skupina

Slovenska industrija jekla

CONSOLIDATED ANNUAL REPORT

sij group

2009

Ljubljana, March, 12 2010

CONTENTS

1 INTRODUCTION

1.1 GREATEST ACHIEVEMENTS IN 2009

January

Pantz Awards for 2008 at Acroni

On the proposal of the Society of Metallurgy Engineers and Technicians, a special commission conferred the Pantz Award for 2008 on Branko Banko, Director for Development and Technology at Acroni.

Meeting of the innovators of Acroni

Encouraging innovation among the employees of Acroni was marked by the annual meeting of innovators

March

New state-of-the-art milling machine at Noži Ravne

Within the scope of a project to increase the sale of knives for cutting steel sheets, Noži Ravne made an investment in a CNC milling machine, enabling a wide range of high quality milling.

Jubilee meeting at Metal Ravne

Metal Ravne held the 12th celebration to award their long-term employees.

Metal Ravne successfully made a record forging

The forging shop for heavy forgings at Metal Ravne successfully made a record ring that measures 2200 mm in external diameter, 710 mm in internal diameter and 770 mm in height.

Yet another ice hockey championship title HC Acroni

The players of Acroni Jesenice, whose main sponsor is Acroni, won the national championship for 2008/09.

Metal Ravne became a 100% owner of the company Ravne Steel Center.

The company Metal Ravne, who was a 45% owner until March became 100% owner.

April

Greatest general overhaul at Acroni so far

The company Acroni started the overhaul on 14 April 2009, which resulted in the longest lasting overhaul in the history of Acroni, since strategically important investments were made at the same time.

June

Grand opening of new casting machine in Acroni

Acroni and the whole SIJ Group – Slovenska industrija jekla were present one of the largest investments by Acroni in the last years – a continuous casting machine for slabs, worth EUR 30 million. The event was opened by the honorary guest, Prime Minister, Borut Pahor. Other guests, who showed support for the project, were Dr. Mikhail V. Vanin, Russian ambassador, numerous people from the business world, business partners and the employees of Acroni. The new casting machine is one of the most advanced machines worldwide and will ensure greater productivity and competitiveness.

August

Start-up of new grinding machine at Noži Ravne

In accordance with the planned objectives and the implementation of a project to increase the quality of grinding and the grinding of uneven shaped knives, we completed the installation of a new CNC grinding machine in August.

September

The golden and silver awards conferred to the innovators of Acroni and Metal Ravne by the Chamber of Commerce and Industry of Slovenia

Within the scope of the Innovation Day, held on 17 September 2009, the Chamber of Commerce and Industry of Slovenia (GZS) conferred the awards to the best Slovenian innovations in 2008. The innovators of Acroni received the golden award for developing stainless, fireproof ferrite steel X10CrAlSi18 and the innovators of Metal Ravne received the silver award for the "procedure of using white slag« (it is a by-product in the process of making steel in ladle metallurgy).

7th conference on marketing the products of Metal Ravne in Portorož

It was attended by the representatives of the subsidiaries of Metal, sales agents who market the products of Metal across the world, as well as the management and sales managers. The number of participants from abroad is higher every year what present good reputation of Metal Ravne as an important market player.

Official start-up of new ingots casting bay at Metal Ravne

Metal Ravne held a grand opening ceremony for a new ingots casting bay, thereby symbolically completing the largest investment cycle in the history of Metal Ravne in the amount of EUR 75 million. The casting bay, valued at EUR 17 million, is the third largest investment after the forging shop for heavy forgings and the renovated rolling mill for billets.

The new acquisition was officially presented by Dr. Matej Lahovnik, Minister of the Economy, Andrej B. Zubitskiy, President of the Supervisory Board of SIJ – Slovenska industrija jekla, d. d., and the representative of the majority owner, Tibor Šimonka, Chairman of the Management Board, and Andrej Gradišnik, Managing Director of Metal Ravne.

October **New mechanical cutting line for heavy-thickness steel sheets at Acroni**

An investment worth more than EUR 11 million ensures cost-effective and optimal production as well as an improvement in meeting the customers' needs.

December **Acroni participated in the 4th Slovenian Innovation Forum**

The selection included 93 applications that were assessed by a group of 65 eminent experts, of whom four experts came from abroad. The following key assessment criteria were applied: the use of values, innovation, potential influence, practical feasibility, market attraction, social – economic effects and the adequacy of approach. The committee ranked three out of four innovations entered by Acroni among the top 30 innovations and the company Acroni among the top 20 innovative companies.

1.2 OPERATING HIGHLIGHTS OF 2009

1.2.1 KEY FIGURES

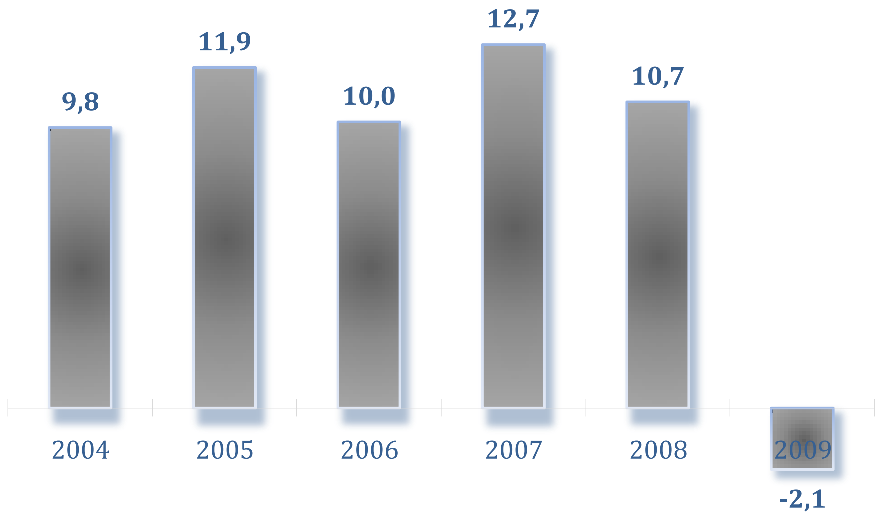
OPERATIONS	2009	2008	Index
Production of cast steel in tonnes	356,005	486,258	73
Sales volume in tonnes	285,696	416,086	69
Value of sales in EUR	371,152,894	702,851,130	53
Operating profit in EUR	-32,273,194	55,075,956	-
Net profit in EUR	-26,890,145	37,904,408	-
Investments in EUR	72.436.755	72,952,978	99
Equity in EUR	308,702,836	335,551,385	92
Total assets in EUR	624,115,185	631,717,862	99

INDICATORS	2009	2008	Index
Value added per employee in EUR	19,256	44,807	43
EBITDA in EUR	-7,965,600	75,205,633	-
EBITDA margin	-2.1	10.7	-
ROS	-7.2	5.4	-
ROE	-8.3	12.0	-

OTHER INFORMATION	2009	2008	Index
Number of employees as at 31.12.	3,268	3,489	94
Average number of employees	3,345	3,490	96
Disabled persons as at 31.12.	400	420	95

SIJ GROUP	2009	2008	Index
Operating revenue	378,241,389	709,328,851	53
Change in the value of inventories	-18,461,657	-20,047,477	92
Operating expenses	386,318,718	628,406,756	61
Costs of materials and services	287,301,148	525,473,531	55
Labour costs	72,376,833	80,311,917	90
Depreciation	24,307,596	20,129,678	121
Other costs	2,333,141	2,491,631	94
Other operating expenses	5,734,208	5,798,661	99
Operating loss / profit	-32,273,194	55,075,956	-
Revenue from financial operations	4,242,357	2,452,988	173
Expenses from financial operations	6,023,683	9,504,230	63
Net loss / profit before taxes	-34,054,520	48,024,713	-
Corporate income tax	326,606	10,286,076	3
Deferred taxes	-7,490,981	-165,771	-
Net loss / profit	-26,890,145	37,904,408	-

EBITDA margin



1.3 MISSION, VISION AND VALUES

The vision of the SIJ Group is to maintain the position of a company that has modern equipment and organisation, constantly develops, participates in the international steel environment and orients the mission to meeting the needs of our customers, employees and environment.

With the aim of improving competitiveness, the Group is supplementing the business and market strategy, developing new products and market niches and maintaining as advanced technology as the competitors by intensified investment policy.

MISSION	VISION	VALUES
Preserve the steel industry at certain locations in Slovenia.	On-going development	Business
	International recognition	Loyalty to the Group
	Customer satisfaction	Expertise
	Employee satisfaction	Economic efficiency
	Protection of the environment	Credibility
		Constantly striving to grow

1.3.1 STRATEGIC GOALS

The vision is implemented and pursued based on activities defined in five-year and annual business plans by:

- boosting the quality of products and supporting services to customers;
- expanding presence in established and new market niches;
- implementing extensive investment projects on the technological update of operations in order to improve market competitiveness;
- investing in development and research of materials in the production of high-quality materials to meet the customers' requirements;

- investing in organisation, education and training of personnel, and expanding for successful operation in the future.

Specific measures for attaining the set strategic goals are different among the companies of the Group, but in general comprise the following:

- policy on the development of new quality steel and steel products with higher added value;
- consolidation and improvement of existing purchase channels and looking for new ones, supplier selection, reliability and quality of supply of raw materials and goods;
- investments aimed at improving competitiveness and developing new materials and products;
- upgrading of the professional and education levels of staff by ensuring training and skill development through classical education and by striving to attain the highest loyalty level, the awareness of common goals and social accountability.

The group' investment projects are largely oriented to:

- investments in boosting the scope and quality of production and increasing the competitiveness level;
- investments in research and development, above all in the production of products with higher added value and new technological procedures;
- the replacement of technologically outdated and worn out devices, ensuring smoother throughput at devices and their better utilisation rate;
- the setting up of the information system for supporting individual business functions;
- environmentally-friendly production and preservation of natural resources.

1.4 REPORT FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear Sirs,

A DEMANDING, CRISIS YEAR IS BEHIND US

Despite of strong efforts on different business areas, in 2009 we reported loss for the first time for many years, which exceeded the value of depreciation and amortisation. That meant that we had to sell a number of products at a lower price to maintain our market shares.

Despite that, it is also true to say that we have done many positive things that year. Group SIJ, as early as in October 2008, seriously tackled the problem of reducing impact of the economic crisis on our operations; to maintain healthy financial results, to force planned investment policy and preserve jobs. All our employees kept their jobs (except those who work part-time), but their salaries are no longer at the optimal level, since most benefits have had to be lowered or even discounted.

Our solvency has been maintained by special measures in our financial operations, precise adjustments of outflows and inflows, constant negotiations with our suppliers and stricter collection of overdue receivables.

In our efforts to maintain business operations, we were very particularly active in investments. We carried out a number of demanding projects, especially at the company Acroni. We stopped production at the steel plant for one and a half months in order to make an investment of EUR 30 million in a new continuous casting machine for slabs. This allows us to produce slabs of greater dimensions and higher quality and at the same time it will increase productivity and reduce costs. We have also continued to invest in the modernisation of the production of heavy plate steel sheets, which is Acroni's most important production programme.

Metal Ravne, where the majority of our investments were carried out in 2007 and 2008, has been in the final stages second phase of improvements in the casting unit in the steel plant. Here, funding has also been expanded on a casting machine for heavy ingots, and, at the beginning of the year, a new heavy rolling mill in the forging shop for heavy forgings. A new casting machine for light-weighted ingots has also begun operations.

In 2009, the Group made investments totalling over EUR 72 million, in the modernisation of our existing capacities and new equipment, in order to improve quality and manufacture more competitive products.

HOW DID MARKET CONDITIONS AFFECTED THE YEAR OF 2009

Today, over 50% of world steel production is located in China, which has changed from a primary importer of steel to a net exporter in recent years. After the worst period of the global financial crisis was over, China made the fastest recovery, thanks to the extensive and effective measures of the Chinese government. Aside from India, China was the only country to produce steel and to record a 13.5% growth in steel consumption in 2009, while the 27 countries of the EU recorded a 29.8% fall in steel consumption. In the past, Chinese steel companies made heavy investments, employed the most advanced technology and perfected the quality of their products. By following a cost-effective policy, they have improved their competitiveness on the European market and in turn reduced that of European steel workers, which poses a serious threat to the whole European steel industry, not only Slovenia. Due to the Chinese steel policy, numerous other steel-producing countries are at risk today, as they believe that in the future, if this trend continues, China presents a serious threat to the very existence of steel production in Europe.

One of the reasons for the reduction in the sale of stainless steel is the fact that China has become a net exporter of this commodity. It should also be mentioned that China promotes export by an 18% incentive, which is in violation of all the rules of world trade. At the present time, Europe and the rest of the world have not yet reacted to this on the proper way.

The main event of this difficult year was the initial financial crisis, which was soon followed by the global economic crisis. The year 2009 was significant for low demand, high stocks, pressure to lower prices, speculative purchase of strategic materials, over employment given the existing market conditions, high fixed costs and the marginal effects of government measures.

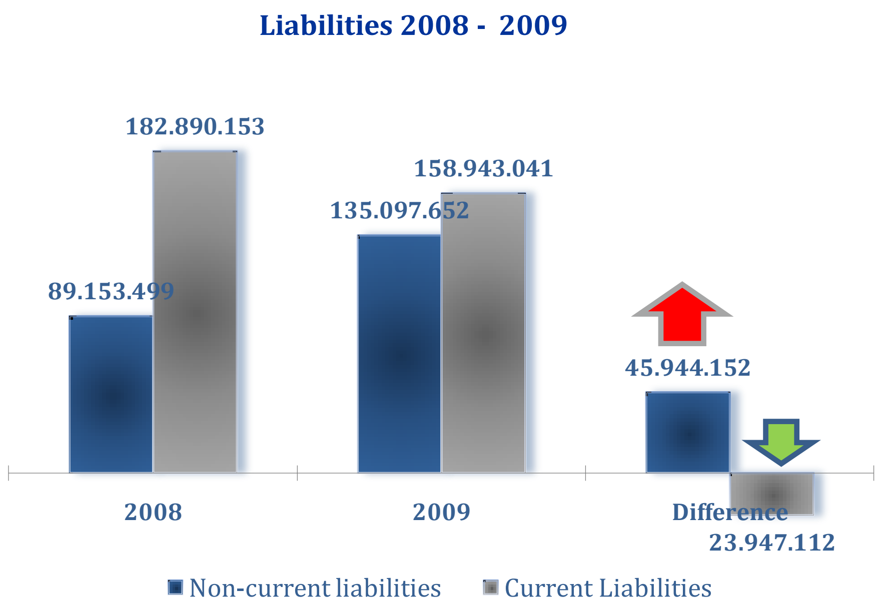
2009 - SUCCESSFUL OR NOT

As I mentioned before, we can confirm that 2009 was both successful and unsuccessful at the same time.

It was **successful** because we managed to maximise internal reserves in individual companies and by reorganising our business processes, developing the internal potential of our employees and coordinating production capacities and specific consumption; we were able to generate large saving in all business segments.

It was **successful** because we were able to make large investments despite the fact that financial conditions worsened; totalling EUR 59 million at the company Acroni and almost EUR 9 million at the company Metal Ravne. However, it was not the amount of money invested that was the most important thing, but the fact that we direct investments in equipment, which will improve our competitive position and repay the funds.

It was **successful** because we were able to adjust the assets and liabilities on the balance sheet; short-term sources were largely replaced by long-term, and our debt increased less than our investments.



It was **unsuccessful** because we were unable to completely compensate the drop in sales in traditional markets with gaining new customers and new markets to the extent that the decline in quantity is in line with the average level of European countries. The activities of our sales departments were aggressively oriented to new markets and buyers, but it was impossible to completely prevent the loss as big market players created price policies and compensate dropped sales on traditional markets with joining infrastructure projects, where our companies are not big enough to participate in.

It was **unsuccessful** because we were unable to reduce costs to the level that would provide for normal operating results. All our measures reduced our costs by approximately EUR 25 million, but that it was not enough to eliminate the effects of high fixed costs and low volume of business and to close low gap between sales and cost prices.

MODEST OPTIMISTIC FOR 2010

Neither great expectations nor an overly pessimistic approach to predicting the future is an appropriate formula for making forecasts about 2010.

The market environment remains unpredictable and recovery from the crisis is uncertain. Therefore, our plans are made on conservative basis; continuing activities that will help us overcome the crisis and regain the volume and performance of the previous years. We are aware that the path to recovery will be of long duration but we are determined to invest all our efforts and resources into it.

In 2010, our objective is to achieve a 30% increase in volume production and 36% in volume sales because we believe that price ratios, along with the growth in demand, will soon be more favourable.

Positive effects are also expected from the expansion of our sales networks in Italy and Germany, which should already show results by the third quarter of 2010.

In 2010, we will also continue to follow the investment policy of previous years. Although the tempo and technological updates will be slightly slower, we will invest more in the development of the market. We plan to make investments in the amount of over EUR 56 million.

As our projections will still not reach the level of results of the last three years, we expect only a slight positive value of profit, which will be achieved by measures for continued saving in all aspects of our operations.

It is not difficult to say goodbye to the crisis of 2009 year, but 2010 will bring both, distinct challenges and abundant opportunities. Although the recession is slowly fading, recovery will not involve the typical patterns of business, and companies will have to face additional challenges and new, more competitive markets. **I believe we are ready for them.**

Chairman of the Management Board

Tibor Šimonka

1.5 REPORT OF THE SUPERVISORY BOARD

The Supervisory Board of SIJ – Slovenska industrija jekla, d.d. (hereinafter: the Supervisory Board), in 2009 regularly monitored and checked the operations of the companies included in the SIJ – Slovenska industrija jekla Group (hereinafter: the SIJ Group) and the company SIJ – Slovenska industrija jekla, d.d. (hereinafter: the SIJ Company) and adopted decisions in line with its powers specified in the Companies Act, the Financial Operations of Companies Act (ZFPPIPP), the Articles of Association of SIJ - Slovenska industrija jekla, d.d., the Rules of Procedure of the Supervisory Board and other applicable regulations.

In 2009, the Supervisory Board of the company held two regular meetings, namely:

- The 8th meeting was held on 26 May 2009 at two locations, Moscow and Ljubljana, by means of the video-conference system. At the location in Moscow, Andrey Zubitskiy and Dmitry Bochkarev were present. At the location in Ljubljana, Marija Zagožen and Borut Frantar were present. The members of the Supervisory Board, Mikhail Manaenkov and Alexander Sivoronov, were not present at the 8th regular meeting of the Supervisory Board.
- The 9th meeting was held on 26 November 2009 at two locations, Moscow and Ljubljana, by means of the video-conference system. At the location in Moscow, Andrey Zubitskiy, Sergey Cherkaev, Leonid Novikov and Konstantin Zaytsev were present. At the location in Ljubljana, Marija Zagožen and Borut Frantar were present.

Owing to the resignation of Aleš Rojs, member of the Supervisory Board, on 2 April 2009, the Supervisory Board was represented only by six members until electing a new member at the 19th General Meeting of the company.

All the aforementioned meetings of the Supervisory Board in 2009 were chaired by Andrey Zubitskiy.

The Supervisory Board was monitoring the operations of the companies of the SIJ Group and taking note of the achievement of the planned objectives on the basis of information and reports by the company's Management Board.

The Supervisory Board discussed the following issues and passed the following decisions:

1. At its first regular meeting held on 26 May 2009, the Supervisory Board discussed the Annual Report for the 2008 financial year, including the Auditor's Report, and had no

comments to the report. After reviewing the submitted Annual Report, the Supervisory Board approved it and established that the Annual Report is formally adopted in line with the provisions of Article 282 of the Companies Act and the Articles of Association of the company SIJ - Slovenska industrija jekla, d.d.

2. The Supervisory Board also established that all the companies of the SIJ Group obtained positive audit opinions on their financial statements that, in the auditor's opinion, give a true and fair view of the financial position of an individual company as at 31 December 2008, as well as their operating results and cash flows for the financial year, in accordance with the International Financial Reporting Standards, as adopted by the EU. Pursuant to the first paragraph of Article 57, auditors also reviewed business reports that are, in their opinion, compliant with the audited financial statements.

3. The Supervisory Board established that the distributable profit equalling EUR 260,686 was reported in 2008 and agreed with the proposal by the Management Board of the SIJ Company to submit the decision that the distributable profit remains undistributed to the General Meeting for approval. The Supervisory Board proposed to the General Meeting of the SIJ Company to grant discharge from liability to the Management Board and the Supervisory Board for the financial year ending on 31 December 2008. The Supervisory Board also proposed to the General Meeting that performance-related bonuses for 2008 be paid to the members of the Supervisory Board in the gross amount of EUR 10, 000,00 for an individual member.

4. The Supervisory Board proposed to the General Meeting of SIJ – Slovenska industrija jekla, d.d., that the auditing company Deloitte revizija d.o.o., be appointed to review the financial statements of the SIJ Company and the consolidated financial statements of the SIJ Group for the financial year ending on 31 December 2009.

   The General Meeting of the company approved the decisions submitted at its 19th meeting on 26 August 2009.

5. On the basis of audited data, the Supervisory Board was familiarised with the report on the operations of the companies of the SIJ Group in 2008.

6. The Supervisory Board was familiarised with the information on the operations of the core companies of the SIJ Group from January – March 2009 and the report on the operations of

the SIJ Group and its individual companies from January – September 2009, as well as the estimate of operations by the end of 2009 and the report on activities to reduce costs.

7. At its first meeting in 2009, the Supervisory Board approved the business plan of the SIJ Group and the plan of the SIJ Company for 2009. At its second meeting in 2009, the Supervisory Board was familiarised with the information on preparation of the business plan for the 2010 financial year and assigned the Management Board to prepare a proposal for the business plan and the operating strategies from 2010 – 2015 for discussion at the next meeting of the Supervisory Board.

8. The Supervisory Board established that due to resignation from the office of the member of the Supervisory Board, Aleš Rojs, Mikhail Manaenkov and Alexander Sivoronov are no longer members of the Supervisory Board, and proposed to the General Meeting of the SIJ company that on the day the decision by the General Meeting is adopted (26.8.2009), Leonid Novikov, Sergey Cherkaev and Konstantin Zaytsev be elected as replacement members of the Supervisory Board of the company for a period up to 11 April 2011.

9. The Supervisory Board was also familiarised with the intention of the Management Board to sell a share in one of the subsidiaries, the terms and conditions of the sale and problems associated with that project.

10. The Supervisory Board was familiarised with on-going activities of the Management Board of the SIJ Company in relation to the purchase of shares or mergers with foreign companies, and adopted the decision to support, in principle, the proposal for the purchase of shares in "steel centres" abroad. Concrete proposals for the purchase of shares in individual "steel centres" will be discussed when all the terms of purchases are negotiated.

Invitations to the meetings of the Supervisory Board and the material which formed the basis for the adoption of decisions by the Supervisory Board were sent to all members of the Supervisory Board by e-mail, on time and in accordance with the Rules of Procedure of the Supervisory Board.

Ljubljana, March 2010

President of the Supervisory Board

Andrey Zubitskiy

2 BUSINESS REPORT

2.1 PRESENTATION OF THE SIJ GROUP

The SIJ Group has a long history in Slovenia, based on a more than 400 - year old tradition of making iron and later steel: from the first iron works, that due to the presence of iron ore, charcoal produced by wood and water energy developed in the Gorenjska and Koroška regions, to modern steel plants. Today, both steel plants in the Group are located in those regions: Acroni in Jesenice and Metal Ravne in Ravne. The composition of the Group has changed over the years; namely, it included over 40 companies at the time of Slovenia's independence. The collapse of Yugoslav market created major problems for the steel industry in Slovenia because we had to change completely the Group's market policy, which was 90% oriented to the Yugoslav market.

2.1.1 SIJ GROUP

At the end of 2009, the parent company SIJ – Slovenska industrija jekla, d. d., had the following owners: the Republic of Slovenia with 25.00%, DILON with 55.35%, OAO KOKS from Kemerovo (Russia) with 16.87% and other minor shareholders with 2.78%.

The SIJ Group increased for two companies in 2009. The company Ravne Steel Center was an associated company until March 2009 when the company Metal Ravne became its 100% owner. Odpad Pivka became a 51% owner of Dankor Osijek.

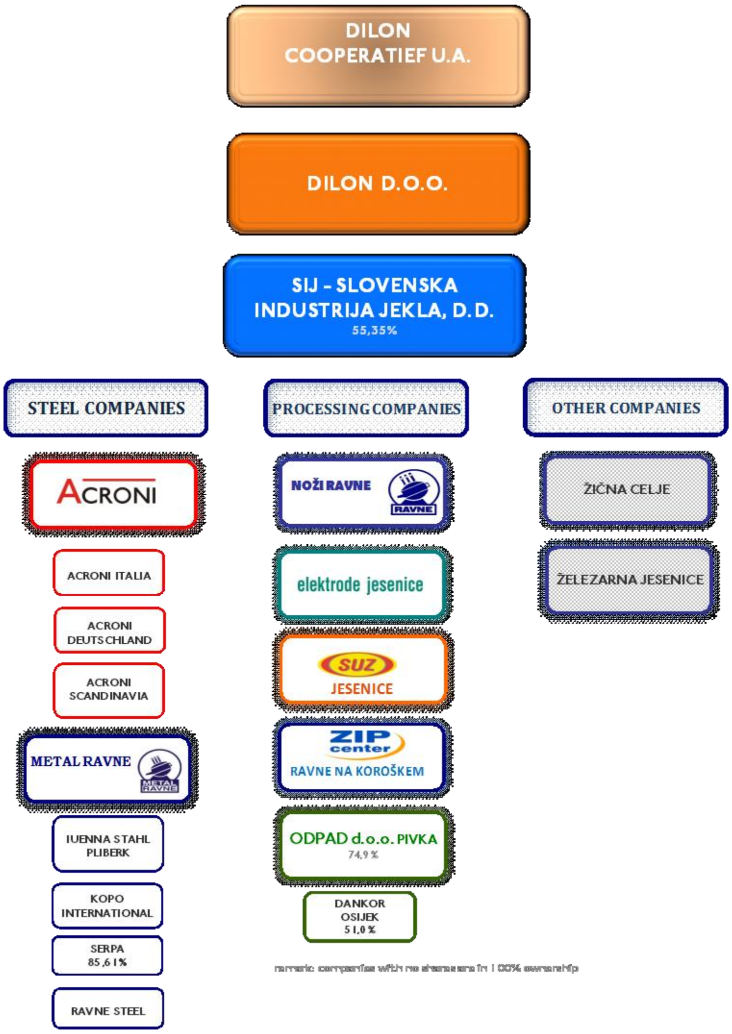
2.1.2 SUBSIDIARIES

There are also two subsidiaries in the Group:

- The company Acroni has a subsidiary in Sweden: Acroni Sweden, Branch office Filial, Jöns Lärares Gränd 2, Skanör, managed by the director Per Gustav Hammarsten.
- Outside Ravne na Koroškem, Noži Ravne has a representative office in Bulgaria. It was founded in 1996 and is registered at the address Banischora Bl. 40, App. 36, 1233 Sofia, Bulgaria. The organisational form of the representative office is commercial representation. The representative office is managed by Boian Iliev Delev, who has the role of a sales agent.

2.1.3 DILON GROUP

The controlling company of Group SIJ is the company DILON d.o.o. This company is 100% owned by the company DILON Cooperatief U.A. from Amsterdam (the Netherlands). The majority owner of the company DILON Cooperatief U.A. is the Zubitskiy family, who also control the company OAO KOKS and its subsidiaries. Among other associates, there are the companies of the DILON Group, the DILON Cooperatief Group and the KOKS Group.



2.1.4 DECISION-MAKING BODIES IN THE SIJ GROUP

2.1.4.1 Management Board

The Management Board of SIJ – Slovenska industrija jekla, d.d., is managing the SIJ Group and its companies as the General Meeting of an individual company by the powers set out in the Articles of Association and in the Contract on the Regulation of Relations and Unified Management in the SIJ Group.

The Management Board consists of the Chairman of the Management Board Tibor Šimonka and the Vice-chairman Viacheslav Korchagin, who are appointed for a term of five years.

Individual fields of business operations are covered by the following executive directors:

Vasilij Prešern	Executive Director for Strategy, Development and Investments,
Dušica Radjenovič	Executive Director for or Commercial Affairs,
Igor Malevanov	Executive Director for Finance and Economics,
Evgeniy Zverev	Executive Director for Legal Affairs.

They are appointed for a term of four years.

2.1.4.2 General Meeting of SIJ – Slovenska industrija jekla, d.d.

The General Meeting is the supreme body of the company in accordance with the provisions of the Companies Act. It includes the authorised representatives of shareholders:

SHAREHOLDER	ADDRESS	NUMBER OF SHARES	%
DILON D. O. O.	Gerbičeva ulica 98, Ljubljana	550,511	55.3491
REPUBLIC OF SLOVENIA	Gregorčičeva ulica 20, Ljubljana	248,655	25.0001
OAO KOKS	1 St Stakhanovskaya str.6, Kemerovo, Russian Federation	167,762	16.8670
D.P.R. DRUŽBA POOBLAŠČENKA RAVNE, 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 ulica 98, Ljubljana	7,917	0.7960
LAMETA D. D.	Cesta Borisa Kidriča 44, Jesenice	58	0.0058
MERKUR D. D.	Cesta na Okroglo 7, Naklo	20	0.0020
UNIOR D. D.	Kovaška cesta 10, Zreče	10	0.0010
HIDRIA ROTOMATIKA D. O. O.	Spodnja Kanomlja 23, Spodnja Idrija	10	0.0010
TOTAL		**994,616**	**100.0000**

The company's shareholders directly implement their will in the General Meeting, as well as make decisions based on the powers set out in the Articles of Association and the Companies Act

The SIJ Company has 7,917 own shares representing 0.8% of share capital. In 2009, the company did not acquire any additional own shares.

The company's shares are not listed on the primary or secondary securities market. They are registered with KDD-Centralna klirinško depotna družba d.d., Ljubljana (Central Securities Clearing Corporation) as dematerialised securities coded SIJR.

Every share represents one vote at the General Meeting. The company does not have preference shares or shares with limited voting rights; except own shares without voting rights.

2.1.4.3 Supervisory Board of SIJ – Slovenska industrija jekla, d.d.

The Supervisory Board consists of seven members. According to the Rules of Procedure of the Supervisory Board, adopted on 31 May 2007, the Supervisory Board gives its consent to the following activities in the companies of the SIJ Group:

- consent to the sale of shares in the subsidiaries of the SIJ Group if an individual value exceeds EUR 1,000,000;
- consent to investments in the subsidiaries of the SIJ Group if they exceed the amount of EUR 3,000,000.

The President of the Supervisory Board is responsible for giving consent to investments in the amount between EUR 1,000,000 and EUR 3,000,000.

In 2009, the members of the Supervisory Board were:

Andrey Zubitskiy	01.01.2009 – 31.12.2009
Marija Zagožen	01.01.2009 – 31.12.2009
Borut Frantar	01.01.2009 - 31.12.2009
Dmitry Bochkarev	01.01.2009 - 31.12.2009
Aleš Rojs	01.01.2009 – 02.04.2009
Mikhail Manaenkov	01.01.2009 – 26.08.2009
Alexander Sivoronov	01.01.2009 – 26.08.2009
Konstantin Zaytsev	26.08.2009 – 31.12.2009
Leonid Novikov	26.08.2009 – 31.12.2009
Sergey Cherkaev	26.08.2009 – 31.12.2009

Members are elected and dismissed by the General Meeting of the company for a four-year term of office and with the possibility of re-election.

The term of office of all members of the Supervisory Board expires on 11 April 2011, regardless of when their term of office commenced.

2.1.5 GROUP'S OPERATIONS

The companies of the SIJ Group are legally independent companies, but their operations are subject to the contract governing management and joint implementation of certain business functions and policies, such as:

- administrative,
- commercial,
- accounting,
- controlling,
- development and investment,
- financial,
- human resources.

2.1.6 ACTIVITIES OF THE GROUP AND ITS COMPANIES

In the past, the steel companies within the SIJ Group created a wide range of infrastructural and auxiliary programmes. During financial restructuring and privatisation, the number of companies, as well as programmes, drastically decreased partly due to their termination and partly due to privatisation.

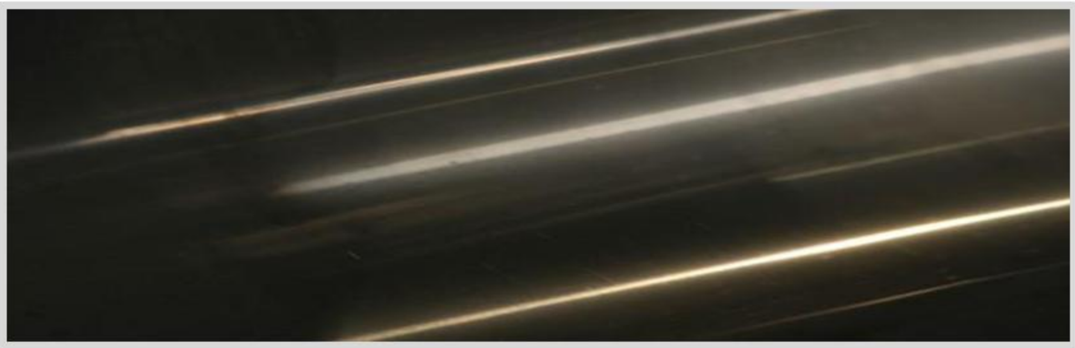
Today, the operations of the companies included in the SIJ Group can be divided into four segments:

- **Steel programme**
  - Flat range
  - Long range

- **Metal processing**
  - Manufacturing of industrial knives
  - Manufacturing of electrodes and welding wire
  - Manufacturing of drawn wires
  - Collection and processing of waste
  - Furniture production

- **Services and other**
  - Production services
  - Graphics
  - Other services

- **Trade in steel products – organized in**
  - Austria
  - Germany
  - Italy
  - USA



2.2 MACROECONOMIC ENVIRONMENT IN 2009

The steel industry is certainly one of the sectors in which the global crisis had an effect on the vital part of operations. The power of the economic crisis was transferred indirectly though the sectors of our largest clients, especially construction, automotive industry, household appliances, petrochemicals, the energy sector and others.

The negative effects were soon shown in demand, which was affected by a reduction in prices and a constant decrease in demand compared to the previous year. Especially warehouse centres and large store chains have almost ceased to order goods due to the stocks accumulated during the favourable economic conditions.

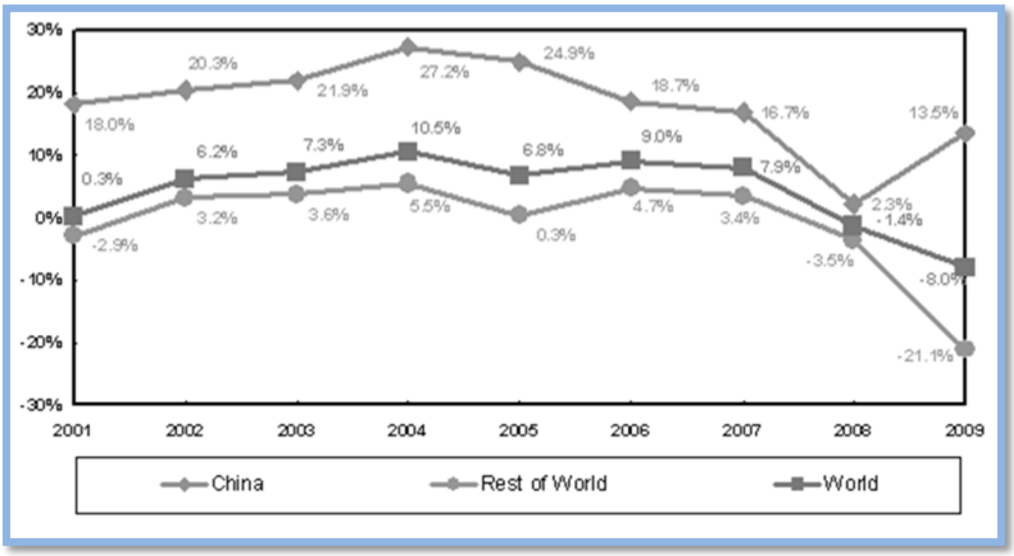
The economic crisis, which is greater than the Great Depression in the previous century, surprised us with its fluctuations and the strength with which it damaged all the traditionally stable, and particularly unstable, segments of the economy.

2.2.1 STEEL MARKET

In 2009, world steel production fell by 8% compared to the same period of 2008, and consumption fell by 8.6%.

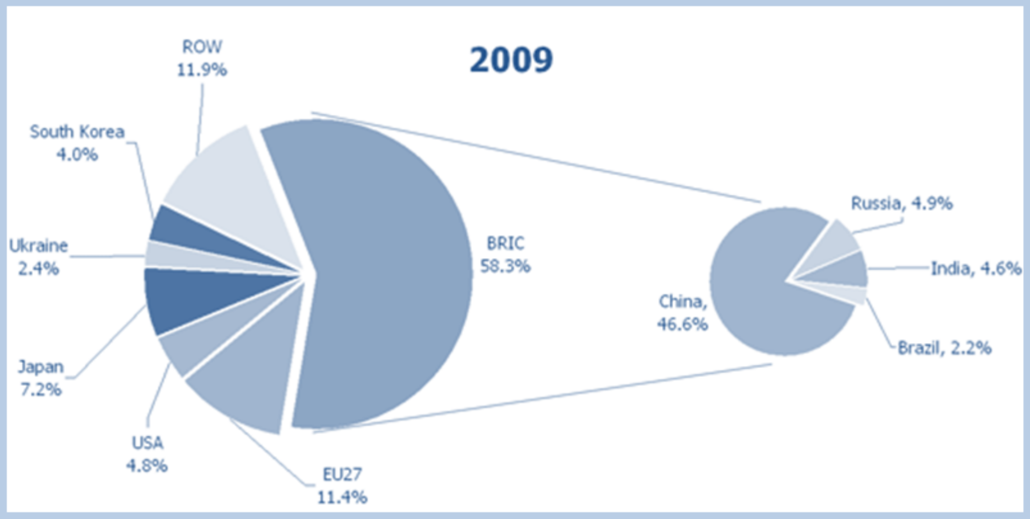
Within the group of the countries reporting to IISI, the production of the EU-27 even fell by 29.9% compared to the same period of the previous year; our main foreign-trade partners, Italy, Germany and Austria, on average recorded a 30% drop in the production of crude steel.

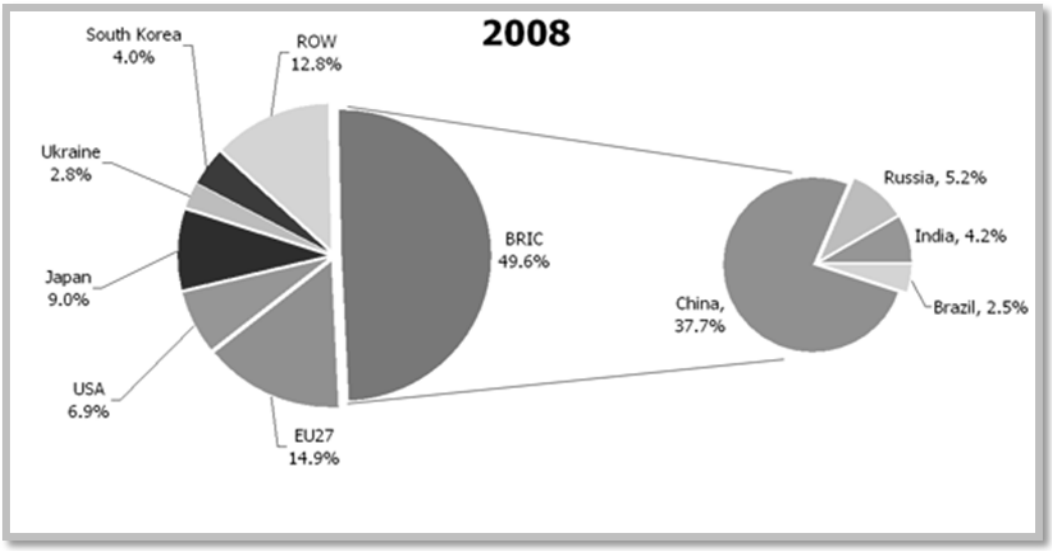
Production of cast steel – annual growth[1]



[1] Source: Worldsteel

Shares in world steel production in 2009 in comparison with 2008[2]





Profitable stainless steel programmes also recorded a significant drop in orders. In 2009, the International Stainless Steel Forum (ISSF) in Belgium reported on a sharp drop in stainless steel production worldwide for the second consecutive year in their publications. Consumption in stainless steel fell by 5.2% in 2009 (in Europe by approximately 22%) to 24.6 million tonnes.

According to forecasts, world steel consumption will grow between 9% and 10% in 2010 to 1.206 billion tonnes, which means a step closer to the 2008 production. In 2010, the EU Member States again expect steel consumption to rise by 12.4%.

[2] Source: Worldsteel

2.2.2 DEMAND AND SALES MARKET

Important economic indicators, such as the new orders index and the industrial production index, were significantly lower in 2009 compared to 2008. The volume of international trade substantially decreased. Measures by the members of the monetary union intended to stabilise the financial sector and stimulate demand only had limited effects because there was no basis for growth in company and household spending, and this intensity also had a negative effect on the general market demand.

According to our competition in Europe, particularly the automotive industry, the airline industry, the household appliances industry, construction and other key buyers of steel and steel products, it can be concluded that the crisis, which was first said to last for a short time, will last far into 2010, perhaps even longer.

Buyers are waiting for prices to drop and only buy what is necessary. Such circumstances cause uncertainty and due restraint in issuing new orders and negotiating about prices. An additional negative effect on the market situation is caused by certain large steel distributors who actively sell high stocks of steel for very low prices that are already below the level of average production costs of steel manufacturers.

2.2.3 PURCHASE MARKET

Strategic raw materials represent more than half of the total costs of the SIJ Group, therefore, it is very important that the sales departments of the whole Group are well organised. The effect of synergy in the Group was also strengthened in the 2009.

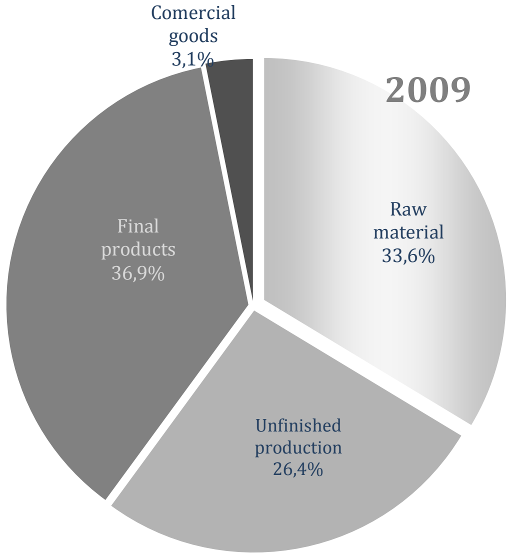
Ensuring reliable, top quality and low-priced supply with raw materials, consumer materials and services presented a great business challenge in the market conditions of the previous year, but we can say that we took a big step in terms of the basic strategic guidelines for the purchase activity in the company.

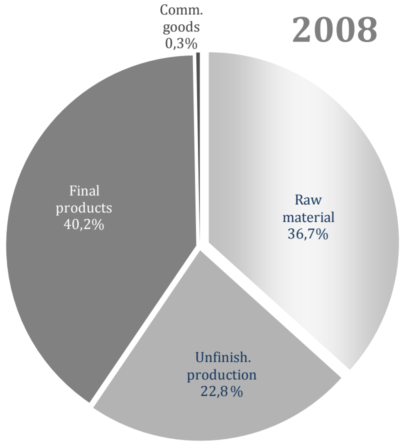
Special attention was paid to maintaining the ratio between liabilities and claims by extending payment deadlines for suppliers. In cooperation with the department of development and technology, we were introducing materials that had a positive economic effect on the regular production process and stopped the use of raw materials without the expected effect.

The Group SIJ adapted its purchasing procedure to the changed circumstances of the crisis. Our objective was to rationalise and optimise purchasing procedures and the logistics channels, and thoroughly seek and exploit purchasing synergies within the SIJ Group. Throughout the year, we carefully monitored trends in the raw materials market for the purpose of reacting to the market conditions on time.

The raw materials market largely reflects the trends in the steel market. A sharp drop in demand on the steel market practically stopped the demand for raw materials at the beginning of 2009. A greater crisis and the sale of stocks under stringent financial conditions caused the price level of raw materials to fall to the lowest point in the second quarter compared to the past years. Numerous traders of raw materials temporarily ceased or limited their production, which caused an increase in the price of most ferro alloys during the revival of the steel market in the third quarter. The recurrent negative trend on the steel market in the last quarter also affected the price of raw materials.

Difficult circumstances also required optimisation, on the one hand, and fast adjustment of stocks in terms of demand for our products, on the other hand. At the beginning of the year, we were able to meet our short-term needs by low-cost "spot" purchases, while in the second half of the year, we achieved flexibility by closer cooperation with our strategic suppliers. They are distinguished by reliable supply adapted to our specific needs as the manufacturer of special steel and globally have competitive prices under demanding market conditions.





2.2.4 EFFECTS ON OPERATIONS

Immediately after the crisis occurred, the measures for mitigating the consequences of the crisis were prepared and adopted, and the normal flow of operations was maintained.

- We increased our sales activities and tried to attract new customers on already established and new markets.
- We coordinated inflows and outflows in order to maintain the normal level of the company's liquidity.
- We carried out measures to reduce the amount of working capital and related deposits.
- By strengthening synergies of our supply chain, we maintained a high share of steel waste supply on the domestic market.
- We reduced working hours in most Group companies, at first to 36 hours and later to 32 hours a week.
- We strengthened the employees' responsibility to carry out work processes.
- In steel production, the optimisation of the production process was underway in order to reduce the product unit costs.
- Measures for controlling process costs and optimising production were already carried out in the last quarter of 2008 (particularly measure of fixed costs).
- In terms of investment activities, we completed the investments that were underway and made new investments.

The negative effect of the economic crisis caused a decrease in the volume of companies' business and, consequently, worse business results. However, we used the crisis to rationalise business processes, perform all maintenance work where production had to be stopped, strengthen dialogue with our partners regarding the purchasing and sales side.

The effect of the market collapse on the sales volume of the SIJ Group was in fact greater than we had imagined in the most pessimistic scenarios: our sales volume decreased by more than a third and the value of sales decreased by 50%. It is therefore evident that low demand was also associated with the pressure on prices, which often affected the covering of own price.

2.3 OPERATIONS IN 2009

The coming crisis made us realise that the existing methods of operations and management were insufficient in the fight against difficult conditions we were experiencing. Although we took measures to improve our performance and cost-effectiveness, the crisis constantly reminded us how to manage risks in such changing conditions.

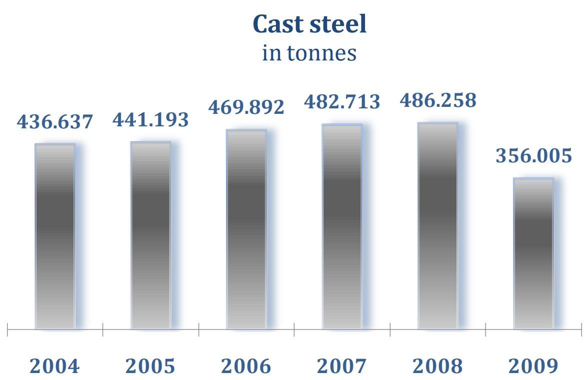
The first signals of economic recovery appeared in the third quarter, but results did not follow automatically. The model for survival needed to be replaced by an aggressive appearance on the market in order to attract potential customers and thus participate in the market share and increase our income. However, profitability which was difficult to maintain was still problematic, and sometimes we were unsuccessful.

We were aware that the principle "work better and more with less funds" would have to be applied for quite some time, taking the economic recovery into account. Moreover, it was the innovative approach on all the levels of operations that would ensure productive work and profitable business. The system of constant coordination and restructuring must operate without any interruptions, and it is highly likely that the favourable conditions before the crisis will not return.

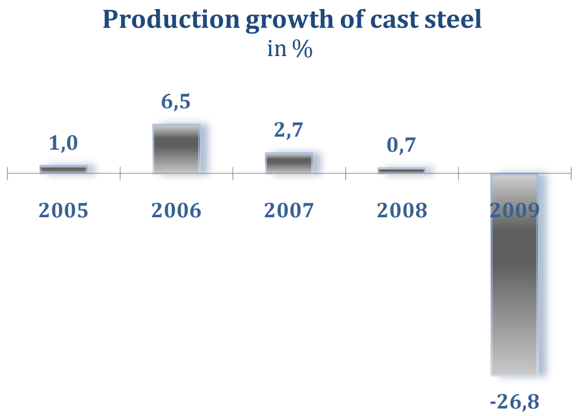
By adopting measures for improving the transparency of operations on an individual level of business processes and for improving cost management, we managed to reduce labour costs and certain "unnecessary" fixed costs, and to use internal resources instead of external ones. Restrictive financial management enabled us to reduce the cost of borrowings for current operations and even allocate part of these funds for investments.

2.3.1 PRODUCTION AND SALES

2.3.1.1 Production



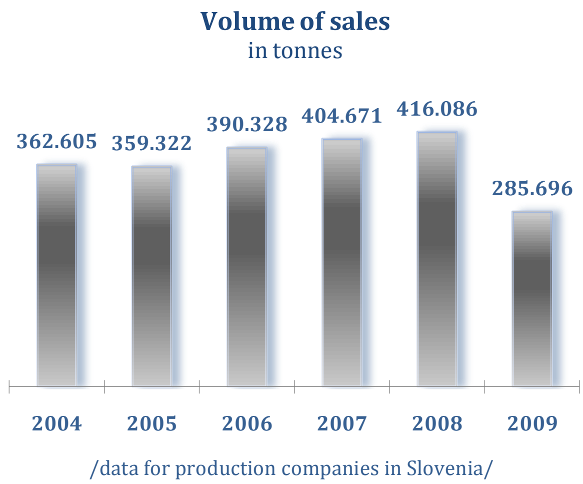
In the past, growth in steel production was influenced by two key factors: the technological modernisation of production capacities and, most importantly, growth in the market share.

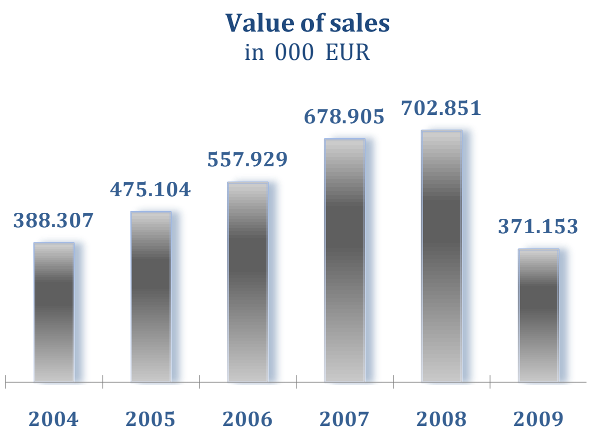


In 2009, the SIJ Group produced 356,005 tonnes of cast steel, of which the company Acroni produced 79% and the company Metal Ravne produced 21%. Both companies had lower production than the production achieved in the 2008, by 32% at Metal Ravne and 25% at Acroni.

2.3.1.2 Sales

A 30% drop in sales volume was followed by a 47% decrease in the value of sales compared to 2008. The decrease in the value of the sales is a result of lower sales prices in 40% of cases.

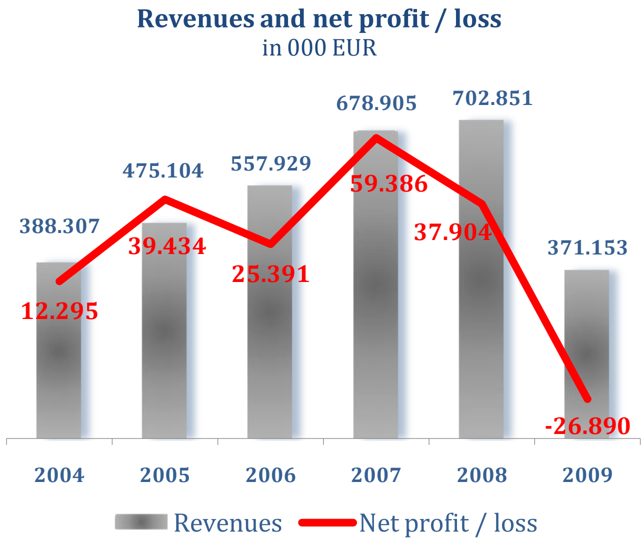




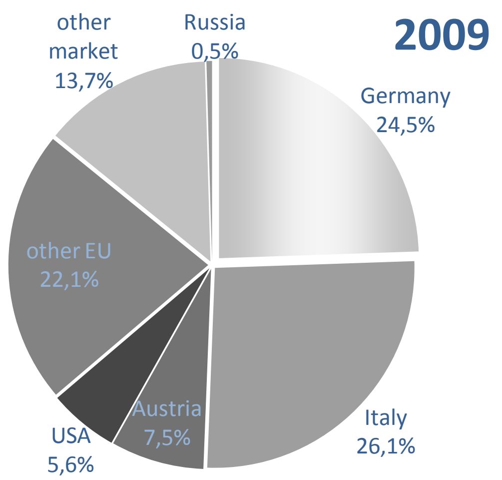
The value of sales did not decrease in line with the drop in sales volume because sales prices fell more rapidly than the volume; partly due to lower prices of input raw materials and partly due to a drop in base prices that, as a rule, should not change (in the long term).

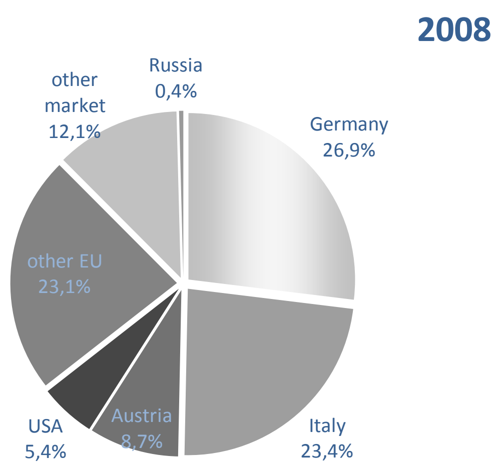
The effect of low demand, full warehouses of steel traders and, finally, aggressive competition by Asian manufacturers (China and India) was the main generators of the low value of sale.

By closing the gap between purchase and sales prices, we also negatively affected our business result, which decreased more rapidly than the sales.



2.3.2 GEOGRAFICAL SALES





In 2009, our traditional markets were most affected:

- The USA, where the crisis began, reported a 36.4% decrease in the production of steel;
- Italy had a 35.5% decrease in steel production;
- Germany reported a 28.7% decrease in own production.

The sale of steel was also affected by the crisis among the largest consumers of steel because the construction, car and shipping industries were hit hardest by the economic crisis, which was largely reflected in the traditional European markets.

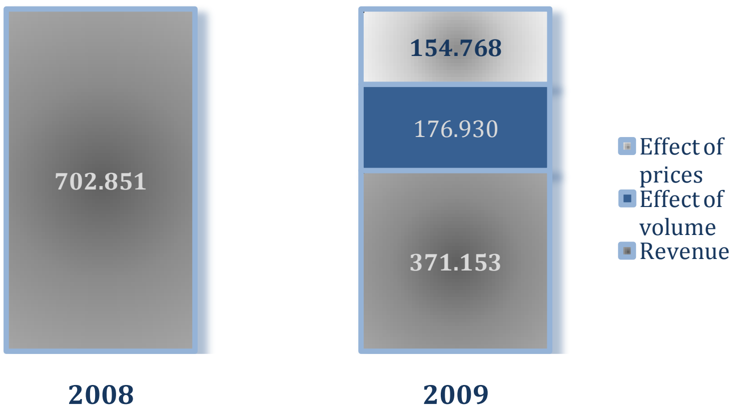
2.3.3 ANALYSIS OF OPERATIONS

The year of 2009 was marked by the financial and economic crisis, which also had a material impact on the business results of the SIJ Group.

Demand was extremely low:

- Owing to the favourable conditions in 2008, large traders had high stocks at high prices and wanted to empty their warehouses, sometimes at any cost.
- Consumption and, consequently, demand and orders were at a low level and even catastrophic in the summer months.
- The companies from the Far East were very competitive in terms of price.

Effect of prices and volume on Revenues in group SIJ in 2009
in 000 EUR



Under the assumption of generating the revenue on the level and basis of previous year, a fall in revenue was largely caused by a decreased volume of operations together with a different range of products, by 58.7%. A drop in sales prices was a result of lower prices of raw materials and lower base sales prices.

Gap between purchase and sales prices:

- The prices of strategic raw materials from steel waste to alloy additives (nickel, molybdenum, manganese and chrome) were very low, but sometimes they suddenly rose due to speculative purchases.
- Sales prices fell even lower than the prices of raw materials and, at the same time, customers exerted pressure to reduce base prices which are generally independent of the movement of basic materials and are usually fixed.
- Fixed costs per product unit were reduced due to the adoption of savings measures, but less than the volume of operations.

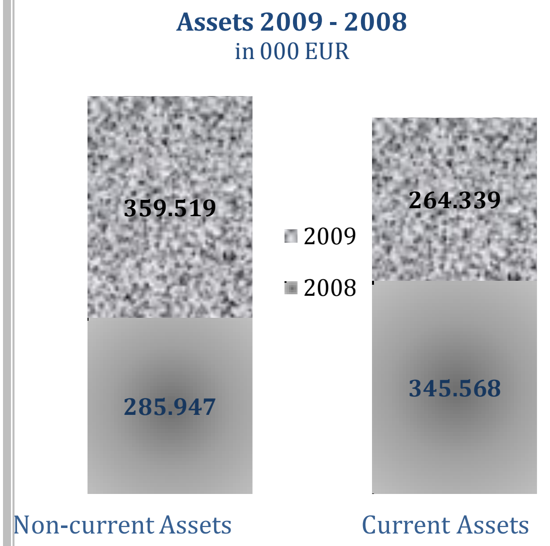
In 2009, we managed to reduce fixed costs by 15.6%, on average, by implementing additional measures.

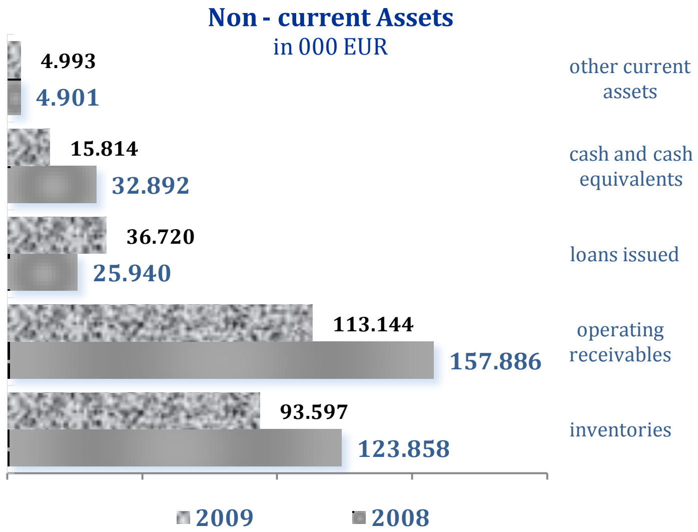
The measures adopted were oriented towards the rational use of all product resources:

- Labour costs; taking the opportunity of subsidies for full working hours.
- Energy; making up a timetable for production during the month.
- Services; replacing external contractors with own operational resources.
- Financing; reducing the high costs of external financing by the rational use of own resources.
- Other costs; implementing savings measures at all levels of operations and eliminating the unnecessary costs.

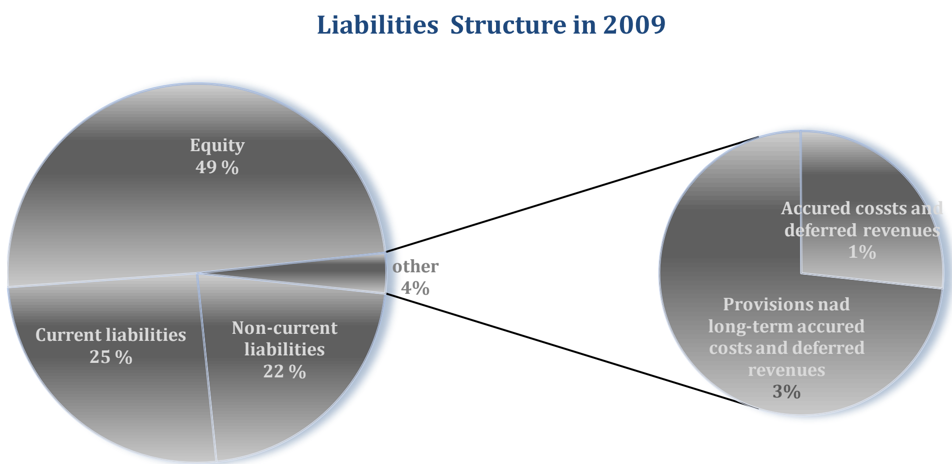
2.3.4 FINANCIAL POSITION

The financial position of the Group did not took a linear downward trend on account of lower sales and business results because we adopted the measures to consolidate operations during the increasingly greater financial and economic crisis.



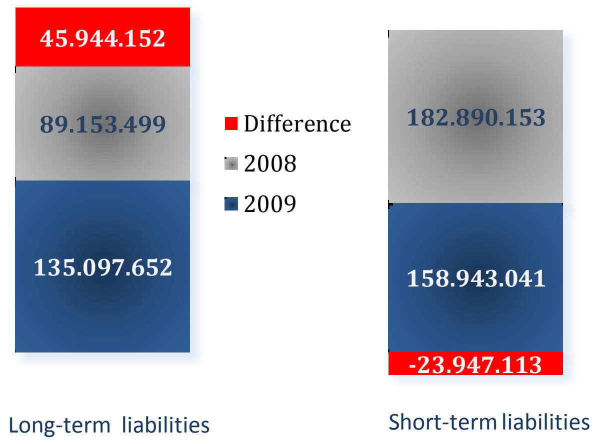


The structure of assets changed in favour of non-current assets which increased due to new investments in fixed assets. We made significant changes in working capital by drastically decreasing operating receivables and inventories, while operating payables practically remained at the 2008 level.



The structure of liabilities mostly changed due to the replacement of financial resources because the share of non-current assets increased from 14% to 22%, while the share of current assets decreased from 29% to 25%. The share of equity decreased from 53% to 49% due to the generated loss.

Comparison of liabilities level 2008 - 2009
in EUR



2.3.5 INVESTMENTS

in 000 EUR	REALISATION 2007	REALISATION 2008	REALISATION 2009	Index 2009/2008
ACRONI Jesenice	27,543	36,315	59,322	163
METAL Ravne	32,122	28,623	8,747	31
ELEKTRODE Jesenice	2,898	524	61	12
NOŽI Ravne	604	667	735	110
OTHER COMPANIES	1,459	6,824	3,572	52
TOTAL	**64,626**	**72,953**	**72,437**	**99**

The largest strategic investments were made by the core companies: Acroni, Metal Ravne, Noži Ravne and Elektrode Jesenice. The total value of investments in the Group amounted to almost EUR 70 million, of which the company Acroni made 85% of all the investment in the Group.

At the company **Acroni**, the majority of investments represented the following three large, strategic investments:

- the modernisation of a casting machine;
- the transport of heavy-thickness steel sheets;
- the mechanical cutting line.

The total amount of funds allocated to the aforementioned projects was EUR 44.8 milion, or 89% of all the investment funds.

The most important investment was a EUR 30 million investment in a new continuous casting machine for slabs in the steel plant. The machine allows us to produce slabs of greater dimensions and better quality, as well as increase productivity and reduce costs.

At the steel plate processing plant, the following projects were underway: the mechanical cutting line for heavy-thickness steel sheets with an automated process that, according to technological standards, provides suitable cutting capacity for heavier steel plates in the categories of thicker plates, a pre-heating chamber for the Wellman Drever furnace and a chamber annealing furnace.

Besides the project Modernisation of Logistics within production plants and ecological investments, a number of small-scale investment projects were carried out.

In 2009, **Metal Ravne**, our second steel company, mostly completed the projects that had begun in 2008. This was the second phase of investment activities that included auxiliary aggregates and devices for the maximum utilisation of basic aggregates:

- The casting bay in the steel plant where an investment was also made in the casting machine for heavy ingots (35 and 42 tonnes) at the beginning of the year, along with the start-up of the new casting machine for light ingots (up to 5 tonnes). This investment, together with the new forging shop for heavy forgings, already showed extraordinary results in 2009 and enabled the company to improve its position on the market and be one step ahead of the competition.
- The new forging shop for heavy forgings, which was one of the key projects in the demanding market, fully justified the past investments.
- A new heavy rolling mill.
- Modernisation of the information system.

In the 2009 financial year, **Elektrode Jesenice** successfully concluded the investment project on the renovation of the hall for manufacturing welding wire, and started up new production lines. This increased activities in the development of welding fluxes.

The company plans to achieve the development and production objectives by completing investments in the manufacture of flux cored wire, where the new innovative production line and the preparation of fillers will ensure more competitive production and a wider range of products. The new line will help the company make its way to the top of advanced technology for manufacturing flux cored wire.

By implementing its investment policy in the product structure, the company **Noži Ravne** increased the sale of knives for the metal industry as the segment with higher added value. In the market segment of knives and other spare parts for rolling mills, new opportunities arose with a new investment in the CNC grinding machine for manufacturing knives of extreme lengths and shapes. The important acquisition of capacities in the segment of mechanical treatment is the investment made in a new CNC milling machine.

2.4 RESEARCH AND DEVELOPMENT

In 2009, the two main development objectives were;

- the development of technologically demanding products;
- the optimisation of technological procedures for better product quality.

The company **Acroni** specifically oriented its development regarding stainless, heavy-thickness steel sheets towards the improvement of product quality. To that end, a number of changes were made in the steel production technology to ensure high purity and homogeneous micro-structures of steel.

In the field of micro-alloy steel, the company has developed low-alloy steel that is more appropriate for welding and is used in the manufacture of mining equipment, construction machinery and transport means, as well as in the applications where wear resistance is required.

The development of highly permeable, non-oriented electrical steel was oriented towards the optimisation of technological procedures in order to achieve adequate steel purity.

Metallographic, electromagnetic and corrosion examinations were conducted in the development laboratories with advanced equipment for purposes of ensuring top-quality products, continuing research and development work and providing information to external clients.

The company started developing a new technology for cleaning the surfaces of stainless steel plates. The new technology will provide the procedure that will significantly reduce the burden on the environment. The project is co-financed by the European Regional Development Fund.

The **Metal Ravne** also put special emphasis on development, which went in the following directions:

- The development of new, more demanding products, particularly special steel – upgrade of very successful turbine blades to other fields of targeted production.
- The development of own sales network to have access to smaller, final customers through the so-called steel centres.
- In cooperation with company Serpa, development in a vertical direction with a larger share of mechanical treatment of forgings, particularly big ones.
- The development of complex steel of great dimensions enabled by the investment made in the forging shop for heavy forgings.

In 2009, we carried out projects that significantly contributed to more effective adjustment to changed market requirements. We therefore::

- used cheaper Ferro alloys,
- used white slag,
- introduced new rolling technology and new products in the billet mill,
- increased the share of alloy waste,
- manufactured forgings from 35 and 42 tonne ingots.

The company **Elektrode** cooperates with the Faculty of Mechanical Engineering in Ljubljana and partners on the project "Development of Modified Robust Welding Machine for MIG/MAG Welding of High-Carbon Steel". Together with the Institute of Metals and Technology and partners from the EU, the company prepared the development project on welding creep-resistant materials, which has applied for the EU funds from RFCS (Research Found for Coal and Steel).

The basic strategic policy of the company is the manufacture of products with higher added value, and the company's development is therefore oriented to:

- increasing the sale of alloy electrodes, flux cored wire and massive wire;
- developing new types of high quality electrodes;
- developing alloy, flux cored and massive wire;
- upgrading the technological equipment in production.

The development of the company **Noži Ravne** is based on projects from the following fields:

- The development of technologies; this is closely linked to the latest investments which ensure greater productivity and improve the competitiveness on the market. The investments enable the development of new technological procedures, the use of state-of-the-art tools, ergonomics at work and a reduction in labour costs. In 2009, new technologies were developed; the company introduced new tools for cutting in mechanical treatment and laser hardening of knives for cutting paper, and developed induction hardening of wear parts and knives.
- The development of new products; where the highest added value and the innovative approach of the company are reflected. Recently, the greatest developments have occurred in the field of knives for metal, where the most demanding products for rolling mills are made.

The Group companies also invited external research institutions to participate in the research and development programme, thereby complementing the research activity in the cases of poor equipment or lack of knowledge.

In cooperation with the companies, the Group participated in international projects and the following international research projects funded by the EU:

- RFSC – OPCONSTAINLESS
- RFSC - EPOSS
- EUREKA – MICROST

2.5 QUALITY SYSTEM

A certified quality management system pursuant to the ISO 9001 standard has been maintained and upgraded, differently by company, since 1995.

The company **Acroni** received the environmental management system certification pursuant to the ISO 14001 standard for the aforementioned system in 2002, accreditation for the chemistry laboratory pursuant to the ISO 17025 standard in 2004, and the occupational health and safety management system certification pursuant to the OHSAS 18001 standard in 2005.

Based on the positive results of assessment at the beginning of 2009, which confirmed that the company met the standards in all three fields, TÜV SÜD Management Service awarded the company the system certification ISO 9001, ISO 14001, OHSAS 18001, valid by 2012. A quality management system pursuant to the SO 17025 standard, specific for laboratories, has been expanded from the Sector of Chemistry to the mechanical shop for the control of raw materials and the mechanical laboratory, which is part of the Department of Mechanical Tests and Attestation within Technical Control and is in the process of receiving accreditation. They have the accreditation document for a testing laboratory – SIST EN ISO/IEC 17025:2005.

By receiving the valid quality management system certification pursuant to the ISO 9001 standard, the company met one of the conditions for obtaining additional certificates on the ability of the supplier. Production certifications confirm that the company has the relevant technological capacities, resources, and equipment, knowledge and control procedures to manufacture a particular product in accordance with the standards for such products and by taking specific directives into account.

Production certifications that the company received on the basis of an assessment by TÜV SÜD Industrie Service are as follows:

- Certification of the manufacture of materials that meet the pressure requirements,
- AD 2000-Merkblatt W0 / TRD 100,
- Pressure Equipment Directive 97/23/EC (PED),
- Certification of the production and control of construction products in accordance with the Construction Products Directive (CPD) 89/106/EEC and 93/68/EEC,
- Certification regarding the fulfilment of the requirements of the NORSOK M-650 standard.

In addition, the company is a certified manufacturer of steel and steel products according to the requirements of Lloyd's Register, Germanischer Lloyd and Det Norske Veritas.

The strategic orientation of the company **Metal Ravne** is total quality management (TQM). The policy on quality assurance is based on achieving and exceeding the ISO 9001 standard. State-of-the-art laboratory equipment, qualified staff and long-term experience enable the implementation of the quality and environmental policy. This is also confirmed by the certification pursuant to the ISO 9001 and 14001 standards.

The company **Elektrode** already underwent the first certification assessment procedure and thus received the ISO 9001:2000 BVQI certification, in 1998. Since then, the system has been successfully developed and modified. The international supervisory institution TÜV annually monitors all production processes. The majority of the company's products have received awards by various certification bodies and registers, such as TÜV, DB, GL, BV, ABS, LR, RS, CWB, DNV, RINA, PRS, UDT, SZU, CR and SŽ.

The commitment of the company **Noži Ravne** to quality is evidenced by the ISO 9001:2008 certification.

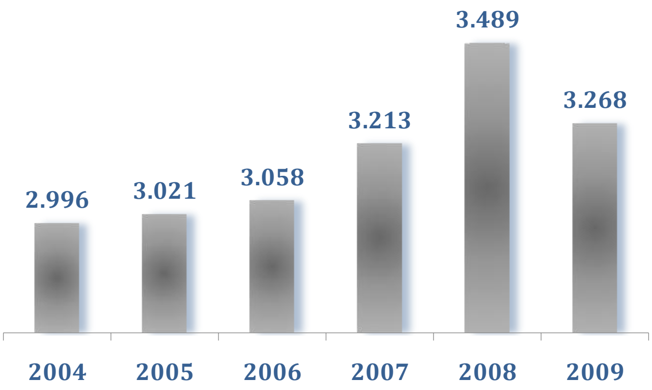
SUSTAINABLE DEVELOPMENT

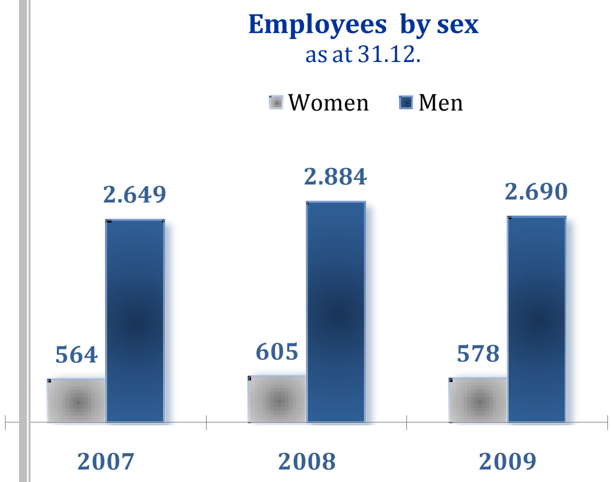
2.6 EMPLOYEES

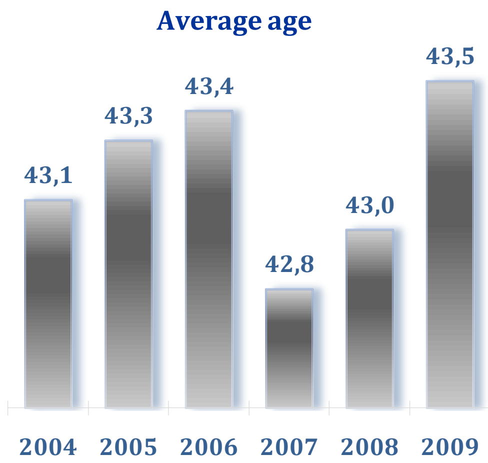
2.6.1 NUMBER OF EMPLOYEES

COMPANY	31.12.2009	31.12.2008	09/08
ACRONI	1,493	1,565	95
METAL Ravne	928	1,050	88
NOŽI Ravne	190	199	95
SUZ Jesenice	133	147	90
ELEKTRODE Jesenice	172	185	93
Železarna Jesenice	1	1	100
ZIP CENTER Ravne	99	110	90
SERPA Ravne	144	154	94
ŽIČNA Celje	1	1	100
ODPAD Pivka	22	21	105
Ravne Steel Centre	18	-	-
Acroni Deutschland GmbH	3	4	75
Acroni Italia Snc.	6	7	86
IUENNA STAHL Pliberk	5	5	100
KOPO International New Jersey	2	2	100
DANKOR Osijek	15-	-	-
SIJ-Slovenska industrija jekla, d. d.	36	38	95
TOTAL	**3,268**	**3,489**	**94**

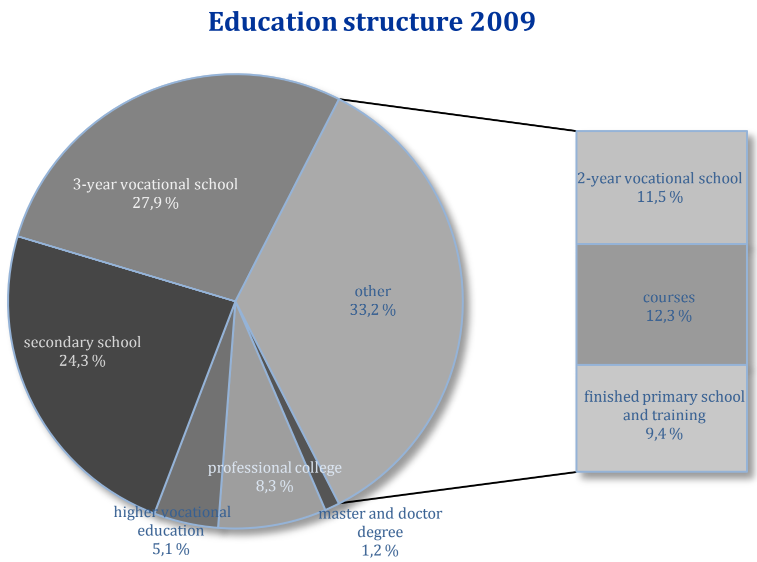
Movement in the number of employes
from 2004 to 2009







The average age of the employees of the SIJ Group in 2009 was 43.5 years. By dismissing young, part-time employees, the average age of employees is again higher. The lowest average age of the last ten years was 41.9 years in 2002.



The educational structure did not significantly changed in the last years, and compared to the previous year, it has remained practically unchanged.

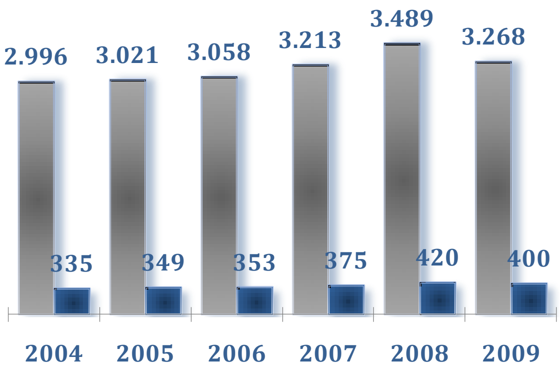
2.6.2 SICK LEAVE AND DISABLED EMPLOYEES

In 2009, sick leave accounted for 5.5% in the SIJ Group, which means that 5.5% of the total number of working hours was used to take sick leave. 3.2% of sickness absence lasted less than

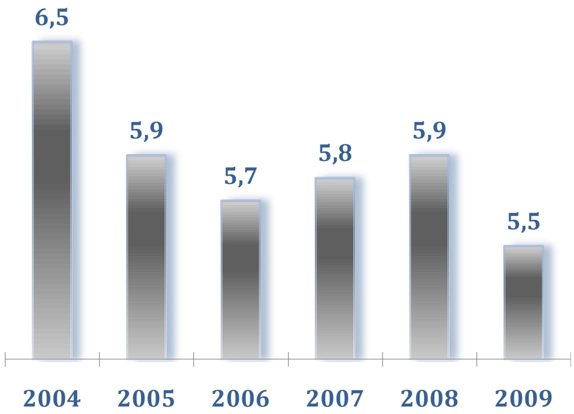
30 days and 2.3% of absence lasted longer. The occurrence of sick leave decreased by 7% compared to the previous year.

Within the gross amount spent on salaries, 3.5% of the amount was used to pay sick pay. If sickness absence lasts more than 30 days, the sick pay is recovered by the Health Insurance Institute, meaning that 1.6% of the amount was reimbursed to the Group.

Number of employees and disabled people
as at 31.12.



Sick leave %



Although the number of disabled employees is constantly rising, it decreased in 2009 because 28 disabled employees retired and 8 employees gained position of disabled person. At the end of 2009 year there were 400 disabled persons in the SIJ group.

2.6.3 EDUCATION

2.6.3.1 Part-time study

The educational structure in the Group companies is improving through study benefits provided for part-time study. Employees pursue vocational studies for the following occupations: machinery mechanic, mechatronic operator, mechanical engineering technician, economic technician, electrical engineering technician, mechanical engineer, mechatronics engineer, bachelor's degree in mechanical engineering, economist, master's degree in mechanical engineering and economics).

At different levels (from vocational to doctorate degrees), 253 employees in the Group are involved in education.

Intense education helps companies improve the structure of personnel and education, create qualified staff, generate fresh ideas and develop own staff to reduce the shortage of personnel.

2.6.3.2 Functional and internal training

We also put special emphasis on functional training (seminars, conferences and courses) and internal training in the field of technology, quality, ecology and health and safety at work.

2.6.3.3 Scholarships

Within the scope of the agreed human resources policy and the human resources plan, companies offer scholarships to ensure the necessary staff in terms of number and structure. Scholarships awarded to students help them decide on occupations that are of strategic importance to the companies. We have to learn as much as possible about the students during their studies, which is why we familiarise them with the companies through mandatory in-company training and the prescribed topics of seminar papers and diplomas.

The Group offers scholarships for machinery mechanics, mechanical engineering technicians, electrical engineering technicians, mechatronics technicians, and at the university level, the majority of students study at the Faculty of Natural Sciences and Engineering, the Faculty of Mechanical Engineering and the Faculty of Electrical Engineering. In general, they are enrolled in higher education programmes. Altogether, we have 135 scholarship students in the Group.

The scholarship amount is defined and harmonised in accordance with the Rules on Scholarships. The basic amount of a scholarship also includes points for in-demand occupations, for instance, the mechanical engineering programmes.

2.7 COMMUNICATION

The SIJ Group strives to maintain communication with all kinds of public at the highest level.

2.7.1 COMMUNICATION WITH OWNERS

The SIJ Group and its controlling company emphasise clarity and transparency in their business and in the same manner report to the owners. There are a small number of shareholders and thus our main communication takes place at meetings of the Supervisory Board, the General Assembly of the company, and with the largest owner, through the established system of reporting.

2.7.2 COMMUNICATION WITH PARTNERS

We pay a great deal of attention to customers, to whom we offer presentation brochures with the technical characteristics and professional guidelines, particularly for processing our material or actual use. We also prepare various practical presentations how to use our products in reality, depending on the type of the company's programme. We participate in different business fairs where we strive to make our products as attractive as possible to end users, thereby following our strategic orientation to increase the share of end users in total sales.

With the aim to improve the technological and quality characteristics of operations, we also cooperate with external professional institutions, such as research institutes and consultancy organisations.

2.7.3 COMMUNICATION WITH EMPLOYEES

A **notice board** is the basic medium of communication among employees who do not use computers in their line of work. In some companies of the Group, employees can use the Intranet that serves as the means of exchanging basic information, notices and general instructions among employees.

The **internal newspaper SIJ** is intended not only to be used by employees, but also to provide information about our activities and operations to the wider public to – the press and other partners.

Regular meetings between union representatives and the management of the SIJ Group have been held on a constant basis for several years. The Chairman of the Management Board of SIJ –

Slovenska industrija jekla, d.d., informs workers' representatives of the current business results, problems in the current operations and plans for the future.

2.7.4 COMMUNICATION WITH THE MEDIA

Communication with the media is the responsibility of the Group's Public Relations Department, which companies and their responsible persons as well as the Management Board SIJ - Slovenske industrije jekla, d.d., use to communicate. The Public Relations Department cooperates with all the departments of the companies included in the SIJ group and thus provides high quality information to the interested public.

2.7.5 COMMUNICATION WITH THE SOCIAL ENVIRONMENT

In the local environment, we support various institutions and societies.

For several years, the SIJ Group and its companies have been focusing their social activities on support to sport and sports clubs at the locations where companies operate:

- hockey in Jesenicah, where the club bears the name of company, ACRONI,
- volleyball, skiing and swimming in Ravne na Koroškem.

The SIJ Group earmarked almost EUR 400,000 for sport.

The Group also partly sponsored humanitarian, cultural and educational organisations and events.

2.8 PROTECTION OF THE ENVIRONMENT

The Group is aware that taking care of a safe and healthy living environment is a vital condition for developing our activity.

Environmental protection is one of the basic rights, duties and responsibilities of all employees and is considered as an integral part of the management policy. We strive to use natural resources in a prudent and efficient manner and focus special attention on saving energy and water and reducing the amount of waste. We make large investments in healthy and safe working conditions because it is only that way that we can create a business-oriented and work-motivated environment.

Our operations depend on increasingly demanding standards and stricter environmental legislation, both at home and in the EU. We successfully follow the trends that determine the conditions and rules of conduct. This means that we also focus special attention on reducing emissions into the environment from waste water as well as on reducing air, noise and waste pollution.

The companies **Acroni** and **Metal Ravne** are in the process of obtaining an IPPC environmental permit. The transitional period for the company Acroni to obtain the IPPC permit lasts until 31 October 2010 and the transitional period for the company Metal Ravne to obtain the IPPC permit lasts until 30 October 2011, because of which we had to pay more attention to ecological investments.

From 2006 to 2009, the company **Acroni** alone spent EUR 15,578,320 on environmental protection, mostly from 2006 to 2008. The majority of these funds was allocated to investments in dedusting equipment at the steel plant, a new treatment plant for the scale pit and the separation of cooling and process water in the hot mill and cold processing departments. The company submitted an application to obtain the permit by the Ministry of the Environment and Spatial Planning within the legally prescribed time limit.

The transitional period for the company **Metal Ravne** to obtain the permit lasts until 2011. All legal violations must be eliminated in the transitional period, which is why activities set out in the programme are being implemented, while the inspection body, the Ministry of the Environment and Spatial Planning and the Environmental Agency of the Republic of Slovenia carry out inspections. Metal Ravne submitted an application to obtain the environmental permit by the legally prescribed deadline, i.e. 31 October 2006. On 1 September 2007, the Ministry of the Environment and Spatial Planning and the Environmental Agency of the Republic of Slovenia approved the rehabilitation programme that helps the company adapt to the requirements of the IPPC Directive regarding emissions into air and water and noise emissions in the transitional period.

The company Metal Ravne adopted a special document, the "Environmental Policy", which sets the environmental objectives.

Companies have made great progress in reducing waste that ends up in a municipal landfill site. This objective was achieved by separating the waste that can be returned to our technological process or given to others, or by separating packaging materials.

All the Group companies observe the provisions of the Environmental Protection Act and the Rules on the Management of Waste.

We believe that the observance of the environmental criteria is an integral part of operations and besides quality and prices, it also has a material impact on competitiveness, although the commitments to the EU to reduce all types of emissions makes us less competitive on a global scale because other steel producing super powers (China and India) do not meet these commitments.

2.9 RISK MANAGEMENT

2.9.1 IDENTIFYING RISKS

The performance of the SIJ Group in 2009 was marked by difficult economic conditions, as the steel market was heavily affected by the crisis. This was reflected in an important decrease in the volume of demand on all markets and, at the same time, the negative effects of the global economic crisis continued. In these changed economic circumstances, it was of key importance to plan and prudently manage risks that we faced in our operations.

In 2009, the most important risks were identified as:

- lower demand and fewer orders;
- increase in the price of raw materials and pressure on reducing sales (particularly basis) prices;
- risks related to operations in connection with the implementation and monitoring of business processes and activities in the Group, and consumption and costs arising from the implementation of business processes;
- financial risks or risks that have a negative impact on the ability to generate and manage financial income and financial expenses, and to ensure the value of assets.

Management of individual risks was the joint responsibility of the executive directors the individual departments of Group companies.

2.9.2 BUSINESS RISKS

2.9.2.1 Sales risk

Risk related to decline in demand

In 2009, the company's operations were exposed to a great sales risk as a result of the global economic crisis.

The steel market was flooded with high stocks due to a sharp decline in demand. This risk was managed by closely monitoring events on the market and adapting our production to sales possibilities.

Price risk

We faced a great price risk in 2009. On the one hand, there was strong pressure to reduce prices due to low demand and a fall in the prices of raw materials and, on the other hand, there were instances of a steep rise in the prices of raw materials and, consequently, the sales prices of our products. This risk was managed by closely monitoring the movement of the prices of raw materials, constantly calculating profitability and adapting prices to current circumstances. We were unable to completely avoid this risk in 2009.

Quality risk

A very important risk in 2009 was the risk related to product quality. Poor product quality can have a major impact on costs. On the one hand, these are costs related to complaints made by customers and, on the other hand, they are costs related to internal complaints where poor quality of certain products is discovered at the end of the technological process when the costs of processing have already been incurred and are included in the operating profit. In 2009, we devoted a lot of attention to this field in the development departments.

Payment risk

Sales risk also represents the possibility of the customer not meeting his or her obligations. In order to manage this risk, our receivables due from long-standing customers are insured with an insurance company. We only do business with new customers and with the customers from risky countries based on advances or bank guarantees and L/Cs.

2.9.2.2 Purchasing risk

The company's operations largely depend on the conditions on the market of raw materials and services, which are reflected in the fact that we pay a great deal of attention to purchasing risk.

Purchase risks arise mainly from unexpected changes in prices, delivery deadlines, and the quality of input raw materials, other materials and services. We therefore examine purchasing risk regarding availability, quality and the possibility of supply of key raw materials and regarding the fields related to the management of price changes fluctuations.

The following activities are carried out to manage these risks:

- deepening of a long-term partnership with globally competitive suppliers who have a sufficient quantity of strategically important raw materials and, at the same time, are capable of adapting in stringent market conditions in terms of quantity and price;
- monitoring of the market situation and projection of market changes;

- dispersed purchasing of strategic materials from several suppliers;
- assessment of the adequacy of suppliers in terms of providing materials of suitable quality and in terms of their solvency.
- Vertical integration

It can establish that in 2009 the Group in due time identified purchase risks and, at the same time, successfully conducted activities for managing them and for optimal functioning of business processes within the Group. Despite measures and additional models for flexible supply, it is estimated that purchases of strategic materials are exposed to risks not so particularly in reliability and availability of strategic raw materials supply as to price risks.

2.9.3 FINANCIAL RISKS

The Group is exposed to various risks arising from its operations: credit risk, interest rate risk, foreign exchange risk, solvency risk, etc. The Group's overall risk management focuses on the unpredictability of financial markets and try to minimise potential adverse effects on the financial performance of the Group. The financial departments of individual Group companies are in charge of financial risk management in coordination with the financial department of SIJ – Slovenska industrija jekla, d.d.

2.9.3.1 Credit risk

The Group limits its exposure to credit risk related to customers by numerous activities: limiting the exposure to individual business partners by analysing their credit rating, constant control of customers (in case of poor credit rating goods are sold only on condition that appropriate guarantee instruments are received), regular monitoring of outstanding receivables and constant recovery of receivables, and insuring of receivables with insurance companies. It was estimated that credit risk in the Group increased in 2009.

2.9.3.2 Interest rate risk

The Group's interest rate risk stems from non-current and current financial liabilities. Financial liabilities expose the Group to the interest rate risk of cash flow.

The Group continuously monitors the exposure to interest rate risk, focusing particularly on long-term borrowing at variable interest rates and thus potential growth of financing cost. Given the expected stringent economic conditions, we expect the basis interest rates (EURIBOR, LIBOR) to decrease and operating margin to increase. At present, we assess the interest rate risk to be moderate.

2.9.3.3 Currency risk

The Group also operates in the international environment and is therefore to a certain extent exposed to foreign exchange risk. When Slovenia adopted the euro in 2007, the exposure to foreign exchange risk decreased significantly. Nevertheless, the Group closely monitors the exposure to foreign exchange risk and it is decreasing it by systematic matching of inflows and outflows in foreign currencies, particularly the US dollar, which records the greatest year-on-year fluctuation compared to the euro.

2.9.3.4 Solvency risk

Solvency risk is high in the existing global economic conditions and continues to increase, which is why the Group pays special attention to cash flow. The risk is managed by matching business activities on the levels of income and costs. The group's liquidity reserve represents the overdraft and approved revolving loans granted by Slovenian banks, which can be drawn should the need for additional liquidity funds arise.

2.9.4 OTHER RISKS

2.9.4.1 Investment risk

Investment risks are related to the realisation of planned investments, successfully carried out investments in the development of new products and efficient introduction of new technologies. This type of risk is restricted by control of investment effects and continuous improvement of the quality level as regards preparing and implementing investment projects.

Successful risk management boosts performance, improves the efficiency of management and realisation of the investment.

2.9.4.2 Human resources risk

Major human resources risks include:

- Preserving the critical mass of employees despite low-volume production. If the situation becomes financially unsustainable, we will have to reduce the number of employees below the critical mass by implementing more radical measures;
- The flexibility to organise work and transfer employees can be limited by the employees' competence;
- A high average age of employees increases the risk of disability;
- A wage increase (minimum wage increase, agreed minimum wage paid in net amount), which is higher than allowed by the achieved realisation.

2.9.4.3 Environmental-protection risk

This type of risk entails a certain hazard in the event of an environmental disaster (pollution). Great risk also arises from the changing environmental legislation, which may result in cancellation of a certain production activity or more stringent environmental-protection requirements that would result in higher operating expenses of the Group, since the steel industry is under considerable pressure from the EU legislation and the civil society, obliging it to comply with the set environmental protection standards.

2.10 EVENTS AFTER THE END OF THE FINANCIAL YEAR

In two the biggest company's of our Group, Acroni and Metal Ravne, decision on change of working hours in a week, was made. Metal Ravne has restored 40-hour working week, and Acroni has again applied 36-hour working week.

On strategically important investment project's we have performed testing activities (hot testing of the straightening machine and hydraulic transport lines for Transport of Heavy plate in Acroni) and submitted strategic aggregates in use (engagement of new grinding machine). "

The company Acroni obtained accreditation for the mechanical laboratory pursuant to ISO 17025 system.

We received damage compensation for the receivables insured by SID – Prva kreditna zavarovalnica, d. d., in the amount of EUR 4.4 million.

3 FINANCIAL REPORT

3.1 STATEMENT OF THE MANAGEMENT BOARD'S RESPONSIBILITY

The Management Board of SIJ - Slovenska industrija jekla, d.d., is responsible for drawing up the Group's Annual Report and the consolidated financial statements so that they give a true and fair view of the Group's financial position and operating results in accordance with the International Financial Reporting Standards and the Companies Act for 2009.

The Management Board approved the business report and the consolidated financial statements with notes for the year ending on 31 December 2009. The Management Board hereby declares the following:

- the financial statements have been prepared under the assumption of going concern of the companies of the SIJ Group;
- the selected accounting policies were applied consistently and potential changes in accounting policies disclosed;
- the accounting estimates have been prepared fairly and prudently, in line with the principles of prudence and due diligence;
- the consolidated financial statements have been compiled in accordance with the applicable legislation and the International Financial Reporting Standards.

The Management Board is responsible for the implementation of measures ensuring that the value of the Group's assets is maintained as well as for preventing and discovering fraud and other irregularities.

Ljubljana, 12 March 2010

Chairman of the Management Board
Tibor Šimonka

Vice-chairman of the Management Board
Viacheslav Korchagin

3.2 CONSOLIDATED FINANCIAL STATEMENTS

3.2.1 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31.12.2009	31.12.2008
ASSETS			
Non-current assets		**359,518,911**	**285,946,887**
Intangible assets	3.4.1	5,118,337	2,823,439
Property, plant and equipment	3.4.2	341,770,671	276,854,886
Investment property	3.4.3	317,892	347,067
Available-for-sale financial assets	3.4.4	1,066,700	1,366,346
Investments in associates	3.4.5	-	736,452
Other non-current assets	3.4.6	789,896	862,830
Deferred tax assets	3.4.7	10,455,415	2,955,867
Current assets		**264,338,709**	**345,567,812**
Assets classified as held for sale	3.4.8	4,993,167	4,900,950
Inventories	3.4.9	93,597,380	123,858,093
Financial assets at fair value through profit or loss	3.4.10	70,023	90,787
Loans issued	3.4.11	36,719,806	25,940,132
Operating receivables	3.4.12	109,368,647	156,645,865
Corporate income tax assets	3.4.13	3,775,226	1,239,645
Cash and cash equivalents	3.4.14	15,814,460	32,892,340
Deferred costs and accrued revenues	3.4.15	**257,565**	**203,163**
Total current assets		**264,596,274**	**345,770,975**
TOTAL ASSETS		**624,115,185**	**631,717,862**

	Note	31.12.2009	31.12.2008
EQUITY AND LIABILITIES			
Equity	3.4.16	**308,702,836**	**335,551,385**
Capital and reserves attributed to Owners of the parent		**306,668,361**	**333,543,460**
Share capital		145,266,066	145,266,066
Capital surplus		11,461,177	11,461,177
Revenue reserves		(2,005,997)	(2,134,473)
Revaluation reserves		244,415	386,255
Translation differences		(142,031)	(72,184)
Retained earnings		151,844,731	140,827,031
Net profit for the period		-	37,809,588
Non-controlling interests		**2,034,475**	**2,007,925**
Provisions and long-term accrued costs and deferred revenues		**15,649,031**	**17,675,845**
Provisions	3.4.17	5,544,768	7,300,228
Retirement benefit obligations	3.4.19	9,568,129	9,688,310
Long-term accrued costs and deferred revenues	3.4.18	536,134	687,307
Non-current liabilities		**135,097,652**	**89,153,499**
Borrowings	3.4.20	128,337,634	81,461,999
Other financial liabilities	3.4.21	6,050,905	6,942,221
Operating liabilities	3.4.22	647,845	646,603
Deferred tax liabilities	3.4.7	61,268	102,676
Current liabilities		**158,943,041**	**182,890,153**
Borrowings	3.4.23	70,848,453	92,673,353
Other financial liabilities	3.4.24	2,790,153	2,602,700
Operating liabilities	3.4.25	85,255,520	87,249,585
Corporate income tax liabilities	3.4.13	48,915	364,515
Accrued costs and deferred revenues	3.4.26	**5,722,625**	**6,446,980**
TOTAL EQUITY AND LIABILITIES		**624,115,185**	**631,717,862**

The accompanying notes on pages from 72 to 126 are an integral part of these consolidated financial statements.

3.2.2 CONSOLIDATED STATEMENT OF INCOME

	Note	2009	2008
Net sales revenue	3.4.27	371,152,894	702,851,130
Costs of sales	3.4.28	(340,586,629)	(558,249,288)
Gross profit		**30,566,265**	**144,601,842**
Selling costs	3.4.28	(21,673,145)	(46,698,229)
General and administrative costs	3.4.28	(42,520,601)	(43,506,717)
Other operating revenue	3.4.29	7,088,495	6,477,721
Other operating expenses	3.4.30	(5,734,208)	(5,798,661)
Operating profit		**(32,273,194)**	**55,075,956**
Gain/loss from the sale or revaluation of financial investments	3.4.31	366,289	(553,694)
Financial income	3.4.32	3,803,305	2,143,488
Financial expenses	3.4.33	(5,922,273)	(8,764,048)
Share of net results of associates		(22,018)	219,208
Exchange gain	3.4.34	72,763	90,291
Exchange loss	3.4.35	(79,392)	(186,488)
Profit before taxes		**(34,054,520)**	**48,024,713**
Corporate income tax	3.4.36	(326,606)	(10,286,076)
Deferred tax	3.4.7	7,490,981	165,771
Net profit for the period		**(26,890,145)**	**37,904,408**
Net profit for the period attributed to:			
Owners of the parent		(26,913,240)	37,823,309
Non-controlling interest		23,095	81,099
Earnings per share attributed to owners of the parent			
Basic and diluted		**(27.28)**	**38.33**

The accompanying notes on pages from 72 to 126 are an integral part of these consolidated financial statements.

3.2.3 CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Note	2009	2008
Net profit for the period		**(26,890,145)**	**37,904,408**
Changes in revaluation reserves for assets classified as held for sale		22,488	-
Changes in revaluation reserves for available-for-sale financial assets		(205,900)	75,579
Gain/loss due to translation of financial statements to functional currency		(68,040)	91,758
Income tax relating to components of the other comprehensive income	3.4.7	41,572	(102,676)
Total comprehensive income	3.2.5	**(27,100,025)**	**37,969,069**
Comprehensive income attributed to:			
Owners of the parent		(27,123,512)	37,887,970
Non-controlling interest		23,487	81,099

The accompanying notes on pages from 72 to 126 are an integral part of these consolidated financial statements.

3.2.4 CONSOLIDATED STATEMENT OF CASH FLOW

	2009	2008
Cash flow from operating activities		
Profit before taxes	(34,054,520)	48,024,713
Adjusted for:		
Depreciation and amortisation	24,307,596	20,129,678
Share of net result of associates	22,018	(219,208)
Excess of fair value of net assets acquired over cost of acquisition (negative goodwill)	-	(62,991)
Interest income	(3,779,015)	(2,137,726)
Interest expenses	5,919,758	8,764,008
Exchange differences, net	(24,939)	96,197
Profit/loss on sales and revaluations of financial investments	(366,289)	553,694
Accrual/(reversal) of allowances and provisions	4,760,891	(2,198,243)
Other adjustments	(3,605,392)	2,420,317
Operating cash flows before working capital changes	**(6,819,892)**	**75,370,439**
Changes in working capital		
Decrease/increase in operating receivables	49,917,960	(22,729,407)
Decrease in inventories	32,446,555	12,527,676
Decrease in operating payables	(6,558,295)	(20,373,412)
Decrease in taxes other than income tax	(1,924,546)	(1,322,971)
Payments received due to government grant	2,095,068	765,935
Payments due to disposal of provisions	(122,053)	(73,783)
Income tax paid	(4,372,563)	(23,518,309)
Other direct payments	170,546	-
Net cash generated from operating activities	**64,832,780**	**20,646,168**
Cash flow from investing activities		
Purchase of subsidiaries	(2,099,366)	(5,270,103)
Purchase of property, plant and equipment	(83,898,572)	(52,165,633)

	2009	2008
Proceeds from sales of property, plant and equipment	135,520	80,430
Purchase of intangible assets	(1,517,635)	(163,707)
Changes in restricted cash	35,016	(14,107)
Loans issued	(24,695,000)	(56,147,048)
Repayment of loans issued	13,917,452	30,350,368
Repayment of interests received	3,256,296	1,854,690
Dividends received	11,126	33,378
Proceeds/purchase of other non-current assets	421,627	(508,220)
Net cash flow used in investing activities	**(94,433,536)**	**(81,949,952)**
Cash flow from financing activities		
Proceeds from loans and borrowings	141,600,957	234,022,192
Repayment of loans and borrowings	(124,493,690)	(173,547,409)
Repayment of finance lease	(2,043,222)	(1,694,301)
Interests paid on loans and borrowings	(6,141,176)	(8,663,084)
Dividends paid	-	(300,000)
Net cash generated from financing activities	**8,922,869**	**49,817,398**
Net decrease in cash and cash equivalents	**(20,677,887)**	**(11,486,386)**
Cash and cash equivalents as at 1.1.	22,397,796	33,884,182
Cash and cash equivalents as at 31.12.	1,719,909	22,397,796

Cash and cash equivalents	2009	2008
Cash and cash equivalents in statement of financial position as at 31.12.	15,814,460	32,892,340
Decreased for restricted cash	(12,585)	(47,601)
Decreased for approved overdrafts	(14,081,966)	(10,446,943)
Cash and cash equivalents used for statement of cash flow as at 31.12.	1,719,909	22,397,796

The accompanying notes on pages from 72 to 126 are an integral part of these consolidated financial statements.

3.2.5 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

3.2.5.1 Consolidated statement of changes in equity for 2009

	Capital and reserves attributed to Owners of the parent									Non-controlling interest	Total
	Share capital	Capital surplus	Legal reserves	Treasury shares	Retained earnings	Net profit for the period	Revaluation reserves	Translation differences	Total		
Balance as at 31.12. 2008	**145,266,066**	**11,461,177**	**120,254**	**(2,254,727)**	**140,827,031**	**37,809,588**	**386,255**	**(72,184)**	**333,543,460**	**2,007,925**	**335,551,385**
Increase of non-controlling interests	-	-	-	-	79,280	-	-	(1,415)	77,865	276,994	**354,859**
Decrease of non-controlling interests	-	-	-	-	-	-	-	-	-	(273,931)	**(273,931)**
Transactions with owners	**-**	**-**	**-**	**-**	**79,280**	**-**	**-**	**(1,415)**	**77,865**	**3,063**	**80,928**
Net profit for the period	-	-	-	-	-	(26,913,240)	-	-	(26,913,240)	23,095	**(26,890,145)**
Revaluation reserves for assets classified as held for sale	-	-	-	-	-	-	22,488	-	22,488	-	**22,488**
Revaluation reserves for available-for-sale financial assets	-	-	-	-	-	-	(205,900)	-	(205,900)	-	**(205,900)**
Income tax relating to components of the comprehensive income	-	-	-	-	-	-	41,572	-	41,572	-	**41,572**
Gain/loss due to translation of financial statements to functional currency	-	-	-	-	-	-	-	(68,432)	(68,432)	392	**(68,040)**
Changes in comprehensive income	**-**	**-**	**-**	**-**	**-**	**(26,913,240)**	**(141,840)**	**(68,432)**	**(27,123,512)**	**23,487**	**(27,100,025)**

	Capital and reserves attributed to Owners of the parent									Non-controlling interests	Total
	Share capital	Capital surplus	Legal reserves	Treasury shares	Retained earnings	Net profit for the period	Revaluation reserves	Translation differences	Total		
Distribution of net profit according to resolution of the Assembly	-	-	-	-	37,809,588	(37,809,588)	-	-	-	-	-
Forming of legal reserves	-	-	128,476	-	-	(128,476)	-	-	-	-	-
Loss covering	-	-	-	-	(27,041,716)	27,041,716	-	-	-	-	-
Other changes	-	-	-	-	170,548	-	-	-	170,548	-	**170,548**
Changes in equity	**-**	**-**	**128,476**	**-**	**10,938,420**	**(10,896,348)**	**-**	**-**	**170,548**	**-**	**170,548**
Balance as at 31.12.2009	**145,266,066**	**11,461,177**	**248,730**	**(2,254,727)**	**151,844,731**	**-**	**244,415**	**(142,031)**	**306,668,361**	**2,034,475**	**308,702,836**

The accompanying notes on pages from 72 to 126 are an integral part of these consolidated financial statements.

3.2.5.2 Consolidated statement of changes in equity for 2008

	Capital and reserves attributed to Owners of the parent									Non-controlling interests	Total
	Share capital	Capital surplus	Legal reserves	Treasury shares	Retained earnings	Net profit for the period	Revaluation reserves	Translation differences	Total		
Balance as at 31.12.2007	**145,266,066**	**19,404,273**	**106,534**	**(2,254,727)**	**73,498,215**	**59,385,716**	**413,352**	**(163,939)**	**295,655,490**	**1,398,664**	**297,054,154**
Increase of non-controlling interests	-	-	-	-	-	-	-	-	-	828,162	**828,162**
Dividends paid	-	-	-	-	-	-	-	-	-	(300.000)	**(300,000)**
Transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**528,162**	**528,162**
Net profit for the period	-	-	-	-	-	37,823,309	-	-	37,823,309	81,099	**37,904,408**
Revaluation reserves for available-for-sale financial assets	-	-	-	-	-	-	75,579	-	75,579	-	**75,579**
Income tax relating to components of the comprehensive income	-	-	-	-	-	-	(102,676)	-	(102,676)	-	**(102,676)**
Gain/loss due to translation of financial statements to functional currency	-	-	-	-	3	-	-	91,755	91,758	-	**91,758**
Changes in comprehensive income	**-**	**-**	**-**	**-**	**3**	**37,823,309**	**(27,097)**	**91,755**	**37,887,970**	**81,099**	**37,969,069**
Distribution of net profit according to resolution of the Assembly	-	-	-	-	59,385,717	(59,385,717)	-	-	-	-	**-**
Forming of legal reserves	-	-	13,720	-	-	(13,720)	-	-	-	-	**-**
Loss covering	-	(7,943,096)	-	-	7,943,096	-	-	-	-	-	**-**
Changes in equity	**-**	**(7,943,096)**	**13,720**	**-**	**67,328,812**	**(59,399,437)**	**-**	**-**	**-**	**-**	**-**
Balance as at 31.12.2008	**145,266,066**	**11,461,177**	**120,254**	**(2,254,727)**	**140,827,031**	**37,809,588**	**386,255**	**(72,184)**	**333,543,460**	**2,007,925**	**335,551,385**

The accompanying notes on pages from 72 to 126 are an integral part of these consolidated financial statements.

3.3 ACCOUNTING POLICIES

The main accounting policies used in compiling consolidated financial statements are stated below. These accounting policies have been implemented in the same manner since the introduction of the International Financial Reporting Standards (hereinafter: the IFRS), except in cases where differences are presented.

3.3.1 BASES FOR PREPARING THE ANNUAL REPORT

The 2009 consolidated financial statements have been compiled in accordance with the IFRS. The provisions of standards have been applied directly in disclosures and valuation of items. The only exception was the valuation of items for which the standards allow several methods of valuation.

Consolidated financial statements in the report are presented in euro's (EUR) without cents. Due to the rounding of amounts, there may be insignificant deviations in the sums given in tables.

The preparation of consolidated financial statements according to the IFRS requires the Management Board to assess, give estimates and assumptions influencing the implementation of policies and the disclosed amounts of assets and liabilities, revenues and expenses. The estimates and related assumptions are based on past experience and numerous other factors believed to be probable in given circumstances, whereas the results of this experience represent the basis for assessing the book value of assets and liabilities. Estimates and basic assumptions used in compilation of financial statements must be checked continuously.

The consolidated financial statements give a true and fair view of the financial position, financial performance and cash flows of the Group. The prudence principle and the fair value principle must also be taken into account in the compilation of consolidated financial statements as set forth by the IFRS.

The Management Board selected the accounting policies and decided on their application and the compilation of consolidated financial statements by taking into account three requirements: The consolidated financial statements are understandable if their users have no problem understanding them. Information is suitable if it helps the user to adopt economic decisions. Information is relevant if their omission or inaccurate presentation could influence the economic decisions of users.

The consolidated financial statements have been prepared based on historical cost changed by revaluation of available-for-sale financial assets and financial assets and liabilities measured at fair value through profit or loss.

The Group applied a revised version of IAS 1 "Presentation of Financial Statements", which came into effect on 1 January 2009. In accordance with the requirements of IAS 1, the Group changed *Balance Sheet* to *Statement of Financial Position and Statement of Change in Equity* to *Statement of Changes in Equity*. In accordance with the instruction of IAS 1, The Group prepares the Statement of Income as well as the Statement of Other Comprehensive Income.

The consolidated financial statements have been prepared in compliance with the IFRS, adopted by the International Accounting Standards Committee (hereinafter: IASB), and interpretations issued by the International Financial Reporting Interpretations Committee (hereinafter: IFRIC), as adopted by the European Union, namely:

a) Currently, the following standards and interpretations apply:

The following amendments to the existing standards issued by the IASB and adopted by the EU currently apply:

- IFRS 8 "Operating Segments" adopted by the EU on 21 November 2007 (applies to the annual periods beginning on or after 1 January 2009).
- IFRS 1 "First-Time Adoption of IFRS" and IAS 27 "Consolidated and Separate Financial Statements" – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate, which the EU adopted on 23 January 2009 (applies to the annual periods beginning on or after 1 January 2009).
- IFRS 4 "Insurance Contracts" and IFRS 7 "Financial Instruments: Disclosures" – Improving Disclosures about Financial Instruments, which the EU adopted on 27 November 2009 (applies to the annual periods beginning on or after 1 January 2009).
- IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidation, which the EU adopted on 21 January 2009 (applies to the annual periods beginning on or after 1 January 2009).
- IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments" – Reclassification of Financial Assets, the date of entry into force and the transitional period adopted by the EU on 9 September 2009 (effective date as of or after 1 July 2008).
- IAS 1 (revised) "Presentation of Financial Statements" – A Revised Presentation, adopted by the EU on 17 December 2009 (applies to the annual periods beginning on or after 1 January 2009).
- IAS 23 (revised) "Borrowing Costs", adopted by the EU on 10 December 2008 (applies to the annual periods beginning on or after 1 January 2009).

- IFRS 2 "Share-based Payment" – Vesting Conditions and Cancellations, adopted by the EU on 16 December 2008 (applies to the annual periods beginning on or after 1 January 2009).
- IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement" – Embedded Derivatives Assessment, adopted by the EU on 30 November 2009 (applies to the annual periods beginning on or after 1 January 2009).
- IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions", adopted by the EU on 1 June 2007 (applies to the annual periods beginning on or after 1 March 2008).
- IFRIC 13 "Customer Loyalty Programmes", adopted by the EU on 16 December 2008 (applies to the annual periods beginning on or after 1 January 2009).
- IFRIC 14 "IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", adopted by the EU on 16 December 2008 (applies to the annual periods beginning on or after 1 January 2009).

The Group decided not to apply these standards, revised standards and interpretations before their entry into force. The Group projects that the first-time application of these standards, revised standards and interpretations will not have a significant impact on the consolidated financial statements.

b) Standards and interpretations issued by the IASB and adopted by the EU, but not yet effective:

On the date of adoption of these consolidated financial statements, the following standards, amendments and interpretations, adopted by the EU, were issued, but not yet effective:

- IFRS 1 (revised) "First-Time Adoption of IFRS", adopted by the EU on 25 November 2009 (applies to the annual periods beginning on or after 1 January 2010).
- IFRS 3 (revised) "Business Combinations", adopted by the EU on 25 November 2009 (applies to the annual periods beginning on or after 1 January 2010).
- IAS 27 "Consolidated and Separate Financial Statements", adopted by the EU on 3 June 2009 (applies to the annual periods beginning on or after 1 January 2010).
- IAS 32 "Financial Instruments: Presentation" – Classification of Rights Issues, adopted by the EU on 23 December 2009 (applies to the annual periods beginning on or after 1 January 2011).
- IAS 39 "Financial Instruments: Recognition and Measurement" – Eligible Hedged Items, adopted by the EU on 15 September 2009 (applies to the annual periods beginning on or after 1 July 2009).
- IFRIC 12 "Service Concession Arrangements ", adopted by the EU on 25 March 2009 (applies to the annual periods beginning on or after 1 January 2010).

- IFRIC 15 "Agreements for the Construction of Real Estate", adopted by the EU on 22 July 2009 (applies to the annual periods beginning on or after 1 January 2010).
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation", adopted by the EU on 04 June 2009 (applies to the annual periods beginning on or after 1 July 2009).
- IFRIC 17 "Distributions of Non-cash Assets to Owners", adopted by the EU on 26 November 2009 (applies to the annual periods beginning on or after 1 November 2009).
- IFRIC 18 "Transfers of Assets from Customers", adopted by the EU on 27 November 2009 (applies to the annual periods beginning on or after 1 November 2009).

The Group decide not to apply these standards, amendments and interpretations before their entry into force. The Group projects that the adoption of these standards, amendments and interpretations will not have a significant impact on the consolidated financial statements. in the first-time application.

c) Standards and interpretations issued by the IASB, but not yet adopted by the EU:

On the date of adoption of these consolidated financial statements, the following standards, amendments and interpretations were issued, but were not yet effective:

- IFRS 9 "Financial Instruments" (applies to the annual periods beginning on or after 1 January 2013).
- IAS 24 "Related Party Disclosures" – Exemption for State-Controlled Entities and Definition of a Related Party (applies to the annual periods beginning on or after 1 January 2011).
- IFRS 1 "First-Time Adoption of IFRS" – Additional Exemptions for First-time Adopters (applies to the annual periods beginning on or after 1 January 2010).
- IFRS 2 "Share-based Payment" – Group Cash-settled Share-based Payment Transactions (applies to the annual periods beginning on or after 1 January 2010).
- IFRIC 14 "IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" – Voluntary Prepaid Contributions Under a Minimum Funding requirement (applies to the annual periods beginning on or after 01 January 2011).
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (applies to the annual periods beginning on or after 1 July 2010).

3.3.2 CONSOLIDATED FINANCIAL STATEMENTS

Subsidiaries, in which the Group directly or indirectly holds a share exceeding one half of voting rights or has another means of influencing their operations, are consolidated. They are included in consolidated statements of the Group from the date the Group assumes the controlling share in them, and they are excluded from consolidation when the Group ceases to hold the controlling share. All transactions, and receivables and liabilities existing between Group members are excluded for consolidation purposes. For the purpose of providing consistent and accurate data for consolidation and accounting reporting of the Group, the accounting policies of subsidiaries have to be aligned with the policies of the controlling company.

The Group treats transactions with the owners of the non-controlling interest equally as transactions with external partners. Profit and loss of the owners of the non-controlling interest are disclosed in the consolidated income statement. Purchase acquisitions are reflected in increased non-controlling interest and increased goodwill or negative goodwill, as the difference between the share of the non-controlling interest in book value and fair value of the acquired company.

Consolidated financial statements for a selected group of the subsidiaries are compiled by the company SIJ – Slovenska industrija jekla, d. d. The Annual Report for the SIJ Group is available at the registered office of the company SIJ – Slovenska industrija jekla, d. d., Gerbičeva ulica 98, Ljubljana. Consolidated financial statements for a wider group of the subsidiaries are compiled by the company DILON Cooperatief U.A. from Amsterdam (the Netherlands). The Annual Report for the DILON Cooperatief Group is available at the registered office of the company DILON Cooperatief U.A., Amsteldijk 166, 1079LH Amsterdam, the Netherlands.

3.3.3 COMPOSITION OF THE GROUP OF ASSOCIATED COMPANIES

Consolidated financial statements of the SIJ Group comprise the financial statements of the parent company SIJ – Slovenska industrija jekla, d. d., and of the Group companies.

The group of associated companies in which the company SIJ - Slovenska industrija jekla, d. d., holds financial shares comprises the companies given in the table below:

	Company's activity	% of participation	Value of equity of the company as at 31.12.2009	Profit/loss for 2009
Controlling company				
SIJ - Slovenska industrija jekla, d. d., Gerbičeva 98, Ljubljana	Holding activity		157,649,372	2,569,491
SIJ – subsidiaries				
Acroni, d. o. o., Cesta Borisa Kidriča 44, Jesenice	Manufacturing of steel	**100**	159,868,699	(22,771,748)
Metal Ravne, d. o. o., Koroška cesta 14, Ravne na Koroškem	Manufacturing of steel	**100**	71,652,317	(8,337,195)
Noži Ravne d. o. o, Koroška cesta 14, Ravne na Koroškem	Manufacturing of industrial knives	**100**	10,843,284	71,831
Elektrode Jesenice, d. o. o., Cesta železarjev 8, Jesenice	Manufacturing of filler materials for welding	**100**	5,470,123	38,675
SUZ, d. o. o., Cesta Borisa Kidriča 44, Jesenice	Manufacturing of drawn wires	**100**	610,978	(178,679)
ZIP Center, d. o. o., Koroška cesta 14, Ravne na Koroškem	Training and education of disabled persons	**100**	76,768	6,033
Železarna Jesenice, d. o. o., Cesta železarjev 8, Jesenice	Trading in own real estate	**100**	21,052,357	583,952
Žična Celje, d. o. o., Cesta v Trnovlje 7, Celje	Other business and management consultancy	**100**	1,691,239	19,190
Odpad d. o. o. Pivka, Velika Pristava 23, Pivka	Recovering of secondary raw materials from scraps	**74.90**	5,168,634	318,353

	Company's activity	% of participation	Value of equity of the company as at 31.12.2009	Profit/loss for 2009
ACRONI – subsidiaries				
Acroni Italia s.r.l., Via del San Michele 334, Gorica, Italy	Trading activity	**100**	1,248,123	335,019
Acroni Deutschland GmbH, Paulsmuhlenstrasse 42, Duesseldorf, Germany	Trading activity	**100**	1,060,328	87,581
Acroni Scandinavia AB, Box 17136, 200 01 Malmö, Sweden	Trading activity	**100**	9,754	-
METAL RAVNE – subsidiaries				
Iuenna Stahl Productions und Handelsgesellschaft m.b.H., Pliberk, Austria	Trading activity	**100**	1,919,355	76,611
KOPO International Inc., New Jersey, USA	Trading activity	**100**	861,156	32,525
Serpa d. o. o., Koroška cesta 14, Ravne na Koroškem	Production of metallurgic machines	**85.61**	3,468,058	(121,760)
Ravne Steel center d.o.o., Litostrojska cesta 60, 1000 Ljubljana	Trading activity	**100**	2,052,883	256,142

	Company's activity	% of participation	Value of equity of the company as at 31.12.2009	Profit/loss for 2009
ODPAD – subsidiary				
Dankor d.o.o., Europske avenije 22, Osijek, Croatia	Recovering of secondary raw materials from scraps	**51**	389,379	(311,690)

In 2009, the company Ravne Steel Center, d. o. o., Ljubljana, Slovenia, was included in the consolidated financial statements as at 1 April 2009 and the company Dankor, d. o. o., Osijek, Croatia, was included as at 30 November 2009. Up to 1 April 2009, the company Ravne Steel Center, d. o. o., was an associate company.

3.3.4 REPORTING CURRENCY

a) Functional and presentation currency

The items shown in financial statements of individual Group companies are presented in the currency of the primary environment – country where an individual company operates (that currency is the so-called functional currency). The consolidated financial statements are presented in EUR, which is the functional and presentation currency of the controlling company.

b) Transactions and balances

Foreign-currency transactions are translated into the presentation currency by using the exchange rate applicable as at the date of the transaction. Gains and losses resulting from these transactions and from translation of assets and liabilities denominated in a foreign currency are recognised in the income statement of an individual company of the Group.

Exchange rate differences resulting from debt securities and other monetary financial assets recognised at fair value are included in profit and loss from foreign exchange transactions.

c) Group companies

The income statement and the cash flow statement of individual Group companies abroad, where the company's functional currency is not euro, are translated into the controlling company's reporting currency at the average exchange rate, and the statement of financial position is translated into the reporting currency at the exchange rate applicable on 31 December. In case a company abroad is sold, the exchange rate differences, arising from the sale, are recognised in the income statement as a part of profit or loss arising from the sale.

3.3.5 INTANGIBLE ASSETS

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

For measuring intangible assets with a finite useful life, the cost model is applied and therefore intangible assets are carried at cost, decreased by accumulated amortisation and accumulated impairment losses. Amortisation shall begin when an intangible asset is available for use. When computer software is not an integral part of the related hardware, computer software is treated as an intangible asset.

Useful life of intangible assets is from 2 to 10 years.

3.3.6 GOODWILL

Goodwill arising on consolidation represents the excess of the cost over the company's interest in the fair value of the acquired identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition.

Negative goodwill arising on consolidation represents the deficit of the cost in the Group's interest compared to the fair value of the acquired identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition. Negative goodwill is recognised immediately in the consolidated income statement at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the consolidated income statement and is not subsequently reversed.

Upon the disposal of a subsidiary, the relevant goodwill amount is included in the determination of the profit or loss.

3.3.7 PROPERTY, PLANT AND EQUIPMENT

For measuring property, plant and equipment, the cost model is applied and therefore property, plant and equipment are carried at historical cost, decreased by accumulated depreciation and accumulated impairment losses.

Straight-line depreciation method is applied. The expected functional useful life by asset group is as follows:

Type of asset	Useful life
Real estate	from 20 to 66 years
Production equipment	from 5 to 25 years
Computer equipment	from 1 to 6 years
Motor vehicles	from 3 to 8 years
Other equipment	from 1 to 15 years

Depreciation starts when a property, plant and equipment become available for use, whereas unfinished construction is not depreciated. Land is also not depreciated as it is assumed to have infinite useful life.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its estimated recoverable amount.

Profit and loss resulting from disposal of land, buildings and equipment are established on the basis of carrying amount and affect the identified operating profit/loss.

Borrowing costs that can be directly attributable to the purchase, construction and production of a qualifying asset are an integral part of the historical cost of such an asset. Other borrowing costs are recognised as expenses in the period in which when they occurred.

Subsequent expenditure on an item of property, plant and equipment increases its cost when it increases its future economic benefits in excess of the originally assessed future economic benefits; the subsequent expenditure enabling extension of the useful life of the asset initially reduces the accumulated depreciation.

Repairs or maintenance of tangible fixed assets are reported as expenses in the period in which they occurred.

Among tangible fixed assets, the Group also considers the tangible fixed assets for financing leasing according to the criteria set out in the IAS 17 standard and are depreciated with regard to the functional useful life of an asset.

3.3.8 INVESTMENT PROPERTY

Investment property is defined as the property owned by the Group in order to generate rent from operating lease or increase the value of long-term investment or both. Investment property is defined as the land or building owned in order to increase the value of long-term investment or given to operating lease and not to be sold in the near future. Investment property is recognised as asset exclusively in case future economic benefits for the Group are likely and provided its cost may be measured reliably.

For measuring investment property, the cost model is applied and therefore investment property is carried at cost, decreased by accumulated depreciation and accumulated impairment losses.

Depreciation is recognised on a straight-line basis over the useful life of individual investment property. Land is not depreciated. Useful life of investment property itself is in range from 20 to 50 years.

If the carrying amount of investment property exceeds its recoverable amount, such assets must be impaired in accordance with IAS 36. Investment property impairment losses, measured under the cost model, are recognised immediately in the consolidated income statement.

3.3.9 INVESTMENTS IN ASSOCIATED COMPANIES

Investments in associates are accounted on the basis of the equity method. Associates are those companies in which the Group has 20 % to 50 % of voting rights, and in which it has significant influence on the operations, however, which it does not control.

The equity method determines that the share of the Group in profit/loss of the associated company is recognised in the consolidated income statement.

3.3.10 FINANCIAL INSTRUMENTS

The Group can disclose its financial investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial investments, and available-for-sale financial assets. Classification depends on the purpose for which an asset was acquired.

a) Financial assets at fair value through profit or loss

Investments acquired for the purpose of generating profit arising from short-term (less than a year) price fluctuations are posted as assets held for trading and are included in current assets.

These assets are disclosed at fair value, and realised/unrealised gains and losses resulting from changes in fair value are included in the consolidated income statement for the period in which they occurred.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets except for maturities exceeding 12 months after the date of the consolidated statement of financial position. In such case they are classified into non-current assets. Loans and receivables are disclosed in the statement of financial position under operating and other receivables. Initially, loans and receivables of all categories are reported at amounts recorded in the underlying documents under the assumption that the amounts owed will be paid. They are measured at amortised cost by applying the effective interest rate method.

c) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets designated as available-for-sale or not included in any other category. They are valued at fair value if fair value can be determined. Financial assets for which fair value cannot be determined are valued at cost. The effects of revaluation increase or decrease the value of equity – revaluation reserves. Initially, they are recognised at cost, and later revaluated to fair value.

3.3.11 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

3.3.12 IMPAIRMENT OF ASSETS

a) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence of its impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the estimated future cash flows discounted at the original effective interest rate. An impairment of an available-for-sale financial asset is calculated by reference to its current fair value.

The Group assesses evidence regarding the impairment of receivables separately or collectively. All important receivables are measured separately for the purpose of special impairments. If it is assessed that their carrying amount exceeds their fair value, that it, recoverable value, receivables are impaired. The impairment of receivables that are not important on their own is collectively assessed by including the receivables in the group of risks with similar characteristics. The Group creates groups on the basis of the maturity of receivables. In an estimate of collective impairments, the Group considers the past development of probability of non-fulfilment, a repayment time limit and the amount of loss incurred that is adjusted by the Management Board's assessment of whether actual losses due to current economic conditions can be higher or lower than the losses projected by the past development.

The Group recognises all impairment losses in profit or loss for the period. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the consolidated income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

b) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The impairment is disclosed in the consolidated income statement. Recognised impairment loss of a cash-generating unit is allocated first to reduce the carrying amount of goodwill allocated to the cash-generating unit, and then to reduce the carrying amounts of the other assets of the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value, less costs to sell. In assessing value in use, estimated future cash flows are discounted to the present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of testing impairment, an asset's cash-generating unit is the smallest group of assets that includes the asset and generates cash inflows and that are largely independent of the cash inflows from other assets or groups of assets.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in previous periods are assessed at each consolidated income statement date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortisation or depreciation, if no impairment loss had been recognised for the asset in previous years.

At least once a year, or as at the day of compiling annual financial statements, the Group assesses evidence regarding the impairment of inventories. The impairment of inventories is assessed by each individual type of inventories. Individual types of inventories are allocated to groups of inventories with similar characteristics on the basis of the time component of the movement in inventories. The estimate of impairment for an individual group includes the criteria of an expert assessment of the possibility of further use or sale.

3.3.13 ASSETS CLASSIFIED AS HELD FOR SALE

An asset or a group of assets (disposal group) classified as held for sales are those of which the amount is assumed to be settled by sale within next 12 months rather than further use.

Such asset or disposal group held for sale is measured at the lower of its carrying amount or fair value, less costs to sell.

3.3.14 INVENTORIES

Inventories are measured at the lower of their cost or net realisable value. The cost value comprises the purchase price, import duties and direct costs of procurement. The purchase price is reduced by discounts given. Direct costs of procurement mean transport costs, costs of loading, reloading and unloading, costs of monitoring goods, and other costs attributable to directly purchased merchandise, materials or services. Purchase discounts are those that are stated on the invoice, or are given later and refer to individual purchases. The value of finished goods and work in progress refers to all production costs, which include costs of manufacturing materials, labour costs, amortisation, services and other costs.

Inventories are held on weighted average prices. Stocks of material and merchandise are valued on the basis of actual prices, and stocks of finished goods and work in progress are valued on the basis of permanent prices and the difference to actual production prices.

Net realisable value is estimated on the basis of the sales price in normal operations, less the estimated finishing costs and estimated sales costs. Write-off of damaged, expired and useless inventories are regularly performed during the year, by individual item.

3.3.15 CASH AND CASH EQUIVALENTS

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. Overdrafts on bank accounts are included in non-current financial liabilities in the consolidated income statement. Cash and cash equivalents are carried at cost.

3.3.16 DEFERRED COSTS AND ACCRUED REVENUES

Deferred costs and accrued revenues are receivables and other assets expected to arise within a period of one year; their occurrence is probable and their amount is reliably measured. The receivables are associated with both known and yet unknown legal or natural persons due from which genuine receivables will have arisen by then, and assets refer to products or services chargeable to the legal or natural persons concerned.

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

3.3.17 EQUITY

3.3.17.1 Share capital

Ordinary shares are classified as equity. Transaction costs directly linked to the issue of new shares not in relation to acquisition of a company are presented as decrease in capital. Any surplus of fair value of the received paid amount above the carrying amount of the issued new shares is recognised as paid up capital surplus.

3.3.17.2 Capital reserves

Capital reserves consist of amounts which the Group acquires from payments exceeding 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, the amounts on the basis of simplified decrease of share capital and the amounts on the basis the general equity evaluation adjustment.

3.3.17.3 Legal and other reserves

Legal and other reserves are amounts of retained profit from previous years, which are mostly used to compensate potential losses. Upon their occurrence, they are recognised by the body responsible for the preparation of the Annual Report, or by the decision of the body

3.3.17.4 Treasury shares

If the controlling company or its subsidiaries acquire a stake in the controlling company, the paid amount including the transaction cost less tax is deducted from the total equity as treasury shares until such shares are withdrawn, reissued or sold.

3.3.17.5 Dividends

Until approved by the General Meeting of Shareholders/partners, the planned dividends are treated as retained profit.

3.3.18 PROVISIONS

Provisions are recognised when the company records a legal obligation as a result of past events for which there is a high probability that such liability will have to be settled in the future, and a reliable assessment of such liability is possible. Provisions should not be made for covering future operating losses.

3.3.19 LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES

Long-term accrued costs and deferred revenues comprise deferred revenues expected to cover estimated expenses incurred in a period exceeding one year. Long-term accrued costs and deferred revenues also include government grants and donations. Long-term accrued costs and deferred revenues arising from long-term deferred revenues are transferred to the revenues of the financial year when the costs or expenses they are intended to cover, incur.

3.3.20 RETIREMENT BENEFIT OBLIGATIONS

In accordance with legal regulations, the Collective Agreement and the internal rules, the Group is obliged to make payments arising from loyalty bonuses and severance pay upon retirement, for which long-term provisions are formed. There are no other retirement benefits.

Provisions are envisaged to the amount of estimated future payments for loyalty bonuses and severance pay, discounted as at the end of the reporting period. The calculation is made for every employee and includes costs of all the expected loyalty bonuses up to retirement and costs of severance pay upon retirement. The calculation is prepared by an actuary on the basis of a projected unit.

3.3.21 TAXES

Corporate income tax represents a sum of income tax liabilities. Income tax liabilities are based on taxable profit for the period. Taxable profit differs from net profit, reported in the consolidated income statement, because it excludes the items of income or expenses that are taxable or deductible in other years, as well as items that are never taxable or deductible. The Group's income tax liability is calculated by using the tax rate applicable as at the date of the consolidated statement of financial situation.

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 consolidated financial statements. Deferred tax is calculated by using the tax rate (and legislation) which is laid down by law and applicable as at the date of the consolidated statement of financial position and which is expected to be applied when deferred tax assets are realised or recovered.

Deferred tax assets are recognised if taxable profit is likely to be available in the future, to which temporary differences will be charged. Deferred tax liabilities are recognised for all taxable temporary differences. It is inherent in the recognition of a liability that the carrying amount will be settled in future periods through an outflow of resources embodying economic benefits. When resources flow from the Group, part or all of their amounts may be deductible in determining taxable profit for a period later than the period in which the liability is recognised.

3.3.22 OPERATING LIABILITIES

Upon initial recognition, operating liabilities are valued at the amounts stated in the underlying documents that give evidence of the occurrence of such liabilities. Operating liabilities are recognised in books of account and the consolidated statement of financial position as a liability, taking into account the contractual date.

3.3.23 FINANCIAL LIABILITIES

Financial liabilities are initially recognised at fair value excluding any transaction costs incurred. In subsequent periods, financial liabilities are measured at amortised cost by using the effective interest rate method. Any difference between receipts (excluding transaction costs) and liabilities is recognised in the consolidated income statement throughout the period of the financial liability.

3.3.24 RECOGNITION OF REVENUES

Revenues are recognised on the basis of the sale of products, services and merchandise and acceptance thereof by customers (excluding VAT and excise duty). Sales revenues are recognised when the material risks and benefits of ownership of goods are transferred from the seller to the buyer.

Financial income is recognised upon accounting, regardless of receipts unless there exist reasonable doubt as to its size, maturity and repayment. Interest is charged in proportion to the period of accrual and with regard to the part of the principal not yet repaid, taking into account the applicable interest rate.

Income arising from default interest is recognised only when the latter has been paid. Dividend income is recognised when the right to receive the payment arising from dividends arises.

3.3.25 RECOGNITION OF EXPENSES

Expenses are recognised if decreases in economic benefits during the accounting period are associated with a decrease in assets or an increase in liabilities (debts) and the respective change can be measured reliably. Expenses are therefore recognised simultaneously with a decrease in assets or an increase in liabilities (debts).

Operating expenses are recognised when the costs are no longer held in inventories of products and work-in-progress or once merchandise has been sold. The costs that cannot be held in inventories and work-in-progress are on their incurrence recognised as operating expenses.

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

3.3.26 EARNINGS PER SHARE

The Group recognises basic and diluted earnings per share for ordinary shares. Basic earnings per share are calculated by dividing profit or loss allocated to ordinary shareholders by the weighted average number of ordinary shares in the financial year, net of the average number of treasury shares. Diluted earnings per share are calculated by adjusting profit or loss allocated to ordinary shareholders to the weighted average number of ordinary shares in the financial year, net of the average number of treasury shares, for the effect of all potential ordinary shares that represent convertible bonds and share options for employees.

3.3.27 CONSOLIDATED STATEMENT OF CASH FLOW

The consolidated cash flow statement shows changes in balances of cash and cash equivalents for the financial year concerned. In the part relating to operations, the consolidated cash flow statement is compiled according to the indirect method from the data stated in the statement of financial position, and in the part relating to investment and financing, it is compiled according to the direct method.

3.3.28 SEGMENT REPORTING

In the Annual Report, the Group does not disclose operations by segments. Segment reporting in the Annual Report is required from a company or group whose debt or equity securities are publicly traded, including a company or group that is in the process of issuing equity or debt securities in a public securities market.

3.4 NOTES TO THE FINANCIAL STATEMENTS

3.4.1 INTANGIBLE ASSETS

3.4.1.1 Table of movement in intangible assets for 2009

	Non-current property rights	Goodwill	Assets under construction	Total
Cost as at 31.12.2008	**2,652,540**	**1,396,531**	**-**	**4,049,071**
Purchase of subsidiary	4,566	912,327	-	916,893
Direct acquisitions	-	-	1,517,634	1,517,634
Transfers from assets under construction	24,438	-	(24,438)	-
Disposals	(242,900)	-	-	(242,900)
Other changes	51,372	76,069	-	127,441
Cost as at 31.12.2009	**2,490,016**	**2,384,927**	**1,493,196**	**6,368,139**
Accumulated amortisation as at 31.12.2008	**(1,225,633)**	**-**	**-**	**(1,225,633)**
Amortisation	(267,066)	-	-	(267,066)
Disposals	242,900	-	-	242,900
Other changes	(3)	-	-	(3)
Accumulated amortisation as at 31.12.2009	**(1,249,802)**	**-**	**-**	**(1,249,802)**
Present value as at 31.12.2008	**1,426,907**	**1,396,531**	**-**	**2,823,438**
Present value as at 31.12.2009	**1,240,214**	**2,384,927**	**1,493,196**	**5,118,337**

Long-term property rights of the Group comprise computer and similar applications and licenses. The largest acquisition in the 2009 financial year was purchases of new information program. An information program is in the testing phase and is expected to be finally introduced by the end of 2010. The disposal of intangible assets refers to a write-off of licences which the Group ceased to use in 2009.

Goodwill arose on the purchase of subsidiaries and represents the excess of the cost over the Group’s interest in the fair value of the acquired identifiable assets, liabilities and contingent liabilities of subsidiaries at the date of acquisition. Other changes to goodwill refer to the purchase of an additional 30 % non-controlling interest in a subsidiary. (See point 3.4.38.)

The Group has no liabilities arising from the acquisition of intangible assets nor have any assets been pledged.

3.4.1.2 Table of movement in intangible assets for 2008

	Non-current property rights	Long-term development costs	Goodwill	Assets under construction	Total
Cost as at 31.12.2007	**2,104,155**	**72,977**	**-**	**-**	**2,177,132**
Purchase of subsidiary	51,531	-	1,396,531	-	1,448,062
Direct acquisitions	-	-	-	163,707	163,707
Transfers from assets under construction	163,707	-	-	(163,707)	-
Disposals	(31,255)	-	-	-	(31,255)
Other changes	364,402	(72,977)	-	-	291,425
Cost as at 31.12.2008	**2,652,540**	**-**	**1,396,531**	**-**	**4,049,071**
Accumulated amortisation as at 31.12.2007	**(983,715)**	**(51,484)**	**-**	**-**	**(1,035,199)**
Amortisation	(218,582)	-	-	-	(218,582)
Disposals	31,109	-	-	-	31,109
Other changes	(54,445)	51,484	-	-	(2,961)
Accumulated amortisation as at 31.12.2008	**(1,225,633)**	**-**	**-**	**-**	**(1,225,633)**
Present value as at 31.12.2007	**1,120,440**	**21,493**	**-**	**-**	**1,141,933**
Present value as at 31.12.2008	**1,426,907**	**-**	**1,396,531**	**-**	**2,823,438**

3.4.2 PROPERTY, PLANT AND EQUIPMENT

3.4.2.1 Table of movement in property, plant and equipment for 2009

	Land	Buildings	Equipment	Other	Assets under construction	Total
Cost as at 31.12.2008	**20,894,336**	**238,354,115**	**621,951,733**	**18,412,437**	**54,807,756**	**954,420,377**
Purchase of subsidiary	1,482,053	1,654,453	839,984	263,587	93,482	4,333,559
Direct acquisitions	-	-	-	-	84,893,737	84,893,737
Transfers from assets under construction	92,000	8,239,861	90,031,169	593,364	(98,956,394)	-
Disposals	(49,395)	(4,090,016)	(52,733,668)	(319,896)	-	(57,192,975)
Translation differences	1,756	874	821	(967)	205	2,689
Other changes	6,695	(76,139)	(435,900)	517,106	(51,368)	(39,606)
Cost as at 31.12.2009	**22,427,445**	**244,083,148**	**659,654,139**	**19,465,631**	**40,787,418**	**986,417,781**
Accumulated depreciation as at 31.12.2008	**-**	**(159,981,967)**	**(506,052,350)**	**(11,531,174)**	**-**	**(677,565,491)**
Depreciation	-	(4,116,531)	(18,734,945)	(1,189,054)	-	(24,040,530)
Disposals	-	4,063,126	52,546,995	298,561	-	56,908,682
Translation differences	-	(13)	(53)	670	-	604
Other changes	-	67,710	2,969,644	(2,987,729)	-	49,625
Accumulated depreciation as at 31.12.2009	**-**	**(159,967,675)**	**(469,270,709)**	**(15,408,726)**	**-**	**(644,647,110)**
Present value as at 31.12.2008	**20,894,336**	**78,372,148**	**115,899,383**	**6,881,263**	**54,807,756**	**276,854,886**
Present value as at 31.12.2009	**22,427,445**	**84,115,473**	**190,383,430**	**4,056,905**	**40,787,418**	**341,770,671**

Major purchases of property, plant and equipment refer to:

- modernisation of a new continuous casting machine for slabs,
- construction of a new loading point,
- modernisation of the skin-pass mills,
- renovation of the roller hearth furnace,
- purchase and modernisation of old "plasma" cutters,
- construction of new shears (guillotines) for mechanical cutting of heavy-thickness steel sheets,
- construction of a pre-heating chamber of the furnace,
- renovation of a storage facility for lubricants and oils,
- renovation of the billet mill – the heavy blooming mill, and
- renovation of casting machines, annealing and reheating furnaces, crane rail installations, lathes, milling machines, heat treatment furnaces and CNC grinding machines.

Among fixed assets under construction and in production, we also show unfinished projects on construction of a transport system, manufacturing of a grinding machine for slabs and manufacturing of a new chamber annealing furnace.

Disposals of property, plant and equipment consist of the sale and write-offs of tangible fixed assets, where the largest part refers to eliminated fixed assets within the scope of renovation of the billet mill – the heavy blooming mill.

Other changes in fixed assets refer to the transfer of a narrow-gauge carriage shop from property, plant and equipment to investing property, a free-of-charge purchase of land upon coordination of the data from the land register, and internal rearrangements of fixed assets into an appropriate group of fixed assets.

Property, plant and equipment with the present value equalling EUR 173,050,784 as at 31 December 2009 are mortgaged as collateral for loans received. The Group's unsettled liabilities arising from the purchases of property, plant and equipment amounted to EUR 15,117,459 as at 31 December 2009. The present value of property, plant and equipment under financing leasing totalled EUR 10,651,593 as at 31 December 2009.

The Group reviewed the value of property, plant and equipment and established that the carrying amount does not exceed the recoverable amount.

3.4.2.2 Table of movement in property, plant and equipment for 2008

	Land	Buildings	Equipment	Other	Assets under construction	Total
Cost as at 31.12.2007	**20,372,160**	**223,766,414**	**578,803,114**	**18,128,804**	**59,602,379**	**900,672,871**
Purchase of subsidiary	468,168	1,611,770	1,077,418	49,171	455,732	3,662,259
Direct acquisitions	-	-	-	-	55,951,868	55,951,868
Transfers from assets under construction	1,355	12,703,321	47,120,913	1,096,257	(60,921,846)	-
Disposals	-	-	(4,877,406)	(343,653)	-	(5,221,059)
Translation differences	-	-	-	1,585	-	1,585
Other changes	52,653	272,610	(172,306)	(519,727)	(280,377)	(647,147)
Cost as at 31.12.2008	**20,894,336**	**238,354,115**	**621,951,733**	**18,412,437**	**54,807,756**	**954,420,377**
Accumulated depreciation as at 31.12.2007	-	**(155,803,801)**	**(495,984,320)**	**(11,007,199)**	**-**	**(662,795,320)**
Depreciation	-	(3,941,679)	(14,932,311)	(1,037,109)	-	(19,911,099)
Disposals	-	-	4,587,136	317,795	-	4,904,931
Translation differences	-	-	-	(1,318)		(1,318)
Other changes	-	(236,487)	277,145	196,657	-	237,315
Accumulated depreciation as at 31.12.2008	**-**	**(159,981,967)**	**(506,052,350)**	**(11,531,174)**	**-**	**(677,565,491)**
Present value as at 31.12.2007	**20,372,160**	**67,962,613**	**82,818,794**	**7,121,605**	**59,602,379**	**237,877,551**
Present value as at 31.12.2008	**20,894,336**	**78,372,148**	**115,899,383**	**6,881,263**	**54,807,756**	**276,854,886**

3.4.3 INVESTMENT PROPERTY

	Buildings	Total
Cost as at 31.12. 2008	**1,283,778**	**1,283,778**
Other changes	67,148	67,148
Cost as at 31.12.2009	**1,350,926**	**1,350,926**
Accumulated depreciation as at 31.12. 2008	**(936,711)**	**(936,711)**
Depreciation	(29,175)	(29,175)
Other changes	(67,148)	(67,148)
Accumulated depreciation as at 31.12.2009	**(1,033,034)**	**(1,033,034)**
Present value as at 31.12.2008	**347,067**	**347,067**
Present value as at 31.12.2009	**317,892**	**317,892**

In the 2009 financial year, the Group generated EUR 34,837 and EUR 87,210 of expenses and revenues, respectively, by investment property. The carrying amount of investment property does not exceed its realisable value.

Other changes refer to the transfer of property, plant and equipment to investment property because the Group leased the assets at the beginning of 2009.

Investment property refers to:

- The storage facility for lubricants, scrap and raw materials, and narrow-gauge carriage shop, covering in total 1,844 m^2;
- The building of the special steel plant, Ravne na Koroškem, covering 1,334 m^2;
- Apartment at Milčinskega ulica 8 in Celje, covering 42.41 m^2;
- Apartment at Milčinskega ulica 11 in Celje, covering 34.80 m^2;
- Apartment at Milčinskega ulica 12 in Celje, covering 62.82 m^2;
- Apartment at Zoisova ulica 3 in Celje, covering 48.15 m^2.

3.4.4 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31.12.2009	31.12.2008
Available-for-sale financial assets – purchase value	367,361	367,361
Available-for-sale financial assets – fair value	699,339	998,985
Available-for-sale financial assets	**1,066,700**	**1,366,346**

Non-current available-for-sale financial assets carried at cost are related to investments in shares and interests in domestic companies, whose shares are not traded on the regulated market and the fair value of which cannot be measured reliably.

For non-current available-for-sale financial assets that are carried at fair value and whose fair value can be reliably estimated the fair value of profit and loss is reflected directly in equity.

In 2009, the Group sold an available-for-sale financial asset that was carried at fair value and generated profit in the amount of EUR 355,964.

3.4.5 INVESTMENTS IN ASSOCIATES

	31.12.2009	31.12.2008
Investments in associates	-	736,452
Investments in associates	**-**	**736,452**

The Group bought a 55 % share of the company Ravne Steel Center, d. o. o., on 1 April 2009. Thus, the associated company became a subsidiary (see point 3.4.38).

3.4.6 OTHER NON-CURRENT ASSETS

	31.12.2009	31.12.2008
Other non-current assets	459,446	586,794
Operating receivables	395,313	476,592
Impairments of operating receivables	(64,863)	(200,556)
Other non-current assets	**789,896**	**862,830**

The disclosed operating receivables do not exceed net realisable value.

Operating receivables decreased due to repayments by debtors and concluded bankruptcy proceedings of debtors. Part of receivables was repaid and part of them was fully written off by the Group. Other non-current assets consist of emission coupons.

3.4.7 DEFERRED TAX ASSETS/LIABILITIES

	31.12.2009	31.12.2008
Deferred tax assets	10,455,415	2,955,867
Deferred tax liabilities	(61,268)	(102,676)
Deferred tax assets/liabilities, net	**10,394,147**	**2,853,191**

3.4.7.1 Table of movement in deferred tax assets/liabilities

	31.12.2008	Purchase of subsidiary	Translation differences	Changes in income statement	Changes in equity	31.12.2009
Available-for-sale financial assets	(102,676)	-	-	-	46,070	(56,606)
Other	-	-	-	(164)	(4,498)	(4,662)
Deferred tax liabilities	**(102,676)**	**-**	**-**	**(164)**	**41,572**	**(61,268)**
Other provisions	450,676	-	-	(1,656)	-	449,020
Unused tax losses	169,649	-	(5,012)	6,677,065	-	6,841,702
Inventories	93,372	-	-	2,436	-	95,808
Operating receivables	262,499	-	-	736,033	-	998,532
Retirement benefit obligations	1,599,923	2,339	-	(56,785)	-	1,545,477
Property, plant and equipment (tangible fixed assets)	273,336	10,997	-	94,556	-	378,889
Other	106,412	79	-	39,496	-	145,987
Deferred tax assets	**2,955,867**	**13,415**	**(5,012)**	**7,491,145**	**-**	**10,455,415**
Deferred tax assets/liabilities	**2,853,191**	**13,415**	**(5,012)**	**7,490,981**	**41,572**	**10,394,147**

Deferred tax assets do not include an asset arising from unused tax losses of the SIJ Group's controlling company which as at 31 December 2009 amounted to EUR 79,055,510, as the controlling company of the SIJ Group does not expect taxable profits in the future. Deferred tax assets arising from unused tax losses would amount to EUR 15,811,102. Unused tax loss pertains to unused tax loss from the financial years of 2001, 2002 and 2007, when we calculated the influence of the transition to the IFRS on the tax balance of the SIJ Group's controlling company.

3.4.8 ASSETS CLASSIFIED AS HELD FOR SALE

	31.12.2009	31.12.2008
Assets classified as held for sale	4,993,167	4,900,950
Assets classified as held for sale	**4,993,167**	**4,900,950**

The Group owns land and buildings (outbuildings, hydrobuildings and apartments) in Jesenice and Celje. Sales activities are underway constantly. Land and buildings are not mortgaged or pledged.

Assets classified as held for sale increased compared to the previous year due to the purchase of a new subsidiary. A decrease in assets classified as held for sale refers to the sale of assets. The Group generated profit in the amount of EUR 164,300 EUR through sale.

The carrying amount of assets held for sale does not exceed their realisable value.

3.4.9 INVENTORIES

	31.12.2009	31.12.2008
Inventories of material	31,494,345	45,445,967
Inventories of work-in-progress	24,721,662	28,249,220
Inventories of finished products	34,441,534	49,791,431
Merchandise	2,939,839	371,475
Inventories	**93,597,380**	**123,858,093**

The Group noted EUR 13,564 worth of inventory surpluses and EUR 158,614 of inventory deficits during the 2009 financial year. The value of inventories pledged as collateral for borrowings amounted to EUR 600,000 as at 31 December 2009.

The Group reviewed the value of inventories as at 31 December 2009. For inventories of finished products, the Group established that net realisable value is lower than production value, which is why it impaired inventories by EUR 161,454 in 2009.

3.4.9.1 Table of movement in allowances for inventories

	2009	2008
Balance as at 1.1.	**4,803,376**	**7,472,925**
Changes in allowances with effect on profit or loss	986,803	(2,193,388)
Write-off of inventories subjected to allowance	(737,783)	(476,161)
Balance as at 31.12.	**5,052,396**	**4,803,376**

3.4.10 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2009	31.12.2008
Financial assets measured at fair value through profit or loss	70,023	90,787
Financial assets measured at fair value through profit or loss	**70,023**	**90,787**

Financial assets at fair value through profit or loss measured at fair value through profit or loss refer to investments in the shares of companies traded on the regulated market of securities.

	31.12.2008	Revaluation to market value	Sales	Purchase	31.12.2009
Shares	90,787	10,325	(68,703)	37,614	70,023
Total	**90,787**	**10,325**	**(68,703)**	**37,614**	**70,023**

3.4.11 LOANS ISSUED

	31.12.2009	31.12.2008
Loans issued to companies	37,596,046	26,816,372
Impairment of loans issued	(876,240)	(876,240)
Loans issued	**36,719,806**	**25,940,132**

Interest rate on loans issued ranges from 2.4 % to 9.0 %; loans are secured by shares, notes and a letter of guarantee. The carrying amount of loans issued does not exceed their fair value.

Under loans issued, the Group disclosed loans issued to associates in the amount of EUR 36,320,000 as at 31 December 2009; interest rate on loans ranges from 6.7 % to 9.0 % and the loans are secured by shares.

3.4.11.1 Table of movement in loans issued

	2009	2008
Balance as at 1.1.	**25,940,132**	**143,452**
Loans issued	24,695,000	56,147,048
Repayment of loans issued	(13,917,452)	(30,350,368)
Translation differences	2,126	-
Balance as at 31.12.	**36,719,806**	**25,940,132**

3.4.12 OPERATING RECEIVABLES

	31.12.2009	31.12.2008
Operating receivables from customers	101,665,578	127,363,580
Allowances for operating receivables from customers	(4,580,235)	(1,349,022)
Receivables from interest	602,095	155,957
Receivables related to VAT	6,357,903	8,241,904
Advances given and caution money	3,430,994	21,267,156
Other operating receivables	1,892,312	966,290
Operating receivables	**109,368,647**	**156,645,865**

The majority of the Group's receivables are insured against commercial risks with the insurance company SID-PKZ, d.d., Ljubljana, The value of receivables from customers pledged as collateral for borrowings amounted to EUR 4,010,000 as at 31 December 2009.

As at 31 December 2009, the Group's operating receivables amounted to USD 1,434,927, GBP 263,156 and CHF 7,949.

The Group has no receivables from the Management Board members and employees. The carrying amount of operating receivables does not exceed their realisable value.

3.4.12.1 Table of movement in allowances for operating receivables from customers

	2009	2008
Balance as at 1.1.	**1,349,022**	**1,273,514**
Purchase of subsidiary	-	21,956
Changes in allowances with effect on profit or loss	3,570,230	536,118
Changes in allowances without effect on profit or loss	898	-
Write-off of receivables subjected to allowance	(339,915)	(482,566)
Balance as at 31.12.	**4,580,235**	**1,349,022**

3.4.12.2 Maturity of operating receivables from customers

	2009	2008
Outstanding	65,777,241	101,338,121
Up to 90 days overdue	19,362,263	24,057,793
Up to 365 days overdue	11,882,905	580,385
More than 365 days overdue	4,643,169	1,387,281
Balance as at 31.12.	**101,665,578**	**127,363,580**

3.4.13 INCOME TAX ASSETS/LIABILITIES

	31.12.2009	31.12.2008
Income tax assets	3,775,226	1,239,645
Income tax paid	(48,915)	(364,515)
Income tax assets/liabilities, net	**3,726,311**	**875,130**

3.4.14 CASH AND CASH EQUIVALENTS

	31.12.2009	31.12.2008
Cash in national currency	15,132,907	32,137,620
Cash in foreign currency	668,968	707,119
Restricted cash	12,585	47,601
Cash and cash equivalents	**15,814,460**	**32,892,340**

Cash in national and foreign currency includes cash in hand and balances in transaction accounts totalling EUR 3,661,772 as at 31 December 2009. Deposits in the amount of EUR 12,140,103 have up to three-month maturity. The interest rate on these deposits is between 0.50 % and 2.95 %.

Restricted cash represents assets under the cash management contract signed with the financial company.

3.4.15 DEFERRED COSTS AND ACCRUED REVENUES

	31.12.2009	31.12.2008
Accrued costs	20,642	-
Deferred costs	236,923	203,163
Deferred costs and accrued revenues	**257,565**	**203,163**

Deferred costs and accrued revenues are related to payments for professional literature and other expenses debited against profit for 2010.

3.4.16 EQUITY

	31.12.2009	31.12.2008
Capital and reserves attributed to Owners of the parent	**306,668,361**	**333,543,460**
Share capital	145,266,066	145,266,066
Capital surplus	11,461,177	11,461,177
Revenue reserves	(2,005,997)	(2,134,473)
Legal reserves	*248,730*	*120,254*
Treasury shares	*(2,254,727)*	*(2,254,727)*
Revaluation reserves	244,415	386,255
Translation differences	(142,031)	(72,184)
Retained earnings	151,844,731	140,827,031
Net profit for the period	-	37,809,588
Non-controlling interest	**2,034,475**	**2,007,925**
Equity	**308,702,836**	**335,551,385**

Share capital is recognised in the amount of EUR 145,266,066 and is distributed among 994,616 shares. The book value of a share is EUR 146.05. The number of shares in 2009 remained the same.

The capital attributed to the owners of the parent company is recognised in the amount of EUR 306,668,361 and is lower than the amount recognised as at 31 December 2008 by EUR 26,875,099. Capital decreased by the generated net profit pertaining to owners of the parent company in the amount of EUR 26,913,240, calculated translation differences of EUR 69,847 and a decrease in revaluation reserves for assets at fair value in the amount of EUR 141,840 and increased by the amount of EUR 170,548 for subsequently determined tax breaks for previous years.

The revaluation reserves include available-for-sale financial assets carried at fair value through equity. Translation differences refer to profit and loss arising from translation of financial statements to functional currency, which is recorded in equity.

The non-controlling interest is recognised in the amount of EUR 2,034,475 and is higher the controlling interest recognised as at 31 December 2008 by EUR 26,550. The non-controlling interest increased by generated net profit pertaining to the non-controlling interest in the amount of EUR 23,095, calculated exchange rate differences of EUR 392, the purchase of additional non-controlling interests amounting to EUR 277,386, and decreased due to the purchase of the non-controlling interest by the owners of the parent company in the amount of EUR 273,931.

3.4.16.1 Ownership structure of the parent company

Registered ownership		
SHAREHOLDERS	**No. of shares 31.12.2009**	**No. of shares 31.12.2008**
DILON d. o. o., Gerbičeva ulica 98, Ljubljana	550,511	550,511
Republic of Slovenia, Gregorčičeva ulica 20, Ljubljana	248,655	248,655
OAO KOKS, 1 ST STAKHANOVSKAYA STR. 6, Kemerovo, Russian Federation	167,762	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 ulica 98, Ljubljana	7,917	7,917
Lameta d. d. Cesta Borisa Kidriča 44, Jesenice	58	58
MERKUR d. d., Cesta na Okroglo 7, Naklo	20	20
HIDRIA ROTOMATIKA d. o. o., Spodnja Kanomlja 23, Spodnja Idrija	10	10
UNIOR d. d., Kovaška cesta 10, Zreče	10	10
Total	**994,616**	**994,616**

At the beginning of 2010, the ownership structure of the parent company changed; namely, the company Lameta, d. d., sold 58 shares to the company DILON, d. o. o. The share of the company DILON, d. o. o., has therefore increased by 0.58 basis points.

3.4.16.2 Capital surplus

Capital surplus in the amount of EUR 11,461,177 was formed during the simplified decrease of share capital of the parent company.

3.4.16.3 Revenue reserves

	31.12.2009	**31.12.2008**
Legal reserves	248,730	120,254
Treasury shares	(2,254,727)	(2,254,727)
Revenue reserves	**(2,005,997)**	**(2,134,473)**

The parent company acquired treasury shares on the basis of the Acceptance of and Method of Meeting Liabilities of Slovenian Ironworks in Connection with the Restructuring Programme Act (Official Gazette of the RS, no. 111/2001) and in line with the Privatisation of the Slovenian Steelworks Act (Official Gazette of the RS, no. 13/1998). These own shares were acquired by swapping interest in subsidiaries for shares owned by authorised companies.

The shares were acquired ex lege and not according to the Companies Act, which why the treasury shares fund was not established. Shares are carried at cost.

3.4.16.4 Revaluation reserves

	31.12.2009	31.12.2008
Fair value of available-for-sale financial assets	283,031	488,931
Fair value of available-for-sale financial assets	22,488	-
Deferred tax liability	(61,104)	(102,676)
Revaluation reserves	**244,415**	**386,255**

3.4.16.5 Distributable profit

	31.12.2009	31.12.2008
Retained earnings	151,844,731	140,827,031
Net profit for the period	-	37,809,588
Distributable profit	**151,844,731**	**178,636,619**

The Group is not a legal person nor holds the decision-making right. Net profit of subsidiaries included in consolidation is divided at the level of respective subsidiary.

3.4.17 PROVISIONS

	31.12.2009	31.12.2008
Provisions for ecological rehabilitation	3,989,839	5,800,211
Provisions for legal actions	990,291	1,007,159
Other provisions	564,638	492,858
Provisions	**5,544,768**	**7,300,228**

3.4.17.1 Table of movement in provisions

	31.12.2008	Established	Disbursed and reversed	Transfer to current	31.12.2009
Provisions for ecological rehabilitation	5,800,211	-	(58,565)	(1,751,806)	3,989,839
Provisions for legal actions	1,007,159	-	(16,868)	-	990,291
Other provisions	492,858	104,611	(32,832)	-	564,638
Provisions	**7,300,228**	**104,611**	**(108,266)**	**(1,751,806)**	**5,544,768**

Provisions for ecological rehabilitation refer to the rehabilitation of the Sava bank, the rehabilitation of the slag disposal site and the rehabilitation of noise impact The provisions for the rehabilitation of the Sava bank and the rehabilitation of the slag disposal site were established in accordance with IPPC directives by which the EU requires rehabilitation of the white slag disposal facility in Javornik and stabilisation of the Sava bank, where the company waste material used to be deposited in the past years.

Other provisions refer to the provisions for complaints about products in the warranty period.

3.4.18 LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES

	31.12.2009	31.12.2008
Long-term accrued costs and deferred revenues – assigned contributions	401,051	518,940
Other long-term accrued costs and deferred revenues	135,083	168,367
Long-term accrued costs and deferred revenues	**536,134**	**687,307**

3.4.18.1 Table of movement in long-term accrued costs and deferred revenues

	31.12.2008	Established	Disbursed and reversed	31.12.2009
Long-term accrued costs and deferred revenues – assigned contributions	518,940	1,308,415	(1,426,304)	401,051
Other long-term accrued costs and deferred revenues	168,367	2,260,632	(2,293,916)	135,083
Long-term accrued costs and deferred revenues	**687,307**	**3,569,047**	**(3,720,220)**	**536,134**

3.4.19 RETIREMENT BENEFIT OBLIGATIONS

	31.12.2009	31.12.2008
Provisions for severance pay	7,534,035	7,647,383
Provisions for jubilee awards	2,034,094	2,040,927
Retirement benefit obligations	**9,568,129**	**9,688,310**

Provisions were formed for estimated payments of jubilee awards and severance pay as the consequence of long-service benefits as at the statement of financial position date discounted to the present value. The estimated liability was set up for expected payments.

Actuarial calculation has been 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 remaining to maturity, discounted by 0.517 % to 4.417 %, depending on employee age structure and maturity.

In 2009, the liabilities for jubilee awards and severance pay were calculated by an authorised actuary. On the basis of these calculations, additional provisions in the amount of EUR 120,943 were made for severance pay and EUR 10,379 for jubilee awards. Due to the acquisition of a subsidiary, the provisions for jubilee awards and severance pay rose by EUR 3,546 and EUR 7,595, respectively.

3.4.20 BORROWINGS

	31.12.2009	31.12.2008
Borrowings	128,337,634	81,461,999
Borrowings	**128,337,634**	**81,461,999**

Borrowings include loans raised with banks, domestic and foreign. Borrowings in the amount of EUR 78,601,960 are collateralised by real estate and other borrowings are not secured. The effective interest rate on borrowings is between 3.6 % and 4.9 %.

3.4.20.1 Table of movement in borrowings

	2009	2008
Borrowings as at 1.1.	**81,461,999**	**62,029,282**
Purchase of subsidiary	1,437,945	171,348
Borrowings	68,297,891	67,137,333
Repayment of borrowings	(1,013,281)	(3,837,251)
Short-term portion of borrowings	(21,847,835)	(44,038,713)
Translation differences	915	-
Borrowings as at 31.12.	**128,337,634**	**81,461,999**

3.4.21 OTHER FINANCIAL LIABILITIES

	31.12.2009	31.12.2008
Financial liabilities arising from finance lease	6,050,905	6,942,221
Other financial liabilities	**6,050,905**	**6,942,221**

The interest rate on financial liabilities arising from finance lease is between 6.0 % and 6.4 %.

3.4.21.1 Table of movement in financial liabilities arising from finance lease

	2009	2008
Liabilities arising from finance lease as at 1.1.	**6,942,221**	**5,223,104**
Purchase of subsidiary	317,909	-
Liabilities arising from finance lease	1,005,933	3,756,379
Repayments of liabilities arising from finance lease	(56,900)	-
Short-term portion of liabilities arising from finance lease	(2,158,741)	(2,044,827)
Recalculation of interest	483	7,565
Liabilities arising from finance lease as at 31.12.	**6,050,905**	**6,942,221**

3.4.22 OPERATING LIABILITIES

	31.12.2009	31.12.2008
Emissions coupons	459,446	586,794
Other liabilities	188,399	59,809
Operating liabilities	**647,845**	**646,603**

3.4.23 BORROWINGS

	31.12.2009	31.12.2008
Borrowings	56,766,487	82,226,411
Transaction account overdrafts	14,081,966	10,446,942
Borrowings	**70,848,453**	**92,673,353**

Borrowings include loans raised with banks, domestic and foreign. Borrowings in the amount of EUR 18,823,353 are collateralised by real estate, in the amount of EUR 600,000 by inventories and in the amount of EUR 4,010,000 EUR by operating receivables, whereas other borrowings are not secured. The effective interest rate on borrowings ranges between 3.3 % and 6.44 %.

3.4.23.1 Table of movement in borrowings

	2009	2008
Borrowings as at 1.1.	**92,673,353**	**42,589,317**
Purchase of subsidiary	2,869,384	749,640
Short-term portion of borrowings	21,847,835	44,038,713
Borrowings	73,303,066	166,884,859
Repayment of borrowings	(123,480,409)	(169,710,158)
Write-off of borrowings	-	(4,471)
Translation differences	201	(130,169)
Change in transaction account overdrafts	3,635,023	8,255,622
Borrowings as at 31.12.	**70,848,453**	**92,673,353**

3.4.24 OTHER FINANCIAL LIABILITIES

	31.12.2009	31.12.2008
Liabilities arising from interest	596,227	799,168
Liabilities arising from finance lease	2,193,926	1,803,532
Other financial liabilities	**2,790,153**	**2,602,700**

3.4.24.1 Table of movement in liabilities arising from finance lease

	2009	2008
Liabilities arising from finance lease as at 1.1.	**1,803,532**	**1,423,002**
Purchase of subsidiary	173,742	-
Liabilities arising from finance lease	44,057	30,004
Repayments of liabilities arising from finance lease	(1,986,322)	(1,694,301)
Short-term portion of liabilities arising from finance lease	2,158,741	2,044,827
Translation differences	176	-
Liabilities arising from finance lease as at 31.12.	**2,193,926**	**1,803,532**

3.4.25 OPERATING LIABILITIES

	31.12.2009	31.12.2008
Operating liabilities to suppliers	72,199,836	71,890,469
Operating liabilities to employees	3,113,066	3,964,703
Advances received	896,188	715,589
Other operating liabilities	9,046,430	10,678,824
Operating liabilities	**85,255,520**	**87,249,585**

Liabilities to employees include liabilities for net salaries and compensation for December salaries paid in January 2010.

Other operating liabilities include liabilities for contract work and work under author's contracts, VAT liabilities and liabilities for taxes and employer's contributions arising from December salaries.

3.4.26 ACCRUED COSTS AND DEFERRED REVENUES

	31.12.2009	31.12.2008
Accrued costs of complaints	240,000	1,240,000
Accrued customer fees	682,324	744,754
Accrued audit costs	90,258	88,515
Accrued costs of unused holiday leave	1,403,629	1,143,782
Accrued liabilities arising from legal action	40,094	215,554
Accrued liabilities for employee bonuses	846,709	947,820
Accrued liabilities for Christmas bonus	-	840,236
Short-term portion of non-current provisions (Sava bank)	1,751,806	-
Other accrued costs and deferred revenues	667,805	1,226,319
Accrued costs and deferred revenues	**5,722,625**	**6,446,980**

3.4.27 NET SALES REVENUE

3.4.27.1 Net sales revenue by main groups

	2009	2008
Long range	220,430,350	447,236,555
Flat range	88,241,387	160,232,130
Other products and services	62,481,157	95,382,445
Net sales revenue	**371,152,894**	**702,851,130**

3.4.27.2 Net sales revenue by country

	2009	2008
Net sales revenues in Slovenia	77,307,078	169,489,280
Net revenue from sales abroad	293,845,816	533,361,850
- Germany	*71,872,885*	*143,697,188*
- Italy	*76,857,680*	*124,689,333*
- Austria	*22,155,476*	*46,485,158*
- USA	*16,544,670*	*28,824,030*
- Other	*106,415,105*	*189,666,141*
Net sales revenue	**371,152,894**	**702,851,130**

3.4.28 OPERATING EXPENSES

	2009	2008
Cost of goods, material and services	287,301,148	525,473,531
Labour costs	72,376,833	80,311,917
- wages and salaries	*51,976,849*	*55,774,931*
- costs of social security	*10,155,831*	*11,055,754*
- other labour costs	*10,244,153*	*13,481,232*
Depreciation	24,307,596	20,129,678
Other costs	2,333,141	2,491,631
Change in the value of inventories	18,461,657	20,047,478
Operating expenses	**404,780,375**	**648,454,234**

3.4.28.1 Review of costs by type for 2009

	Production costs of sold products	Costs of sale	General and administrative costs	Total
Cost of goods, material and services	254,841,101	18,535,271	13,924,776	287,301,148
Labour costs	46,801,135	2,943,861	22,631,837	72,376,834
Depreciation	20,443,784	189,137	3,674,675	24,307,596
Other costs	38,952	4,876	2,289,313	2,333,141
Change in the value of inventories	18,461,657	-	-	18,461,657
Operating expenses	**340,586,629**	**21,673,145**	**42,520,601**	**404,780,375**

3.4.28.2 Review of costs by type for 2008

	Production costs of sold products	Costs of sale	General and administrative costs	Total
Cost of goods, material and services	468,776,093	42,713,158	13,984,280	525,473,531
Labour costs	52,742,428	3,912,968	23,656,521	80,311,917
Depreciation	16,671,607	72,103	3,385,968	20,129,678
Other costs	11,683	-	2,479,948	2,491,631
Change in the value of inventories	20,047,477	-	-	20,047,477
Operating expenses	**558,249,288**	**46,698,229**	**43,506,717**	**648,454,234**

3.4.29 OTHER OPERATING REVENUE

	2009	2008
Reversal of allowance for inventories	-	2,193,388
Reversed provisions	138,976	12,672
Revenue arising from subsidies received	3,720,222	2,334,445
Profit on sales of assets classified as held for sale	164,300	-
Negative goodwill	-	62,991
Capitalised own products	143,533	769,485
Damage compensation received	253,020	401,505
Write-off of liabilities	1,945,856	-
Other operating revenue	722,588	703,235
Other operating revenue	**7,088,495**	**6,477,721**

3.4.30 OTHER OPERATING EXPENSES

	2009	2008
Allowance for receivables and interest	3,660,970	501,179
Allowance for inventories	986,803	-
Impairment of inventories	161,454	3,953,962
Loss on disposal of intangible and tangible assets	148,902	332,412
Expenses for donations and sponsorships	404,648	662,553
Other operating expenses	371,431	348,555
Other operating expenses	**5,734,208**	**5,798,661**

3.4.31 PROFIT/LOSS ON SALES AND VALUATIONS OF FINANCIAL INVESTMENTS

	2009	2008
Profit at valuation of financial investments	10,325	-
Profit on sales of financial investments	355,964	-
Profit on sales of financial investments	**366,289**	**-**

In the 2009 financial year, the Group generated profit on the sale of available-for-sale financial assets.

	2009	2008
Loss on valuations of financial investments	-	553,694
Loss on valuations of financial investments	**-**	**553,694**

Loss arose from the valuation of financial assets at fair value through profit or loss and from the valuation of available-for-sale financial assets as a result of a significant decrease in the value of that investment.

3.4.32 FINANCIAL INCOME

	2009	2008
Interest income	3,779,015	2,137,726
Other financial income	24,290	5,762
Financial income	**3,803,305**	**2,143,488**

3.4.33 FINANCE EXPENSES

	2009	2008
Interest expenses	5,919,758	8,764,008
Other financial expenses	2,515	40
Financial expenses	**5,922,273**	**8,764,048**

Financial expenses are lower than financial expenses recognised in previous years due to a lower reference interest rate EURIBOR in the 2009 financial year.

3.4.34 EXCHANGE GAIN

	2009	2008
Exchange gain from financing activity	30,830	89,694
Exchange gain from investing activity	41,933	597
Exchange gain	**72,763**	**90,291**

Exchange gains and losses from financing activity arise in foreign-currency accounts of the Group companies due to the change in operating currencies and mostly due to changes in the USD and CHF exchange rates.

3.4.35 EXCHANGE LOSS

	2009	2008
Exchange loss from financing activity	84	184,243
Exchange loss from investing activity	79,308	2,245
Exchange loss	**79,392**	**186,488**

3.4.36 TAXES

	2009	2008
Corporate income tax	326,606	10,286,076
Deferred tax assets	(7,490,981)	(165,771)
Taxes	**(7,164,375)**	**10,120,305**

	2009	2008
Profit before taxes	(34,054,520)	48,024,713
Corporate income tax liability at the tax rate applicable in the country of the company's registered office	(7,160,544)	10,697,784
Non-taxable income	(130,091)	(273,931)
Expenses not recognised for tax purposes	5,914,604	2,352,233
Claimed tax reliefs for recognised tax losses	(5,569,728)	(1,857,684)
Tax relief	(218,616)	(798,097)
Taxes	**(7,164,375)**	**10,120,305**

3.4.37 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net profit allocated to shareholders by the weighted average number of shares being traded during the year, net of the average number of treasury shares.

	2009	2008
Loss/profit of majority shareholders	(26,913,240)	37,823,309
Weighed number of issued ordinary shares	986,699	986,699
Basic and diluted	**(27.28)**	**38.33**

3.4.38 BUSINESS COMBINATIONS

In January 2009, the Group acquired a 30 % interest in the company Acroni Italia S.r.l. and thus became the sole owner of this company. The difference between the cost and carrying amount of the acquired interest was recognised in the consolidated statement of financial position as goodwill in the amount of EUR 76,069.

On 31 March 2009, the Group bought a 55 % interest in the company Ravne Steel Center, d.o.o., Ljubljana and thus became the sole owner of this company. Up to 31 March 2009, the company was an associate company of the Group. Assets, liabilities and contingent liabilities of the acquired company are in the books of account disclosed at fair value and as such considered in the first consolidation.

The statement of financial position of the company Ravne Steel Center d.o.o. as at the day the Group acquired the controlling interest is given below.

	Fair value	Carrying amount before acquisition
ASSETS	**9,982,258**	**9,982,258**
Cash and cash equivalents	104,024	104,024
Property, plant and equipment	2,658,102	2,658,102
Inventories	3,025,496	3,025,496
Operating receivables	4,170,272	4,170,272
Other assets	24,364	24,364

	Fair value	Carrying amount before acquisition
LIABILITIES	**8,088,483**	**8,088,483**
Provisions	11,140	11,140
Borrowings	3,443,000	3,443,000
Operating liabilities	4,634,343	4,634,343
NET ASSETS	1,893,775	1,893,775
Non-controlling interest (45 %)	852,199	
NET ASSETS ACQUIRED	**1,041,576**	
Payment	1,800,000	
Carrying amount of net assets acquired	1,041,576	
Goodwill	**758,424**	

On 30 November 2009, the associate of the controlling company of the Group bought a 51.002 % interest in Dankor d.o.o. from Osijek in Croatia and thus gained the controlling interest. Assets, liabilities and contingent liabilities of the acquired company are in the books of account disclosed at fair value and as such considered in the first consolidation.

The statement of financial position of the company Dankor d.o.o. as at the day the SIJ Group acquired the controlling interest is given below.

	Fair value	Carrying amount before acquisition
ASSETS	**2,155,696**	**2,155,696**
Cash and cash equivalents	3,839	3,839
Property, plant and equipment	1,680,023	1,680,023
Inventories	308,600	308,600
Operating receivables	163,234	163,234
LIABILITIES	**1,707,485**	**1,707,485**
Borrowings	888,820	888,820
Operating liabilities	818,665	818,665
NET ASSETS	448,211	448,211
Non-controlling interest (48.998 %)	219,615	
NET ASSETS ACQUIRED	**228,597**	
Payment	382,500	
Carrying amount of net assets acquired	228,597	
Goodwill	**153,903**	

3.4.39 ADDITIONAL DISCLOSURES – RISK MANAGEMENT

a) Liquidity risk

The Group is managing liquidity risk by suitable projection of cash flows and short-term credit lines from banks agreed in advance, within the scope of ensuring that the Group is capable of settling overdue obligations at any time.

31.12.2009	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years
Liabilities to suppliers	68,914,861	3,284,974	-	-
Liabilities arising from borrowings	17,208,941	53,639,514	104,497,250	23,840,381
Other operating and financial liabilities	4,674,619	2,988,832	5,835,097	209,519
Total	**90,798,421**	**59,913,320**	**110,332,347**	**24,049,900**

31.12.2008	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years
Liabilities to suppliers	70,951,719	938,750	-	-
Liabilities arising from borrowings	17,517,626	64,708,786	61,414,243	20,047,755
Other operating and financial liabilities	6,949,225	1,358,568	646,603	887,471
Total	**95,418,570**	**67,006,104**	**62,060,846**	**20,935,226**

b) Credit risk

The major exposure to credit risk as at the reporting date arises from operating receivables and borrowings.

Structure of outstanding financial assets

31.12.2009	Group 1	Group 2	Group 3	Total
Operating receivables due from customers	5,422,938	52,505,707	7,848,596	65,777,241
Other operating receivables	2,579,711	3,630,267	10,124	6,220,102
Loans granted and deposits made	36,659,806	60,000	-	36,719,806
Deposits with up to 3-month maturity	11,940,103	200,000	-	12,140,103
Total	**56,602,558**	**56,395,974**	**7,858,720**	**120,857,252**

31.12.2008	Group 1	Group 2	Group 3	Total
Operating receivables from customers	12,881,781	70,669,377	17,786,963	101,338,121
Other operating receivables	7,406,623	10,401,840	5,684,063	23,492,526
Borrowings	25,940,132	-	-	25,940,132
Deposits with up to 3-month maturity	30,194,316	-	-	30,194,316
Total	**76,422,852**	**81,071,217**	**23,471,026**	**180,965,095**

Group 1: exposure to companies we have had business contacts with for more than one year and they have never been late in 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 in 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.

Age structure of financial assets fallen due but not impaired

31.12.2009	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Operating receivables from customers	19,362,263	11,882,905	62,873	62	31,308,103
Other operating receivables	-	-	56,392	-	56,392
Total	**19,362,263**	**11,882,905**	**119,265**	**62**	**31,364,495**

31.12.2008	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Operating receivables from customers	24,057,794	580,385	27,197	11,062	24,676,438
Other operating receivables	7,816	877,296	-	-	885,112
Total	**24,065,610**	**1,457,681**	**27,197**	**11,062**	**25,561,550**

Movement in allowance of financial assets

2009	Allowance as at 31.12.2008	Purchase of subsidiary	Allowance made in the period	Write-off of receivables subject to allowance	Repayment of assets subject to allowance	Allowance as at 31.12.2009
Operating receivables from customers	1,349,022	-	4,087,255	(517,025)	(339,017)	4,580,235
Other operating receivables	1,160,578	31,571	861,608	(384,110)	(239,338)	1,430,309
Borrowings	876,240	-	-	-	-	876,240
Total	**3,385,840**	**31,571**	**4,948,863**	**(901,135)**	**(578,355)**	**6,886,784**

2008	Allowance as at 31.12.2007	Purchase of subsidiary	Allowance made in the period	Write-off of receivables subject to allowance	Repayment of assets subject to allowance	Allowance as at 31.12.2008
Operating receivables from customers	1,273,514	21,956	829,170	(293,052)	(482,566)	1,349,022
Other operating receivables	2,450,409	-	429,726	(1,444,402)	(275,155)	1,160,578
Borrowings	1,994,177	-	-	(1,117,937)	-	876,240
Total	**5,718,100**	**21,956**	**1,258,896**	**(2,855,391)**	**(757,721)**	**3,385,840**

c) Interest rate risk

The change in interest rate by 100 or 200 basis points as at the reporting date would result in an increase (decrease) of net profit/loss by the amounts stated below. The analysis assumes that all other variables, exchange rates in particular, remain unchanged. The analysis for 2008 was prepared in the same manner:

	2009	2008
Change in net profit/loss due to increase by 200 bt	(2,704,381)	(2,485,008)
Change in net profit/loss due to increase by 100 bt	(1,350,880)	(1,243,437)
Change in net profit/loss due to decrease by 100 bt	1,350,880	1,243,437
Change in net profit/loss due to decrease by 200 bt	2,704,381	2,485,008

3.4.40 RELATED-PARTY TRANSACTIONS

Related parties comprise the parent company, subsidiaries, associates, other related parties and the management of the company. Other related parties represent the companies included in the Group of the parent company, the controlling companies of the parent company and companies included in their groups.

3.4.40.1 Total amounts of receipts by the management and other employees

Total earnings under agreements on management, received in the business year for the performance of functions or tasks within the company by the members of the Management Board, employees employed under contracts that are not subject to the tariff section of the Collective Agreement, and the Supervisory Board members.

	2009	2008
Management	2,862,604	2,393,376
Employees employed under service contracts	6,649,192	6,622,796
Members of the Supervisory Board	46,925	40,000

Earnings include gross salaries, reimbursement of work-related expenses according to the Decision (daily allowance, mileage, overnight accommodation, etc.) and bonuses.

In 2009, the Group approved no advances and loans nor issued any guarantees to the management of the Group or the members of the Supervisory Board.

The management of the Group represents the management of the Holding and subsidiaries. Accordingly, data for the 2008 financial year are disclosed.

3.4.40.2 Related-party transactions excluded from the consolidated financial statements

	2009	2008
Revenue/Expenses	51,790,351	144,335,250

	31.12.2009	31.12.2008
Operating receivables/Operating liabilities	16,072,331	21,502,526
Borrowings	24,110,098	12,433,140
Non-current financial investments in subsidiaries	139,606,598	138,874,097

3.4.40.3 Related-party transactions

In the 2008 and 2009 financial years, the Group has no transactions with the controlling company. Transactions with other related parties are given in the table below.

	2009	2008
Revenues	2,595,439	196,780

	31.12.2009	31.12.2008
Operating receivables	587,076	137,764
Borrowings	36,320,000	25,000,000

3.4.41 COST OF AUDIT

	2009
Cost of Annual Report audit	132,000

3.4.42 EDUCATIONAL STRUCTURE OF EMPLOYEES

Average number of employees by category according to the level of education

	2009	2008
Unfinished and finished primary school	329	373
Verified courses	414	444
2-year vocational school	388	411
3-year vocational school	935	974
4-year secondary school	807	837
Higher vocational education	161	162
Professional college	87	61
University degree	185	197
Specialisation, master's degree	32	25
Doctor's degree	7	6
Total	**3,345**	**3,490**

3.4.43 CONTINGENT ASSETS AND LIABILITIES

Contingent liabilities as at 31 December 2009 refer to sureties in the amount of EUR 32,904,152 and guarantees in the amount of EUR 2,367,595.

3.4.44 EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

In two the biggest company's of our Group, Acroni and Metal Ravne, decision on change of working hours in a week, was made. Metal Ravne has restored 40-hour working week, and Acroni has again applied 36-hour working week.

On strategically important investment project's we have performed testing activities (hot testing of the straightening machine and hydraulic transport lines for Transport of Heavy plate in Acroni) and submitted strategic aggregates in use (engagement of new grinding machine).

The company Acroni obtained accreditation for the mechanical laboratory pursuant to ISO 17025 system.

The Group received damage compensation for the receivables by SID in the amount of EUR 4.4 million. The damage compensation received will have no effect on profit or loss because value allowances for these receivables were not made.

There were no other events after the date of the statement of financial position with a significant impact on consolidated financial statements.

4 AUDITOR'S REPORT

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INDEPENDENT AUDITORS' REPORT
to owners of SIJ – Slovenska industrija jekla d.d.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the SIJ – Slovenska industrija jekla Group, which comprise the statement of financial position as at 31 December 2009, and income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the SIJ – Slovenska industrija jekla Group as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting 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 Entity's business report. In our opinion, the business report is consistent with the audited financial statements.

The Entity did not disclose information in the annual report regarding receipts of the members of management and supervisory bodies as required under Article 294 of the Companies Act (ZGD-1).

DELOITTE REVIZIJA d.o.o.

Dušan Hartman
Certified Auditor
Member of the Board

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

Ljubljana, 12 March 2010

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