

Železiarne Podbrezová a.s.



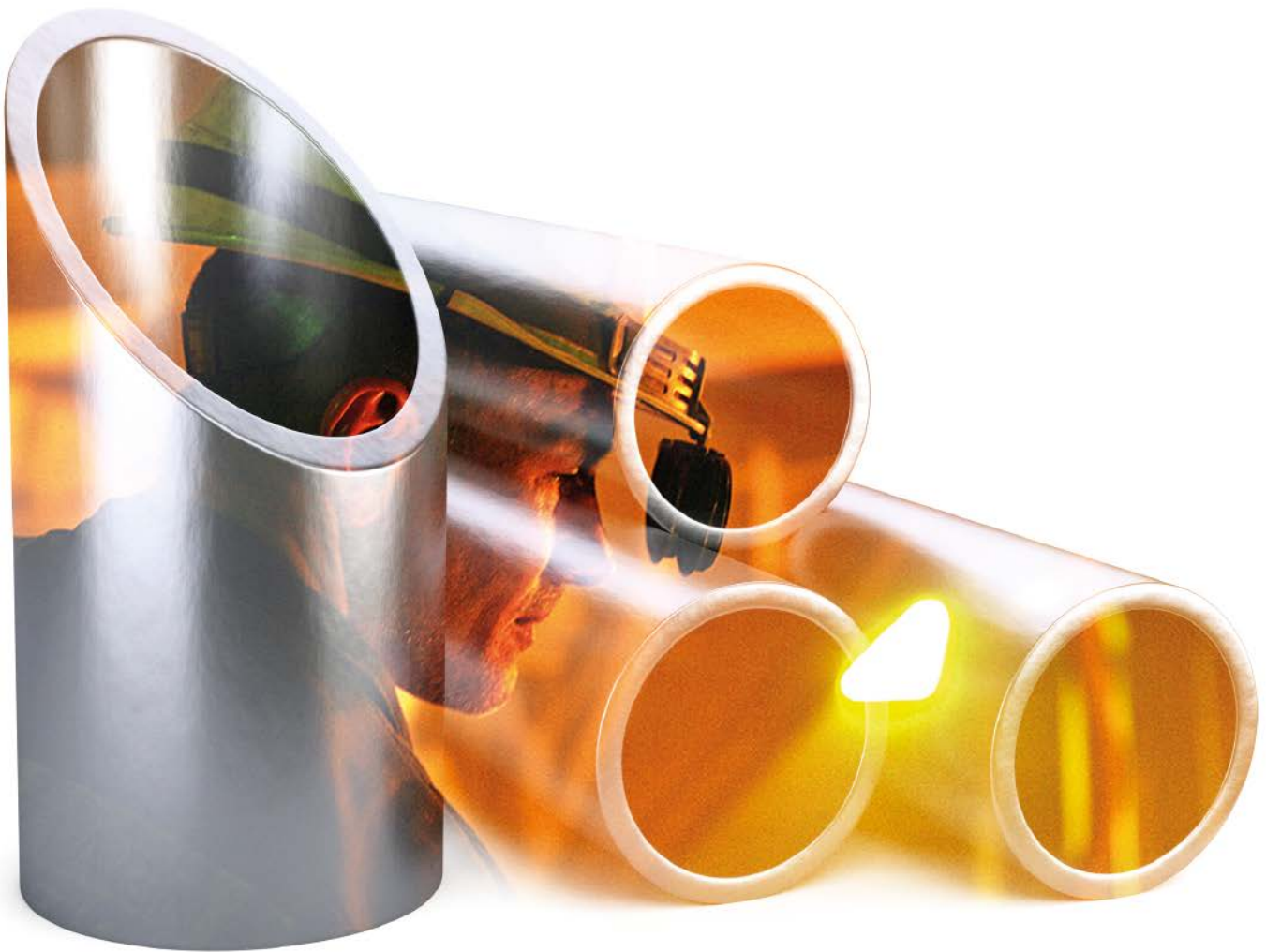
ANNUAL REPORT

2018

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This is an English language translation of the original Slovak language document.



INTRODUCTION OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Shareholders and Business Partners,



The Board of Directors of Železiarne Podbrezová considers 2018 to have been one of the Company's best years since the global financial crisis of 2008-2009. The development of demand on global and European markets was very positive, resulting in excellent financial results in many areas. This development also led to a very good performance at our subsidiaries in 2018. We believe this situation will continue on the global markets in 2019.

INTRODUCTION OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Last year, we implemented a number of partial measures in production and trade, which improved the utilisation of our production capacities and also had a positive impact on the financial results. I am very pleased to see how well prepared young people in the Company management are, as this is a crucial factor for the successful performance of the Company in the future.

In 2019, the Company will prepare a 5-year plan focused on new investments, which we plan to carry out and which should improve financial performance and all performance indicators. The total funds we intend to invest over the next 5 years will exceed EUR 65 million.

In 2018, the Company's results as regards quality were excellent and we received very positive feedback from our customers. We will work to continue this trend, as high quality and good service for our customers are key to obtaining sufficient orders.

Our production, trade and service subsidiaries also posted excellent financial results. Overall, 2018 was a very successful year for our Group. I would like to thank all our staff and suppliers, the financial institutions with which we cooperate, suppliers of inputs, and all those who had any part in the good performance of the Company in 2018.

We expect a moderate increase in electricity and natural gas prices on global markets in 2019. However, we do not expect this to have a major impact on the Company, as we have long-term contracts with our natural gas and electricity suppliers.

Dear Business Partners,

Finally, I would like to thank you again for your excellent cooperation in 2018 and wish you and the Company every success in 2019.



Ing. Vladimír Soták
Chairman of the Board of Directors
Chief Executive Officer



BOARD OF DIRECTORS

Ing. Vladimír SOTÁK

CHAIRMAN OF THE BOARD OF DIRECTORS AND CEO

He was born in 1955 and has been a member of the Board of Directors since the foundation of the joint-stock company in 1992. He has held the office of Chairman of the Board of Directors and CEO of the Company since 1994.



BOARD OF DIRECTORS



Ing. Marian KURČÍK
VICE CHAIRMAN OF THE BOARD
OF DIRECTORS AND CFO

He was born in 1958 and has been a Company manager since 1993. He has been a member of the Board of Directors since 1994 and was elected Vice Chairman of the Board of Directors in 2002.



Ing. Július KRIVÁŇ
MEMBER OF THE BOARD
OF DIRECTORS AND EXPERT
ADVISOR TO THE CEO

He was born in 1955 and has been a Company manager since 1990. He has been a member of the Board of Directors since the foundation of the joint-stock company in 1992.



Ing. Mária NIKLOVÁ
MEMBER OF THE BOARD
OF DIRECTORS AND HUMAN
RESOURCES DIRECTOR

She was born in 1958 and has been a member of the Company's statutory body and management since 2006.



Ing. Miloš DEKRÉT
MEMBER OF THE BOARD
OF DIRECTORS AND PRODUCTION
DIRECTOR

He was born in 1965 and became the Production Director in July 2014. He has been a member of the Company's statutory body since 2015.



Ing. Vladimír SOTÁK, Jr.
MEMBER OF THE BOARD
OF DIRECTORS AND SALES
DIRECTOR

He was born in 1977. He became a member of the Board of Directors in 2015 and the Sales Director in 2019.



Ing. Milan SRNKA, PhD.
MEMBER OF THE BOARD
OF DIRECTORS AND TECHNICAL
DIRECTOR

He was born in 1971. He became the Technical Director and a member of the Company's statutory body in 2017.

SUPERVISORY BOARD



Ing. Ján BANAS

CHAIRMAN OF THE SUPERVISORY BOARD



Ing. Jozef MARČOK

VICE CHAIRMAN OF THE SUPERVISORY BOARD



Ing. Ľudovít IHRING

MEMBER OF THE SUPERVISORY BOARD



Ing. Vladimír ZVARÍK

MEMBER OF THE SUPERVISORY BOARD



Luigi CUZZOLIN

MEMBER OF THE SUPERVISORY BOARD



Ing. Tomáš IHRING

MEMBER OF THE SUPERVISORY BOARD



Pavol KOŠTIAL

MEMBER OF THE SUPERVISORY BOARD
(elected by employees)



Soňa LOPUŠNÁ

MEMBER OF THE SUPERVISORY BOARD
(elected by employees)



Ing. Jaroslav ROMANČÍK

MEMBER OF THE SUPERVISORY BOARD
(elected by employees)

KEY INFORMATION

Business name: **Železiarne Podbrezová a.s.
(ŽP a.s.)**

Legal form: Joint-stock company

Registered office: Kolkáreň 35
976 81 Podbrezová
Slovak Republic

Date of establishment: 21 april 1992
Date of incorporation: 1 may 1992
Corporate ID (IČO): 31 562 141
VAT registration No.: SK2020458704

Železiarne Podbrezová a.s. is registered in the Business Register of the Banská Bystrica District Court, Section: Sa, File No. 69/S.

The separate and consolidated financial statements and the annual report for 2018 are subject to approval by the General Meeting and are available for inspection by shareholders at the Company's registered office and on the Company's website.



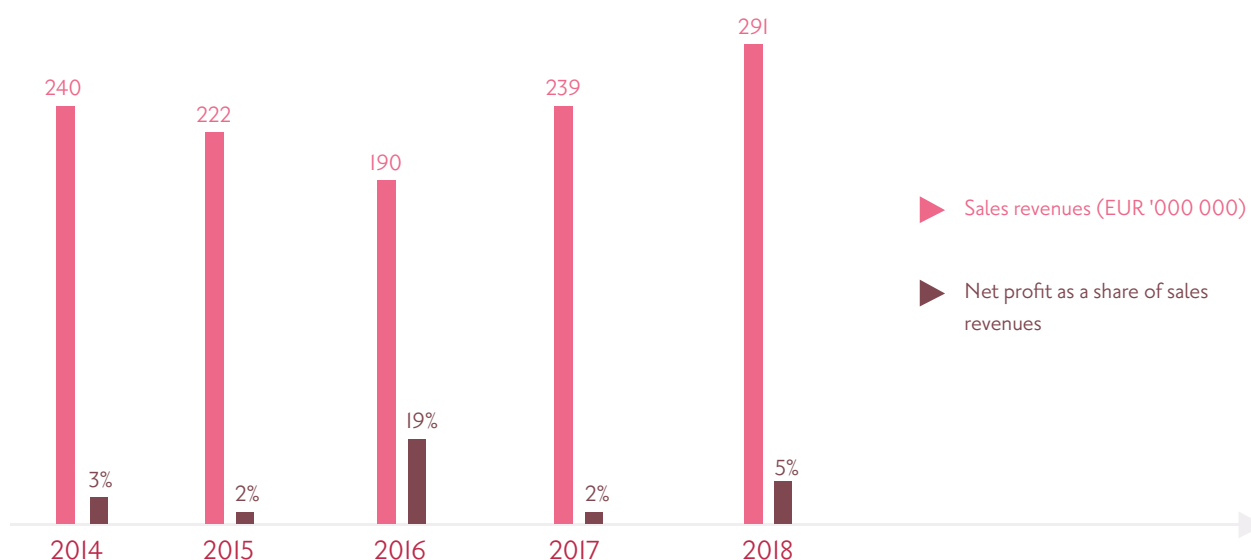
KEY PERFORMANCE DATA

Development of selected non-consolidated data (under IFRS in EUR '000)

	2014	2015	2016	2017	2018
Sales revenues	240 211	221 736	189 796	238 613	290 932
Operating profit/(loss)	2 251	53	(4 279)	2 970	14 163
Net profit	7 328	3 735	36 235	4 048	13 306
Return on sales revenues	3%	2%	19%	2%	5%
Net operating cash flow	10 620	15 173	(2 134)	1 265	14 401
Total assets	283 913	270 770	258 319	269 029	289 609
Financial investments	96 955	95 597	75 162	75 924	75 923
Equity	191 292	190 259	197 884	199 548	208 086
Equity to total assets ratio	67%	70%	77%	74%	72%
Interest-bearing loans and borrowings	55 833	49 493	19 570	29 852	35 933
Debt to total assets ratio	20%	18%	8%	11%	12%
Equity per share (EUR)	80	80	83	84	87
Net profit per share (EUR)	3	2	15	2	6
Approved dividends per share (EUR)	1	2	12	1	2

KEY PERFORMANCE DATA

Sales revenues and their return



Development of selected consolidated data (under IFRS in EUR '000)

	2014	2015	2016	2017	2018
Sales revenues	453 354	428 458	329 031	333 506	397 579
Operating profit/(loss)	9 187	7 223	(504)	10 781	25 120
Net profit/(loss)	4 512	4 277	(21 519)	6 952	18 232
of which: share attributable to the Company's shareholders	3 851	3 839	(21 985)	6 377	17 480
Return on sales revenues	1%	1%	(7%)	2%	4%
Net operating cash flow	32 982	32 953	24 817	(3 514)	15 788
Total assets	459 732	449 337	328 190	343 934	374 377
Equity	252 577	253 037	201 144	204 908	217 920
of which: share attributable to the Company's shareholders	241 101	241 811	190 506	194 584	207 182
Interest-bearing loans and borrowings	116 190	108 610	127 046	79 304	90 036
Return on equity	2%	2%	(12%)	3%	8%
Return on assets	1%	1%	(7%)	2%	5%
Profit/(loss) per share (EUR)	2	2	(9)	3	7
Equity per share (EUR)	101	101	80	82	87



PRODUCTION AND SALES

Production programme

Seamless hot-rolled steel tubes

- ▶ Tubes for steel constructions
- ▶ Tubes for parts of machines and general technical purposes
- ▶ Tubes for pressure equipment used at higher temperatures
- ▶ Tubes for heat exchangers
- ▶ Tubes for welding and threading
- ▶ Tubes for transportation of flammable media
- ▶ Tubes for casing and tubing

Precision seamless cold-drawn steel tubes

- ▶ Standard precision tubes
- ▶ Tubes for automotive industry
- ▶ Tubes for hydraulic and pneumatic cylinders
- ▶ Tubes for hydraulic and pneumatic lines (HPL type)
- ▶ Galvanized tubes
- ▶ Tubes for production of bearings

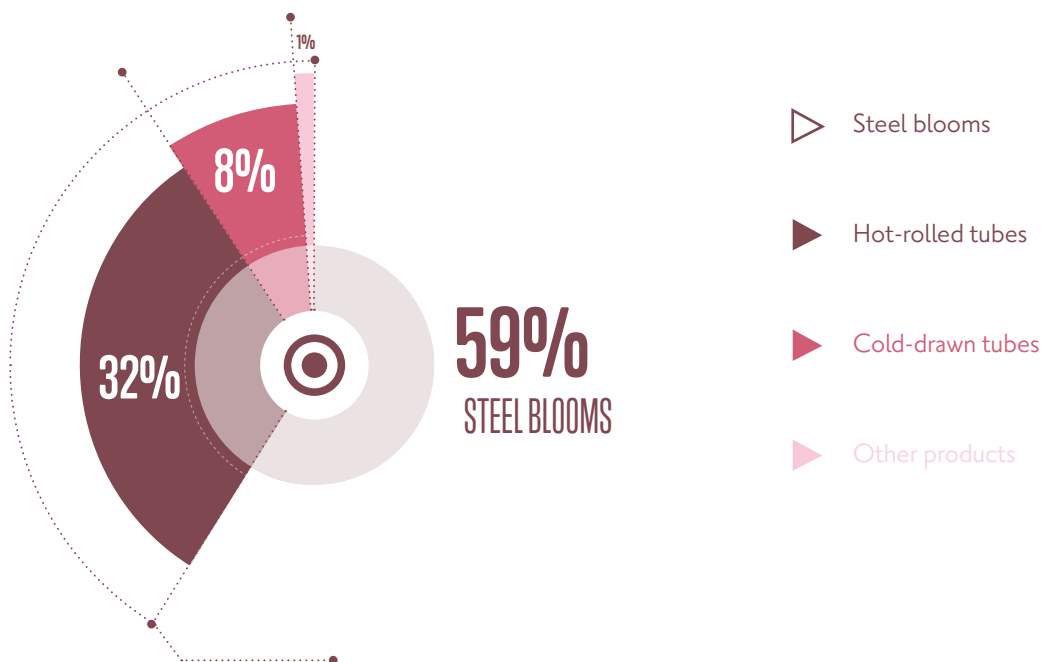
Cut and bent tubes

Butt welding elbows and reducers

Con cast steel blooms

PRODUCTION AND SALES

Production structure in 2018



Certification

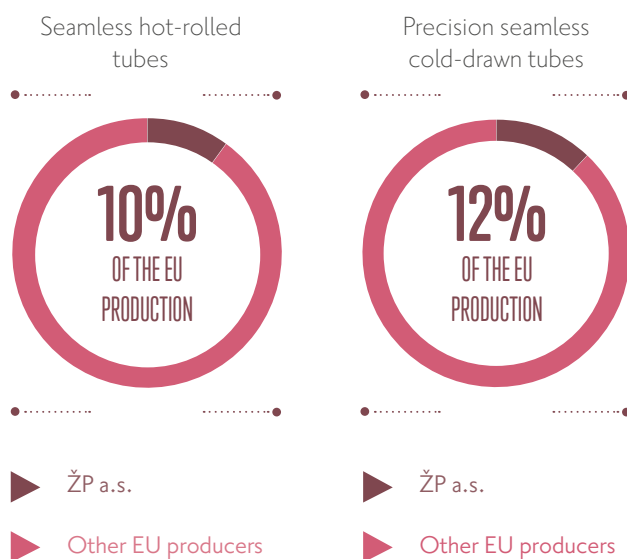
Our quality management system is certified under ISO 9001:2015 by SGS Yarsley International Certification Services Limited.

Our automotive industry products are certified under IATF 16949:2016, issued by SGS International Certification Services GmbH.

Železiarne Podbrezová a.s. has been issued product certificates by renowned certification companies such as Bureau Veritas, Lloyd's Register of EMEA, Det Norske Veritas – Germanischer Lloyd, TÜV NORD, API, individually for the production and testing of steel, seamless rolled tubes, precision tubes, and butt welding elbows.

The environmental management system and the occupational safety management system are certified by SGS Slovakia spol. s r.o. in accordance with ISO 14001:2015 and OHSAS 18001:2007.

Share in the production of selected products in the EU in 2018





REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS, AND FINANCIAL
PERFORMANCE IN 2018 AND INFORMATION
ON THE BUSINESS PLAN

Dear Shareholders,

Given the economic slowdown in the steel sector in recent years, the Board of Directors of Železiarne Podbrezová considers the financial results and indicators for 2018 as very successful. Last year, the Company, its management and employees again exceeded the planned production volumes. The volume of produced steel was one of the highest ever and our production of rolled tubes was the highest in our history. As a result, the sales results were very good. The record-breaking production and strong market demand generated above-average financial results. The Company and all subsidiaries in the ŽP GROUP recorded sales growth and most generated positive operating and net results.

REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS, AND FINANCIAL PERFORMANCE
IN 2018 AND INFORMATION ON THE BUSINESS PLAN

European and global metallurgy has been struggling with low utilisation of its production capacities and uneven regional demand for its products. However, the last two years have seen a rise in global demand for steel and a moderate reduction in production capacity, resulting in an increase in utilisation and profitability of firms in the sector. According to the World Steel Association, the global production of steel increased for the second consecutive year (by 4.6% in 2018). The long-term problem is a significant imbalance between global steel production and consumption, especially in China, which produced 51% of global steel last year. In contrast, the EU saw a 0.3% drop in total steel production.

The demand for almost all types of tubes recovered in 2017 and the capacity of OCTG producers decreased. This trend of strong demand for tubes from both warehouses and end consumers continued in 2018. Longer supply times, especially from large producers, caused a shortage of tubes on the market. As a result, Železiarne Podbrezová operated all shifts at most production plants last year to satisfy customer demand. Although we did not fill all our production positions, we were able to operate all shifts thanks to well-organised production and the commitment of our employees.

Strong demand and the resulting growth of prices of input raw materials, and prices of steel and steel products, including the seamless tubes of Železiarne Podbrezová a.s. continued until stabilisation in Q4 2018. In 2018, Železiarne Podbrezová saw a significant increase in revenues from operating activities by over EUR 52 million (21%) compared to 2017. The economic boom also brought about a rapid growth of the Company's operating costs, by almost EUR 41 million (17%), mainly due to higher prices of input raw materials and staff costs. Nevertheless, there was a significant growth in operating profit and the Company also increased its net profit. The Company's operating results were also positively affected by the reduction of some material consumption standards, mainly due to the optimisation of technological equipment in our plants and a forward-looking plan for energy purchasing.

Profit from financing activities, mainly dividends from subsidiaries, also contributed to the Company's positive operational results. At the end of 2018, the Company's assets amounted to EUR 290 million and were covered by own funds at 72%.

The preparation of the business and financial plan for 2019 took into account the market situation at the end of 2018, and information about and estimates of prices of input raw materials, expected volumes and prices of final products. The preparation of the financial plan also took into account additional staff costs of extra pay due to legislative changes, which significantly increase costs of work during the night, at

weekends and during holidays. The Board of Directors also took into account the labour market situation in our region, which impacts the increase of staff costs. This was one of the reasons why we prepared a programme for employing people from marginalised groups, including their intensive training at the Company, at the end of 2018 in cooperation with the Ministry of Labour, Social Affairs and Family of the Slovak Republic.

The market for steel seamless tubes was positive during the first four months of 2019, but there has been a significant drop in orders, which is also reflected in the product portfolio. The situation on the market for steel products, in particular seamless steel tubes, remains unclear in the second half of 2019. It may be affected by the introduction of new trade barriers and customs on products on the international market. Such a situation would probably lead to lower industrial production, especially in the automotive sector, and to lower investments in infrastructure, as the automotive and infrastructure sectors are the key customers for steel products. Another important factor affecting the tube production industry is the price of crude oil and the volume of investment in its extraction and processing, as OCTGs are a major part of production. We believe that some of these potential risks, especially in international trade, will not occur and we will be able to produce and sell our products in the second half of the year and generate solid operating profit and consolidate our financial situation.

BUSINESS ACTIVITY

PRODUCTION AND SALES

Železiarne Podbrezová a.s. has its own sales network, which is managed on a geographical basis via our subsidiaries, PIPEX ITALIA S.p.A., ŽP Trade Bohemia, a.s., SLOVRUR Sp. z o. o., Pipex Deutschland GmbH and TRANSMESA. After a significant economic recovery, which started in the first half of 2017, the last year was the most successful in the last decade in terms of financial results and sales. Strong demand for seamless rolled and precision cold-drawn tubes continued in 2018. High demand increased selling prices of products and, despite growing prices of input raw materials and staff costs, contributed to a significant increase in industry profitability. In 2018, the Company fully utilised its production capacity, and some products set new record production volumes, despite a lack of production staff.

REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS, AND FINANCIAL PERFORMANCE
IN 2018 AND INFORMATION ON THE BUSINESS PLAN

In 2018, we produced 379 008 tonnes of steel in total, which is 23 608 tonnes more than in the previous year and 4% more than the plan. During the year, the steel mill produced a record-breaking 34 642 tonnes per month. Of the total quantity produced, 262 731 tonnes were used for own production of steel tubes and 116 277 tonnes were sold to external customers. The KPIs for melting loss and production downtimes developed positively in 2018.

In 2018, we implemented several technological changes and innovations in the steel mill. The most important changes include an investment that will significantly increase employee safety: an automatic device for extending graphite electrodes.

In the rolling mill, we exceeded the planned production volume by more than 4% in 2018 and produced a record-breaking volume of 208 419 tonnes of tubes, which is 848 tonnes more than in the previous year. Of the produced volume, 137 172 tonnes were available for sale to external customers and 71 247 tonnes of rolled tubes were further processed by Železiarne Podbrezová a.s.

Significant technological innovations in the tube rolling mill in 2018 included the application of hard-metal rollers in the baskets of the push bench and in the stands of the drawing reduction mill, which will significantly extend the roller life and improve the surface quality of tubes. In 2018, we continued our cooperation with our Research and Development Centre (ŽP VVC), which involved measurement and analysis of the surface temperatures of the rollers in the stands of the drawing reduction mill and adjustments of their cooling parameters to optimise cooling and to increase rolling finish temperatures. In July, we launched automatic setup of meltable baskets, which reduced technological downtime. In the second half of 2018, we launched a new automated warehouse for rolled and, partially, also for drawn

tubes with a total capacity of 2 000 tonnes, which made it significantly easier to ship our products. Subsequently, we started moving a finishing line to the shipping warehouse in the tube rolling mill. The finishing line will be completed in the first half of 2019, increasing the finishing capacity, which is currently insufficient.

In 2018, we produced 54 103 tonnes of precision cold-drawn tubes, which is 729 tonnes more than in 2017, and a record-breaking total length of over 37 000 km. The planned production volume was exceeded by more than 5%. We sold 53 066 tonnes of precision drawn tubes to external customers, of which 1 761 tonnes were with a galvanised finish and 2 532 tonnes of divided and hydraulic tubes. Demand for precision drawn tubes was stable in 2018 for most major product groups of the tube drawing mill. In 2018, we made several important investments. We installed and launched another tube division system directly on the drawing bench. Another important technological innovation was the installation of a comprehensive automated finishing line for small-diameter tubes, which will perform all operations from straightening to final packaging of products. For capacity reasons, we also changed the logistical flow of product finalisation to ensure more efficient grouping prior to shipping.

Continuously-cast blooms, seamless hot-rolled tubes and precision cold-drawn tubes accounted for over 99% of the total production of Železiarne Podbrezová a.s. in 2018.

Other products – butt welding elbows and reducers comprised a supplementary product range. In 2018, we produced 2 276 tonnes and sold 2 249 tonnes of welded elbows and 83 tonnes of reducers to our customers.

Sales of main products in 2018

	Total Sales of Products			Slovakia - 5%		Export - 95%	
	Tonnes	EUR '000	Share in sales	Tonnes	EUR '000	Tonnes	EUR '000
Steel blooms	116 277	62 189	22 %	48	27	116 229	62 162
Seamless hot-rolled tubes	137 172	125 886	45 %	7 458	7 573	129 714	118 313
Precision seamless cold-drawn tubes	53 066	85 264	31 %	3 154	5 386	49 912	79 878
Butt welding elbows and reducers	2 332	4 100	2 %	78	154	2 254	3 946
Company store ⁽¹⁾	311	357	0 %	311	357	-	-
Total	309 158	277 796	100%	11 049	13 497	298 109	264 299

(1) Retail of seamless and welded tubes and butt welding elbows.

REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS, AND FINANCIAL PERFORMANCE
IN 2018 AND INFORMATION ON THE BUSINESS PLAN

In 2018, a supervision audit according to ISO 9001:2015, a recertification audit according to IATF 16949:2016 and a recertification audit according to API Q1 9th edition were performed as part of the quality management system at Železiarne Podbrezová a.s. All audits were successful and we retained our certificates, which showed that the production processes are verified and in compliance with the requirements specified in the relevant standards. We also passed the supervision audits of the environmental management system under EN ISO 14001:2015 and of the occupational safety management system under OHSAS 18001:2007.

In 2018, we sold products, goods and services totalling EUR 290 932 thousand to our customers, of which 91% were exported. Revenues increased by EUR 52 319 thousand

(21.9%) compared to the previous year, primarily due to higher selling prices of rolled tubes and drawn precision tubes, and a higher sold volume of steel blooms.

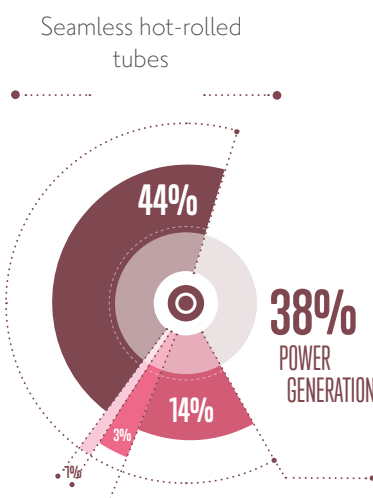
The geographical structure of sales in 2018 did not change significantly compared to previous years. The main market segment continued to be EU Member States in the following order of importance: Germany, Czech Republic, Poland, Italy, Spain and Slovakia.

There were no significant changes compared to previous years as regards the sectors in which our products were used. They are primarily used in the production of machinery and equipment (43-44%), the energy industry (30-38%), hydraulic equipment, oil and gas transportation, and the automotive industry.

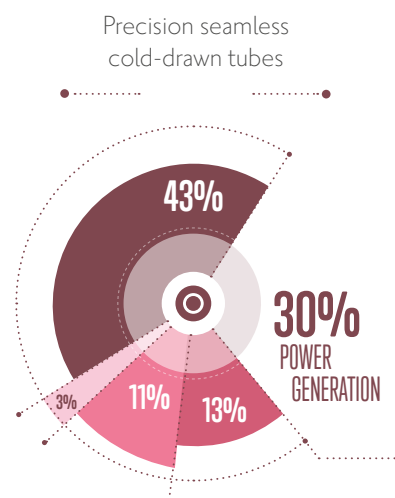
Changes in total sales by geographical structure (revenues in EUR '000)

	2014	2015	2016	2017	2018
Slovakia	30 008	30 293	27 422	26 301	26 140
Czech Republic	41 187	34 741	22 637	31 601	42 963
Other EU Member States	144 671	137 014	122 278	156 718	193 156
Other European countries	11 366	9 024	10 586	13 471	17 008
U.S.A.	8 925	6 484	5 058	8 523	11 053
Other export	4 054	4 180	1 815	1 999	612
Total sales	240 211	221 736	189 796	238 613	290 932

Application of tubes in 2018



- ▶ Mechanical engineering
- ▶ Power generation
- ▶ Transport of flammable media
- ▶ Construction industry
- ▶ Other sectors



- ▶ Mechanical engineering
- ▶ Power generation
- ▶ Hydraulics & pneumatics
- ▶ Automotive industry
- ▶ Other sectors

REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS, AND FINANCIAL PERFORMANCE
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PURCHASE OF STRATEGIC RAW MATERIALS AND ENERGY

Železiarne Podbrezová a.s. applies ISO standards in business relationships with suppliers of material inputs and our regular and good communication with suppliers and payment discipline enabled us to maintain a high level of supply activities in terms of quality and delivery times. The continuous growth in the steel industry in 2018 resulted in considerable increases in the input prices of certain raw materials and alloy additions. Fortunately, problems in meeting delivery times for some raw materials from previous year did not recur. Scrap steel and alloy prices were increasing in the first third of 2018, but there was a slight decrease in prices in the rest of 2018.

In 2018, we purchased raw materials totalling EUR 157 781 thousand, of which 23.3% were imports. Majority of the purchased raw materials comprised scrap steel, pig iron, alloys, ferro-additives and heat-resistant materials and important spare parts to all production and operational plants. When purchasing raw materials, we traded with 870 business partners in 2018.

In 2018, we purchased a total of 335 456 tonnes of scrap steel, of which 86% were supplies from our subsidiaries ŽP EKO QELET a.s. and KBZ s.r.o., as in the previous year.

In 2018, we purchased a total of 215 907 MWh of electricity, an 8% increase compared to the previous year. Our small hydroelectric power plants and the co-generation unit produced 59 747 MWh of electricity, which represents a 22% share of internal generation of our total annual consumption. The purchase price of electricity decreased by 1.5% compared to the previous year. In 2018, we purchased 43 million m³ of natural gas from Slovenský plynárenský priemysel, a. s. for our consumption, which is comparable to the previous year.

CAPITAL INVESTMENTS AND CARE FOR TECHNOLOGICAL EQUIPMENT

The 2018 investment plan took into consideration the economic recovery in the steel sector and a lower level of investment in the previous year. The Company's medium-term investment plan strategy is intended to ensure the necessary technological renewal and competitiveness of seamless tube production over the next five-years in an environment of continuous wage cost growth and shortages of suitable staff, especially in blue-collar positions.

We invested EUR 13 185 thousand in non-current assets in 2018, which significantly exceeds standard annual depreciation.

The most important technological investments in 2018 included the rebuilding of the unused tube welding mill hall into a new automated warehouse for finished products to increase storage capacity and make the shipping of finished products to customers more efficient. Another important investment was the installation of a comprehensive automated treatment line, which combines several finishing steps, originally carried out at separate workplaces. It was completed and launched in early 2019. The EAF transformer was replaced at the steel mill. In the tube rolling mill, we upgraded the punching press and stands in the reduction mill. In the drawing mill, we installed another tube division system directly on the drawing bench. We upgraded another part of the central rolling line lubrication system to reduce the environmental burden.

An important investment in 2018 was the construction of new facilities for the Skalica football stadium. We rebuilt unused premises in the Piesok residential building into 13 rental flats for the Company's employees.

The Company performed repairs in the total amount of EUR 32 523 thousand, an increase of EUR 4 666 thousand compared to 2017, to ensure the reliable operation of the technological facilities and to maintain structures and buildings.

RESEARCH AND DEVELOPMENT

In 2018, we spent EUR 1 069 thousand on R&D. R&D was performed primarily by contractual cooperation with the subsidiary, ŽP VVC s.r.o., which worked on eight research tasks for the Company. The tasks focused on research of boiler tubes, tools, optimisation of the technological process for steel casting, modelling of the precision tube drawing process and several smaller operational assignments.

REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS, AND FINANCIAL PERFORMANCE
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ENVIRONMENTAL POLICY

Environmental protection and occupational health and safety have long been a priority of Železiarne Podbrezová a.s. Functional occupational health and safety protection management systems are a permanent part of the business activities of the Company.

Based on the previous effectiveness and functionality analyses of individual management systems, the Company implemented a joint internal combined audit of the two management systems for environmental management and occupational health and safety in the past. The integrated management system combines:

- ▶ The environmental management system (SEM) under ISO 14001; and
- ▶ The occupational health and safety management system (SRBP) under OHSAS 18001.

In 2018, SGS Slovakia spol. s r.o. performed a supervision audit of SRBP and a recertification audit of SEM. The audit results showed compliance with the requirements of OHSAS 18001 and ISO 14001, which confirmed the functionality of the integrated management system. The certification of SEM according to ISO 14001 standard was confirmed by a new certificate valid until September 2021.

In 2018, we fulfilled a total of nine environmental objectives (EUR 404 thousand) and 28 tasks aimed at the improvement of occupational health and safety (EUR 1 633 thousand) under the SEM programme.

HUMAN RESOURCES

Železiarne Podbrezová a.s. has paid proper attention to HR management over the long term. Looking after our employees has been comprehensive and includes recruitment, selection and education of young people, remuneration, an occupational health and safety system, and continual education and benefits.

In 2018, as in the previous years, the Company again adopted two fundamental documents: the 2018 Collective Agreement concluded between ZO OZ KOVO (KOVO trade union works council) and the Company's Board of Directors, and the Programme of the Board of Directors of Železiarne Podbrezová a.s., which together comprise the Personnel, Wage, Social and Occupational Health and Safety Policy Programme. The Company fully met its obligations arising from the said documents.

The amount of EUR 596 thousand was spent from the social fund in 2018. The most significant expenses were as follows:

- ▶ Catering services for employees EUR 464 thousand;
- ▶ 24/7 accident insurance for all employees EUR 54 thousand;
- ▶ Children's holiday camps EUR 32 thousand;
- ▶ Employee rehabilitation vouchers EUR 17 thousand;
- ▶ Recuperation stays for employees who are blood donors EUR 3 thousand.

The Employee Care Programme was extended to include mainly the following:

- ▶ Employer's contribution to employee supplementary pension schemes EUR 1 172 thousand;
- ▶ Preparation of future workforce and granting of scholarships EUR 602 thousand;
- ▶ Protective equipment and employee drinking regime EUR 501 thousand;
- ▶ Retirement and severance payments to employees EUR 381 thousand;
- ▶ Convalescence stays and preventative medical checks for employees EUR 253 thousand;
- ▶ Improvement of employee qualifications EUR 200 thousand;
- ▶ Bonuses for major work and life anniversaries EUR 104 thousand;
- ▶ Comprehensive programme of recuperative measures EUR 1 633 thousand.

REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS, AND FINANCIAL PERFORMANCE
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To improve the work environment, the Company ensures a safe workplace, provides appropriate protective equipment in line with the approved regulation and constantly communicates with employee representatives and employees. The Company provides regular employee education in occupational health and safety, cooperates and regularly communicates with employee representatives responsible for work safety monitoring focused on injury prevention and avoidance. A total of 77 employee representatives from various units monitor the situation and send monthly reports (a total of 741 were received in 2018).

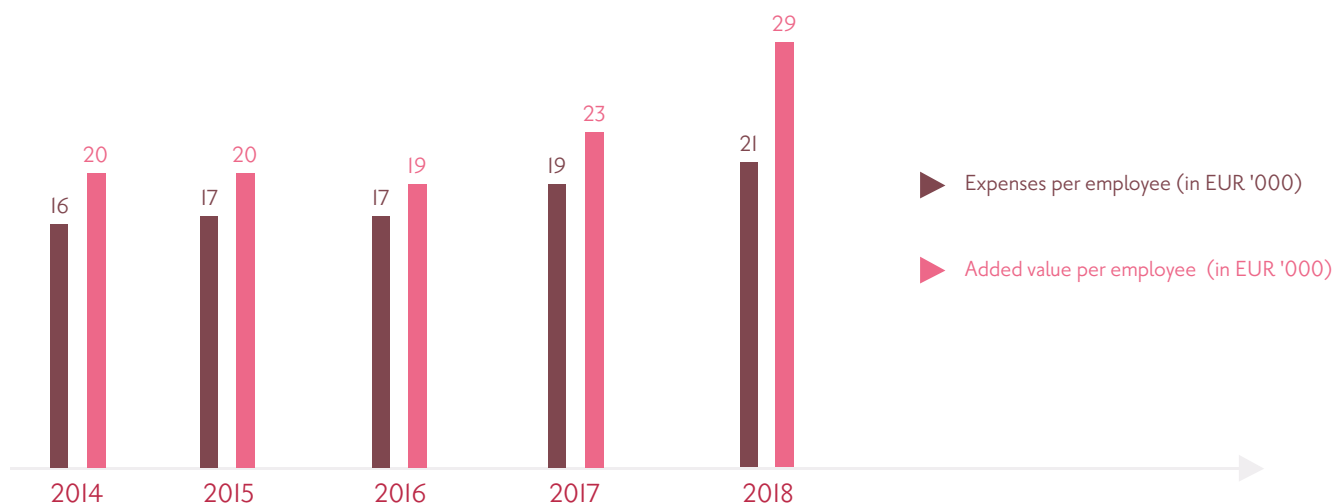
In 2018, there were 37 registered occupational injuries at the Company, a decrease of 12 compared to the previous year. Unfortunately, one severe occupational injury resulted in the death of an employee. The average treatment time increased from 65 calendar days in 2017 to 71 days in 2018.

Changes in personnel expenses (in EUR '000)

	2014	2015	2016	2017	2018
Wages and salaries	37 369	37 885	36 897	42 831	48 697
Mandatory contributions from wages and salaries	12 412	12 590	12 098	14 763	16 613
Training, education	704	580	716	681	864
Protective equipment	361	363	399	526	501
Social fund - drawing	357	387	377	470	596
Other expenses ⁽¹⁾	92	197	210	224	253
Total	51 295	52 002	50 697	59 495	67 524
Expenses per employee	16	17	17	19	21

(1) Other expenses primarily comprise health centre and employee recuperation expenses.

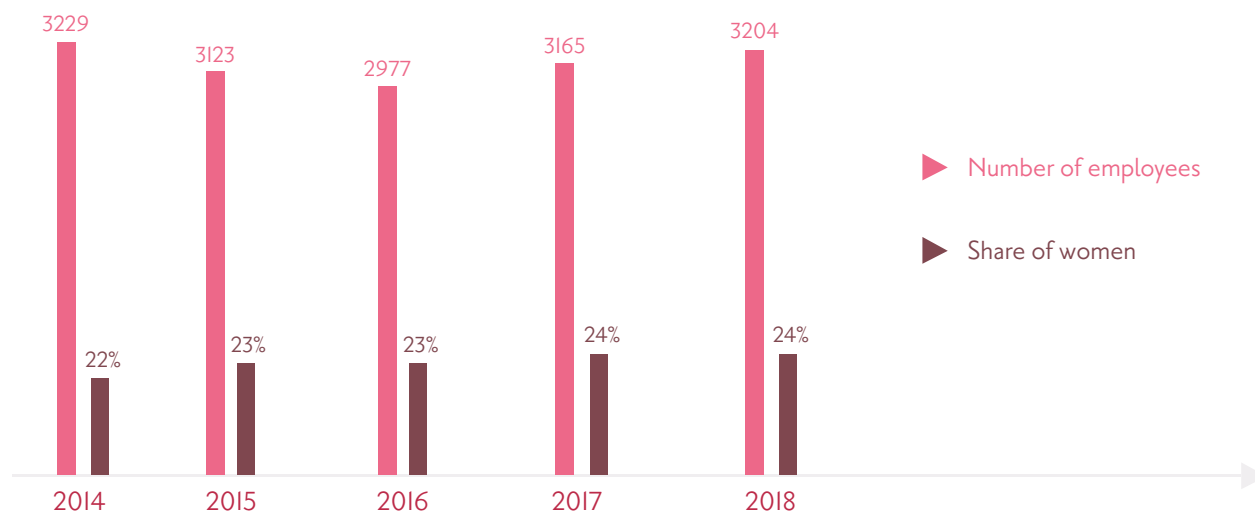
Added value & Expenses per employee



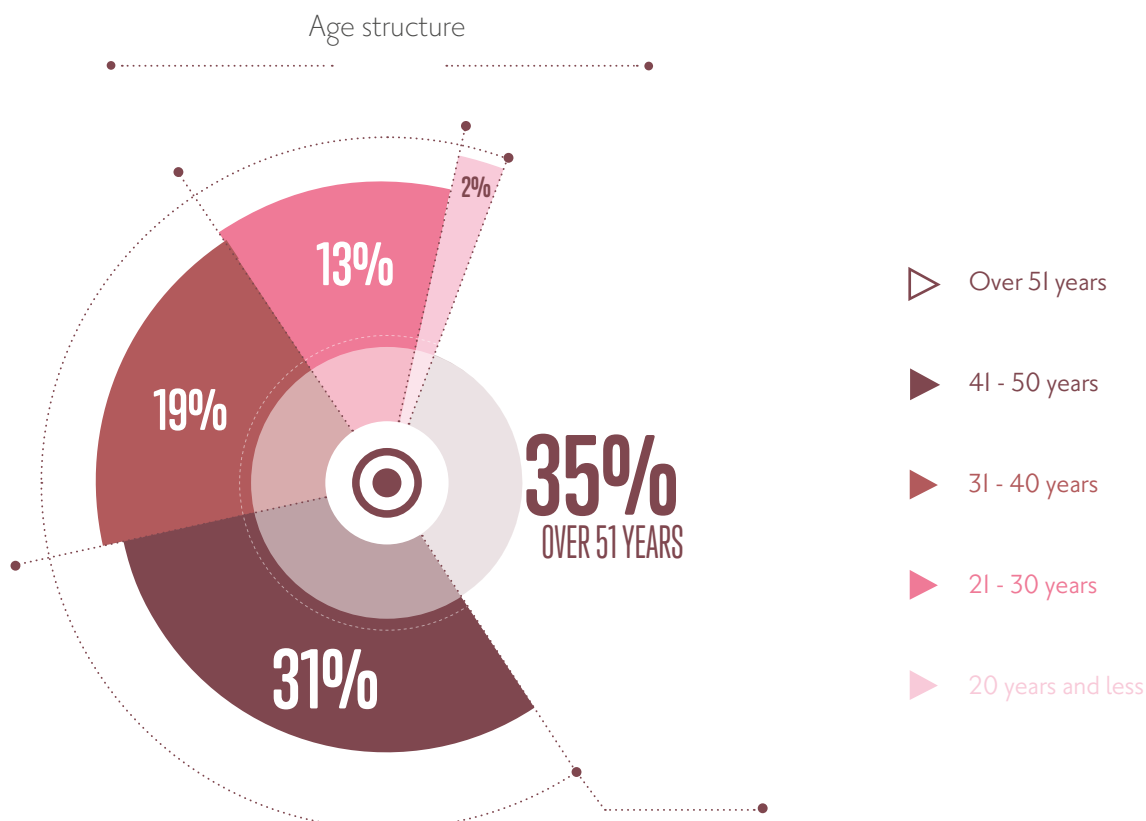
REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS, AND FINANCIAL PERFORMANCE
IN 2018 AND INFORMATION ON THE BUSINESS PLAN

Number of Employees (FTE)



Employee structure in 2018

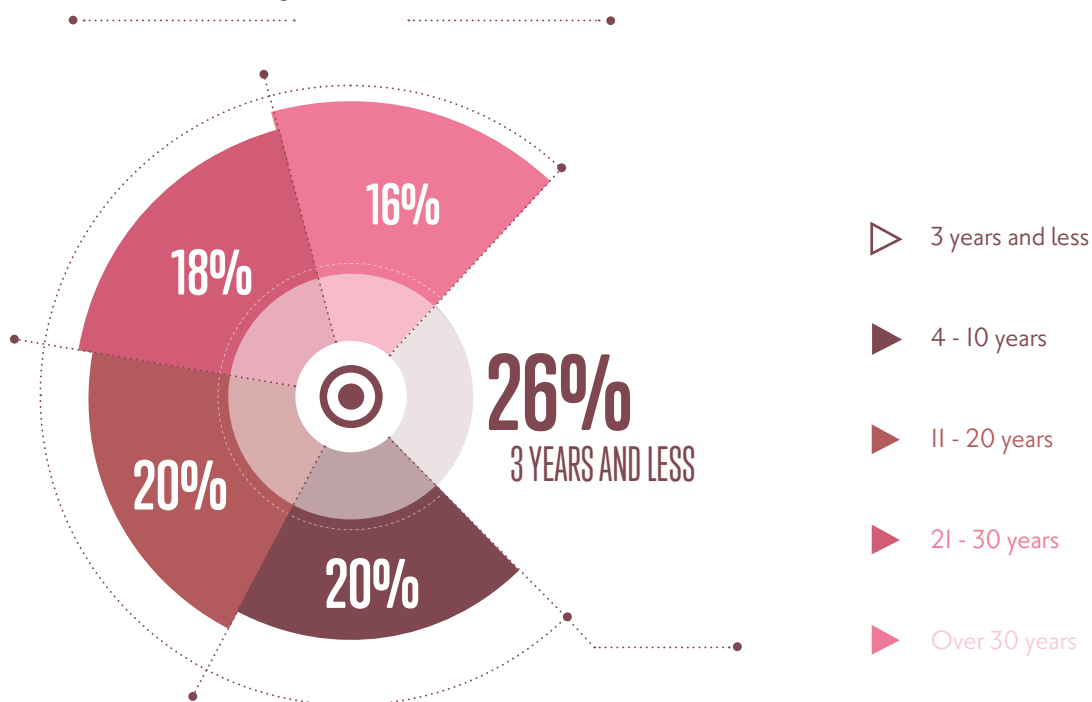


REPORT BY THE BOARD OF DIRECTORS

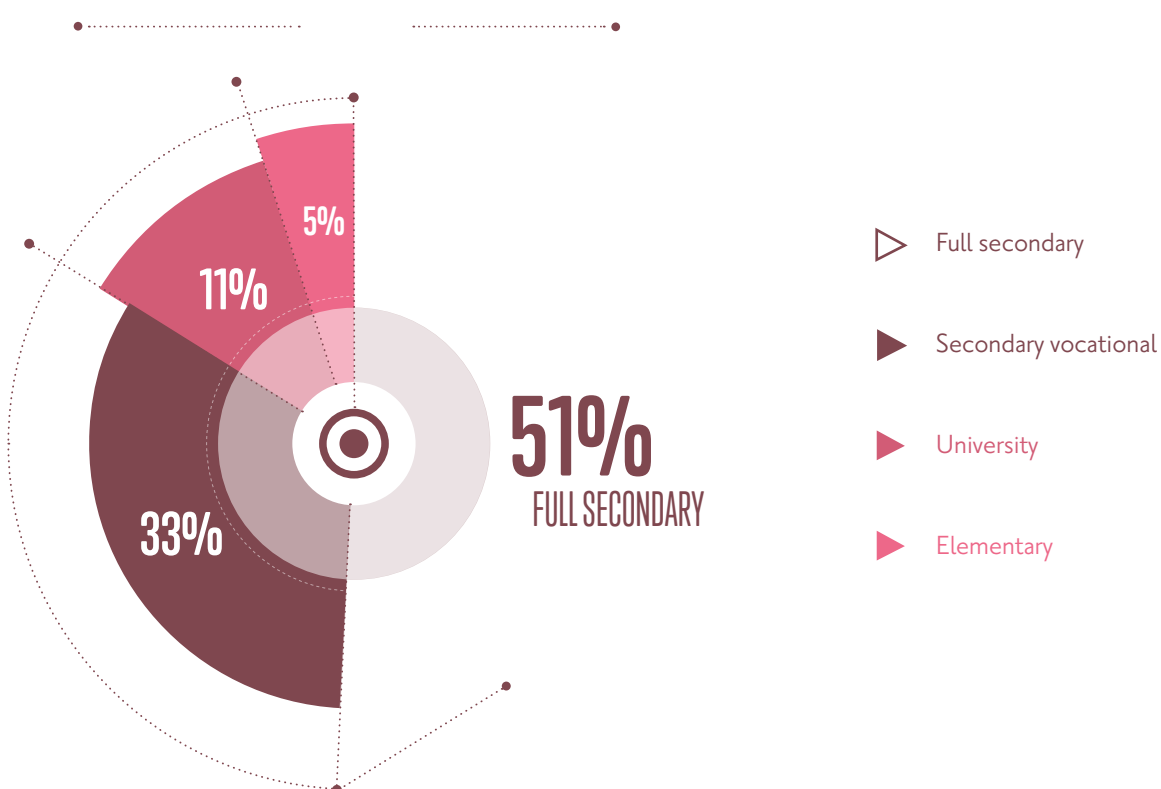
ON BUSINESS ACTIVITIES, ASSETS, AND FINANCIAL PERFORMANCE
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Employee structure in 2018

Length of job service



Educational attainment



REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS, AND FINANCIAL PERFORMANCE
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The Company has a tradition of training qualified employees at its Private Secondary Apprentice School of Metallurgy (SSOŠH ŽP) thanks to the high-quality and specialist education of students: metallurgists, electricians and mechanics, with the working skills and abilities enabling a problem-free employment. In 2018, 30 school graduates were employed at the Company after completing their studies and others will continue their studies at universities. Since the establishment of the school, a total of 686 graduates have been employed by the Company, of which less than a half worked for the Company at the end of 2018. A total of 235 instructors led classes at the school and the school paid motivational scholarships and incentives for productive work to students undergoing on-the-job training. The school joined the dual learning process that combines school education with practical experience with an employer. The school has operated successfully since its reopening by Železiarne Podbrezová a.s. and we will continue to support this well-established education system for creating a qualified workforce.

In 2018, 21 employees were allowed to study and work to improve their work-related qualifications with working reliefs, of which 19 study for the bachelor degree of metallurgy and two employees study at the Technical University of Košice and the Faculty of Material Sciences and Technology of the STU.

Železiarne Podbrezová a.s. has a tradition of cooperating with universities, as evidenced by a memorandum signed in 2017 on practical cooperation with eight universities. The Company has cooperated most with the Faculty of Materials, Metallurgy and Recycling of the Technical University in Košice, with which it organises open-door days at the Company's school and at the faculty, where study opportunities and graduate job opportunities at the Company are presented. The Company offers university scholarships to selected talented secondary school students from the Company's private schools. Železiarne Podbrezová a.s. cooperates with the Matej Bel University, especially with the IT Department, in connection with secondary school IT classes and the subsidiary, ŽP Informatika, s.r.o. The Company also cooperates with other departments as required. Targeted cooperation with universities includes scholarships, professional internships, and graduation theses and is focused on obtaining qualified employees for the Company.

The Company's full-time equivalent was 3 204 employees in 2018, a y/y increase of 39 employees (1.2%). The increase in employees correlated with an increase in contracts and shift work to which work schedules and staffing norms were adjusted.

The average monthly earnings in 2018 was EUR 1 261, a 13% increase compared to the previous year. The added value work productivity amounted to EUR 29 444 per employee, an increase by 27% compared to 2017. The average wages at the Company are almost 13% higher than average wages in the Slovak industry. The average earnings for 2018 for blue-collar employees was EUR 1 077 per employee, up by EUR 116 (12.1%) compared to 2017.

The ŽP GROUP subsidiaries employed an additional 1 113 employees in 2018, an increase by 29 employees compared to the previous year. Of the total number of employees of subsidiaries, 844 employees worked in Slovakia in production and services and 61 employees worked at ŽP's private schools. Other companies abroad employed 208 staff. The ŽP GROUP employed a total of 4 317 employees in 2018.

Our newspaper, Podbrezovan, is the oldest company newspaper in Slovakia and has been published for more than 70 years. Podbrezovan is distributed to current and retired employees, who receive information about Company life. The newspaper is an irreplaceable source of information for Company employees and the general public in the region about operations at the parent company and its subsidiaries and is published every two weeks with a circulation of approx. 6 300 copies.

Our Company's reputation is also enhanced by our management of the Ľupča Castle, which is open to the general public. In cooperation with conservation authorities and also using grant programmes, the Ľupča Castle is being restored to its original appearance. As a result of these activities and various cultural events, the interest of the general public in this historical monument continues to grow and in 2018 the castle saw a record number of visitors: 20 889, a 7% increase compared to 2017.

REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS, AND FINANCIAL PERFORMANCE
IN 2018 AND INFORMATION ON THE BUSINESS PLAN

REPORT ON ASSETS AND FINANCIAL MANAGEMENT

ASSETS AND FUNDS

The Company's assets recognised as at 31 December 2018 in accordance with International Financial Reporting Standards (IFRS) amounted to EUR 289 609 thousand, a year-on-year increase of EUR 20 580 thousand. Total non-current assets increased by EUR 4 663 thousand owing to higher investments in property, plant and equipment, which exceeded the depreciation and amortisation by EUR 4 933 thousand (5%). Investments in subsidiaries only increased slightly due to an increase of EUR 41 thousand in the Company's share in a trade company. Current assets increased by EUR 15 917 thousand, of which inventories increased by EUR 10 511 thousand and receivables by EUR 4 945 thousand, mainly owing to a major revenue growth and an increase in the sales prices of input raw materials and finished goods. The Company's cash decreased by EUR 222 thousand.

There was also an increase in the Company's asset coverage funding as at 31 December 2018, as equity increased by EUR 8 538 thousand to EUR 208 086 thousand. The equity increased as the profit for 2018 significantly exceeded the amount of dividends paid. The higher increase in assets compared to the increase in equity reduced the equity-to-total-assets ratio from 74.2% to 71.9% as at 31 December 2018. A higher portion of the assets was covered by external funding, which grew by EUR 12 042 thousand. The highest growth was recorded in short-term interest-bearing loans and borrowings (EUR 6 081 thousand) and trade payables (EUR 2 883 thousand) and a current tax liability, which grew by EUR 2 464 thousand due to higher profitability and, as a result, higher current income tax. The tax liability was repaid as at 31 March 2019. In total, interest-bearing loans and borrowings amount to EUR 35 933 thousand, and gearing was 12.4% as at 31 December 2018.

As at 31 December 2018, the Company's trade receivables amounted to EUR 51 590 thousand, an increase of EUR 4 945 thousand over the previous year. Inventories amounted to EUR 53 271 thousand and trade payables also increased to EUR 26 343 thousand as at 31 December 2018. Throughout the period, the Company's overdue trade receivables and overdue trade payables were at no time a significant percentage of total trade receivables and payables.

The equity-to-total-assets ratio slightly decreased to 71.9%.

FINANCIAL MANAGEMENT

To finance its operations and CAPEX needs, Železiarne Podbrezová a.s. uses syndicated bank financing, allowing it to use a long-term non-amortised loan and short-term fixed tranches. The credit facility is supplemented by separate contractual relationships for short-term financing with two commercial banks. This method of financing helps to maintain financial stability, unifies the loan terms and reduces the complexity of loan management.

The gearing ranged between 3% and 7% in 2018, and an average loan amounted to EUR 13 634 thousand. The contracted credit facility at the year-end amounted to EUR 30 800 thousand. The Company drew bank loans amounting to EUR 19 363 thousand and used guarantees amounting to EUR 1 679 thousand as at 31 December.

Bank loan interests are tied to the variable Euribor market rate. The average interest rate on loans was 1.27% p. a., ie the absolute amount of interest paid was EUR 173 thousand. The loans are secured by a lien over movable and immovable assets of the Company, whose value is proportional to the Company's exposure in a particular bank.

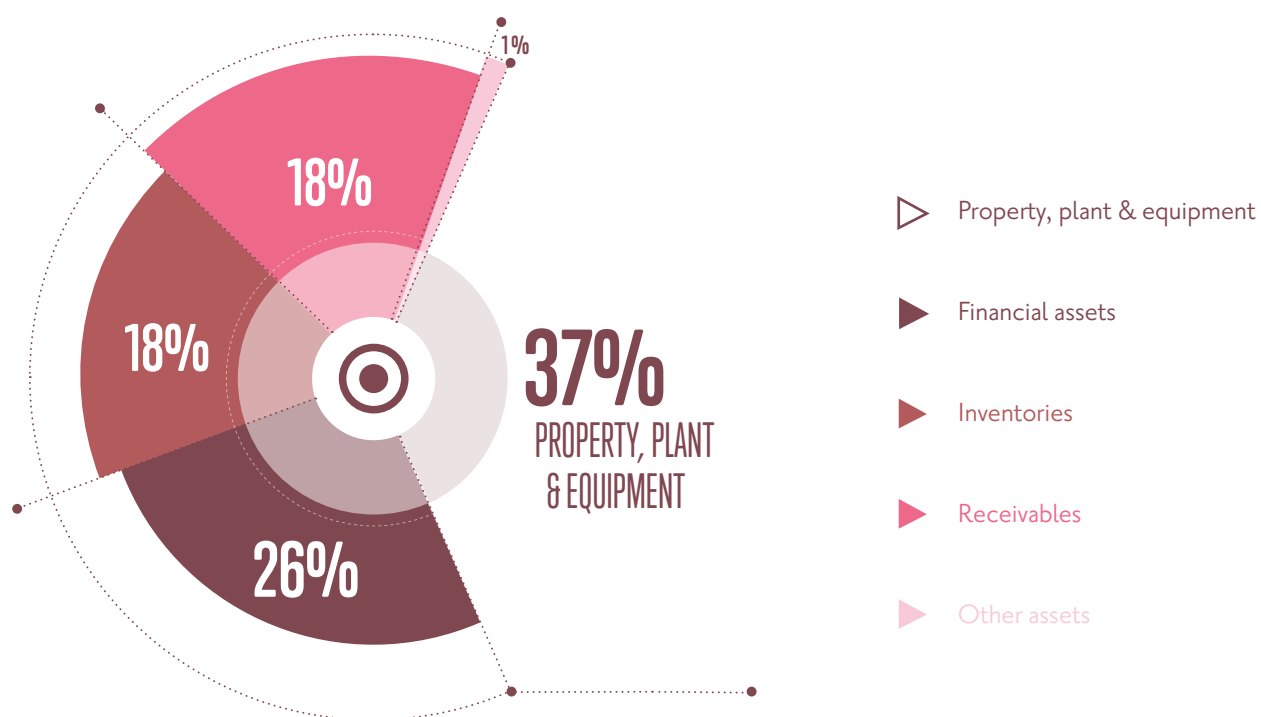
A significant source of the Company's external funding ensuring its financial stability were loans from natural and legal persons totalling EUR 16 570 thousand.

As at 31 December 2018, the Company recorded no open derivative positions.

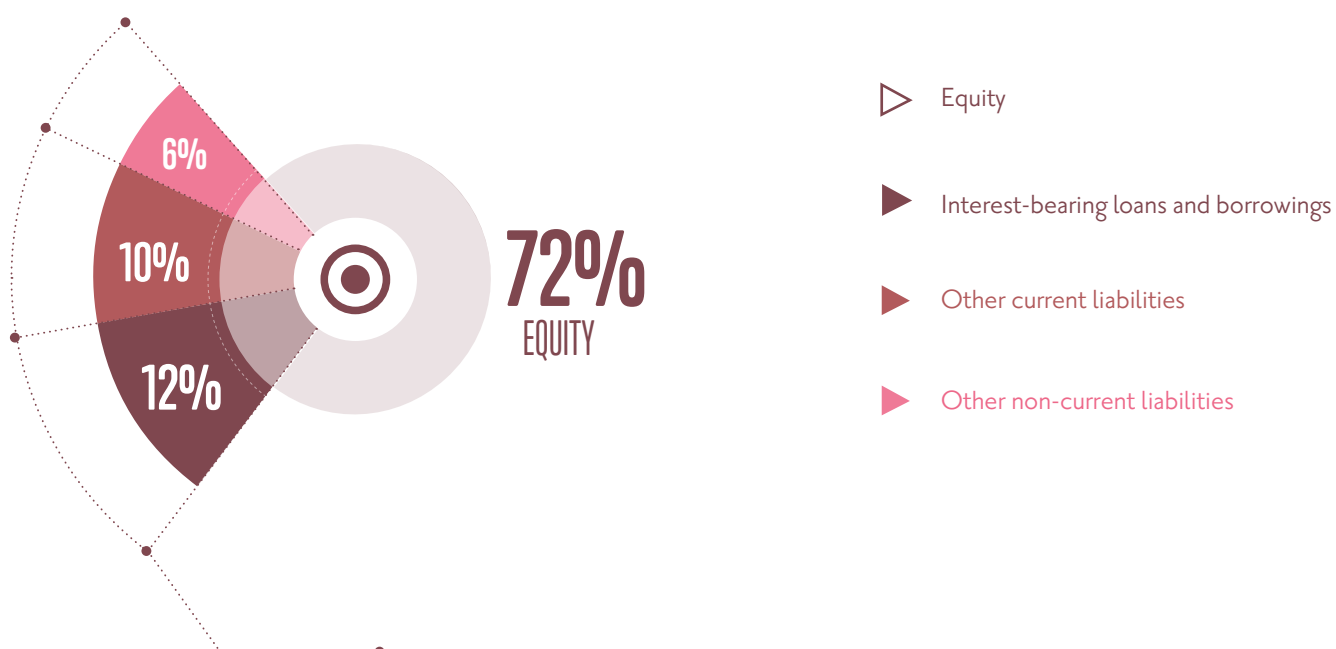
REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS, AND FINANCIAL PERFORMANCE
IN 2018 AND INFORMATION ON THE BUSINESS PLAN

Assets as at 31 Dec 2018



Equity & Liabilities as at 31 Dec 2018



REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS, AND FINANCIAL PERFORMANCE
IN 2018 AND INFORMATION ON THE BUSINESS PLAN

Information from the Separate Statement of Financial Position
under IFRS as at 31 December 2018 (in EUR '000)

	31 Dec 2018	31 Dec 2017
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	106 385	101 452
Intangible assets	5	8
Investments in subsidiaries and joint ventures	75 840	75 799
Available-for-sale investments	83	125
Other assets	255	521
Total non-current assets	182 568	177 905
CURRENT ASSETS		
Inventories	53 271	42 760
Trade receivables and other financial assets	51 590	46 645
Other assets	984	301
Cash and cash equivalents	1 196	1 418
Total current assets	107 041	91 124
TOTAL ASSETS	289 609	269 029
EQUITY AND LIABILITIES		
CAPITAL AND RESERVES		
Share capital	81 061	81 061
Legal and other funds	16 212	16 212
Retained earnings	110 813	102 275
Total equity	208 086	199 548
LIABILITIES		
NON-CURRENT LIABILITIES		
Interest-bearing loans and borrowings	19 570	19 570
Other liabilities	2 137	2 363
Provision for employee benefits	7 218	6 630
Deferred tax liability	7 216	6 964
Total non-current liabilities	36 141	35 527
CURRENT LIABILITIES		
Interest-bearing loans and borrowings	16 363	10 282
Trade and other payables	26 343	23 460
Current tax liability	2 676	212
Total current liabilities	45 382	33 954
Total liabilities	81 523	69 481
TOTAL EQUITY AND LIABILITIES	289 609	269 029

REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS, AND FINANCIAL PERFORMANCE
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SETTLEMENT OF PAYABLES

The Company's financial position was again balanced and stable in 2018. Železiarne Podbrezová a.s. settled its payables to financial institutions, state and public institutions, and its employees, shareholders and suppliers in a due and timely manner.

EXPENSES, REVENUES AND PROFIT/(LOSS)

In 2018, the Company generated a net profit of EUR 13 306 thousand, recognised as the difference between total revenues (EUR 303 766 thousand) and total expenses (EUR 290 460 thousand).

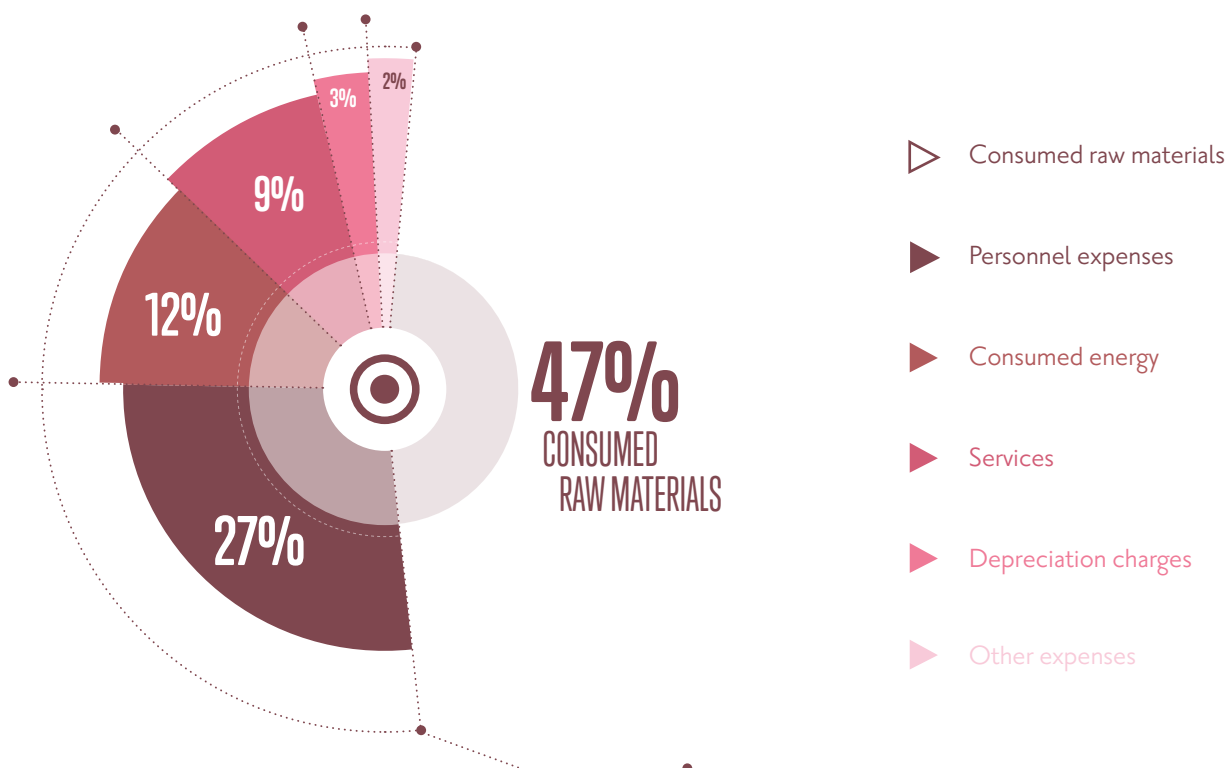
Operating revenues contributed most (almost 99%) to the Company's total revenues. The financial revenues of EUR

3 478 thousand amounted to 1% of total revenues. They mainly consist of dividends received from subsidiaries, interest income and foreign exchange gains.

The expense structure only changed slightly compared to the previous year. The share of raw materials and energy consumption expenses in total operating costs slightly rose from 62% to 63%. This year, as in 2017, the share of personnel expenses slightly fell from 25.9% to 24.9% of total operating expenses and the share of services decreased from 8.3% to 8.1%. Total operating expenses for 2018 increased by more than EUR 40 million (16.7%), mainly owing to an increase in production.

The return on total revenues and return on total expenses remained approximately the same: 4.4% and 4.6%, respectively.

Structure of Expenses in 2018



REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS, AND FINANCIAL PERFORMANCE
IN 2018 AND INFORMATION ON THE BUSINESS PLAN

Information from the Separate Statement of Comprehensive Income
under IFRS for the year ended 31 December (in EUR '000)

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Sales of own products and goods	285 005	233 044
Sales of services	5 927	5 569
Changes in inventories of finished products and work in progress	4 132	3 963
Own work capitalised	7 202	5 815
	0	0
Raw materials and consumables used	(184 770)	(154 681)
Services	(23 157)	(20 310)
Personnel expenses	(71 365)	(63 631)
Depreciation and amortisation	(8 289)	(8 251)
Other operating revenues	2 154	3 770
Other operating expenses	(2 676)	(2 318)
Interest income	100	306
Interest expense	(509)	(437)
Other financial income	3 378	2 700
Other financial expenses	(672)	(468)
Profit/(loss) before tax	16 460	5 071
Income tax expense	(3 154)	(1 022)
PROFIT/(LOSS) FOR THE YEAR	13 306	4 048
Other comprehensive income and losses after tax	-	-
Total profit/(loss) for the year	13 306	4 048

REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS, AND FINANCIAL PERFORMANCE
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Information from the Separate Statement of Changes in Equity under IFRS for the year ended 31 December 2018 (in EUR '000)

	Share capital	Legal reserve fund	Retained earnings	Total
Opening balance as at 1 Jan 2017	81 061	16 212	100 611	197 884
Dividends paid	-	-	(2 384)	(2 384)
Total comprehensive income for the year	-	-	4 048	4 048
Closing balance as at 31 Dec 2017	81 061	16 212	102 275	199 548
Dividends paid	-	-	(4 768)	(4 768)
Total comprehensive income for the year	-	-	13 306	13 306
Closing balance as at 31 Dec 2018	81 061	16 212	110 813	208 086

The financial information presented in the annual report is consistent with the financial information presented in the separate financial statements. To comply with Slovak legislation, in particular Act No. 431/2002 Coll. on Accounting, Železiarne Podbrezová a.s. prepared its separate financial statements for the period from 1 January 2018 to 31 December 2018 in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

SIGNIFICANT EVENTS THAT OCCURRED AFTER THE REPORTING PERIOD

From 31 December 2018 up to the preparation date of the financial statements, there were no such events that would have a significant impact on the Company's assets and liabilities, except for those resulting from the ordinary course of business operations.



REPORT ON THE ACTIVITIES OF CONSOLIDATED ENTITIES

The amount of investments in subsidiaries as at 31 December 2018 recognised in line with IFRS amounted to EUR 75 923 thousand, which is a 26.2% share of the Company's total assets.

REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS, AND FINANCIAL PERFORMANCE
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Financial Investments and other ownership interests as at 31 Dec 2018

Name of the company	Registered office	Investment (in EUR '000)	Share in share capital	Type of ownership interest	Consoli- dated
MANUFACTURING COMPANIES					
Transformaciones Metalurgicas, S.A.U. (TRANSMESA)	Barcelona, Spain	16 981	100%	Direct	✓
TAP Tubos de Acero de Precision, S.L.U.	Barcelona, Spain	-	100%	Indirect	✓
ŽP EKO QELET a.s.	Martin, Slovakia	26 925	66.27%	Direct	✓
ŽIAROMAT a.s.	Kalinovo, Slovakia	4 844	100%	Direct	✓
KBZ s.r.o.	Košice, Slovakia	3 649	70%	Direct	✓
TRADE & DISTRIBUTION COMPANIES					
ŽP Trade Bohemia, a.s.	Prague, Czech Republic	1 780	100%	Direct	✓
ZANINONI SLOVAKIA, s.r.o.	Valaská, Slovakia	772	90%	Direct	✓
SLOVRUR Sp. z o. o.	Stalowa Wola, Poland	712	90%	Direct	✓
PIPEX ITALIA S.p.A.	Arona, Italy	320	85%	Direct	✓
Pipex Deutschland GmbH	Munich, Germany	131	88.50%	Direct & Indirect	✓
Transmesa USA, Inc.	Englewood Cliffs, NJ, U.S.A.	-	100%	Indirect	✓
SERVICES					
Tále, a.s.	Horná Lehota, Slovakia	16 394	94.66%	Direct	✓
ŽP Informatika s.r.o.	Podbrezová, Slovakia	1 034	100%	Direct	✓
ŽP – Gastroservis, s.r.o.	Valaská, Slovakia	1 000	100%	Direct	✓
FK Železiarne Podbrezová a.s.	Podbrezová, Slovakia	578	100%	Direct	✓
ŠK Železiarne Podbrezová a.s.	Podbrezová, Slovakia	330	99.50%	Direct	✓
ŽP Bezpečnostné služby s.r.o.	Podbrezová, Slovakia	200	100%	Direct	✓
ŽP Rehabilitácia s.r.o.	Podbrezová, Slovakia	150	100%	Direct	✓
ŽP Výskumno-vývojové centrum s.r.o. (ŽP VVC s.r.o.)	Podbrezová, Slovakia	33	100%	Direct	✓
OTHER OWNERSHIP INTERESTS					
Nadácia Železiarne Podbrezová	Podbrezová, Slovakia	7	100%	Direct	✓
STABILITA, d.d.s., a.s.	Košice, Slovakia	94	5.17%	Direct	x
Ocelářská unie a.s.	Prague, Czech Republic	(11)	2.33%	Direct	x

Net book value of the investment in line with IFRS. The amount of the contribution and the reported financial results of the companies in a foreign currency presented in the report are converted using the exchange rate of the European Central Bank as at 31 Dec 2018.

In June 2018, the Company purchased a 10% share in Pipex Deutschland GmbH and now holds an 80% direct share.

REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS, AND FINANCIAL PERFORMANCE
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TRANSMESA & TAP

The product portfolio of TRANSMESA and TAP (Spanish companies) strengthens and complements the international position of the ŽP GROUP as regards production and sales of precision cold-drawn steel tubes.

The boom in the market for metallurgical products last year led to much higher demand and prices, which resulted in a sufficient volume of orders for management to utilise the full production capacity of both Spanish manufacturing plants. In 2018, TRANSMESA and its subsidiary TAP produced 8 666 tonnes of precision steel tubes and profiles, with a total length of 25 300 km, a 6% increase compared to 2017. Of the total volume, 2 992 tonnes were finalised by electrolytic galvanising and 2 620 tonnes by mechanical division.

Both companies supplied their customers with tubes in a total amount of 14 786 tonnes (of which 9 446 tonnes were of own production) and the consolidated revenues from the sale of goods, products and services totalled EUR 42.2 million. The 16% y/y increase in revenues was driven by a 12.7% increase in the sale of own products, and a significant increase in the sale of products of Železiarne Podbrezová a.s. (amounting to EUR 7.9 million). In 2018, the companies posted a consolidated profit after tax of EUR 2 765 thousand (TRANSMESA: EUR 2 616 thousand and TAP: EUR 149 thousand). Total assets as at 31 December 2018 amounted to EUR 44 647 thousand. Current assets amounted to EUR 19 830 thousand and equity amounting to EUR 20 300 thousand covered almost 46% of total assets.

In 2018, TRANSMESA shipped its products to 36 countries, and the Spanish market comprised 30.7% of its total revenues. EU Member States, North America and Australia continued to be the main export markets.

Investments were reduced after the significant investments were made in the relocation and modernisation of production in recent years. Nevertheless, several smaller projects totalling EUR 2 130 thousand were implemented in 2018. The companies invested in higher automation, improvement of production information systems, and expanding and streamlining warehouse management. The subsidiary, Transmesa USA, Inc., began installing a second flat surface grinding line in Sterling Heights to strengthen its presence in the US market.

The plan for 2019 is to optimise production processes and investment in increasing production efficiency for small diameter tubes, with the goal of a 4.6% increase in weight and a 6% increase in length. Despite lower demand for industrial products and a planned decline in product sales, the business plan expects a 1.3% y/y increase in revenues to a total of EUR 42.7 million. Maximum use of ŽP GROUP synergies will be made when purchasing goods and entry rods. Under these conditions, we plan to maintain a high level of profitability and overall financial results in 2019.

ŽP EKO QELET a.s.

The company's main activities are purchasing and selling new and collected scrap metal and automobile wrecks, and waste metal processing. The company has a dominant position on the scrap steel market in western and central Slovakia and is a leader in the collection, sorting and processing of steel waste in Slovakia. ŽP EKO QELET a.s. is the most important supplier of scrap steel to Železiarne Podbrezová a.s., and it supplied 65% of total scrap steel purchases last year. The most significant risk faced by the Company is scrap steel price fluctuations on regional and European markets. There is also a risk connected with economic development and the stability of strategic scrap steel buyers. The company continuously strengthened its position in 2018 by expanding its supplier and customer base, purchasing land under its collection points, and primarily by modernising machinery and handling equipment. The company has 45 collection points, including 15 centres, 29 purchase points and one external operation. The company had 203 employees as at 31 December 2018.

In 2018, the company processed and disposed of 9 045 automobile wrecks at its ecological plant for processing scrap metal and old vehicles using SHREDDER processing technology in Hliník nad Hronom, a 42% increase compared with the previous year. As a result, all targets set by the recycling fund for 2018 were met since the company received a contingent grant from the Recycling Fund to increase the collection and processing of old vehicles.

The company shipped 5 229 tonnes of non-ferrous metals in 2018, an increase of almost 1 100 tonnes (26%). Average prices of non-ferrous metals increased considerably by 21% y/y, which exceeds the rise in steel scrap prices.

The company shipped 247 thousand tonnes of scrap steel

REPORT BY THE BOARD OF DIRECTORS

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and non-ferrous metals in 2018, a year-on-year increase of 9% (21 thousand tonnes) and sales to Železiarne Podbrezová a.s. increased by 12% (24 thousand tonnes). Sales made in Slovakia increased up to 92% and the remaining 8% of steel scrap were exported abroad, mainly to Poland and the Czech Republic, where almost 15 thousand tonnes of scrap were exported last year.

Company funding was stable throughout the year. The company also used overdraft facilities in two bank institutions to fund its working capital. The purchasing, production and supplies of scrap steel were regular and uniform throughout the year.

The company spent EUR 3 267 thousand on new investments in 2018. The funds were primarily used for the purchase of new transport and handling equipment, containers, land under plants and a sorting line. The costs of repairs to technical and transport equipment totalled EUR 1 574 thousand.

In 2018, the company reported revenues of EUR 74 882 thousand, an increase of 24% compared to 2017, which was mainly due to a sharp increase in the prices of all scrap categories in 2018 and also due to an increase in sales. In 2018, the company generated a net profit of EUR 641 thousand, an almost 11% increase compared to 2017. This is a solid result in the steel scrap sector. The key factor regarding total expenses was expenses for the purchase of goods and consumption of raw materials and utilities, which accounted for 81%. The company's equity as at 31 December amounted to EUR 19 156 thousand, which is approx. 54% of the asset coverage funding.

Ensuring regular metal scrap supplies of the required quantity and quality for the parent company, Železiarne Podbrezová a.s., remains the main objective of ŽP EKO QELET a.s. One of the company's objectives is to make a profit, therefore, it will be necessary to efficiently use the personnel, technical and technological capacity with respect to feasible opportunities for the production of scrap steel and non-ferrous metals. Therefore, it will be important to stabilise supplies of scrap steel to other strategic customers and maintain the supplier network, while focusing on regular supplies from manufacturing plants.

KBZ s.r.o.

This company is the second-largest supplier of scrap steel to Železiarne Podbrezová a.s. In 2018, the company generated revenues from the sale of goods and own outputs amounting to EUR 23 505 thousand, a 28% increase compared to the previous year. In 2018, KBZ s.r.o. supplied almost 86 thousand tonnes of metal scrap to its customers, of which 72 thousand tonnes of scrap steel was supplied to the parent company. For Železiarne Podbrezová a.s., this amounted to more than 21% of total purchases of scrap steel for steel production. The company's equity as at 31 December 2018 amounted to EUR 2 320 thousand, which is approx. 24% of the overall asset coverage. Despite the higher outputs compared with the previous year, the company generated a lower profit amounting to EUR 70 thousand due to lower steel scrap sales margins and higher personnel expenses.

ŽIAROMAT a.s.

Žiaromat a.s. is an established producer of heat-resistant materials. The production programme includes fire clay, heat-resistant concretes, MgOC-based building materials, and other heat-resistant mixtures.

After 2016, which was very bad for the company, and a slight improvement in 2017, 2018 was the most successful in terms of the company's profit/loss since Železiarne Podbrezová acquired an ownership interest in this company. The company strongly depends on the metallurgical industry, which accounts for up to 82% of its revenues. As a result, the company took advantage of a boom in the metallurgical industry and also established itself on new Eastern European markets.

Fire clay building materials amounted to 25% of total revenues in 2018, heat-resistant mixtures and panels to 26%, magnesite-carbon building materials to 23% and other materials to 26%. Last year, the company generated revenues from the sale of goods and own products and services totalling EUR 11 250 thousand, ie an almost 18% increase compared to the previous year. Exports accounted for 59% of total sales. The company's equity as at 31 December 2018 amounted to EUR 2 690 thousand, which is approx. 30% of the asset funding coverage. The company reported a profit after tax of EUR 535 thousand.

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PIPEX ITALIA S.p.A.

In 2018, PIPEX ITALIA S.p.A. was the most important trading and distribution channel for the products of Železiarne Podbrezová a.s., with a 25% share of total sales. In 2018, the company generated revenues from the sale of goods and services totalling EUR 106 834 thousand, an increase of 16% compared to the previous year. The company's equity as at 31 December amounted to EUR 9 110 thousand, which is approx. 21% of the asset funding coverage. The company reported a profit after tax of EUR 2 351 thousand in 2018, a 93% increase y/y.

ŽP Trade Bohemia, a.s.

ŽP Trade Bohemia, a.s. sells the parent company's products on the Czech market, and with an almost 15% share in total sales, it is the second most important sales and distribution channel for the products of Železiarne Podbrezová a.s. The company's equity as at 31 December 2018 amounted to EUR 2 508 thousand, which is approx. 26% of the asset funding coverage. The company reported revenues of EUR 42 523 thousand and a profit of EUR 516 thousand in 2018.

SLOVRUR Sp. z o. o.

In 2018, this company was the third most important distribution channel. The company sold the products of Železiarne Podbrezová a.s. on the Polish market, and its share of the total sales of products amounted to 12%. In 2018, the company generated revenues totalling EUR 37 601 thousand, an increase of 10%. The company's equity as at 31 December amounted to EUR 3 984 thousand, which is approx. 36% of the asset funding coverage. The company reported a profit after tax of EUR 1 113 thousand in 2018.

Pipex Deutschland GmbH

Pipex Deutschland GmbH started its operations in 2013, and took over customers of PIPEX (International) AG, PIPEX ITALIA S.p.A. and the German agent, RS GmbH, with the objective of increasing its share on the German market. In the sixth year of its operations, the company reported revenues from the sales of products of Železiarne Podbrezová a.s. totalling EUR 23 021 thousand and a profit of EUR 312 thousand. The company's equity as at 31 December 2018 amounted to EUR 718 thousand, which is approx. 20% of the asset coverage funding.

Transmesa USA, Inc.

The Spanish company, TRANSMESA, established a company in the US in 2015, and handles US customers. In autumn 2017, a processing technology for short tubes was installed in a leased warehouse and the production premises of the company to provide these services to US customers in the US. The proximity of customers and warehouse with a higher number of products will increase the flexibility, security and speed of supplies and reduce the cost of transporting TRANSMESA's products to the US. At the end of 2018, the second grinding line was installed to cover higher customer demand. In 2018, the company generated revenues from sales totalling EUR 1 546 thousand and reported a profit of EUR 189 thousand.

ZANINONI SLOVAKIA, s.r.o.

The company's core business is the provision of forwarding services for the transportation of Železiarne Podbrezová a.s. products to global markets and the services for its parent company and subsidiaries. Last year, the company provided services in the total amount of EUR 12 279 thousand and reported a profit after tax of EUR 474 thousand. The company's equity as at 31 December 2018 amounted to EUR 2 106 thousand, which is approx. 61% of the asset coverage funding.

Tále, a.s.

Tále, a.s. is a part of the business of Železiarne Podbrezová a.s., which operates in the tourism sector. It operates a sports resort comprising a ski centre, the Gray Bear 18-hole championship golf course and the Little Bear 9-hole training course with night lighting since 2017. The resort includes two hotels, which in addition to standard services, also provide congress tourism and golf vacation packages. Every year, the company invests funds in upgrading assets and increase the level of provided services.

In 2018, the golf resort enjoyed stable attendance by individual clients and around eighty commercial, sport and club tournaments were organised. Given the high-quality snowmaking and big slopes, the winter ski centre mainly serves families with children and is also popular with schools and downhill skiing courses. This is good for hotels, which are fully booked during the peak season – Christmas and spring holidays.

REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS, AND FINANCIAL PERFORMANCE
IN 2018 AND INFORMATION ON THE BUSINESS PLAN

In 2018, the company generated revenues from the sale of goods and services amounting to EUR 3 576 thousand, a 2% decrease compared to the previous year. In 2018, the company generated a loss of EUR 266 thousand. As at 31 December 2018, the company's assets totalled EUR 17 357 thousand, with 93% covered by equity.

ŽP – Gastroservis, s.r.o.

The company produces fresh, refrigerated and frozen meals, and provides comprehensive catering services for the parent company's employees, and subsidiaries and external customers. In 2018, the company supplied 24% of total meals outside the parent company. In 2018, the company sold products, services and goods totalling EUR 3 115 thousand and reported a profit after tax of EUR 2 thousand at the year-end. The company's equity as at 31 December 2018 amounted to EUR 1 013 thousand, which is 75% of the asset coverage funding.

FK Železiarne Podbrezová a.s.

The company is one of two successor companies of ŽP Šport, a.s., and is a 100% subsidiary of Železiarne Podbrezová a.s. Its main task is to operate the professional first-league football club and all youth teams. The 2017/2018 season was the fifth season for the A team in the 1st Football League (Fortuna liga) and the B team played in the 3rd Football League.

In 2018, the company generated revenues from the sale of goods and services totalling EUR 1 991 thousand and reported a loss of EUR 60 thousand. The company's equity as at 31 December 2018 amounted to EUR 524 thousand, which is approx. 61% of the asset coverage funding.

ŠK Železiarne Podbrezová a.s.

The company is the second successor company of the dissolved ŽP Šport, a.s. The minority shareholders include the municipality of Podbrezová and the civic association, Telovýchovná jednota ŽP Šport Podbrezová. The company operates a professional bowling club and youth cross-country skiing, cycling and downhill skiing teams. The bowling team has achieved notable successes in club competitions. In 2018, the men's team won the Champions League final – the Final four, against German KC Swabsberg, and became the champion of this league. The Podbrezová men's team also competed in the World Cup held in Zaprešić, Croatia, where it placed fourth.

In 2018, the company generated revenues totalling EUR 543 thousand and reported a loss of EUR 20 thousand. The company's equity as at 31 December 2018 amounted to EUR 329 thousand, which is 83% of the asset coverage funding.

ŽP Informatika s.r.o.

Since its establishment, ŽP Informatika, s.r.o. provides comprehensive outsourcing services to Železiarne Podbrezová a.s. for IT and information systems. The company provides comprehensive outsourcing services to all ŽP GROUP companies and its services are also provided to external entities. In 2018, the company generated revenues from the sale of goods and own outputs totalling EUR 4 174 thousand and reported a profit after tax of EUR 27 thousand. The company's equity as at 31 December 2018 amounted to EUR 2 249 thousand, which is approx. 77% of the asset coverage.

ŽP Bezpečnostné služby s.r.o.

ŽP Bezpečnostné služby provides comprehensive private security services for Železiarne Podbrezová a.s. and its subsidiaries in the ŽP GROUP and also cooperates with external security service companies. In 2018, the company generated revenues from the sale of own outputs totalling EUR 1 658 thousand. The company's equity as at 31 December 2018 amounted to EUR 313 thousand and the company reported a profit of EUR 15 thousand. The company had 82 employees.

REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS, AND FINANCIAL PERFORMANCE
IN 2018 AND INFORMATION ON THE BUSINESS PLAN

ŽP VVC s.r.o.

The company performs R&D activities in physical metallurgy, metal forming, material engineering and process modelling and simulation. Applied R&D is mainly carried out for the parent company and, to a lesser extent, for external customers. The company also participates in international research projects. In 2018, the company generated revenues from the sale of own outputs totalling EUR 1 141 thousand. The company's equity as at 31 December 2018 amounted to EUR 273 thousand and the company reported a profit after tax of EUR 114 thousand.

ŽP Rehabilitácia s.r.o.

The company was established in 2011 and provides outpatient physiotherapy, balneology and therapeutic rehabilitation services primarily for ŽP GROUP employees, and also for the public. In 2018, the company generated own outputs totalling EUR 270 thousand. The company's equity as at 31 December 2018 amounted to EUR 115 thousand and the company reported a profit of EUR 21 thousand.

REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS, AND FINANCIAL PERFORMANCE
IN 2018 AND INFORMATION ON THE BUSINESS PLAN

BUSINESS PLAN

After selling engineering and metallurgical companies in 2016, Železiarne Podbrezová a.s. focused on its core business - production of steel, seamless rolled steel tubes and cold-drawn precision tubes. ŽP GROUP covers all important parts of the production and sales process: from the purchase of scrap, as the main raw material, through the production of steel and steel tubes, heat-resistant materials, research into steel production and metal forming, to the sale of products by its trade companies. In line with the medium-term investment plan, the Company's investments will focus on the modernisation and renewal of technology, with the aim of increasing the efficiency of production processes and labour productivity, to address the unfavourable labour market situation.

In 2018, there was a significant increase in revenues, prices of input raw materials and finished products, which resulted in growth in trade receivables and inventories. As a result, the increase in working capital was partly financed by bank loans, and EUR 6 million was drawn in 2018.

In early 2019, after a period of strong economic growth, the European Commission forecast a slowdown of the euro area economy. Similarly, the World Steel Association predicts a slowdown in steel production and consumption over the next few years, with growth rates in emerging economies remaining higher than in developed economies. These forecasts reflect external risk factors which could have a negative impact on the steel industry, such as the introduction of barriers to world trade by the US, the EU and China, the slowdown of the Chinese economy, the risk of an uncoordinated Brexit, or the growth of private sector debt resulting from unconventional monetary policy in recent years.

In the first four months of 2019, demand for rolled and precision drawn tubes was strong and production efficiency was good. However, the orders for the next period show a clear decline in demand and the second half of 2019 remains uncertain as regards of sales. Lower demand for steel tubes reduces their price and increases competition among producers. It is therefore possible that the Company will also adjust its working hours and, in the event of a larger drop in orders, reduce the number of shifts in the coming months.

Given the above problems regarding demand and sales, the plan of Železiarne Podbrezová a.s. for 2019 is ambitious. In 2019, we plan to sell products, goods and services totalling EUR 289 million to all our customary territories via our trade companies.

The 2019 investment plan is based on a medium-term plan and it significantly exceeds depreciation at EUR 15.9 million, which is roughly at the level of last year's investments. The most important technological investments will include the purchase of a three-part toothed bar of the push bench with accessories, a new division on the tube rolling mill line and the replacement of the frame of the steel billet cutter in the tube rolling mill. The most important construction investment in 2019 will be a comprehensive upgrade of the spare parts warehouse. In 2019, we will continue to expand rental housing for employees and reconstruct an unused administrative building into staff quarters. We plan to spend a total of EUR 33.8 million on repairs and maintenance of technological facilities and buildings in 2019.

In 2019, we plan to implement 14 internal R&D projects with planned costs of EUR 1 236 thousand via our R&D subsidiary, ŽP Výskumno-vývojové centrum. The research will aim to improve production quality, optimise materials for tools in tube production and optimise production processes. In 2019, we will continue to implement multi-year R&D projects on tools, modelling and the simulation of production processes and material engineering, which can be applied by the Company to production.

We will continue to improve the quality management system under ISO 9001:2015 and IATF 16949:2016. The Company will continue to develop and optimise the integrated management system that combines the environmental management system under ISO 14001 and the occupational health and safety management system under OHSAS 18001.

The Board of Directors approved a staff, payroll and social policy programme for Company employees for 2019. It provides employees with guaranteed benefits over and above legal requirements, such as contributions to the 3rd pension pillar, subsidised meals, 24-hour insurance outside working hours, retirement payment and severance pay exceeding the legal minimum. We will continue to focus on training qualified staff by supporting their education at our secondary schools: ŽP's Private Secondary Metallurgy Apprentice School and ŽP's Private Secondary Grammar School.

REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS, AND FINANCIAL PERFORMANCE
IN 2018 AND INFORMATION ON THE BUSINESS PLAN

The operation and development of new information systems for the parent company and other companies in the ŽP GROUP will continue to be outsourced to our subsidiary, ŽP Informatika s.r.o. in 2019. As regards the development of application software, the focus in 2019 will be on the project of comprehensive change to the production information system, which will improve the planning, monitoring, and management of production and technical processes in the Company.

The funding of the operational and CAPEX needs of the Company for 2019 is secured by a club credit line of EUR 18 million, which is due in July 2020, and by other separate contracts for short-term funding, which are used according to the Company's operational needs. The total credit line is fully sufficient for problem-free funding in the near future and the Company has begun negotiations with banks on financing for the next period.

The 2019 financial plan forecasts revenues of EUR 294.8 million and an operating profit of EUR 3.7 million. The Board of Directors plans to make a profit on financing activities of EUR 4 million, consisting mainly of dividends from subsidiaries. The total planned profit after tax is EUR 6.7 million.

Business activities in tourism are undertaken at our subsidiary, Tále a.s., and we plan to further develop this area by improving the technical standards of the sports resort and increasing the efficiency of its operation. We aim to further improve the provided services and thus, strengthen our reputation with a wide range of customers in the winter and summer season.

Subsidiaries in the consolidated group work closely with the parent company and contribute to the overall financial results. We plan a profit for most companies in 2019, which will be used to develop the companies appropriately, while generating dividends for the parent company. Consolidated revenues from the sale of goods, products and services for 2019 are planned in the amount of EUR 377 million, with a profit after tax of EUR 6.6 million.

REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS, AND FINANCIAL PERFORMANCE
IN 2018 AND INFORMATION ON THE BUSINESS PLAN

CONCLUSION

The year 2018 was one of the best years in the modern history of the Company. We broke a number of production records and achieved the best operating results in the past decade.

The biggest achievements of 2018 include: full utilisation of our production capacities, an increase in the real wages of all employees, implementation of the medium-term investment plan and the significant increase in the Company's operating profitability.

Despite continual uncertainty and risks in production and sales planning, we believe that the steel tube production industry will continue to prosper in the future given the global population growth, increasing urbanisation, continued demand from the automotive industry and oil and gas mining.

Železiarne Podbrezová a.s. acted very flexibly and took advantage of all market opportunities during 2018. The Company's Board of Directors considers 2018 as positive both in terms of production and the financial results. All employees, including the management and employees of subsidiaries, contributed to the Company's success.

The 2018 profit amounted to EUR 13 306 thousand, with earnings per share of EUR 5.6. Therefore, we propose that the General Meeting approve the payment of dividends to shareholders from Retained earnings from previous years, as in past years.

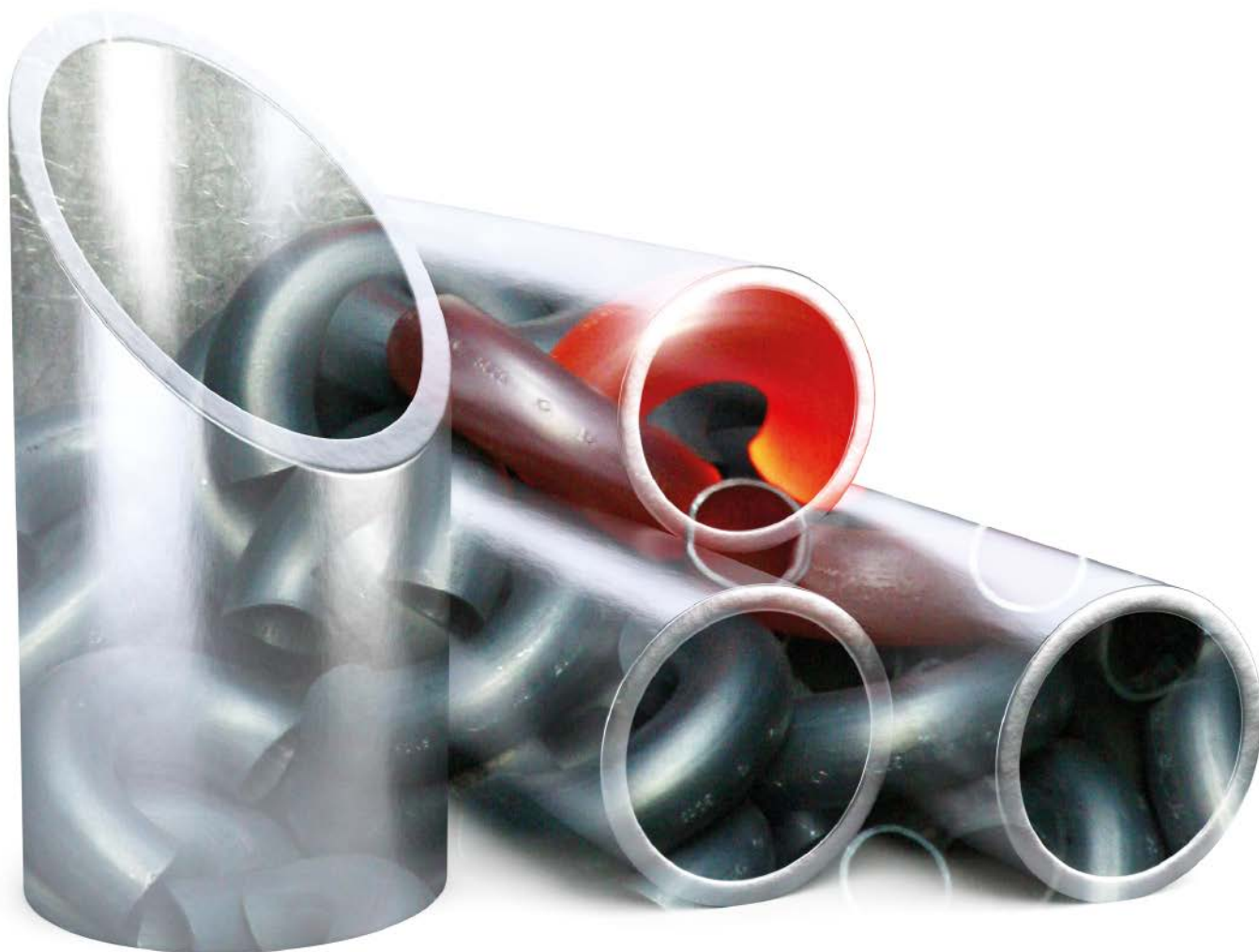
Sales revenues for the consolidation group amounted to EUR 397 579 thousand and the consolidated net profit amounted to EUR 18 232 thousand, of which EUR 17 480 thousand pertained to the shareholders of Železiarne Podbrezová. There was a 19% increase in consolidated revenues and a significant increase in profitability for the entire ŽP GROUP compared to 2017.

Železiarne Podbrezová continue to be a stable partner for many small and medium-sized entrepreneurs in the region and a number of established suppliers. As the largest employer in the region, the Company guarantees social security in the Brezno district and across the Banská Bystrica region.

The Board of Directors of Železiarne Podbrezová a.s. would like to thank all our colleagues, as without their contribution, these results could not have been achieved. We would also like to extend our thanks to our suppliers, customers, financial institutions and all our business partners for their cooperation. We hope our good business relations will continue to develop successfully in the future.

We thank you for your trust.

Approved by a decision of the Board of Directors on 29 May 2019.



INFORMATION FOR SHAREHOLDERS

Dear shareholders,

Under the Company's separate financial statements prepared in line with IFRS, the Company's 2018 operational result was a profit after tax of EUR 13 306 212, ie EUR 5.6 per share. The Board of Directors proposes that the General Meeting approve the payment of dividends to the Company's shareholders in the amount of EUR 1.8 per share from Retained earnings from previous years 2004 to 2010.

We appreciate your confidence and the trust you have expressed in Železiarne Podbrezová a.s. to date.

INFORMATION FOR SHAREHOLDERS

Company's shareholders as as 31 Dec 2018

	Share in the share capital and voting rights
CPA s.r.o.	79.34%
Other legal entities	0.02%
Natural persons	20.64%

The Company's share capital in the amount of EUR 81 060 590 comprises 2 384 135 ordinary paper registered shares. Their face value is EUR 34 per share. According to general binding legal regulations and the Company's Articles of Associations, a share is associated with the shareholder's right to participate in Company management, and in its profit and liquidation balance upon the dissolution of the Company by liquidation. The shares are not publicly tradable on the stock market. The transfer of the shares is subject to the Company's approval.



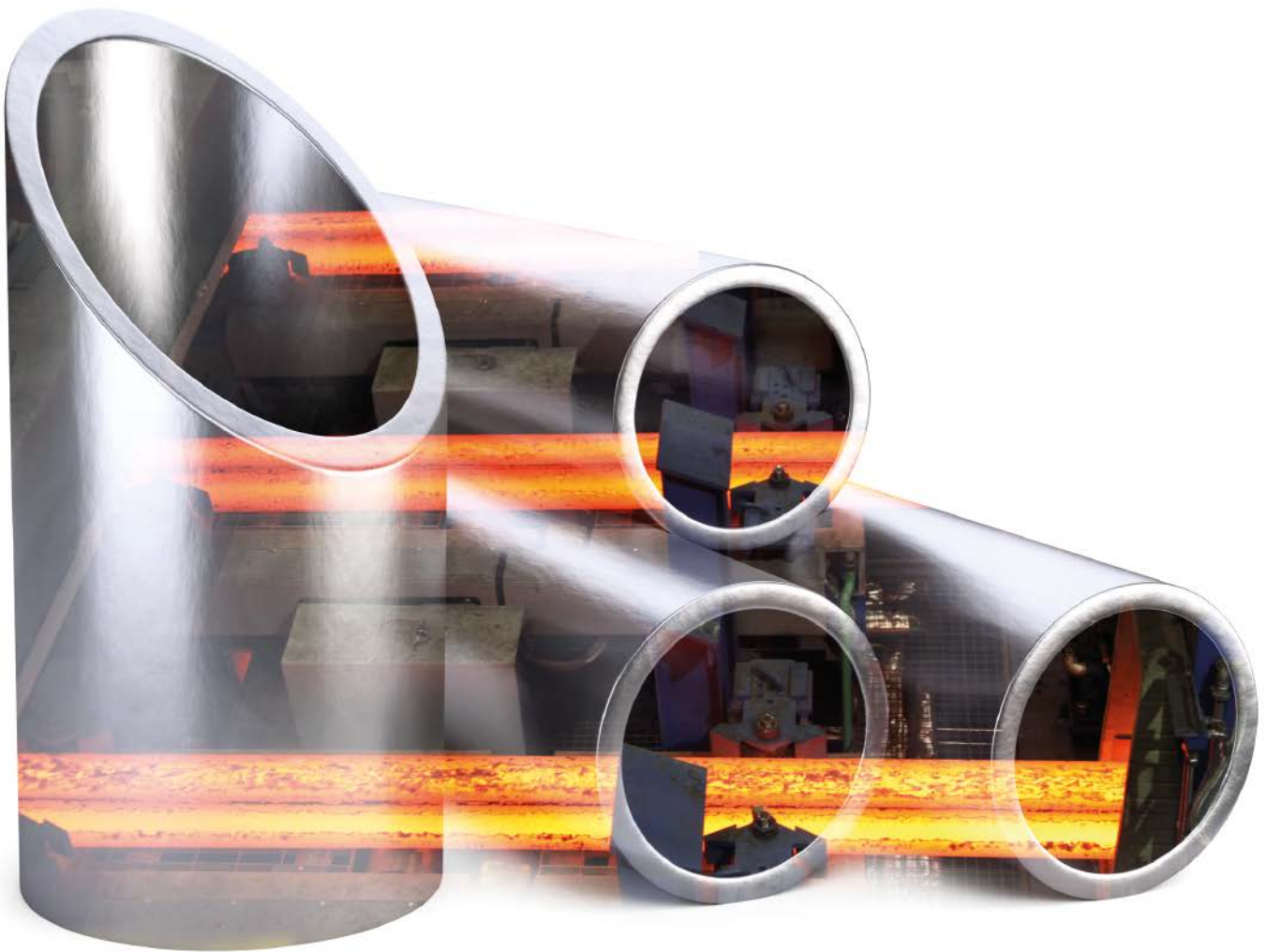
- ▶ Slovak shareholders
- ▶ Foreign shareholders



- ▶ Legal entities
- ▶ Natural persons

Proposal for the payment of dividends and royalties from Retained earnings from previous years and the proposal for the distribution of the 2018 profit submitted to the AGM of Shareholders to be held on 24 June 2019 (in EUR)

Retained earnings	97 506 875
Use of the retained earnings from previous years 2004 to 2010:	
Payment of dividends to shareholders (EUR 1.80 per 1 share, i.e. 5.29% of the face value of shares)	4 291 443
Payment of royalties to the members of the Board of Directors	550 000
Payment of royalties to the members of the Supervisory Board	180 000
Net profit for 2018	13 306 212
Distribution:	
Mandatory allotment to the reserve fund	-
Transfer to retained earnings from previous years	13 306 212
Balance of the Reserve fund after profit distribution	16 212 118
Balance of the Retained earnings after profit distribution	106 521 644



REPORT ON THE ACTIVITIES OF THE SUPERVISORY BOARD

In 2018, the Supervisory Board consisted of Ing. Ján Banas, Ing. Jozef Marčok, Luigi Cuzzolin, Ing. Ľudovít Ihring, Ing. Vladimír Zvarík, Ing. Tomáš Ihring (members elected by the General Meeting), Pavol Košťál, Soňa Lopušná and Ing. Jaroslav Romančík (members elected by the Company's employees).



REPORT ON THE ACTIVITIES OF THE SUPERVISORY BOARD

The members of the Supervisory Board were in close contact with the members of the Board of Directors and other senior staff throughout the year. They had adequate access to all information necessary to supervise the actions of the Board of Directors and the Company's business activities. The Chairman of the Supervisory Board was informed about all important decisions of the Board of Directors under consideration. Every meeting of the Board of Directors was attended by several members of the Supervisory Board, who were provided with information on the economic and financial position of the Company and ŽP GROUP companies and on the balance of the Company's assets, liabilities and receivables. The Board of Directors submitted to the Supervisory Board the Report on the Company's Business Activities, Assets and Financial Management for 2018 and the information on the future business plan.

Based on the results of the supervisory activities, the Supervisory Board concludes that the Company's business activities in 2018 were performed in accordance with the legal regulations, Articles of Association and the General

Meeting's instructions. The members of the Board of Directors acted within the scope of their powers with professional diligence and in line with the interests of the Company and all its shareholders.

The Supervisory Board examined the separate and consolidated financial statements for the reporting period from 1 January 2018 to 31 December 2018, audited by Deloitte Audit s.r.o., and identified no irregularities. Therefore, the Supervisory Board recommends that the General Meeting approve both financial statements.

The Supervisory Board recommends that the General Meeting approve the Board of Director's proposal for the pay-out of dividends and royalties from Retained earnings from previous years, as well as the proposal for the distribution of the 2018 profit.

The Supervisory Board recommends that the General Meeting approve Deloitte Audit s.r.o., SKAu licence No. 014, to audit the financial statements for the period beginning on 1 January 2019.

In Podbrezová, 5 June 2019



Ing. Ján Banas
Chairman of the Supervisory Board



CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Presented in accordance with International Financial Reporting Standards as adopted by the EU

INDEPENDENT AUDITOR'S REPORT



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Železiarne Podbrezová a.s.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders, Supervisory Board and Board of Directors of Železiarne Podbrezová a.s.:

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Železiarne Podbrezová a.s. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the provisions of Act No. 423/2015 Coll. on Statutory Audit and on Amendment to and Supplementation of Act No. 431/2002 Coll. on Accounting, as amended (hereinafter the "Act on Statutory Audit") related to ethical requirements, including the Code of Ethics for Auditors that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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INDEPENDENT AUDITOR'S REPORT

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on Information Disclosed in the Annual Report

The statutory body is responsible for information disclosed in the annual report prepared under the requirements of the Act on Accounting No. 431/2002 Coll. as amended (the "Act on Accounting"). Our opinion on the consolidated financial statements stated above does not apply to other information in the annual report.

In connection with the audit of consolidated financial statements, our responsibility is to gain an understanding of the information disclosed in the annual report and consider whether such information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit of the consolidated financial statements, or otherwise appears to be materially misstated.

As at the issuance date of the auditor's report on the audit of consolidated financial statements, the annual report was not available to us.

When we obtain the annual report, we will evaluate whether the Company's annual report includes information whose disclosure is required under the Act on Accounting, and based on procedures performed during the audit of the consolidated financial statements, we will express an opinion on whether:

- Information disclosed in the annual report prepared for 2018 is consistent with the consolidated financial statements for the relevant year; and
- The annual report includes information pursuant to the Act on Accounting.

Furthermore, we will disclose whether material misstatements were identified in the annual report based on our understanding of the Company and its position, obtained in the audit of the consolidated financial statements.

Bratislava, 30 April 2019



Ing. Patrik Ferko, FCCA
Responsible Auditor
Licence UDVA No. 1045

On behalf of
Deloitte Audit s.r.o.
Licence SKAu No. 014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018 (IN EUROS)

	Note	31 December 2018	31 December 2017
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	6	192 840 775	187 719 067
Intangible assets	7	1 325 771	1 347 623
Goodwill	7	1 768 335	1 768 335
Other financial assets	8	287 709	534 078
Deferred tax asset	9	580 655	515 413
Total non-current assets		196 803 245	191 884 516
CURRENT ASSETS			
Inventories	10	82 202 248	66 498 826
Trade receivables and other financial assets	11	82 796 342	74 940 547
Current tax asset		128 061	126 018
Other assets		1 611 781	660 272
Cash and cash equivalents	12	10 834 973	9 824 132
Total current assets		177 573 405	152 049 795
TOTAL ASSETS		374 376 650	343 934 311
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	13	81 060 590	81 060 590
Legal and other funds	13	17 309 195	17 319 661
Retained earnings		108 812 390	96 203 975
Equity attributable to equity holders of ŽP		207 182 175	194 584 226
Minority interests		10 737 599	10 324 129
Total equity		217 919 774	204 908 355
LIABILITIES			
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	14	32 434 417	30 487 076
Other financial and other non-current liabilities	15	3 629 789	3 974 089
Provisions for employee benefits	16	8 480 360	7 749 808
Provisions for liabilities	17	886 425	887 015
Deferred tax liability	9	10 218 935	10 077 171
Total non-current liabilities		55 649 926	53 175 159
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	14	57 601 948	48 816 511
Trade and other financial payables	18	38 933 505	35 444 438
Current tax liabilities		3 609 858	774 165
Other liabilities		661 639	815 683
Total current liabilities		100 806 950	85 850 797
Total liabilities		156 456 876	139 025 956
TOTAL EQUITY AND LIABILITIES		374 376 650	343 934 311

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018 (IN EUROS)

	Note	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Sales of own products and merchandise	19	385 541 921	321 484 433
Sales of services	19	12 036 835	12 021 711
Changes in inventories of finished goods and work in progress		7 624 977	3 114 551
Own work capitalised	20	11 452 725	9 712 464
Consumed material and energy, costs of merchandise sold		(230 814 617)	(193 328 451)
Services		(40 965 109)	(35 713 545)
Personnel expenses	21	(103 217 599)	(92 714 300)
Depreciation and amortisation		(15 538 764)	(14 992 318)
Other operating income	22	3 675 457	5 386 057
Other operating expenses	22	(4 675 375)	(4 189 614)
Interest income		134 119	320 864
Interest expense		(1 157 625)	(1 056 172)
Gain/(loss) from financial investments		4 971	2 618
Other financial income	23	1 262 701	1 047 708
Other financial expenses	23	(1 333 136)	(1 570 541)
Profit/(loss) before tax		24 031 481	9 525 465
Income tax expense	24	(5 799 502)	(2 573 108)
PROFIT/(LOSS) FOR THE YEAR		18 231 979	6 952 357
Profit/(loss) attributable to:			
- Equity holders of ŽP		17 479 868	6 376 565
- Minority interest		752 111	575 792
Total		18 231 979	6 952 357
Other comprehensive income and losses that may be reclassified subsequently to profit or loss			
Hedging derivatives		-	-
Foreign currency translation reserve		(98 047)	116 314
Deferred tax related to other comprehensive income	9	-	-
Other comprehensive income/(losses) after tax		(98 047)	116 314
Total comprehensive income/(loss) attributable to:			
- ŽP Shareholders		17 381 821	6 492 879
- Minority shareholders		752 111	575 792

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018 (IN EUROS)

	Share capital	Legal reserve fund	Hedging and translation reserve	Retained earnings	Equity attributable to equity holders of žp	Minority interests	Total
Opening Balance at 1 January 2017	81 060 590	17 173 492	(42 726)	92 314 872	190 506 228	10 638 053	201 144 281
Dividends paid	-	-	-	(2 384 135)	(2 384 135)	(320 599)	(2 704 734)
Distribution of profit	-	72 581	-	(72 581)	-	-	-
Net profit/(loss) for the year	-	-	-	6 376 565	6 376 565	575 792	6 952 357
Changes in interests in subsidiaries	-	-	-	(30 746)	(30 746)	(569 117)	(599 863)
Other comprehensive income	-	-	116 314	-	116 314	-	116 314
Closing Balance at 31 December 2017	81 060 590	17 246 073	73 588	96 203 975	194 584 226	10 324 129	204 908 355
Dividends paid	-	-	-	(4 768 270)	(4 768 270)	(286 169)	(5 054 439)
Distribution of profit	-	87 581	-	(87 581)	-	-	-
Net profit/(loss) for the year	-	-	-	17 479 868	17 479 868	752 111	18 231 979
Changes in interests in subsidiaries	-	-	-	(15 602)	(15 602)	(52 472)	(68 074)
Other comprehensive income	-	-	(98 047)	-	(98 047)	-	(98 047)
Closing Balance at 31 December 2018	81 060 590	17 333 654	(24 459)	108 812 390	207 182 175	10 737 599	217 919 774

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018 (IN EUROS)

	Note	Year ended 31 Dec 2018	Year ended 31 Dec 2017
OPERATING ACTIVITIES			
Profit/(loss) before taxation		24 031 481	9 525 465
Depreciation and amortisation and creation/reversal of provisions	6	15 642 026	15 215 132
Provisions for liabilities	17	(590)	(3 320)
Provisions for receivables, inventories and investments, net	22	126 205	867 945
Loss on impairment of property, plant and equipment	22	103 262	222 814
Unrealised foreign exchange differences	23	-	-
Interest, net		1 023 506	735 308
Proceeds from sale of property, plant and equipment and non-current intangible assets	22	(478 360)	(354 659)
Employee benefits	16	730 552	907 158
Other non-cash items		(27 525)	155 778
Cash flows from operating activities before changes in working capital		41 150 557	27 271 621
Change in receivables	11	(7 678 378)	(15 410 931)
Change in inventories	10	(15 726 461)	(6 406 290)
Change in trade and other payables	18	3 094 767	(71 369)
Change in other assets and liabilities		(1 105 553)	(352 828)
Cash flows from operating activities		19 734 932	5 030 203
Interest received		99 905	605 987
Interest paid		(1 157 625)	(1 056 172)
Income taxes (paid)/received	24	(2 889 330)	(8 094 005)
Net cash flows from operating activities		15 787 882	(3 513 987)
INVESTING ACTIVITIES			
Proceeds from the sale of property, plant and equipment and non-current intangible assets	22	1 325 667	789 101
Acquisition of property, plant and equipment and intangible assets	6	(21 740 497)	(12 241 542)
Acquisition of additional interests in the existing subsidiaries		(40 550)	(755 640)
Net cash flows used in investing activities		(20 455 380)	(12 208 081)
FINANCING ACTIVITIES			
Proceeds from loans and borrowings	14	15 667 959	20 447 426
Expenditures for the repayment of loans and borrowings	14	(4 076 585)	(2 865 635)
Expenditures for paid obligations under finance lease	14	(858 596)	(618 542)
Dividends paid		(5 054 439)	(2 704 734)
Net cash (used in)/generated by financing activities		5 678 339	14 258 515
Net (decrease)/increase in cash and cash equivalents	12	1 010 841	(1 463 553)
Cash and cash equivalents at the beginning of the year	12	9 824 132	11 287 685
Cash and cash equivalents at the end of the year	12	10 834 973	9 824 132

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018 (IN EUROS)

1 GENERAL INFORMATION

1.1 Description of the Company

Železiarne Podbrezová a.s. (hereinafter also the "Company" or "ŽP") is a joint stock company that was incorporated on 21 April 1992 and established on 1 May 1992. The Company's registered seat is at Kolkáreň 35, 976 81 Podbrezová, Slovakia (Company ID: 31 562 141, Tax ID: 2020458704). The Company produces steel pipes for industrial purposes, which are mainly sold to customers in Europe. The Company's consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group"), and the Group's share in a joint venture. The Group is active in the production and sale of steel pipes, machine-industry production, and tourism (see Note 3c).

1.2 Structure of shareholders and their shares in registered capital

As at 31 December 2018, the Company's shares were held by CPA s.r.o. (79.34%) and other minority shareholders (20.66%). The shareholders' voting rights equal their ownership interest in the registered capital.

The Company's shares are certified registered shares and have been publicly non-tradable since 2007.

1.3 Members of Company's bodies

Supervisory Board

Ing. Ján Banas – Chairman
Ing. Jozef Marčok – Deputy Chairman
Luigi Cuzzolin – Member
Pavol Košťál – Member
Ing. Vladimír Zvarík – Member
Ing. Ľudovít Ihring – Member
Ing. Tomáš Ihring – Member
Soňa Lopusná – Member
Ing. Jaroslav Romančík – Member

Board of Directors

Ing. Vladimír Soták – Chairman
Ing. Marian Kurčík – Deputy Chairman
Ing. Július Kriváň – Member
Ing. Mária Niklová – Member
Ing. Vladimír Soták, Jr. – Member
Ing. Miloš Dekrét – Member
Ing. Milan Srnka, PhD. – Member

1.4 Unlimited guarantee

The Company is not a partner to any unlimited liability company.

1.5 Legal basis for preparing the financial statements

These financial statements are the annual consolidated financial statements of ŽP and its subsidiaries as prepared under Act No. 431/2002 Coll. on Accounting, as amended. The consolidated financial statements were prepared for the reporting period from 1 January 2018 to 31 December 2018 in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). The financial statements are intended for general use.

1.6 Approval of the 2017 Financial Statements

On 25 June 2018, the General Meeting approved the consolidated financial statements of Železiarne Podbrezová a.s. for the year ended 31 December 2017.

1.7 Consolidated financial statements of the parent company

The Company's consolidated financial statements are included in the consolidated financial statements of the parent company, CPA s.r.o. The consolidated financial statements of CPA s.r.o. are available at the Company's registered seat (Kolkáreň 35, Nový závod, 976 81 Podbrezová) and at the Registry Court in Banská Bystrica (Skuteckého 28, 975 59).

1.8 Comparatives

As comparatives for the previous reporting period relating to assets, liabilities, and equity items, the financial statements present data reflecting balances as of 31 December 2017. For expenses and revenues, comparatives for the previous reporting period, i. e. year ended 31 December 2017, were used.

2 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group adopted all new and revised standards and interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of IASB as endorsed by the European Union that are relevant to its operations and are effective for the reporting periods beginning on 1 January 2018.

Initial application of the new amendments to the existing standards effective for the current reporting period

The following new standards, amendments to the existing standards, and the interpretation issued by the International Accounting Standards Board (IASB) are effective for the current reporting period:

- **IFRS 9 "Financial Instruments"** issued on 24 July 2014 is IASB's replacement of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

Classification and Measurement – IFRS 9 introduces a new approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces the existing rule-based requirements under IAS 39. The new model also results in a single impairment model being applied to all financial instruments.

Impairment – IFRS 9 has introduced a new, expected-loss impairment model that will require more-timely recognition of expected credit losses. The new standard requires entities to account for expected credit losses from the moment when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

Hedge accounting – IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activities. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018 (IN EUROS)

Own credit risk – IFRS 9 removes the volatility in profit or loss caused by changes in the credit risk of liabilities which are measured at a fair value. This change to the accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.

- **IFRS 15 "Revenue from Contracts with Customers"** issued by IASB on 28 May 2014 (on 11 September 2015, IASB deferred the effective date of IFRS 15 to 1 January 2018 and on 12 April 2016 IASB issued clarifications to this standard). IFRS 15 specifies how and when an IFRS reporter must recognise revenue and requires such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. The application of the standard is mandatory for all IFRS reporters and applies to nearly all contracts with customers. The main exceptions are leases, financial instruments and insurance contracts. The core principle of the new standard is for companies to recognise revenue to disclose the transfer of goods or services to customers in amounts that reflect the consideration (ie payment) to which the company expects to be entitled in exchange for such goods or services. The new standard will also result in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively (eg service revenue and contract modifications) and improves guidance for multiple-element arrangements.
- **Amendments to IFRS 2 "Share-based Payment"** – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 4 "Insurance Contracts"** – Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied for the first time);
- **Amendments to IAS 40 "Investment Property"** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014 – 2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

The adoption of these new standards, amendments to the existing standards, and the interpretation has not led to any material changes in the Group's consolidated financial statements. The Group assessed the impact of IFRS 15 as at 1 January 2018 and identified no issues that would lead to the revision of the accounting policy for revenue recognition.

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At the date of authorisation of these financial statements, the following new standard, amendments to the existing standard, and the interpretation issued by IASB and adopted by the EU are not yet effective:

- **IFRS 16 "Leases"** issued by IASB on 13 January 2016. Under IFRS 16, a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and is depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term and discounted at the interest rate implicit in the lease if such a rate can be readily determined. If such a rate cannot be readily determined, the lessee must use their incremental borrowing rate. In accordance with IFRS 16 and its predecessor, IAS 17, lessors must classify leases by their nature as operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease. For finance leases, a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis, or another systematic basis, if more representative of how benefit from use of the underlying asset is diminished.
- **Amendments to IFRS 9 "Financial Instruments"** – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019);
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019).

The Group has elected not to adopt this new standard, amendments to the existing standards and the new interpretation in advance of their effective dates.

The Group anticipates that the adoption of this new standard, amendments to the existing standards and the new interpretation, except for IFRS 16 "Leases", will have no material impact on the consolidated financial statements of the Group in the period of initial application.

The Group assessed the impact of the application of IFRS 16 "Leases" on the financial statements. The Group will recognise right-of-use assets and the lease liability in the estimated amount of EUR 5 million as at 1 January 2019 and a negligible impact on profit or loss and the statement of cash flows for 2019. For discounting, the Group applied the current average interest rate of the NBS provided to non-financial institutions within the Eurozone. The Group has applied the standard since 1 January 2019 using the simplified approach method (without restatements of previous periods) and decided to only apply the standard to contracts that met the definition of a lease under the previous IAS 17 and IFRIC 4 at the transition date. The recognition of the right-of-use asset and the lease liability will have no significant impact on the Group's financial indicators.

New standards and amendments to the existing standards issued by IASB, but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in the EU as at the reporting date (the effective dates stated below are for IFRS as issued by IASB):

- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to IFRS 3 "Business Combinations"** – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period);
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IAS 19 "Employee Benefits"** – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015 – 2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020). The Group anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the consolidated financial statements of the Group in the period of initial application.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Group's estimates, the application of hedge accounting to a portfolio of consolidated financial assets or liabilities pursuant to IAS 39 "Financial Instruments: Recognition and Measurement" would not significantly impact the consolidated financial statements if applied as at the reporting date.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU and on the going concern assumption. IFRS as adopted by the EU do not currently differ from IFRS as issued by the IASB, except for certain standards and interpretations that have not been endorsed by the EU as described above.

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements are prepared under the historical cost convention, except for certain financial instruments and business combinations under IFRS 3 "Business Combinations". The principal accounting policies adopted are set out below. The accompanying consolidated financial statements reflect certain adjustments and reclassifications not recorded in the accounting records of the Group companies in order to conform the Slovak statutory and other financial statements to financial statements prepared in accordance with IFRS as adopted by the EU.

The reporting currency is the euro. The data in the consolidated financial statements are reported in euros unless otherwise stated.

The accounting policies have been consistently applied by the Group and are consistent with those of the previous year.

The preparation of the financial statements in conformity with IFRS requires the use of certain accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. 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 4.

The consolidated financial statements were prepared under the going concern assumption.

The Group's management expects positive results of operations in 2019.

(c) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the financial statements of controlled reporting entities ("subsidiaries"). The control arises if the reporting entity:

- Has power over an investee;
- Has an exposure or rights to variable returns from its involvement with the investee; and
- Has the ability to use its power over the investee to affect its returns.

The subsidiaries' financial statements are included in the consolidated financial statements from the date that control commences until the date when control ceases.

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the subsidiary. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations", which are recognised and measured at fair value less costs to sell.

Goodwill arising on an acquisition is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the acquired identifiable assets as at the acquisition date net of the liabilities assumed. If, after reassessment, the assets acquired net of the liabilities assumed exceed the sum of the referred consideration, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is initially recognised as an asset and is subsequently measured at cost less any accumulated impairment loss. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the business combination. The impairment of goodwill is tested annually or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of the goodwill and then to other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, the attributable amount of goodwill is included in the profit or loss on disposal.

All intra-group transactions, balances, unrealised profits or losses from transactions have been eliminated on consolidation.

Minority interest of other investors in the net assets of consolidated subsidiaries is identified separately from the Group's equity therein. Minority interests represent the other investors' proportionate share of the fair value at the acquisition date of the assets and liabilities of the relevant subsidiary, adjusted for the minorities' share of subsequent profits and losses. Loss applicable to minority interests in excess of the minorities' interest in the subsidiary's equity is accounted for along with the Group's interest except for the amount that represents contractual liability of minority shareholders and may represent an additional investment to cover losses.

The acquisition of shares in subsidiaries from entities under common control is recognised using the Pooling of Interests method. The difference between the cost of investment and the Group's share in the book value of assets and liabilities of the acquiree as of the acquisition date is recognised immediately in equity, ie in "Retained Earnings". The minority interest refers to the proportion of the book value of assets and liabilities of the acquiree as of the date of its acquisition net of the minority interest in gains/losses after the aforementioned date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The list of the consolidated subsidiaries in the Group is as follows:

Name	Country of incorporation	Effective ownership %		Voting rights %		Principal activity
		2018	2017	2018	2017	
PIPEX ITALIA S.p.A., Arona (Novara)	Italy	85.00%	85.00%	85.00%	85.00%	Trading activities
Pipex Deutschland GmbH, Munich	Germany	88.50%	78.50%	88.50%	78.50%	Trading activities
SLOVRUR Sp. z o.o., Stalowa Wola	Poland	90.00%	90.00%	90.00%	90.00%	Trading activities
ŽP Trade Bohemia, a.s. Prague	Czech Republic	100.00%	100.00%	100.00%	100.00%	Trading activities
Tále, a.s., Tále	Slovakia	94.66%	94.66%	94.66%	94.66%	Tourism
ŽP - Gastroservis, s.r.o., Valaská	Slovakia	100.00%	100.00%	100.00%	100.00%	Catering services
Nadácia Železiarne Podbrezová, Podbrezová	Slovakia	100.00%	100.00%	100.00%	100.00%	Foundation
ŽIAROMAT a.s., Kalinovo	Slovakia	100.00%	100.00%	100.00%	100.00%	Production of refractory products
ŽP Informatika s.r.o., Podbrezová	Slovakia	100.00%	100.00%	100.00%	100.00%	IT services
ŽP EKO QELET a.s., Martin	Slovakia	66.27%	66.27%	66.27%	66.27%	Purchase and sale of scrap
Transformaciones Metalurgicas S.A.U. (TRANSMESA), Arenys de Mar	Spain	100.00%	100.00%	100.00%	100.00%	Production of steel pipes
TAP Tubos de Acero de Precisión, S.L.U., Arenys de Mar	Spain	100.00%	100.00%	100.00%	100.00%	Production of steel pipes
Transmesa USA, Inc., Englewood Cliffs, NJ	USA	100.00%	100.00%	100.00%	100.00%	Trading activities
ŽP VVC s.r.o., Podbrezová	Slovakia	100.00%	100.00%	100.00%	100.00%	Research and development
KBZ s.r.o., Košice	Slovakia	70.00%	70.00%	70.00%	70.00%	Purchase and sale of scrap
ŽP Bezpečnostné služby s.r.o., Podbrezová	Slovakia	100.00%	100.00%	100.00%	100.00%	Operation of security guards
ŽP Rehabilitácia s.r.o., Podbrezová	Slovakia	100.00%	100.00%	100.00%	100.00%	Operation of a health-care facility
ZANINONI SLOVAKIA, s.r.o., Valaská	Slovakia	90.00%	90.00%	90.00%	90.00%	Transportation services
FK Železiarne Podbrezová a.s., Podbrezová	Slovakia	100.00%	100.00%	100.00%	100.00%	Sport, advertising and promotion
ŠK Železiarne Podbrezová a.s., Podbrezová	Slovakia	99.50%	99.50%	99.50%	99.50%	Sport, advertising and promotion

For details on changes in the Group during the current reporting period, see Note 5.

(d) Foreign currency

(i) Transactions in foreign currencies

Cash items denominated in a foreign currency are translated to euros using the reference exchange rate determined and announced by the European Central Bank (ECB) or the National Bank of Slovakia (NBS) on the date preceding the transaction date. At each end of a reporting period, cash items denominated in a foreign currency are translated to euros using the reference exchange rate determined and announced by the European Central Bank (ECB) or the National Bank of Slovakia (NBS) on the reporting date. Non-refundable advances received and made in a foreign currency are not translated as at the reporting date.

Non-cash items measured at a fair value and denominated in a foreign currency are translated using the exchange rate prevailing at the date of the fair value measurement. Non-cash items measured at a historical cost and denominated in a foreign currency are not translated.

For foreign currency purchases and sales in euros, and upon the transfer of funds from an account established in a foreign currency to an account established in euros and from an account established in euros to an account established in a foreign currency, the exchange rates at which these amounts were purchased or sold were applied. If the sale or purchase of a foreign currency is performed at an exchange rate other than the one offered by a commercial bank in its foreign exchange list, the exchange rate offered by such commercial bank in its foreign exchange list on the transaction settlement date is used. If the sale or purchase is not performed with a commercial bank, the reference exchange rate determined and announced by the ECB or the NBS on the date preceding the transaction settlement date is used.

(ii) Financial statements of foreign operation

The individual financial statements of each entity within the Group are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of individual entities are expressed in EUR, which is the functional currency of the Group, and the presentation currency for the consolidated financial statements.

Foreign operations are not considered an integral part of the operations of the parent company. The assets and liabilities of foreign operations, with functional currency other than euro, including goodwill and fair value adjustments on consolidation, are translated to EUR using the rate of exchange ruling at the reporting date. The income and expenses of these foreign operations are translated into EUR using the average exchange rate for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of transactions are used. Exchange rates arising are included in equity as a translation reserve. Such a translation reserve is recognised in the statement of comprehensive income in the period in which the foreign operation is disposed of.

(e) Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party of the contractual provisions of the financial instrument. Financial instruments of the Group represent available-for-sale investments, receivables, interest-bearing loans and borrowings, payables and financial derivatives.

(f) Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. The Group uses derivative financial instruments (primarily foreign currency and interest rate forward contracts and options) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. The Group fulfilled the conditions for accounting for its financial derivatives as hedging derivatives.

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Derivative financial instruments are initially measured at cost and are remeasured to fair value at the reporting date. The unrealised gain or loss from fixed-term transactions is calculated using the anticipated forward rate based on a standard mathematical formula which takes into account the NBS spot rate and interest rates effective as of the reporting date and is reported in the item "Other financial income, net" or "Other financial expenses" in the statement of comprehensive income and in the item "Hedging derivatives" in the shareholder's equity.

Hedging derivatives are defined as derivatives that comply with the Group's risk management strategy, the hedging relationship is formally documented at the inception of the hedging relationship and the hedge is effective, that is, at inception and throughout the period, changes in the fair value or cash flows of the hedged and hedging items are almost fully offset and the results are within the range of 80% to 125%.

The Group designates hedging derivatives as hedges of highly-probable future cash flows attributable to a forecasted transaction (cash flow hedge). The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income. Amounts accumulated in equity are recorded to the statement of comprehensive income in the periods in which the hedged item will affect the statement of comprehensive income (for example, when the forecast sale that is hedged takes place). When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative fair value adjustments reported in equity at that time remain in equity and are recognised in the statement of comprehensive income when the forecast transaction is ultimately recognised in the statement of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative fair value adjustments reported in equity are immediately recorded to the statement of comprehensive income.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in "Other financial income" or "Other financial expenses" in the statement of comprehensive income.

(g) Property, plant and equipment

(i) Owned assets

Property, plant and equipment ("non-current tangible assets") are carried at cost less any accumulated depreciation and provisions (impairment loss). Cost includes all costs directly attributable to bringing the asset to working conditions for its intended use. Internally-generated non-current tangible assets are measured at own costs that include the cost of material, direct wages and overhead costs directly associated with the production of non-current tangible assets until the asset is put into use.

Where some significant parts of non-current assets have different useful lives, they are accounted for and depreciated as separate items.

(ii) Leased assets

Leases of non-current tangible assets in terms of which the Group assumes substantially all the risks and rewards associated with the ownership of such assets are classified as finance leases. Plant and equipment acquired by way of finance lease is initially stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses. Lease payments are accounted for as described in accounting policy (v).

(iii) Subsequent expenditures

Any subsequent expenditures incurred to replace a component of non-current tangible assets that is recognised separately, including inspections and general overhauls, are capitalised provided that they meet the basic criteria for the recognition of non-current tangible assets, and the cost of the component can be measured reliably. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of assets exceeding their original performance. All other expenditure made after the acquisition of non-current tangible assets to restore or maintain the extent of future economic benefits is recognised as an expense when incurred (insignificant repairs and maintenance).

(h) Intangible assets

(i) Goodwill

Goodwill arising on an acquisition is initially measured at cost, as stated above in paragraph (c) (i). When adopting IFRS 3, the cost of goodwill is adjusted for impairment losses, if any.

Goodwill that arose on business combination is allocated upon an acquisition to cash-generating units (CGU) that are expected to benefit from the synergies of the business combination. The impairment of goodwill is tested annually or more frequently when there is an indication that the unit may be impaired. The recoverable amount of the cash-generating unit is determined based on the value in use calculation. Underlying assumptions used in calculating the value in use are assumptions related to the discount rate, growth rate and estimated revenues and expenses during the period. The management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the relevant CGU.

(ii) Software

Software is measured at cost less accumulated depreciation. Software is depreciated using linear depreciation over the expected useful life, which is 4 – 5 years.

(iii) Research and development

Costs of research and development are recognised as expenses except those costs incurred on development projects that are recognised as intangible assets to the extent of future economic benefits. However, development costs initially recognised as an expense are not capitalised in subsequent periods.

(iv) Subsequent expenditures

Subsequent expenditures are capitalised only when it is assumed that they meet the definition of non-current intangible assets and the basic requirements for their recognition. All other expenditures are expensed as incurred.

(i) Investment in securities

Investments in securities are recognised as at the transaction date and are measured upon acquisition at cost less impairment losses, if any. Held-to-maturity investments are initially recognised at cost and subsequently at amortised cost using the effective interest rate method.

Available-for-sale investments represent insignificant unconsolidated subsidiaries and insignificant participations in equity of various companies in which the Group neither holds, directly or indirectly, more than 20% of the voting rights nor exercises substantial influence.

Available-for-sale investments are recognised as at the transaction date and are measured at cost at their acquisition. At the reporting date they are measured at fair value based on quoted market prices assuming there is an active market. Unrealised gains and losses are recognised directly in equity until such financial investments are sold or impaired; at which time the accumulated gains and losses are recognised in the statement of comprehensive income. In the event the fair value of available-for-sale investments cannot be reliably estimated, the investments are carried at cost less any items reflecting their permanent impairment. These provisions are recognised in the statement of comprehensive income.

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(j) Trade and other receivables

Trade and other receivables are measured at expected realisable value, including provisions for bad and doubtful receivables.

(k) Inventories

Inventories are measured at the lower of cost, own costs, or net realisable value. Net realisable value represents the estimated selling price less the estimated costs of completion and costs of distribution. A provision is mainly created for slow-moving and obsolete inventories based on an individual assessment.

Material is measured by weighted average cost that includes the cost of acquisition of the material and other costs related to acquisition that arose on bringing the assets to their current condition and location.

Work in progress, semi-finished goods and finished goods are measured at own costs, which include the costs of material, wages and salaries, other direct expenses and production overheads depending on the stage of completion of the inventory.

A provision is created for slow-moving and obsolete inventories based on an individual assessment.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash in bank accounts, placements and other highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(m) Impairment of assets

The Group assesses at each reporting date the carrying amounts of its non-current tangible and intangible assets to determine whether there is any indication that those assets have suffered impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to determine the recoverable amount of an individual asset, the Group determines the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of comprehensive income ("other operating expenses"). Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised directly in the statement of comprehensive income.

The recoverable amount of the Group's receivables is calculated as the present value of expected future cash flows, discounted by the original effective interest rate inherent in the asset. Short-term receivables are not discounted. The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market value of the time value of money and the risks specific to the asset. For assets not generating sufficient independent cash flows, the realisable value is determined for the cash-generating unit to which the assets pertain. In accordance with IFRS 9, the Group implemented a simplified model for the impairment of trade receivables, under which the Group creates provisions for trade receivables without a significant element of financing in the amount of lifetime expected losses.

(n) Dividends

Dividends paid are recognised as a liability in the period in which they are declared.

(o) Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method. Any difference between cost and redemption value of the borrowing on an effective interest rate basis is recognised in the statement of comprehensive income over the period of the borrowings on a straight-line basis.

(p) Provision for employee benefits

The Group operates unfunded defined long-term benefit programs – the defined benefit plan comprising one-off retirement benefits, long service and jubilee benefits. According to IAS 19 "Employee benefits", the employee benefits costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of comprehensive income so as to spread the regular cost over the service lives of employees. The liabilities related to the benefits are measured at the present value of the estimated future cash outflows discounted by market yields on government bonds, which have maturity periods approximating the maturity periods of the related liability. All actuarial gains and losses are recognised in the statement of comprehensive income. Past service cost is recognised when incurred up to the amount of benefits paid, and the remaining amount is amortised on a straight-line basis during the average period until the moment of the settlement of benefits.

(q) Social security and pension schemes

The Group is required to make contributions to various obligatory Government insurance schemes, together with contributions by employees. The cost of social security payments is charged to the statement of comprehensive income in the same period as the related salary cost. The Group contributes to a supplementary pension plan administered by a private pension fund, based on the employment period of the employee. No additional liabilities arise to the Group from the payment of pensions to employees in the future.

(r) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, 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. A provision is recognised on the basis of the best estimate made by the management of the cost of the liability settlement as at the reporting date. If the effect is material, provisions are determined by discounting the expected future cash flows by a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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(s) Accruals

The Group makes an estimate of expenses and liabilities that have not been invoiced at the reporting date. These expenses and liabilities are recorded in the accounting records on an accrual basis and recognised in the financial statements in the period to which they relate.

(t) Trade and other payables

Trade and other payables are initially measured at fair value and subsequently at amortised cost using the effective interest rate method.

(u) Revenue recognition

(i) Goods sold and services rendered

In relation to the sale of goods and merchandise, revenues are recognised when all significant risks and rewards of ownership have been transferred to the buyer, and no significant uncertainties remain regarding the collection of consideration, associated costs and possible claims or returning of goods. Revenues are stated net of taxes and discounts, after eliminating sales within the Group. No revenue is recognised if there are significant uncertainties regarding the settlement of the consideration due, the associated costs or the possible return of goods, or regarding the continuous involvement of the Group in the management of the goods. Revenues from the provision of services are recognised when the relevant services are rendered in proportion to the stage of their completion at the reporting date.

(ii) Construction contracts

If the outcome of a construction contract can be reliably estimated, revenues and expenses related to the construction contracts are recognised in the statement of comprehensive income in proportion to the stage of completion of the contract. An expected loss on a contract is recognised immediately in the statement of comprehensive income through provisions.

(iii) Government grants

Grants are not recognised unless there is a reasonable assurance that the Group will meet the grant-related conditions.

Grants are systematically recognised in the statement of comprehensive income in the periods in which the Group recognises as costs the related expenditures to be compensated by the grants. In particular, grants whose principal condition is for the Group to acquire, construct or otherwise obtain non-current assets are recognised as deferred income in the statement of financial position and reclassified on a systematic basis in the statement of comprehensive income over the useful life of the related assets.

The grants which are to be received as compensation for expenditures or losses already incurred or the aim of which is to provide immediate financial aid to the Group without related future expenditures are recognised in the statement of comprehensive income on an accrual basis.

(v) Expenses

(i) Operating lease payments

For operating leases, the lease payments are expensed on a straight-line basis over the lease period.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to the whole lease period so as to produce a constant interest rate on the remaining balance of the liability. The interest expense component of finance lease payments is recognised in the statement of comprehensive income using the effective interest rate method.

(iii) Financial costs and financial income

Financial costs and financial income comprise interest payable on borrowings calculated using the effective interest rate method, interest received, dividend income, proceeds on the sale of financial investments, foreign exchange gains and losses, and bank fees. Borrowing costs directly related to the acquisition of non-current tangible assets are included in the cost of the assets. Interest income is recognised in the statement of comprehensive income as it occurs using the effective yield method. Dividend income is recognised in the statement of comprehensive income on the date when the dividend is declared.

(w) Taxation

Income tax for the year comprises current and deferred tax.

Current tax is calculated from the taxable income for the year using tax rates enacted at the reporting date, and any adjustments to current tax in respect of previous years.

Deferred income tax is calculated, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred tax is calculated at the income tax rates that are expected to apply to the period when the asset is to be realised or the liability settled. Deferred tax is charged or credited to the statement of comprehensive income, except for those items of receivables and payables that are credited or charged directly to equity.

Deferred tax is not calculated for the following temporary differences:

- Arising from goodwill – not deductible for tax purposes;
- Arising from the initial recognition of assets or liabilities that do not affect accounting or taxable profit in a transaction other than a business combination; and
- Arising from investments in subsidiaries and the joint venture, where the Group controls the settlement of temporary differences and temporary differences are unlikely to be utilised in the near future.

When calculating deferred tax, the expected method of realisation or settlement of the carrying amount of assets and liabilities is also considered. A deferred tax asset is recognised only to the extent that it is probable that the Group will generate a sufficient tax base in the future against which the asset can be utilised. Carrying amounts of deferred tax assets are always assessed as at the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATE UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in Note 3, the Group's management has made the following judgements concerning uncertainties and estimates that have an effect on the amounts recognised in the financial statements. There is risk of potential adjustments in future periods relating to such matters, including the following:

Impairment of property, plant and equipment

The Group calculated and recognised a loss on the impairment of property, plant and equipment based on the assessment of their future use, planned disposals and sales. The Group does not believe that any material adjustments are needed in the future owing to impairment of the Group's assets considering the production and sales levels (also see Note 6).

Depreciation

Non-current tangible assets are depreciated on a straight-line basis over the estimated useful life of individual items of the non-current tangible assets. Land and assets under construction are not depreciated. The estimated useful lives are as follows:

- Golf course and hotels 30 – 90 years,
- Buildings, halls and constructions 12 – 80 years,
- Plant and equipment and vehicles 4 – 20 years.

Non-current tangible assets acquired under finance lease are depreciated over their expected useful lives on the same basis as owned assets.

The gain or loss arising on the disposal or retirement of an item of non-current tangible assets is fully reflected in the statement of comprehensive income.

Provisions for warranties

The Group creates a provision for warranties of machinery sold. The provision is estimated based on the contracts and performed warranty repairs of similar products in the previous years.

Provisions for legal and court proceedings

The Group is involved in various legal proceedings for which the management has assessed the probability of loss that will result in a cash outflow for the Group. In making this assessment, the Group has relied on the advice of external legal counsel, the latest available information on the status of the court proceedings and on an internal evaluation of the likely outcome. The final amount of any potential losses in relation to legal proceedings is not known and based on the Group management judgement will not result in a material adjustment to previous estimates. Details of the legal cases are included in Note 28.3.

Provision for employee benefits

The Group uses a model to calculate employee benefits (see Note 3(p) above), which reflects the expected employee turnover, wage growth, discount factor and all of the benefits the Company plans to pay to the employees.

5 CHANGES IN THE GROUP

In June 2018, an additional 10% share in Pipex Deutschland GmbH was acquired for EUR 40 550.

6 PROPERTY, PLANT AND EQUIPMENT

	<i>Land and buildings</i>	<i>Plant and equipment</i>	<i>Assets under construction</i>	<i>Total</i>
Cost				
At 1 Jan 2018	201 451 690	297 688 219	3 407 361	502 547 270
Additions	-	-	21 395 939	21 395 939
Disposals	(1 662 087)	(4 618 800)	(12 165)	(6 293 052)
Transfers	4 698 351	13 939 058	(18 637 409)	-
Foreign exchange differences	(25 608)	1 778	4 800	(19 030)
At 31 Dec 2018	204 462 346	307 010 255	6 158 526	517 631 127
Accumulated depreciation and impairment				
At 1 Jan 2018	90 500 739	224 214 845	112 619	314 828 203
Depreciation, recognition of the net book value	4 988 911	11 036 905	-	16 025 816
Impairment loss	(12 243)	51 527	63 978	103 262
Disposals	(1 558 852)	(4 577 273)	-	(6 136 125)
Foreign exchange differences	(25 822)	(4 982)	-	(30 804)
At 31 Dec 2018	93 892 733	230 721 022	176 597	324 790 352
Carrying amount				
At 1 Jan 2018	110 950 951	73 473 374	3 294 742	187 719 067
At 31 Dec 2018	110 569 613	76 289 233	5 981 929	192 840 775

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	<i>Land and buildings</i>	<i>Plant and equipment</i>	<i>Assets under construction</i>	<i>Total</i>
Cost				
At 1 Jan 2017	198 436 149	292 920 168	3 986 663	495 342 980
Additions	-	-	12 161 560	12 161 560
Disposals	(911 626)	(4 121 181)	(14 151)	(5 046 958)
Transfers	3 819 304	8 878 790	(12 726 939)	(28 845)
Foreign exchange differences	107 863	10 442	228	118 533
At 31 Dec 2017	201 451 690	297 688 219	3 407 361	502 547 270
Accumulated depreciation and impairment				
At 1 Jan 2017	86 607 846	217 438 416	30 668	304 076 930
Depreciation, recognition of the net book value	4 316 199	10 363 610	-	14 679 809
Impairment loss	222 814	517 164	81 951	821 929
Disposals	(650 931)	(4 121 015)	-	(4 771 946)
Foreign exchange differences	4 811	16 670	-	21 481
At 31 Dec 2017	90 500 739	224 214 845	112 619	314 828 203
Carrying amount				
At 1 Jan 2017	111 828 303	75 481 752	3 955 995	191 266 050
At 31 Dec 2017	110 950 951	73 473 374	3 294 742	187 719 067

The Group leases production equipment under finance leases at a cost of EUR 3 610 thousand (31 December 2017: EUR 2 836 thousand), accumulated depreciation of EUR 577 thousand (31 December 2017: EUR 432 thousand), and net book value of EUR 3 033 thousand (31 December 2017: EUR 2 404 thousand).

As at 31 December 2018 the cost of fully-depreciated items of property, plant and equipment, which were still in use, was EUR 99 705 thousand (31 December 2017: EUR 99 819 thousand).

Property, plant and equipment include Slovenská Ľupča castle at a net book value of EUR 3 071 thousand (31 December 2017: EUR 3 150 thousand), which is partly available to the public and partly used for representation purposes. Based on the assessment of impairment indications as per IAS 36 "Impairment of assets", the Group decided that there was no need to quantify an impairment loss with regard to the castle.

The Group revised the estimated remaining useful lives of non-current tangible assets and for the purpose of depreciation, it broke down material items of assets into material parts as required by IAS 16 – Property, Plant and Equipment. As a result of revising the useful life, the depreciation charges of non-current tangible assets were reduced by EUR 317 thousand in 2018.

Major additions to non-current tangible assets in 2018 comprised technical improvements to the Welding Plant building at a cost of EUR 1 509 thousand, the purchase of Automated Storage No. 3 technology at a cost of EUR 2 286 thousand, the EAF transformer at a cost of EUR 816 thousand, and 7 Caterpillar wheel loaders at a cost of EUR 1 359 thousand (ŽP EKO QELET a.s.).

Assets under lien

At 31 December 2018, the immovable and movable assets of ŽP with a carrying amount of EUR 18 991 thousand (fair value of approx. EUR 27 million) and immovable and movable assets of other consolidated companies with a carrying amount of EUR 21 019 thousand are subject to a registered debenture to secure certain bank loans (see Note 14). The net book value of non-current tangible assets with restricted handling by the Group (easement) was EUR 3 158 thousand.

Insurance of assets

<i>Insured assets</i>	<i>Type of insurance</i>	<i>Name and address of the insurance company</i>	<i>Amount insured</i>
Set of immovable assets	Against all risks	Allianz-Slovenská poisťovňa, a.s., Bratislava; AXA Seguros Generales, ZURICH; Allianz poisťovňa, a.s., Prague; UNIQA (AON Genova); Sopockie Towarzystwo Ubezpieczeń Ergo Hestia; STU Ergo Hestia	344 678 422
Set of movable assets	Against all risks	Allianz-Slovenská poisťovňa, a.s., Bratislava; AXA Seguros Generales, ZURICH; Allianz poisťovňa, a.s., Prague; UNIQA (AON Genova); Sopockie Towarzystwo Ubezpieczeń Ergo Hestia; STU Ergo Hestia	342 749 146
Acquisition of new non-current tangible assets	Against all risks	Allianz-Slovenská poisťovňa, a.s., Bratislava	1 185 820

7 INTANGIBLE ASSETS AND GOODWILL

	<i>Software</i>	<i>Goodwill</i>	<i>Assets under construction</i>	<i>Total</i>
Cost				
At 1 Jan 2018	6 057 218	1 768 335	221 354	8 046 907
Additions	987	-	256 667	257 654
Disposals	(147 759)	-	-	(147 759)
Transfers	297 710	-	(297 710)	-
Foreign exchange differences	(913)	-	-	(913)
At 31 Dec 2018	6 207 243	1 768 335	180 311	8 155 889
Accumulated amortisation				
At 1 Jan 2018	4 924 343	-	6 606	4 930 949
Amortisation	279 268	-	-	279 268
Disposals	(147 759)	-	-	(147 759)
Transfers	-	-	-	-
Foreign exchange differences	(675)	-	-	(675)
At 31 Dec 2018	5 055 177	-	6 606	5 061 783
Carrying amount				
At 1 Jan 2018	1 132 875	1 768 335	214 748	3 115 958
At 31 Dec 2018	1 152 066	1 768 335	173 705	3 094 106

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	Software	Goodwill	Assets under construction	Total
Cost				
At 1 Jan 2017	5 744 414	1 768 335	267 135	7 779 884
Additions	-	-	360 723	360 723
Disposals	(88 672)	-	(11 407)	(100 079)
Transfers	398 821	-	(395 297)	3 524
Foreign exchange differences	2 655	-	200	2 855
At 31 Dec 2017	6 057 218	1 768 335	221 354	8 046 907
Accumulated amortisation				
At 1 Jan 2017	4 689 771	-	6 606	4 696 377
Amortisation	320 977	-	-	320 977
Disposals	(88 672)	-	-	(88 672)
Transfers	-	-	-	-
Foreign exchange differences	2 267	-	-	2 267
At 31 Dec 2017	4 924 343	-	6 606	4 930 949
Carrying amount				
At 1 Jan 2017	1 054 643	1 768 335	260 529	3 083 507
At 31 Dec 2017	1 132 875	1 768 335	214 748	3 115 958

The subsidiary, PIPEX ITALIA S.p.A., is allocated goodwill amounting to EUR 1 183 thousand as at 31 December 2018 (31 December 2017: EUR 1 183 thousand). As at 31 December 2018, no impairment of goodwill was identified by testing the goodwill for impairment. Goodwill amounting to EUR 585 thousand arose on the acquisition of a 31.74% ownership interest in ŽP EKO QELET a.s. in 2005, which was recognised in the statement of financial position. No goodwill arose upon the acquisition of a 34.51% share in ŽP EKO QELET a.s. in 2007, as the transaction was between entities under common control, and the Company accounted for such transaction using the Pooling of Interests method. Upon the acquisition of the additional 0.02% ownership interest owing to an increase in the Company's registered capital in June 2008, negative goodwill arose, which was fully written off in the statement of comprehensive income for the year ended 31 December 2008.

8 OTHER FINANCIAL ASSETS

	31 Dec 2018	31 Dec 2017
Investments available for sale:		
STABILITA, d.d.s., a.s., Slovakia	94 387	94 387
Ocelářská unie a.s. (until 16 July 2017 Hutnictví železa, a.s.), Czech Republic	53 841	53 841
PROJECT STEEL SUPPLIES PTY LTD, Australia	65 000	65 000
Impairment	(65 179)	(23 151)
Investments available-for-sale, net	148 049	190 077
Other non-current receivables	139 660	344 001
Total other financial assets	287 709	534 078

Investments available for sale mainly include unconsolidated subsidiaries and insignificant companies in which the Group has an ownership interest of less than 20%. These companies are based in Slovakia or in the Czech Republic, and one company is based in Australia. The companies are not registered on a stock exchange. The investments are recognised at a cost less impairment, if any, as their fair value cannot be reasonably estimated.

9 DEFERRED TAX ASSET AND LIABILITY

The table below presents the most significant deferred tax assets and (liabilities) reported by the Group and movements in these items during the current and previous accounting period:

	1 Jan 2018	Changes owing to the sale of interests in subsidiaries	(Debit)/Credit to profit for current year	(Debit)/Credit to other comprehensive income and losses	31 Dec 2018
Property, plant and equipment	(12 131 875)	-	(516 619)	-	(12 648 494)
Inventories	448 858	-	140 108	-	588 966
Receivables	23 195	-	(4 062)	-	19 133
Liabilities	262 494	-	112 578	-	375 072
Provisions	275 134	-	8 073	-	283 207
Employee benefits	1 410 860	-	144 611	-	1 555 471
Tax loss carry-forward	-	-	-	-	-
Subsidies	149 576	-	38 789	-	188 365
Net deferred tax	(9 561 758)	-	(76 522)	-	(9 638 280)

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	1 Jan 2017	Changes owing to the sale of interests in subsidiaries	(Debit)/Credit to profit for current year	(Debit)/Credit to other comprehensive income and losses	31 Dec 2017
Property, plant and equipment	(11 554 325)	-	(577 550)	-	(12 131 875)
Inventories	480 414	-	(31 556)	-	448 858
Receivables	140 026	-	(116 831)	-	23 195
Liabilities	261 069	-	1 425	-	262 494
Provisions	252 323	-	22 811	-	275 134
Employee benefits	1 228 795	-	182 065	-	1 410 860
Tax loss carry-forward	162 424	-	(162 424)	-	-
Subsidies	125 617	-	23 959	-	149 576
Net deferred tax	(8 903 657)	-	(658 101)	-	(9 561 758)

In accordance with the Group's accounting policies, certain deferred tax assets and liabilities were offset. The table below presents the balances of deferred tax (after offsetting) for their reporting in the statement of financial position:

	31 Dec 2018	31 Dec 2017
Deferred tax asset	580 655	515 413
Deferred tax liability	(10 218 935)	(10 077 171)
Total	(9 638 280)	(9 561 758)

10 INVENTORIES

	31 Dec 2018	31 Dec 2017
Material and spare parts	36 172 299	28 222 338
Work in progress	16 539 629	12 059 863
Finished goods	28 871 665	25 726 454
Merchandise	1 399 563	1 248 040
Provision	(780 908)	(757 869)
Total inventories	82 202 248	66 498 826

As at 31 December 2018, no inventories were pledged to secure bank loans (31 December 2017: EUR 0) (see Note 14).

As at 31 December 2018, due to a decrease in the net realisable value of inventories, the Group created a provision for inventories based on their ageing structure or due to a decrease in their net realisable value. The change in the balance of the provision for inventories is included in "Other operating expenses" and "Other operating income".

Insurance of inventories

Insured assets	Type of insurance	Name and address of the insurance company	Amount insured
Inventories (work in progress, semi-finished goods, finished products)	Against all risks	Allianz-Slovenská poisťovňa, a.s., Bratislava; Zurich (AON Genova); Axa, Zurich	55 449 710

11 TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS

	31 Dec 2018	31 Dec 2017
Trade receivables	78 051 130	71 303 735
Receivables from related parties	3 173	36 282
Other tax receivables	4 227 673	3 718 651
Receivables from subsidies	-	96 657
Other receivables	2 132 558	1 342 276
Allowance for doubtful amounts	(1 618 192)	(1 557 054)
Total trade and other receivables	82 796 342	74 940 547
Total trade receivables and other financial assets	82 796 342	74 940 547

At 31 December 2018, trade receivables with a carrying amount of EUR 10 937 thousand (31 December 2017: EUR 14 724 thousand) were pledged to secure certain bank loans (see Note 14).

The following is a breakdown of trade and other receivables:

	31 Dec 2018	31 Dec 2017
Current receivables	60 437 808	56 819 657
Overdue receivables	23 976 726	19 677 944
Total	84 414 534	76 497 601

The ageing structure of overdue receivables that were not provided for:

	31 Dec 2018	31 Dec 2017
Less than 90 days	21 265 678	17 673 280
90-180 days	1 111 942	488 556
180-360 days	1 062	167 944
More than 360 days	1 794	951
Total	22 380 476	18 330 731

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The ageing structure of overdue receivables that were provided for:

	31 Dec 2018	31 Dec 2017
Less than 90 days	13 129	-
90–180 days	309 732	1 214
180–360 days	50 628	142 666
More than 360 days	1 222 761	1 203 333
Total	1 596 250	1 347 213

12 CASH AND CASH EQUIVALENTS

	31 Dec 2018	31 Dec 2017
Cash on hand	209 484	267 861
Bank balances and deposits	10 625 489	9 556 271
Cash and cash equivalents in the statement of financial position	10 834 973	9 824 132
Cash and cash equivalents in the statement of cash flows	10 834 973	9 824 132

As at 31 December 2018 and 31 December 2017, the Group had no restrictions on the handling of cash and cash equivalents.

13 CAPITAL AND RESERVES

Share capital

At 31 December 2018, the share capital comprised 2 384 135 ordinary shares (31 December 2017: 2 384 135 ordinary shares), with a face value of EUR 34 each, fully paid as at 31 December 2018 and 2017. The share capital was registered with the Commercial Register.

Legal reserve fund

The legal reserve fund may not be distributed among the shareholders. It is designed to cover future losses from operations and to increase the share capital in accordance with valid regulations.

Foreign currency translation reserve

The foreign currency translation reserve includes all foreign exchange losses arising from the translation of financial statements of foreign operations that are not an integral part of the Group's operations in the amount of EUR -24 thousand (31 December 2017: EUR 74 thousand).

14 INTEREST-BEARING LOANS AND BORROWINGS

	31 Dec 2018	31 Dec 2017
Loans	40 723 316	33 628 655
Interest-bearing liability to the parent company and ultimate owners	23 470 000	24 972 583
Overdraft facilities	23 276 765	18 994 661
Obligations under finance leases	2 566 284	1 707 688
Total interest-bearing loans and borrowings	90 036 365	79 303 587
Loans by currency:		
EUR - Fixed interest rate	34 248 820	32 178 159
EUR - Floating interest rate	52 548 632	44 764 263
CZK - Floating interest rate	672 629	653 477
Total	87 470 081	77 595 899
Repayments of loans are scheduled as follows:		
Within one year	56 871 518	48 277 064
More than one year, less than two years	23 196 517	18 748 454
More than two years, less than three years	1 599 403	4 525 561
More than three years, less than four years	765 564	993 317
More than four years, less than five years	5 037 079	151 503
More than five years	-	4 900 000
Total	87 470 081	77 595 899
Current portion		
Loans and borrowings	56 871 518	48 277 064
Obligations under finance leases	730 430	539 447
Total	57 601 948	48 816 511
Non-current portion		
Loans and borrowings	30 598 563	29 318 835
Obligations under finance lease	1 835 854	1 168 241
Total	32 434 417	30 487 076

As of 31 December 2018, bank loans and borrowings of EUR 37 580 thousand and of EUR 49 890 thousand were secured and not secured, respectively. The provided bank loans and borrowings were secured over movable and immovable assets of the Group with a carrying amount of EUR 40 010 thousand (see Note 6), trade receivables with a carrying amount of EUR 10 937 thousand (see Note 11). Part of loans is secured by blank promissory notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018 (IN EUROS)

Interest rates of loans and borrowings:

EUR - Fixed interest rate	1.10% - 3%
EUR - Floating interest rate	1M, 3M, 6M, 12M EURIBOR, EONIA + (0.75% p.a. – 1.75% p.a.)
CZK - Floating interest rate	PRIBOR + 0.75% p.a.

The fair value of loans and borrowings approximates their carrying amount. The fair value represents cash flows discounted with the interest rate that, according to the assumption of the Group's management, may be collected on the reporting date.

As at 31 December 2018, the Group had the amount of EUR 14 393 thousand in the form of undrawn loan commitments in respect of which all the conditions for drawing have been fulfilled.

The Group's management has been in contact with the financing banks regarding compliance with the requirements resulting from the signed loan agreements.

Issued bonds in the amount of EUR 4 900 thousand bear an interest of 3% p.a. and fall due in 2023.

Obligations under finance leases

Obligations under finance leases are payable as follows:

	Minimum lease payments		Present value of minimum lease payments	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Obligations under finance leases				
Due within 1 year inclusive	759 118	560 433	730 430	539 447
Due from 1 to 5 years inclusive	1 844 618	1 111 586	1 804 623	1 082 400
Due after 5 years	31 265	86 207	31 231	85 841
	2 635 001	1 758 226	2 566 284	1 707 688
Less: unrealised financial expenses	(68 717)	(50 538)	n/a	n/a
Present value of obligations under financial leases	2 566 284	1 707 688	2 566 284	1 707 688
Less: Principal value due within 1 year inclusive (recorded in current loans and borrowings)			(730 430)	(539 447)
Principal value due in over 1 year (recorded in non-current loans and borrowings)			1 835 854	1 168 241

In accordance with internal policies, the Group leases certain production equipment under finance lease contracts (see Note 5). The average lease term is 4.0 years. For the year ended 31 December 2018, the average effective interest rate was 1.36%. The interest rates are fixed as at the date of the contract, and hence the Group is exposed to the risk that the fair value of interest rates will change. All leases have fixed payments and no agreements were made on contingent future lease payments.

The obligations under finance leases are denominated in euros.

The Group's obligations under finance leases are secured by ownership rights of the lessor to the leased assets.

15 OTHER FINANCIAL AND OTHER NON-CURRENT LIABILITIES

	31 Dec 2018	31 Dec 2017
Deferred income on subsidies (Note 25)	3 562 929	3 900 552
Other	66 860	73 537
Total	3 629 789	3 974 089

16 PROVISIONS FOR EMPLOYEE BENEFITS

In accordance with Slovak, Czech and Italian labour legislation, and in accordance with the Board of Directors' programme, the Group pays benefits to its employees as described below.

The long-term employee benefit scheme is the programme of defined benefits under which employees are entitled to a one-off bonus upon retirement, or disability, and depending on the defined terms also to regular service loyalty bonuses for years with the Company, and jubilee bonuses. As at 31 December 2018, the programme was applicable to 3 373 employees (31 December 2017: 3 425) of the Group. As of the aforementioned date, the programme was unfunded, i. e. no specific assets were determined to cover liabilities arising from the scheme.

	31 Dec 2018	31 Dec 2017
Present value of retirement benefits	7 354 386	6 654 802
Present value of length-of-service benefits	922 069	887 882
Present value of jubilee benefits	203 905	207 124
Total	8 480 360	7 749 808

Key assumptions used in actuarial valuation:

	31 Dec 2018
Annual future real rate of salary increases	0% - 2.0%
Annual employee turnover	1.0% - 10.8%
Retirement age	63 years and 2 months

To calculate the provision for employee benefits, the Group applied the NBS current average interest rate provided to non-financial entities in the Eurozone.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018 (IN EUROS)

17 PROVISIONS

	<i>Warranties</i>	<i>Litigations</i>	<i>Total 2018</i>	<i>Total 2017</i>
Balance at 1 Jan	109 686	796 329	906 015	908 335
Provisions created during the year	4 000	11 671	15 671	1 000
Use/reversal of a provision during the year	(590)	-	(590)	(3 320)
Balance at 31 Dec	113 096	808 000	921 096	906 015

The provisions are included in liabilities as follows:

	<i>Current liabilities (included in trade and other payables)</i>	<i>Non-current liabilities</i>	<i>Total</i>
As at 31 Dec 2017	19 000	887 015	906 015
As at 31 Dec 2018	34 671	886 425	921 096

18 TRADE AND OTHER FINANCIAL PAYABLES

	<i>31 Dec 2018</i>	<i>31 Dec 2017</i>
Trade payables	23 798 225	22 090 584
Payables to related parties	32 803	26 781
Payables to employees and social security payables	10 802 351	9 511 548
Other tax payables	2 255 280	2 034 406
Other payables	2 044 846	1 781 119
Total trade and other financial payables	38 933 505	35 444 438

Breakdown of trade and other financial payables:

	<i>31 Dec 2018</i>	<i>31 Dec 2017</i>
Payables within due date	37 619 706	34 364 857
Payables after due date	1 313 799	1 079 581
Total	38 933 505	35 444 438

Social Fund liabilities (included in payables to employees and social security payables):

	<i>Amount</i>
Opening balance as at 1 Jan 2018	133 832
Total creation	710 604
Total drawing	(738 687)
Closing balance as at 31 Dec 2018	105 749

19 REVENUES

Revenues comprise the following items:

	<i>Year ended</i>	
	<i>31 Dec 2018</i>	<i>31 Dec 2017</i>
Own products and merchandise	385 541 921	321 484 433
Services	12 036 835	12 021 711
Total revenues	397 578 756	333 506 144

20 OWN WORK CAPITALISED

	<i>Year ended</i>	
	<i>31 Dec 2018</i>	<i>31 Dec 2017</i>
Own work capitalised – raw material	5 916 501	5 439 372
Own work capitalised – internal services	4 021 419	3 606 382
Own work capitalised – non-current tangible and intangible assets	1 514 805	666 710
Total own work capitalised	11 452 725	9 712 464

“Own work capitalised – raw material” represents the processing of material by own capacities for its further use in production.

21 PERSONNEL EXPENSES

	<i>Year ended</i>	
	<i>31 Dec 2018</i>	<i>31 Dec 2017</i>
Wages and salaries	73 999 452	65 975 032
Social security contributions	29 218 147	26 739 268
Total	103 217 599	92 714 300

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018 (IN EUROS)

The Group had 4 246 employees as at 31 December 2018, of which 195 were managers (31 December 2017: 4 265, of which 185 were managers). The full-time equivalent of the Group's employees for the year ended 31 December 2018 was 4 274, of which 195 were managers (31 December 2017: 4 213, of which 185 managers).

22 OTHER OPERATING REVENUES AND OTHER OPERATING EXPENSES

Other operating revenues comprise the following:

	Year ended	
	31 Dec 2018	31 Dec 2017
Profit on the sale of property, plant, equipment and intangibles	467 276	375 569
Profit on the sale of raw materials	92 970	1 763
Proceeds from subsidies	1 019 417	1 317 608
Insurance benefits from insurance companies	750 130	2 438 942
Other operating revenues	1 345 664	1 252 175
Total other operating revenues	3 675 457	5 386 057

Other operating expenses comprise the following:

	Year ended	
	31 Dec 2018	31 Dec 2017
Additions to/(release) of provisions for receivables and inventories	552 359	740 589
Change in impairment of property, plant and equipment	43 926	263 655
Insurance premium	1 521 683	1 362 173
Other taxes and charges	1 177 342	826 209
Other operating expenses	1 380 065	996 988
Total other operating expenses	4 675 375	4 189 614

23 OTHER FINANCIAL INCOME/OTHER FINANCIAL EXPENSES

Other financial income comprises the following items:

	Year ended	
	31 Dec 2018	31 Dec 2017
Foreign exchange gains	1 258 009	1 047 708
Revenues from financial derivatives	4 692	-
Total other financial income	1 262 701	1 047 708

Other financial expenses comprise the following items:

	Year ended	
	31 Dec 2018	31 Dec 2017
Foreign exchange losses	1 109 761	1 414 238
Losses from financial derivatives	-	21 907
Other financial expenses	223 375	134 396
Total other financial expenses	1 333 136	1 570 541

24 INCOME TAX

	Year ended	
	31 Dec 2018	31 Dec 2017
Current tax expense for current period	5 722 980	1 915 007
Deferred tax expense for current period	76 522	658 101
Total income tax	5 799 502	2 573 108

The table below shows the reconciliation of income tax recognised and theoretical income tax calculated using the standard tax rates:

	Year ended	
	31 Dec 2018	31 Dec 2017
Profit/(loss) before tax	24 031 481	9 525 465
Tax at local tax rate of 21% (2017: 21%)	5 046 611	2 000 348
Tax effect of permanent differences, net	418 295	542 999
Effect of different tax rates of subsidiaries operating in other jurisdictions	371 123	207 684
Effect of a change in the tax rate	-	(60 800)
Unrecognised deferred taxes	(6 314)	(47 480)
Additional income tax charges, exchange rate differences on conversions	(30 213)	(69 643)
Total income tax	5 799 502	2 573 108

The actual tax rate differs from the tax rate of 21% (2017: 21%) set by law mainly owing to differences in the classification of certain items of expenses and income for accounting and tax purposes, and tax rules for a group of companies that prepares consolidated financial statements in Slovakia. At present, companies in Slovakia are required to present their tax returns individually and the law does not allow for the preparation of common tax declaration for a group of companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018 (IN EUROS)

Deferred tax is calculated at the income tax rate that is expected to be applied in the period when the asset is to be realised or the liability settled. As a result, the Company applied the income tax rate effective in the following reporting period, i. e. 21%. In Slovakia, the 2014 to 2018 taxation periods remain open and are subject to inspection by the Tax Authority. The Group prepared documentation on related-party transactions in accordance with effective Slovak tax legislation.

25 SUBSIDIES

	<i>Receivables from subsidies</i>	<i>Deferred income on subsidies, non-current (Note 15)</i>	<i>Deferred income on subsidies, current</i>	<i>Release of subsidies in the statement of comprehensive income</i>
31 Dec 2018				
Investment subsidies	-	3 562 929	513 081	514 344
Operating subsidies	-	-	12 143	505 073
Total subsidies	-	3 562 929	525 224	1 019 417
31 Dec 2017				
Investment subsidies	-	3 900 552	589 800	609 101
Operating subsidies	96 657	-	12 143	708 507
Total subsidies	96 657	3 900 552	601 943	1 317 608

The statement of comprehensive income mainly includes revenues from: an investment subsidy for the "Reconstruction of the Dust-Collection System of the Electric Arc and Ladle Furnace" project (EUR 192 thousand), an investment subsidy for the "Tungsten Boiled Steel" project (EUR 15 thousand), an investment subsidy for the "Refurbishment, Modernisation and Construction of a Football Stadium" project (EUR 84 thousand), compensation from the environmental fund in the form of a subsidy (EUR 334 thousand) – ŽP, and an investment subsidy for the "Old Vehicle Processing Facility" (EUR 201 thousand) – ŽP EKO QELET a.s.

26 FINANCIAL RISK MANAGEMENT POLICIES

26.1 Capital risk management

The Group manages its capital to ensure that the Group is able to continue as a going concern with the aim of achieving an optimum debt and equity balance. The Group's overall strategy remains unchanged from 2017.

The gearing ratio at the year-end was as follows:

	<i>31 Dec 2018</i>	<i>31 Dec 2017</i>
Debt ⁽ⁱ⁾	(90 036 365)	(79 303 587)
Cash and cash equivalents	10 834 973	9 824 132
Net debt	(79 201 392)	(69 479 455)
Equity	(217 919 774)	(204 908 355)
Net debt to equity ratio	36%	34%

(i) Debt is defined as current and non-current interest bearing loans and borrowings.

26.2 Categories of financial instruments

	<i>31 Dec 2018</i>	<i>31 Dec 2017</i>
Available for sale investments	148 049	190 077
Loans, borrowings and receivables (including cash and cash equivalents)	93 770 975	85 108 680
Financial assets	93 919 024	85 298 757
Bank loans recognised at amortised costs	87 470 081	77 595 899
Obligations under finance lease	2 566 284	1 707 688
Trade payables and other liabilities	42 563 294	39 418 527
Financial liabilities	132 599 659	118 722 114

a) Financial risk factors

The Group's activities expose it to a variety of financial risks that include the effects of changes in foreign currency exchange rates and loan interest rates, bonds and obligations under financial leases. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments to manage certain exposures.

Credit risk

Group management has a credit policy in place and the exposure to credit risk is monitored on an on-going basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets. At the reporting date there were no significant concentrations of credit risk. Derivative counter-parties and cash transactions are limited to high credit quality financial institutions. The Group did not limit the amount of credit exposure to any financial institution.

Interest rate risk

The Group's operating income and operating cash flows are relatively independent of changes in market interest rates. Interest rate risk arises on long-term borrowings, which are issued at fixed rates and expose the Group to fair value interest rate risk.

The sensitivity analysis (see below) has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2018 would increase/decrease by EUR 247 thousand (2017: increase/decrease by EUR 194 thousand). This is mainly attributable to the Group's exposure to interest rates for variable rate borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018 (IN EUROS)

Foreign currency risk

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency. The Group uses forward currency contracts and options to hedge its foreign currency risk. Most of the derivatives have maturities of less than one year after the reporting date.

The Group has a number of financial investments in foreign subsidiaries whose net assets are exposed to currency translation risk.

The Group records currency derivatives as trading instruments with fair value adjustments recorded in the statement of comprehensive income, and as instruments designed as cash flows hedges where changes in fair value are recorded in equity.

The carrying amount of cash assets and cash liabilities of the Group denominated in a foreign currency as at the reporting date is as follows:

	<i>Liabilities</i>		<i>Assets</i>	
	<i>31 Dec 2018</i>	<i>31 Dec 2017</i>	<i>31 Dec 2018</i>	<i>31 Dec 2017</i>
USD	342 186	992 108	7 538 505	7 656 779
CZK	850 809	922 884	3 365 521	3 243 944
PLN	149 991	150 595	9 983 004	9 270 869

The following table presents the Group's sensitivity to a 25% increase/decrease in the euro against the US dollar, a 20% increase/decrease in the euro against the Czech crown and Polish zloty. The sensitivity analysis includes monetary items denominated in foreign currencies, and adjusts their translation at the end of the reporting period for the aforementioned change in foreign currency rates. Positive balances indicate an increase in profit and other equity items upon the decrease of the euro against the respective currency. Appreciation of the euro against the respective currency would result in a similar, however opposite impact on profit and other equity items, while the data presented below would be negative.

	<i>USD</i>		<i>CZK</i>		<i>PLN</i>	
	<i>31 Dec 2018</i>	<i>31 Dec 2017</i>	<i>31 Dec 2018</i>	<i>31 Dec 2017</i>	<i>31 Dec 2018</i>	<i>31 Dec 2017</i>
Profit or loss	1 799 080	1 666 168	502 942	464 212	1 966 602	1 824 055

To decrease risks resulting from fluctuations in foreign currency exchange rates, the Group uses financial derivatives.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash with adequate due date and marketable securities, the availability of funding through an adequate amount of committed credit lines, and the ability to close out market positions.

The following tables summarise the residual maturity period of the Group's non-derivative financial liabilities. The tables have been prepared based on undiscounted cash flows from financial liabilities, assuming the earliest possible date on which the Group can be required to settle the liabilities. The table includes cash flows from both interest and principal during the term of a loan agreement.

	<i>Weighted average effective interest rate</i>	<i>Up to 1 year</i>	<i>1–5 years</i>	<i>5+ years</i>	<i>Total</i>
2018					
Interest-free liabilities		39 570 675	5 132 372	-	44 703 047
Floating interest rate instruments (loans)	1.02%	50 424 288	3 375 405	-	53 799 693
Fixed interest rate instruments (loans)	1.99%	7 096 467	28 776 037	-	35 872 504
Finance lease obligations		759 118	1 844 618	31 265	2 635 001
		97 850 548	39 128 432	31 265	137 010 245
2017					
Interest-free liabilities		36 260 121	3 974 089	-	40 234 210
Floating interest rate instruments (loans)	1.11%	41 653 806	4 355 606	-	46 009 412
Fixed interest rate instruments (loans)	2.03%	7 226 660	21 104 071	5 419 265	33 749 996
Finance lease obligations		560 433	1 111 586	86 207	1 758 226
		85 701 020	30 545 352	5 505 472	121 751 844

b) Fair value estimation

The fair value of publicly-traded derivatives and available-for-sale investments is based on quoted market prices at the reporting date. The fair value of currency swap contracts, forwards and options is determined using foreign exchange rates at the reporting date.

In assessing the fair value of non-traded derivatives and other financial instruments, the Group uses a variety of methods and market assumptions that are based on the market conditions existing at the reporting date. Other techniques, mainly the estimated discounted value of future cash flows, are used to determine the fair value for the remaining financial instruments.

The face values of financial assets and liabilities less any estimated credit adjustments 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 available to the Group for similar financial instruments.

Fair value measurement in the Statement of Financial Position

The fair value measurement of the recognised financial instruments refers only to those that are derived from inputs other than quoted prices (unadjusted) in active markets for identical assets or liabilities that are observable on the market for the asset or liability, directly or indirectly (Level 2 hierarchy as applied by IFRS 7).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018 (IN EUROS)

27 RELATED PARTY TRANSACTIONS

27.1 Members of statutory, supervisory and other bodies

Remuneration paid to the members of the Group's statutory, supervisory and other bodies for the year ended 31 December 2018 amounted to EUR 3 517 thousand (year ended 31 December 2017: EUR 2 052 thousand). Remuneration is included in personnel expenses.

27.2 Other related parties

CPA s.r.o., Slovak Republic is the parent company of Železiarne Podbrezová a.s.

During the year, the Group entered into the following transactions with related parties that did not represent consolidated entities in these consolidated financial statements:

	<i>Purchases of goods and services in 2018</i>	<i>Payables as at 31 Dec 2018</i>	<i>Sales of goods and services in 2018</i>	<i>Receivables as at 31 Dec 2018</i>
Parent company and ultimate owners	181 677	23 470 480	6 339	3 149
Other related parties	313 898	211 012	1 598 634	287 846
Total	495 575	23 681 492	1 604 973	290 995
	<i>Purchases of goods and services in 2017</i>	<i>Payables as at 31 Dec 2017</i>	<i>Sales of goods and services in 2017</i>	<i>Receivables as at 31 Dec 2017</i>
Parent company and ultimate owners	189 593	24 973 063	7 024	3 141
Other related parties	357 443	175 834	1 589 788	275 393
Total	547 036	25 148 897	1 596 812	278 534

Transactions with the parent company and ultimate owners mainly represent received borrowings, advisory services, and lease of premises.

Transactions with fellow subsidiaries and other related parties mainly represent the sale of products of the Group, and transport services.

28 COMMITMENTS AND CONTINGENCIES

28.1 Environmental matters

The Company's management believes that the Group complies with the relevant existing legislation in all material respects. It is not expected that the Group may become liable to make significant payments relating to the environment in the future.

28.2 Capital expenditure

The Group prepared a capital expenditure plan for 2019 amounting to EUR 25 728 thousand, of which EUR 6 574 thousand is contracted as at 31 December 2018.

28.3 Litigation and potential losses

At present, the Group is involved in a number of legal cases and other disputes that arise as a result of ordinary business activities. The Group created a provision for litigation against PIPEX ITALIA S.p.A in the amount of EUR 796 thousand. The Group did not create a provision for other Group litigations in the accompanying consolidated financial statements, and based on the advice of its legal counsels, believes that the final outcome of the litigations is uncertain, and no material negative impact, individually or in aggregate, is anticipated on the Company's consolidated financial statements.

28.4 Emission rights

During 2005, the EU-wide greenhouse gas emission rights trading scheme came into effect together with the Act on Emission Rights Trading passed by the Slovak Parliament in order to implement the related EU Directive in Slovakia. Under this legislation, the Group is required to deliver emission rights to the Slovak Environmental Office to offset actual greenhouse gas emissions.

The Group has opted to recognise the allocated emission rights at a nominal amount. In 2018, the Group received a pro rata share of emission rights, but the Group's emission production in 2018 exceeded this share. The difference of EUR 126 thousand is recognised in profit or loss.

The Group expects similar development until the end of the 3rd trading period (2020) and, therefore, decided to purchase emission rights in the amount of EUR 648 600.

The Group has an obligation to deliver emission rights for actual emissions. This obligation was fulfilled by the delivery of emission rights for the 2018 monitored period in March 2019.

28.5 Guarantee for loans provided to other entities

The Group provides its assets as collateral for the liabilities of joint debtors ŽP Informatika s.r.o. and ŽIAROMAT a.s. under a loan agreement with Slovenská sporiteľňa a.s. up to EUR 6 million. The outstanding principal as at 31 December 2018 amounts to EUR 4 million.

The Company's management believes given the financial positions of ŽP Informatika s.r.o. and ŽIAROMAT a.s. that the subsidiaries will repay the loans, therefore the Group recorded no provision in the accompanying consolidated financial statements.

29 EVENTS AFTER THE REPORTING PERIOD

From 31 December 2018 up to the issue date of the financial statements, there were no such events that would have a significant impact on the Group's assets and liabilities, except for those resulting from the ordinary course of business operations.

30 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were prepared and approved for issue on 23 April 2019.

LIST OF PHOTOGRAPHS

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SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Presented in accordance with the Act on Accounting and International Financial Reporting Standards as adopted by the EU

INDEPENDENT AUDITOR'S REPORT



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Železiarne Podbrezová a.s.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders, Supervisory Board and Board of Directors of Železiarne Podbrezová a.s.:

REPORT ON THE AUDIT OF SEPARATE THE FINANCIAL STATEMENTS

Opinion

We have audited the separate financial statements of Železiarne Podbrezová a.s. (the "Company"), which comprise the separate statement of financial position as at 31 December 2018, and the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with the provisions of Act No. 423/2015 Coll. on Statutory Audit and on Amendment to and Supplementation of Act No. 431/2002 Coll. on Accounting, as amended (hereinafter the "Act on Statutory Audit") related to ethical requirements, including the Code of Ethics for Auditors that are relevant to our audit of the separate financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management

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

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

Auditor's Responsibilities for the Audit of the Separate Financial Statements

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

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INDEPENDENT AUDITOR'S REPORT

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on Information Disclosed in the Annual Report

The statutory body is responsible for information disclosed in the annual report prepared under the requirements of the Act on Accounting No. 431/2002 Coll. as amended (the "Act on Accounting"). Our opinion on the financial statements stated above does not apply to other information in the annual report.

In connection with the audit of financial statements, our responsibility is to gain an understanding of the information disclosed in the annual report and consider whether such information is materially inconsistent with the financial statements or our knowledge obtained in the audit of the financial statements, or otherwise appears to be materially misstated.

As at the issuance date of the auditor's report on the audit of financial statements, the annual report was not available to us.

When we obtain the annual report, we will evaluate whether the Company's annual report includes information whose disclosure is required under the Act on Accounting, and based on procedures performed during the audit of the financial statements, we will express an opinion on whether:

- Information disclosed in the annual report prepared for 2018 is consistent with the financial statements for the relevant year; and
- The annual report includes information pursuant to the Act on Accounting.

Furthermore, we will disclose whether material misstatements were identified in the annual report based on our understanding of the Company and its position, obtained in the audit of the financial statements.

Bratislava, 25 March 2019



Ing. Patrik Ferko, FCCA
Responsible Auditor
Licence UDVA No. 1045

On behalf of
Deloitte Audit s.r.o.
Licence SKAu No. 014

This is an English language translation of the original Slovak language document.

SEPARATE STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018 (IN EURO)

	Note	31 December 2018	31 December 2017
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	5	106 384 435	101 451 592
Intangible assets	6	5 431	7 988
Investments in subsidiaries, joint-ventures and associates	7	75 840 240	75 799 124
Available-for-sale investments		83 049	125 077
Other assets	8	254 891	520 914
Total non-current assets		182 568 046	177 904 695
CURRENT ASSETS			
Inventories	9	53 270 836	42 760 232
Trade receivables and other financial assets	10	51 590 008	46 644 825
Other assets	11	984 291	301 395
Cash and cash equivalents	12	1 196 136	1 418 011
Total current assets		107 041 271	91 124 463
TOTAL ASSETS		289 609 317	269 029 158
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	13	81 060 590	81 060 590
Legal and other funds	13	16 212 118	16 212 118
Retained earnings		110 813 087	102 275 145
Total equity		208 085 795	199 547 853
LIABILITIES			
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	14	19 570 000	19 570 000
Other liabilities	15	2 136 508	2 363 050
Provision for employee benefits	16	7 218 018	6 630 190
Deferred tax liability	17	7 216 391	6 964 013
Total non-current liabilities		36 140 917	35 527 253
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	14	16 362 827	10 281 868
Trade and other payables	18	26 343 295	23 460 179
Current tax liability		2 676 483	212 005
Total current liabilities		45 382 605	33 954 052
Total liabilities		81 523 522	69 481 305
TOTAL EQUITY AND LIABILITIES		289 609 317	269 029 158

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018 (IN EURO)

	Note	Year ended 31 December 2018	Year ended 31 December 2017
Sales of own products and merchandise	19	285 004 586	233 043 665
Sales of services	19	5 927 286	5 568 864
Changes in inventories of finished products and work in progress		4 132 300	3 963 333
Own work capitalised	20	7 201 880	5 814 948
Raw materials and consumables used	21	(184 769 611)	(154 680 802)
Services		(23 156 719)	(20 310 007)
Personnel expenses	22	(71 365 512)	(63 630 589)
Depreciation and amortisation		(8 289 501)	(8 251 446)
Other operating revenues	23	2 154 157	3 770 170
Other operating expenses	23	(2 675 977)	(2 318 416)
Interest income	24	99 904	305 755
Interest expense	25	(509 102)	(436 897)
Other financial income	26	3 378 331	2 699 724
Other financial expenses	26	(672 249)	(467 668)
Profit/(loss) before tax		16 459 773	5 070 634
Income tax expense	27	(3 153 561)	(1 022 402)
PROFIT/(LOSS) FOR THE YEAR		13 306 212	4 048 232
Other comprehensive income and losses that may be reclassified subsequently to profit or loss			
Other comprehensive income and losses after tax		-	-
Total profit/(loss) for the year		13 306 212	4 048 232

SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018 (IN EURO)

	Share capital	Legal reserve fund	Retained earnings	Total
Opening balance at 1 January 2017	81 060 590	16 212 118	100 611 048	197 883 756
Dividends paid	-	-	(2 384 135)	(2 384 135)
Total comprehensive income for the year	-	-	4 048 232	4 048 232
Closing balance at 31 December 2017	81 060 590	16 212 118	102 275 145	199 547 853
Dividends paid	-	-	(4 768 270)	(4 768 270)
Total comprehensive income for the year	-	-	13 306 212	13 306 212
Closing balance at 31 December 2018	81 060 590	16 212 118	110 813 087	208 085 795

SEPARATE STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2018 (IN EURO)

	Note	2018	2017
Cash flows from core business activities			
Profit/(loss) from ordinary activities		16 459 773	5 070 634
Non-cash transactions affecting profit/loss from ordinary activities		9 358 752	8 519 992
Depreciation charges		8 289 501	8 251 446
Net book value of non-current assets		1 806	16 613
Write-off of receivables		482	620
Revenues from assigned receivables		-	-
Provision for employee benefits		1 077 170	1 457 951
Change In temporary accounts of assets		173 526	(420 507)
Change in temporary accounts of liabilities		(322 918)	(560 643)
Provisions for assets		96 756	(250 167)
Interest expense		509 102	436 897
Interest income		(99 904)	(305 755)
Unrealised foreign exchange losses		20 789	15 483
Unrealised foreign exchange gains		(20 037)	(66 605)
Gain/(loss) from the sale of non-current assets		(367 521)	(55 341)
Change in working capital		(6 360 571)	(2 567 396)
Receivables		(3 423 084)	(13 923 317)
Payables		7 571 162	16 389 720
Inventories		(10 508 649)	(5 033 799)
Interest paid		(509 102)	(436 897)
Interest received		99 904	605 659
Paid employee benefits		(489 342)	(653 248)
Emission rights		(648 600)	-
Items excluded from operating activities		(3 072 753)	(2 072 356)
Dividends		(3 068 061)	(2 094 267)
Expenditures recognised in respect of derivatives		-	22 212
Income recognised in respect of derivatives		(4 692)	(301)
Specific items		(436 705)	(7 201 764)
Corporate income tax paid		(436 705)	(7 201 764)
Net cash generated by operating activities		14 401 356	1 264 624
Cash flows from investing activities			
Expenditures for the acquisition of property, plant and equipment		(12 547 829)	(6 576 464)
Acquisition of non-current intangible assets		-	-
Acquisition of non-current tangible assets		(13 998 895)	(6 020 807)
Acquisition of non-current financial assets		(41 116)	(755 640)
Change in liabilities of investment nature		1 492 182	199 983
Proceeds on the sale of non-current assets		1 100 897	395 277
Proceeds on the sale of non-current tangible and intangible assets		1 100 897	395 277
Proceeds on the sale of non-current financial assets		-	-

SEPARATE STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2018 (IN EURO)

	Note	2018	2017
Cash flows from loans and borrowings		(1 478 348)	4 500 000
Proceeds from repayment of loans and borrowings		-	4 800 000
Payments for provided loans and borrowings		(1 478 348)	(300 000)
Dividends received		3 068 061	2 113 551
Net cash generated by investing activities		(9 857 219)	432 364
Cash flows from financing activities			
Change in non-current (current) liabilities		-	-
Repayments of long-term (short-term) bank loans		-	-
Proceeds from long-term other loans and borrowings		-	-
Repayments of long-term (short-term) other loans and borrowings		-	-
Expenditures related to derivatives		-	(22 212)
Income related to derivatives		4 692	301
Items excluded from financing activities		8 932	49 216
Expenditures for dividends paid		(4 770 704)	(3 982 440)
Net cash generated by financing activities		(4 757 080)	(3 955 135)
Net increase or net decrease in cash		(221 875)	(2 307 363)
Cash and cash equivalents at the beginning of the reporting period	12	1 418 011	3 725 374
Cash and cash equivalents before reflecting foreign exchange differences at the end of the reporting period		1 205 068	1 467 226
Foreign exchange differences for cash and cash equivalents at the end of the reporting period	12	(8 932)	(49 216)
Foreign exchange losses		(44 173)	(55 927)
Foreign exchange gains		35 241	6 711
Cash and cash equivalents at the end of the reporting period	12	1 196 136	1 418 011

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018 (IN EURO)

1 GENERAL INFORMATION

1.1 Description of the Company

Železiarne Podbrezová a.s. (hereinafter the "Company" or "ŽP") is a joint stock company that was incorporated on 21 April 1992 and established on 1 May 1992. The Company's registered seat is at Kolkáreň 35, 976 81 Podbrezová, Slovak Republic and its identification numbers are as follows: IČO: 31 562 141; DIČ: 2020458704. The Company produces steel pipes for industrial purposes, which are mainly sold to customers in Europe.

1.2 Structure of shareholders and their shares in the share capital

As at 31 December 2018, the Company's shares were held by CPA s.r.o. (79.34%) and other minority shareholders (20.66%). The shareholders' voting rights equal their ownership interest in the share capital.

The Company's shares are certified registered shares and have not been publicly tradable since 2007.

1.3 Members of Company's bodies

Supervisory Board

Ing. Ján Banas – Chairman
Ing. Jozef Marčok – Deputy Chairman
Luigi Cuzzolin – Member
Ing. Ľudovít Ihring – Member
Ing. Tomáš Ihring – Member
Pavol Košťál – Member
Soňa Lopuszná – Member
Ing. Jaroslav Romančík – Member
Ing. Vladimír Zvarík – Member

Board of Directors

Ing. Vladimír Soták – Chairman
Ing. Marian Kurčík – Deputy Chairman
Ing. Miloš Dekrét – Member
Ing. Július Kriváň – Member
Ing. Mária Niklová – Member
Ing. Vladimír Soták, Jr. – Member
Ing. Milan Srnka, PhD. – Member

1.4 Unlimited guarantee

The Company is not a partner in any unlimited liability company.

1.5 Legal basis for preparing the financial statements

These financial statements are the annual separate financial statements of Železiarne Podbrezová a.s. as prepared under Act No. 431/2002 Coll. on Accounting, as amended. The separate financial statements were prepared for the reporting period from 1 January 2018 to 31 December 2018 in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). These financial statements also represent the statutory financial statements of the Company. The financial statements have been presented for general use.

1.6 Approval of the 2017 financial statements

The Company's 2017 financial statements for the year ended 31 December 2017 were approved by the ordinary General Meeting held on 25 June 2018.

1.7 Consolidated financial statements

The Company also prepares consolidated financial statements, which are available at the Company's registered seat and at the Registry Court in Banská Bystrica (Section Sa, File 69/S). The Company's consolidated financial statements are included in the consolidated financial statements of the parent company, ie CPA s.r.o. The parent company's consolidated financial statements are available at the Company's registered seat and at the Registry Court in Banská Bystrica (Skuteckého 28, 975 59).

The consolidated financial statements provide a comprehensive view on the operation of the Company and its subsidiaries.

The business names of subsidiaries and joint ventures are specified in Note 7.

1.8 Comparatives

As comparatives for the previous reporting period relating to assets, liabilities, and equity items, the financial statements present data reflecting balances as at 31 December 2017. For expenses and revenues, comparatives for the previous reporting period, ie year ended 31 December 2017, were used.

2 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Company adopted all new and revised standards and interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of IASB as endorsed by the European Union that are relevant to its operations and are effective for the reporting periods beginning on 1 January 2018.

Initial application of the new amendments to the existing standards effective for the current reporting period

The following new standards, amendments to the existing standards, and the interpretation issued by the International Accounting Standards Board (IASB) are effective for the current reporting period:

- **IFRS 9 "Financial Instruments"** issued on 24 July 2014 is IASB's replacement of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

Classification and Measurement – IFRS 9 introduces a new approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces the existing rule-based requirements under IAS 39. The new model also results in a single impairment model being applied to all financial instruments.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018 (IN EURO)

Impairment – IFRS 9 has introduced a new, expected-loss impairment model that will require more-timely recognition of expected credit losses. The new standard requires entities to account for expected credit losses from the moment when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

Hedge accounting – IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activities. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

Own credit risk – IFRS 9 removes the volatility in profit or loss caused by changes in the credit risk of liabilities which are measured at a fair value. This change to the accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.

- **IFRS 15 "Revenue from Contracts with Customers"** issued by IASB on 28 May 2014 (on 11 September 2015, IASB deferred the effective date of IFRS 15 to 1 January 2018 and on 12 April 2016 IASB issued clarifications to this standard). IFRS 15 specifies how and when an IFRS reporter must recognise revenue and requires such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. The application of the standard is mandatory for all IFRS reporters and applies to nearly all contracts with customers. The main exceptions are leases, financial instruments and insurance contracts. The core principle of the new standard is for companies to recognise revenue to disclose the transfer of goods or services to customers in amounts that reflect the consideration (ie payment) to which the company expects to be entitled in exchange for such goods or services. The new standard will also result in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively (eg service revenue and contract modifications) and improves guidance for multiple-element arrangements.
 - **Amendments to IFRS 2 "Share-based Payment"** – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
 - **Amendments to IFRS 4 "Insurance Contracts"** – Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied for the first time);
 - **Amendments to IAS 40 "Investment Property"** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
 - **Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014 – 2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);
 - **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).
- The adoption of these new standards, amendments to the existing standards, and the interpretation has not led to any material changes in the Company's financial statements. The Company assessed the impact of IFRS 15 as at 1 January 2018 and identified no issues that would lead to the revision of the accounting policy for revenue recognition.

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At the date of authorisation of these financial statements, the following new standard, amendments to the existing standard, and the interpretation issued by IASB and adopted by the EU are not yet effective:

- **IFRS 16 "Leases"** issued by IASB on 13 January 2016. Under IFRS 16, a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and is depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term and discounted at the interest rate implicit in the lease if such a rate can be readily determined. If such a rate cannot be readily determined, the lessee must use their incremental borrowing rate. In accordance with IFRS 16 and its predecessor, IAS 17, lessors must classify leases by their nature as operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease. For finance leases, a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis, or another systematic basis, if more representative of how benefit from use of the underlying asset is diminished.
- **Amendments to IFRS 9 "Financial Instruments"** – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019);
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019).

The Company has elected not to adopt this new standard, amendments to the existing standards and the new interpretation in advance of their effective dates.

The Company performed an analysis of lease and rental contracts, under which it concluded that the application of IFRS 16 "Leases" will have no impact on the amounts recognised in the balance sheet in respect of non-current tangible assets and financial liabilities as at 1 January 2019. The Company anticipates that the adoption of other new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Company in the period of initial application.

New standards and amendments to the existing standards issued by IASB, but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in the EU as at the reporting date (the effective dates stated below are for IFRS as issued by IASB):

- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to IFRS 3 "Business Combinations"** – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period);
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material (effective for annual periods beginning on or after 1 January 2020);

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018 (IN EURO)

- **Amendments to IAS 19 “Employee Benefits”** – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to various standards due to “Improvements to IFRSs (cycle 2015 – 2017)”** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

The Company anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Company in the period of initial application.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Company's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: “Financial Instruments: Recognition and Measurement” would not significantly impact the financial statements if applied as at reporting date.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The separate financial statements have been prepared in accordance with the Act on Accounting and IFRS as adopted by the EU and on the going concern assumption. IFRS as adopted by the EU do not currently differ from IFRS as issued by the IASB, except for certain standards and interpretations that have not been endorsed by the EU as described above. Under the Slovak Act on Accounting No. 431/2002 Coll. as amended, the Company is also required to prepare its consolidated financial statements in compliance with IFRS as adopted by the EU (see also Note 1.7).

(b) Basis of preparation of the separate financial statements

The separate financial statements are prepared under the historical cost convention, except for certain financial instruments. The principal accounting policies adopted are set out below. In order that the Slovak statutory financial statements conform to IFRS as adopted by the EU, the accompanying separate financial statements reflect certain adjustments and reclassifications not recorded in the accounting records of the company.

The reporting currency and the functional currency is the euro (EUR). The data in the separate financial statements are reported in euro unless stated otherwise.

The preparation of the financial statements in conformity with IFRS requires the use of certain accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant for the separate financial statements are disclosed in Note 4.

The financial statements have been prepared under the going concern assumption.

(c) Transactions in foreign currencies

Cash items denominated in a foreign currency are translated to euro using the reference exchange rate determined and announced by the European Central Bank (ECB) or the National Bank of Slovakia (NBS) on the date preceding the transaction date. At each end of a reporting period, cash items denominated in a foreign currency are translated to euro using the reference exchange rate determined and announced by the European Central Bank (ECB) or the National Bank of Slovakia (NBS) on the reporting date. Non-refundable advances received and made in a foreign currency are not translated as at the reporting date.

Non-cash items measured at a fair value and denominated in a foreign currency are translated using the exchange rate prevailing at the date of the fair value measurement. Non-cash items measured at a historical cost and denominated in a foreign currency are not translated.

For foreign currency purchases and sales in euro, and upon the transfer of funds from an account established in a foreign currency to an account established in euro and from an account established in euro to an account established in a foreign currency, the exchange rates at which these amounts were purchased or sold were applied. If the sale or purchase of a foreign currency is performed at an exchange rate other than the one offered by a commercial bank in its foreign exchange list, the exchange rate offered by such commercial bank in its foreign exchange list on the transaction settlement date is used. If the sale or purchase is not performed with a commercial bank, the reference exchange rate determined and announced by the ECB or the NBS on the date preceding the transaction settlement date is used.

(d) Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Group becomes a party to the contractual provisions of a financial instrument. The Company's financial instruments represent available-for-sale investments, receivables, interest-bearing loans and borrowings, payables and financial derivatives.

(e) Property, plant and equipment

(i) Owned assets

Property, plant and equipment (the “non-current tangible assets”) are carried at cost less any accumulated depreciation and provisions (impairment loss). Cost includes all costs directly attributable to bringing the asset to working conditions for its intended use. Internally-generated non-current tangible assets are measured at own costs, which include the cost of raw materials, direct wages and overhead costs directly associated with the production of non-current tangible assets, until the asset is put into use.

Where some significant parts of non-current assets have different useful lives, they are recognised and depreciated as separate items.

(ii) Subsequent expenditures

Any subsequent expenditures incurred to replace a component of non-current tangible assets that is recognised separately, including inspections and general overhauls, are capitalised provided that they meet the basic criteria for the recognition of non-current tangible assets, and the cost of the component can be measured reliably. All other expenditures made, after the acquisition of non-current tangible assets, to restore or maintain the extent of future economic benefits are recognised as expenses when incurred (insignificant repairs and maintenance).

(f) Non-current intangible assets

(i) Software

Software is measured at cost less accumulated depreciation. Software is depreciated using linear depreciation over the expected useful life, which is 4 – 5 years.

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(ii) Research and development

Research and development costs are recognised as expenses except costs incurred on development projects, which are recognised as intangible assets in the extent of their future economic benefits. Development costs initially recognised as an expense, however, are not capitalised in subsequent periods.

(iii) Subsequent expenditures

Subsequent expenditures are capitalised only when it may be expected that they will increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are expensed as incurred.

(g) Investment in securities

Investments in securities are recognised as at the transaction date and are measured at cost less any impairment loss.

Investments in subsidiaries, joint-ventures, and associates are measured at cost.

Held-to-maturity investments are initially recognised at cost and subsequently at amortised cost, using the effective interest rate method.

Available-for-sale investments represent insignificant participations in the equity of various companies in which the Company neither holds, directly or indirectly, more than 20% of the voting rights, nor exercises substantial influence.

Investments available for sale are recognised as at the transaction date and are measured at their acquisition cost. At the reporting date they are measured at fair value based on quoted market prices if there is an active market. Unrealised gains and losses are recorded directly in equity until such financial investments are sold or impaired, at which time the accumulated gains and losses are recognised in the statement of profit and loss. In the event that the fair value of available-for-sale investments cannot be reliably estimated, the investments are carried at cost less any items reflecting their permanent impairment; provisions are recognised in the statement of comprehensive income.

(h) Trade and other receivables

Trade and other receivables are measured at the expected realisable value, including provisions for bad and doubtful receivables.

(i) Inventories

Inventories are measured at the lower of cost, own costs, or net realisable value. Net realisable value represents the estimated selling price less the estimated costs of completion and costs of distribution. A provision is mainly created for slow-moving and obsolete inventories based on an individual assessment.

Raw materials are measured by weighted average cost, which includes the cost of acquiring the materials and other costs related to the acquisition that arose on bringing the assets to their current condition and location.

A provision for raw materials is created for purchased inventories with no movement based on the following criteria:

- If a period of more than one year has lapsed from the receipt to a warehouse, a provision in the amount of 25% is created;
- If a period of more than two years has lapsed from the receipt to a warehouse, a provision in the amount of 50% is created;
- If a period of more than three years has lapsed from the receipt to a warehouse, a provision in the amount of 75% is created; and
- If a period of more than four years has lapsed from the receipt to a warehouse, a 100% provision is created.

Work in progress, semi-finished products, and finished products are measured at own cost, which includes the costs of raw materials, wages and salaries, other direct expenses and production overheads depending on the stage of completion of the inventory.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash in bank accounts, placements and other highly-liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(k) Impairment of assets

At each reporting date, the Company reviews the carrying amounts of its non-current tangible and intangible assets to determine whether there is any indication that those assets have suffered impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to determine the recoverable amount of an individual asset, the Company determines the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of the fair value less costs to sell and the value-in-use. In assessing the value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of profit and loss (other operating expenses). Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised directly in the statement of profit and loss.

The recoverable amount of the Company's receivables is calculated as the present value of expected future cash flows, discounted by the original effective interest rate inherent in the asset. Short-term receivables are not discounted. The recoverable amount of other assets is the greater of their net selling price and their value-in-use. In assessing the value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market value of the time value of money and the risks specific to the asset. In accordance with IFRS 9, the Company implemented a simplified model for the impairment of trade receivables, under which the Company creates provisions for trade receivables without a significant element of financing in an amount equal to lifetime expected losses.

(l) Dividends

Dividends are recognised in the period in which they are declared.

(m) Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method. Any difference between the cost and the redemption value of the borrowing on an effective interest rate basis is recognised in the statement of profit and loss over the period of the borrowings on a straight-line basis.

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(n) Provision for employee benefits

The Company operates a defined long-term benefit programs – a defined benefit plan consisting of a one-off contribution upon retirement, a loyalty benefit for the number of years of service and jubilee benefits, for which no separate funds were allocated. According to IAS 19 “Employee benefits”, the employee benefits costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of profit and loss so as to spread the regular cost over the service lives of employees. The liabilities related to the benefits are measured at the present value of the estimated future cash outflows discounted by market yields on Slovak government bonds, which have maturity periods approximating the maturity periods of the related liability. All actuarial gains and losses are recognised in the statement of comprehensive income. Past service cost is recognised when incurred up to the amount of benefits paid, and the remaining amount is amortised on a straight-line basis during the average period until the moment of the settlement of benefits.

(o) Social security and pension schemes

The Company is required to make contributions to various obligatory government insurance schemes, together with contributions by employees. The cost of social security payments is charged to the statement of profit and loss in the same period as the related salary cost. The Company contributes to a supplementary pension plan administered by a private pension fund, based on the employment period of the employee. No further liabilities arise for the Company from the payment of pensions to employees in the future.

(p) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of the obligation can be made. A provision is measured on the basis of the best estimate made by management of the cost of the liability settlement as at the reporting date. If the effect is material, provisions are determined by discounting the expected future cash flows by a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(q) Accruals

The Company makes an estimate of the expenses and liabilities that have not been invoiced at the reporting date. These expenses and liabilities are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

(r) Trade and other payables

Trade and other payables are initially measured at fair value and subsequently at amortised cost using the effective interest rate method.

(s) Revenue recognition

(i) Goods sold and services rendered

In relation to the sale of goods and merchandise, revenues are recognised when all significant risks and rewards of ownership have been transferred to the buyer and no significant uncertainties remain regarding the collection of the consideration, associated costs and possible claims or returning of goods. Revenues are stated net of taxes and discounts. No revenue is recognised if there are significant uncertainties regarding the settlement of the consideration due, the associated costs or the possible return of goods, or regarding the continuous involvement of the Company in the management of the goods. Revenues from the provision of services are recognised when the relevant services are rendered in proportion to the stage of completion of the transaction at the reporting date.

(ii) Government grants

Grants are not recognised unless there is a reasonable assurance that the Company will meet the grant-related conditions.

Grants are systematically recognised in the statement of comprehensive income in the periods in which the Company recognises as costs the related expenditures to be compensated by the grants. In particular, grants whose principal condition is for the Company to acquire, construct or otherwise obtain non-current assets are reported as deferred income in the statement of financial position and recognised on a systematic basis in the statement of comprehensive income over the useful life of the related assets.

The grants which are to be received as compensation for expenditures or losses already incurred or the aim of which is to provide immediate financial aid to the Company without related future expenditures are recognised in the statement of comprehensive income on an accrual basis.

(t) Expenses

(i) Operating lease payments

For operating leases, the lease payments are expensed on a straight-line basis over the lease period.

(ii) Financial costs and financial income

Financial costs and financial income comprise interest payable on borrowings calculated using the effective interest rate method, interest received, dividend income, proceeds on the sale of financial investments, foreign exchange gains and losses, and bank fees. Borrowing costs directly related to the acquisition of non-current tangible assets are included in the cost of the assets.

Interest income is recognised in the statement of profit and loss as it occurs using the effective yield method. Dividend income is recognised in the statement of profit and loss on the date when the dividend is declared.

(u) Segment reporting

Based on the Company's management and internal reporting structure, the Company is presented as one business segment, ie the production and sale of steel pipes in particular for industrial purposes and supporting services.

(v) Income tax

Income tax for the year comprises current and deferred tax.

Current tax is calculated from the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustments to current tax in respect of previous years.

Deferred income tax is calculated, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred tax is calculated at the income tax rates that are expected to apply to the period when the asset is to be realised or the liability settled. Deferred tax is charged or credited to the statement of profit and loss, except for those items of receivables and payables that are credited or charged directly to equity.

Deferred tax is not calculated for the following temporary differences:

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- Arising from goodwill – not deductible for tax purposes;
- Arising from the initial recognition of assets or liabilities that neither affect accounting nor taxable profit and are attributable to other than business combination transactions; and
- Arising from investments in subsidiaries, joint ventures and associates, where the Company controls the settlement of temporary differences and it is probable that they will not reverse in the foreseeable future.

When calculating deferred tax, the expected method of realisation or settlement of the carrying amount of assets and liabilities is also considered. A deferred tax asset is recognised only to the extent that it is probable that the Company will generate a sufficient tax base in the future against which the asset can be utilised. Carrying amounts of deferred tax assets are always considered as at the reporting date.

Deferred tax assets and liabilities are offset when there is a legally-enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATE UNCERTAINTY

In the process of applying the Company's accounting policies, which are described in Note 3, the Company's management has made the following judgements concerning uncertainties and estimates that have an effect on the amounts recognised in the financial statements. There is a risk of potential adjustments in future periods relating to such matters, including the following:

Impairment of property, plant and equipment

The Company calculated and recognised a loss on the impairment of property, plant and equipment based on the assessment of their future use, planned disposals and sales. The Company does not believe that any material adjustments are needed in the future owing to the impairment of the Company's assets considering the production and sales levels (see also Note 5).

Litigation

The Company is involved in various legal proceedings for which management has assessed the probability of a loss that would result in a cash outflow for the Company. In making this assessment, the Company has relied on the advice of external legal counsel, on the latest available information on the status of the court proceedings, and on an internal evaluation of the likely outcome. The final amount of any potential losses in relation to legal proceedings is not known and based on the management judgement will not result in a material adjustment to previous estimates. Details of the legal cases are included in Note 32.3.

Depreciation

Non-current tangible assets are depreciated on a straight-line basis over the estimated useful life of individual items of the non-current tangible assets. Land and assets under construction are not depreciated. The estimated useful lives are as follows:

- Buildings, halls and structures 12 – 80 years,
- Plant, equipment and vehicles 4 – 20 years.

Non-current tangible assets acquired under a finance lease are depreciated over their expected useful lives on the same basis as owned assets. The gain or loss arising on the disposal or retirement of an item of non-current tangible assets is fully reflected in the statement of profit and loss. Software is depreciated on a straight-line basis over the estimated useful life from 4 – 5 years.

Provision for employee benefits

The Company uses a model to calculate employee benefits (see Note 3(n) above), which reflects the expected employee turnover, wage growth, discount factor and all of the benefits the Company plans to pay to the employees.

5 PROPERTY, PLANT AND EQUIPMENT

	<i>Land and buildings</i>	<i>Plant and equipment</i>	<i>Assets under construction</i>	<i>Total</i>
Cost				
At 1 January 2018	122 274 355	200 246 154	2 594 876	325 115 385
Additions	-	-	14 061 169	14 061 169
Disposals	(1 594 296)	(2 061 147)	(11 451)	(3 666 894)
Transfers	4 091 409	7 475 123	(11 566 532)	-
At 31 December 2018	124 771 468	205 660 130	5 078 062	335 509 660
Accumulated depreciation, provisions				
At 1 January 2018	70 759 514	152 791 661	112 618	223 663 793
Depreciation, recognition of the net book value	3 082 424	5 862 559	-	8 944 983
Impairment loss	(12 243)	-	40 611	28 368
Disposals	(1 491 101)	(2 020 818)	-	(3 511 919)
Transfers	-	-	-	-
At 31 December 2018	72 338 594	156 633 402	153 229	229 125 225
Carrying amount				
At 1 January 2018	51 514 841	47 454 493	2 482 258	101 451 592
At 31 December 2018	52 432 874	49 026 728	4 924 833	106 384 435

The Company does not use any manufacturing equipment leased under a finance lease. As at 31 December 2018, the cost of fully-depreciated items of property, plant and equipment that are still in use was EUR 55 879 thousand (31 December 2017: EUR 56 087 thousand).

Property, plant and equipment include the Slovenská Ľupča castle at a net book value of EUR 3 071 thousand (31 December 2017: EUR 3 150 thousand), which is partly open to the public and partly used for representation purposes. Based on the assessment of indications of impairment as per IAS 36 – Impairment of Assets, the Company decided that there was no need to quantify the impairment loss with regard to the castle.

In 2007, the Company began to revise the remaining estimated useful lives of non-current tangible assets and for the purpose of depreciation, it broke down material items of assets into material parts as required by IAS 16 – Property, Plant and Equipment. As a result of revising the useful life, the depreciation charges of non-current tangible assets were reduced by EUR 317 thousand in 2018.

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Major additions to non-current tangible assets in 2018 comprised technical improvements to the Welding Plant building at a cost of EUR 1 509 thousand, the purchase of Automated Storage No. 3 technology at a cost of EUR 2 286 thousand, the EAF Transformer at a cost of EUR 816 thousand, an automated system for setting the gauge ends at a cost of EUR 351 thousand, and SRW stands at a cost of EUR 563 thousand.

Assets under lien

As at 31 December 2018, the net book value of the Company's non-current tangible assets pledged to secure bank loans amounted to EUR 18 991 thousand (fair value of approx. EUR 27 million). The net book value of non-current tangible assets with restricted handling by the Company (easement) was EUR 3 158 thousand.

Insurance of assets

Non-current assets are insured with Allianz-Slovenská poisťovňa a.s. against all risks up to the amount of their cost.

Costs of non-current assets are updated to new values that were calculated by re-indexing original costs to amounts corresponding to the fair value of insured assets.

<i>Insured Assets</i>	<i>Type of insurance</i>	<i>Name and seat of the insurance company</i>	<i>Insured amount</i>
Set of immovable assets	Against all risks	Allianz-Slovenská poisťovňa a.s., Bratislava	292 644 280
Set of movable assets	Against all risks	Allianz-Slovenská poisťovňa a.s., Bratislava	275 313 768
Acquisition of new non-current tangible assets	Against all risks	Allianz-Slovenská poisťovňa a.s., Bratislava	1 000 000

6 INTANGIBLE ASSETS

	<i>Software</i>	<i>Investments in progress</i>	<i>Total</i>
Cost			
At 1 January 2018	669 855	-	669 855
Additions	-	-	-
Disposals	(4 418)	-	(4 418)
Transfers	-	-	-
At 31 December 2018	665 437	-	665 437
Accumulated amortisation			
At 1 January 2018	661 867	-	661 867
Amortisation	2 557	-	2 557
Disposals	(4 418)	-	(4 418)
At 31 December 2018	660 006	-	660 006
Carrying amount			
At 1 January 2018	7 988	-	7 988
At 31 December 2018	5 431	-	5 431

7 INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES

The investments in subsidiaries, joint ventures, and associates comprise the following ownership interests:

	<i>31 December 2018</i>	<i>31 December 2017</i>
Investments in subsidiaries		
ŽP Informatika s.r.o.	1 034 078	1 034 078
Transformaciones Metalurgicas, S.A.U. (TRANSMESA)	16 980 734	16 980 734
ŽP-Gastroservis, s.r.o.	1 000 000	1 000 000
ŽP EKO QELET a.s.	26 924 835	26 924 835
Pipex Deutschland GmbH	130 722	89 606
Tále, a.s.	16 394 480	16 394 480
FK Železiarne Podbrezová a.s.	578 285	578 285
ŠK Železiarne Podbrezová a.s.	330 306	330 306
SLOVRUR Sp. z o. o.	711 774	711 774
ZANINONI SLOVAKIA s.r.o.	772 237	772 237
ŽP VVC s.r.o.	33 194	33 194
Nadácia Železiarne Podbrezová	6 639	6 639
PIPEX ITALIA S.p.A.	320 124	320 124
ŽIAROMAT a.s.	4 843 951	4 843 951
ŽP Bezpečnostné služby s.r.o.	200 000	200 000
KBZ s.r.o.	3 649 286	3 649 286
ŽP Rehabilitácia s.r.o.	150 000	150 000
ŽP Trade Bohemia a.s.	1 779 595	1 779 595
Total, gross	75 840 240	75 799 124
Less provisions:	-	-
Total, net	75 840 240	75 799 124

In June 2018, the Company acquired a 10% share in Pipex Deutschland GmbH in the amount of EUR 41 116.

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Information on the Company's subsidiaries as at 31 December 2018 may be summarised as follows:

Name	Country of incorporation	Ownership share/ Voting rights %	Principal activity	Equity		Profit/(loss)	
				31 December 2018	31 December 2017	2018	2017
ŽP Informatika s.r.o.	Slovak Republic	100.00%	IT services	2 249 119	2 424 104	27 015	14 329
Transformaciones Metalurgicas S.A.U. *	Spain	100.00%	Production of steel pipes	19 002 630	17 386 549	2 616 081	1 272 557
ŽP-Gastro servis, s.r.o.	Slovak Republic	100.00%	Catering services	1 012 903	1 012 868	1 836	8 491
ŽP EKO QLEET a.s. *	Slovak Republic	66.27%	Purchase and sale of scrap	19 157 220	18 665 847	641 773	579 004
Pipex Deutschland GmbH *	Germany	80.00%	Trading activities	717 530	535 496	312 034	213 759
Tálie, a.s. *	Slovak Republic	94.66%	Travel industry	16 164 407	16 410 325	(245 918)	17 654
FK Železiarne Podbrezová a.s.	Slovak Republic	100.00%	Sports, advertising and promotion	523 724	583 672	(59 949)	172 497
ŠK Železiarne Podbrezová a.s.	Slovak Republic	99.50%	Sports, advertising and promotion	328 898	348 669	(19 771)	112 757
SLOVRUR Sp. z o. o.	Poland	90.00%	Trading activities	3 983 722	3 405 834	1 113 455	451 918
ŽP VVC s.r.o.	Slovak Republic	100.00%	Research and development activities	272 860	233 791	114 069	75 083
Nadácia Železiarne Podbrezová	Slovak Republic	100.00%	Foundation	10 756	10 284	-	-
PIPEX ITALIA S.p.A. *	Italy	85.00%	Trading activities	8 747 239	7 358 725	1 988 516	1 221 234
ŽIAROMAT a.s.	Slovak Republic	100.00%	Metallurgy	2 690 248	2 157 754	534 593	3 039
ZANINONI SLOVAKIA, s.r.o. *	Slovak Republic	90.00%	Transportation services	2 106 027	2 042 041	473 986	418 264
ŽP Bezpečnostné služby s.r.o.	Slovak Republic	100.00%	Operation of security guards	313 444	298 058	15 386	478
KBZ s.r.o.	Slovak Republic	70.00%	Purchase and sale of scrap	2 319 617	2 403 959	69 658	345 980
ŽP Rehabilitácia s.r.o.	Slovak Republic	100.00%	Organisation of events, advertising, marketing, transport health services	115 010	94 395	20 616	24 955
ŽP Trade Bohemia a.s. *	Czech Republic	100.00%	Trading activities	2 507 775	2 255 302	515 822	361 729

* Value data for the respective companies were not audited by an auditor as at the preparation date of the parent company's notes; they are based on figures prepared pursuant to statutory regulations valid in the country of their establishment.

In 2018, the share in Pipex Deutschland GmbH increased to 80% owing to the acquisition of a 10% share.

Pledged assets

As at 31 December 2018, the Company had no financial assets pledged to secure bank loans.

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8 OTHER NON-CURRENT ASSETS

	31 December 2018	31 December 2017
Deferred expenses	94 739	302 561
Other non-current receivables	160 152	218 353
Total	254 891	520 914

9 INVENTORIES

	31 December 2018	31 December 2017
Raw materials and spare parts	27 078 820	20 757 127
Work in progress	13 207 477	10 198 527
Finished products	13 216 496	12 093 146
Merchandise	449 227	394 571
Provision	(681 184)	(683 139)
Total	53 270 836	42 760 232

At 31 December 2018 and 31 December 2017, none of the inventories were pledged to secure bank loans.

Provisions for inventories

	Balance as at 1 January 2018	Creation	Use	Cancellation	Balance as at 31 December 2018
Raw materials and spare parts	620 931	339 277	300 604	51 649	607 955
Work in progress	11 718	-	11 718	-	-
Finished products	5 624	24 632	5 624	-	24 632
Merchandise	44 866	14 898	11 167	-	48 597
Total	683 139	378 807	329 113	51 649	681 184

Movements in provisions for inventories are included in "Other operating expenses and income".

Insurance of inventories

Insured assets	Type of insurance	Name and address of the insurance company	Amount insured
Inventories (work in progress, semi-finished products, finished products)	Against all risks	Allianz-Slov. poisťovňa a.s., Bratislava	42 133 467

10 TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS

	31 December 2018	31 December 2017
Trade receivables	47 733 034	43 598 320
Other tax assets	3 052 764	2 840 932
Receivables from subsidies	-	96 657
Other receivables	1 704 530	996 143
Allowance for doubtful amounts	(900 320)	(887 227)
Total trade and other receivables	51 590 008	46 644 825

Other tax assets of EUR 3 053 thousand (31 December 2017: EUR 2 841 thousand) represent VAT receivables. Other receivables of EUR 1 705 thousand primarily comprise a provided short-term borrowing and related interest thereon (31 December 2017: receivables primarily comprised an estimate of an anticipated insurance benefit).

As at 31 December 2018 and 31 December 2017, none of the Company's receivables were subject to a lien established as collateral for bank loans.

The breakdown of trade and other receivables:

	31 December 2018	31 December 2017
Current receivables	48 322 303	42 449 844
Overdue receivables	4 168 025	5 082 208
Total	52 490 328	47 532 052

The ageing structure of overdue receivables for which no provision was recorded:

	31 December 2018	31 December 2017
Within 90 days	3 209 075	4 176 274
90 – 180 days	57 085	-
180 – 360 days	149	-
Over 360 days	1 199	-
Total	3 267 508	4 176 274

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The ageing structure of overdue receivables for which provisions were recorded:

	31 December 2018	31 December 2017
Within 90 days	-	-
90 – 180 days	-	-
180 – 360 days	394	40 795
Over 360 days	900 123	865 139
Total	900 517	905 934

11 OTHER ASSETS

Other current assets consist of the following:

	31 December 2018	31 December 2017
Prepaid expenses	330 936	301 395
Accrued income	4 755	-
Emission rights	648 600	-
Total	984 291	301 395

Prepaid expenses mainly represent prepaid insurance premiums and prepaid expenses from overhead invoices. Accrued income represents accrued payments for assets sold. Emission rights comprise emission rights purchased in 2018.

12 CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash on hand	30 385	52 770
Bank balances and deposits	1 165 751	1 365 241
Cash and cash equivalents in the balance sheet	1 196 136	1 418 011
Cash and cash equivalents in the statement of cash flows	1 196 136	1 418 011

13 EQUITY

Share capital

The authorised share capital comprised 2 384 135 ordinary shares (31 December 2017: 2 384 135 ordinary shares) with a face value of EUR 34 per share. The authorised share capital was fully paid as at 31 December 2018 and 31 December 2017. The share capital was registered with the Commercial Register.

Legal reserve fund

The legal reserve fund may not be distributed among the shareholders. It is designed to cover future losses from operations and to increase the share capital in accordance with the valid regulations.

Distribution of the profit generated in 2017

Based on the decision of the General Meeting held on 25 June 2018, the profit for the year ended 31 December 2017 totalling EUR 4 048 thousand was distributed as follows: transfer to retained earnings in the amount of EUR 4 048 thousand.

14 INTEREST-BEARING LOANS AND BORROWINGS

	31 December 2018	31 December 2017
Loans	18 000 000	13 000 000
Overdraft facilities	1 362 827	281 868
Borrowing received from the Company's ultimate owners	16 570 000	16 570 000
Total interest-bearing loans and borrowings	35 932 827	29 851 868
Loans by currency:		
EUR - Fixed interest rate	16 570 000	16 570 000
EUR - Floating interest rate	19 362 827	13 281 868
Total	35 932 827	29 851 868
Repayments of loans are scheduled as follows:		
Within one year	16 362 827	10 281 868
More than one year, less than two years	19 570 000	16 570 000
More than two years, less than three years	-	3 000 000
More than three years, less than four years	-	-
More than four years, less than five years	-	-
More than five years	-	-
Total	35 932 827	29 851 868
Current portion		
Loans and borrowings	16 362 827	10 281 868
Total	16 362 827	10 281 868

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

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Loans and borrowings

Interest rates of loans and borrowings:

EUR - Fixed interest rate	2.00%
EUR - Floating interest rate	1W - 3M EURIBOR +1.2 -1.45% p.a.; EONIA+1.20%

The fair value of loans and borrowings approximates their carrying amount. The fair value represents cash flows discounted with the relevant interest rate that, according to the assumption of the Company's management, may be collected on the reporting date.

The Company's management has been in contact with the financing banks regarding compliance with the requirements resulting from the signed loan agreements.

15 OTHER NON-CURRENT LIABILITIES

	31 December 2018	31 December 2017
Deferred income	2 097 482	2 315 698
Of which:		
Subsidies	2 079 161	2 301 718
Other	18 321	13 980
Other non-current liabilities	39 026	47 352
Total	2 136 508	2 363 050

16 PROVISION FOR EMPLOYEE BENEFITS

In accordance with Slovak labour legislation and in accordance with the Board of Directors' programme, the Group pays certain benefits to its employees as described below.

The long-term employee benefit scheme is a programme of defined benefits under which employees are entitled to a one-off bonus upon retirement or disability, and depending on the defined terms also to regular service loyalty bonuses for years served with the Company, and jubilee benefits. As at 31 December 2018, the programme was applicable to 3 171 employees of the Company. As at the aforementioned date, the programme was unfunded, i.e. no specific assets were allocated to cover liabilities arising from the scheme.

	31 December 2018	31 December 2017
Present value of benefits paid on retirement	6 109 566	5 545 757
Present value of length of service benefits	909 009	880 149
Present value of jubilee benefits	199 443	204 284
Total	7 218 018	6 630 190

Key assumptions used in the actuarial valuation:

	31 December 2018
Annual future real rate of salary increases	2.00%
Annual employee turnover	10.8%
Retirement age	63 years and 2 months

To calculate the provision for employee benefits, the Company applied the current average NBS interest rate provided to non-financial institutions in the Eurozone.

17 DEFERRED TAX LIABILITY

The table below provides details on the major items of deferred tax assets and liabilities recognised by the Company, and debits/credits made to the items during the current and prior reporting periods:

	1 January 2018	(Debited)/credited to the current-year profit	(Debited)/credited to equity	31 December 2018
Property, plant and equipment	(8 784 899)	(502 215)	-	(9 287 114)
Inventories	149 245	(3 506)	-	145 739
Receivables	16 353	2 780	-	19 133
Liabilities	229 881	100 422	-	330 303
Employee benefits	1 392 340	123 444	-	1 515 784
Subsidies	33 067	26 697	-	59 764
Total	(6 964 013)	(252 378)	-	(7 216 391)
	1 January 2017	(Debited)/credited to the current-year profit	(Debited)/credited to equity	31 December 2017
Property, plant and equipment	(8 088 316)	(696 583)	-	(8 784 899)
Inventories	160 943	(11 698)	-	149 245
Receivables	138 267	(121 914)	-	16 353
Liabilities	246 902	(17 021)	-	229 881
Employee benefits	1 221 231	171 109	-	1 392 340
Tax loss	133 507	(133 507)	-	-
Subsidies	21 142	11 925	-	33 067
Total	(6 166 324)	(797 689)	-	(6 964 013)

Following the existing accounting principles, the Company offset its deferred tax assets against deferred tax liabilities.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018 (IN EURO)

The table below provides resulting deferred tax balances (after clearing) to be disclosed on the balance sheet:

	31 December 2018	31 December 2017
Deferred tax asset	2 503 310	2 146 373
Deferred tax liability	(9 719 701)	(9 110 386)
Total	(7 216 391)	(6 964 013)

18 TRADE AND OTHER PAYABLES

	31 December 2018	31 December 2017
Trade payables	16 847 512	15 106 767
Dividends	373 652	376 085
Payables to employees and social security payables	7 219 002	6 220 758
Other tax payables	529 276	410 374
Payable to previous shareholders	782 028	782 028
Deferred income on subsidies, current	317 032	407 087
Other payables	274 793	157 080
Total	26 343 295	23 460 179

The payable to previous shareholders represents cash not collected by previous shareholders who did not exercise their rights to swap shares in 2007.

Breakdown of trade and other payables:

	31 December 2018	31 December 2017
Current payables	25 312 352	22 460 205
Overdue payables	1 030 943	999 974
Total	26 343 295	23 460 179

Social Fund liabilities (included in payables to employees and social security payables):

	Amount
Opening balance as at 1 January 2018	68 000
Total creation	551 869
Total drawing	596 267
Closing balance as at 31 December 2018	23 602

19 REVENUES

Revenues comprise the following items:

Commodity	Year ended 31 December 2018		Year ended 31 December 2017	
	Amount	%	Amount	%
Own products	280 609 898	96.45	229 685 061	96.26
Merchandise	4 394 688	1.51	3 358 604	1.41
Services	5 927 286	2.04	5 568 864	2.33
Total revenues	290 931 872	100.00	238 612 529	100.00

Revenues by geographical segment:

	Year ended 31 December 2018		31 December 2017	
Slovak Republic	26 139 635		26 301 229	
Czech Republic	42 963 334		31 600 886	
Other EU Member States	193 156 044		156 717 523	
Other European countries	17 008 133		13 471 342	
Middle East	264 191		873 756	
Far East	166 090		931 822	
USA	11 052 803		8 522 738	
Other exports	181 642		193 233	
Total revenues	290 931 872		238 612 529	

20 OWN WORK CAPITALISED

	Year ended 31 December 2018		31 December 2017	
Own work capitalised – raw materials	5 814 344		5 353 287	
Own work capitalised – internal services	217 215		180 245	
Own work capitalised – non-current tangible assets	1 170 321		281 416	
Total own work capitalised	7 201 880		5 814 948	

“Own work capitalised – raw materials” represents the processing of raw materials by the Company’s own capacities for its further use in production.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018 (IN EURO)

21 RAW MATERIALS AND CONSUMABLES USED

	Year ended	
	31 December 2018	31 December 2017
Consumed raw materials	151 294 074	121 659 453
Consumed energy	29 376 422	29 890 465
Costs of goods sold	4 099 115	3 130 884
Total raw materials and consumables used	184 769 611	154 680 802

22 PERSONNEL EXPENSES

	Year ended	
	31 December 2018	31 December 2017
Wages and salaries	49 821 623	43 875 586
Social security contributions	21 543 889	19 755 003
Total	71 365 512	63 630 589

The Company's had 3 171 employees as at 31 December 2018, of which 97 were managers (31 December 2017: 3 217 employees, of which 92 were managers). The full-time equivalent of employees for the year ended 31 December 2018 was 3 204 (31 December 2017: 3 165).

23 OTHER OPERATING REVENUES AND EXPENSES

Other operating revenues, net comprise the following:

	Year ended	
	31 December 2018	31 December 2017
Profit on the sale of property, plant, equipment and intangibles	367 521	55 341
Profit on the sale of raw materials	427 427	316 103
Proceeds from grants	742 901	1 051 099
Insurance benefits from insurance companies	516 220	2 281 201
Other operating revenues	100 088	66 426
Total other operating revenues, net	2 154 157	3 770 170

Other operating expenses, net comprise the following:

	Year ended	
	31 December 2018	31 December 2017
(Additions to)/release of provisions for receivables and inventories	333 484	431 623
Change in impairment of property, plant and equipment	43 925	188 219
Insurance premium	871 448	724 969
Other taxes and charges	361 733	411 426
Other operating expenses	1 065 387	562 179
Total other operating expenses	2 675 977	2 318 416

24 INTEREST INCOME

	Year ended	
	31 December 2018	31 December 2017
Interest income on bank accounts	-	69
Interest income on borrowings	99 904	305 686
Total interest income	99 904	305 755

25 INTEREST EXPENSE

	Year ended	
	31 December 2018	31 December 2017
Loans and borrowings	509 102	436 897
Total interest expense	509 102	436 897

26 OTHER FINANCIAL INCOME AND EXPENSES

Other financial income comprises the following items:

	Year ended	
	31 December 2018	31 December 2017
Dividends from financial investments	3 068 061	2 094 267
Foreign exchange gains	305 578	605 457
Revenues from financial derivatives	4 692	-
Total other financial income	3 378 331	2 699 724

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018 (IN EURO)

Other financial expenses comprise the following items:

	<i>Year ended</i>	
	<i>31 December 2018</i>	<i>31 December 2017</i>
Foreign exchange losses	541 291	396 701
Losses from financial derivatives	-	21 911
Other financial expenses	130 958	49 056
Total other financial expenses	672 249	467 668

27 INCOME TAX

	<i>Year ended</i>	
	<i>31 December 2018</i>	<i>31 December 2017</i>
Current tax expense for current period	2 901 183	224 713
Deferred tax expense for current period	252 378	797 689
Total income tax	3 153 561	1 022 402

The table below shows the reconciliation of income tax recognised and theoretical income tax calculated using the standard tax rates:

	<i>Year ended</i>	
	<i>31 December 2018</i>	<i>31 December 2017</i>
Profit/(loss) before tax	16 459 773	5 070 634
Tax at the local tax rate of 21% (2017: 21%)	3 456 552	1 064 834
Permanent differences		
- Non-deductible expenses	341 569	397 836
- Non-taxable income	(664 560)	(440 268)
Effect of a change in the tax rate	-	-
Unrecognised deferred taxes	-	-
Total income tax	3 153 561	1 022 402

The actual tax rate differs from the tax rate of 21% (2017: 21%) set by law mainly as a result of differences in the classification of certain items of expenses and income for accounting and tax purposes. Deferred tax is calculated at the income tax rate that is expected to be applied in the period when the asset is to be realised or the liability settled. As a result, the Company applied the income tax rate effective in the following reporting period, i.e. 21%.

In the Slovak Republic, the taxation periods from 2013 until 2017 may be subject to review by the tax authority.

The Company prepared the transfer pricing documentation for transactions with foreign related parties in compliance with the tax legislation valid in the Slovak Republic.

28 FINANCIAL DERIVATIVES

As at 31 December 2018, the Company recorded no open derivative positions.

In 2018, the Company performed currency derivative transactions to hedge cash flows in PLN using the exchange rate set in the financial plan in the nominal amount of EUR 1 200 thousand. The currency derivative transactions generated a profit of EUR 4 692 in 2018 (Note 26).

29 SUBSIDIES

	<i>Receivables from subsidies</i>	<i>Deferred income on subsidies, non-current</i>	<i>Deferred income on subsidies, current</i>	<i>Release of subsidies in the statement of comprehensive income</i>
31 December 2018				
Investment subsidies	-	2 079 161	304 889	312 612
Operating subsidies	-	-	12 143	430 289
Total subsidies	-	2 079 161	317 032	742 901
31 December 2017				
Investment subsidies	-	2 301 718	394 944	414 245
Operating subsidies	96 657	-	12 143	636 853
Total subsidies	96 657	2 301 718	407 087	1 051 098

In 2018, the Company obtained an amount of EUR 194 thousand for the "Úspej na trhu práce" project ("Be successful on the labour market"), of which EUR 97 thousand was allocated in 2017.

The statement of comprehensive income includes revenues from: an investment subsidy for the "Reconstruction of the Dust-Collection System of the Electric Arc and Ladle Furnace" project (EUR 192 thousand), an investment subsidy for the "Tungsten Boiled Steel" project (EUR 22 thousand), an investment subsidy for the "Refurbishment, Modernisation and Construction of a Football Stadium" project (EUR 84 thousand), compensation from the environmental fund in the form of a subsidy (EUR 334 thousand), and an operating subsidy for the "Úspej na trhu práce" project (EUR 97 thousand).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018 (IN EURO)

30 FINANCIAL RISK MANAGEMENT POLICIES

30.1 Capital risk management

The Company manages its capital to ensure that the Company is able to continue as a going concern with the objective of achieving an optimal debt and equity balance. The Company's overall strategy remains unchanged from 2017.

The gearing ratio at the year-end was as follows:

	31 December 2018	31 December 2017
Debt ⁽ⁱ⁾	(35 932 827)	(29 851 868)
Cash and cash equivalents	1 196 136	1 418 011
Net debt	(34 736 691)	(28 433 857)
Equity	(208 085 795)	(199 547 853)
Net debt to equity ratio	17%	14%

(i) Debt is defined as current and non-current interest bearing loans and borrowings.

30.2 Categories of financial instruments

	31 December 2018	31 December 2017
Available-for-sale investments	83 049	125 076
Loans and receivables (including cash and cash equivalents)	52 946 295	48 281 189
Financial assets	53 029 344	48 406 265
Bank loans and borrowings recognised at amortised costs	35 932 827	29 851 868
Trade payables and other liabilities	28 479 803	25 823 228
Financial liabilities	64 412 630	55 675 096

a) Financial risk factors

The Company's activities expose it to a variety of financial risks, which include the effects of changes in foreign currency exchange rates and loan and bond interest rates. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Credit risk

Management has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Company does not require collateral in respect of financial assets. At the reporting date there were no significant concentrations of credit risk. Cash transactions are only carried out using renowned financial institutions.

Interest rate risk

The Company's operating income and operating cash flows are relatively independent of changes in market interest rates. Interest rate risk arises on long-term borrowings, which are issued at variable interest rates and expose the Company to a fair value interest rate risk.

The sensitivity analysis (see below) was determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date. For floating rate liabilities, the analysis is prepared under the assumption that the amount of liability outstanding at the reporting date was outstanding for the whole year.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's profit for the year ended 31 December 2018 would have increased/decreased by EUR 68 thousand (2017: increase/decrease by EUR 38 thousand). This is mainly attributable to the Company's exposure to interest rates for variable rate borrowings.

Foreign currency risk

The Company incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the euro.

The carrying amount of the Company's cash assets and cash liabilities denominated in a foreign currency as at the reporting date is as follows:

	Liabilities		Assets	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
USD	103 878	3 534	1 842 982	1 508 649
CZK	157 623	206 001	2 116 619	2 066 115
PLN	145 574	149 159	5 979 372	5 690 956
CHF	-	-	3 091	3 045

The following table presents the Company's sensitivity to a 25% increase/decrease in the euro against the US dollar, a 20% increase/decrease in the euro against the Czech crown, Polish zloty and Swiss franc. The sensitivity analysis includes monetary items denominated in foreign currencies and adjusts their translation at the end of the reporting period for the aforementioned change in foreign currency rates. Positive balances indicate an increase in profit and other equity items upon a decrease of euro against the relevant currency. Appreciation of the euro against the relevant currency would result in a similar but opposite impact on profit and other equity items, while data presented below would be negative.

	USD		CZK		PLN		CHF	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Profit or loss	434 776	376 279	391 799	372 023	1 166 760	1 108 359	618	609

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash with adequate due date and marketable securities, the availability of funding through an adequate amount of committed credit lines and the ability to close out market positions.

The following tables summarise the residual maturity period of the Company's non-derivative financial liabilities. The tables have been prepared based on undiscounted cash flows from financial liabilities assuming the earliest possible date on which the Company can be required to settle the liabilities. The table includes cash flows from both the interest and principal during the term of a loan agreement.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018 (IN EURO)

	Weighted average effective interest rate	Up to 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	5+ years	Total
Interest-free liabilities		22 074 825	443 507	3 506 935	39 982	40	26 065 289
Floating interest rate instruments (loans)	1.2 -1.47%	16 376 466	10 875	33 229	3 025 738	-	19 446 308
Fixed interest rate instruments (loans)	2.00%	28 537	54 313	253 153	16 906 003	-	17 242 006
		38 479 828	508 695	3 793 317	19 971 723	40	62 753 603
2017							
Interest-free liabilities		19 520 996	279 584	3 247 965	50 248	1 652	23 100 445
Floating interest rate instruments (loans)	1.2 – 1.47%	6 084 361	4 219 555	33 229	3 069 842	-	13 406 987
Fixed interest rate instruments (loans)	2.00%	28 537	54 313	253 153	16 905 082	-	17 241 085
		25 633 894	4 553 452	3 534 347	20 025 172	1 652	53 748 517

b) Fair value estimation

The face values less any estimated credit adjustments for 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 available to the Company for similar financial instruments.

31 RELATED PARTY TRANSACTIONS

31.1 Members of statutory and supervisory bodies

Remuneration paid to the members of the Company's Board of Directors and Supervisory Board for the year ended 31 December 2018 amounted to EUR 1 125 thousand (year ended 31 December 2017: EUR 315 thousand). Remuneration is included in personnel expenses.

31.2 Other related parties

CPA s.r.o. is the parent company of ŽP.

During 2018, the Company entered into the following transactions with related parties:

	Receivables as at 31 December 2018	Payables as at 31 December 2018	Sales of goods and services in 2018	Purchases of goods and services in 2018
Ultimate owners	-	16 570 000	-	-
CPA s.r.o. - parent company	3 014	-	2 688	106 602
Subsidiaries and joint ventures	27 264 000	7 357 929	183 126 065	97 457 287
Other related parties	26 223	218 428	87 494	1 016 224
	27 293 237	24 146 357	183 216 247	98 580 113

During 2017, the Company entered into the following transactions with related parties:

	Receivables as at 31 December 2017	Payables as at 31 December 2017	Sales of goods and services in 2017	Purchases of goods and services in 2017
Ultimate owners	-	16 570 000	-	-
CPA s.r.o. - parent company	2 998	-	2 664	107 108
Subsidiaries and joint ventures	25 276 152	7 525 609	150 943 070	79 195 949
Other related parties	31 934	169 526	95 432	873 388
	25 311 084	24 265 135	151 041 166	80 176 445

Transactions with ultimate owners comprise received borrowings. Transactions with the parent company represent advisory services and rental of premises. Transactions with subsidiaries and fellow subsidiaries represent sales of ŽP products, catering services, IT services, accommodation, leisure-time services, purchase of metal scrap, and, transportation services.

32 COMMITMENTS AND CONTINGENCIES

32.1 Environmental matters

Management believes that the Company complies with the relevant existing legislation in all material respects. It is not expected that the Company will become liable to make significant payments relating to the environment in the future.

32.2 Capital expenditure

The Company prepared a capital expenditure plan for 2019 amounting to EUR 15 922 thousand, of which EUR 6 032 thousand is covered by contracts at 31 December 2018.

32.3 Litigation and potential losses

At present, the Company is involved in a number of legal cases and other disputes that have arisen as a result of its ordinary business activities. It is not expected that the disputes will have a significant negative impact, individually or jointly, on the accompanying separate financial statements. In the accompanying separate financial statements, the Company recorded no provisions for litigation as the Company's management, based on the advice of its legal counsel, believes that the final outcome of the litigation is uncertain.

32.4 Emission rights

During 2005, the European Union-wide greenhouse gas emission rights trading scheme came into effect, together with the Act on Emission Rights Trading passed by the Slovak Parliament in order to implement the related EU Directive in Slovakia. Under this legislation, the Company is required to deliver emission rights to the Slovak Environmental Office to offset actual greenhouse gas emissions.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

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ŽP has opted to recognise the allocated emission rights at a face value. In 2018, the Company received a pro rata share of emission rights but the Company's emission production in 2018 exceeded this share. The difference in the amount of EUR 126 thousand is recognised in the income statement.

The Company expects such development until the end of the 3rd trading period (2020) and, therefore, decided to purchase emission rights in the amount of EUR 648 600.

ŽP has an obligation to deliver emission rights to cover produced emissions. This obligation was fulfilled by delivering emission rights for the monitored 2018 period in March 2019.

32.5 Guarantee for loans provided to other entities

The Company provided its assets as collateral for the liabilities of joint debtors ŽP Informatika s.r.o. and ŽIAROMAT a.s. arising from a loan agreement with Slovenská sporiteľňa a.s. up to EUR 6 million. The outstanding principal as at 31 December 2018 amounts to EUR 4 270 154. Since the Company's management believes based on the financial positions of ŽP Informatika s.r.o. and ŽIAROMAT a.s. that the subsidiaries will repay the loans, ŽP a.s. recorded no provision in the accompanying separate financial statements.

32.6 Bank guarantees

The Company's liabilities to Graftech Switzerland S.A. arising from the Graphite Electrode Supply Agreement dated 30 November 2017 are secured by a bank guarantee up to a total amount of EUR 1 675 850.

The Company's customs debt is secured by a bank guarantee of up to EUR 200 000 and customs debt from representing third parties by a bank guarantee for the approved guarantor of up to EUR 50 000. The Company issued blank promissory notes to secure both guarantees.

33 POST-BALANCE SHEET EVENTS

From 31 December 2018 to the preparation date of the financial statements, there were no such events that would have a significant impact on the Company's assets and liabilities, except for those resulting from the ordinary course of business operations.

34 APPROVAL OF SEPARATE FINANCIAL STATEMENTS

The separate financial statements were prepared and approved for release on 8 March 2019.

