheets	**140,804**	250,107
Coated sheets	**448,551**	533,486
Tin mill products	**331,571**	352,944
Standard and line pipe	**35,004**	35,439
Semi-finished products	**1,854**	9,468
Other	**27,296**	33,378
Total	**1,667,160**	**2,091,760**

Market	2020	2019
Steel Service Centers	**307,911**	369,708
Transportation (including automotive)	**292,484**	430,031
Further conversion - trade customers	**90,974**	109,923
Containers	**329,175**	362,852
Construction and construction products	**392,943**	568,101
Appliances and electrical equipment	**116,609**	147,272
Oil, gas and petrochemicals	**2,920**	306
All other	**134,144**	103,567
Total	**1,667,160**	**2,091,760**

The Group recognized revenue in amount of EUR 3,254 thousand in 2020 that was included in the contract liability balance as of January 1, 2020 (January 1, 2019: EUR 1,549 thousand).

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

Other income

Other income consists of the following:

	2020	2019
Amortization of deferred income - CO_2 emission allowances (Note 7)	**132,120**	123,586
Amortization of deferred income - environmental projects (Note 5)	**4,368**	2,830
Gain on derivative financial instruments (Note 13)	**2,123**	22,362
Rental income	**1,463**	1,227
Income from contractual penalties	**133**	519
Energy compensation from Ministry of Economy	**11,487**	12,423
Repayment of CO_2 tax	**-**	9,891
COVID-19 compensation*	**20,243**	-
Trade Mark and Intellectual Property license	**7,563**	-
Miscellaneous income	**1,135**	2,829
Total	**180,635**	**175,667**

*national government's „kurzarbeit"mechanism providing compensation to the Group for wages to employers forced to temporarily reduce working hours

Note 21 Materials and Energy Consumed

Materials and energy consumed is comprised of the following:

	2020	2019
Materials consumed	**(992,373)**	(1,296,362)
Energy consumed	**(115,708)**	(170,617)
Costs of merchandise sold	**(2,340)**	(2,077)
Changes in internally produced inventory	**(21,322)**	(31,567)
Inventory write-down allowance (Note 11)	**2,156**	(8,332)
Total	**(1,129,587)**	**(1,508,955)**

Note 22 Salaries and Other Employee Benefits

Salaries and employee benefits are comprised of the following:

	2020	2019
Wages and salaries	**(214,576)**	(232,295)
Termination benefits (Note 18)	**(25,226)**	(19,674)
Mandatory social and health insurance to all insurance funds (Note 18)	**(79,502)**	(84,401)
Other social expenses	**(12,781)**	(15,550)
Pension expenses – retirement and work and life jubilees (Note 18)	**(2,707)**	(2,176)
Total	**(334,792)**	**(354,096)**

The number of active employees of the Group as of December 31, 2020 was 9,376 (December 31, 2019: 10,478). The average number of employees of the Group for 2020 was 9,906 (2019: 11,314).

	2020	2019
U. S. Steel Košice, s.r.o.	**8,638**	9,640
Other Group companies	**1,268**	1,674
Total	**9,906**	**11,314**

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

Note 23 Other Operating Expenses

Other operating expenses during 2020 and 2019 are as follows:

	2020	2019
Packaging	**(2,107)**	(562)
Cleaning and w aste disposal	**(7,891)**	(7,861)
Advertising and promotion	**(1,090)**	(2,410)
Intermediary fees	**-**	(804)
Training	**(505)**	(875)
Impairment of receivables release (Note 12)	**(418)**	(94)
Loss on disposal on property, plant and equipment and intangible assets	**(2,028)**	(648)
Loss on disposal from sales of bussiness units (Note 5)	**-**	(1,750)
Real estate tax and other taxes	**(8,365)**	(5,026)
Intangible assets, licences, trade marks, licence support	**(3,488)**	(4,146)
External processing	**(10,189)**	(14,450)
Costs of processing of steel slag, sludge and dust	**(3,917)**	(4,573)
Audit fees	**(621)**	(621)
Other services provided by the auditor	**(1)**	(5)
Short-term leases (Note 5)	**(9)**	(116)
Low value leases (Note 5)	**(10)**	(26)
Variable lease payments (Note 5)	**(482)**	(637)
Creation & reversal of provision for litigation (non-tax)	**(2,056)**	(89)
Warehousing and handling of finished products	**(2,881)**	(3,599)
Insurance costs	**(4,124)**	(3,054)
Service activities	**(5,572)**	(5,068)
Commitment fee - the Credit Agreement	**(2,437)**	(3,093)
Scarffing of conti-slabs	**(2,156)**	(2,645)
Telephone, fax, telex, postage, data processing	**(3,215)**	(4,034)
Costs of employee intracompany transportation	**(1,281)**	(1,249)
Crane operation	**(3,189)**	(3,609)
Chromium plating of rolls	**(1,895)**	(1,420)
Services of heavy machines	**(766)**	(982)
Chemical treatment of w ater circuits	**(712)**	(751)
Laboratory and heat tests	**(259)**	(6,802)
Traveling Costs	**(121)**	(805)
Other operating expenses [(1)]	**(12,549)**	(15,657)
Total	**(84,334)**	**(97,461)**

[(1)] Other operating expenses include various types of services not exceeding EUR 2 million individually.

Note 24 Income Tax

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

	2020	2019
Current tax	**(440)**	(854)
Deferred tax (Note 9)	**20,688**	22,378
Total current year tax	**20,248**	**21,524**
Prior year current tax correction	**-**	8,930
Prior year deferred tax correction	**1,622**	-
Total	**21,870**	**30,454**

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

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:

	2020	2019
(Loss) / Profit before tax	**(107,097)**	(108,580)
Tax calculated at 21 percent tax rate	**22,490**	22,802
Permanent differences	**4,869**	1,310
Revaluation of purchased CO_2 emission allowances	**(6,307)**	(835)
Other	**(804)**	(1,753)
Tax (charge)/credit	**20,248**	**21,524**

The effective tax rate was 19 percent (2019: 21 percent).

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

	2020			2019		
	Before tax	Tax (charge) / credit	After tax	Before tax	Tax (charge) / credit	After tax
Changes in fair value of derivative hedging instruments	**(17,247)**	**3,622**	**(13,625)**	(7,635)	1,591	(6,044)
Changes in actuarial gains and losses	**2,711**	**(587)**	**2,124**	2,395	(485)	1,910
Revaluation of intangible assets (Note 7)	**75,126**	**(8,363)**	**66,763**	17,510	(633)	16,877
Translation reserve	**(11)**	**-**	**(11)**	1	-	1
Other comprehensive income	**60,579**	**(5,328)**	**55,251**	**12,271**	**473**	**12,744**
Deferred tax (Note 9)	**-**	**(5,328)**	**-**	-	473	-

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 2019.

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 445,208 thousand as of December 31, 2020 (December 31, 2019: EUR 513,870 thousand) and equity (Note 15) totaling EUR 915,107 thousand as of December 31, 2020 (December 31, 2019: EUR 945,083 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, 2020 and December 31, 2019.

Note 26 Financial Risk Management

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

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

Credit risk

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).

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

Credit risk related to receivables is managed by the Credit & Collection 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 and likewise.

The Group mitigates credit risk for approximately 76 percent (2019: 73 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:

	2020	2019
Credit insurance	**68%**	65%
Letters of credit and documentary collection	**1%**	2%
Bank guarantees	**2%**	2%
Other credit enhancements	**5%**	4%
Credit enhanced sales	**76%**	**73%**
Unsecured sales	**24%**	27%
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, 2020	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)	-	213,586	7,776
Related party accounts receivables (net)	-	7,694	-
Other receivables – environmental projects	-	236	-
Other receivables (net)	-	8,160	-
Derivative financial instruments (Note 13)			
Forward foreign exchange	3	-	-
Cash and cash equivalents and restricted cash (Note 10 and 14)			
Cash and cash equivalents and restricted cash	-	220,250	-
Total	**3**	**449,926**	**7,776**

December 31, 2020	Cash and cash equivalents and restricted cash at amortized cost
ING Bank N.V.	24,049
COMMERZBANK	15,176
Citibank (Slovakia) a.s.	31,627
Slovenská sporiteľňa, a.s.	4,785
Komerční Banka, a.s.	41,665
Československá obchodná banka, a.s.	39,779
Všeobecná úverová banka, a.s.	61,397
Other banks	1,157
Cash on hand	82
Cash and cash equivalents (Note 14)	**219,717**
Citibank (Poland S.A.)	533
Cash restricted in its use (Note 10)	**533**
Total (Note 14)	**220,250**

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

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**

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

Borrowings are disclosed in Note 16.

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

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

December 31, 2020

	0 – 1 year	1 – 5 years	over 5 years	Total
Assets				
Cash and cash equivalents	219,717	-	-	**219,717**
Restricted cash	533	-	-	**533**
Trade receivables (net)	229,056	-	-	**229,056**
Other receivables – environmental projects	236	-	-	**236**
Other receivables (net)	8,160	-	-	**8,160**
Derivative financial instruments	228,832	-	-	**228,832**
Total	**686,534**	**-**	**-**	**686,534**
Liabilities				
Trade payables and accruals	307,032	13,497	-	**320,529**
Other financial liabilities	4,959	-	-	**4,959**
Derivative financial instruments	242,271	-	-	**242,271**
Lease liability (Note 5)	7,416	12,876	30	**20,322**
Loans and borrowings (Note 16)	-	459,965	-	**459,965**
Total	**561,678**	**486,338**	**30**	**1,048,046**

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**

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, 2020, it would have resulted to EUR 5.1 million higher / lower interest expense. 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.

The Group's income is substantially independent of changes in market interest rates. The Group 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, 2020 and December 31, 2019.

b) Currency risk

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

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

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

December 31, 2020

	Cash and cash equivalents	Cash restricted in its use
EUR	212,376	-
USD	4,107	-
CZK	3,151	-
other	83	533
Total	**219,717**	**533**

December 31, 2019

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

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, 2020, the Group had open USD forward purchase contracts for Euros in total notional value of approximately EUR 242 million (December 31, 2019: EUR 282 million).

On December 23, 2019, the Group entered into a USD 150 million Loan Agreement with United States Steel Corporation. As of December 31, 2020, borrowings totaling USD 150 million (i.e. EUR 122 million using the exchange rate valid at the end of the reporting period) were drawn against this credit facility.

As of December 31, 2020, 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 4 million credit / EUR 3 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, 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.

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 2020 matured in 2020. All commodity forwards commenced in 2019 matured in 2019.

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

In 2020 and 2019, 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, 2020 and December 31, 2019, 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, 2020

	Amortized cost	FV through profit or loss	FV through other comprehensive income	Total
Assets				
Unquoted financial instruments	-	259	-	**259**
Trade receivables (net)	213,586	-	7,776	**221,362**
Related party accounts receivables (net)	7,694	-	-	**7,694**
Other receivables - environmental projects	236	-	-	**236**
Other receivables (net)	8,160	-	-	**8,160**
Cash and cash equivalents	219,717	-	-	**219,717**
Restricted cash	533	-	-	**533**
Derivative financial instruments	-	3	-	**3**
Total	**449,926**	**262**	**7,776**	**457,964**

	Amortized cost	FV through profit or loss	Total
Liabilities			
Trade payables and accruals	320,529	-	**320,529**
Other financial liabilties	4,959	-	**4,959**
Derivative financial instruments	-	14,312	**14,312**
Short-term borrowings			
Leases (Note 5, 19)	7,417	-	**7,417**
Long-term borrowings			
Long-term borrowings	300,000	-	**300,000**
Intercompany loan from U.S.Steel (Note 29)	122,239	-	**122,239**
Leases (Note 5, 19)	12,905	-	**12,905**
Total	**768,049**	**14,312**	**782,361**

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

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)	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**
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**

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, 2020

	Level 1	Level 2	Level 3	Total
Assets				
Trade receivables that are subject of factoring arrangements (Note 12)	-	-	7,776	**7,776**
Hedging derivatives	-	3	-	**3**
Total	**-**	**3**	**7,776**	**7,779**
Liabilities				
Hedging derivatives	-	14,312	-	**14,312**
Total	**-**	**14,312**	**-**	**14,312**

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**

During 2020 and 2019, 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, 2020 and December 31, 2019. Fair values of these instruments as of December 31, 2020 and December 31, 2019 approximate their carrying amounts.

Note 28 Contingent Liabilities and Contingent Assets

Capital Commitments

Capital expenditures of EUR 53 million had been committed under contractual arrangements as of December 31, 2020 (December 31, 2019: EUR 23 million).

Environmental Commitments

The Group is in compliance with environmental legislation. In 2020, the environmental expenses represented mainly by air, water pollution and solid waste handling fees totaled approximately EUR 6 million (2019: EUR 12 million). There are no material legal proceedings pending against the Group involving environmental matters.

The Group is subject to the laws of Slovakia and the European Union (EU). An EU Regulation commonly known as Registration, Evaluation, Authorization and Restriction of Chemicals, Regulation 1907/2006 (REACH) requires the registration of certain substances produced in or imported into the EU, and application for authorization to continue use where replacement of certain substances is not possible or feasible. In some cases, replacements for substances currently used in our operations were implemented. Suppliers in EU have filled the Application for Authorization to be permitted to continue using hexavalent chromium substances also in our production until suitable alternatives can be identified. European Commission approved Authorization for the Group suppliers to use sodium dichromate for packaging steel until April 14, 2024 and chromium trioxide for packaging steel until September 21, 2024. The Group can still use hexavalent chromium substances in the selected processes until the suitable alternative is qualified for use. On May 25, 2020 the Group filled an independent Application for Authorization to be permitted to continue using sodium dichromate and chromium trioxide for packaging steel until 2027. Efforts are ongoing to identify, test and prove the feasibility of replacement substances. Membership contributions to consortiums for registration update testing were EUR 18 thousand in 2020 and 10 thousand in 2019. The Group cannot reliably estimate the potential additional registration costs of produced and purchased substances. The Group is preparing proposals for further testing of substances in cases, where the Group is lead registrant.

Effective from January 1, 2020, the Group transferred, within the framework of fulfilling the obligations of a packaging producers, from the collective system to an individual system of fulfillment of obligations. The impact of the above change, as well as the optimization of keeping records of packaging placed on the Slovak market, led to decrease of packaging producer obligation fulfillment costs related to the consequent packaging waste collection, sorting and recovery to EUR 128 thousand in 2020 (waste disposal costs in 2019: EUR 416 thousand). In addition, the Slovak Republic has adopted amendment to the waste legislation that became effective on December 12, 2020. The Group estimates the financial impact of this amendment to the Waste Act on its operations in the amount of approximately EUR 70 thousand. Effective from January 1, 2019 the Slovak Republic adopted an amended Law on Waste disposal fees. The financial impact of the new disposal fees on Group’s operations was EUR 0.3 million in 2019.

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 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. As of December 31, 2020, the Group has 12.3 million of purchased European Union Allowances (EUA) totaling EUR 141 million (as of December 31, 2019: 11.7 million of purchased (EUA) totaling EUR 132 million) available to cover the estimated Phase III period shortfall of emission allowances.

The Phase IV EU ETS period spans 2021-2030 and began on January 1, 2021. The final EU decision on the free allocation amount for 2021-2025 is expected in the second quarter of 2021. In the fourth quarter of 2020 the Group started with purchases of allowances for the Phase IV period. As of December 31, 2020, the Group has pre-purchased approximately 1.5 million EUA totaling EUR 38 million. Currently, the overall target is a 40 percent reduction of 1990 emissions by 2030. Ongoing political discussions indicate that an even more stringent target of 60 percent may be instituted. At this time, carbon neutrality of the EU industry is set to be achieved by 2050.

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. Total capital expenditures for projects to comply with or go beyond the BAT requirements were EUR 138 million over the actual program period. These costs were partially offset by the EU funding received and may be mitigated over the next measurement period if the Group complies with certain financial covenants, which are assessed annually. The Group complied with these covenants as of December 31, 2020 and December 31, 2019. 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 50 percent of the EU funding received.

Impact of Coronavirus (COVID-19)

The global pandemic resulting from the coronavirus designated as COVID-19 has had a significant impact on economies, businesses and individuals around the world. Efforts by governments around the world to contain the virus have involved, among other things, border closings and other significant travel restrictions; mandatory stay-at-home and work-from-home orders; mandatory business closures; public gathering limitations; and prolonged quarantines. These efforts and other governmental, business and individual responses to the COVID-19 pandemic have led to significant disruptions to commerce, lower consumer demand for goods and services and general uncertainty regarding the short-term and long-term impact of the COVID-19 virus on the domestic and international economy and on public health. The Group implemented a comprehensive response to the pandemic focused on protecting health and safety of the employees, preserving cash and liquidity, ensuring the Group's operations and supporting our customers and community. U. S. Steel Košice, s.r.o. was identified by the Slovak government as a strategic and critical company, essential to economic prosperity, and continued to operate.

The duration, severity, speed and scope of the COVID-19 pandemic remains highly uncertain and the extent to which COVID-19 will affect the Group depends on future developments, such as potential surges of the outbreak and the speed of the development, distribution and effectiveness of vaccine and treatment options, which cannot be predicted at this time. Although the Group has continued to operate, it experienced a significant reduction in demand and low selling prices at the on set of the pandemic. Demand went down due to economic and industrial lockdowns. One of three blast furnaces of the Group remained idled for the entire year. As a result, steel production capability utilization dropped to 67 percent in 2020, which represented an 11 percentage points decline from the previous year. Group emerged from this unfavorable period with the support of the state "kurzarbeit" mechanism which provided wage compensation to employers forced to temporarily reduce working hours by external factors, which the pandemic did (Note 20). Throughout this challenging period, Group focused on optimizing costs through maintenance and production labor transformations. New processes, procedures, and controls were implemented to respond to changes in business environment.

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

Since the second quarter, demand has continued to accelerate especially in key markets like automotive, appliance and construction. The demand rebound in the second half, together with continuously improved selling prices, helped to reduce significant unfavorable impacts on the full year results.

The nature, extent and duration of the effects of the COVID-19 pandemic on the Group was highly uncertain, however due to an active management of credit risks, its effective monitoring and controlling through credit evaluation and rating of customers Group did not experienced any credit loss in 2020 (Note 26).

The Group does not expect an impact on its ability to continue to operate as a going concern.

Note 29 Related Party Transactions

<u>Transactions with related parties</u>

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:

		2020	2019
United States Steel Corporation, Ultimate parent company			
	Revenues	**9,907**	2,408
	Expenses	**139,526**	110,105
	Receivables	**7,609**	314
	Payables	**7,114**	498
	Borrowings received including interest (Note 16)	**122,282**	133,631
USS International Services, LLC, Company under common control of U. S. Steel			
	Expenses	**2,931**	2,838
	Receivables	**85**	110
	Payables	**447**	412
Total			
	Revenues	**9,907**	2,408
	Expenses	**142,457**	112,943
	Receivables	**7,694**	424
	Payables	**7,561**	910
	Borrowings received including interest	**122,282**	133,631

No dividends were paid to U. S. Steel Global Holdings VI B.V. in 2020 (Dividends totaling EUR 129,435 thousand were paid to U. S. Steel Global Holdings VI B.V. in 2019) (Note 15).

Transactions with United States Steel Corporation relate mainly to rendering of services (2020: EUR 8,842 thousand; 2019: EUR 1,422 thousand), purchases of raw material (2020: EUR 131,025 thousand; 2019: EUR 106,008 thousand), managerial services (2020: EUR 2,329 thousand; 2019: EUR 2,746 thousand), interest expense (2020: EUR 5,128 thousand), sales of own products (2020: EUR 1,065 thousand; 2019: EUR 986 thousand) and cost of sales of own products (2020: EUR 1,044 thousand; 2019: EUR 1,351 thousand).

USS International Services, LLC provides managerial services to U. S. Steel Košice, s.r.o. (2020: EUR 2,931 thousand; 2019: EUR 2,838 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. As of December 31, 2020, borrowings totaling USD 150 million (i.e. EUR 122 million using the monthly average exchange rate) were drawn against this credit facility and the interest expense was USD 5,811 thousand (i.e. EUR 5,128 thousand using the monthly average exchange rate).

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 agreement was valid until December 30, 2020. Interest on loans provided under the facility is based on EURIBOR + 4 percent p.a. In 2020 and as of December

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

31, 2020, no loans were drawn against this facility. As of December 31, 2019, 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 2020 and 2019 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 comprise also a compensation of Slovak statutory representatives:

	2020	2019
Wages and salaries	**16,197**	15,190
Profit sharing expense	**2**	7
Mandatory social and health insurance to all insurance funds	**4,457**	4,740
Total	**20,656**	**19,937**

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 Financial Performance Indicators

USSK management believes that EBITDA considered along with the net earnings (loss), Earnings Before Interest and Taxes (EBIT) and Earnings Before Taxes (EBT) are relevant indicators of trends relating to Group's financial performance and cash generating activity. These performance indicators provide management and investors with additional information for comparison of our operating results to the operating results of other companies. These measures are not intended to evaluate the Group's liquidity position.

EBITDA is determined from net earnings (loss) as adjusted for income taxes, net interest income (loss) and significant non-cash items which do not affect cash generating activity. Adjustments include depreciation, amortization, asset impairment charge or reversal and non-cash charges recorded in line with emission allowances accounting policy. Earnings Before Interest and Taxes (EBIT) is a measure of a Group's profitability determined from EBITDA adding back depreciation, amortization and asset impairment charge or reversal. Earnings Before Tax (EBT) is further adjusted adding back net financial income (expense).

The reconciliation of EBITDA, EBIT and EBT is as follows:

	2020	2019
Net Loss	**(85,227)**	(78,126)
Income tax	**(21,870)**	(30,454)
Interest expense and other financial costs	**14,292**	5,614
Interest income	**(391)**	(311)
Depreciation and amortization	**91,181**	93,937
Non cash portion of CO_2 provision charge (Note 17)	**205,205**	134,613
Amortization of deferred income - CO_2 emission allowances (Note 20)	**(132,120)**	(123,586)
EBITDA	**71,070**	**1,687**
Depreciation & Amortization	**(91,181)**	(93,937)
EBIT	**(20,111)**	**(92,250)**
Interest expense and other financial costs	**(14,292)**	(5,614)
Interest income	**391**	311
EBT	**(34,012)**	**(97,553)**

Adjusted EBITDA provides additional information by excluding the effects of non-recurring adjusting items or one-off events that can obscure underlying trends, e.g. restructuring and other charges, or income/gains or expenses/losses from any items unusual because of their nature, size or incidence or other nonrecurring items.

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

The reconciliation of adjusted EBITDA is as follows:

EBITDA	**71,070**	**1,687**
Restructuring and other charges (Note 18)	**28,608**	22,824
Adjusted EBITDA	**99,678**	**24,511**

EBITDA and Adjusted EBITDA amounts are derived from net loss shown on page SF-8. EBITDA improved in 2020 compared to 2019 mainly due to favorable impact of lower costs of raw materials, favorable impact of cost control measures, fewer planned outages, COVID-19 relief and lower energy costs which were partially offset by unfavorable impact of reduced shipments and lower average selling prices.

Note 31 Events after the Reporting Period

Effective from January 1, 2021, U. S. Steel Obalservis s.r.o. entered into liquidation and changed its name to "U. S. Steel Obalservis s.r.o. in liquidation".

The Group partially repaid borrowings totaling EUR 250 million during the first and second quarter 2021. After these repayments, EUR 50 million drawing remained outstanding against the EUR 460 million Credit Agreement.

On April 8, 2021, the Group delivered 6,608,224 tons of CO_2 emission allowances for 2020 to the Slovak Government fulfilling its obligation for the seventh year of the Phase III period. 2021 free CO_2 allocation was not credited to the account of U. S. Steel Košice, s.r.o. and Ferroenergy s.r.o. to the date of signature of the consolidated financial statements for the year 2020.

The completion of liquidation process of the company U. S. Steel Europe - Bohemia s.r.o. in liquidation is estimated by the end of June 2021.

After December 31, 2020, no other significant events have occurred that would require recognition or disclosure in the 2020 consolidated financial statements.