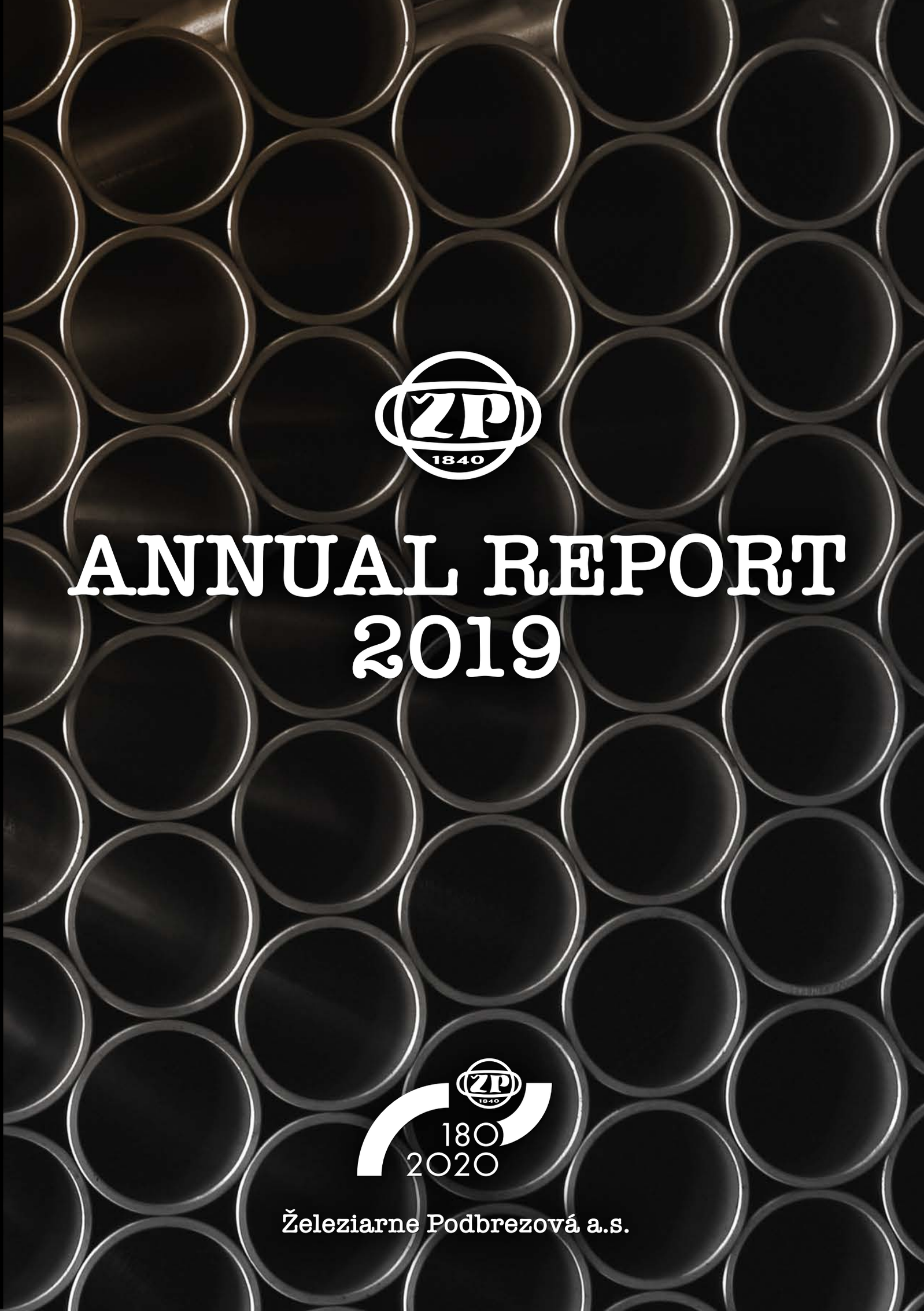

ANNUAL REPORT 2019

180 2020

Železiarne Podbrezová a.s.

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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

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

Dear Shareholders,

The economic results of Železiarne Podbrezová a.s., and our entire Group in 2019 were very good. However, metallurgy in Europe and worldwide is in a very difficult situation. In Europe, demand has fallen by more than 40%. Moreover, metallurgy is developing in the US, China and India. The primary problem is that the economy, the construction industry and related industries will not be able to function without metallurgy.

INTRODUCTION OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

In 2019, there were two fundamentally different halves. In the first half of 2019, we had enough orders and relatively good prices, in contrast, the second half of the year was difficult. This difficult period continued in early 2020.

I would like to thank all our customers, suppliers and other business partners for maintaining correct relationships. I would like to emphasise that Železiarne Podbrezová a.s. has retained good clients over the long term, which is reflected in better as well as worse times. In 2019, we did not experience any problems with financing our production and I believe that the employee wage growth was adequate. I wish I could say the same about 2020.

Dear Shareholders,

It would be of great benefit if the EU development programmes included metallurgy. It is my belief that they do not understand the blast furnace and electric arc furnace production process. Given the development of metallurgy in the world, it is necessary to invest in upgrades. Unless the European Union invests in industrial production, the gap will widen significantly. The share of the European Union of research and development, and of patents is minimal. These figures are also declining in the USA, but they are growing in China.

It is unfortunate for the European Union that, with the new European Commission, climate targets are expected to tighten to 55% by 2030 and carbon neutrality is planned by 2050. This does not take into consideration its share of air pollution relative to the world, including the US and China. Those are meaningless, unattainable goals.

Dear Shareholders,

Our primary task for the future is to market high-quality products and service for our customers. It is very important for us to maintain good relationships with our business partners. If we want our company to develop, we must closely monitor labour productivity and production costs.

I would like to thank everyone who contributed to the 2019 results of operations and our graduates who joined the Company. I look forward to seeing more graduates this year. This is the only way to secure high-quality employees for our Company in the future. Our teachers and our employees who participate in student training also play a significant role in this respect.

I wish you all good health, every personal and professional success and good cooperation in the future. Let's be glad we are able to work!

Ing. Vladimír Soták
Chairman of the Board of Directors
and 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 incorporation 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 member of Company management 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 member of Company management since 1990. He has been a member of the Board of Directors since the incorporation 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

Luigi CUZZOLIN
Member of the Supervisory Board

Ing. Ľudovít IHRING
Member of the Supervisory Board

Ing. Vladimír ZVARÍK
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)

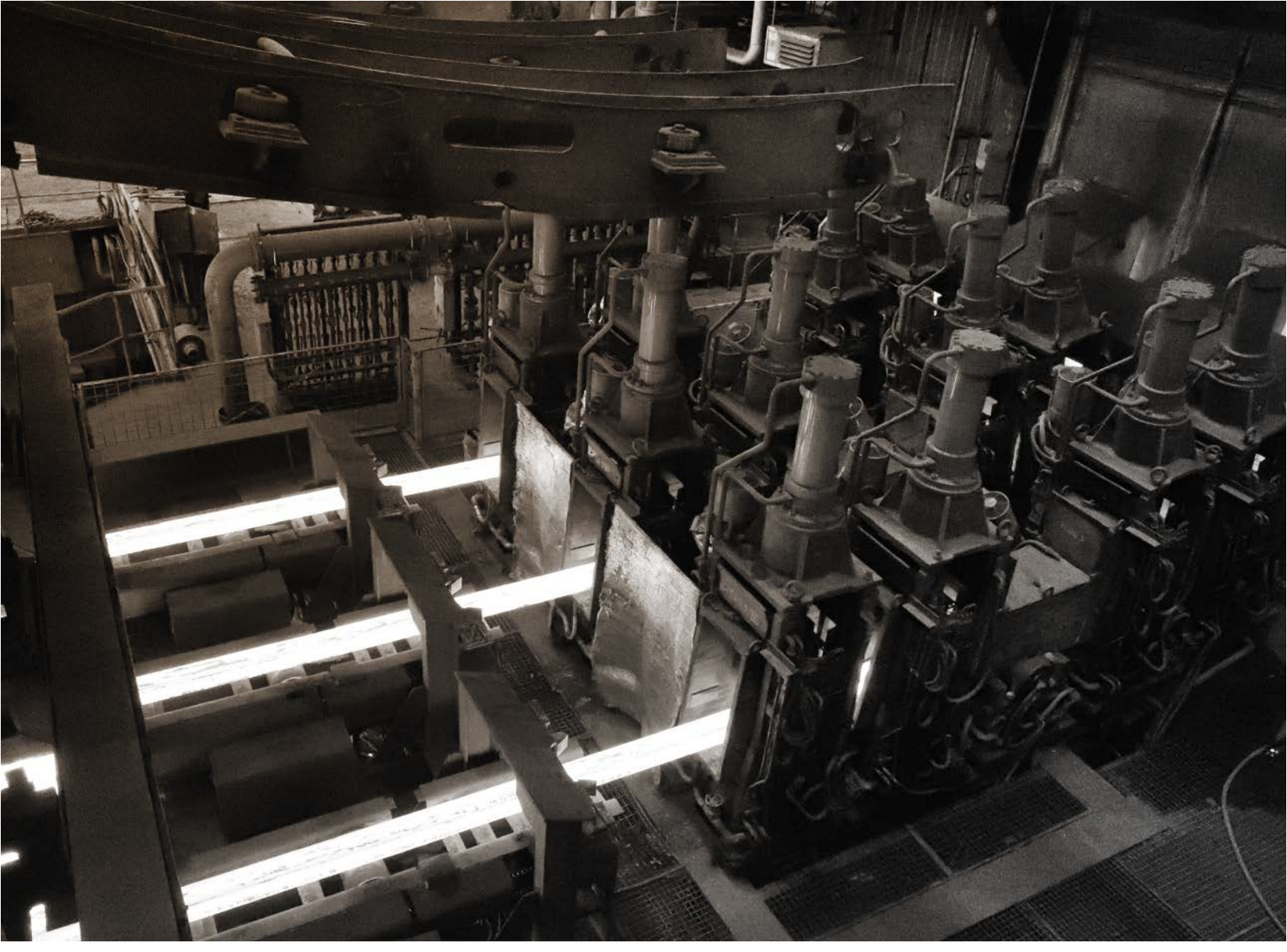
Ing. Jaroslav ROMANČÍK
Member of the Supervisory Board
(elected by employees)

KEY INFORMATION

Business name:	**Železiarne Podbrezová a.s. (abbreviated: 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
Company ID:	31 562 141
VAT ID:	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 2019 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.



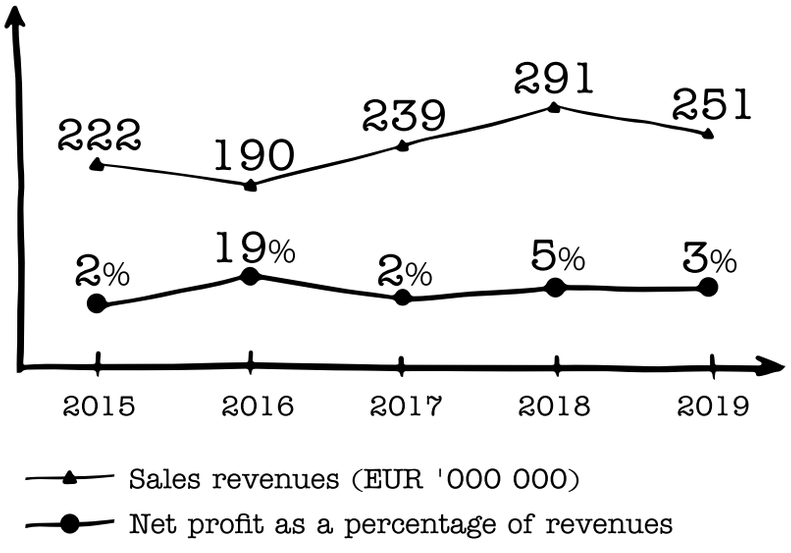
KEY FINANCIAL INDICATORS

Development of selected Non-Consolidated Data
(under IFRS, in EUR '000)

	2015	2016	2017	2018	2019
Sales revenues	221 736	189 796	238 613	290 932	251 057
Operating profit/(loss)	53	(4 279)	2 970	14 163	2 739
Net profit	3 735	36 235	4 048	13 306	7 239
Return on sales revenues	2%	19%	2%	5%	3%
Net operating cash flow	15 173	(2 134)	1 265	14 410	8 423
Total assets	270 770	258 319	269 029	289 609	280 642
Financial investments	95 597	75 162	75 924	75 923	77 960
Equity	190 259	197 884	199 548	208 086	211 034
Equity to total assets ratio	70%	77%	74%	72%	75%
Interest-bearing loans and borrowings	49 493	19 570	29 852	35 933	32 230
Debt to total assets ratio	18 %	8%	11%	12%	11%
Equity per share (EUR)	80	83	84	87	89
Net profit per share (EUR)	2	15	2	6	3
Approved dividends per share (EUR)	2	12	1	2	1.80

KEY FINANCIAL INDICATORS

SALES REVENUES AND THEIR RETURN



Development of selected Consolidated Data
(under IFRS, in EUR '000)

	2015	2016	2017	2018	2019
Sales revenues	428 458	329 031	333 506	397 579	344 036
Operating profit/(loss)	7 223	(504)	10 781	25 120	11 086
Net profit/(loss)	4 277	(21 519)	6 952	18 232	8 395
of which: share attributable to the Company's shareholders	3 839	(21 985)	6 377	17 480	8 025
Return on sales revenues	1%	(7%)	2%	4%	2%
Net operating cash flow	32 953	24 817	(3 514)	15 788	31 488
Total assets	449 337	328 190	343 934	374 377	369 397
Equity	253 037	201 144	204 908	217 920	221 658
of which: share attributable to the Company's shareholders	241 811	190 506	194 584	207 182	210 999
Interest-bearing loans and borrowings	108 610	62 340	79 304	90 036	92 531
Return on equity	2%	(12%)	3%	8%	4%
Return on assets	1%	(7%)	2%	5%	2%
Profit/(loss) per share (EUR)	2	(9)	3	7	3
Equity per share (EUR)	101	80	82	87	89

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 and heat exchangers
- Tubes for welding and threading
- Tubes for transportation of flammable media
- Oil tubes

Precision seamless cold-drawn steel tubes
- Standard precision tubes
- Tubes for the automotive industry
- Tubes for heat exchangers
- Tubes for hydraulic and pneumatic cylinders
- Tubes for hydraulic and pneumatic lines (HPL type)
- Tubes with internal ribs
- Galvanized tubes
- Tubes for the production of bearings

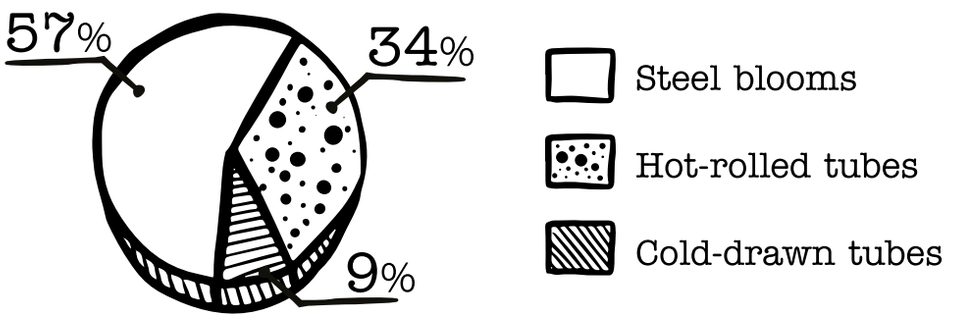
Semi-finished tubes

Butt welding elbows and reducers

Con cast steel blooms

PRODUCTION AND SALES

PRODUCTION STRUCTURE IN 2019



Certification

Our quality management system is certified under ISO 9001:2015 by SGS United Kingdom Ltd.

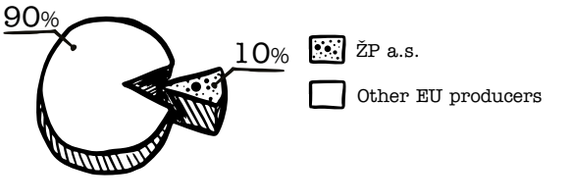
Our automotive industry products are certified under IATF 16949:2016, issued by SGS United Kingdom Ltd.

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, American Petroleum Institute, individually for the production and testing of steel, seamless rolled tubes, precision tubes, and butt welding elbows.

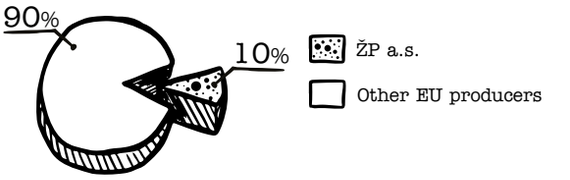
The environmental management system and the occupational safety management system are certified by SGS Slovakia spol. s r.o. in accordance with ISO 14001:2015 and ISO 45001:2018.

SHARE IN THE PRODUCTION OF SELECTED PRODUCTS IN THE EU IN 2019

SEAMLESS HOT-ROLLED TUBES



PRECISION SEAMLESS COLD-DRAWN TUBES



REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

Dear Shareholders,

The year 2018 was very successful for our Company in terms of economics and operations. However, also given the information available during the preparation of the plan for 2019, we could not count on another extraordinary year. The expected cooling in the markets and demand occurred and after a very strong Q1 2019, global trade slowed, including the market for seamless steel tubes and demand for our products. This slowdown was considerable, especially in the second half of the year, when the prices of our products decreased significantly. It is a positive that despite the decline in sales and lower profitability of the parent company as well as subsidiary companies, almost all companies in the ŽP GROUP reported positive financial results and maintained or strengthened their market positions.

REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

In 2019, European and global metallurgy continued to struggle with low utilisation of its production capacities and uneven regional demand for its products. According to the World Steel Association, the global production of steel increased for the third consecutive year (by 3.4% in 2019). This growth added to regional disparities, as steel production grew mainly in Asia (by a strong 5.7%), while it fell by 4.9% in the EU, 0.8% in the US and 0.5% in Russia. As a result, China reinforced its dominant position last year, with over 53% of world steel production (an increase from 51%).

Like the entire steel industry, the tube production segment has seen a decline in demand from both wholesalers and end consumers since the end of Q1 2019. This trend continued until the end of 2019 with signs of recovery in early 2020. Železiarne Podbrezová, like most companies in the industry, has already reduced the number of shifts at its plants. Recently, the Company has been producing above-average volumes of products despite vacancies in production, which has helped the Company stabilise the staffing level at a time of declining demand.

The decline in demand for steel products has resulted in a decrease in the prices of several key inputs, raw materials and alloy additions. In particular, the price of scrap steel fell continuously from March until the end of the year. This decrease was in line with the development of prices of steel products and, therefore, Železiarne Podbrezová saw a significant y/y decrease in operating revenues by almost EUR 38 million (13%). The Company's operating expenses also decreased significantly, but not at the same pace, and were lower by approximately EUR 26 million (9%) y/y, mainly due to lower prices of input raw materials. On the other hand, personnel expenses increased (by 3%) due to higher extra pay for night and weekend work. For the above reasons, we recorded a significant decrease in operating profit (by 81%). We continued to make a profit due to the optimisation of technological equipment at our plants and a forward-looking plan for energy purchasing.

Profit from financing activities supplemented the Company's operating profit, in particular, dividends from subsidiaries were higher than usual after the successful year of 2018. At the end of 2019, the Company's assets amounted to EUR 281 million and were covered by own funds at 75%.

The business and financial plan for 2020 took into account the market situation at the end of 2019, and information, trends and estimates regarding prices of input raw materials, expected volumes and estimated prices of our Company's final products. The preparation of the financial plan also took into account additional personnel expenses for extra pay for work at night, on weekends and holidays, which are linked to the minimum wage in the Slovak economy and whose significant growth is reflected in personnel expenses of all companies operating non-stop, regardless of the system and the level of average wages of their employees. In late 2018, we launched a programme for employing people from marginalised groups, including intensive training at the Company, in cooperation with the Ministry of Labour, Social Affairs and Family of the Slovak Republic. The programme helped us hire new employees and it will continue until June 2020.

The year 2019 was rather challenging for producers of seamless steel tubes. There was a significant decrease in demand, which was reflected in lower production volumes and decreased efficiency at our Company. These revenue losses were not sufficiently offset by cost reductions. There was a slight recovery in demand in Q1 2020, but this was followed by the worldwide spread of COVID-19 from China and Europe and mainly the countries to which we export a significant portion of our products were and still are severely affected by the pandemic and the economic consequences of the restrictions put in place to stop the spread of the virus. The direct impact on the Company at the start of the pandemic was not very severe as revenues fell by up to 25% year-on-year. However, at present, we see a very significant drop in orders and it is virtually impossible to predict the scale of the slump and its duration.

REPORT BY THE BOARD OF DIRECTORS
ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

An 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. This sector is also experiencing a very turbulent period with significant fluctuations in oil prices. They are caused by the decline in consumer demand due to lower economic activity as a result of the pandemic and the reluctance of the largest oil producers to reach a consensus on the redistribution of cuts in oil extraction.

For these reasons, the Board of Directors carefully evaluates the situation on the markets on a daily basis and adjusts production and all related management areas accordingly. Despite the extremely challenging and unpredictable situation, we believe that our management experience, sound financial situation, loyal customers and our own sales and supply network will help the Company to overcome this crisis and strengthen its position in the market and, consequently, its financial situation.

BUSINESS ACTIVITIES

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. The year 2018 was successful, with several production records, but 2019 was marked by lower production at all plants. Although the first months were still very strong in terms of production, the Company could not fully use all its production capacity with maximum efficiency throughout the year.

In 2019, we produced 327 782 tonnes of steel in total, which is 51 226 tonnes less than in the previous excellent year, and an 11% decrease compared to the plan. In the first half of 2019, the production of the steel plant was relatively high, with an average monthly volume of almost 32 thousand tonnes. In March, we produced a record-breaking monthly volume: 34 671 tonnes of steel blooms. Unfortunately, there was a significant decrease in orders in the second half of the year, so the production plan was not met. Of the total quantity produced, 247 352 tonnes of steel were used for own production of steel tubes and 80 430 tonnes were sold to external customers. In 2019, we again achieved a positive development of the key operational indicator of the trial balance and we also reduced production downtime compared to the previous year.

In 2019, we implemented several technological changes and innovations at the steel plant. The most significant investment was made in a multifunctional demolition machine, which significantly increases the efficiency and safety of employees in the repair of refractory linings of the hearth and foundry ladles.

The year 2019 marked the 40th anniversary of operation of the tube rolling mill. We produced a total of 195 000 tonnes of tubes, which is 13 419 tonnes less than in the previous record-breaking year, a decrease of approximately 4% compared to the planned volume. Of the produced volume, 125 632 tonnes were for sale to external customers

REPORT BY THE BOARD OF DIRECTORS
ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

and 69 368 tonnes of rolled tubes were further processed by Železiarne Podbrezová. In the 40th year of operation, there was a record-breaking monthly production in the rolling mill: we produced 19 200 tonnes of rolled tubes in March.

In 2019, we again made significant technological investments in the tube rolling mill. We continued the project of application of hard-metal rollers in the baskets of the push bench and in the stands of the drawing reduction mill to extend the roller life and improve the surface quality of tubes. Our long-term cooperation with ŽP Výskumno-vývojové centrum (ŽP Research and Development Centre, ŽP VVC) involved measurement, analysis and adjustment of the surface temperatures of rollers in the stands of the drawing reduction mill by changing their cooling parameters, which led to increased tool life and improved homogeneity of structure and mechanical properties of tubes. In the first half of the year, we completed a new finishing line in the dispatch warehouse, which performs straightening, marking, packaging and weighing activities in automatic mode and increases the finishing capacity of the tube rolling mill. During the December shutdown, we made three very important investments. The first was the installation of new shears for dividing continuously cast blooms. The second significant investment was the transition to a 3-piece toothed bar and the replacement of related parts, which strengthened the entire system and we believe that it will extend the life of this strategic part of the rolling mill. The third investment was the complete replacement of the hearth of the carousel furnace. In December, we also started preparatory construction work for the construction of a new treatment line for tube processing. This automated line will optimise the flow of products, reducing the need for handling and increasing the surface quality of tubes. We plan to complete the installation during the next shutdown in December.

In 2019, we produced 50 702 tonnes of cold-drawn precision tubes, a decrease of 3 401 tonnes compared to 2018. The planned production volume was higher by approximately 2.5 thousand tonnes (5%). In 2019, we sold 50 982 tonnes of precision drawn tubes to external customers, of which 1 253 tonnes were with a galvanised finish and 1 831 tonnes were divided and hydraulic tubes. The demand for precision drawn tubes was stable in most key product groups. In 2019, we again made several investments in the tube drawing mill. We installed and launched the third tube division system directly on the drawing bench. We intend to install division systems on at least three more drawing benches. We installed an automated line for small diameter tubes, which performs all finishing operations at one workplace. Last year, we also started to prepare the treatment grate so that after completion it will be possible to perform several operations related to inspection, cleaning, weighing and packaging of tubes.

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 2019.

Other products – butt welding elbows and reducers comprised a supplementary product range. In 2019, we produced 2 603 tonnes and sold 2 436 tonnes of welded elbows and 75 tonnes of reducers to our customers.

In 2019, supervision audits according to ISO 9001:2015 and IATF 16949:2016 were performed as part of the quality management system at Železiarne Podbrezová a.s. Both 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 environmental management system supervision audit according to EN ISO 14001:2015 and the recertification audit of the occupational safety management system according to ISO 45001:2018.

In 2019, we sold products, merchandise and services to our customers in the total amount of EUR 251 057 thousand, of which 90% were exported. Compared to the previous year, revenues decreased by EUR 39 875 thousand EUR (13.7%) due to lower selling prices of rolled and precision drawn tubes and a significant drop in the volume of sales of steel blooms.

REPORT BY THE BOARD OF DIRECTORS
ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

The geographical structure of sales in 2019 did not change significantly compared to previous years. European Union countries remained our main markets in the following order: Germany, Poland, the Czech Republic, Italy, Slovakia, Hungary and Austria.

There were no significant changes compared to previous years in the sectors in which our products were used. They are primarily used in the production of machinery and equipment (37%-42%), energy industry (30%-45%), hydraulic equipment, oil and gas transportation and the automotive industry.

Sales of Core Products in 2019

	Total Sales of Products			Slovakia - 6%		Export - 94%	
	tonnes	EUR '000	Share in sales	tonnes	EUR '000	tonnes	EUR '000
Steel blooms	80 430	41 421	17%	48	24	80 382	41 397
Seamless hot-rolled tubes	125 632	110 506	46%	6 965	6 986	118 667	103 520
Precision seamless cold-drawn tubes	50 982	82 780	35%	3 523	6 099	47 459	76 681
Butt welding elbows and reducers	2 511	4 600	2%	85	171	2 426	4 429
Company store(1)	266	328	0%	266	328	-	-
Total	259 821	239 635	100%	10 887	13 608	248 934	226 027

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

Changes in Total Sales by Geographical structure
(Revenues in EUR '000)

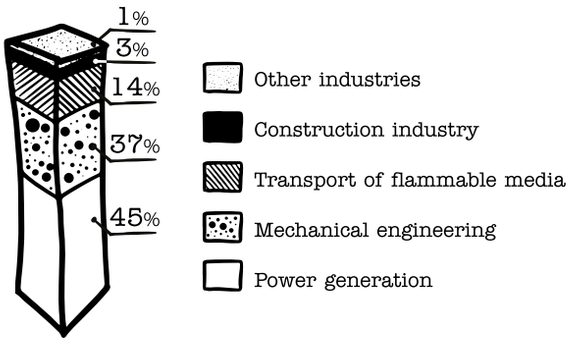
	2015	2016	2017	2018	2019
Slovakia	30 293	27 422	26 301	26 140	24 568
Czech Republic	34 741	22 637	31 601	42 963	31 058
Other EU countries	137 014	122 278	156 718	193 156	169 024
Other European countries	9 024	10 586	13 471	17 008	13 198
USA	6 484	5 058	8 523	11 053	9 924
Other export	4 180	1 815	1 999	612	3 285
Total sales	221 736	189 796	238 613	290 932	251 057

REPORT BY THE BOARD OF DIRECTORS

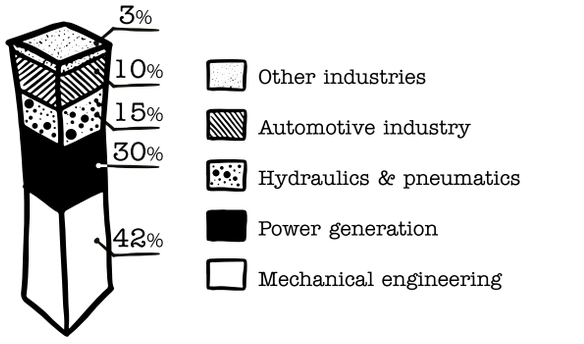
ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

APPLICATION OF TUBES IN 2019

SEAMLESS HOT-ROLLED TUBES



PRECISION SEAMLESS COLD-DRAWN TUBES



PURCHASE OF STRATEGIC RAW MATERIALS AND ENERGY

The Company applies ISO standards in business relationships with suppliers of input raw materials and our regular good communication and payment discipline enabled us to maintain a high level of supply activities in terms of quality and delivery times. The gradual decline in demand for steel products and, consequently, production in the industry resulted in a decrease in the prices of input raw materials and alloy additions. The purchase prices of scrap steel and cast iron steadily declined from the beginning of the year and the price fell by almost 30% in 10 months from January 2019 to the low point in November 2019.

In 2019, we purchased raw materials totalling EUR 125 206 thousand, of which 24% were imports. The purchased raw materials consisted of scrap steel, crude iron, cast iron, ferro-additives, refractory materials and important spare parts for production and service facilities. We traded with 885 business partners when purchasing raw materials in 2019.

In 2019, we purchased a total of 276 172 tonnes of scrap steel, of which, as in the last year, 90% were supplies from our subsidiaries ŽP EKO QELET a.s. and KBZ s.r.o.

In 2019, we purchased a total of 187 859 MWh of electricity, a 13% decrease compared to the previous year. Our small hydroelectric power plants and the co-generation unit produced 62 528 MWh of electricity, and generated 25% of our total annual consumption internally. The purchase price of electricity increased by 3% compared to the previous year. In 2019, we purchased 42 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 investment plan for 2019 relies on the medium-term investment plan, which aims to ensure the necessary technological renewal in the near future and to maintain the competitiveness of seamless tube production given the constant growth in labour costs, especially due to shortage of skilled blue-collar workers. Therefore, in the second year of the implementation of the strategic investment plan, we again invested significantly above the current annual depreciation charges, in the total amount of EUR 12 762 thousand.

REPORT BY THE BOARD OF DIRECTORS
ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

One of the most significant investments in technology in 2019 was the upgrade of the push bench of the rolling mill, both mechanically and electrically, by moving from a 5-piece toothed bar to a 3-piece bar, which should be significantly more resistant to the stresses on critical joints. Another important investment was the installation of new shears for cutting continuous castings. In early 2019, we completed an automated treatment line for small-diameter tubes. Our warehouse management changes involved a complete upgrade of the spare parts warehouse, including semi-automatic warehousing. In the drawing mill, we installed another tube division system directly on the drawing bench. We also bought a modern grinding centre for saw tools, including measurement. We also started preparatory work on the rolling mill to streamline the process of tube treatment using the bypass. We expect that this technology will be installed and launched during the next regular December shutdown of the rolling mill.

A significant construction investment in 2019 was the conversion of an unused building into staff accommodation quarters for the employees of subsidiaries.

The Company performed repairs in the total amount of EUR 33 659 thousand, an increase of EUR 1 136 thousand compared to 2018, to ensure the reliable operation of the technical equipment and to maintain structures and buildings.

RESEARCH AND DEVELOPMENT

In 2019, we spent EUR 927 thousand on R&D. R&D was performed primarily by contractual cooperation with the subsidiary, ŽP VVC s.r.o., which worked on six research tasks for the Company. The tasks were focused on research into the optimisation of the technological process of chemical treatment of tubes, cleaning of slag channels from stuck EAF slag in the steel plant, optimisation of technological flows at the tube drawing mill and several smaller operational tasks.

ENVIRONMENTAL POLICY

Železiarne Podbrezová is a company whose long-term priority is protection of the environment and of the safety and health of employees at work. It has a functional safety and health management system, which is a permanent part of the Company's business activities.

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 the environment and occupational health and safety. The integrated management system combines:

- The environmental management system (SEM) under ISO 14001; and
- The occupational health and safety management system (SRBP) under ISO 45001.

In 2019, SGS Slovakia spol. s r.o. performed a supervision audit of SRBP and a recertification audit of SEM. The audit results showed that the integrated management system works.

We fulfilled a total of 10 environmental objectives (EUR 294 thousand) and performed 42 tasks to improve occupational health and safety at work (total costs: EUR 10 355 thousand) under the SEM programme in 2019.

REPORT BY THE BOARD OF DIRECTORS
ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

HUMAN RESOURCES

Železiarne Podbrezová a.s. has addressed HR management in the long-term and systemically. Looking after our employees is a Company priority and encompasses recruitment, selection and education of young people, remuneration, an occupational health and safety system, and continual education and benefits.

Hence, in 2019, as in every year, Company management adopted two fundamental documents: the 2019 Collective Agreement concluded between ZO OZ KOVO (the KOVO trade union works council) and the Board of Directors of Železiarne Podbrezová a.s., and the Programme of the Board of Directors of Železiarne Podbrezová a.s., which constitute a comprehensive personnel, wage, social and occupational health and safety policy programme. The Company fully met its obligations arising from the above documents.

The total amount of EUR 631 thousand was spent from the social fund in 2019. The most significant items were as follows:

- Catering services for employees EUR 498 thousand;
- 24/7 accident insurance for all employees EUR 51 thousand;
- Children's holiday camps EUR 37 thousand;
- Social aid EUR 19 thousand;
- Employee rehabilitation vouchers EUR 18 thousand;
- Recovery stays for employees who are blood donors EUR 4 thousand.

The Employee Care Programme was extended to include the following:

- Employer's contribution to employee supplementary pension savings schemes EUR 1 199 thousand;
- Preparation of future workforce and granting of scholarships EUR 627 thousand;
- Protective equipment and employees' hydration regime EUR 504 thousand;
- Retirement and severance payments to employees EUR 333 thousand;
- Recovery stays and preventative medical checks for employees EUR 276 thousand;
- Improvement and enhancement of employee qualifications EUR 170 thousand;
- Bonuses for major work and life anniversaries EUR 83 thousand;
- Comprehensive programme of health recovery measures EUR 10 355 thousand.

A contribution for recreation in 2019 was provided to 349 employees in the total amount of EUR 61 thousand.

To improve the working environment and in accordance with the approved regulations, the Company ensures safe workplaces, provides its employees with appropriate protective equipment, and regularly communicates with employee representatives and employees. The Company provides its employees with regular training 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 76 employee representatives from various units monitored the situation and sent monthly reports – a total of 767 in 2019. In 2019, there were 30 registered occupational injuries at the Company, a decrease of 7 compared to the previous year. The average treatment time increased from 71 calendar days in 2018 to 74 days in 2019.

REPORT BY THE BOARD OF DIRECTORS

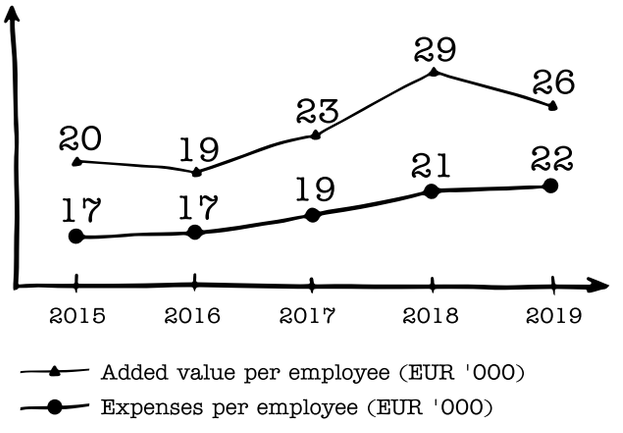
ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

Changes to Personnel Expenses (EUR '000)

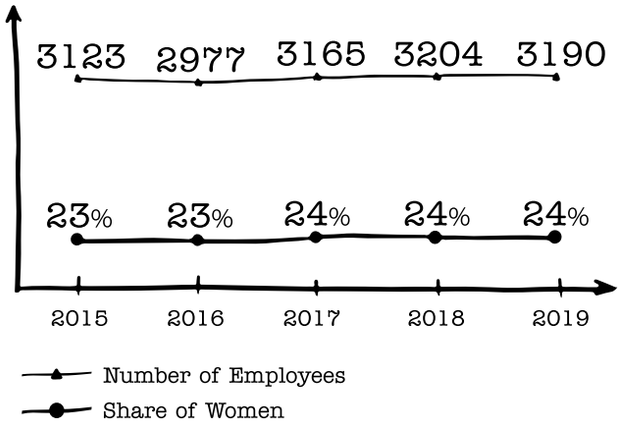
	2015	2016	2017	2018	2019
Wages and salaries	37 885	36 897	42 831	48 697	49 735
Mandatory contributions from wages and salaries	12 590	12 098	14 763	16 613	17 160
Training, education	580	716	681	864	890
Protective equipment	363	399	526	501	504
Social fund – drawing	387	377	470	596	632
Other expenses(1)	197	210	224	253	206
Total	52 002	50 697	59 495	67 524	69 127
Expenses per employee	17	17	19	21	22

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

ADDED VALUE & EXPENSES PER EMPLOYEE



NUMBER OF EMPLOYEES (FTE)

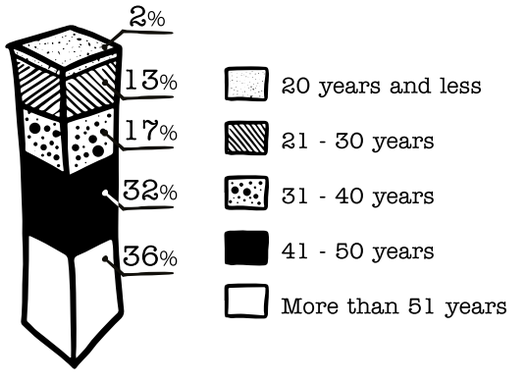


REPORT BY THE BOARD OF DIRECTORS

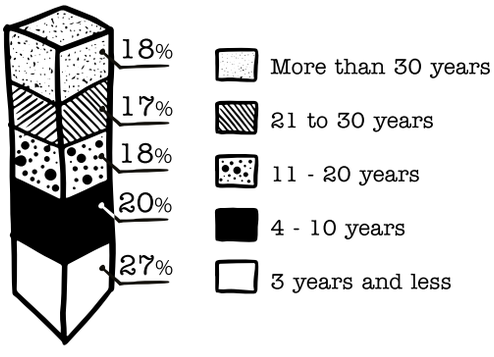
ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

EMPLOYEE STRUCTURE IN 2019

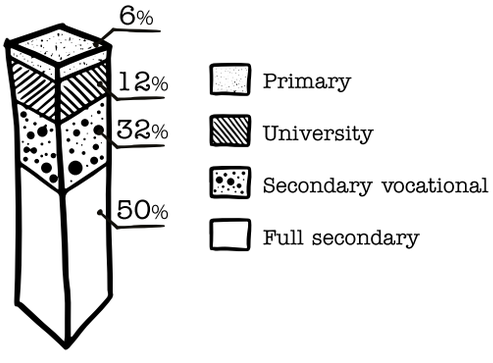
AGE STRUCTURE



NUMBER OF YEARS WORKED



EDUCATIONAL ATTAINMENT



The Company has long trained its own qualified employees at its Private United School of Železiarne Podbrezová (SSŠ ŽP). High-quality specialist education of students: metallurgists, electrical engineers and mechanics with work habits, which they acquire during practical learning and on-the-job training at the parent company, enable their problem-free employment. In 2019, 22 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 712 graduates have been employed by the Company, and less than a half of them worked for the Company at the end of 2019. A total of 252 instructors trained the students 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 on-the-job training with an employer. This is the way the school has operated since its reopening by Železiarne Podbrezová and we will continue to support this well-established education system for creating a qualified workforce.

REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

In 2019, the Company supported 21 employees to study while working to increase their qualification with work concessions. Fifteen of them are studying for a bachelor's degree in metallurgy, one employee is studying for an engineering degree at the Faculty of Materials Science and Technology of the Slovak Technical University and one employee was awarded an engineering degree at the Technical University in Košice.

Železiarne Podbrezová has a tradition of cooperating with universities, also thanks to a memorandum signed in 2017 on practical cooperation with eight universities. We have cooperated most with the Faculty of Materials, Metallurgy and Recycling of the Technical University in Košice, with which we organise open-door days at our school and at the faculty, where we present study opportunities and graduate job opportunities at our Company. The Company offers university scholarships to selected talented secondary school students from our private schools. We cooperate with the Matej Bel University, especially with the IT Department, in connection with secondary school IT classes and our subsidiary, ŽP Informatika, s.r.o. We also cooperate 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.

In 2019, the Company's full-time equivalent decreased to 3 190, a decrease by 14 employees (0.4%) compared to the previous year. The decrease in the headcount correlated with the decrease in contracts and shift work to which work schedules and staffing norms were adjusted during the year.

The average monthly income of Company employees in 2019 was EUR 1 300, a 3.1% increase compared to the previous year. The added value work productivity amounted to EUR 25 866 per employee, which is a decrease (12%) compared to the previous year. Compared to the average wage of industry employees in the Slovak Republic, the average wage at Železiarne Podbrezová is higher by 11%. The average income for 2019 for blue-collar employees was EUR 1 119 per employee, up by EUR 42 (3.9%) compared to 2018.

The subsidiaries of the ŽP GROUP employed an additional 1 114 employees in 2019, an increase of 1 employee compared to 2018. Of the total number of employees of subsidiaries, in Slovakia 845 employees worked in production and services and 53 employees worked at ŽP's private school. Another 216 employees worked for other companies abroad. In total, the ŽP GROUP employed 4 304 employees in 2019.

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. 6 000 copies.

Our Company's reputation has also been enhanced in the recent years by our management of Ľupča Castle, which is open to the general public. In cooperation with conservation authorities, Ľupča Castle is being restored to its original appearance using grant programmes. 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 2019 there were a record number of visitors – 21 951, a 5% increase compared to 2018.

REPORT BY THE BOARD OF DIRECTORS
ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

REPORT ON ASSETS AND FINANCIAL MANAGEMENT

ASSETS AND FUNDS

The Company's assets recognised as at 31 December 2019 in accordance with International Financial Reporting Standards (IFRS) amounted to EUR 280 642 thousand, a year-on-year decrease of EUR 8 967 thousand. Despite the overall decrease in the amount of assets, non-current assets increased by EUR 7 148 thousand due to higher investments in machinery, equipment and buildings, exceeding depreciation charges by EUR 5 314 thousand (5%). The second reason for the growth of non-current assets was a financial investment of EUR 2 032 thousand. Current assets decreased by EUR 16 115 thousand despite the increase in inventories by EUR 1 581 thousand. The total decrease in current assets was caused mainly by a decrease in receivables by EUR 18 535 thousand (36%), which decreased due to significantly lower sales in the second half of the financial year and lower prices compared to the previous period. The Company's cash decreased by EUR 230 thousand.

As at 31 December 2019, the Company's equity increased by EUR 2 948 thousand to EUR 211 034 thousand, thanks to the 2019 profit, which exceeded the amount of paid dividends. The decrease in assets combined with an increase in equity resulted in a higher equity-to-assets ratio from 71.9% to 75.2% as at 31 December 2019. Liabilities decreased by EUR 11 915 thousand. The highest decrease was recorded in short-term interest-bearing loans and borrowings (EUR 11 503 thousand), trade payables (EUR 5 884 thousand) and the current tax liability, which decreased to EUR 0 as at 31 December 2019, as the Company had no current income tax. In total, interest-bearing loans and borrowings amounted to EUR 32 230 thousand, and their share of total funds was 11.5% as at 31 December 2019.

As at 31 December 2019, the Company's trade receivables amounted to EUR 33 056 thousand, a decrease of EUR 18 535 thousand over the previous year. Inventories amounted to EUR 54 851 thousand and trade payables amounted to EUR 20 460 thousand as at 31 December 2019. 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 trade payables.

The equity-to-assets ratio increased to 75.2%.

FINANCIAL MANAGEMENT

To finance its OPEX 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. Before the end of 2019, the Company successfully extended the syndicated loan with the original maturity in July 2020 to a new maturity by July 2024 and increased the credit facility from EUR 18 million to EUR 30 million. The Company's credit facility is supplemented by separate contractual relationships for short-term financing with two commercial banks. This method of financing guarantees the Company's financial stability, unifies the lending terms and reduces the complexity of loan management.

The gearing ranged between 3% and 7% in 2019, the average loan drawdown amounted to EUR 14 989 thousand and the contracted credit facility amounted to EUR 42 800 thousand. As at 31 December, the Company drew EUR 18 536 thousand of bank loans and guarantees.

Bank loan interests are tied to the variable Euribor market rate. The average interest rate on drawn loans was 1.28% p. a. Credit facilities are secured by a pledge over the Company's movable and immovable assets. The value of the assets pledged is proportionate to the Company's credit exposure with a bank.

A significant source of the Company's external funding were loans from natural and legal persons totalling EUR 15 370 thousand, which supported the Company's financial stability.

As at 31 December 2019, the Company recorded no open derivative positions.

REPORT BY THE BOARD OF DIRECTORS
ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

Information from the Separate Statement of Financial Position under IFRS
as at 31 December 2019 (in EUR '000)

	31 Dec 2019	31 Dec 2018
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	111 519	106 385
Intangible assets	5	5
Investments in subsidiaries and joint ventures	77 866	75 840
Available-for-sale investments	94	83
Other assets	232	255
Total non-current assets	**189 716**	**182 568**
CURRENT ASSETS		
Inventories	54 851	53 271
Trade receivables and other financial assets	33 056	51 590
Current tax asset	865	-
Other assets	1 188	984
Cash and cash equivalents	966	1 196
Total current assets	**90 926**	**107 041**
TOTAL ASSETS	**280 642**	**289 609**
EQUITY AND LIABILITIES		
CAPITAL AND RESERVES		
Share capital	81 061	81 061
Legal and other funds	16 212	16 212
Retained earnings	113 761	110 813
Total equity	**211 034**	**208 086**
LIABILITIES		
NON-CURRENT LIABILITIES		
Interest-bearing loans and borrowings	27 370	19 570
Other liabilities	1 910	2 137
Provision for employee benefits	7 906	7 218
Deferred tax liability	7 103	7 216
Total non-current liabilities	**44 289**	**36 141**
CURRENT LIABILITIES		
Interest-bearing loans and borrowings	4 860	16 363
Trade and other payables	20 460	26 343
Current tax liability	-	2 676
Total current liabilities	**25 320**	**45 382**
Total liabilities	**69 609**	**81 523**
TOTAL EQUITY AND LIABILITIES	**280 642**	**289 609**

REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

SETTLEMENT OF PAYABLES

The Company's financial situation in 2019 was balanced and stable and the Company fulfilled its obligations to financial institutions, state and public authorities, employees, shareholders and suppliers in a due and timely manner and in the agreed amounts.

EXPENSES, REVENUES AND PROFIT/(LOSS)

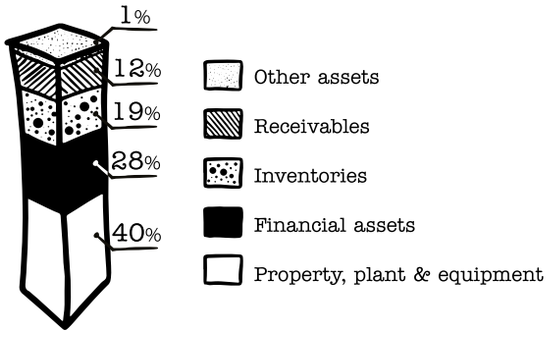
In 2019, the Company generated a net profit of EUR 7 239 thousand, recognised as the difference between total revenues (EUR 267 796 thousand) and total expenses (EUR 260 557 thousand).

Operating revenues contributed most (98%) to the Company's total revenues. Financial income of EUR 5 357 thousand amounted to 2% of total revenues and mainly consisted of dividends received from subsidiaries, interest income and foreign exchange gains.

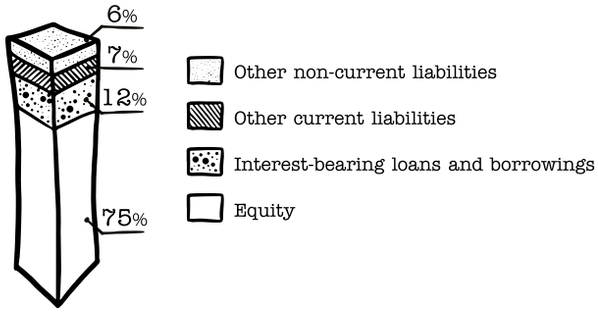
There were minor changes to the structure of expenses compared to the previous year. The share of expenses for raw materials and consumables used of total operating expenses decreased from 63% to 59%. The share of personnel expenses increased from 24.9% to 28.2% of total operating expenses and the share of services increased from 8.1% to 8.7%. Total operating expenses for 2019 decreased by more than EUR 26 million (9%), mainly due to the decrease in production volume and the decrease in prices of input raw materials.

The return on total revenues and return on total expenses remained approximately the same: 2.7% and 2.8%, respectively.

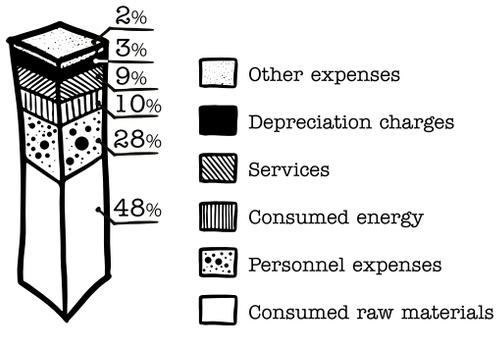
ASSETS AS AT 31 DEC 2019



EQUITY & LIABILITIES AS AT 31 DEC 2019



STRUCTURE OF TOTAL EXPENSES IN 2019



REPORT BY THE BOARD OF DIRECTORS
ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

Information from the Separate Statement of Comprehensive Income under IFRS
for the year ended 31 December 2019 (in EUR '000)

	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Sales of own products and merchandise	**245 285**	**285 005**
Sales of services	**5 773**	**5 927**
Changes in inventories of finished products and work in progress	2 231	4 132
Own work capitalised	6 734	7 202
		0
Raw materials and consumables used	(154 853)	(184 770)
Services	(22 659)	(23 157)
Personnel expenses	(73 281)	(71 365)
Depreciation and amortisation	(7 962)	(8 289)
Other operating revenues	4 647	2 154
Other operating expenses	(3 177)	(2 676)
Interest income	319	100
Interest expense	(517)	(509)
Other financial income	5 038	3 378
Other financial expenses	(453)	(672)
Profit/(loss) before tax	7 126	16 460
Income tax expense	113	(3 154)
PROFIT/(LOSS) FOR THE YEAR	**7 239**	**13 306**
Other comprehensive income and losses after tax	-	-
Total profit/(loss) for the year	**7 239**	**13 306**

REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

Information from the Separate Statement of Changes in Equity under IFRS

for the year ended 31 December 2019 (in EUR '000)

	Share capital	Legal reserve fund	Retained earnings	Total
Opening balance as at 1 Jan 2018	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**
Dividends paid	-	-	(4 291)	(4 291)
Total comprehensive income for the year	-	-	7 239	7 239
Closing balance as at 31 Dec 2019	**81 061**	**16 212**	**113 761**	**211 034**

The financial information presented in the annual report is consistent with the financial information presented in the separate financial statements. Under 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 2019 to 31 December 2019 in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

SIGNIFICANT EVENTS THAT OCCURRED AFTER THE REPORTING DATE

From 31 December 2019 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 already disclosed in the attached notes to financial statements.

REPORT ON THE ACTIVITIES OF CONSOLIDATED ENTITIES

The amount of investments in subsidiaries and affiliates as at 31 December 2019 recognised in line with IFRS amounted to EUR 77 960 thousand, a 27.8% share of the Company's total assets.

In December 2019, the Company purchased 172 shares of TOM-FERR Zrt., acquiring a 24.89% stake in it.

REPORT BY THE BOARD OF DIRECTORS
ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

Financial Investments and Other Ownership Interests
as at 31 December 2019

Company name	Registered office	Invesment (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	✓
TOM-FERR Zrt.	Budapest, Hungary	**2 032**	24.89%	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 (Foundation)	Podbrezová, Slovakia	**-**	100%	Direct	✓
STABILITA, d.d.s., a.s.	Košice, Slovakia	**94**	5,17%	Direct	×

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 December 2019.

REPORT BY THE BOARD OF DIRECTORS
ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

TRANSMESA & TAP

The product portfolios of TRANSMESA and TAP (Spanish companies) strengthen and complement the international market position of the ŽP GROUP as regards production and sales of precision cold-drawn steel tubes.

Compared to the successful year 2018, the situation on the market of metallurgical products and precision seamless tubes was significantly more difficult last year. Demand for the products gradually decreased, resulting in lower production, lower prices and lower utilisation of the production capacities of both Spanish production plants. In 2019, both TRANSMESA and the subsidiary TAP produced 8 549 tonnes of precision steel tubes and profiles, a slight 1.3% y/y decrease. The total length of produced tubes was 25.1 thousand kilometres, a y/y decrease of less than 1%. Of the total volume, 2 289 tonnes of tubes were finalised by electrolytic galvanising and 2 240 tonnes by mechanical division.

In 2019, both manufacturing companies supplied their customers with tubes in a total amount of 10 864 tonnes (of which 8 046 tonnes were of own production) and the consolidated revenues from the sale of merchandise, products and services totalled EUR 34.6 million. The 18% y/y decrease in revenues was driven by a 14% decrease in the sale of own products, and a significant decrease in the sale of products of Železiarne Podbrezová a.s. by 36% (amounting to EUR 5.1 million). In 2019, the companies posted a consolidated profit after tax of EUR 1 503 thousand (TRANSMESA: EUR 1 257 thousand and TAP: EUR 246 thousand). Total assets as at 31 December 2019 amounted to EUR 44 138 thousand. Current assets amounted to EUR 19 845 thousand and equity amounting to EUR 20 303 thousand covered 46% of total assets.

In 2019, TRANSMESA shipped its products and merchandise to 37 countries, and the Spanish market comprised 30.5% of its total revenues. EU Member States, North America and Australia continued to be the main export markets.

In 2019, the companies implemented several investment projects totalling EUR 2 860 thousand. The companies invested most in higher automation of production lines, technological equipment, new cranes and a solar photovoltaic system.

In 2020, the companies' management will continue optimising the production processes and will invest in automation of production processes to reduce costs and improve the quality of their products. In 2020, the companies planned invoicing and production volume at the level of the previous year, but the effects of the crisis and the related sales issues caused by the COVID-19 pandemic are currently difficult to predict. Maximum use of ŽP GROUP synergies will be made when purchasing merchandise and entry rods.

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 steel waste market in western and central Slovakia and has been a leader in the collection, sorting and processing of steel waste in Slovakia in recent years. ŽP EKO QELET a.s. is the most important supplier of scrap steel to Železiarne Podbrezová a.s., and supplied 68% of total scrap steel purchases last year. The biggest risk for the company is the fluctuation of scrap steel prices on the regional and European market, which has been very significant, especially in recent years. There is also considerable risk connected with the economic development and the stability of strategic scrap steel buyers in the region. The company maintained its position in 2019 and invested mainly in the renovation of machinery and handling facilities and equipment, and in the purchase of the land under its collection points. The company has 47 collection points and one processing plant. The company had 202 employees as at 31 December 2019.

REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

In 2019, the company processed and disposed of 11 459 automobile wrecks at its ecological plant for processing metal waste and old vehicles using SHREDER processing technology in Hliník nad Hronom, a 27% y/y increase. As a result, the limit for processing old vehicles, set for 2019 as a condition for obtaining a subsidy from the Recycling Fund, was exceeded by a wide margin.

The company shipped 6 062 tonnes of non-ferrous metals in 2019, an increase of more than 800 tonnes (16%). The average prices of non-ferrous metals decreased significantly by 30% compared to the previous year, which is comparable to the decrease in the prices of scrap steel.

The company shipped 223 thousand tonnes of scrap steel and non-ferrous metals in 2019, a y/y decrease of over 12% (30 thousand tonnes) and sales to Železiarne Podbrezová a.s. decreased by nearly 14% (30 thousand tonnes). Sales on the Slovak market remained at 92%. The remaining 8% of the sales of scrap steel were exported abroad, mainly to Poland and the Czech Republic, where approx. 12 thousand tonnes of production were exported last year.

The company's funding was balanced in 2019, and the company also made use of overdraft facilities from two banking institutions to finance its working capital, as in previous years. The purchasing, production and supplies of scrap steel were regular and steady throughout the year.

Last year, the company spent a total of EUR 2 746 thousand on new investments, in particular to purchase new transport and handling equipment, containers and land under the plant. The costs of repairs of technological and transport equipment totalled EUR 1 448 thousand.

In 2019, the company posted revenues of EUR 58 010 thousand, a decrease of almost 23% compared to 2018. The decrease was mainly caused by a significant decrease in prices of all categories of scrap during the year as well as a decrease in the sales volume. Therefore, in 2019, the company reported a loss of EUR 128 thousand, which is a significant drop compared to the 2018 profit, and is a result of the very unfavourable development of raw material prices in the past year. Total expenses were affected most by expenses for the purchase of merchandise and raw materials and consumables used, which accounted for 77%. The company's equity as at 31 December amounted to EUR 18 689 thousand, which is approx. 60% of the asset coverage.

Ensuring regular scrap metal supplies of the required quantity and quality for the parent company, Železiarne Podbrezová a.s., remains the main task of ŽP EKO QELET a.s. The company naturally seeks to make a profit, so in 2020 it will focus on efficient utilisation of its personnel, technical and technological capacities with respect to feasible possibilities of the production of scrap steel and non-ferrous metals. Therefore, it will be important for the company to stabilise supplies of scrap steel to other strategic customers and maintain the supplier network, while focusing on regular supplies from manufacturing plants.

REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

KBZ s.r.o.

This company is the second-largest supplier of scrap steel to Železiarne Podbrezová a.s. In 2019, the company generated revenues from the sale of merchandise and own outputs amounting to EUR 18 343 thousand, an almost 22% decrease compared to the previous year. In 2019, KBZ s.r.o. supplied over 78 tonnes of metal waste to its customers, of which 60 tonnes of scrap steel were supplied to the parent company. For Železiarne Podbrezová a.s., this amounted to almost 22% of total purchases of scrap steel for steel production. The company's equity as at 31 December 2019 amounted to EUR 2 320 thousand, which is approx. 27% of the overall asset coverage. In 2019, the company generated a profit of EUR 1 thousand, mainly due to lower supplies and declining average prices of scrap steel, which significantly reduced the company's margin.

ŽIAROMAT a.s.

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

After a very successful 2018, in 2019 there was a decrease in sales and profitability along with the entire metallurgical industry, to which the company's production is tied and which generates 88% of company sales. However, the company is succeeding in new Eastern European markets, thus compensating for the decline in orders from traditional customers.

Heat-resistant mixtures and panels amounted to 33%, fire clay building materials to 24%, magnesite-carbon building materials to 19% and other materials to 24% of total revenues in 2019. Last year, the company generated revenues from the sale of merchandise and own products and services totalling EUR 10 617 thousand, an almost 6% y/y decease. Exports accounted for 58% of total sales. The company's equity as at 31 December 2019 amounted to EUR 2 801 thousand, which is approx. 32% of the asset coverage. The company reported a profit after tax amounting to EUR 211 thousand at the year-end, a 60% y/y decrease.

PIPEX ITALIA S.p.A.

PIPEX ITALIA S.p.A. has been traditionally the most important sales and distribution channel for the products of Železiarne Podbrezová a.s., with a nearly 28% share of total sales. In 2019, the company generated revenues from the sale of merchandise and services amounting to EUR 96 828 thousand, a 9% decrease compared to the previous year. The company's equity as at 31 December 2019 amounted to EUR 9 624 thousand, which is approx. 23% of the asset coverage. In 2019, the company generated a profit after tax of EUR 1 865 thousand, a 21% y/y decrease.

SLOVRUR Sp. z o. o.

In 2019, SLOVRUR Sp. z o. o. was the second major distribution channel for the parent company. The company sold the products of Železiarne Podbrezová a.s. on the Polish market, and its share of the total sales amounted to almost 13%. In 2019, the company generated revenues totalling EUR 34 222 thousand, a 9% y/y decrease. The company's equity as at 31 December 2019 amounted to EUR 4 265 thousand, which is approx. 45% of the asset coverage. The company reported a profit after tax amounting to EUR 926 thousand at the year-end, a 17% decrease.

REPORT BY THE BOARD OF DIRECTORS
ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

ŽP Trade Bohemia, a.s.

ŽP Trade Bohemia, a.s. sells the parent company's products on the Czech market, and is the third most important sales and distribution channel for the products of Železiarne Podbrezová a.s., with a 12% share of total sales. The company's equity as at 31 December 2019 amounted to EUR 2 485 thousand, which is approx. 52% of the asset coverage. The company reported total revenues of EUR 30 353 thousand and a profit of EUR 349 thousand in 2019, a 32% decrease.

Pipex Deutschland GmbH

Since 2013, Pipex Deutschland GmbH has been taking over customers of PIPEX (International) AG, PIPEX ITALIA S.p.A. and the German agent, RS GmbH, with the objective of increasing the market share in Germany. In 2019, the company reported revenues from the sales of products of Železiarne Podbrezová a.s. totalling EUR 22 689 thousand and a profit of EUR 299 thousand. The company's equity as at 31 December 2019 amounted to EUR 766 thousand, which is approx. 36% of the asset coverage.

Transmesa USA, Inc.

The Spanish company, TRANSMESA, established a company in 2015 in the US, which serves 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 in the US. The proximity of customers and own warehouse with a higher number of products increased the flexibility, security and speed of supplies and reduced the cost of transporting TRANSMESA's products to the US. In early 2019, the installation of the second grinding line was completed, which increased the company's capacity for its customers. In 2019, the company generated sales revenues totalling EUR 2 876 thousand and reported a profit of EUR 304 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.'s products to all global markets and services for the parent company and subsidiaries. Last year, the company provided services in the total amount of EUR 11 156 thousand and reported a profit after tax of EUR 471 thousand. The company's equity as at 31 December 2019 amounted to EUR 2 127 thousand, which is almost 69% of the asset coverage.

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, which has had night lighting since 2017. The resort includes two hotels, which in addition to the standard services, also provide congress tourism and golf vacation packages. The company regularly invests in upgrading assets and increasing the level of provided services.

In 2019, the golf resort enjoyed unchanged attendance by individual clients and over sixty commercial, sport and club tournaments were held. Given the high-quality snowmaking facilities 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 and restaurants, which are fully booked during the peak season – Christmas and spring holidays.

In 2019, the company generated revenues from the sale of merchandise and services amounting to EUR 3 492 thousand, a 2% decrease compared to the previous year. The company incurred a loss of EUR 304 thousand for 2019. As at 31 December 2019, the company's assets totalled EUR 16 941 thousand, with 93% covered by equity.

REPORT BY THE BOARD OF DIRECTORS
ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

ŽP – Gastroservis, s.r.o.

The company produces fresh, refrigerated and frozen meals, and provides comprehensive catering services for the parent company's employees, several subsidiaries as well as external customers. In 2019, the company supplied 25% of meals outside the parent company. In 2019, the company sold products, services and merchandise totalling EUR 3 163 thousand and reported a profit after tax of EUR 2 thousand at the year-end. The company's equity as at 31 December 2019 amounted to EUR 1 015 thousand, which is 72% of the asset coverage.

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. In the 2018/2019 season, the A-team finished 12th in the Fortuna Football League, which ended their 6-year presence in the top flight, and they played in the 2nd league in the 2019/2020 season. The youth teams retained the status of Football Academy.

In 2019, the company generated revenues from the sale of merchandise and services totalling EUR 2 298 thousand and reported a loss of EUR 45 thousand. The company's equity as at 31 December 2019 amounted to EUR 479 thousand, which is approx. 54% of the asset coverage.

ŠK Železiarne Podbrezová a.s.

The company is the second successor company of 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 2019, the men's team participated in the Final Four tournament, placing 2nd in the club competition for the fourth time and only losing to the home team, KK Zaprešič. The Podbrezová men's team also qualified for the World Cup in Ludwigshafen, Germany, where they placed fourth.

In 2019, the company generated revenues totalling EUR 529 thousand and reported a profit of EUR 5 thousand. The company's equity as at 31 December 2019 amounted to EUR 334 thousand, which is 83% of the asset coverage.

ŽP Informatika s.r.o.

ŽP Informatika s.r.o. provides comprehensive outsourcing services to Železiarne Podbrezová a.s. in information technology and information systems. The company provides comprehensive services to all ŽP GROUP companies and its services are also provided to external entities. In 2019, the company generated revenues from the sale of merchandise and own outputs totalling EUR 4 580 thousand and reported a profit after tax of EUR 50 thousand. The company's equity as at 31 December 2019 amounted to EUR 2 297 thousand, which is 78% of the asset coverage.

REPORT BY THE BOARD OF DIRECTORS
ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

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 2019, the company generated revenues from the sale of own outputs totalling EUR 1 735 thousand. The company's equity as at 31 December 2019 amounted to EUR 373 thousand and the company reported a profit of EUR 74 thousand. The company had 80 employees.

ŽP VVC s.r.o.

The company performs research and development activities in physical metallurgy, metal forming, material engineering and process modelling and simulation. Applied research and development are mainly carried out for the parent company's needs and the company also cooperates with universities and research entities. In 2019, the company generated revenues from the sale of own outputs totalling EUR 955 thousand. The company's equity as at 31 December 2019 amounted to EUR 226 thousand and the company reported a profit after tax of EUR 53 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 for the public. In 2019, the company generated own outputs totalling EUR 258 thousand. The company's equity as at 31 December 2019 amounted to EUR 135 thousand and the company reported a profit of EUR 20 thousand.

REPORT BY THE BOARD OF DIRECTORS
ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

BUSINESS PLAN

In 2020, Železiarne Podbrezová a.s. celebrates 180 years of its existence. In its modern history, the Company has focused for four decades on its core business: production of seamless rolled steel tubes and cold-drawn precision tubes. The Company has been operating as a joint-stock company for the last 28 years and has consolidated all important parts of tube production and sales into the ŽP GROUP. From the purchase of scrap, as the main raw material, through the production of heat-resistant materials, steel and seamless steel tubes, research into steel production and metal forming, to the sale of products by its trading companies. In 2018, the Board of Directors prepared a medium-term investment plan to focus investments on the upgrade and renovation of the Company's technological base, with the aim of increasing production process efficiency and labour productivity, and, ultimately mitigate the unfavourable labour market situation.

After a strong previous year, 2019 saw a decline in industrial activity and demand for our products, and the Company's sales decreased more significantly. As a result, there was a decrease in the Company's working capital, which reduced credit exposure in 2019 by approx. EUR 3.7 million.

The solid economic growth of the last three years is over for the European Union and the global economy. We are entering a recession, whose depth and length cannot be predicted. The forecasts for the growth of the eurozone economy for the near future were already cautious, but after the outbreak of the COVID-19 pandemic and the subsequent dramatic economic slowdown, these forecasts are unrealistic. The World Steel Association predicts that the global industry and economy will take a long time to recover from the current situation caused by the pandemic. The industry and demand will recover faster in the emerging markets in Asia than in Western economies. The recovery will not be the same in all sectors, as some sectors had problems before the pandemic was declared. The recovery of demand in construction, one of the main consumers of steel, depends to a large extent on the investment incentives of governments, which will be weaker financially after overcoming the pandemic. The automotive industry has seen stagnation in demand over the past year due to market saturation, government pressure on manufacturers due to environmental targets and the shift to electric vehicles. These problems in the automotive sector will be exacerbated by the pandemic, and the decline in consumer confidence will mean lower purchases of new cars worldwide. A longer-term shutdown of comprehensive global subcontracting chains in the engineering and automotive sectors could also be a major problem for the economy. Some firms are unlikely to have enough capital to finance a longer period of low demand, and could go bankrupt if their overheads remain unchanged and they do not receive support. Investments in the energy sector are also partly cyclical and significantly affected by oil and gas prices, where the trend is currently negative. The global economy is now affected by several significant risk factors at the same time, and their elimination will only be possible by a rapid, coordinated and targeted policy of the governments of the world's major economies.

In Q1 2020, demand for rolled and precision drawn tubes was at the level of Q4 2019, which means that the Company was unable to fully utilise its production capacity and the selling prices were well below the comparable period in 2018. Nevertheless, there was a slight recovery in demand and there was a possibility of a slight increase in the prices of final products in the coming months at that time. However, the COVID-19 pandemic hit Europe in March 2020, resulting in a significant reduction in production and economic activity across the European Union in March, April and May, as measures are phased out gradually and at different levels, depending on the situation in the individual countries of the European Union.

REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

In the tube industry, we did not see a significant decline in the first months of the pandemic, this was partly due to the fact that several of our competitors in Italy, Spain and Austria halted production and lower demand was covered by fewer producers. However, the situation has changed significantly in recent weeks and with a significant decline in orders, the outlook for the coming months remains uncertain. To cope with the current decline in sales, the Company has been forced to take unpopular measures, such as limiting the number of production shifts, reducing the number of fixed-term employees and reducing the number of hours worked by employees.

The sales plan of Železiarne Podbrezová a.s. for 2020 was not optimistic, but given the current situation we can be certain that the Company will incur an operating loss this financial year. It is likely that dividends from subsidiaries will not cover the loss, and the Company could end the year with a loss overall.

The 2020 investment plan is based on the medium-term plan and at EUR 14.6 million it significantly exceeds depreciation charges. The most important technological investments will include upgrade and automation of the tube division system, which will significantly simplify production flow in the finishing hall of the tube rolling mill. The relocation and significant modification of the straightening dividing line will have a similar effect on production processes. The plan is to purchase a new modern dividing centre and to purchase another three-part toothed bar of the push bench. Planned construction investments include the renovation of the private school workshops and the complete renovation of the welding school. In 2020, we will continue to expand rental housing for employees and reconstruct the staff quarters into twelve new rental flats. We plan to spend a total of EUR 34 million on repairs and maintenance of technological facilities and buildings in 2020.

In 2020, our subsidiary ŽP Výskumno-vývojové centrum will carry out 6 internal R&D projects for us, with planned expenses of EUR 964 thousand. The research is aimed at improving production quality, optimising materials for tools in tube production and optimising production processes. In 2020, the Company will continue to implement multi-year R&D projects on tools, modelling and simulation of production processes and material engineering, which can be applied by the Company to production.

We are continuously improving 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 14001:201 and the occupational health and safety management system under ISO 45001:2018.

In 2020, the Board of Directors will continue the personnel, payroll and social policy programme for Company employees. This 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 prepare and educate new employees at our Private United School (Súkromná spojená škola ŽP).

In 2020, we will continue our cooperation with the subsidiary ŽP Informatika s.r.o., which operates and develops new information systems for the parent company and other companies in the ŽP GROUP as needed, by IT outsourcing. As regards the development of application software, the focus in 2020 will be on the medium-term project of comprehensive change to the production information system to improve the planning, monitoring, and management of production and technical processes in the Company.

REPORT BY THE BOARD OF DIRECTORS
ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

In 2020, Železiarne Podbrezová a.s. will again fund its OPEX and CAPEX needs using the club credit facility with a limit of EUR 30 million, extended until July 2024, and other separate loans for short-term financing, which the Company draws according to its operating needs. The total credit facility limit is sufficient for continuous funding next year.

The 2020 financial plan was prepared before the outbreak of the pandemic and assumed revenues of EUR 234.8 million and a loss from operating activities, which was to be offset by a profit from financing activities, in particular by dividends received from subsidiaries. The total planned loss after tax was EUR 1.5 million; however, in the current situation, the fulfilment of this plan is very uncertain.

Business activities in tourism are undertaken at our subsidiary, Tále a.s., which will be developed further. We are preparing cooperation with a new partner who has been operating in hospitality and tourist services for a long time. As a result, tourism in the Tále region should be improved in terms of quality and made more effective.

Subsidiaries in the consolidated ŽP GROUP work closely with the parent company and contribute to the overall results of operations. We plan a profit for most companies in 2020, which will be used to develop the companies appropriately and generate dividends for the parent company. Consolidated revenues from the sale of goods, products and services for 2020 are planned in the amount of EUR 328 million, with a consolidated loss after tax of EUR 1.2 million.

CONCLUSION

In 2020, Železiarne Podbrezová a.s. celebrates 180 years of existence. Just as the Company's history is full of successful and more difficult periods, the last four years saw the economic cycle alternate between a downturn and a boom. Despite the current very uncertain situation in the global economy, including in the steel market, we believe that the current crisis will leave our Company stronger and more efficient, and that it will maintain its market position thanks to its high-quality products, competitive prices and very good service for our customers.

In 2019, we made good use of the Company's production capacity, real wages of our employees increased, we made major investments in accordance with the investment plan and we also generated an operating and overall profit and paid dividends to the shareholders.

Despite significant risks in the global economy and uncertainties in operational production and sales planning, we believe that the steady growth of the global population, greater urbanisation, long-term demand for personal mobility and the associated extraction of raw materials ensures a permanent place for the production of steel tubes in industry and the economy.

Železiarne Podbrezová a.s. acted flexibly and took advantage of all market opportunities during 2019. The Company's Board of Directors considers 2019 as positive both in terms of production and results of operations, given the circumstances. All employees, including the management and employees of subsidiaries, contributed to the Company's success.

The 2019 profit amounted to EUR 7 239 thousand, with earnings per share of EUR 3. However, in the current uncertain situation, the Board of Directors proposes to the General Meeting to retain the generated profit in the Company to strengthen its financial position in the future.

REPORT BY THE BOARD OF DIRECTORS

ON BUSINESS ACTIVITIES, ASSETS AND FINANCIAL PERFORMANCE IN 2019 AND INFORMATION ON THE BUSINESS PLAN

Sales revenues within the consolidation group amounted to EUR 344 036 thousand and the consolidated net profit amounted to EUR 8 395 thousand, of which EUR 8 025 thousand pertained to the shareholders of Železiarne Podbrezová. There was a 13% decrease in consolidated revenues and a 54% decrease in profitability for the entire ŽP GROUP compared to 2018.

Železiarne Podbrezová continues to be a reliable 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.

We thank you for your trust.

Approved by a decision of the Board of Directors on 27 May 2020

INFORMATION FOR SHAREHOLDERS

Dear Shareholders,

Under the Company's separate financial statements prepared in line with IFRS, the Company's 2019 result of operations was a profit after tax of EUR 7 239 259, i. e. EUR 3 per share. The Board of Directors proposes that the General Meeting do not pay dividends to the Company's shareholders or royalties to members of the Board of Directors and the Supervisory Board due to the current situation related to the COVID-19 pandemic and the resulting high economic uncertainty in the period before the General Meeting. In this way, the Board of Directors seeks to support the financial stability of the Company in the current circumstances.

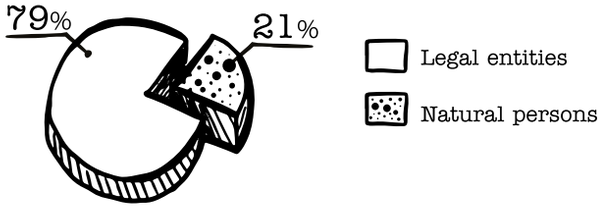
We appreciate your confidence and the trust you have expressed in Železiarne Podbrezová a.s. to date.

INFORMATION FOR SHAREHOLDERS

Company's Shareholders as at 31 December 2019

	Share in the share capital and voting rights
CPA s.r.o.	79.42 %
Other legal entities	0,02 %
Natural persons	20.56%

The Company's share capital in the amount of EUR 81 060 590 comprises 2 384 135 ordinary paper registered shares. The 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 the management of the Company, 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 shares is subject to the Company's approval.



Proposal for the payment of dividends and royalties from Retained earnings of previous years and the proposal for the distribution of the 2019 profit

submitted to the Annual General Meeting of Shareholders on 29 June 2020

Retained earnings	**EUR 106 521 644**
Use of retained earnings for 2004-2010:	
- Payment of dividends to shareholders (EUR 0 per 1 share, i.e. 0% of the face value of shares)	EUR 0
- Payment of royalties to the members of the Board of Directors	EUR 0
- Payment of royalties to the members of the Supervisory Board	EUR 0
Net profit for 2019	**EUR 7 239 259**
Distribution:	
- Mandatory allotment to the reserve fund	-
- Transfer to Retained earnings of previous years	EUR 7 239 259
Balance of Reserve fund after profit distribution	EUR 16 212 118
Balance of Retained earnings of previous years after profit distribution	EUR 113 760 903

REPORT ON THE ACTIVITIES OF THE SUPERVISORY BOARD

Ing. Ján BANAS

Chairman of the Supervisory Board

In 2019, the Supervisory Board consisted of: Ing. Ján Banas, Ing. Jozef Marčok, Luigi Cuzzolin, Ing. Ľudovít Ihring, Ing. Vladimír Zvarík, Ing. Tomáš Ihring (members of the Supervisory Board elected by the General Meeting), Pavol Koštial, Soňa Lopušná and Ing. Jaroslav Romančík (members of the Supervisory Board elected by the Company's employees).

REPORT ON THE ACTIVITIES OF THE SUPERVISORY BOARD

The members of the Supervisory Board had adequate access to all information necessary to supervise the actions of the Board of Directors and the Company's business activities. They were informed about all important decisions of the Board of Directors being prepared. Every meeting of the Board of Directors was attended by several members of the Supervisory Board. In 2019, the Supervisory Board was receiving up-to-date information on the economic activities, financial situation, balance of assets, liabilities and receivables of Železiarne Podbrezová a.s. and also its subsidiaries in the ŽP GROUP.

Based on the results of the supervisory activities, the Supervisory Board concludes that the Company's business activities in 2019 were performed in accordance with the legal regulations, the Company's 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 ended 31 December 2019, audited by Deloitte Audit s.r.o., and identified no irregularities. It 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 distribution of the 2019 profit and for the pay-out of dividends and royalties.

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 starting on 1 January 2020.

In Podbrezová, 12 June 2020

Ing. Ján Banas
Chairman of the Supervisory Board

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

Prepared 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 2019, 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 2019, 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 and Those Charged with Governance

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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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.

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

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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.

We communicate with those charged with governance about, inter alia, the planned scope and time schedule of the audit and significant audit findings, including all material deficiencies of internal control identified during our audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on Information Disclosed in the Consolidated Annual Report

The statutory body is responsible for information disclosed in the consolidated 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 consolidated annual report.

In connection with the audit of consolidated financial statements, our responsibility is to gain an understanding of the information disclosed in the consolidated 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 consolidated annual report was not available to us.

When we obtain the consolidated annual report, we will assess whether the Group'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 consolidated annual report prepared for 2019 is consistent with the consolidated financial statements for the relevant year; and
- The consolidated annual report includes information pursuant to the Act on Accounting.

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

Bratislava, 5 May 2020

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 2019 (IN EUROS)

	Note	*31 December 2019*	*31 December 2018*
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	6	203 916 444	192 840 775
Intangible assets	7	1 490 978	1 325 771
Goodwill	7	1 768 335	1 768 335
Other financial assets	8	2 542 867	287 709
Deferred tax asset	9	491 291	580 655
Total non-current assets		**210 209 915**	**196 803 245**
CURRENT ASSETS			
Inventories	10	83 196 336	82 202 248
Trade receivables and other financial assets	11	61 353 303	82 796 342
Current tax asset		1 357 319	128 061
Other assets		1 590 172	1 611 781
Cash and cash equivalents	12	11 690 438	10 834 973
Total current assets		**159 187 568**	**177 573 405**
TOTAL ASSETS		**369 397 483**	**374 376 650**
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	13	81 060 590	81 060 590
Legal and other funds	13	17 505 212	17 309 195
Retained earnings		112 432 907	108 812 390
Equity attributable to equity holders of ŽP		**210 998 709**	**207 182 175**
Minority interests		10 659 065	10 737 599
Total equity		**221 657 774**	**217 919 774**
LIABILITIES			
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	14	41 174 454	32 434 417
Other financial and other non-current liabilities	15	3 199 159	3 629 789
Provisions for employee benefits	16	9 299 077	8 480 360
Provisions for liabilities	17	884 626	886 425
Deferred tax liability	9	10 113 651	10 218 935
Total non-current liabilities		**64 670 967**	**55 649 926**
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	14	51 356 155	57 601 948
Trade and other financial payables	18	31 062 948	38 933 505
Current tax liabilities		46 874	3 609 858
Other liabilities		602 765	661 639
Total current liabilities		**83 068 742**	**100 806 950**
Total liabilities		**147 739 709**	**156 456 876**
TOTAL EQUITY AND LIABILITIES		**369 397 483**	**374 376 650**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019 (IN EUROS)

	Note	*31 Dec 2019*	*31 Dec 2018*
Sales of own products and merchandise	19	**333 462 421**	**385 541 921**
Sales of services	19	**10 573 620**	**12 036 835**
Changes in inventories of finished goods and work in progress		3 451 880	7 624 977
Own work capitalised	20	11 224 645	11 452 725
Consumed material and energy, costs of merchandise sold		(190 612 336)	(230 814 617)
Services		(38 006 494)	(40 965 109)
Personnel expenses	21	(104 697 125)	(103 217 599)
Depreciation and amortisation		(15 612 503)	(15 538 764)
Other operating income	22	6 221 181	3 675 457
Other operating expenses	22	(4 919 675)	(4 675 375)
Interest income		384 177	134 119
Interest expense		(1 508 414)	(1 157 625)
Gain/(loss) from financial investments		146 789	4 971
Other financial income	23	862 748	1 262 701
Other financial expenses	23	(825 660)	(1 333 136)
Profit/(loss) before tax		**10 145 254**	**24 031 481**
Income tax expense	24	(1 750 231)	(5 799 502)
PROFIT/(LOSS) FOR THE YEAR		**8 395 023**	**18 231 979**
Profit/(loss) attributable to:			
- Equity holders of ŽP		**8 024 667**	**17 479 868**
- Minority interest		370 356	752 111
Total		8 395 023	18 231 979
Other comprehensive income and losses that may be reclassified subsequently to profit or loss			
Hedging derivatives		-	-
Foreign currency translation reserve		77 120	(98 047)
Deferred tax related to other comprehensive income	9	-	-
Other comprehensive income/(losses) after tax		**77 120**	**(98 047)**
Total comprehensive income/(loss) attributable to:			
- ŽP Shareholders		8 107 977	17 381 821
- Minority shareholders		364 166	752 111

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019 (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 2018	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**
Dividends paid	-	-	-	(4 291 443)	(4 291 443)	(442 700)	(4 734 143)
Distribution of profit	-	112 707	-	(112 707)	-	-	-
Net profit/(loss) for the year	-	-	-	8 024 667	8 024 667	370 356	8 395 023
Changes in interests in subsidiaries	-	-	-	-	-	-	-
Other comprehensive income	-	-	83 310	-	83 310	(6 190)	77 120
Closing Balance at 31 December 2019	**81 060 590**	**17 446 361**	**58 851**	**112 432 907**	**210 998 709**	**10 659 065**	**221 657 774**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019 (IN EUROS)

	Note	*Year ended 31 Dec 2019*	*Year ended 31 Dec 2018*
OPERATING ACTIVITIES			
Profit/(loss) before taxation		10 145 254	24 031 481
Depreciation and amortisation and creation/reversal of provisions	6	15 612 503	15 642 026
Provisions for liabilities	17	(1 799)	(590)
Provisions for receivables, inventories and investments, net	22	268 228	126 205
Loss on impairment of property, plant and equipment	22	(58 689)	103 262
Unrealised foreign exchange differences	23	77 120	-
Interest, net		1 124 237	1 023 506
Proceeds from sale of property, plant and equipment and non-current intangible assets	22	(434 722)	(478 360)
Employee benefits	16	818 717	730 552
Other non-cash items		(115 784)	(27 525)
Cash flows from operating activities before changes in working capital		27 435 065	41 150 557
Change in receivables	11	21 602 773	(7 678 378)
Change in inventories	10	(1 433 065)	(15 726 461)
Change in trade and other payables	18	(8 301 187)	3 094 767
Change in other assets and liabilities		(37 265)	(1 105 553)
Cash flows from operating activities		39 266 321	19 734 932
Interest received		318 828	99 905
Interest paid		(1 508 414)	(1 157 625)
Income taxes (paid)/received	24	(6 589 171)	(2 889 330)
Net cash flows from operating activities		**31 487 564**	**15 787 882**
INVESTING ACTIVITIES			
Proceeds from the sale of property, plant and equipment and non-current intangible assets	22	995 846	1 325 667
Acquisition of property, plant and equipment and intangible assets	6	(27 355 814)	(21 740 497)
Acquisition of financial investments		(2 032 232)	-
Acquisition of additional interests in the existing subsidiaries		-	(40 550)
Net cash flows used in investing activities		**(28 392 200)**	**(20 455 380)**
FINANCING ACTIVITIES			
Proceeds from loans and borrowings	14	16 012 816	15 667 959
Expenditures for the repayment of loans and borrowings	14	(12 043 922)	(4 076 585)
Expenditures for paid obligations under finance lease	14	(1 474 650)	(858 596)
Dividends paid		(4 734 143)	(5 054 439)
Net cash (used in)/generated by financing activities		**(2 239 899)**	**5 678 339**
Net (decrease)/increase in cash and cash equivalents	12	855 465	1 010 841
Cash and cash equivalents at the beginning of the year	12	10 834 973	9 824 132
Cash and cash equivalents at the end of the year	12	**11 690 438**	**10 834 973**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (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 2019 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 2019, the Company's shares were held by CPA s.r.o. (79.42%) and other minority shareholders (20.58%). 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	*Board of Directors*
Ing. Ján Banas – Chairman	Ing. Vladimír Soták – Chairman
Ing. Jozef Marčok – Deputy Chairman	Ing. Marian Kurčík – Deputy Chairman
Luigi Cuzzolin – Member	Ing. Miloš Dekrét – Member
Ing. Ľudovít Ihring – Member	Ing. Július Kriváň – Member
Ing. Tomáš Ihring – Member	Ing. Mária Niklová – Member
Pavol Koštial – Member	Ing. Vladimír Soták, Jr. – Member
Soňa Lopušná – Member	Ing. Milan Srnka, PhD. – Member
Ing. Jaroslav Romančík – Member	
Ing. Vladimír Zvarík – 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 2019 to 31 December 2019 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 24 June 2019, the General Meeting approved the consolidated financial statements of Železiarne Podbrezová a.s. for the year ended 31 December 2018.

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 2018. For expenses and revenues, comparatives for the previous reporting period, ie year ended 31 December 2018, 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 2019.

Initial application of new and amended IFRS standards effective for the current reporting period

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

- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),

When applying IFRS 16, the Group used a modified approach. The Group did not restate comparable data and disclosed data for the previous period which is in compliance with IAS 17. The Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics. By applying a prudence principle, the Group assessed leases whose conditions comprise an option to extend or terminate a lease. For contracts concluded for an indefinite period, the Group assessed the probable duration of such contracts.
As a result of the application of IFRS 16 "Leases", the amounts recognised in the balance sheet in respect of non-current tangible assets and financial liabilities increased by EUR 5 254 thousand as at 1 January 2019.

- **Amendments to IFRS 9 "Financial Instruments"** – Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 19 "Employee Benefits"** – Plan Amendment, Curtailment or Settlement – adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019),

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (IN EUROS)

- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** – Long-term Interests in Associates and Joint Ventures – adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to "Annual Improvements to IFRS Standards (2015 – 2017 Cycle)"** resulting from the annual IFRS improvement project (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

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 except for the effect of adoption of IFRS 16 – Leases.

New and amended IFRS standards issued by IASB and adopted by the EU but not yet effective

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

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to References to the Conceptual Framework in IFRS Standards** – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** – Interest Rate Benchmark Reform – adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020).

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

New and amended IFRS 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 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 IAS 1 "Presentation of Financial Statements"** – Classification of Liabilities as Current or Non-current (effective for annual periods beginning on or after 1 January 2022),
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **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).

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 negative results of operations in 2020.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (IN EUROS)

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.

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

Name	*Country of incorporation*	*Effective ownership %*		*Voting rights %*		*Principal activity*
		2019	*2018*	*2019*	*2018*	
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%	88.50%	88.50%	88.50%	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., 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.

(ii) Associates

Associates are companies in which the Group has a substantial but not controlling influence. A substantial influence is the power to participate in decisions on the financial and operating plans of an associate, but it does not mean control or joint control over such plans. Investments in associates are recognised using the equity method from the date such a substantial influence originated until the date of its termination. Under the equity method, investments in associates are recognised in the consolidated statement of financial position at cost adjusted for the Group's shares in changes in equity of an associate after the acquisition date, less any impairment of individual investments. Losses of an associate exceeding the Group's share in the associate are not recognised. The Group's associates are listed in Note 5.

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Any amount by which a cost exceeds the Group's share in the net fair value of identifiable assets, liabilities and contingent liabilities of an associate recognised as at the acquisition date is recognised as goodwill. Goodwill is included in the carrying amount of an investment and is considered to be a part of the investment when assessing an impairment. All of the Group's share in the net fair value of identifiable assets, liabilities and contingent liabilities that exceed the cost after the reassessment are reported directly in the statement of comprehensive income.
Unrealised gains and losses on transactions between the Group and the associate are eliminated up to the amount of the Group's share in the associate.
The Group's share in net assets of an associate is recognised as "Investments in associates" in the accompanying statement of financial position and its share in the net profit is recognised as "Share in profit of associates" in the accompanying statement of comprehensive income.

The Group's associates are listed below:

	Country of	*Effective ownership %*		*Voting rights %*		
Name	*incorporation*	*2019*	*2018*	*2019*	*2018*	*Principal activity*
TOM-FERR, Zrt.	Hungary	24.89%	0%	24.89%	0%	Production of steel pipes and products

(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.
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.

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(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

Assets acquired under a lease are recognised at their cost as assets as at the acquisition date.

The related 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 this rate cannot be readily determined, the lessee must use their incremental borrowing rate. The related payable to the lessor is recognised as a lease liability in the balance sheet. Finance costs representing the difference between the total lease liability and the fair value of acquired assets are recognised through profit or loss over the lease term (IFRS 16).

IFRS 16 "Leases" – issued by IASB on 13 January 2016 – effective for the annual period beginning on or after 1 January 2019 defines a lease as a contract, or part of a contract, that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At the inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group recognises right-of-use assets and a lease liability in accordance with IFRS 16 where the Group is a lessee. An exemption is applied to short-term leases with the lease term of 12 months or less and to leases where the underlying asset is of low value. Upon the initial recognition under IFRS 16, the Group applied a partially retrospective approach.

The right-of-use asset is measured at the same amount as the lease liability adjusted for the lease payments recognised before or at the date of initial application, less lease payments received and initial direct expenses. Subsequently, the right-of-use asset is measured at cost less accumulated depreciation and provisions.

The right-of-use asset is depreciated over the shorter of the term of a lease contract and the useful life of the underlying asset. If the ownership title to the underlying asset is transferred to the lessee at the end of the lease term or if it is probable that the lessee will exercise an option to purchase the underlying asset, the right-of-use asset is depreciated over the useful life of the underlying asset. Assets are depreciated starting on the first day of the lease contract.

(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 costusing 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.

(j) Trade and other receivables

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

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(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 measured 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.

(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.

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(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 contacts 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) 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.

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.

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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 December 2019, a 24.89% share in TOM-FERR Zrt. (associate) was acquired in the amount of EUR 2 032 thousand.

6 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	*Plant and equipment*	*Assets under construction*	*Total*
Cost				
At 1 Jan 2019	204 462 346	307 010 255	6 158 526	517 631 127
Additions	4 907 578	353 595	21 818 908	27 080 081
Disposals	(683 695)	(7 041 521)	(161 154)	(7 886 370)
Transfers	3 112 423	18 960 633	(22 073 056)	-
Foreign exchange differences	24 937	6 250	3 601	34 788
At 31 Dec 2019	**211 823 589**	**319 289 212**	**5 746 825**	**536 859 626**
Accumulated depreciation and impairment				
At 1 Jan 2019	93 892 733	230 721 022	176 597	324 790 352
Depreciation, recognition of the net book value	4 620 758	10 890 069	-	15 510 827
Impairment loss	70 304	3	(128 996)	(58 689)
Disposals	(267 780)	(7 041 346)	-	(7 309 126)
Foreign exchange differences	5 993	3 825	-	9 818
At 31 Dec 2019	**98 322 008**	**234 573 573**	**47 601**	**332 943 182**
Carrying amount				
At 1 Jan 2019	110 569 613	76 289 233	5 981 929	192 840 775
At 31 Dec 2019	**113 501 581**	**84 715 639**	**5 699 224**	**203 916 444**

	Land and buildings	*Plant and equipment*	*Assets under construction*	*Total*
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**

The Group leases production equipment under finance leases at a cost of EUR 10 248 thousand (31 December 2018: EUR 3 610 thousand), accumulated depreciation of EUR 1 497 thousand (31 December 2018: EUR 577 thousand), and net book value of EUR 8 751 thousand (31 December 2018: EUR 3 033 thousand).

As a result of the application of IFRS 16 "Leases", the amounts recognised in the balance sheet as at 1 January 2019 in respect of land and buildings and plant and equipment increased by EUR 4 908 thousand and EUR 347 thousand, respectively. Such movements are disclosed in the table above as additions to cost.

As at 31 December 2019 the cost of fully-depreciated items of property, plant and equipment, which were still in use, was EUR 98 288 thousand (31 December 2018: EUR 99 705 thousand).

Property, plant and equipment include Slovenská Ľupča castle at a net book value of EUR 2 998 thousand (31 December 2018: EUR 3 071 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.

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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 823 thousand in 2019.

Major additions to non-current tangible assets in 2019 comprised technical improvements to a spare part warehouse hall at a cost of EUR 1 011 thousand, technical improvements to raw materials preparation – replacement of scissors with a slide at a cost of EUR 1 393 thousand, capitalisation of a fixed length pipes repair line at a cost of EUR 1 507 thousand, technical improvements to a drawing line at a cost of EUR 1 008 thousand, technical improvements to the entry rod production at a cost of EUR 2 949 thousand (ŽP a.s.).

Assets under lien

At 31 December 2019, the immovable and movable assets of ŽP with a carrying amount of EUR 27 617 thousand (fair value of approx. EUR 53 million) and immovable and movable assets of other consolidated companies with a carrying amount of EUR 21 978 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

Insured assets	*Type of insurance*	*Name and address of the insurance company*	*Amount insured*
Set of immovable assets	Against all risks	Allianz-Slovenská poisťovňa, a.s., Bratislava; AXA Seguros Generales; ZURICH; Allianz pojišťovna, a.s. Prague; UNIQA (AON Genova); Sopockie Towarzystwo Ubezpieczeń Ergo Hestia; STU Ergo Hestia; Aon Risk services Northeats - Century Surety Company.	356 676 219
Set of movable assets	Against all risks	Allianz-Slovenská poisťovňa, a.s., Bratislava; AXA Seguros Generales; ZURICH; Allianz pojišťovna, a.s., Prague; UNIQA (AON Genova); Sopockie Towarzystwo Ubezpieczeń Ergo Hestia; STU Ergo Hestia.	344 819 231
Acquisition of new non-current tangible assets	Against all risks	Allianz-Slov. poisťovňa, a.s., Bratislava	2 185 820

7 INTANGIBLE ASSETS AND GOODWILL

	Software	*Goodwill*	*Assets under construction*	*Total*
Cost				
At 1 Jan 2019	6 207 243	1 768 335	180 311	8 155 889
Additions	-	-	444 559	444 559
Disposals	(162 325)	-	-	(162 325)
Transfers	335 147	-	(335 147)	-
Foreign exchange differences	565	-	-	565
At 31 Dec 2019	**6 380 630**	**1 768 335**	**289 723**	**8 438 688**
Accumulated amortisation				
At 1 Jan 2019	5 055 177	-	6 606	5 061 783
Amortisation	279 607	-	-	279 607
Disposals	(162 325)	-	-	(162 325)
Transfers	-	-	-	-
Foreign exchange differences	310	-	-	310
At 31 Dec 2019	**5 172 769**	-	**6 606**	**5 179 375**
Carrying amount				
At 1 Jan 2019	1 152 066	1 768 335	173 705	3 094 106
At 31 Dec 2019	**1 207 861**	**1 768 335**	**283 117**	**3 259 313**

	Software	*Goodwill*	*Assets under construction*	*Total*
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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The subsidiary, PIPEX ITALIA S.p.A., is allocated goodwill amounting to EUR 1 183 thousand as at 31 December 2019 (31 December 2018: EUR 1 183 thousand). As at 31 December 2019, 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 2019	*31 Dec 2018*
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
PROJECT STEEL SUPPLIES PTY LTD, Australia	65 000	65 000
Impairment	-	(65 179)
Investments available-for-sale, net	**159 387**	**148 049**
TOM-FERR Zrt.	2 178 794	-
Investments in associates	**2 178 794**	**-**
Other non-current receivables	204 686	139 660
Total other financial assets	**2 542 867**	**287 709**

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 2019	*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 2019*
Property, plant and equipment	(12 648 494)	-	(543 456)	-	(13 191 950)
Inventories	588 966	-	54 931	-	643 897
Receivables	19 133	-	(5 731)	-	13 402
Liabilities	375 072	-	(113 775)	-	261 297
Provisions	283 207	-	(10 178)	-	273 029
Employee benefits	1 555 471	-	148 232	-	1 703 703
Tax loss carry-forward	-	-	77 504	-	77 504
Subsidies, research and development	188 365	-	439 171	-	627 536
Investment in joint ventures	-	-	(30 778)	-	(30 778)
Net deferred tax	**(9 638 280)**	**-**	**15 920**	**-**	**(9 622 360)**

	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)**

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 2019	*31 Dec 2018*
Deferred tax asset	491 291	580 655
Deferred tax liability	(10 113 651)	(10 218 935)
Total	**(9 622 360)**	**(9 638 280)**

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10 INVENTORIES

	31 Dec 2019	*31 Dec 2018*
Material and spare parts	34 259 821	36 172 299
Work in progress	16 377 622	16 539 629
Finished goods	32 485 552	28 871 665
Merchandise	1 293 226	1 399 563
Provision	(1 219 885)	(780 908)
Total inventories	**83 196 336**	**82 202 248**

As at 31 December 2019, no inventories were pledged to secure bank loans (31 December 2018: EUR 0) (see Note 14).
As at 31 December 2019, 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 (AONGenova); Axa, Zurich	63 316 242

11 TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS

	31 Dec 2019	*31 Dec 2018*
Trade receivables	56 935 091	78 051 130
Receivables from related parties	3 086	3 173
Other tax receivables	3 466 130	4 227 673
Receivables from subsidies	50 337	-
Other receivables	2 357 440	2 132 558
Allowance for doubtful amounts	(1 458 781)	(1 618 192)
Total trade and other receivables	61 353 303	82 796 342
Total trade receivables and other financial assets	**61 353 303**	**82 796 342**

At 31 December 2019, trade receivables with a carrying amount of EUR 8 078 thousand (31 December 2018: EUR 10 937 thousand) were pledged to secure certain bank loans (see Note 14).

The following is a breakdown of trade and other receivables:

	31 Dec 2019	*31 Dec 2018*
Current receivables	50 820 355	60 437 808
Overdue receivables	11 991 729	23 976 726
Total	**62 812 084**	**84 414 534**

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

	31 Dec 2019	*31 Dec 2018*
Less than 90 days	10 380 713	21 265 678
90–180 days	517 141	1 111 942
180–360 days	3 047	1 062
More than 360 days	-	1 794
Total	**10 900 901**	**22 380 476**

The ageing structure of overdue receivables that were provided for:

	31 Dec 2019	*31 Dec 2018*
Less than 90 days	-	13 129
90–180 days	-	309 732
180–360 days	1 343	50 628
More than 360 days	1 089 485	1 222 761
Total	**1 090 828**	**1 596 250**

12 CASH AND CASH EQUIVALENTS

	31 Dec 2019	*31 Dec 2018*
Cash on hand	225 233	209 484
Bank balances and deposits	11 465 205	10 625 489
Cash and cash equivalents in the statement of financial position	**11 690 438**	**10 834 973**
Cash and cash equivalents in the statement of cash flows	**11 690 438**	**10 834 973**

As at 31 December 2019 and 31 December 2018, the Group had no restrictions on the handling of cash and cash equivalents.

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13 CAPITAL AND RESERVES

Share capital

At 31 December 2019, the share capital comprised 2 384 135 ordinary shares (31 December 2018: 2 384 135 ordinary shares), with a face value of EUR 34 each, fully paid as at 31 December 2019 and 2018. 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 59 thousand (31 December 2018: EUR -24 thousand).

14 INTEREST-BEARING LOANS AND BORROWINGS

	31 Dec 2019	*31 Dec 2018*
Loans	45 453 239	40 723 316
Interest-bearing liability to the parent company and ultimate owners	22 581 554	23 470 000
Overdraft facilities	16 500 322	23 276 765
Obligations under finance leases	7 995 494	2 566 284
Total interest-bearing loans and borrowings	**92 530 609**	**90 036 365**
Loans by currency:		
EUR - Fixed interest rate	34 569 524	34 248 820
EUR - Floating interest rate	48 897 390	52 548 632
USD - Floating interest rate	385 833	-
CZK - Floating interest rate	682 368	672 629
Total	**84 535 115**	**87 470 081**
Repayments of loans are scheduled as follows:		
Within one year	49 824 847	56 871 518
More than one year, less than two years	19 773 220	23 196 517
More than two years, less than three years	1 643 254	1 599 403
More than three years, less than four years	848 902	765 564
More than four years, less than five years	12 444 892	5 037 079
More than five years	-	-
Total	**84 535 115**	**87 470 081**
Current portion		
Loans and borrowings	49 824 847	56 871 518
Obligations under finance leases	1 531 308	730 430
Total	**51 356 155**	**57 601 948**
Non-current portion		
Loans and borrowings	34 710 268	30 598 563
Obligations under finance lease	6 464 186	1 835 854
Total	**41 174 454**	**32 434 417**

As of 31 December 2019, bank loans and borrowings of EUR 50 156 thousand and of EUR 34 379 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 49 595 thousand (see Note 6), trade receivables with a carrying amount of EUR 8 078 thousand (see Note 11). Part of loans is secured by blank promissory notes.

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.
USD – Fixed interest rate	3.00%
USD - Floating interest rate	12M LIBOR + 1.00% 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 2019, the Group had the amount of EUR 41 556 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 bore interest at 3% p.a. and were due in February 2020.

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Obligations under finance leases

Obligations under finance leases are payable as follows:

	Minimum lease payments		*Present value of minimum lease payments*	
	31 Dec 2019	*31 Dec 2018*	*31 Dec 2019*	*31 Dec 2018*
Obligations under finance leases				
Due within 1 year inclusive	1 575 471	759 118	1 531 308	730 430
Due from 1 to 5 years inclusive	4 085 479	1 844 618	3 920 640	1 804 623
Due after 5 years	5 047 983	31 265	2 543 546	31 231
	10 708 933	**2 635 001**	**7 995 494**	**2 566 284**
Less: unrealised financial expenses	(2 713 439)	(68 717)	n/a	n/a
Present value of obligations under financial leases	**7 995 494**	**2 566 284**	**7 995 494**	**2 566 284**
Less: Principal value due within 1 year inclusive (recorded in current loans and borrowings)			(1 531 308)	(730 430)
Principal value due in over 1 year (recorded in non-current loans and borrowings)			**6 464 186**	**1 835 854**

In accordance with internal policies, the Group leases certain production equipment under finance lease contracts (see Note 5). The average lease term is 9 years. For the year ended 31 December 2019, the average effective interest rate was 1.86%. 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 2019	*31 Dec 2018*
Deferred income on subsidies (Note 25)	3 121 170	3 562 929
Other	77 989	66 860
Total	**3 199 159**	**3 629 789**

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 2019, the programme was applicable to 3 324 employees (31 December 2018: 3 373) of the Group. As of the aforementioned date, the programme was unfunded, ie no specific assets were determined to cover liabilities arising from the scheme.

	31 Dec 2019	*31 Dec 2018*
Present value of retirement benefits	8 120 501	7 354 386
Present value of length-of-service benefits	975 512	922 069
Present value of jubilee benefits	203 064	203 905
Total	**9 299 077**	**8 480 360**

Key assumptions used in actuarial valuation:

	31 Dec 2019
Annual future real rate of salary increases	0% - 2.0%
Annual employee turnover	1.0% - 9.3%
Retirement age	64 years or less, as per applicable legislation

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

17 PROVISIONS

	Warranties	*Litigations*	*Total 2019*	*Total 2018*
Balance at 1 Jan	113 096	808 000	921 096	906 015
Provisions created during the year	-	60	60	15 671
Use/reversal of a provision during the year	(2 799)	(7 714)	(10 513)	(590)
Balance at 31 Dec	**110 297**	**800 346**	**910 643**	**921 096**

The provisions are included in liabilities as follows:

	Current liabilities (included in trade and other payables)	*Non-current liabilities*	*Total*
As at 31 Dec 2018	34 671	886 425	921 096
As at 31 Dec 2019	26 017	884 626	910 643

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18 TRADE AND OTHER FINANCIAL PAYABLES

	31 Dec 2019	*31 Dec 2018*
Trade payables	16 772 752	23 798 225
Payables to related parties	47 161	32 803
Payables to employees and social security payables	10 377 805	10 802 351
Other tax payables	1 728 268	2 255 280
Other payables	2 136 962	2 044 846
Total trade and other financial payables	**31 062 948**	**38 933 505**

Breakdown of trade and other financial payables:

	31 Dec 2019	*31 Dec 2018*
Payables within due date	30 429 438	37 619 706
Payables after due date	633 510	1 313 799
Total	**31 062 948**	**38 933 505**

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

	Amount
Opening balance as at 1 Jan 2019	105 749
Total creation	764 025
Total drawing	(772 460)
Closing balance as at 31 Dec 2019	**97 314**

19 REVENUES

Revenues comprise the following items:

	Year ended	
	31 Dec 2019	*31 Dec 2018*
Own products and merchandise	333 462 421	385 541 921
Services	10 573 620	12 036 835
Total revenues	**344 036 041**	**397 578 756**

20 OWN WORK CAPITALISED

	Year ended	
	31 Dec 2019	*31 Dec 2018*
Own work capitalised – raw material	6 147 327	5 916 501
Own work capitalised – internal services	4 172 757	4 021 419
Own work capitalised – non-current tangible and intangible assets	904 561	1 514 805
Total own work capitalised	**11 224 645**	**11 452 725**

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

21 PERSONNEL EXPENSES

	Year ended	
	31 Dec 2019	*31 Dec 2018*
Wages and salaries	74 572 978	73 999 452
Social security contributions	30 124 147	29 218 147
Total	**104 697 125**	**103 217 599**

The Group had 4 198 employees as at 31 December 2019, of which 181 were managers (31 December 2018: 4 246, of which 195 were managers). The full-time equivalent of the Group's employees for the year ended 31 December 2019 was 4 268, of which 181 were managers (31 December 2018: 4 274, of which 195 managers).

22 OTHER OPERATING REVENUES AND OTHER OPERATING EXPENSES

Other operating revenues comprise the following:

	Year ended	
	31 Dec 2019	*31 Dec 2018*
Profit on the sale of property, plant, equipment and intangibles	425 818	467 276
Profit on the sale of raw materials	271 557	92 970
Proceeds from subsidies	3 267 878	1 019 417
Insurance benefits from insurance companies	1 089 776	750 130
Other operating revenues	1 166 152	1 345 664
Total other operating revenues	**6 221 181**	**3 675 457**

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Other operating expenses comprise the following:

	Year ended	
	31 Dec 2019	*31 Dec 2018*
Additions to/(release) of provisions for receivables and inventories	969 291	552 359
Change in impairment of property, plant and equipment	83 251	43 926
Insurance premium	1 629 432	1 521 683
Other taxes and charges	1 394 199	1 177 342
Other operating expenses	843 502	1 380 065
Total other operating expenses	**4 919 675**	**4 675 375**

23 OTHER FINANCIAL INCOME/OTHER FINANCIAL EXPENSES

Other financial income comprises the following items:

	Year ended	
	31 Dec 2019	*31 Dec 2018*
Foreign exchange gains	862 748	1 258 009
Revenues from financial derivatives	-	4 692
Total other financial income	**862 748**	**1 262 701**

Other financial expenses comprise the following items:

	Year ended	
	31 Dec 2019	*31 Dec 2018*
Foreign exchange losses	587 899	1 109 761
Losses from financial derivatives	3 793	-
Other financial expenses	233 968	223 375
Total other financial expenses	**825 660**	**1 333 136**

24 INCOME TAX

	Year ended	
	31 Dec 2019	*31 Dec 2018*
Current tax expense for current period	1 734 311	5 722 980
Deferred tax expense for current period	15 920	76 522
Total income tax	**1 750 231**	**5 799 502**

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

	Year ended	
	31 Dec 2019	*31 Dec 2018*
Profit/(loss) before tax	10 145 254	24 031 481
Tax at local tax rate of 21% (2018: 21%)	2 130 503	5 046 611
Tax effect of permanent differences, net	(565 933)	418 295
Effect of different tax rates of subsidiaries operating in other jurisdictions	282 064	371 123
Effect of a change in the tax rate	-	-
Unrecognised deferred taxes	(24 721)	(6 314)
Additional income tax charges, exchange rate differences on conversions	(71 682)	(30 213)
Total income tax	**1 750 231**	**5 799 502**

The actual tax rate differs from the tax rate of 21% (2018: 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.

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, ie 21%.

In Slovakia, the 2015 to 2019 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

31 Dec 2019	*Receivables from subsidies*	*Deferred income on subsidies, non-current (Note 15)*	*Deferred income on subsidies, current*	*Release of subsidies in the statement of comprehensive income*
Investment subsidies	-	3 121 170	474 784	480 056
Operating subsidies	50 337	-	-	2 787 822
Total subsidies	**50 337**	**3 121 170**	**474 784**	**3 267 878**
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**

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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 14 thousand), an investment subsidy for the "Refurbishment, Modernisation and Construction of a Football Stadium" project (EUR 50 thousand), compensation to energy-intensive businesses (EUR 2 304 thousand), compensation from the environmental fund in the form of a subsidy (EUR 170 thousand) and ŽP investment subsidy for the "Old Vehicle Processing Facility" (EUR 204 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 2018.

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

	31 Dec 2019	*31 Dec 2018*
Debt [(i)]	(92 530 609)	(90 036 365)
Cash and cash equivalents	11 690 438	10 834 973
Net debt	(80 840 171)	(79 201 392)
Equity	(221 657 774)	(217 919 774)
Net debt to equity ratio	**36%**	**36%**

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

26.2 Categories of financial Instruments

	31 Dec 2019	*31 Dec 2018*
Available-for-sale investments	159 387	148 049
Investments in associates	2 178 794	-
Loans, borrowings and receivables (including cash and cash equivalents)	73 248 427	93 770 975
Financial assets	**75 586 608**	**93 919 024**
Bank loans recognised at amortised costs	84 535 115	87 470 081
Obligations under finance lease	7 995 494	2 566 284
Trade payables and other liabilities	34 262 107	42 563 294
Financial liabilities	**126 792 716**	**132 599 659**

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 2019 would increase/decrease by EUR 258 thousand (2018: increase/decrease by EUR 247 thousand). This is mainly attributable to the Group's exposure to interest rates for variable rate borrowings.

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:

	Liabilities		*Assets*	
	31 Dec 2019	*31 Dec 2018*	*31 Dec 2019*	*31 Dec 2018*
USD	966 671	342 186	6 444 824	7 538 505
CZK	942 269	850 809	3 001 788	3 365 521
PLN	61 281	149 991	8 503 741	9 983 004

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.

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FOR THE YEAR ENDED 31 DECEMBER 2019 (IN EUROS)

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.

	USD		*CZK*		*PLN*	
	31 Dec 2019	*31 Dec 2018*	*31 Dec 2019*	*31 Dec 2018*	*31 Dec 2019*	*31 Dec 2018*
Profit or loss	1 369 538	1 799 080	411 904	502 942	1 688 492	1 966 602

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.

	Weighted average effective interest rate	*Up to 1 year*	*1–5 years*	*5+ years*	*Total*
2019					
Interest-free liabilities		31 665 713	3 199 159	-	**34 864 872**
Floating interest rate instruments (loans)	1.43%	37 971 489	12 717 144	-	**50 688 633**
Fixed interest rate instruments (loans)	3.01%	12 760 966	23 683 994	-	**36 444 960**
Finance lease obligations		1 575 471	4 085 479	5 047 983	**10 708 933**
		83 973 639	**43 685 776**	**5 047 983**	**132 707 398**
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**

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).

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 2019 amounted to EUR 3 798 thousand (year ended 31 December 2018: EUR 3 517 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:

	Purchases of goods and services in 2019	*Payables as at 31 Dec 2019*	*Sales of goods and services in 2019*	*Receivables as at 31 Dec 2019*
Parent company and ultimate owners	157 770	22 270 480	8 493	3 086
Other related parties	296 451	225 470	83 028	23 083
Total	**454 221**	**22 495 950**	**91 521**	**26 169**

	Purchases of goods and services in 2018	*Payables as at 31 Dec 2018*	*Sales of goods and services in 2018*	*Receivables as at 31 Dec 2018*
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**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (IN EUROS)

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 2020 amounting to EUR 22 813 thousand, of which EUR 2 755 thousand is contracted as at 31 December 2019.

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 2019, the Group received a pro rata share of emission rights, but the Group's emission production in 2019 exceeded this share. The difference of EUR 293 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 375.

The Group has an obligation to deliver emission rights for actual emissions. This obligation was fulfilled by the delivery of emission rights for the 2019 monitored period in March 2020.

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 SLSP up to EUR 6 million. The outstanding principal as at 31 December 2019 amounts to EUR 4.8 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 2019 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.

The rapid development of the SARS-CoV-2 virus and its social and economic impact in Slovakia and worldwide may mean revisions may be needed to the assumptions and estimates used in the preparation of the financial statements. These may cause significant adjustments to the carrying amount of assets and liabilities in the following financial year. At this stage, management is unable to make a reliable estimate of their possible impact, as events are developing dynamically every day.

The long-term impact may also affect volumes of business transactions, cash flows and profitability of the Group. However, as at the preparation date of these financial statements, the Group continues to meet its liabilities and expects to continue as a going concern.

30 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were prepared and approved for issue on 24 April 2020.

LIST OF PHOTOGRAPHS

Cover	Steel tubes - the backbone of many industrial sectors
Page 2	"New plant" – aerial view of the tube rolling mill and the tube drawing mills
Page 4	Continuous casting machine - ladles on the rotating turret that moves the ladle into the casting position above the tundish
Page 8	Continuous casting machine - casts pass through the drawing and straightening stands
Page 10	Taking a sample of steel from the electric arc furnace
Page 12	Steel blooms of square cross-section, dispatch warehouse of the steel mill
Page 28	Hollow ends are cropped off after the push bench and the mandrel bar extractor
Page 40	Piercing press - the mandrel forms a hole through a bloom centre – a square cross-section is transformed into a circular in the die block
Page 42	Processed tubes are cooled down at the cooling bed
Page 44	Tube cuts in precision length, designed for the automotive industry

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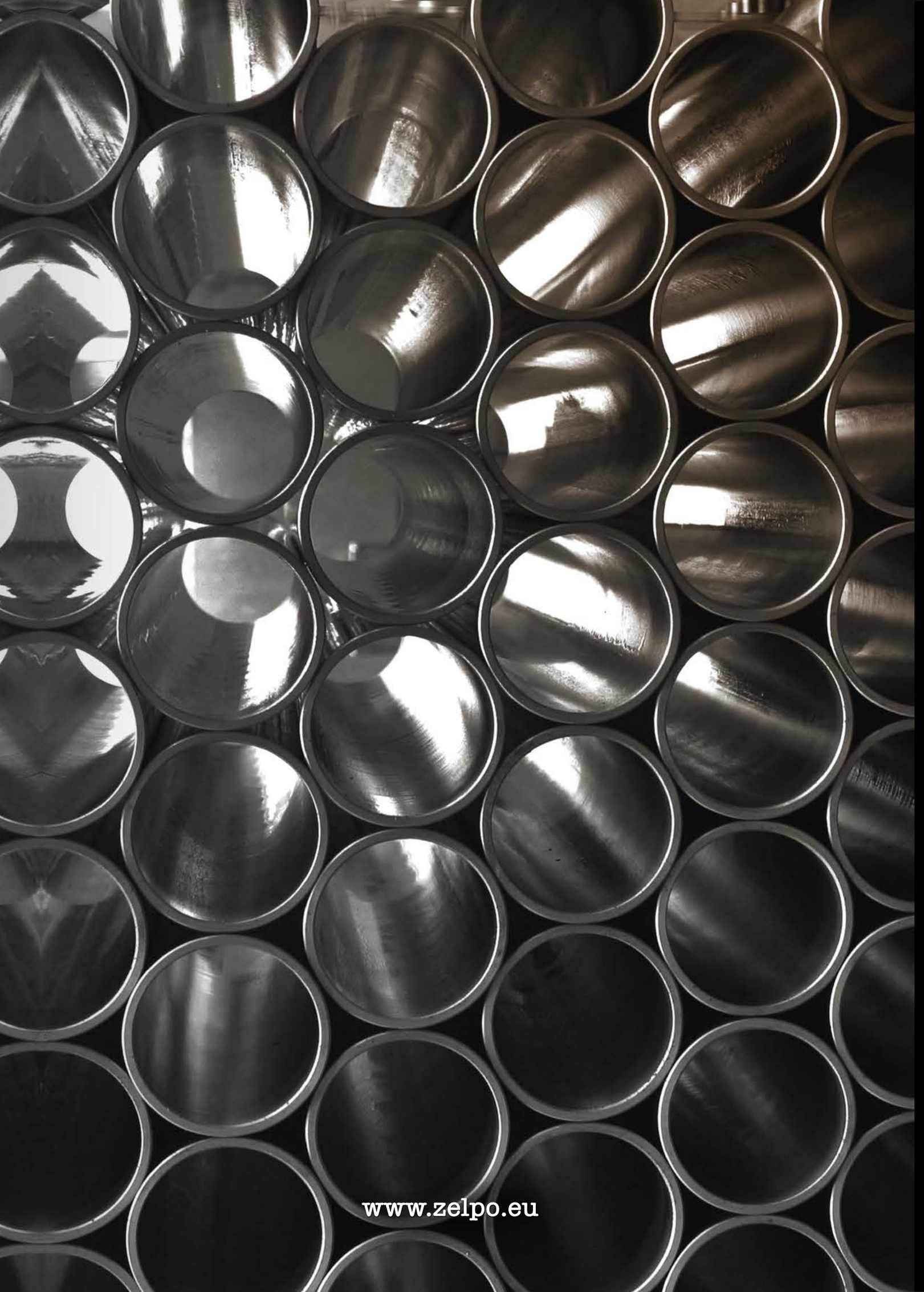

www.zelpo.eu

SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019, 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 2019, 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 and Those Charged with Governance

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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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.

We communicate with those charged with governance about, inter alia, the planned scope and time schedule of the audit and significant audit findings, including all material deficiencies of internal control identified during our audit.

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 separate financial statements stated above does not apply to other information in the annual report.

In connection with the audit of separate 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 separate financial statements or our knowledge obtained in the audit of the separate financial statements, or otherwise appears to be materially misstated.

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

When we obtain the annual report, we will assess 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 separate financial statements, we will express an opinion on whether:

- Information disclosed in the annual report prepared for 2019 is consistent with the separate 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 separate financial statements.

Bratislava, 25 March 2020

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 2019 (IN EUROS)

	Note	*31 December 2019*	*31 December 2018*
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	5	111 518 954	106 384 435
Intangible assets	6	4 680	5 431
Investments in subsidiaries, joint-ventures and associates	7	77 865 833	75 840 240
Available-for-sale investments		94 387	83 049
Other assets	8	232 486	254 891
Total non-current assets		**189 716 340**	**182 568 046**
CURRENT ASSETS			
Inventories	9	54 851 345	53 270 836
Trade receivables and other financial assets	10	33 055 436	51 590 008
		864 671	-
Other assets	11	1 188 216	984 291
Cash and cash equivalents	12	966 275	1 196 136
Total current assets		**90 925 943**	**107 041 271**
TOTAL ASSETS		**280 642 283**	**289 609 317**
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		113 760 903	110 813 087
Total equity		**211 033 611**	**208 085 795**
LIABILITIES			
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	14	27 370 000	19 570 000
Other liabilities	15	1 910 273	2 136 508
Provision for employee benefits	16	7 905 811	7 218 018
Deferred tax liability	17	7 102 977	7 216 391
Total non-current liabilities		**44 289 061**	**36 140 917**
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	14	4 859 905	16 362 827
Trade and other payables	18	20 459 706	26 343 295
Current tax liability		-	2 676 483
Total current liabilities		**25 319 611**	**45 382 605**
Total liabilities		**69 608 672**	**81 523 522**
TOTAL EQUITY AND LIABILITIES		**280 642 283**	**289 609 317**

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019 (IN EUROS)

	Note	*31 December 2019*	*31 December 2018*
Sales of own products and merchandise	**19**	**245 284 744**	**285 004 586**
Sales of services	**19**	**5 772 737**	**5 927 286**
Changes in inventories of finished products and work in progress		2 230 826	4 132 300
Own work capitalised	20	6 734 161	7 201 880
Raw materials and consumables used	21	(154 852 582)	(184 769 611)
Services		(22 658 939)	(23 156 719)
Personnel expenses	22	(73 280 642)	(71 365 512)
Depreciation and amortisation		(7 962 203)	(8 289 501)
Other operating revenues	23	4 647 390	2 154 157
Other operating expenses	23	(3 176 836)	(2 675 977)
Interest income	24	318 827	99 904
Interest expense	25	(516 918)	(509 102)
Other financial income	26	5 038 255	3 378 331
Other financial expenses	26	(452 929)	(672 249)
Profit/(loss) before tax		7 125 891	16 459 773
Income tax expense	27	113 368	(3 153 561)
PROFIT/(LOSS) FOR THE YEAR		**7 239 259**	**13 306 212**
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		**7 239 259**	**13 306 212**

SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019 (IN EURO)

	Share capital	*Legal reserve fund*	*Retained earnings*	*Total*
Opening balance at 1 January 2018	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**
Dividends paid	-	-	(4 291 443)	(4 291 443)
Total comprehensive income for the year	-	-	7 239 259	7 239 259
Closing balance at 31 December 2019	**81 060 590**	**16 212 118**	**113 760 903**	**211 033 611**

SEPARATE STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2019 (IN EUROS)

	Note	*2019*	*2018*
Cash flows from core business activities			
Profit/(loss) from ordinary activities		7 125 891	16 459 773
Non-cash transactions affecting profit/loss from ordinary activities		9 364 045	9 358 752
Depreciation charges		7 962 203	8 289 501
Net book value of non-current assets		14 482	1 806
Write-off of receivables		1 102	482
Revenues from assigned receivables		(17)	-
Provision for employee benefits		1 058 200	1 077 170
Change In temporary accounts of assets		195 196	173 526
Change in temporary accounts of liabilities		(286 144)	(322 918)
Provisions for assets		542 953	96 756
Interest expense		516 918	509 102
Interest income		(318 827)	(99 904)
Unrealised foreign exchange losses		11 083	20 789
Unrealised foreign exchange gains		(32 673)	(20 037)
Gain/(loss) from the sale of non-current assets		(300 431)	(367 521)
Change in working capital		1 081 601	(6 360 571)
Receivables		19 138 483	(3 423 084)
Payables		(16 001 025)	7 571 162
Inventories		(2 055 857)	(10 508 649)
Interest paid		(516 378)	(509 102)
Interest received		267 059	99 904
Paid employee benefits		(370 407)	(489 342)
Emission rights		(375 000)	(648 600)
Items excluded from operating activities		(4 612 772)	(3 072 753)
Dividends		(4 669 798)	(3 068 061)
Expenditures recognised in respect of derivatives		3 842	-
Income recognised in respect of derivatives		(49)	(4 692)
Foreign exchange losses		53 551	44 173
Foreign exchange gains		(318)	(35 241)
Specific items		(3 541 199)	(436 705)
Corporate income tax paid		(3 541 199)	(436 705)
Net cash generated by operating activities		**8 422 840**	**14 410 288**
Cash flows from investing activities			
Expenditures for the acquisition of property, plant and equipment		(16 876 819)	(12 547 829)
Acquisition of non-current intangible assets		-	-
Acquisition of non-current tangible assets		(13 637 635)	(13 998 895)
Acquisition of non-current financial assets		(2 032 232)	(41 116)
Change in liabilities of investment nature		(1 206 952)	1 492 182
Proceeds on the sale of non-current assets		741 023	1 100 897
Proceeds on the sale of non-current tangible and intangible assets		740 960	1 100 897
Proceeds on the sale of non-current financial assets		63	-

SEPARATE STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2019 (IN EUROS)

	Note	*2019*	*2018*
Cash flows from loans and borrowings		(650 000)	(1 478 348)
Proceeds from repayment of loans and borrowings		-	-
Payments for provided loans and borrowings		(650 000)	(1 478 348)
Dividends received		4 673 306	3 068 061
Net cash generated by investing activities		**(12 112 490)**	**(9 857 219)**
Cash flows from financing activities			
Change in non-current (current) liabilities		7 800 000	-
Repayments of long-term (short-term) bank loans		-	-
Proceeds from long-term other loans and borrowings		9 000 000	-
Repayments of long-term (short-term) other loans and borrowings		(1 200 000)	-
Expenditures related to derivatives		(3 842)	-
Income related to derivatives		49	4 692
Expenditures for dividends paid		(4 283 185)	(4 770 704)
Net cash generated by financing activities		**3 513 022**	**(4 766 012)**
Net increase or net decrease in cash		**(176 628)**	**(221 875)**
Cash and cash equivalents at the beginning of the reporting period	12	1 196 136	1 418 011
Cash and cash equivalents before reflecting foreign exchange differences at the end of the reporting period		1 019 508	1 205 068
Foreign exchange differences for cash and cash equivalents at the end of the reporting period	12	(53 233)	(8 932)
Foreign exchange losses		(53 551)	(44 173)
Foreign exchange gains		318	35 241
Cash and cash equivalents at the end of the reporting period	12	**966 275**	**1 196 136**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (IN EUROS)

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 2019, the Company's shares were held by CPA s.r.o. (79.42%) and other minority shareholders (20.58%). 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	*Board of Directors*
Ing. Ján Banas – Chairman	Ing. Vladimír Soták – Chairman
Ing. Jozef Marčok – Deputy Chairman	Ing. Marian Kurčík – Deputy Chairman
Luigi Cuzzolin – Member	Ing. Miloš Dekrét – Member
Ing. Ľudovít Ihring – Member	Ing. Július Kriváň – Member
Ing. Tomáš Ihring – Member	Ing. Mária Niklová – Member
Pavol Koštial – Member	Ing. Vladimír Soták, Jr. – Member
Soňa Lopušná – Member	Ing. Milan Srnka, PhD. – Member
Ing. Jaroslav Romančík – Member	
Ing. Vladimír Zvarík – 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 2019 to 31 December 2019 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 2018 financial statements

The Company's 2018 financial statements for the year ended 31 December 2018 were approved by the Annual General Meeting held on 24 June 2019.

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 No. 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 2018. For expenses and revenues, comparatives for the previous reporting period, ie year ended 31 December 2018, 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 2019.

Initial application of new and amended IFRS standards effective for the current reporting period

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

- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 "Financial Instruments"** – Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 19 "Employee Benefits"** – Plan Amendment, Curtailment or Settlement – adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019),

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- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** – Long-term Interests in Associates and Joint Ventures – adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to "Annual Improvements to IFRS Standards (2015 – 2017 Cycle)"** resulting from the annual IFRS improvement project (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the financial statements of the Company.

New and amended IFRS standards issued by IASB and adopted by the EU but not yet effective

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

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to References to the Conceptual Framework in IFRS Standards** – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** – Interest Rate Benchmark Reform – adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020).

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

New and amended IFRS 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 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 IAS 1 "Presentation of Financial Statements"** – Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2022),
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **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).

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.

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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.

(ii) Research and development

Research and development costs are recognised as expenses except costs incurred on development projects, which are recognised as non-current 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.

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(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. Current 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.

(n) Provision for employee benefits

The Company operates a defined long-term benefit programme – 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

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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:

- 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.

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5 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	*Plant and equipment*	*Assets under construction*	*Total*
Cost				
At 1 January 2019	124 771 468	205 660 130	5 078 062	335 509 660
Additions	-	-	**13 647 896**	**13 647 896**
Disposals	(674 588)	(2 964 771)	(109 449)	(3 748 808)
Transfers	2 331 363	11 497 741	(13 829 104)	-
At 31 December 2019	126 428 243	214 193 100	4 787 405	345 408 748
Accumulated depreciation, provisions				
At 1 January 2019	72 338 594	156 633 402	153 229	229 125 225
Depreciation, recognition of the net book value	2 387 387	5 637 265	-	8 024 652
Impairment loss	70 304	-	(105 629)	(35 325)
Disposals	(259 986)	(2 964 772)	-	(3 224 758)
Transfers	-	-	-	-
At 31 December 2019	74 536 299	159 305 895	47 600	233 889 794
Carrying amount				
At 1 January 2019	52 432 874	49 026 728	4 924 833	106 384 435
At 31 December 2019	**51 891 944**	**54 887 205**	**4 739 805**	**111 518 954**

The Company does not use any manufacturing equipment leased under a finance lease. As at 31 December 2019, the cost of fully-depreciated items of property, plant and equipment that are still in use was EUR 54 559 thousand (31 December 2018: EUR 55 879 thousand).

Property, plant and equipment include the Slovenská Ľupča castle at a net book value of EUR 2 998 thousand (31 December 2018: EUR 3 071 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 823 thousand in 2019.

Major additions to non-current tangible assets in 2019 comprised technical improvements to a spare part warehouse hall at a cost of EUR 1 011 thousand, technical improvements to raw materials preparation – replacement of scissors with a slide at a cost of EUR 1 393 thousand, capitalisation of a fixed length pipes repair line at a cost EUR 1 507 thousand, technical improvements to a drawing line at a cost EUR 1 008 thousand, technical improvements to entry rod production at a cost of EUR 2 949 thousand.

Assets under lien

As at 31 December 2019, the net book value of the Company's non-current tangible assets pledged to secure bank loans amounted to EUR 27 617 thousand (fair value of approx. EUR 53 million). The net book value of non-current tangible assets with restricted handling by the Company (easement) was EUR 2 731 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.

Insured Assets	*Type of insurance*	*Name and seat of the insurance company*	*Insured amount*
Set of immovable assets	Against all risks	Allianz-Slovenská poisťovňa a.s., Bratislava	296 454 277
Set of movable assets	Against all risks	Allianz-Slovenská poisťovňa a.s., Bratislava	280 451 890
Acquisition of new non-current tangible assets	Against all risks	Allianz-Slovenská poisťovňa a.s., Bratislava	2 000 000

6 INTANGIBLE ASSETS

	Software	*Investments in progress*	*Total*
Cost			
At 1 January 2019	665 437	-	665 437
Additions	-	-	-
Disposals	(67 946)	-	(67 946)
Transfers	-	-	-
At 31 December 2019	597 491	-	597 491
Accumulated amortisation			
At 1 January 2019	660 006	-	660 006
Amortisation	751	-	751
Disposals	(67 946)	-	(67 946)
At 31 December 2019	592 811	-	592 811
Carrying amount			
At 1 January 2019	5 431	-	5 431
At 31 December 2019	**4 680**	**-**	**4 680**

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7 INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES

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

	31 December 2019	*31 December 2018*
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	130 722
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
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
Subsidiaries, total	**75 833 601**	**75 840 240**
Investments in associates		
TOM-FERR Zrt.	2 032 232	-
Total, gross	**77 865 833**	**75 840 240**

In 2019, the Company decided to create a provision for Nadácia Železiarne Podbrezová (Foundation). In December 2019, the Company acquired a 24.89% share in TOM-FERR Zrt. in the amount of EUR 2 032 thousand.

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Information on the Company's subsidiaries as at 31 December 2019 may be summarised as follows:

Name	Country of incorporation	Ownership share/ Voting rights % 2019	Ownership share/ Voting rights % 2018	Principal activity	Equity 31 December 2019	Equity 31 December 2018	Profit/(loss) 2019	Profit/(loss) 2018
ŽP Informatika s.r.o. *	Slovak Republic	100.00%	100.00%	IT services	2 294 961	2 249 119	47 842	27 015
Transformaciones Metalurgicas S.A.U. *	Spain	100.00%	100.00%	Production of steel pipes	19 160 302	19 002 630	1 243 254	2 616 081
ŽP-Gastroservis, s.r.o.	Slovak Republic	100.00%	100.00%	Catering services	1 014 709	1 012 903	1 805	1 836
ŽP EKO QELET a.s. *	Slovak Republic	66.27%	66.27%	Purchase and sale of scrap	18 569 045	19 156 234	(248 189)	640 786
Pipex Deutschland GmbH	Germany	80.00%	80.00%	Trading activities	766 061	717 530	298 531	312 034
Tále, a.s.*	Slovak Republic	94.66%	94.66%	Travel industry	15 837 107	16 144 079	(306 971)	(266 246)
FK Železiarne Podbrezová a.s.	Slovak Republic	100.00%	100.00%	Sports, advertising and promotion	478 754	523 723	(44 970)	(59 949)
ŠK Železiarne Podbrezová a.s.	Slovak Republic	99.50%	99.50%	Sports, advertising and promotion	333 501	328 898	4 603	(19 771)
SLOVRUR Sp. z o. o.	Poland	90.00%	90.00%	Trading activities	4 025 461	3 983 587	926 262	1 113 455
ŽP VVC s.r.o.	Slovak Republic	100.00%	100.00%	Research and development activities	225 544	272 860	52 684	114 069
Nadácia Železiarne Podbrezová *	Slovak Republic	100.00%	100.00%	Foundation	23 083	10 756	-	-
PIPEX ITALIA S.p.A. *	Italy	85.00%	85.00%	Trading activities	9 137 438	9 124 461	1 377 878	2 365 740
ŽIAROMAT a.s.	Slovak Republic	100.00%	100.00%	Metallurgy	2 801 461	2 690 248	211 212	534 593
ZANINONI SLOVAKIA, s.r.o. *	Slovak Republic	90.00%	90.00%	Transportation services	2 127 031	2 106 027	471 004	473 986
ŽP Bezpečnostné služby s.r.o.	Slovak Republic	100.00%	100.00%	Operation of security guards	372 999	313 444	73 556	15 386
KBZ s.r.o.	Slovak Republic	70.00%	70.00%	Purchase and sale of scrap	2 319 799	2 319 618	1 182	69 658
ŽP Rehabilitácia s.r.o.	Slovak Republic	100.00%	100.00%	Organisation of events, advertising, marketing, transport health services	135 317	115 010	20 306	20 616
ŽP Trade Bohemia a.s.*	Czech Republic	100.00%	100.00%	Trading activities	2 484 308	2 507 737	348 572	515 787

** 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.*

Pledged assets

As at 31 December 2019, the Company had no financial assets pledged to secure bank loans.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (IN EUROS)

8 OTHER NON-CURRENT ASSETS

	31 December 2019	*31 December 2018*
Deferred expenses	91 463	94 739
Other non-current receivables	141 023	160 152
Total	**232 486**	**254 891**

9 INVENTORIES

	31 December 2019	*31 December 2018*
Raw materials and spare parts	26 800 877	27 078 820
Work in progress	14 588 830	13 207 477
Finished products	14 065 970	13 216 496
Merchandise	552 200	449 227
Provision	(1 156 532)	(681 184)
Total	**54 851 345**	**53 270 836**

At 31 December 2019 and 31 December 2018, none of the inventories were pledged to secure bank loans.

Provisions for inventories

	Balance as at 1 January 2019	*Creation*	*Use*	*Cancellation*	*Balance as at 31 December 2019*
Raw materials and spare parts	607 955	471 242	395 056	38 412	645 729
Work in progress	-	-	-	-	-
Finished products	24 632	441 237	22 511	1 088	442 270
Merchandise	48 597	29 995	10 059	-	68 533
Total	**681 184**	**942 474**	**427 626**	**39 500**	**1 156 532**

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	50 000 000

10 TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS

	31 December 2019	*31 December 2018*
Trade receivables	28 681 919	47 733 034
Borrowings provided to related parties	500 000	-
Other tax assets	2 678 022	3 052 764
Receivables from subsidies	50 337	-
Other receivables	2 031 378	1 704 530
Allowance for doubtful amounts	(886 220)	(900 320)
Total trade and other receivables	**33 055 436**	**51 590 008**

Other tax assets of EUR 2 678 thousand (31 December 2018: EUR 3 053 thousand) represent VAT receivables. Other receivables of EUR 2 031 thousand primarily comprise a provided short-term borrowing and related interest thereon and an estimate of the expected insurance benefit (31 December 2018: primarily a provided short-term borrowing and related interest thereon).
As at 31 December 2019 and 31 December 2018, 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 2019	*31 December 2018*
Current receivables	28 280 689	48 322 303
Overdue receivables	5 660 967	4 168 025
Total	**33 941 656**	**52 490 328**

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

	31 December 2019	*31 December 2018*
Within 90 days	4 562 880	3 209 075
90 – 180 days	211 810	57 085
180 – 360 days	-	149
Over 360 days	-	1 199
Total	**4 774 690**	**3 267 508**

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FOR THE YEAR ENDED 31 DECEMBER 2019 (IN EUROS)

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

	31 December 2019	*31 December 2018*
Within 90 days	-	-
90 – 180 days	-	-
180 – 360 days	114	394
Over 360 days	886 163	900 123
Total	**886 277**	**900 517**

11 OTHER ASSETS

Other current assets consist of the following:

	31 December 2019	*31 December 2018*
Prepaid expenses	139 009	330 936
Accrued income	152 007	4 755
Emission rights	897 200	648 600
Total	**1 188 216**	**984 291**

Prepaid expenses mainly represent prepaid insurance premiums and prepaid expenses from overhead invoices. Accrued income represents accrued interest. Emission rights comprise emission rights purchased in 2018 and 2019.

12 CASH AND CASH EQUIVALENTS

	31 December 2019	*31 December 2018*
Cash on hand	35 927	30 385
Bank balances and deposits	930 348	1 165 751
Cash and cash equivalents in the balance sheet	**966 275**	**1 196 136**
Cash and cash equivalents in the statement of cash flows	**966 275**	**1 196 136**

13 EQUITY

Share capital

The authorised share capital comprised 2 384 135 ordinary shares (31 December 2018: 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 2019 and 31 December 2018. 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 2018

Based on the decision of the General Meeting held on 24 June 2019, the profit for the year ended 31 December 2018 totalling EUR 13 306 thousand was distributed as follows: transfer to retained earnings in the amount of EUR 13 306 thousand.

14 INTEREST-BEARING LOANS AND BORROWINGS

	31 December 2019	*31 December 2018*
Loans	13 800 000	18 000 000
Overdraft facilities	3 059 905	1 362 827
Borrowing received from the Company's ultimate owners	15 370 000	16 570 000
Total interest-bearing loans and borrowings	**32 229 905**	**35 932 827**
Loans by currency:		
EUR - Fixed interest rate	15 370 000	16 570 000
EUR - Floating interest rate	16 859 905	19 362 827
Total	**32 229 905**	**35 932 827**
Repayments of loans are scheduled as follows:		
Within one year	4 859 905	16 362 827
More than one year, less than two years	15 370 000	19 570 000
More than two years, less than three years	-	-
More than three years, less than four years	-	-
More than four years, less than five years	12 000 000	-
More than five years	-	-
Total	**32 229 905**	**35 932 827**
Current portion		
Loans and borrowings	4 859 905	16 362 827
Total	**4 859 905**	**16 362 827**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (IN EUROS)

Loans and borrowings

Interest rates of loans and borrowings:

EUR - Fixed interest rate	2.00%
EUR - Floating interest rate	1M - 6M EURIBOR +1.2 -1.45% p.a.; EONIA+1.15 – 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 2019	*31 December 2018*
Deferred income	1 867 143	2 097 482
Of which:		
Subsidies	*1 845 594*	*2 079 161*
Other	*21 549*	*18 321*
Other non-current liabilities	43 130	39 026
Total	**1 910 273**	**2 136 508**

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 2019, the programme was applicable to 3 121 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 2019	*31 December 2018*
Present value of benefits paid on retirement	6 743 621	6 109 566
Present value of length of service benefits	964 128	909 009
Present value of jubilee benefits	198 062	199 443
Total	**7 905 811**	**7 218 018**

Key assumptions used in the actuarial valuation:

	31 December 2019
Annual future real rate of salary increases	2.00%
Annual employee turnover	9.3%
Retirement age	64 years or less, as per applicable legislation

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 2019	*(Debited)/credited to the current-year profit*	*(Debited)/ credited to equity*	*31 December 2019*
Property, plant and equipment	(9 287 114)	(475 550)	-	(9 762 664)
Inventories	145 739	102 715	-	248 454
Receivables	19 133	(5 731)	-	13 402
Liabilities	330 303	(78 894)	-	251 409
Employee benefits	1 515 784	144 436	-	1 660 220
Research and development	-	395 308		395 308
Subsidies	59 764	31 130	-	90 894
Total	**(7 216 391)**	**113 414**	**-**	**(7 102 977)**

	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)**

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 2019 (IN EUROS)

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

	31 December 2019	*31 December 2018*
Deferred tax asset	3 155 926	2 503 310
Deferred tax liability	(10 258 903)	(9 719 701)
Total	**(7 102 977)**	**(7 216 391)**

18 TRADE AND OTHER PAYABLES

	31 December 2019	*31 December 2018*
Trade payables	10 862 977	16 847 512
Dividends	381 909	373 652
Payables to employees and social security payables	7 200 370	7 219 002
Other tax payables	531 731	529 276
Payable to previous shareholders	781 819	782 028
Deferred income on subsidies, current	266 592	317 032
Other payables	434 308	274 793
Total	**20 459 706**	**26 343 295**

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 2019	*31 December 2018*
Current payables	19 433 597	25 312 352
Overdue payables	1 026 109	1 030 943
Total	**20 459 706**	**26 343 295**

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

	Amount
Opening balance as at 1 January 2019	23 602
Total creation	633 613
Total drawing	631 868
Closing balance as at 31 December 2019	**25 347**

19 REVENUES

Revenues comprise the following items:

Commodity	*Year ended 31 December 2019*		*Year ended 31 December 2018*	
	Amount	*%*	*Amount*	*%*
Own products	242 164 608	96.46	280 609 898	96.45
Merchandise	3 120 136	1.24	4 394 688	1.51
Services	5 772 737	2.30	5 927 286	2.04
Total revenues	**251 057 481**	**100.00**	**290 931 872**	**100.00**

Revenues by geographical segment:

	Year ended	
	31 December 2019	*31 December 2018*
Slovak Republic	24 567 835	26 139 635
Czech Republic	31 058 066	42 963 334
Other EU Member States	169 024 309	193 156 044
Other European countries	13 198 193	17 008 133
Middle East	1 908 529	264 191
Far East	1 318 471	166 090
USA	9 924 103	11 052 803
Other exports	57 975	181 642
Total revenues	**251 057 481**	**290 931 872**

20 OWN WORK CAPITALISED

	Year ended	
	31 December 2019	*31 December 2018*
Own work capitalised – raw materials	6 020 149	5 814 344
Own work capitalised – internal services	194 452	217 215
Own work capitalised – non-current tangible assets	519 560	1 170 321
Total own work capitalised	**6 734 161**	**7 201 880**

"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 2019 (IN EUROS)

21 RAW MATERIALS AND CONSUMABLES USED

	Year ended	
	31 December 2019	*31 December 2018*
Consumed raw materials	124 485 521	151 294 074
Consumed energy	27 475 577	29 376 422
Costs of goods sold	2 891 484	4 099 115
Total raw materials and consumables used	**154 852 582**	**184 769 611**

22 PERSONNEL EXPENSES

	Year ended	
	31 December 2019	*31 December 2018*
Wages and salaries	50 875 074	49 821 623
Social security contributions	22 405 568	21 543 889
Total	**73 280 642**	**71 365 512**

The Company's had 3 121 employees as at 31 December 2019, of which 99 were managers (31 December 2018: 3 171 employees, of which 97 were managers). The full-time equivalent of employees for the year ended 31 December 2019 was 3 190 (31 December 2018: 3 204).

23 OTHER OPERATING REVENUES AND EXPENSES

Other operating revenues, net comprise the following:

	Year ended	
	31 December 2019	*31 December 2018*
Profit on the sale of property, plant, equipment and intangibles	289 030	367 521
Profit on the sale of raw materials	280 959	427 427
Proceeds from grants	2 990 254	742 901
Insurance benefits from insurance companies	869 033	516 220
Other operating revenues	218 114	100 088
Total other operating revenues, net	**4 647 390**	**2 154 157**

Other operating expenses, net comprise the following:

	Year ended	
	31 December 2019	*31 December 2018*
(Additions to)/release of provisions for receivables and inventories	877 159	333 484
Change in impairment of property, plant and equipment	75 251	43 925
Insurance premium	963 770	871 448
Other taxes and charges	351 202	361 733
Other operating expenses	909 454	1 065 387
Total other operating expenses	**3 176 836**	**2 675 977**

24 INTEREST INCOME

	Year ended	
	31 December 2019	*31 December 2018*
Interest income on bank accounts	241	-
Interest income on borrowings	318 586	99 904
Total interest income	**318 827**	**99 904**

25 INTEREST EXPENSE

	Year ended	
	31 December 2019	*31 December 2018*
Loans and borrowings	516 918	509 102
Total interest expense	**516 918**	**509 102**

26 OTHER FINANCIAL INCOME AND EXPENSES

Other financial income comprises the following items:

	Year ended	
	31 December 2019	*31 December 2018*
Dividends from financial investments	4 669 798	3 068 061
Foreign exchange gains	368 457	305 578
Revenues from financial derivatives	-	4 692
Total other financial income	**5 038 255**	**3 378 331**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (IN EUROS)

Other financial expenses comprise the following items:

	Year ended	
	31 December 2019	*31 December 2018*
Foreign exchange losses	304 788	541 291
Losses from financial derivatives	3 793	-
Other financial expenses	144 348	130 958
Total other financial expenses	**452 929**	**672 249**

27 INCOME TAX

	Year ended	
	31 December 2019	*31 December 2018*
Current tax expense for current period	46	2 901 183
Deferred tax expense for current period	(113 414)	252 378
Total income tax	**(113 368)**	**3 153 561**

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

	Year ended	
	31 December 2019	*31 December 2018*
Profit/(loss) before tax	7 125 891	16 459 773
Tax at the local tax rate of 21% (2018: 21%)	1 496 437	3 456 552
Permanent differences		
- Non-deductible expenses	512 502	341 569
- Non-taxable income	(2 122 307)	(644 560)
Effect of a change in the tax rate	-	-
Unrecognised deferred taxes	-	-
Total income tax	**(113 368)**	**3 153 561**

The actual tax rate differs from the tax rate of 21% (2018: 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 2014 until 2018 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 2019, the Company recorded no open derivative positions.
In 2019, the Company performed currency derivative transactions to hedge cash flows in PLN and USD. The currency derivate transactions generated a loss of EUR 3 793 in 2019 (Note 26).

29 SUBSIDIES

31 December 2019	*Receivables from subsidies*	*Deferred income on subsidies, non-current*	*Deferred income on subsidies, current*	*Release of subsidies in the statement of comprehensive income*
Investment subsidies	-	1 845 593	266 592	271 865
Operating subsidies	50 337	-	-	2 718 389
Total subsidies	**50 337**	**1 845 593**	**266 592**	**2 990 254**
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**

In 2019, the Company was awarded the amount of EUR 194 thousand as part of the "Šanca pre všetkých" project ("*Chance for All*"). The amount of EUR 131 thousand was paid out in 2019.
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 14 thousand), an investment subsidy for the "Refurbishment, Modernisation and Construction of a Football Stadium" project (EUR 50 thousand), compensation to energy-intensive businesses (EUR 2 304 thousand), compensation from the environmental fund in the form of a subsidy (EUR 170 thousand) and a "Šanca pre všetkých" operating subsidy (EUR 194 thousand).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (IN EUROS)

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 2018.

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

	31 December 20198	*31 December 2018*
Debt [(i)]	(32 229 905)	(35 932 827)
Cash and cash equivalents	966 275	1 196 136
Net debt	(31 263 630)	(34 736 691)
Equity	(211 033 611)	(208 085 795)
Net debt to equity ratio	**15%**	**17%**

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

30.2 Categories of financial instruments

	31 December 2019	*31 December 2018*
Available-for-sale investments	94 387	83 049
Loans and receivables (including cash and cash equivalents)	34 162 735	52 946 295
Financial assets	**34 257 122**	**53 029 344**
Bank loans and borrowings recognised at amortised costs	32 229 905	35 932 827
Trade payables and other liabilities	22 369 976	28 479 803
Financial liabilities	**54 599 881**	**64 412 630**

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 2019 would have increased/decreased by EUR 75 thousand (2018: increase/decrease by EUR 68 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 2019	*31 December 2018*	*31 December 2019*	*31 December 2018*
USD	216 341	103 878	916 018	1 842 982
CZK	247 559	157 623	1 466 309	2 116 619
PLN	29 097	145 574	4 529 827	5 979 372
CHF	-	-	3 209	3 091

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 złoty 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		*31 December*		*31 December*		*31 December*	
	2019	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*
Profit or loss	174 919	434 776	243 750	391 799	900 146	1 166 760	642	618

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.

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	Weighted average effective interest rate	*Up to 1 month*	*1 – 3 months*	*3 months to 1 year*	*1 – 5 years*	*5+ years*	*Total*
2019							
Interest-free liabilities		16 370 948	527 415	3 284 350	53 490	40	20 236 243
Floating interest rate instruments (loans)	1.2 -1.45%	4 861 700	43 983	132 917	12 632 200	-	17 670 800
Fixed interest rate instruments (loans)	2.00%	26 471	51 233	234 819	15 680 815	-	15 993 338
		21 259 119	**622 631**	**3 652 086**	**28 366 505**	**40**	**53 900 381**
2018							
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**

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 2019 amounted to EUR 1 141 thousand (year ended 31 December 2018: EUR 1 125 thousand). Remuneration is included in personnel expenses.

31.2 Other related parties

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

During 2019, the Company entered into the following transactions with related parties:

	Receivables as at 31 December 2019	*Payables as at 31 December 2019*	*Sales of goods and services in 2019*	*Purchases of goods and services in 2019*
Ultimate owners	-	15 370 000	-	-
CPA s.r.o. - parent company	3 036	700	3 508	112 284
Subsidiaries and joint ventures	14 735 823	4 122 282	161 186 434	76 562 233
Associates	2 500 763			
Other related parties	36 920	243 225	147 073	1 143 296
	17 276 542	**19 736 207**	**161 337 015**	**77 817 813**

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**

Transactions with ultimate owners comprise received borrowings. Transactions with the parent company represent advisory services and rental of premises. Transactions with subsidiaries and associates 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 2020 amounting to EUR 14 580 thousand, of which EUR 2 420 thousand is covered by contracts at 31 December 2019.

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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (IN EUROS)

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.

ŽP has opted to recognise the allocated emission rights at a face value. In 2019, the Company received a pro rata share of emission rights but the Company's emission production in 2019 exceeded this share. The difference in the amount of EUR 293 thousand is recognised in the statement of profit and loss.

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 375 thousand.

ŽP has an obligation to deliver emission rights to cover produced emissions. This obligation was fulfilled by delivering emission rights for the monitored 2019 period in April 2020.

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 SLSP up to EUR 6 million. The outstanding principal as at 31 December 2019 amounts to EUR 4 803 thousand.

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 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 1 676 thousand.

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

33 POST-BALANCE SHEET EVENTS

From 31 December 2019 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.

The rapid development of the Covid-19 epidemics and its social and economic impact in Slovakia and worldwide may mean revisions may be needed to the assumptions and estimates used in the preparation of the financial statements. These may cause significant adjustments to the carrying amount of assets and liabilities in the following financial year. At this stage, Company management is unable to make a reliable estimate of their possible impact, as events are developing dynamically every day.

The long-term impact may also affect volumes of business transactions, cash flows and profitability of the Company. However, as at the preparation date of the financial statements, the Company continues to meet its liabilities and expects to continue as a going concern.

34 APPROVAL OF SEPARATE FINANCIAL STATEMENTS

The separate financial statements were prepared and approved for release on 16 March 2020.