

ANNUAL REPORT

SIJ – Slovenska industrija jekla, d.d.

For financial year 2007

March, 2008

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2. INTRODUCTION

2.1. COMPANY HIGHLIGHTS

The company has had the name SIJ – Slovenska industrija jekla, d.d. since January 2005 as the previous name Slovenske železarne, d.d. (Slovenian Steelworks) did not reflect significant technological changes in the last 20 years. Companies in SIJ Group have not been producing iron for quite a long time as our companies have become up-to-date steelworks, although small in the global sense but looking for their shares in market niches.

Company achievements are integrally connected with SIJ Group achievements. The most important achievement of the Company, as the controlling company of the SIJ Group, is successfully completed rehabilitation procedures in SIJ Group which made the company an identifiable representative of the Group, which has, in spite of being small, found its place on the big and very competitive steel market where it can mostly be an equal player in the competition. Irrespective of this, we think that the path of further development and approaching the competition has not been finished and it will never be as the competition is stronger in the capital sense and it can make longer steps than we can.

In previous years also privatisation was in progress along with the financial rehabilitation of the Group. Infrastructure companies (energy sector) and most processing companies were sold.

2007 was characterised by the sale of a 55,35 % share of company SIJ – Slovenska industrija jekla, d. d.. The Republic of Slovenia sold this share to buyer DILON, d.o.o., Tivolska cesta 48, Ljubljana. In 2007 also 16,87 % of SIJ - Slovenska industrija jekla, d.d., shares changed the owner, now they are owned by company OAO KOKS .

- In 2007, we generated total revenue in the amount of 6.952.710 EUR, of which 4.642.679 EUR to companies in the Group.
- The loss, generated in 2007, amounted to 449.331 EUR.
- Due to the increased scope of the provision of services for SIJ Group the number of employees rose from 18 to 29.

2.2. IMPORTANT EVENTS IN 2007

1 March 2007 The government approved the proposal by the Privatisation Commission concerning the selection of the winning bidder for the purchase of a 55,35% share of company SIJ – Slovenska industrija jekla, d. d..

23 April 2007 Completed procedures related to the conclusion of contract on the purchase of business share by company DILON, d.o.o., which is 100% owned by company DILON COOPERATIEF U.A. Amsterdam. The Group is managed by IMH Holding.



10 July 2007 SIJ – Slovenska industrija jekla, d.d. assembly adopts a decision that SIJ - Slovenska industrija jekla, d.d. financial statements shall be compiled in accordance with International Financial Reporting Standards.

13 February 2008 SIJ - Slovenska industrija jekla, d.d. received prestige reward »rating of the year 2007«, granted by Dun & Bradstreet and it's slovenian partner, bonitetna hiša I, d.o.o. Ljubljana.



2.3. HIGHLIGHTS OF THE COMPANY OPERATION

	2007	2006
Net sales revenues	4.716.429	3.297.136
Other operating incomes	839.432	1.200.829
Financial income	1.217.404	652.896
Financial expenses	(11.172)	(9.696)
<i>Profit or loss before tax</i>	<i>1.108.378</i>	<i>1.842.793</i>
Net profit or loss (after tax)	(449.331)	1.915.063
Balance sheet total	159.272.550	158.064.772
Long-term assets	134.481.754	135.245.603
- financial investments in subsidiaries	<i>130.436.500</i>	<i>130.436.500</i>
Current assets with deferred costs and accrued revenues	24.790.796	22.819.169
Capital	154.992.403	154.615.544
Book value per share	155,83	155,45
Number of employees	29	18



2.4. REPORT BY THE CHAIRMAN OF THE MANAGEMENT BOARD

2.4.1. Introduction

The year, which is finishing, was a turning point for Slovenian steelworkers. The world around us is constantly changing and we had expected changes also because of privatisation. Two different concepts of business function management met, which required adaptations to the new concept and today we can say that the procedure was completed successfully. We have introduced a new approach to the centralisation of key business functions: purchasing, sales, development and the first results have been achieved. I am sure that in the future we will have even better results due to the synergies, arising from the new partnership.



2.4.2. Business results

2.4.2.1. Company

In 2007 SIJ - Slovenska industrija jekla, d.d. was strengthening its role of the owner and manager of investments in subsidiaries, and achieving the Group synergies, particularly in the field of purchasing and sales and financing. This resulted in substantially higher revenues than the year before, profit before tax in the amount of 1.108.378 EUR, which was moved to the loss in the amount of 449.331 EUR due to the reversal of deferred tax.

However, we consider good operation of the Group as the success, on which most of our efforts and activities were focused, aiming at enhancing its identification as a whole, improve its market position on the demanding, and increasingly globalize steel market.

In 2007, operating revenues amounted to 5.555.861 EUR, of which 4.642.679 EUR to companies in the Group. Total revenues, operating and financial, amounted to 6.824.646 EUR.

Net profit or loss for 2007 shows loss in the amount of 449.331 EUR, and for 2006 profit in the amount of 1.915.063 EUR.

The number of employees in the Company nearly doubled, which contributed to substantially higher costs.

In 2007 book value per share reached 155,83 EUR, which is by 0,2% higher than in the previous year.

2.4.2.2. SIJ Group

In 2007, the situation on steel market was favourable, forecasts for 2008 are still kind to steelworkers, although not as much as in 2007. The generated revenues amounted to 927.905.358 EUR, and consolidated revenues in the amount of 678.905.418 EUR.

The profit, generated by the Group, amounts to 59.881.629 EUR, and all of it will be allocated to important investment projects, which will allow further growth and competitiveness. All companies invest substantially in technological updating of existing facilities, further development and ecology. In total in 2007 more than 56 million EUR were allocated to investments, of which 53 % in company Acroni and 41 % in company Metal Ravne, major investments are in progress also in company Elektrode.

2.5. STATEMENT ON THE MANAGEMENT BOARD RESPONSIBILITY

SIJ - Slovenska industrija jekla, d.d. Management Board is responsible for drawing up the Company annual report and financial statements for 2007 so that they present a true and fair picture of the Company assets and the economic outturn in accordance with International Financial Reporting Standards and Companies Act.

On 25 March 2008 SIJ - Slovenska industrija jekla, d.d. Management Board approved the financial statements for the financial year, ending on 31 December 2007 as well as the notes to the financial statements. The Management Board hereby declares the following:

- financial statements are prepared on the assumption of going concern of the Company,
- the selected accounting policies were applied consistently,
- financial statements are prepared in accordance with the legislation in force and International Financial Reporting Standards.

President of the Management Board

Tibor Šimonka, univ.grad.econ.

2.6. REPORT ON THE WORK OF THE SUPERVISORY BOARD IN 2007

2.6.1. Introduction

In 2007, SIJ – Slovenska industrija jekla, d.d. Supervisory Board was monitoring and checking the operation of SIJ Group companies and company SIJ - Slovenska industrija jekla, d.d. and adopting decisions under its powers, laid down in the Companies Act, Financial Operations Acts, Company SIJ Articles of Association, Rules of procedure of the Supervisory Board and other rules in force.

2.6.2. Supervisory Board sessions

In 2007 Supervisory Board had four regular and one correspondence meeting sessions as follows:

11th session of 5 March 2007

in the following composition of the Supervisory Board: Chairman Marija Zagožen and members Franc Vodopivec, PhD. Božidar Brudar, PhD. Prof. Janez Kopač, PhD. Jože Kobe, PhD. Izidor Rejc and Milan Škafar.

1st session of 23 April 2007

in the following composition of the Supervisory Board: Chairman Viacheslav Korchagin and members Igor Malevanov, Vladimir Lomberg, Aleš Rojs, Marija Zagožen, Borut Frantar; member of the Supervisory Board Mr Dmitry Bochkarev, who did not attend the session, submitted a written consent to the election of the chairman and vice-chairman of the Supervisory Board.

2nd session of 16 May 2007

in the following composition of the Supervisory Board: Chairman Viacheslav Korchagin and members Igor Malevanov, Aleš Rojs, Marija Zagožen, Borut Frantar; member of the Supervisory Board Mr Dmitry Bochkarev, who did not attend the session, submitted written comments on individual items on the agenda.

3rd session of 31 May 2007

in the following composition of the Supervisory Board: Chairman Viacheslav Korchagin and members Igor Malevanov, Aleš Rojs, Marija Zagožen, Borut Frantar; member of the Supervisory Board Mr Dmitry Bochkarev did not attend the session.

4th session of 25 October 2007

in the following composition of the Supervisory Board: Chairman Dmitry Bochkarev and members Igor Malevanov, Aleš Rojs, Marija Zagožen, Borut Frantar; member of the Supervisory Board Mr Alexander Sivoronov did not attend the session.

1st Supervisory Board correspondence session of 20 July 2007**2.6.3. Subjects under discussion**

At its sessions, the Supervisory Board discussed the following subjects and adopted the following decisions:

1. The Supervisory Board was monitoring the operation of companies and taking note of the achievement of the planned objectives based on information and reports by the company Management Board.
2. In March 2007, the Supervisory Board discussed the information about the operation of SIJ Group companies in 2006 based on non-audited data. In May 2007, the Supervisory Board discussed the information about the operation of SIJ Group companies in the period from January to April 2007 with the assessment of operation to the end of 2007. In October 2007 the Supervisory Board took note of the report on the operation of SIJ Group companies in the period from January to September 2007 and established that the achieved results were very good.
3. When discussing the reports on the operation the Supervisory Board wanted to obtain more detailed information and it requested also information on the effect of the inventory from 2006 on the performance of Acroni, d.o.o. in the first months of 2007; it requested from the Company Management Board to prepare a detailed analysis of the operation of ZIP center, d.o.o. Ravne na Koroškem and SUZ, d.o.o. Jesenice; and the review of data on the social and material position of workers in SIJ Group companies.
4. The Supervisory Board was monitoring the Company management also by examining the Company and SIJ Group annual reports for 2006. It also discussed the auditor's report in which auditing firm Deloitte Revizija, d.o.o., establishes that the financial statements, which are a part of the annual report present fairly, in all material aspects, the financial

position of the Company and the Group, their profit or loss, cash flow statement and that the annual report complies with the financial statements; the Supervisory Board had no comments about the auditor's report or the annual report and it approved it unanimously at its session, held on 31 May 2007. In accordance with the provisions of the Companies Acts Article 282 and SIJ Group Articles of Association the annual report was thus adopted also formally. The Supervisory Board also established that all SIJ Group companies had obtained positive auditor's opinion about financial statements and the auditor is of the opinion that the financial statements present fairly, in all material aspects, the financial position of the companies as at 31 December 2006 and their profit or loss and cash flow as of that date in compliance with Slovenian accounting standards. The Supervisory Board also approved the report on the operation of SIJ Group in the period I - XII 2006 on the basis of audited data.

The Supervisory Board established that in 2006 SIJ – Slovenska industrija jekla, d.d. generated net profit in the amount of 458.851 TSIT (1.914.751 EUR), which, together with the profit from previous years constitutes distributable profit, which as at 31 December 2006 amounts to 1.721.589 TSIT (7.184.063,59 EUR), and approved the proposal by the Management Board not to allocate the distributable profit in the amount of 1.721.589 TSIT (7.184.063,59 EUR) and to carry it forward to the next year in the total amount.

The Supervisory Board suggested the shareholders' meeting to discharge the Management Board and Supervisory Board for the financial year, ending on 31 December 2006, and approve the proposal for the payment of the emolument to the members of the Supervisory Board for successful work in 2006 and proposal for the emoluments of the members of the Supervisory Board from 1 May 2007 on. The Supervisory Board also adopted a decision on emoluments for the members of the Company Management Board for successful work in 2006.

5. The Supervisory Board in the previous composition took note of the information by the President of the Commission for the management and control of the procedure of sale of the Republic of Slovenia capital investments, represented by the shares in SIJ Group, by selling SIJ Group subsidiaries, on the sale of SIJ – Slovenska industrija jekla, d.d. shares, owned by the Republic of Slovenia; that the Government of Slovenia had already submitted its consent to the sale; that the contract on the sale of shares had been concluded with the successful bidder.

6. The Supervisory Board paid a lot of attention to the Contract on the regulation of relations and single management in SIJ Group and suggested the shareholders' meeting to approve the Contract on the regulation of relations and single management in SIJ Group.
7. At its last session in 2007 the Supervisory Board took note of the report on key information in the preliminary plan of SIJ Group core companies for 2008 and 2009.
8. The Supervisory Board approved investment programs of Acroni, d.o.o. for the period from 2007 to 2010, Metal Ravne, d.o.o., Noži Ravne d.o.o. and Elektrode Jesenice, d.o.o. for the period from 2007 to 2009, in the total value of 246,32 million EUR. Approval of these investment programs means that all investment projects, included in the mentioned plans, are approved in their planned values.

In the field of investments the Supervisory Board approved the increased estimated value within the implementation of "New heavy pressed parts smithery Stage 1", and took note of the market analysis for the products manufactured in the new heavy pressed parts smithery in Metal Ravne, d.o.o..

The Supervisory Board paid a lot of attention to the projects of construction and purchasing of steel centers. It requested the management to prepare all the required documentation, including the business plan and inform the Supervisory Board about the progress of the activities.

9. In the field of staff the Supervisory Board took note of the statement by Mr. Vladimir Lomberg that as from 18 July 2007 he irrevocably resigns from the position of the member of the Company Management Board, and at the same time adopted a decision to appoint as from 19 July 2007 Mr. Viacheslav Korchagin as the member of the Company Management Board with a 4-year term of the office.

At its first session, held on 23 April 2007, the Supervisory Board established that new members of the Supervisory Board had been elected at the shareholders' meeting and adopted a decision to elect Mr. Viacheslav Korchagin as the chairman of the Supervisory Board and Mrs. Marija Zagožen as the Vice Chairman of the Supervisory Board.

On 16 May 2007 Mr. Vladimir Lomberg made a statement that he is resigning from the position of the member of the Supervisory Board and suggested the shareholders' meeting to elect Mr. Aleksander Sivoronov, whose term of office expires on 11 April 2011, as the

alternate member of the Supervisory Board. At its first correspondence session the Supervisory Board took note of the statement by Mr. Viacheslav Korchagin that as from 19 July 2007 he irrevocably resigns from the position of the member and thus also the chairman of the Supervisory Board, and adopted a decision to elect Mr. Dmitry Bochkarev as the new chairman of the Company Supervisory Board. The Supervisory Board established that the statement on resigning from the position of the member of the Supervisory Board as from the day the new member of the Supervisory Board was elected by the shareholder's meeting had been submitted also by Mr. Igor Malevanov, and suggested the shareholders' meeting to elect Mr. Andrej Zubitskiy and Mr. Mikhail Manaenkov as alternate members of the Supervisory Board for the term of office which expires on 11 April 2011.

10. The Supervisory Board discussed also other matters within the power of decision by shareholders' meeting and proposed the shareholders' meeting to adopt a decision to appoint auditing firm Deloitte Revizija, d.o.o. to audit SIJ – Slovenska industrija jekla, d.d. financial statements and SIJ Group consolidated financial statements for the financial year, ending as at 31 December 2007, and the decision to compile SIJ – Slovenska industrija jekla, d.d. financial statements in accordance with International Financial Reporting Standards.
11. On several occasions the Supervisory Board discussed individual provisions of the Rules of procedure of the Supervisory Board, and at its third session, held on 31 May 2005 it adopted the Rules of procedure of the Supervisory Board.

Invitations to the sessions and material, which was the basis for the adoption of decisions by the Supervisory Board, were sent to the members of the Supervisory Board by e-mail, as a rule within the period, laid down by the Supervisory Board. Only exceptionally supplementary material in writing for individual items on the agenda was provided at the session itself. As a rule, the materials included proposals for decisions.

Chairman
of the Supervisory Board

3. BUSINESS REPORT

3.1. COMPANY PROFILE

3.1.1. Basic Company details

Name:	SIJ - Slovenska industrija jekla, d.d.
Registered office:	Gerbičeva 98, Ljubljana
Registration:	District Court in Ljubljana
Application No.	SRG 1/03550/00
Date of entry:	22 February 1995
Registered share capital:	EUR 145.266.065,76
Ownership:	<ul style="list-style-type: none"> - 55,3491 % DILON d.o.o., Tivolska 48, Ljubljana - 25,0001 % Government of the Republic of Slovenia, Gregorčičeva 20, Ljubljana - 16,8670 % OAO KOKS, 1ST Stakhanovskaya str. 6, Kemerovo, Russia - 2,7838 % other shareholders
Legal organisational form:	public limited company
Registration number:	5046432
Tax number:	SI51018535
Taxable person:	<p>under Corporate Profit Tax Act (ZDDPO – 2), under the Value Added Tax Act, under Rules on the implementation of the Value Added Tax Act, under the Tax Administration Act, under the Taxation Procedure Act.</p>
Code of activity:	<p>74.150 Management activities of holding companies – as from 1 January 2008 70.100 Activities of management boards</p>
Number of employees:	29
Financial year:	calendar

3.1.2. Company bodies

1. Company Assembly
2. Company Supervisory Board
3. Company Management Board:

3.1.3. Company Assembly

As at 31 December 2007 the Company had 10 shareholders, majority shareholder is DILON, d.o.o., belonging to KOKS Group, which became one of the shareholders by purchasing shares from D.S.U. d.o.o., authorized companies Lameta, d.d. and Železar Štore D.P. Štore, d.d., Merkur, d.d., Žična Celje, d.o.o. and Elektro Slovenija, d.o.o..

3.1.4. SIJ – Slovenska industrija jekla, d.d. Supervisory Board

Due to the changes in ownership there were a lot of changes also in the Supervisory Board membership in 2007. All the changes in the Supervisory Board in 2007 are indicated below.

▲ Supervisory Board in the period from 1 January 2007 to 11 April 2007:

1. Marija Zagožen, Chairman of the Supervisory Board
2. Prof. Franc Vodopivec, PhD, Vice-Chairman of the Supervisory Board
3. Božidar Brudar, PhD, Member of the Supervisory Board
4. Prof. Janez Kopač, PhD, Member of the Supervisory Board
5. Jože Kobe, PhD, Member of the Supervisory Board
6. Izidor Rejec, Member of the Supervisory Board
7. Milan Škafar, Member of the Supervisory Board

▲ Supervisory Board in the period from 11 April 2007 to 16 May 2007:

1. Viacheslav Korchagin, Chairman
2. Marija Zagožen, Vice-Chairman
3. Vladimir Lomberg, Member - *resigned from the position on 16 May 2007*
4. Dmitry Bochkarev, Member
5. Igor Malevanov, Member

6. Aleš Rojs, Member
7. Borut Frantar, Member

▲ Supervisory Board in the period from 10 July 2007 to 19 July 2007:

1. Viacheslav Korchagin, Chairman, - *resigned from the position of the member and the chairman on 19 July 2007*
2. Marija Zagožen, Vice-Chairman
3. Dmitry Bochkarev, Member
4. Igor Malevanov, Member
5. Aleš Rojs, Member
6. Borut Frantar, Member
7. Alexander Sivoronov

▲ Supervisory Board in the period from 20 July 2007 to 4 December 2007:

1. Dmitry Bochkarev, Chairman
2. Marija Zagožen, Vice-Chairman
3. Igor Malevanov, Member - *resigned as from 4 December 2007*
4. Aleš Rojs, Member
5. Borut Frantar, Member
6. Alexander Sivoronov

▲ Supervisory Board since 4 December 2007:

1. Dmitry Bochkarev, Chairman
2. Marija Zagožen, Vice-Chairman
3. Alexander Sivoronov, Member
4. Aleš Rojs, Member
5. Borut Frantar, Member
6. Andrej Zubitskiy, Member
7. Mikhail Manaenkov, Member

3.1.5. SIJ – Slovenska industrija jekla, d.d. Management Board

In 2007 a lot of members of the Management Board changed. All the changes in the Management Board in 2007 are indicated below.

▲ Management Board from 1 January 2007 to 16 May 2007

1. Tibor Šimonka, Chairman
2. Prof. Vasilij Prešeren, PhD, Member
3. Darko Mikec, MA, Member
4. Janez Trček, Member

▲ Management Board from 16 May 2007 to 18 July 2007

1. Tibor Šimonka, Chairman
2. Vladimir Lomberg, Member

▲ Management Board since 19 July 2007

1. Tibor Šimonka, Chairman
2. Viacheslav Korchagin, Member

3.1.6. Company activity

Main business activities are focused on the following:

1. management activities of holding companies,
2. setting up, financing and management of companies,
3. coordination of the company operation and development,
4. organisation and implementation of business service,
5. pursuit of commercial and financial business,
6. coordination of presentations on domestic and foreign markets.

3.2. COMPANY SHARE CAPITAL

SIJ - Slovenska industrija jekla, d.d., Ljubljana, Gerbičeva 98 is entered in the Court register under registration application No. 1/03550/00 at the District Court in Ljubljana under No. SRG 94/16109 of 22 February 1995, and change in share capital of 27 October 2004, changes of the Company name of 6 January 2005 and change of the Company Articles of Association of 27 December 2006.

As at 31 December 2007 the registered share capital of the Company amounts to 145.266.066 EUR, and it is divided into 994.616 share at face value of 146,05 EUR per share, while the book value per share amounts to 155,83 EUR.

As at 31 December 2007 the Company had 10 shareholders, Company share capital did not change in 2007.

SIJ - Slovenska industrija jekla, d.d. shares are not listed neither on the primary nor on the secondary market. They are entered at KDD – centralna klirinško depotna družba, d.d., Ljubljana (Central Securities Clearing Corporation) as dematerialised securities with SIJR and ISIN designations.

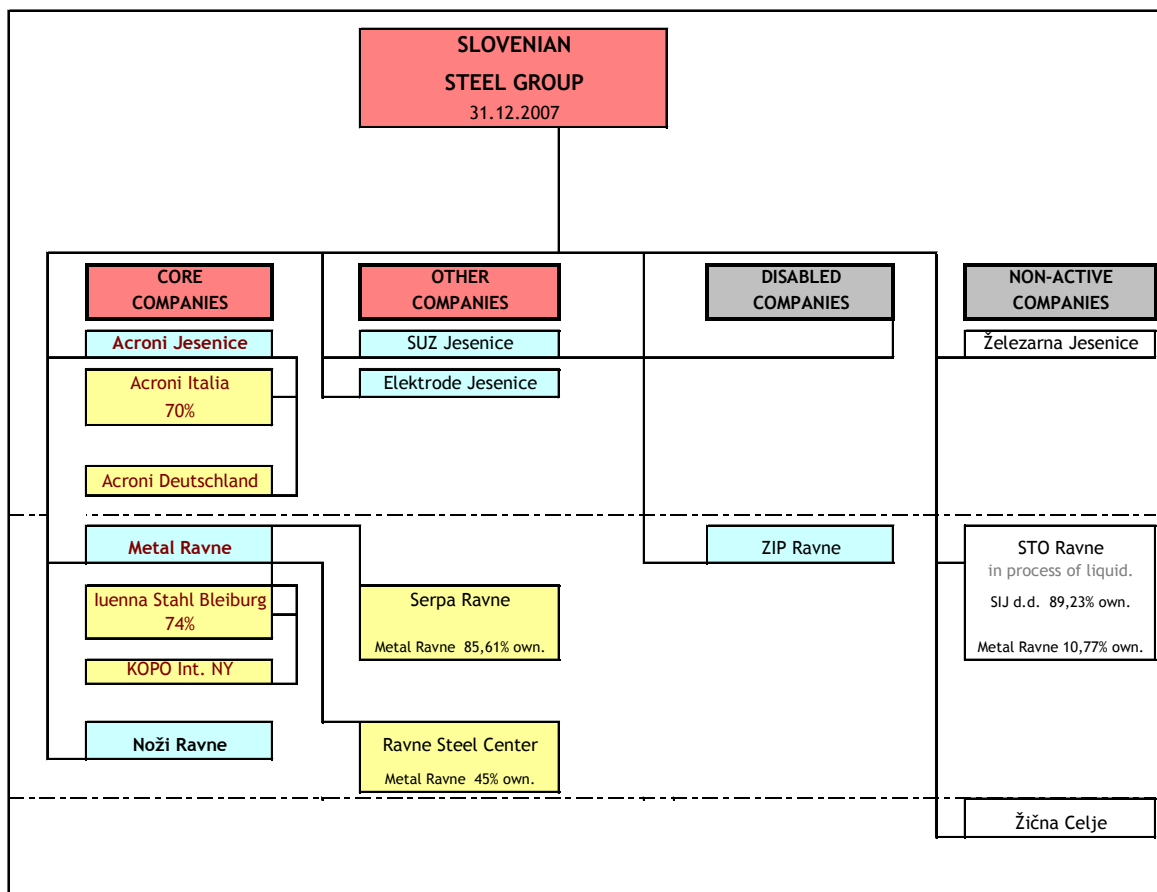
In March 2007 the main shareholder of the Company, the Republic of Slovenia, sold 55,35 % of shares to buyer DILON, d.o.o..

3.2.1. Ownership structure as at 31 December 2007

SHAREHOLDERS	Registered ownership	
	No. of shares	% of ownership
DILON d.o.o., Tivolska cesta 48, Ljubljana	550.511	55,3491
The Republic of Slovenia, Gregorčičeva 20, Ljubljana.	248.655	25,0001
OAOKOKS, 1 ST STAKHANOVSKAYA STR. 6, Kemerovo, Russia	167.762	16,8670
D.P.R. d.d. , Koroška cesta 14, Ravne na Koroškem	11.468	1,1530
Stanovanjsko podjetje d.o.o., Ob Suhi 19, Ravne na Koroškem	8.205	0,8249
SIJ – Slovenska industrija jekla, d.d., Gerbičeva 98, Ljubljana	7.917	0,7961
Lameta d.d. , Cesta Borisa Kidriča 44, Jesenice	58	0,0058
MERKUR d.d., Cesta na Okroglo 7, Naklo	20	0,0020
HIDRIA ROTOMATIKA d.o.o., Spodnja Konomlja 23, Spodnja Idrija	10	0,0010
UNIOR d.d., Kovaška cesta 10, Zreče	10	0,0010
Total	994.616	100,00

3.3. ORGANISATIONAL STRUCTURE OF THE GROUP

As at 31 December 2007 parent company SIJ – Slovenska industrija jekla, d.d., Gerbičeva 98, Ljubljana has, as the 100 percent owner, investments in subsidiaries and via subsidiaries also in sub-subsidiaries in the country and abroad. On 11 February 2008 bankruptcy was announced for company Stroji in tehnološka oprema Ravne na Koroškem, which had been undergoing the proceedings for the liquidation.



Consolidated financial statements are compiled by the parent company, SIJ - Slovenska industrija jekla, d.d., Gerbičeva 98, Ljubljana. Consolidated annual report for SIJ Group is available at the parent company registered office.

Ownership of the company SIJ – Slovenska industrija jekla, d.d. on the day of 31 December 2007 were as follows: Republic of Slovenia with a 25,00 percent share, company DILON, d.o.o. with a 55,35 percent share, OAO KOKS from Kemerovo (Russian Federation) with a 16,87 percent share and small shareholders with a 2,78 percent share.

The parent company of the SIJ Group is the company DILON d.o.o., which is 100 percent owned by DILON COOPERATIEF U.A., Amsterdam (Netherlands). Consolidated financial statements for the core group of subsidiaries is being prepared by the company DILON d.o.o., consolidated financial statements for the broader group of subsidiaries are being prepared by the company OAO KOKS from Kemerovo (Russian Federation).

The consolidated annual report for the DILON Group can be obtained at the company seat of DILON d.o.o., Tivolska cesta 48, 1000 Ljubljana. The consolidated annual report for the KOKS Group can be obtained at the company seat of OAO KOKS, 1st Stakhanovskaya ulitsa 6, 650021 Kemerovo, Russian Federation.

3.4. EMPLOYEES

In 2007 on average there were 21 employees in SIJ – Slovenska industrija jekla d.d.. As at 31 December 2007 the Company has 29 employees.

3.4.1. Employees by sex

	31.12.2007	31.12.2006
Females	21	14
Males	8	4
Total	29	18

3.4.2. Employees by education

	31.12.2007	31.12.2006
PhD, Master of Science	3	2
University education	14	7
Higher school education	2	0
College education	4	4
Secondary school education	5	4
Primary school education	1	1
Total	29	18

3.5. BUSINESS RESULTS

In 2007 the Company generated net sales revenues in the amount of 4.716.429 EUR, of which 4.642.679 EUR arising from the sale of services to the companies in the Group, which means 98,44 percent of all sales revenues. Net sales revenues for 2007 exceed those, generated in 2006, by 1.419.293 EUR or 43 percent.

Other operating revenues in the amount of 839.432 EUR were generated from the revenues arising from completed bankruptcy proceedings and devaluated receivables and reversal of long-term provisions and payments from bankrupt's estates.

Material costs, mainly costs of services and labour increased in accordance with the increased extent of the provision of services.

Labour costs are recorded in the amount of 2.660.690 EUR and they are by 50 percent higher than the year before, they increased mainly because of the higher number of employees, as the number of employees grew from 18 to 29 at the end of 2007.

Amortisation/depreciation expenses mainly cover depreciation of tangible fixed assets in the amount of 135.529 EUR. In comparison with the previous year amortisation/depreciation expenses are by 35.544 EUR higher, particularly higher is depreciation and amortization cost due to purchases of tangible fixed assets in 2007.

Other operating expenses are recorded in the amount of 443.830 EUR. Most of these expenses are the costs of memberships in domestic and foreign professional associations and donations.

In 2007 financial revenue from shares, lending and operating receivables amounted to 1.217.404 EUR. In comparison with 2006, they are by 564.508 EUR or something more than 50 percent higher. Interests on lending account for the biggest share.

Financial expenses amounted to 11.172 EUR mainly arising from interest.

The balance of the financial part is positive in the amount of 1.327.974 EUR, whereas in 2006 it was negative in the amount of 176.895 EUR.

Profit or loss of the accounting period, excluding deferred taxes, reports profit in the amount of 1.108.378 EUR, whereas profit or loss in the same period last year amounted to 1.842.793 EUR. In 2007, deferred tax in the amount of 1.557.709 EUR was reversed, whereas income tax was not charged as the Company was using the tax loss. Net profit or loss for the period is therefore negative in the amount of 449.331 EUR, while in 2006 it was positive in the amount of 1.915.063 EUR.

The main reason for the recorded operating loss is the reversal of deferred taxes and somewhat higher operating costs. In previous years deferred taxes were created for unused tax losses. As the Company does not expect important taxable profits in the future, deferred taxes were reversed.

3.6. STRATEGY FOR THE FUTURE

The Company is going to continue implementing the common strategic policy in the following areas:

- strategic integration in order to look for the synergies for the companies in the Group,
- organisation of joint sales network,
- projects of renovation of production processes and marketing in the companies in the Group,
- common purchasing policy,
- common marketing and market research,
- human resource development.

3.7. OTHER MORE DEMANDING PROJECTS

SIJ - Slovenska industrija jekla, d.d. led the project of transition to International Financial Reporting Standards where it played the role of the author of adapting the bookkeeping system as well as the coordinator among companies in order to make accounting system and policies as uniform as possible.

3.8. ASSESSMENT AND FORECASTS

The basic activity of the Company will remain company management, organisation and provision of business service, coordination of presentations on domestic and foreign markets. It is estimated that in the future the Company will not change its business policy much, which will be subordinated to the successful performance of the companies in the Group and not so much the Company itself, as the financial power of the Company is closely linked to the performance and financial power of the Group.

3.9. EXPECTED COMPANY DEVELOPMENT

In order to support the development of the Group we are going to educate and train expert personnel who are going to support the fundamental mission and vision of the development of the Company and the Group in all business functions:

- development,
- personnel,
- sales – purchasing,
- accounting,
- financial,
- control and supervisory.

3.10. FINANCIAL RISK MANAGEMENT

Company operation is exposed to different risks: credit risk, interest rate risk, foreign exchange risk, solvency risk, etc. Risk management in the Company is focused on unpredictability of financial markets and tries to minimise potential negative effects on the Company financial performance. Financial department deals with financial risk management.

a) Credit risk

The Company limits exposure to credit risk related to customers with several activities: limiting the exposure to individual business partners, constant control of wholesale customers, sale of goods provided appropriate guarantee instruments are received, and continuous recovery of receivables.

Credit risk is estimated to be low.

b) Interest rate risk

Company interest rate risk arises from long-term and short-term financial liabilities. Financial liabilities expose the Company to cash flow interest rate risk.

The Company continuously monitors the exposure to interest rate risk, focusing on the variability of interest rates and potential growth of debt at variable interest rate. According to the current stable macroeconomic environment and continuous monitoring of the exposure to interest rate risk, this risk is estimated to be moderate.

c) Foreign exchange risk

The Company operates also in the international environment and so to a certain extent it is exposed also to foreign exchange risk. When Slovenia joined ERM2 and adopted euro in 2007 the exposure to foreign exchange risk became minor. Nevertheless, the Company carefully monitors the exposure to foreign exchange risk and, if required, it will take appropriate measures to reduce negative effects of fluctuations in exchange rates.

d) Solvency risk

Low exposure to solvency risk does not require any additional activities. The Company has liquidity reserves in revolving credits with Slovenian banks which may be drawn in case additional liquidity funds are needed.

3.11. EVENTS AFTER THE END OF THE FINANCIAL YEAR

On 13 February 2008 company received prestige reward »rating of the year 2007«, granted by Dun & Bradstreet and it's slovenian partner, bonitetna hiša I, d.o.o. Ljubljana. There were no other significant events after the end of the financial year in SIJ – Slovenska industrija jekla, d.d..

3.12. STATEMENT ON MANAGEMENT

SIJ – Slovenska industrija jekla, d.d. management does not apply any code, neither is such a code applied within the entire SIJ Group.

3.13. CONTROLLING COMPANY INFLUENCE

In 2007 in SIJ – Slovenska industrija jekla, d.d. no legal transactions were made in which the Company would be at a disadvantage due to the influence of the controlling company DILON, d.o.o..

4. MAIN FINANCIAL STATEMENTS

4.1. BALANCE SHEET

	Notes	31.12.2007	31.12.2006
ASSETS			
Non-current assets		134.481.754	135.245.603
Intangible assets	4.8.1	3.938	11.618
Property, plant and equipment	4.8.2	2.940.033	2.190.066
Investment property	4.8.3	32.230	33.325
Financial investments available for sale	4.8.4	803.962	538.154
Financial investments in subsidiaries	4.8.5	130.436.500	130.436.500
Long-term lending and deposits	4.8.6	265.091	478.231
Deferred tax assets	4.8.7	-	1.557.709
Current assets (excluding deferred costs and accrued revenues)		24.778.909	22.810.221
Assets held for sale	4.8.8	12.195	12.195
Financial investments held for trading	4.8.9	1.480.477	291.270
Short-term lending and deposits	4.8.10	9.625.906	10.645.455
Short-term operating receivables	4.8.11	2.500.557	2.685.048
Cash	4.8.12	11.159.774	9.176.253
Short-term deferred costs and accrued revenues	4.8.13	11.887	8.948
Total current assets (including deferred costs and accrued revenues)		24.790.796	22.819.169
Total assets		159.272.550	158.064.772
LIABILITIES			
CAPITAL	4.8.14	154.992.403	154.615.544
Share capital		145.266.066	145.266.066
Capital reserves		19.404.273	19.404.273
Revenue reserves		(2.148.192)	(2.148.192)
<i>Legal reserves</i>		<i>106.535</i>	<i>106.535</i>
<i>Treasury shares</i>		<i>(2.254.727)</i>	<i>(2.254.727)</i>
Net profit or loss from previous periods		(7.493.765)	(8.054.147)
Net profit or loss for the financial year		(449.331)	-
Revaluation surplus		413.352	147.544

	Notes	31.12.2007	31.12.2006
Provisions and long-term accrued costs and deferred revenues		277.739	361.291
Provisions for jubilee awards and severance pays	4.8.15	277.739	361.291
Long-term liabilities		503.308	493.353
Long-term borrowings	4.8.16	503.308	493.353
Short-term liabilities		2.699.793	2.594.584
Short-term operating liabilities	4.8.17	2.699.793	2.594.584
Short-term accrued costs and deferred revenues	4.8.18	799.307	-
Total liabilities		4.280.147	3.449.228
Total liabilities		159.272.550	158.064.772

Notes and policies on pages 36 to 69 are an integral part of these financial statements

4.2. INCOME STATEMENT

	Notes	YEAR 2007	YEAR 2006
Net revenues from sales	4.8.19	4.716.429	3.297.136
Gross profit or loss		4.716.429	3.297.136
Selling costs (including depreciation)	4.8.20	(106.198)	(46.847)
General and administrative expense (including depreciation)	4.8.20	(5.155.002)	(3.039.353)
Other operating revenues	4.8.21	839.432	1.200.829
Other operating expenses	4.8.22	(443.830)	(47.333)
Operating profit		(149.169)	1.364.432
Revenue/expenses arising from revaluation/sale of financial investments		50.109	(164.834)
Financial revenues	4.8.23	1.217.404	652.896
Financial expenses	4.8.24	(11.172)	(9.696)
Positive exchange differences	4.8.25	1.271	-
Negative exchange differences	4.8.25	(65)	(5)
Profit or loss before tax		1.108.378	1.842.793
Deferred taxes	4.8.26	(1.557.709)	72.270
Net profit or loss for the financial year		(449.331)	1.915.063

Notes and policies on pages 36 to 69 are an integral part of these financial statements

4.3. CASH FLOW STATEMENT

	YEAR 2007	YEAR 2006
Operating cash flow		
Profit before tax	1.108.378	1.842.793
Adjusted by:		
Depreciation of intangible assets and tangible fixed assets	(135.529)	(955.754)
Financial revenues	1.217.404	652.896
Financial expenses	(11.172)	(9.696)
Exchange differences	1.206	5
Gains on investment sales	50.109	-
Gains arising from the sale of tangible fixed assets	302	-
Reversal of value adjustments	757.370	10.503.278
Non-monetary transactions	153.911	-
Operating cash flow before working capital changes	<i>3.141.979</i>	<i>12.033.522</i>
Changes in working capital		
Decrease of operating receivables	(184.491)	(916.954)
Increase of operating liabilities	105.209	118.983
Decrease/increase of taxes other than income tax	(1.557.709)	72.270
Net operating cash flow	1.504.988	11.307.821
Cash flow from investing activities		
Purchase of property, plant and equipment	(982.003)	(152.237)
Sale of property, plant and equipment	104.773	404.089
Net sale of financial investments, available for trading	70.171	296.165
Changes in restricted cash	(118.023)	(417.293)
Loans issued	(14.840.692)	(10.849.608)
Repayment of loans issued	14.985.217	6.845.514
Interest received on loans issued	1.234.254	506.297
Dividends received	15.165	367.488
Sale of intangible assets	(284)	-
Net cash flow from investing activities	468.578	(2.999.585)

	YEAR 2007	YEAR 2006
Cash flow from financing activities		
New loans raised	9.955	9.688
Net cash flow from financing activities	9.955	9.688
Net increase of cash	1.983.521	8.317.924
Cash and cash equivalents at the beginning of the period	9.176.253	858.329
Cash and cash equivalents at the end of the period	11.159.774	9.176.253

Notes and policies on pages 36 to 69 are an integral part of these financial statements

4.4. STATEMENT OF CHANGES IN EQUITY

4.4.1. STATEMENT OF CHANGES IN EQUITY FOR YEAR 2007

	Share capital	Capital reserves	Legal reserves	Treasury shares	Profit or loss from previous periods	Net profit or loss for the financial year	Revaluation surplus	Total
As at 31 December 2006	145.266.066	19.404.273	106.535	(2.254.727)	(8.054.147)	-	147.544	154.615.544
Fair value from revaluation, net of tax:								
- financial investments available for sale	-	-	-	-	-	-	265.808	265.808
Refund of tax pursuant to the decision	-	-	-	-	560.382	-	-	560.382
Net changes directly in equity	-	-	-	-	560.382	-	265.808	826.190
Net profit or loss for the financial year	-	-	-	-	-	(449.331)	-	(449.331)
Total changes in equity in 2007	-	-	-	-	560.382	(449.331)	265.808	376.859
As at 31 December 2007	145.266.066	19.404.273	106.535	(2.254.727)	(7.493.765)	(449.331)	413.352	154.992.403

4.4.2. STATEMENT OF CHANGES IN EQUITY FOR YEAR 2006

	Share capital	Capital reserves	Legal reserves	Treasury shares	Profit or loss from previous periods	Net profit or loss for the financial year	Revaluation surplus	Total
As at 1 January 2006	145.305.115	19.409.489	106.535	(2.255.334)	(9.967.486)	-	98.983	152.697.302
Fair value from revaluation, net of tax								
- Financial investments available for sale	-	-	-	-	-	-	48.561	48.561
Exchange differences	(39.049)	(5.216)	-	607	(4.077)	2.353	-	(45.382)
Net changes directly in equity	(39.049)	(5.216)	-	607	(4.077)	2.353	48.561	3.179
Net profit or loss for the financial year	-	-	-	-	-	1.915.063	-	1.915.063
Total changes in equity in 2006	(39.049)	(5.216)	-	607	(4.077)	1.917.416	48.561	1.918.242
Covering the loss from the preceding years	-	-	-	-	(1.917.416)	(1.917.416)	-	-
As at 31 December 2006	145.266.066	19.404.273	106.535	(2.254.727)	(8.054.147)	-	147.544	154.615.544

Notes and policies on pages 36 to 69 are an integral part of these financial statements

4.5. ACCOUNTING POLICIES

Main accounting policies, applied in drawing up the financial statements are indicated below.

4.5.1. Basis for the preparation of the Annual Report

SIJ – Slovenska industrija jekla, d.d. financial statements for 2007 are the first statements, prepared in accordance with International Financial Reporting Standards (hereinafter IFRS), adopted in the EU, which Slovenia adopted when we joined the EU. 1 January 2006 is the date of transition after which the Company prepared the opening balance sheet in accordance with IFRS as adopted by the EU.

In previous financial years and in financial year 2006 SIJ – Slovenska industrija jekla, d.d. prepared separate financial statements which complied with financial requirements and reporting requirements laid down by Slovenian Accounting Standards (SAS).

The Company has brought the accounting policies and valuation methods in line with IFRS, adopted by the EU. In addition to this, comparable data for financial year 2006 are recognised and measured in accordance with IFRS and they reflect adjustments to IFRS.

SIJ – Slovenska industrija jekla, d.d. financial statements are prepared in accordance with IFRS, adopted by the EU. They are expressed in EUR. Standard provisions were applied directly for disclosures and valuation of items. The only exception was the valuation of items where standards allow the company to select among different ways of valuation.

Compilation of financial statements in accordance with IFRS as adopted by the EU, requires the management board to submit judgements, estimates and forecasts, which influence the implementation of policies and the given sums of assets and liabilities, revenue and expenditure. Estimates and the related forecasts are based on experience from the past as well as several other factors which are likely in given circumstances, and the results of this experience are the basis for submitting judgements on the carrying amount of assets and liabilities. Estimates and fundamental assumptions for the compilation of financial statements have to be checked continuously.

Financial statements give a true and fair view of the financial position, financial performance and cash flows of the Company. The principles of prudence and fair value as laid down by IFRS have

to be taken into account as well.

When deciding about the application of accounting policies as well as during the compilation of these financial statements the Company management complied with the following three requirements: Financial statements are understandable if users can understand them easily. Information is suitable if it helps the user make economic decisions. Information is essential if omission or untrue presentation could influence economic decisions made by users.

The accounting policies, given below, were applied consistently in all the periods presented, as well as in drawing up the opening balance sheet in accordance with IFRS on 1 January 2006, upon the transition to the first application of IFRS.

Adjustments and description of the effects of transition from SAS to IFRS on the Company assets and liabilities and equity and net profit are provided in note 4.7.1..

These separate financial statements have been prepared on the basis of historical costs, which were changed by the revaluation of available-for-sale financial assets and financial assets and financial liabilities at fair value through profit or loss.

Financial statements have been prepared in accordance with IFRS as adopted by the International Accounting Standards Board (IASB) and interpretations by International Financial Reporting Interpretations Committee (IFRIC), adopted by the European Union. The following new standards, which had not entered into force on 31 December 2007, were not applied in the preparation of financial statements:

- IFRS 8 – Operating Segments (applies as from 1 January 2009) – This standard will replace IAS 14 and it will apply only to companies whose securities are traded on regulated market or who have requested admission to trading. This interpretation means that the Company is not required to disclose information by operating or area segments.
- IFRIC 11 – IFRS 2 Share-based payments (applies as from 1 March 2007) – It deals with granting of own shares to employees and granting of shares of companies in the group to employees.
- IFRIC 12 – Service Concession Arrangements (applies as from 1 January 2008) – Lays down how concessionaire is recognised concessions if the granting authority supervises which services, to

whom and at what price the concessionaire has to provide services, and in case the granting authority controls the residual value at the expiry of the concession contract. This interpretation is not relevant for the Company as it does not have any concessions.

- IFRIC 14 – IAS 19 – (applies as from 1 January 2008) - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. This interpretation is not relevant for the Company.

Financial risk management is define in business part of consolidated annual report in note 3.10..

4.5.2. Reporting currency

a) Functional and presentation currency

The items, shown in SIJ – Slovenska industrija jekla, d.d. financial statements are expressed in EUR which is the functional and presentation unit of the Company.

b) Transactions and balances

Foreign exchange transactions are calculated into the presentation currency at the exchange rate as at the day of transaction. Gains and losses arising from these transactions and conversions of finance and liabilities, denominated in foreign currencies, are recognised in profit and loss account.

Exchange differences, arising from debt securities and other monetary financial assets, recognised at fair value, are included into gains and losses arising from transactions in foreign currencies.

4.5.3. Revenue recognition

Revenue is recognised on the basis of the sale of services. Sales revenue is recognised when the significant risk and benefits of ownership are transferred from the seller to the buyer.

Financial income is recognised upon accounting, regardless of receipts in case there is no doubt about their size, date they fall due and repayment. Interests are charged in proportion to the period elapsed and according to the outstanding principal and interest rate in force.

Revenue, arising from interest on late payment, is recognised only when the latter has been paid. Dividend revenue is recognised when the right to receive the payment arising from dividends arises.

4.5.4. Recognition of expenses

Expenses are recognised when the decrease of economic benefits in the accounting period is related to the decrease of the assets or increase of debt and that decrease may be measured reliably. Therefore, expenses and decrease of assets or increase of debts are recognised at the same time.

Financial expenses are recognised upon accounting, regardless of the related payments.

4.5.5. Investments in subsidiaries

All investments in subsidiaries are valued on the basis of their historical price. Investment losses occur when the investment recoverable amount is lower than its carrying amount. Impairment loss is recognised immediately in profit and loss account.

Subsidiary	% of participation	Company share capital value as at 31 December 2007	Profit or loss in 2007
Acroni, d.o.o., Jesenice	100	83.458.521	32.432.656
Metal Ravne, d.o.o., Ravne	100	31.714.238	12.862.398
Noži, d.o.o., Ravne	100	5.108.400	1.321.209
Elektrode, d.o.o. Jesenice	100	1.256.050	1.270.631
SUZ, d.o.o. Jesenice	100	615.697	4.416
ZIP Center, d.o.o., Ravne	100	67.547	5.108
Železarna Jesenice, d.o.o., Jesenice	100	8.633.243	11.217.770
Žična, d.o.o. Celje	100	337.819	1.831

4.5.6. Property, plant and equipment

Tangible fixed assets are valued at cost, less depreciation and impairments.

Straight-line depreciation method is applied. Expected functional useful life by groups of assets is the following:

Real estate	from 20 to 50 years
Computer equipment	from 2 to 3 years
Motor vehicles	8 years
Other equipment	from 1 to 8 years

Land is not depreciated as it is supposed to have unlimited useful life. The assets being acquired are not depreciated either; until such time when they are available for use.

When carrying amount of the asset exceeds the estimated recoverable amount, the assets are revalued to the estimated recoverable amount.

Gains and losses arising from the disposal of land, plant and equipment are established on the basis of their carrying amount and they influence operating profit or loss.

The costs of financial liabilities for financing investments in tangible fixed assets are presented among expenses when they occur. The costs incurred in relation to tangible fixed assets increase their cost in case the future benefits in comparison with those estimated originally are increased; while the costs which allow for the extension of tangible fixed asset useful life at first result in the decrease of the accounted cumulative depreciation. Repairs or maintenance of tangible fixed assets are reported as expenses in the financial year of their occurrence.

4.5.7. Investment property

Investment property is defined as property, possessed by the company in order to generate rent from operating leasing or increase the value of long-term investment or both (IAS 40). Investment property is defined as land or building, possessed in order to increase the value of long-term investment or given to operating leasing and not to be sold in the near future. Investment property is recognised as assets exclusively in case future economic benefits for the company are

likely and provided its cost may be measured reliably.

For measuring investment properties the Company applies cost model and therefore investment properties are carried at their cost, decreased by cumulative depreciation and accumulated impairment losses.

Straight-line depreciation method is applied, taking into account useful life of individual property. Land is not depreciated. The Company defines useful life of investment properties itself and it is from 20 to 30 years.

In case carrying amount of investment properties exceeds their recoverable amount, such assets must be impaired in accordance with IAS 36. Investment property impairment losses, measured under cost model, are recognised immediately in profit and loss.

4.5.8. Intangible assets

Intangible assets consist of investments in acquired patents, licences, trademarks, goodwill, intangible assets under development, computer software and other intangible assets IAS 38). Intangible asset is recognised as asset exclusively in case future economic benefits for the company are likely and provided its cost may be measured reliably.

The Company applies cost model (IAS 38.74) and therefore intangible assets are carried at their cost, decreased by cumulative depreciation and accumulated impairment losses.

When computer software is not an integral part of the relevant computer hardware, it is treated as intangible assets. Useful life of intangible assets is from 2 to 10 years.

4.5.9. Financial instruments

The Company may classify its financial investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and financial assets available for sale. Classification depends on the purpose of the financial investment.

a) Financial assets at fair value through profit or loss

Investments, acquired with the purpose of generating profit arising from short-term (less than one

year) price fluctuations are classified as assets, held for trading, and they fall within current assets. These assets are measured at fair value, realised/unrealised gains and losses, arising from the changes in fair value, are included in the profit or loss in the period when they occurred.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments, which are not listed on active market. They are included into current assets, save for maturities longer than 12 months after the balance sheet date. In this case they are classified into fixed assets. In the balance sheet loans and receivables are shown among trade and other receivables.

At initial recognition loans and receivables of all types are shown in the amounts, based on corresponding documents, on the assumption that they will be paid. They are measured at amortised cost by applying effective interest method.

c) Financial assets available for sale

Financial assets available for sale are non-derived financial assets, designated as available for sale, or they are not classified into any other category. They are valued at fair value if it is possible to establish it. Financial assets whose fair value may not be established, are valued at cost. Revaluation effects either increase or decrease equity value – revaluation surplus.

At the beginning they are recognised at cost, and later they are revaluated to fair value.

4.5.10. Derivative financial instruments

Derivative financial instruments are instruments used for a hedge of an exposure to financial risks. They are used as a tool to hedge the exposure to a change in fair value or cash flow exposure, risk of the exposed hedged item. As the subject of trade it is an independent financial instrument, exposed to risks.

At the beginning they are recognised at cost, and later they are revaluated to fair value. Gain or loss from the revaluation of derivative financial instrument for fair value hedge is recognised in profit or loss. Revaluation of the financial instrument, used for cash flow hedge is recognised directly in equity when hedge is successful, while the unsuccessful part of gains or loss arising

from hedging instrument is recognised in profit or loss.

4.5.11. Impairment of non-financial assets

Assets with unlimited useful life which are not depreciated, are subjected to impairment test every year. Assets, which are depreciated, are tested for impairment whenever events or circumstances show that the asset is impaired. Impairment loss is recognised in the amount by which the carrying amount exceeds replacement cost of the asset. Replacement cost is fair value decreased by the costs of sale, or value in use, whichever is higher.

4.5.12. Assets held for sale

Such asset or group of assets, held for sale are measured at carrying amount or fair value, decreased by the costs of sale, whichever is lower.

4.5.13. Cash and cash equivalents

For the purpose of cash flow statement cash and cash equivalents consist of cash in hand, demand deposits at banks with original maturity of up to three months and investments in money market instruments, excluding bank overdrafts. In the balance sheet bank overdrafts are included into short-term financial liabilities.

4.5.14. Short-term accrued and deferred items

Short-term deferred costs and accrued revenues are claims and other assets which are expected and likely to incur within one year and the amount has been estimated reliably; receivables refer to either known or unknown legal entities or natural persons, in relation to which real claims and debts will have incurred by then, and assets refer to products or services that will be charged to them.

Short-term accrued costs and deferred revenues include accrued costs. Accrued costs incur on the basis of straight-line burdening of the activity or profit or loss.

4.5.15. Capital

4.5.15.1. Share capital

Ordinary shares are classified into capital. Transactions costs, which are directly connected with the issue of new shares, which is not related with the company takeover, are shown as decrease of capital. Any excess of the fair value of the received paid amount over the carrying amount of the issued new shares is recognised as share premium.

4.5.15.2. Capital reserves

Capital reserves consist of amounts, the company acquires from payment which exceed the lowest share amounts of issues or amounts of subscribed contributions, the amounts which exceed the carrying amount upon the disposal of previously acquired own shares with the amounts on the basis of simplified decrease of share capital.

4.5.15.3. Own shares

When the parent company or its subsidiaries buy ownership share in the parent company, the amount paid, including transaction costs and excluding tax, is deducted from total capital as own shares (treasury shares) until those shares have been withdrawn, reissued or sold.

4.5.15.4. Dividends

Until the planned dividends have been approved by the shareholders' meeting, they are treated as retained earnings.

4.5.16. Provisions for jubilee awards and severance pays

In accordance with IFRS the liabilities, representing provisions, arising from future liabilities to employees, for severance pays upon retirement and jubilee rewards in accordance with the collective agreement must be recognised in the balance sheet. Provisions are created on the basis of actuarial calculation.

4.5.17. Deferred taxes

Deferred tax is shown in total by applying the method of obligations under temporary tax differences, based on assets and liabilities and the amounts of tax reported in financial statements. Deferred tax is calculated by applying the statutory tax rate (and legislation) applicable on the date of the balance sheet and it is expected to be applicable when the claim for deferred tax is realised or liability for deferred tax settled.

Deferred tax assets are recognised if tax profit is likely to be available in the future, to which temporary differences will be charged.

In 2007 tax legislation was amended. Most tax reliefs are abolished, and also the tax rate changed to 23% in 2007, 22% in 2008, 21% in 2009 and 20% from 2010 on.

4.5.18. Operating liabilities

At initial recognition operating liabilities are valued by the amounts, based on corresponding documents on their occurrence. Operating liabilities are recognised in books of account and balance sheet as liability, taking into account the contractual date.

4.5.19. Financial liabilities

Financial liabilities are recognised when they occur at fair value excluding the related transaction costs incurred. In the following periods financial liabilities are measured at amortised cost by applying effective interest method. Any differences between receipts (excluding transaction costs) and liabilities are recognised in profit and loss account in the entire period of financial liability.

4.5.20. Cash flow statement

Cash flow statement shows changes in cash balances for the financial year concerned. Cash flow statement (version II) is compiled by the application of indirect method. Cash flow statement shows cash flows for the period, generated during operation, investing and financing. Net cash flow in the period and cash and cash equivalents at the beginning and at the end of period are shown at the end of cash flow statement.

4.6. SEGMENT REPORTING

In the Annual report the Company does not disclose operation by segments. Segment reporting is required from companies, whose debt or equity securities are publicly traded, including companies in the process of issuing equity or debt securities in a public securities market.

4.7. COMPARABLE DATA

Company SIJ – Slovenska industrija jekla, d.d. compiled its financial statements in accordance with IFRS for the first time in 2007. According to the provisions of IFRS 1 the date of transition is considered to be 1 January 2006, so all the categories of assets and liabilities had to be recalculated to that date. In order to ensure comparability, which is one of the fundamental principles of IFRS, 2006 financial statements had to be recalculated and compiled in accordance with IFRS. The effects of recalculation or transition from SAS to IFRS are presented below.

4.7.1. Specification of the effects of transition to IFRS in Company statements as at 1 January 2006

In accordance with the provisions of IFRS 1 upon the transition to IFRS the Company compiled an opening balance sheet, where all the assets and liabilities, that IFRS requires to be recognised, are recognised. The effects of the transition by categories of assets and liabilities are as follows:

INVESTMENTS IN SUBSIDIARIES		
Investments in subsidiaries according to SRS	01.01.06	146.434.772
Recalculation to historical value		(15.243.248)
Investments in subsidiaries according to MSRP	01.01.06	131.191.524

TOTAL CAPITAL		
Total capital according to SRS	01.01.06	167.940.545
Recalculation to historical value of investment in subsidiaries		(15.243.248)
Total capital according to MSRP	01.01.06	152.697.297

TOTAL CAPITAL		
Total capital according to SRS	31.12.06	169.335.537
Recalculation to historical value of investment in subsidiaries as at 01.01.06		(15.243.248)
Other equity adjustments		523.255
Total capital according to MSRP	31.12.06	154.615.544

There are no significant differences between the cash flow statement according to SRS and the cash flow statement according to MSRP. The transition to MSRP did not influence the financial statements for the year 2006.

4.8. NOTES TO FINANCIAL STATEMENTS

4.8.1. Intangible assets

	Long-term property rights	Total
Cost as at 31 December 2006	61.716	61.716
Direct acquisitions	284	284
Cost as at 31 December 2006	62.000	62.000
Value adjustment as at 31 December 2006	(50.098)	(50.098)
Depreciation	(7.964)	(7.964)
Value adjustment as at 31 December 2007	(58.062)	(58.062)
Present value as at 31 December 2006	11.618	11.618
Present value as at 31 December 2007	3.938	3.938

The Company records computer software and similar programs and licenses in intangible property rights.

The Company has no liabilities for the purchase of intangible assets; intangible assets have not been pledged, either.

4.8.2. Property, plant and equipment

	Land	Buildings	Equipment	Construction in progress	Total
Cost as at 31 December 2006	716.706	1.406.189	609.196	41.615	2.773.706
Direct acquisitions	-	-	-	982.003	982.003
Transfer from construction in progress	-	736	883.279	(884.015)	-
Disposals	-	-	(111.064)	-	(111.064)
Cost as at 31 December 2007	716.706	1.406.925	1.381.411	139.603	3.644.645
Value adjustment as at 31 December 2006	-	(343.402)	(240.238)	-	(583.640)
Depreciation	-	(25.189)	(102.376)	-	(127.565)
Disposals	-	-	6.593	-	6.593
Value adjustment as at 31 December 2007	-	(368.591)	(336.021)	-	(704.612)
Present value as at 31 December 2006	716.706	1.062.787	368.958	41.615	2.190.066
Present value as at 31 December 2007	716.706	1.038.334	1.045.390	139.603	2.940.033

Substantial new acquisitions of tangible fixed assets – equipment - refer to the purchase of transport equipment in the amount of 813.692 EUR, office equipment, equipment for the maintenance of premises in the amount of 21.606 EUR and computer equipment in the amount of 47.981 EUR.

Tangible fixed assets in the course of construction or building refer to the costs of construction documentation and other costs (consents, etc.), required for the building permit for the construction of a part of the business building at Gerbičeva 98, Ljubljana.

Tangible fixed assets, whose present value as at 31 December 2007 amounts to 2.940.033 EUR have not been pledged. The Company has not liabilities for the purchase of tangible fixed assets.

Disposals of tangible fixed assets include mainly the sale of transport equipment.

4.8.3. Investment property

	Buildings	Total
Cost as at 31 December 2006	60.845	60.845
Cost as at 31 December 2007	60.845	60.845
Value adjustment as at 31 December 2006	(27.520)	(27.520)
Depreciation	(1.095)	(1.095)
Value adjustment as at 31 December 2007	(28.615)	(28.615)
Present value as at 31 December 2006	33.325	33.325
Present value as at 31 December 2007	32.230	32.230

Investment property is carried at cost model. The value of investment property is decreased by amortisation charge.

Investment property covers two flats, one on Rogla and one in Červar in Croatia. In 2007 the company calculated revenues in the amount of 6.649 EUR and expenses in the amount of 9.366 EUR.

4.8.4. Financial investments available for sale

	31.12.2007	31.12.2006
Financial investments available for sale – cost	278.781	278.781
Financial investments available for sale – fair value	525.181	259.373
Financial investments available for sale	803.962	538.154

In 2007 there were no changes in financial investments, available for sale, valued at cost, and they comprise of investments in shares and interests in domestic companies.

Long-term financial investments available for sale, valued at fair value. For these investments, whose fair value may be measured reliably, the fair value of gains and losses is reflected directly in equity. In 2007 revaluation surplus was increased by these investments in amount of 265.808 EUR.

4.8.5. Financial investments in subsidiaries

Company name	31.12.2007	31.12.2006
ACRON, d.o.o., JESENICE	83.458.521	83.458.521
METAL RAVNE, d.o.o., Ravne na Koroškem	31.714.238	31.714.238
NOŽI RAVNE, d.o.o., Ravne na Koroškem	5.108.400	5.108.400
ELEKTRODE JESENICE, d.o.o., Jesenice	1.256.051	1.256.051
SUZ, d.o.o., JESENICE	615.697	615.697
ZIP CENTER, d.o.o., Ravne na Koroškem	67.547	67.547
ŽELEZARNA JESENICE, d.o.o., Jesenice	7.878.227	7.878.227
ŽIČNA CELJE, d.o.o., Celje	337.819	337.819
Financial investments in subsidiaries	130.436.500	130.436.500

All investments in subsidiaries are valued at historical cost. All subsidiaries are 100 percent owned by SIJ – Slovenska industrija jekla, d.d.. In 2007 there were no changes in the number of subsidiaries or ownership in subsidiaries.

4.8.6. Long-term lending and deposits

	31.12.2007	31.12.2006
Long-term lending and deposits to subsidiaries	265.091	478.231
Long-term loans to others	658.657	913.231
Value adjustment of long-term lending and deposits	(658.657)	(913.231)
Long-term lending and deposits	265.091	478.231

The value of long-term lending and deposits, granted to companies in the Group, equals fair value. Effective interest rate amounts to monthly or quarterly EURIBOR + 1%. For loans issued to others the value adjustment has been made already in previous years. In 2007 in the records long-term lending as well as value adjustment in the amount of 254.574 EUR was reversed, namely for all long-term lending to debtors against which bankruptcy proceedings were completed in 2007.

4.8.7. Deferred tax assets

	31.12.2007	31.12.2006
Deferred tax asset	-	1.557.709
Deferred tax assets	-	1.557.709

The Company reversed all deferred tax assets as it is anticipated that there will be no taxable profits in the future.

Deferred taxes assets are not recognized for used tax loss, which is on 31. December 2007 stated in the amount of 83.930.570 EUR, for company does not expect important taxable profits in the future. Deferred taxes assets on behalf of unused tax losses would be calculated in the amount of 16.786.114 EUR.

Unused tax loss has origin in tax losses in years 2001, 2002 and 2007, in which we calculated tax loss because of transmission on to IFRS.

4.8.8. Assets held for sale

	31.12.2007	31.12.2006
Assets held for sale	12.195	12.195
Assets held for sale	12.195	12.195

Assets, held for sale, include property, valued at cost model. In 2007 activities, related to the sale of these assets were in progress, however, it was not completed in 2007.

4.8.9. Financial investments held for trading

	31.12.2007	31.12.2006
Financial investments, measured at fair value through profit or loss	1.480.477	291.270
Financial investments, measured at fair value through profit or loss	1.480.477	291.270

Financial investments, available for trade, comprise of investments in shares in the amount of 460.317 EUR and investments in option for the purchase of securities in the amount of 1.020.160 EUR.

	31.12.2006	Revaluation to market value	Sale	Purchase	31.12.2007
Shares	291.270	50.109	(295.623)	414.561	460.317
Options	-	-	-	1.020.160	1.020.160
Total	291.270	50.109	(295.623)	1.434.721	1.480.477

4.8.10. Short-term lending and deposits

	31.12.2007	31.12.2006
Short-term lending and deposits to companies in the Group	9.625.906	10.645.455
Short-term lending and deposits to others	1.044.559	1.086.553
Value adjustment of short-term lending and deposits	(1.044.559)	(1.086.553)
Short-term lending and deposits	9.625.906	10.645.455

Short-term lending and deposits to companies in the Group have been granted to four subsidiaries. Interest rate for these loans is monthly or quarterly EURIBOR + 1%. The carrying amount of short-term lending and deposits granted to companies in the Group, equals fair value.

In 2007 short-term lending to others in the amount of 41.729 EUR was reversed, and the adjustment of the value of these loans in the same amount due to the completed bankruptcy

proceedings against debtors. There were no other changes in 2007.

4.8.11. Operating receivables

	31.12.2007	31.12.2006
Short-term operating receivables due from customers	1.405.812	1.728.645
- to companies in the Group	1.200.180	1.505.614
- due from other customers	205.632	223.031
Value adjustment of short-term operating receivables due from customers	(950.078)	(1.061.115)
- to companies in the Group	(753.112)	(841.677)
- due from other customers	(196.966)	(219.438)
Short-term receivables for interests	206.001	224.141
- to companies in the Group	38.037	22.919
- due from other customers	167.964	201.222
Value adjustment of short-term interest receivables due from others	(148.244)	(173.437)
Short-term receivables for VAT	18.220	12.452
Paid advances and securities	21.012	5.364
Other short-term operating receivables	3.056.349	3.382.105
- to companies in the Group	1.945.856	1.945.856
- due from other customers	1.110.493	1.436.249
Value adjustment of other short-term operating receivables due from others	(1.108.515)	(1.433.107)
Short-term operating receivables	2.500.557	2.685.048

Table of adjustments in the value of receivables due from customers

	2007	2006
Balance as at 01 January	(1.061.115)	(1.671.121)
Formation in the financial year	-	-
Final write-off of receivables	110.226	610.006
Recovered written-off receivables	811	-
Balance as at 31 December	(950.078)	(1.061.115)

Maturity of receivables due from customers

	2007	2006
Not yet due	455.734	667.530
Outstanding for up to 90 days	-	-
Outstanding for more than 365 days	950.078	1.061.115
Balance as at 31 December	1.405.812	1.728.645

Company receivables are secured by the insurance company SID-PKZ, d.d.. The Company has no receivables due from the members of the Management Board or employees. The reported amount of operating receivables equals fair value.

4.8.12. Cash and cash equivalents

	31.12.2007	31.12.2006
Cash in national currency	11.155.490	9.038.393
Cash in foreign currency	-	16.824
Cash with restricted use	4.284	121.036
Cash and cash equivalents	11.159.774	9.176.253

Cash in national currency consists of cash in hand in the amount of 334 EUR, cash on three transactional accounts in the amount of 78.409 EUR, deposit redeemable at notice in the amount of 716.747 EUR and other deposits in the amount of 10.360.000 EUR. Interest rate amounts to 3,90% and it is not possible to redeem the deposit prior to the expiry of the seven-day period. Maturity of other deposits is up to three months, interest rates for these deposits range from 4,8% to 5,1% percent.

Cash with restricted use represents funds under the management contract, concluded with a financial undertaking.

4.8.13. Short-term deferred costs and accrued revenues

	31.12.2007	31.12.2006
Short-term deferred costs	11.887	8.948
Short-term deferred costs and accrued revenues	11.887	8.948

Short-term deferred costs and accrued revenues include payments for expert literature, which will be charged to costs in 2008.

4.8.14. Capital

	31.12.2007	31.12.2006
Share capital	145.266.066	145.266.066
Capital reserves	19.404.273	19.404.273
Revenue reserves	(2.148.192)	(2.148.192)
<i>Legal reserves</i>	106.535	106.535
<i>Treasury shares</i>	(2.254.727)	(2.254.727)
Net profit or loss from previous periods	(7.493.765)	(8.054.147)
Net profit or loss for the financial year	(449.331)	-
Revaluation surplus	413.352	147.544
Capital	154.992.403	154.615.544

Capital is recorded in the amount of 154.992.403 EUR and it is by 376.859 EUR higher than the capital, recorded as at 31 December 2006. The increase of the capital results from the increase of the profit brought forward by 560.382 EUR, of the surplus from revaluation by 265.808 EUR, and decrease for the loss generated in 2007 by 449.331 EUR. Financial investments available for sale, valued at fair value through equity are recorded in the surplus from revaluation.

Share capital is recorded in the amount of 145.266.066 EUR and it is divided into 994.616 shares. Book value per share is 146,05 EUR. In 2007 the number of shares did not change, however, the ownership structure did change. Changes in the ownerships are shown in the table below.

SHAREHOLDERS	Registered ownership	
	No. of shares 31 December 2007	No. of shares 31 December 2006
DILON d.o.o., Tivolska cesta 48, Ljubljana	550.511	-
The Republic of Slovenia, Gregorčičeva 20, Ljubljana	248.655	799.166
OAOKOKS, 1 ST STAKHANOVSKAYA STR. 6, Kemerovo, Russia	167.762	-
D.P.R. d.d., Koroška cesta 14, Ravne na Koroškem	11.468	11.468
Stanovanjsko podjetje d.o.o., Ob Suhi 19, Ravne na Koroškem	8.205	8.205
SIJ – Slovenska industrija jekla, d.d., Gerbičeva 98, Ljubljana	7.917	7.975
Lameta d.d., Cesta Borisa Kidriča 44, Jesenice	58	10.437
MERKUR d.d., Cesta na Okroglo 7, Naklo	20	20
HIDRIA ROTOMATIKA d.o.o., Spodnja Konoplja 23, Spodnja Idrija	10	10
UNIOR d.d., Kovaška cesta 10, Zreče	10	10
D.S.U. Ljubljana	-	85.600
Železar Štore D.P. Štore	-	7.639
Kovintrade Celje	-	30
Elektro Slovenija Ljubljana	-	61.658
Slovenske železnice d.d., Ljubljana	-	2.338
Žična d.o.o, Celje	-	60
Total	994.616	994.616

In 2007, the loss per share amounted to 0,45 EUR, and in 2006 the profit per share amounted to 1,93 EUR.

Pursuant to the decision by the General meeting of 27 December 2001 the Company Management Board is authorised to increase share capital from authorised capital by 119.425.805 EUR.

4.8.14.1. Capital reserves

Capital reserves in the amount of 19.404.273 EUR were set up by simplified decrease of the Company share capital after covering losses from the preceding years. There were no changes in 2007.

4.8.14.2. Revenue reserves

	31.12.2007	31.12.2006
1. Statutory reserves	106.535	106.535
2. Own shares (deduction from equity)	(2.254.727)	(2.254.727)
Revenue reserves	(2.148.192)	(2.148.192)

On 1 January 2006 2.254.727 EUR own shares, which are deduction from equity, were reallocated from long-term financial investments to a component of equity.

4.8.15. Provisions for jubilee awards and severance pays

	31.12.2007	31.12.2006
Provisions for jubilee awards to employees	5.660	2.787
Provisions for severance pays to employees	272.079	358.504
Provisions for jubilee awards and severance pays	277.739	361.291

Provisions are created for estimated values of severance pays and jubilee awards as the consequence of long-service benefits as at the date of the balance sheet, discounted to the present value. The estimated provisions were created for expected payments.

Actuarial calculation is made on the basis of actuarial model and assumptions, derived from the table of death rate, staff turnover, growth of wages in the Republic of Slovenia and yield curve, which represents the relationship between market yields on government bonds in the euro area and the time, remained to maturity, discounted by 3,93 % to 4,69 %, depending on the age structure of employees or maturity.

In 2007 the provisions for severance pays and jubilee awards were calculated by an authorised actuary. On the basis of these calculations additional provisions for jubilee awards in the amount of 3.576 EUR were created, provisions for severance pays after the expiry of the term of office in the amount of 86.425 EUR were reversed, and provisions in the amount of 704 EUR were spent on jubilee awards.

4.8.16. Long-term loans raised

	31.12.2007	31.12.2006
Long-term loans raised	503.308	493.353
Long-term loans raised	503.308	493.353

Long-term loan raised consists of only one loan in the amount of 503.308 EUR, granted by a subsidiary. Interest rate is fixed and amounts to 2%. Interests are attributed to the principal. The loan is not secured.

4.8.17. Short-term operating liabilities

	31.12.2007	31.12.2006
Operating liabilities to suppliers	393.116	410.599
- to companies in the Group	3.820	430
- to other domestic suppliers	365.512	385.795
- to suppliers abroad	23.784	24.374
Operating liabilities to others	154.439	108.007
- to employees	154.439	108.007
Other operating liabilities	2.152.238	2.075.978
Operating liabilities	2.699.793	2.594.584

As at 31 December 2007 recorded liabilities to suppliers in the Group amounted to 3.820 EUR, liabilities to domestic suppliers 365.512 EUR and 23.784 EUR liabilities to suppliers aboard.

Liabilities to employees consist of liabilities for net wages and compensations for December wages, paid in January 2008 and liabilities for unused 2007 leave.

Other operating liabilities include liabilities for contract work and work under agreements, liabilities for VAT, liabilities for taxes and employer's contributions arising from December wages and liabilities for taxes and contributions to the state, arising from unrealised capital increase by the state in accordance with Acceptance of and method of meeting liabilities of Slovenske železarne, d.d. in connection with the restructuring program act.

The Company has no liabilities with maturity exceeding five years or liabilities to the management.

4.8.18. Short-term accrued costs and deferred revenues

Short-term deferred revenues include accrued awards and short-term reservations for employee lawsuits that will be concluded in 2008 in the amount of EUR 799.307.

4.8.19. Net revenues from sales

Analysis of net revenues from sales by major groups

	2007	2006
Net revenues from the sale of services		
- to companies in the Group	4.642.679	3.140.601
- to others	73.750	156.535
Net revenues from sales	4.716.429	3.297.136

Analysis of net revenues from sales by countries

	2007	2006
Net revenues from sales in Slovenia	4.716.429	3.297.136
Net revenues from sales	4.716.429	3.297.136

4.8.20. Operating expenses

Analysis of costs by natural types

	2007	2006
Costs of goods, materials and raw materials sold	(117.524)	(85.580)
Costs of services	(2.347.457)	(1.355.230)
Labour costs	(2.660.690)	(1.549.798)
Depreciation costs	(135.529)	(95.592)
Operating expenses	(5.261.200)	(3.086.200)

Analysis of costs by natural types for 2007

	Selling costs	General and administrative expense	Total
Costs of goods, materials and raw materials sold	-	(117.524)	(117.524)
Costs of services	(106.198)	(2.241.259)	(2.347.457)
Labour costs	-	(2.660.690)	(2.660.690)
Depreciation costs	-	(135.529)	(135.529)
Costs by functional groups	(106.198)	(5.155.002)	(5.261.200)

Analysis of costs by functional groups for 2006

	Selling costs	General and administrative expense	Total
Costs of goods, materials and raw materials sold	-	(85.580)	(85.580)
Costs of services	(46.847)	(1.308.383)	(1.355.230)
Labour costs	-	(1.549.798)	(1.549.798)
Depreciation costs	-	(95.592)	(95.592)
Costs by functional groups	(46.847)	(3.039.353)	(3.086.200)

4.8.21. Other operating revenues

	2007	2006
Reversed adjustments of the value of receivables, interest, loans	595.865	853.192
Reversed provisions for severance pays and jubilee awards	87.129	-
Gains arising from the sale of tangible fixed assets	302	-
Other operating revenues	156.136	347.637
Other operating revenues	839.432	1.200.829

Reversed adjustments of the value of receivables show written-off receivables paid. Payments were made from the bankrupt's estate of debtors, against which the bankruptcy was completed in 2007.

4.8.22. Other operating expenses

	2007	2006
Expenses from other operating liabilities	(442.736)	(46.238)
Expenses from investment property	(1.095)	(1.095)
Other operating expenses	(443.830)	(47.333)

Expenses from other operating liabilities are expenses arising from donations, subsidies and sponsorships and depreciation expenses of investment property.

4.8.23. Financial incomes

	2007	2006
Financial incomes arising from interests		
- from companies in the Group	431.567	63.637
- from others	785.632	588.211
Other financial incomes	205	1.048
Financial incomes	1.217.404	652.896

Financial revenues arising from interests are revenues arising from lending to companies in the Group and others. Interest rate for lending to the companies in the Group is quarterly EURIBOR + 1%, and for lending to others, it is from 3,9 to 5,9%.

4.8.24. Financial expenses

	2007	2006
Financial expenses arising from interests		
- from companies in the Group	(9.956)	(9.689)
- from others	(1.216)	(7)
Financial expenses	(11.172)	(9.696)

Financial expenses arising from interests to companies in the Group are expenses for the long-term loan raised. Interests are attributed to the principal, interest rate is 2%.

4.8.25. Exchange differences

	2007	2006
Exchange differences arising from financing activities	1.271	-
Exchange differences arising from investing activities	(65)	(5)
Exchange differences	1.206	(5)

4.8.26. Taxes

	2007	2006
Income tax	-	-
Claims for deferred tax	(1.557.709)	72.270
Taxes	(1.557.709)	72.270

In 2007, deferred tax assets were reversed by accounted temporary differences.

	2007	2006
Profit or loss before tax	1.108.378	1.842.793
Liability for tax on income at the tax rate of the state where the company is established	(254.927)	(460.698)
Revenues, not subject to taxation	(125.048)	(90.149)
Expenditure not recognised for tax purposes – permanent differences	114.814	114.729
Exercising of reliefs for recognised tax losses	(254.069)	(533.220)
Tax reliefs	9.376	47.942
Taxes	-	-

4.8.27. Additional disclosures

4.8.27.1. Financial risk management

A) Solvency risk

The table shows liabilities as at 31 December 2007 by maturity:

31.12.2007	up to 3 months	from 3 months to 1 year	from 1 to 5 years	more than 5 years
Liabilities to suppliers	(393.116)	-	-	-
Liabilities arising from interests	(4.936)	-	-	-
Liabilities for received loans and deposits	-	-	(503.308)	-
Liabilities to employees	(154.439)	-	(277.739)	-
Other liabilities	(2.147.302)	(650.000)	-	-
Other	(149.307)	-	-	-
Total	(2.849.100)	(650.000)	(781.047)	-

Comparative figures of liabilities as at 31 December 2006 by maturity:

31.12.2006	up to 3 months	from 3 months to 1 year	from 1 to 5 years	more than 5 years
Liabilities to suppliers	(410.567)	-	-	-
Liabilities arising from interests	(7.280)	-	-	-
Liabilities for received loans and deposits	-	-	(493.353)	-
Long-term liabilities to employees	(108.007)	-	(361.291)	-
Other liabilities	(2.068.730)	-	-	-
Total	(2.594.584)	-	(854.644)	-

B) Credit risk

The table shows the exposure to credit risks for financial assets which have not fallen due nor have they been impaired:

31.12.2007	Group 1	Group 2	Group 3	Group 4	Total
Receivables due from customers	455.734	-	-	-	455.734
Interest receivable	57.757	-	-	-	57.757
Lending and deposits	9.625.906	-	-	-	9.625.906
Deposits with maturity less than 3 months	11.076.747	-	-	-	11.076.747
Other operating receivables	2.081.980	-	-	-	2.081.980
Total	23.298.124	-	-	-	23.298.124

The table shows the exposure to credit risks for financial assets which have not fallen due nor have they been impaired, as at 31 December 2006

31.12.2006	Group 1	Group 2	Group 3	Group 4	Total
Receivables due from customers	667.530	-	-	-	667.530
Interest receivable	50.704	-	-	-	50.704
Lending and deposits	10.645.455	-	-	-	10.645.455
Deposits with maturity less than 3 months	9.006.643	-	-	-	9.006.643
Other operating receivables	2.145.372	-	-	-	2.145.372
Total	22.515.704	-	-	-	22.515.704

Group 1: exposure to companies we have had business contacts with for more than one year and they have never been late by meeting their obligations (business partner pays the obligations in due time);

Group 2: exposure to companies we have had business contacts with for more than one year and they are sometimes late by meeting their obligations (business partner does not always settle the obligations in due time);

Group 3: exposure to companies we have had business contacts for a period shorter than one year;

Group 4: exposure to companies who never settle their obligations in due time.

As at 31 December 2006 and 2007 the company does not have not impaired over due financial assets.

Table of value adjustments, as at 31 December 2007

	Value adjustment as at 31.12.06	Value adjustments during the year	Value adjustment write-off	Repayment of assets which were the subject of value adjustment	Value adjustment as at 31.12.07
Receivables due from customers	(1.061.115)	-	110.226	811	(950.078)
Interest receivable	(173.437)	-	9.284	15.909	(148.244)
Lending and deposits	(1.999.784)	-	41.994	254.574	(1.703.216)
Other operating receivables	(1.433.087)	-	-	324.572	(1.108.515)
Total	(4.667.423)	-	161.504	595.866	(3.910.053)

Table of value adjustments, as at 31 December 2006

	Value adjustment as at 31.12.05	Value adjustments during the year	Value adjustment write-off	Repayment of assets which were the subject of value adjustment	Value adjustment as at 31.12.06
Receivables due from customers	(1.671.121)	-	517.074	92.932	(1.061.115)
Interest receivable	(198.433)	-	24.996	-	(173.437)
Lending and deposits	(2.414.605)	-	414.821	-	(1.999.784)
Other operating receivables	(10.886.542)	-	8.693.195	760.260	(1.433.087)
Total	(15.170.701)	-	9.650.086	853.192	(4.667.423)

C) Sensitivity analysis (interest rates)

Interest rate for loan raised is 2% and it is fixed. The change in the interest rate does not have influence on financial expenses and income statement.

4.8.28. Additional disclosures

4.8.28.1. Transactions with related persons

Related persons are subsidiaries, associated companies and Company management.

4.8.28.2. Total amounts of receipts by the management and other workers

In the financial year the total amount of receipts under management contract, received by the Company Management Board members, other Company workers, employed on contract basis, not subject to substantive agreement, and members of the Supervisory Board for performing their office and tasks.

4.8.28.3. Receipts by the management

	2007	2006
Management	783.273	661.359
Persons under individual contracts	598.281	262.789
Members of the Supervisory Board	17.306	44.008

The receipts include gross wages, reimbursement of costs related to work in accordance with the Regulation and bonuses (daily allowances, kilometric allowances, accommodation...).

In 2007 SIJ – Slovenska industrija jekla, d.d. did not grant any advance payments or loans or guarantees to the Company management, members of the Company Assembly or members of the Supervisory Board.

4.8.28.4. Related party transactions

	2007	2006
Operating receivables	485.105	686.855
Lending	9.625.906	10.645.455
Operating liabilities	(3.820)	(430)
Loans raised	(503.308)	(493.353)
Operating revenues	4.642.679	3.140.087
Financial revenues	431.567	64.904
Operating expenses	(28.138)	(11.426)
Financial expenses	(9.955)	(10.382)

4.8.28.5. Amounts, spent on the auditor

	2007
Costs of report auditing	13.680
Other auditing service costs	44.437

4.8.29. Off-balance assets/ liabilities

Off-balance record show pledged business share for securing Raiffeisen bank Maribor claim in the amount of 22.500.000 EUR and investment in a company in bankruptcy proceedings in the amount of 1.690 EUR.

4.8.30. Events after the date of the balance sheet

There were no significant events after the date of the balance sheet which would affect the Company financial statements.

5. AUDITOR'S REPORT



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INDEPENDENT AUDITORS' REPORT to the owners of SIJ d.d.

We have audited the accompanying consolidated financial statements of the SIJ Group, which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. We have also reviewed the Group's business report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Revizija, Davčno svetovanje, Poslovno svetovanje, Finančno svetovanje.

Member of
Deloitte Touche Tohmatsu

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the SIJ Group as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Accounting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

Pursuant to Article 57(1) of the Companies Act (ZGD-1), we have reviewed the Group's business report. In our opinion, the business report is consistent with the audited financial statements.

Lidija Jezernik
Certified Auditor
Member of the Board



Deloitte.

DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 1

Ljubljana, 25 March 2008

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