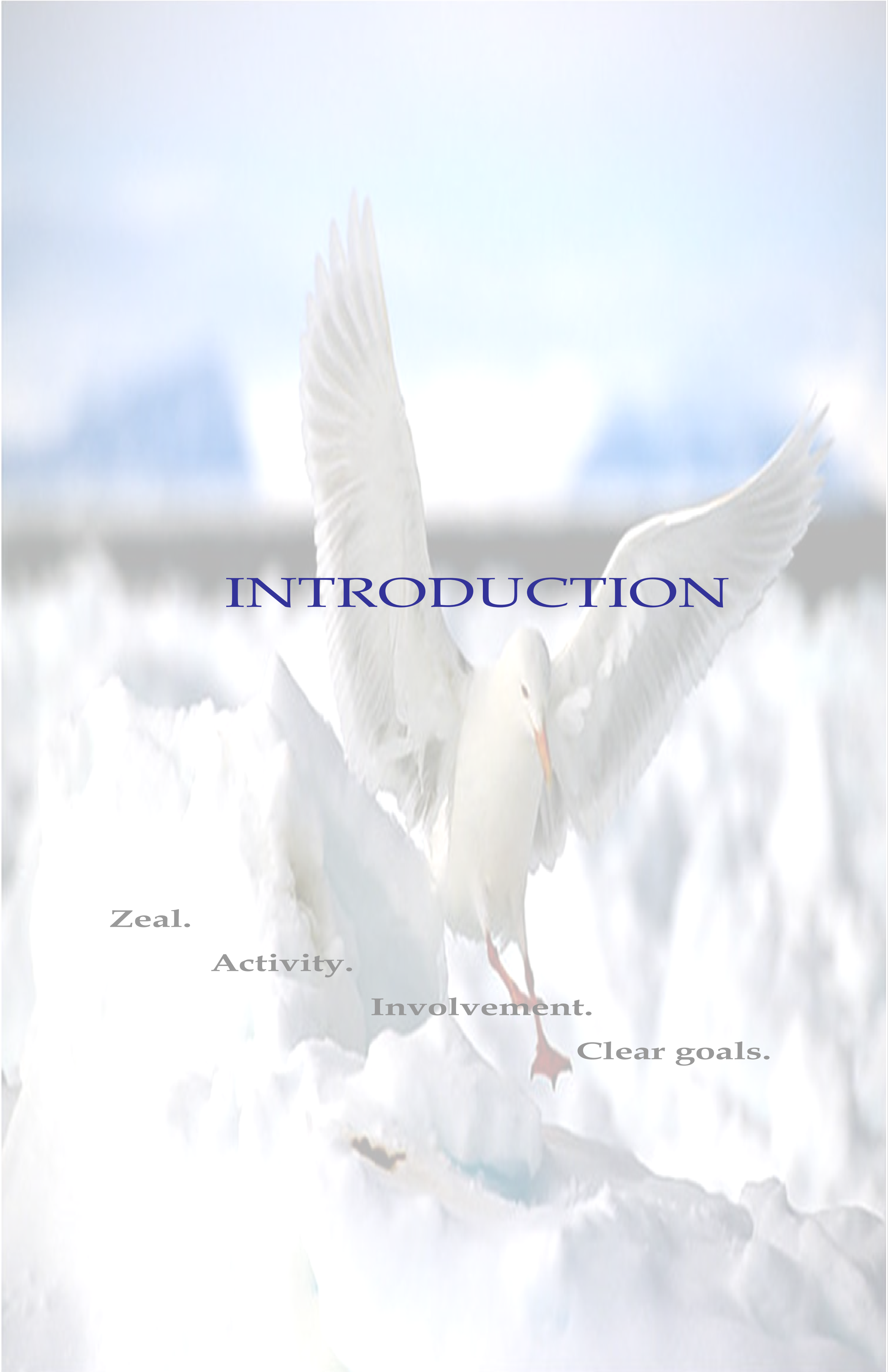
ANNUAL REPORT 2008

SIJ – Slovenska industrija jekla Group

Ljubljana, March 2009

TABLE OF CONTENTS



INTRODUCTION

Zeal.

Activity.

Involvement.

Clear goals.

1. INTRODUCTION

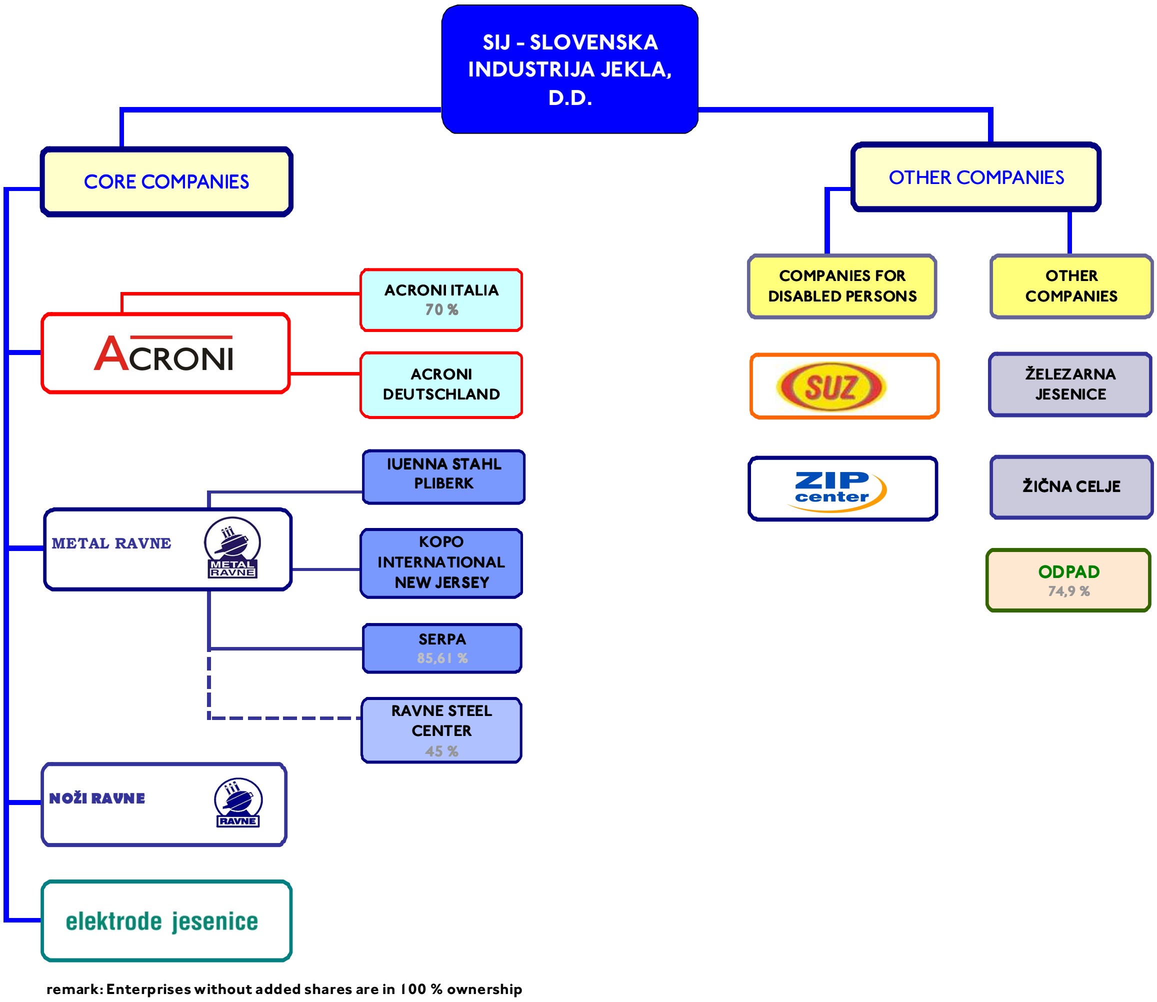
In the past, the SIJ Group was more known for state ownership and financial help it received from the state than for its importance for the Slovenian economy and society. In the years after the accession agreement the Group became independent and started functioning as a normal group of companies subject to equal market laws than other market players, without the help that other entities do not receive either. On the contrary – the European Commission prescribed for the steel industry even stricter conditions for obtaining favourable loans for development, ecology, training and similar.

We are proud to say that we have accepted new challenges, successfully faced them and in the past five years not only reached the break-even point, but even generated significant profit.

In these years we have become much more recognisable and successful also in Slovenia: In 2007, we ranked eighth in terms of revenues, tenth in terms of generated profit and became the fourth largest exporter in Slovenia. Individual companies of the Group also rank high among successful enterprises, especially both steel companies Acroni and Metal Ravne. Furthermore, the company Noži Ravne holds a significant position in its sector as well.

1.1. PRESENTATION OF THE GROUP

The SIJ Group is comprised of the parent company SIJ - Slovenska industrija jekla, d.d. and four core companies with six subsidiaries, two companies employing disabled people, the company ODPAD, d.o.o., which joined the Group in 2008, and two companies engaged in service provision.



The Group also comprises the associated company Ravne Steel Center, d.o.o., which was in 2008 not included in consolidation, but will be in 2009, as Metal Ravne became its 100% owner.

1.1.1. ACTIVITY OF THE GROUP

The activity of the SIJ Group is the manufacturing of products from quality steel, namely hot-rolled sheet metal and strips, cold-rolled sheet metal, rolled and forged bars, profiles, wires, forged pieces, industrial knives, filler materials, welding fluxes and special electrodes.

The production can be divided into the following ranges:

- flat range - Acroni manufactures high-quality stainless steels, electrical steel sheets, structural steels, wear-resistant steels, heat treatable steels, steels for special purposes;
- long range - includes the products made by Metal Ravne, which manufactures tool steels for cold and hot work, high-speed steels, structural steels and other special steels;
- industrial knives production - Noži Ravne manufactures high-quality industrial knives and saws for metal, timber, paper, graphic, tobacco, chemical and food industry, production of plastics;
- wire processing - manufactures filler materials for welding such as: electrodes, welding wires, rods, etc.;
- production of nails and rod steels - the production range of the company SUZ Jesenice.

1.2. MAJOR EVENTS

17, 18 January 2008

2nd SLOVENIAN INNOVATION FORUM – "INNOVATIVE POTENTIAL OF SLOVENIA"

The central national presentation of business innovations and inventions witnessed top 40 Slovenian innovations, of which no less than four were developed by Acroni. This undoubtedly testifies to the professional development potential of human resources of Acroni and the SIJ – Slovenska industrija jekla Group.

4 February 2008

Press conference of Metal Ravne and the Ravne Secondary School

Presentation of the re-introduced 3-year vocational programme – metallurgist, actively supported by Metal Ravne in the form of scholarships, other benefits and provision of practical training.

4 June 2008

Grand opening of the new forging shop for heavy forgings at Metal Ravne

One of the biggest investments in Slovenian economic sector in 2008 – more than EUR 28 million worth new forging shop for heavy forgings – was put to use by the Minister of Economy, Dr. Andrej Vizjak, the representative of the owners of IMH holding, Andrey Zubitskiy, the President of the Management Board of SIJ – Slovenska industrija jekla, d.d., Tibor Šimonka, and the Director of Metal Ravne, Andrej Gradišnik.

11 September 2008

Opening of the renovated rolling mill at Metal Ravne

The first renovation stage of the rolling mill, worth EUR 13 million, included the redesign of the heavy blooming mill and the pit furnace, enabling high-force ingot processing and consequently rolling of pieces of greater dimensions.

17 September 2008

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

The company Acroni received the golden award for developing the invar nickel alloys. Metal Ravne became one of the top innovative companies, having received the silver award for improving micro-purity of steel.

8 January 2009

Pantz Award for 2008

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.

1.3. IMPORTANT INFORMATION ABOUT THE GROUP'S OPERATIONS

OPERATIONS	2008	2007	Index
Production of cast steel in tonnes	486,258	482,713	100.7
Volume of sales in tonnes	414,435	404,671	102.4
Value of sales in EUR	702,851,130	678,905,418	103.5
Operating profit in EUR	55,075,956	69,195,923	79.6
Net profit/loss in EUR	37,904,407	59,881,629	63.3
Investments (payments made) in EUR	72,952,978	64,626,057	112.9
Equity in EUR	335,551,385	297,054,154	113.0
Total assets in EUR	631,717,862	554,813,631	113.9

Value added per employee in EUR	44,807	43,971	101.9
EBITDA in EUR	75,205,633	86,232,794	87.2
EBITDA margin	10.70	12.70	84.3
ROS	5.39	8.82	61.1
ROE	11.98	22.46	53.3

Number of employees as at 31 December	3,489	3,332	104.7
Average number of employees	3,490	3,382	103.2
Disabled persons	420	376	111.7

1.4. LETTER BY THE PRESIDENT OF THE MANAGEMENT BOARD

1.4.1. SURPRISED BY THE FORCE OF THE CRISIS

Already in the summer we noted decreased demand for some product ranges of our companies, even though a slowdown is recorded every summer. In the autumn the market situation instead of revival witnessed deterioration; we could not have foreseen that the crisis dimension, extent and depth (which is still increasing) will be so vast, great and deep. Even though we first started with analyses and contemplation about why and where from this crisis broke out so forcefully, we soon discovered this to be futile.

We established that it was necessary to start preparing measures to respond to the new situation, reduce its effect on our operations and adjust to the new circumstances.

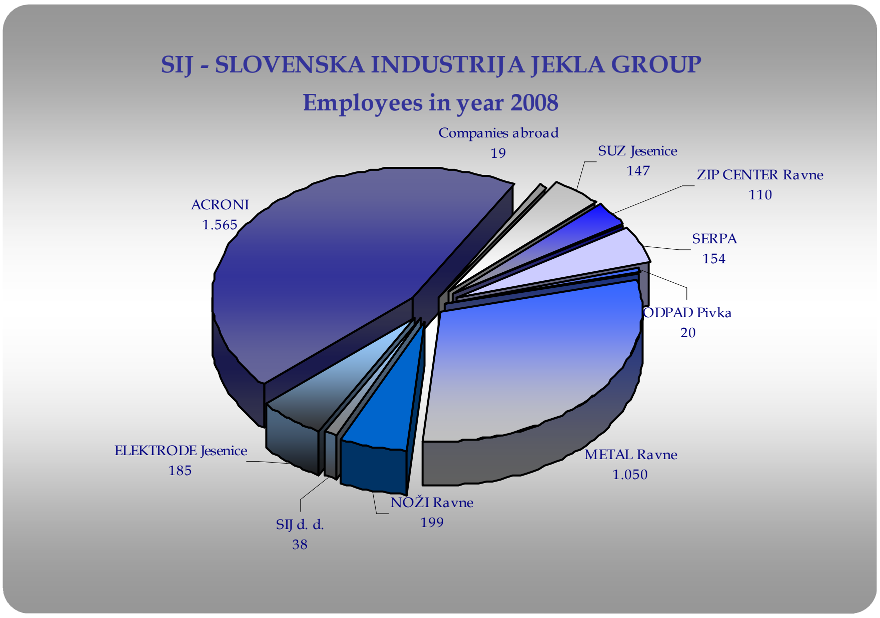
The measures introduced by numerous countries and the European Community have so far not produced significant results, so we must rely on our own knowledge, experience, resourcefulness and courage to survive and preserve our development plans, even though with a slight delay.

We believe that the intensive investments we made in the past and our decision to continue modernising the production in spite of the recession will bear results. We have been implementing the set development projects as well as strengthening and developing our distribution network.

Many companies will survive, however, only those will maintain their potency and strength whose employees will support the decisions of managers with trust, loyalty and diligence – ours have been with us through many ups and downs. We are convinced we will survive this one as well.

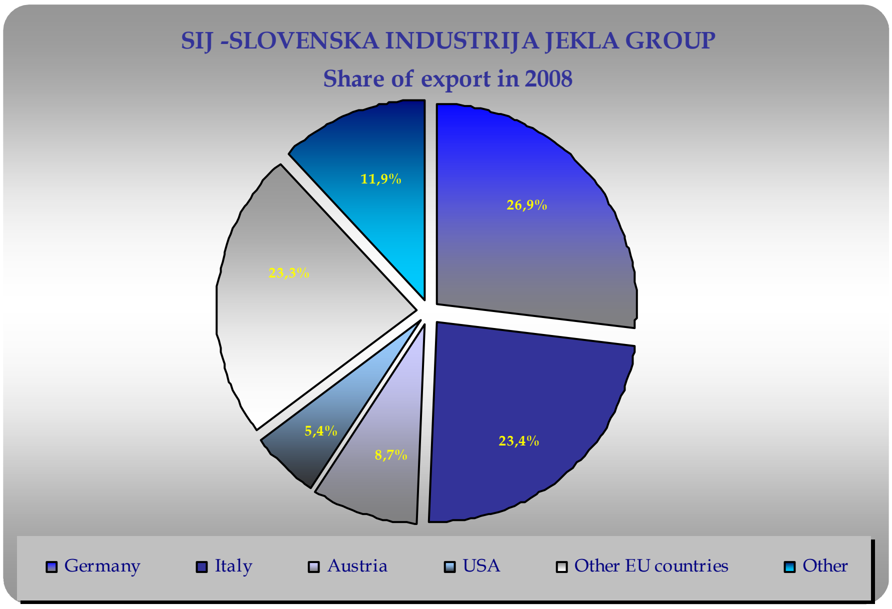
1.4.2. PERFORMANCE

That we were indeed surprised by the crisis is proved by the fact that up until September the number of our employees had been growing and reached more than 250 within the Group. New recruitments were made to replace employees who left for various reasons; in the entire year 167 employees retired. Most of all, we improved the professional qualification structure of employees (more employees with university and higher professional education), since further development warrants professionally qualified and loyal staff.



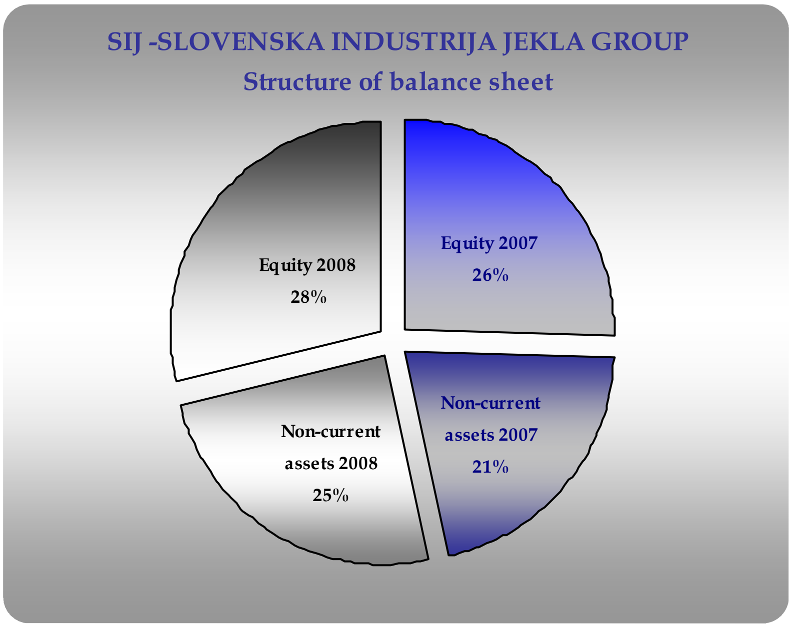
In 2008, we cast almost 486,258 tonnes of steel, which represents a 1% increase, and sold 414,435 tonnes of products or 2.4% more than the year before.

Generated revenues were 3.5% higher, mainly owing to very good first six months and a still acceptable third quarter. Non-consolidated and consolidated revenues totalled EUR 850 million and EUR 703 million respectively.



The bulk of sales are accounted for by exports, which in 2008 equalled 75.9% or about one percentage point less than in 2007. The greatest deviation was in the sale on the German market, which rose by 1.3%, the sale on the Italian market, which decreased by 2.2% and the sale on the Austrian market, which was slightly less than one percent lower (0.8%). The sale on other European markets rose by 2.9%.

Intensive investment policy resulted in a somewhat changed structure of balance sheet. We increased the share of production machinery on the assets side and increased long-term liabilities on liabilities side. Trade receivables grew, whereas the level of inventories dropped.



The structure of indebtedness somewhat altered, as short-term financial liabilities decreased or were replaced by long-term sources, which means that they were used also for partial financing of working capital.

1.4.3. INVESTMENTS MADE

As mentioned in the introduction, our goal remains the implementation of initial development projects also in the time of crisis. In the past years we devoted not only special attention, but also sizeable funds to investments. Let me state some figures: in 2007, EUR 64.6 million was earmarked for investments and in 2008 nearly EUR 73 million. In 2007, extensive projects were completed by Acroni and in 2008 by Metal Ravne.

In 2008, Acroni focused on two areas:

- drafting and signing of agreements with suppliers of equipment for investments which will be carried out during the main steel plant overhaul in 2009;
- completion of started investments that are not related solely to the main overhaul.

In 2008, preparations were underway on the projects "Cooling water system", "Compressor station", and "Modernisation of casting device", which will enable casting of the most demanding steel quality in greater slab dimensions, whereby the company's product range will expand and quality of material improve drastically.

In other plants, the emphasis was on eliminating bottlenecks and modernising heavy-thickness steel sheet production, which will receive special attention also in the future years according to the outlined strategy of the company.

Besides preparing investments to be carried out in 2009, we successfully completed the following major investments in 2008: the second loading point in the steel plant, the new treatment plant for the Blooming and Štekel scale pits, the modernisation of the skin-pass mills, replacement of the old Drever furnace with a more modern Wellman furnace, modern plasma cutters, which enable accurate edge cutting and provide for suitable cutting capacity for thicker plates.

In total, EUR 36 million was allocated to investments by the company.

For Metal Ravne the year 2008 was the pivotal year both in terms of results and investments. In 2008, it finalised strategic investments launched already in 2006 and 2007.

By renovating the billet mill, the company modernized the existing rolling mill and thus gained better quality and higher productivity. The year 2008 witnessed the completion of the first phase of the new forging shop for heavy forgings, where the press installation started in December 2007, providing for the production of forgings with greater cross-section. The first phase of the project was completed in May and the second phase was already initialised – the installation of two furnaces for heat treatment and the preparation of foundations for installing two reheating furnaces. This investment is of strategic importance for the company as it enables it to penetrate the market acknowledging it higher added value than to other ranges.

The upgraded development of the forging range involved a general repair of the forging machine, ensuring quality production of up to 5,000 tonnes of forged profiles per year. The company started renovating the steel plant with the main objective being the optimised minimum size of the plant and delivery of equipment for ingot casting.

In 2008, the company Metal spent EUR 36.5 million on investments.

The company Elektrode in 2008 carried out the project of renovating and expanding welding wire production, which takes places in two technologically separate sections. The first comprises the redesign of the massive wire production and the second – involving the set-up of the line and change of technology – the expansion of production of flux cored wire. Taking into account other minor investments, the company spent EUR 1.2 million on investments.

In the company Noži Ravne, investments were made mainly to boost the milling capacity and purchase the new tempering furnace. Investments totalled EUR 0.7 million.

Since the Group companies are socially responsible companies, the investments comprised also environmental and energy-saving projects: new treatment plant for the scale pit (smaller consumption of cooling water) and redesign of the skin-pass mills (changed roller cleaning technology) in Acroni and the rehabilitation of the slag disposal site by Metal Ravne.

All renewals of the existing technologies result in devices with greater energy-saving potential, by which the Group introduces efficient use of all types of energy products.

1.4.4. A LOOK INTO THE FUTURE

As part of a single world, Slovenska industrija jekla could not have avoided recession which hit all countries and brought many companies and groups of companies on their knees. In spite of our knowledge and reputation, in spite of our responsiveness and flexibility in meeting the customers' wishes, the crisis did not by-pass us and in the recent months we had to cope with about an average 20-30% decrease in the number of orders.

That is why we have in conjunction with the Group companies' managements dedicated great effort to obtain additional orders, preserve the existing ones and streamline all types of costs. Special attention is devoted to relations with business partners – both customers and suppliers – not only with a view of winning orders and purchasing raw material, but also on account of ever poorer payment discipline that we adjust to by extending the suppliers' payment deadlines.

In spite of all the efforts and endeavours, we were forced to temporarily introduce shorter working hours in most of our companies and we had to terminate some part-time employment contracts.

However, we did not abandon our development goals and we continue making investments also in 2009. As mentioned earlier, Acroni is preparing for a general overhaul of the steel plant, parallel to which some investments will be made to upgrade the repairs made by improved technological solutions, the expansion of the sales range to a greater dimension and boosting of product quality.

At Metal Ravne the final investments in 2008 are being supplemented by further modernisation of some machinery.

In sales, we have continued developing and expanding the distribution network, whereas in purchasing we are on the lookout for possibilities to establish business connections with new suppliers.

The recession did not rob us of zeal and energy to introduce some other changes and rationalisations within individual companies, for which the present time is perfect in our opinion.

The President 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 2008 regularly monitored and checked the operations of the companies included in the SIJ - Slovenska industrija jekla Group and of SIJ – Slovenska industrija jekla, d.d. as well as adopted decisions in line with its powers specified in the Companies Act, the Financial Operations of Companies Act, the Articles of Association of SIJ - Slovenska industrija jekla, d.d., the Rules of Procedure of the Supervisory Board and other applicable regulations.

In 2008, the Supervisory Board of the company held three regular and two correspondence meetings, namely:

- 5th meeting on 3 April 2008

The meeting of the Supervisory Board was held at the registered office of SIJ - Slovenska industrija jekla, d.d.

- 6th meeting on 23 October 2008

The meeting of the Supervisory Board was held at two locations, in Moscow and in Ljubljana, by means of the video-conference system.

- 7th meeting held on 17 December 2008

The meeting of the Supervisory Board was held at two locations, in Moscow and in Ljubljana, by means of the video-conference system.

- 2nd correspondence meeting on 29 May 2008
- 3rd correspondence meeting on 24 September 2008

All meetings of the Supervisory Board in 2008 were chaired by Mr. Andrey Zubitskiy.

The Supervisory Board was monitoring the operations of SIJ - Slovenska industrija jekla, d.d. and the companies of the SIJ - Slovenska industrija jekla Group as well as 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 the meeting held in April 2008 the Supervisory Board passed a resolution to dismiss Mr. Dmitry Bochkarev from the position of Chairman of the Supervisory Board and elected Mr. Andrey Zubitskiy Chairman of the Supervisory Board.

2. At its first regular meeting in 2008, which was held in April, the Supervisory Board examined the Annual Reports of SIJ - Slovenska industrija jekla, d.d., and the SIJ - Slovenska industrija jekla Group for 2007. It also discussed the Auditor's Report.

   The Supervisory Board had no comment to the Auditor's Report. After revising the Annual Report, to which the Supervisory Board had no comments, it unanimously approved it at the meeting held on 3 April 2008 and established that the Annual Report was thus formally adopted in line with the provisions of Article 282 of the Companies Act and the Articles of Association of SIJ - Slovenska industrija jekla, d.d.

   In 2007, SIJ - Slovenska industrija jekla, d.d. incurred a loss of EUR 449,330, which together with the loss brought forward from previous year totals EUR 7,943,096 of uncovered loss. The Supervisory Board approved the proposal of the Management Board to fully cover the loss brought forward in the amount of EUR 4,877,667 by capital reserves according to Article 64, paragraph 10, item 2 of the Companies Act (ZGD-1) and to cover the loss of EUR 3,065,429 pursuant to Article 64, paragraph 10, item 1 of the said Act. The Supervisory Board proposed to the General Meeting of Shareholders to approve the above proposal on loss coverage.

   At the same time it proposed to the General Meeting of Shareholders to grant discharge from liability to the Management Board and Supervisory Board for the financial year ending on 31 December 2007 and to approve the proposal for the payment of performance-related bonus to the members of the Supervisory Board for 2007 as well as to pass the proposal for appointment of an auditor for auditing the financial statements of the company and the consolidated financial statements of the Group for the financial year ending on 31 December 2008.

3. Throughout the year the Supervisory Board monitored and analysed the operations of the Group companies, the situation in the steel markets and the measures for adapting to market changes. In the second half of 2008 it acknowledged the impact of the financial crisis on the operations of the Group companies at every meeting.

4. The Supervisory Board in particular acknowledged the analysis of operations of the companies employing disabled people – SUZ, d.o.o. Jesenice and ZIP Center, d.o.o. Ravne

na Koroškem, and agreed that these companies represent an important segment of the Group.

5. The Supervisory Board passed the operating plan of the company for 2008 and acknowledged the economic plan of the Group companies for the same period as well as the plan of donations and sponsorships for 2008.

6. The Supervisory Board acknowledged also the Management Board's report on social-material position of Group employees, including the submitted data on gross salaries and other income of employees.

The invitations to the meetings of the Supervisory Board and the material which was the basis for the adoption of decisions by the Supervisory Board were sent to all members of the Supervisory Board by e-mail, as a rule within the period laid down in the Rules of Procedure of the Supervisory Board.

Ljubljana, 16 March 2009

Chairman of the Supervisory Board
Andrey Zubitskiy

1.6. 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 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 2008.

The Management Board approved the consolidated business report and the consolidated financial statements with notes for the year ending on 31 December 2008. The Management Board hereby declares the following:

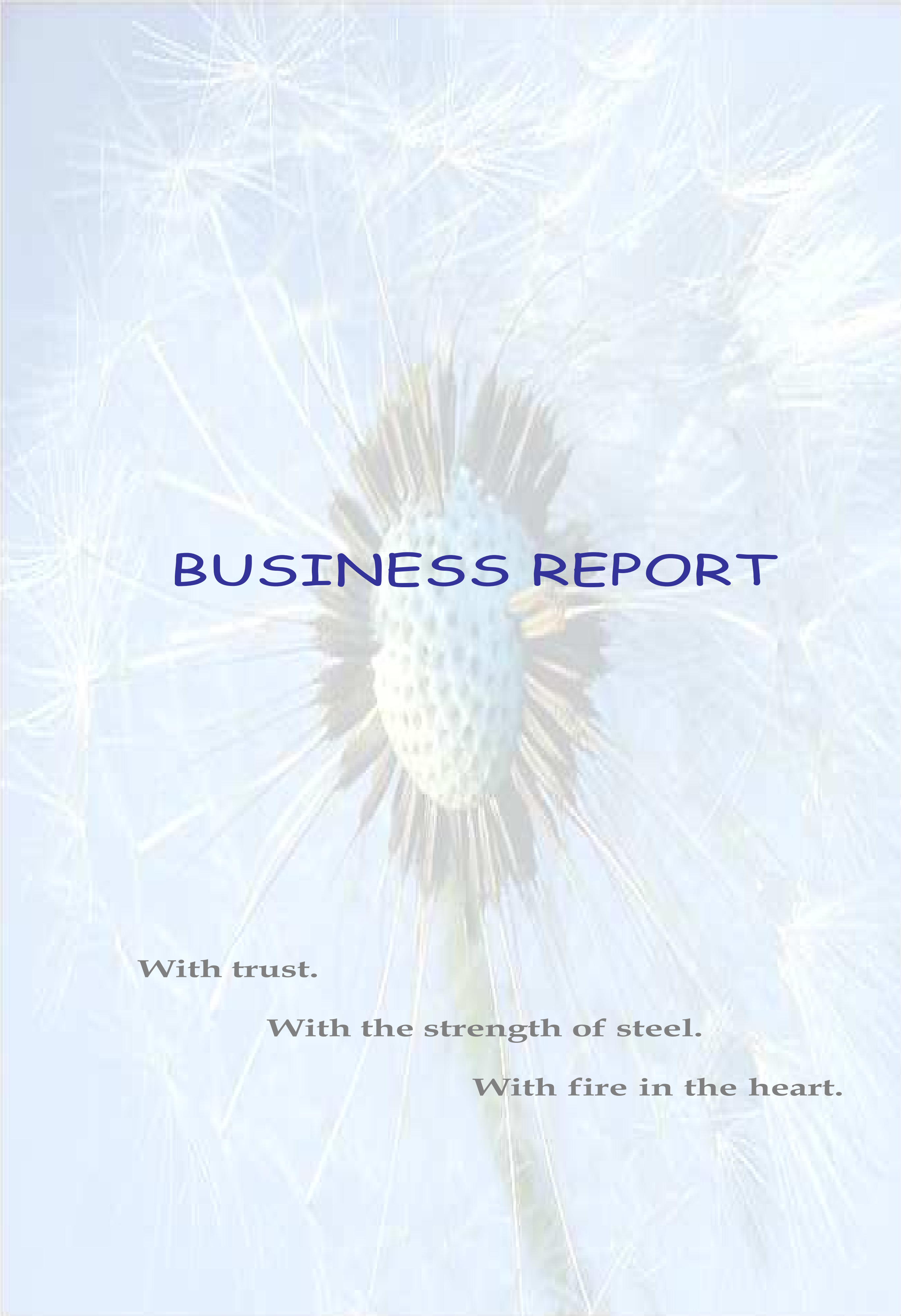
- the consolidated financial statements have been prepared under the assumption of going concern of the companies of the SIJ Group;
- the selected accounting policies were applied consistently and potential changes in accounting policies disclosed;
- the accounting estimates have been prepared fairly 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, 16 March 2009

The President of the Management Board
Tibor Šimonka

The Vice President of the Management Board
Viacheslav Korchagin



BUSINESS REPORT

With trust.

With the strength of steel.

With fire in the heart.

2. BUSINESS REPORT

2.1. CORPORATE GOVERNANCE

The management of SIJ - Slovenska industrija jekla, d.d. is organised according to a two-tier system. The company is managed by the Management Board consisting of two members and its operations are supervised by a seven-member Supervisory Board.

The method of operation and co-operation between the companies of the SIJ Group and the method of corporate governance of the Group are defined in the Contract on the Regulation of Relations and Single Management in the SIJ Group, which is available to the public at the Companies Register of the District Court of Ljubljana.

2.1.1. MANAGEMENT BOARD

The company SIJ - Slovenska industrija jekla, d.d. is managed by a two-member Management Board and four executive directors.

The Management Board is appointed for a period of five years maximum and may be re-appointed. The President of the Management Board represents the company without restrictions and individually, whereas the member represents it together with the President.

The Management Board of SIJ - Slovenska industrija jekla, d.d. is also managing and governing the Group and its companies, as it functions as the supreme body of these companies, i.e. the General Meeting.

Tibor Šimonka
The President of the Management Board

B.Sc. Econ., 56 years
employed at SIJ - Slovenska industrija jekla, d.d. since 1999

Viacheslav Korchagin
The Vice President of the Management Board

B.Sc. Econ., 34 years
employed at SIJ - Slovenska industrija jekla, d.d. since 2008

Executive Directors

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

The core companies are managed by the following directors:

Slavko Kanalec	Director of Acroni, d.o.o.
Andrej Gradišnik	Director of Metal Ravne, d.o.o.
Darko Ravlan	Director of Noži Ravne d.o.o.
Jakob Borštnar	Director of Elektrode Jesenice, d.o.o.

The term of office of the companies' directors is four years as prescribed by the Articles of Association.

2.1.2. SUPERVISORY BOARD

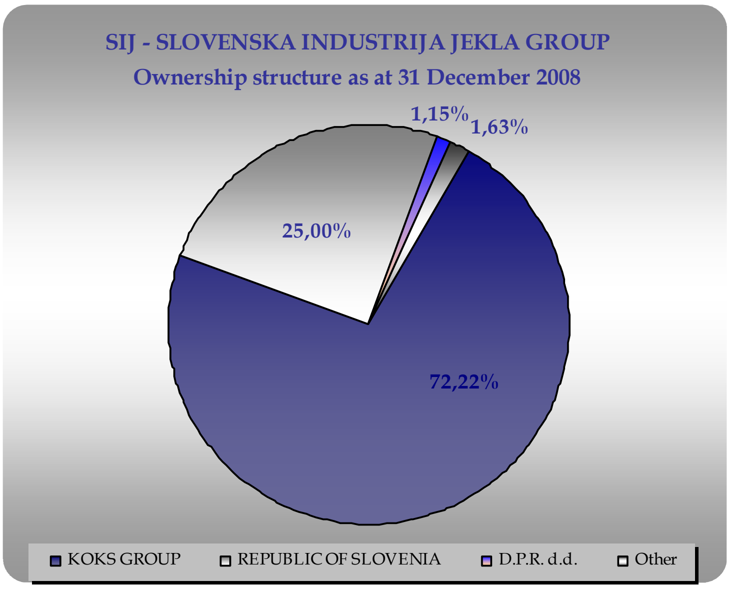
The members of the Supervisory Board are elected and dismissed by the General Meeting of the company for a four-year term of office and with the possibility of re-election.
The term of office of all members of the Supervisory Board expires on 11 April 2011 regardless of when their term of office commenced.
Members of the Supervisory Board are:

Andrey Zubitskiy **President**	shareholders' representative member of the Supervisory Board as of 04 December 2007
Marija Zagožen **Deputy Chairperson**	shareholders' representative representative of the RS member of the Supervisory Board from 20 July 2005 until 10 April 2007 and re-elected on 11 April 2007
Mikhail Manaenkov **Member**	shareholders' representative member of the Supervisory Board as of 04 December 2007
Dmitry Bochkarev **Member**	shareholders' representative member of the Supervisory Board as of 11 April 2007
Alexander Sivoronov **Member**	shareholders' representative member of the Supervisory Board as of 10 July 2007
Aleš Rojs **Member**	shareholders' representative member of the Supervisory Board as of 11 April 2007
Borut Frantar **Member**	shareholders' representative representative of the RS member of the Supervisory Board as of 11 April 2007

2.1.3. GENERAL MEETING OF SHAREHOLDERS

2.1.3.1. Ownership structure as at 31 December 2008

	Registered ownership	
SHAREHOLDERS	No. of shares	Ownership in %
DILON d.o.o., Gerbičeva 98, Ljubljana	550,511	55.3491
Republika Slovenija, Gregorčičeva 20, Ljubljana	248,655	25.0001
OAO KOKS, 1 ST STAKHANOVSKAYA STR. 6, Kemerovo, Russian Federation	167,762	16.867
D.P.R. d.d., Koroška cesta 14, Ravne na Koroškem	11,468	1.153
Stanovanjsko podjetje d.o.o., Ob Suhi 19, Ravne na Koroškem	8,205	0.8249
Lameta d.d., Cesta Borisa Kidriča 44, Jesenice	58	0.0058
MERKUR d.d., Cesta na Okroglo 7, Naklo	20	0.002
HIDRIA ROTOMATIKA d.o.o., Spodnja Kanomlja 23, Spodnja Idrija	10	0.001
UNIOR, d.d. Kovaška cesta 10, Zreče	10	0.001
SIJ – Slovenska industrija jekla, d.d., Gerbičeva 98, Ljubljana	7,917	0.7961
Total	**994,616**	**100.0000**



Share capital of the parent company is divided into 994.616 ordinary freely transferable registered no-par value shares.

The company has 7,917 own shares representing 0.8% of share capital. In 2008, the company did not acquire any additional own shares.

The shares of SIJ – Slovenska industrija jekla, d.d. are not listed on the primary nor secondary market. They are registered with KDD-Centralna klirinško depotna družba, d.d., Ljubljana (Central Securities Clearing Corporation) as dematerialised securities coded SIJR.

2.2. DEVELOPMENT STRATEGY

The vision of the SIJ Group, namely its parent company and subsidiaries, is to establish a continuously developing group, which will constantly upgrade its operations as well as become part of the global steel industry and permanently pursue the satisfaction of the customers', employees' and environment's needs.

With the aim of improving competitiveness, the Group companies are constantly supplementing the business and market strategy, looking for new products and market niches and striving to reduce the technological lag behind the competitors by intensified investment policy.

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

- boosting the quality of products and support, and services to customers;
- expanding presence in established and new market niches;
- preserving and improving competitiveness and market existence by extensive investment projects;
- by investing in development and research of materials, upgrading the production of high-quality materials meeting the customers' demands;
- expanding the framework for successful operation in the future by investing in organisation, education and training of personnel.

The Group companies differ in terms of technological qualifications, management organisation, implementation of investment cycles and changes in sales trends. Specific measures for attaining the set strategic goals are therefore different among companies, but in general comprise:

- orientation in 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 the quality of personnel by education and developing their qualifications by classical education as well as attaining the highest loyalty level, awareness of joint goals and social accountability.

Investments in companies focus mainly on:

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

2.3. ANALYSIS OF OPERATIONS

2.3.1. MARKET SITUATION IN 2008

2.3.1.1. Global production

Even though the global production of crude steel in 2008 for the second year in a row exceeded 1,330 million tonnes, the year 2008 witnessed a 1.2% drop in production quantity.

Production decreased in nearly all leading countries and regions in Europe, both Americas and the former Russian countries. The exceptions were Asia and the Near East; China was the leading producer of steel, recording a 2.6% growth compared to 2007. Globally, the negative trend in steel production persisted from September until the end of 2008. In December 2008 the decrease on the monthly level was no less than 24.3% in comparison with December 2007.

The EU-27 produced as much as 5.3% less steel than in 2007. The drop was noted in the leading steel producers – Germany, Italy and France.
In Northern America production fell by 5.5% and in the USA by 6.8%.
The countries of the former Russia last year reduced production by 8.1%, of which Russia by 5.4% and Ukraine by no less than 13.1%.
In 2009, steel production is expected to record a 10% drop over 2008.

2.3.1.2. Sales market

The global demand for steel drastically decreased in the third quarter of 2008, as the global financial crisis pushed the international economy into a recession. The most affected are construction and car industry, these being also the sectors that use most steel.

All major steel producers already in the last quarter of 2008 projected and implemented production cuts so as to balance the supply with decreased demand. At the same time the European Confederation of Iron and Steel Industries (EUROFER) launched activities (anti-damping, quantity import restriction) to prevent the increased import of steel from third countries from diminishing the attempts of the European producers to stabilise the market. The experts forecast that the difficult situation existing at the end of 2008 will continue at least until the last quarter of 2009. The most affected are the steel markets of the European Union and North America, however, there are indications of a production slowdown and decreased sales in steel products also on the Chinese market.

2.3.1.3. Purchase market

The purchase market suffered a similar fate as the sales market, since the decrease in orders already in the third and mainly fourth quarter led to the steel companies cutting down or halting production so as to reduce, at least to some extent, the existing stock of finished products. This resulted in a collapse on the market of raw material.

Steel waste, the main raw material in steel production, was in the first half of the year subject to intensive trade, as the prices more than doubled by summer. Nevertheless, they afterwards reached the trough in the past few years. Stacked warehouses and decreased production dictated the price and demand in this segment also.

Our most important alloy is without a doubt nickel. Its prices in the first three months ranged between USD 31,500 and 33,500 per tonne. In the second half of the year the prices dropped to USD 9,000 - 10,000 per tonne, which represents roughly the lowest level, for some period at least. In most cases, nickel producers stopped production to prevent the prices from falling, but to no avail.

The market trends were similar also with respect to the second most important alloy – ferrochromium, the price of which after a high trend in early 2008 reduced in the second quarter and trading nearly stopped. All market players are still waiting for the revival of the market for trading in this alloy.

2.3.1.4. Market influence on the operations of the SIJ Group

Despite the fact that up until September it seemed that 2008 will again be a record year, we witnessed a drop for the first time after long-standing continuous growth.

A steep decline in demand for our products, surpassing all projections, warranted fast adjustments and balancing of inventories on the sales and purchasing side. In spite of flexible contracts it was impossible to fully avoid the effect of excessive purchases and inventories as the production experienced a steep fall. The positive synergy effects in the SIJ Group were utilised to a greater extent also in the past year, and used to our advantage both in the first part of the year, when the main emphasis was on reliable supply, and in extraordinary situation; we tried to adapt the operations to the crisis situation in the shortest period possible.

In line with the set goals was last year increased the share of steel waste supply on the domestic market by 24%, whereas the target increase in alloy waste to the planned level was not achieved and owing to specific market situation the supply decreased by 1% compared to the previous year.

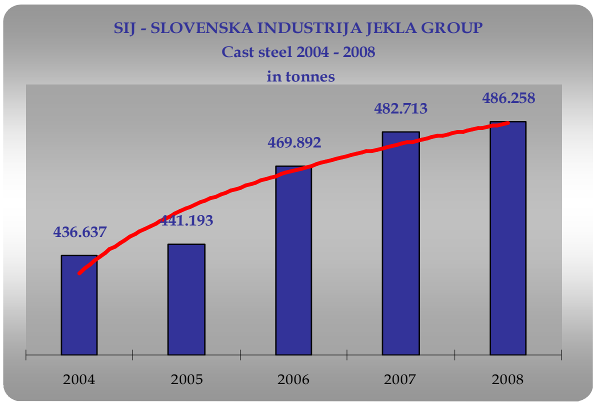
The advantage of vertical integration within the KOKS Group was exploited as we altered the method of purchasing nickel, enabling faster adjustment to market changes.

We adapted to the crisis situation in the last quarter by decreasing production and extending New Year's leave, thus avoiding excessive increase in inventory of non-finished and finished products.

2.3.2. PRODUCTION

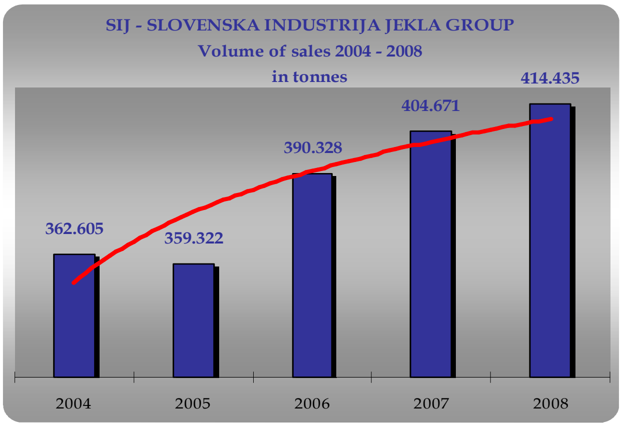
2.3.2.1. Production of cast steel

The production of cast steel has been constantly on the rise over the last five years, on average growing by 2.8%.



2.3.3. SALES

2.3.3.1. Volume of sales

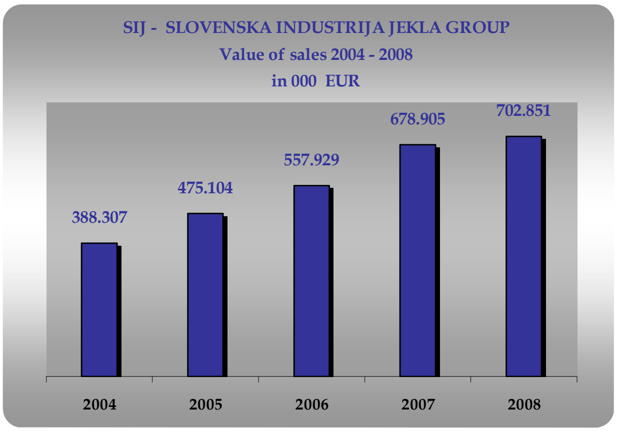


We achieved a 2% increase in the volume of sales compared to the year before. Volume of sales has been rising through past periods.

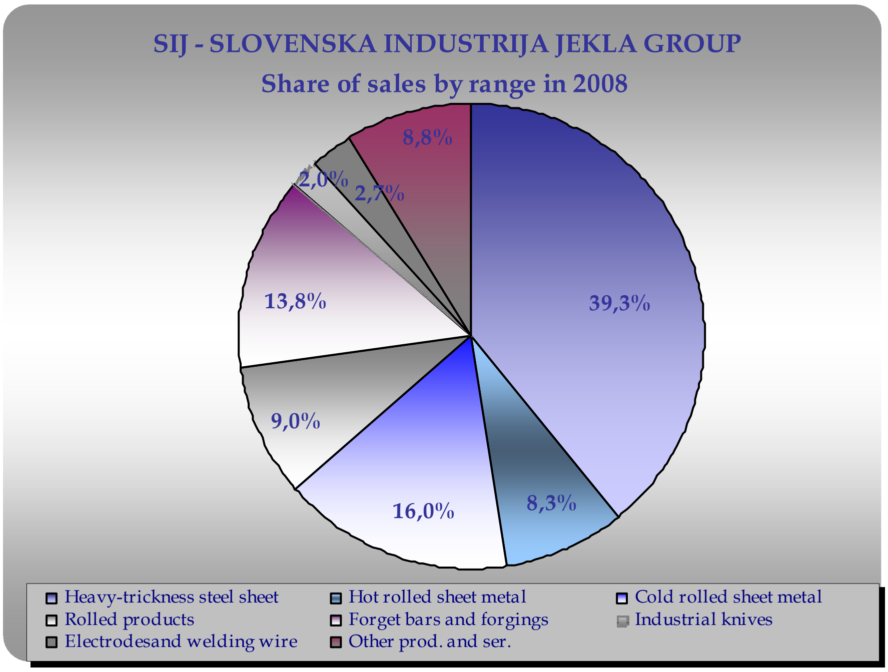
2.3.3.2. Value of sales

The value of sales towards the end of 2008 started declining due to the oncoming recession and was much lower in the last quarter than in the first three.

The cumulative results for the first nine months reveal that the sales were still about 6% higher than the 2007 figure, but later took a linear downward trend and exceeded the 2007 sales by merely 3.5%.



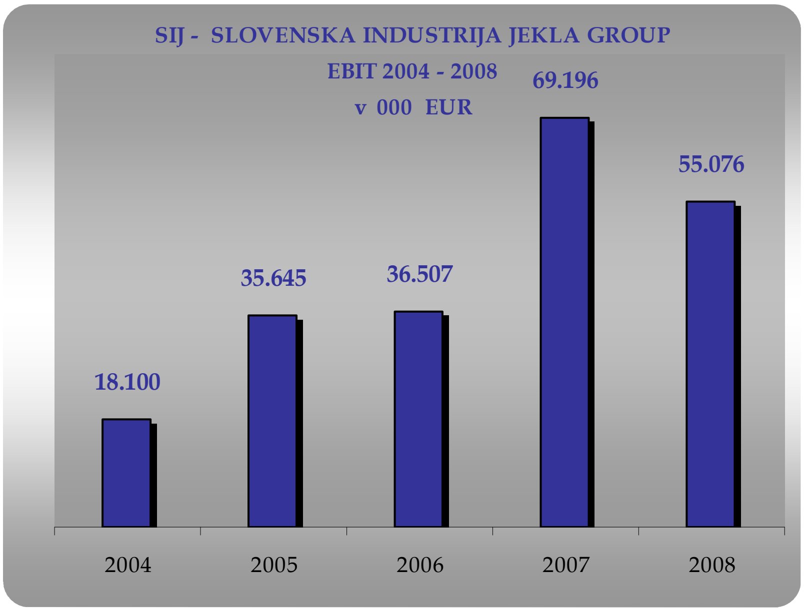
In terms of value, the greatest portion among product ranges was accounted for by heavy-thickness steel sheet, cold rolled sheet metal and forged bars and forgings. The share of heavy-thickness steel sheet somewhat decreased and the shares of the latter two rose compared to the year before.



2.3.4. OPERATING RESULT

Owing to poorer market conditions in the second half of the year, as the start of the third quarter already witnessed a decrease in demand, the operating result deteriorated in the second half of the year.

The very good second quarter was followed by a third quarter which was in terms of performance similar to the first one, whereas the last quarter was extremely negative on account of a decrease in orders and lower sales prices. The value of inventories in the last quarter decreased owing to smaller quantity and lower prices.



In 2008, the Group posted operating profit in the amount of EUR 55.1 million, which is 20% less than the year before.

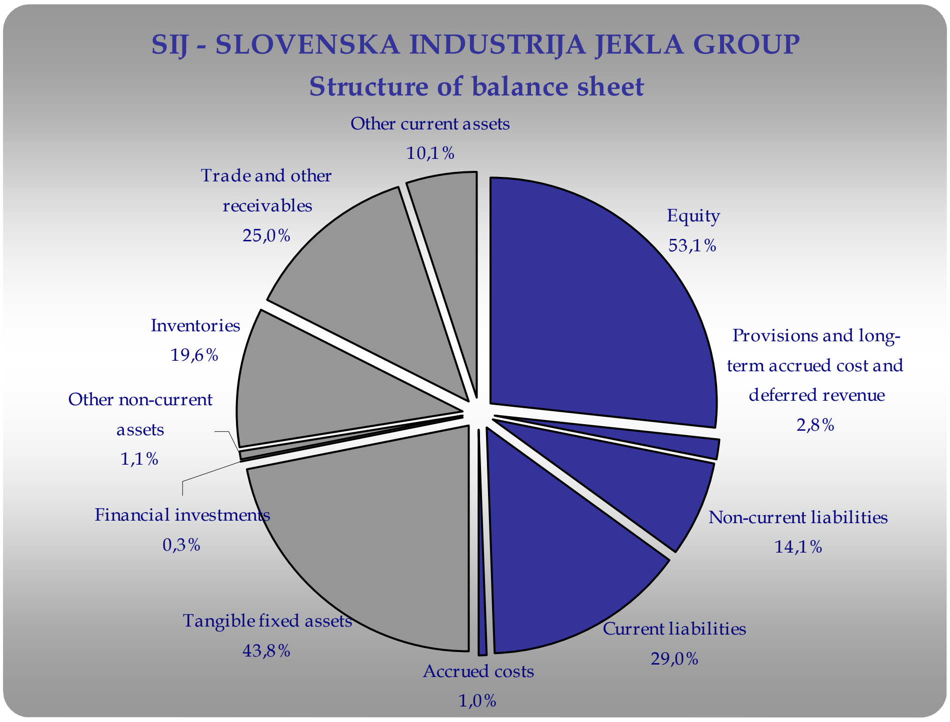
Profit before tax was on account of intensive investment policy and consequently higher finance expenses 39% lower than in 2007, whereas net profit, reaching EUR 37.9 million, lagged behind the 2007 level by 37%. Comparatively to year 2007, there were no extraordinary income in year 2008 (in year 2007 there was EUR 13.272.660 of income from sale and purchase of derivative financial instrument), and that is why the result for year 2008, is lower in comparatively to year 2007 for 14,5%.

2.3.4.1. Operating result in comparison with 2007

ITEM	2008	2007	Index
OPERATING REVENUES	**709,328,851**	**682,343,772**	**104.0**
Net sales revenues	702,851,130	678,905,418	103.5
Other operating revenues	6,477,721	3,438,354	188.4
CHANGE IN THE VALUE OF INVENTORIES	-20,047,477	7,501,935	-267.2
OPERATING EXPENSES	625,915,126	612,008,658	102.3
Costs of materials and services	525,473,531	519,760,449	101.1
Labour costs	80,311,917	75,211,340	106.8
Depreciation	20,129,678	17,036,869	118.2
Other operating expenses	8,290,292	8,641,126	95.9
OPERATING PROFIT	**55,075,956**	**69,195,923**	**79.6**
Finance income	2,452,987	3,501,708	70.1
Finance expenses	9,504,230	7,781,628	122.1
Other – extraordinary income	-	13,272,660	-
NET PROFIT BEFORE TAX	**48,024,713**	**78,188,663**	**61.4**
Income tax expenses	10,286,076	14,348,160	71.7
Deferred taxes	165,771	-3,958,875	-
NET PROFIT	**37,904,407**	**59,881,629**	**63.3**

2.3.5. FINANCIAL POSITION OF THE GROUP

2.3.5.1. Structure of balance sheet



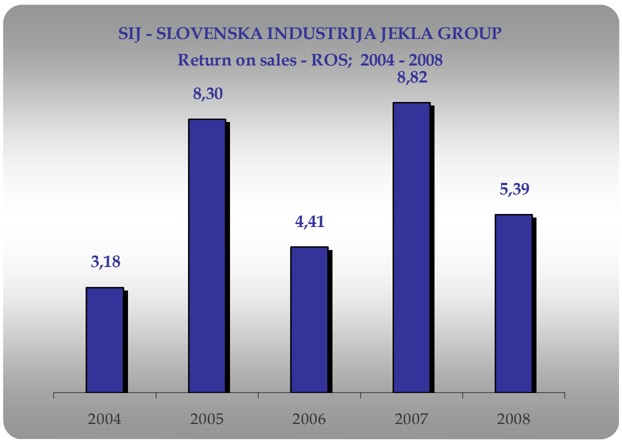
In 2008, the structure of assets and liabilities somewhat changed compared to the year before. Equity increased by 13%. Within equity, the highest rise was seen in retained earnings (up by 91.6%), whereas capital reserves fell on account of covering the loss based on the resolution of the General Meeting of Shareholders of SIJ - Slovenska industrija jekla, d.d.

On the assets side, a rise was recorded in non-current assets (up by 16.8%), mainly in production equipment (up by 38.5%), whereas among current assets, which grew by 11.5%, a nearly 10% drop was witnessed in inventories and a 19.6% increase in trade and other receivables.

Net financial debt of the Group as at the last day of 2008 stood at EUR 124.7 million, which is 76% more than in the previous year and the consequence of borrowing with the aim of implementing the investment policy. Interest on the total financial debt represent only 1.25% of net sales revenues.

2.3.6. PERFORMANCE INDICATORS

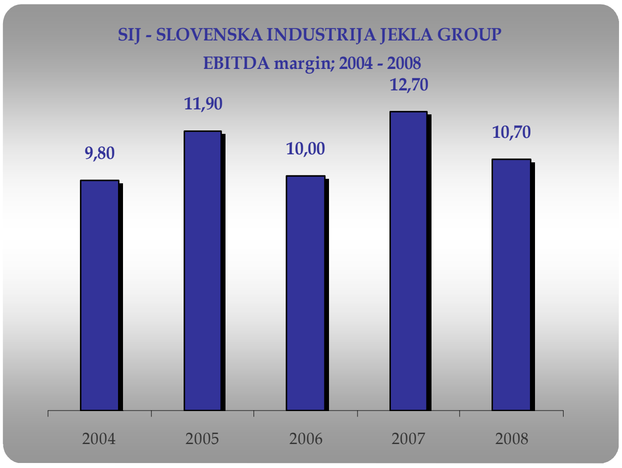
	2008	2007	Index
RETURN ON SALES – ROS (%)	5.39	8.82	61.1
EBIT in EUR	55,075,956	69,195,923	79.6
EBIT margin (%)	7.84	10.19	76.9
EBITDA in EUR	75,205,633	86,232,794	87.2
EBITDA margin (%)	10.7	12.7	84.3
RETURN ON ASSETS – ROA	6.39	11.20	57.0
RETURN ON EQUITY – ROE	11.98	22.46	53.3
NET DEBT/EBITDA	1.66	0.82	202.4

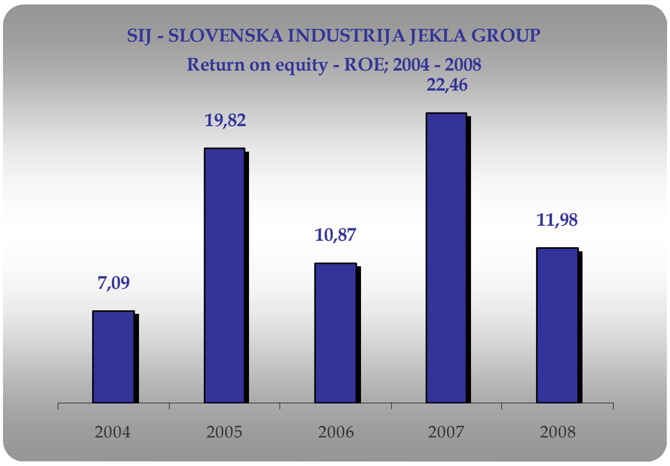


Return on sales follows most closely the market trends and our efficient adjustment to these trends.

In spite of the significant fluctuations in this indicator, it has been constantly on the rise for the past five years.

EBITDA is one of the indicators which the Group and individual companies monitor very carefully, since it reflects the funds available for financing so long as the owners do not distribute profit. In 2008, EUR 75 million was available for working capital and investment financing. All of it went for investments.





The trend in return on equity was similar to the trend observed in return on sales.

The value of capital has been growing along with retained earnings.

2.4. RISK MANAGEMENT

2.4.1. ENVIRONMENTAL RISKS

Major risks include identified risks arising from the amendments to the tax and labour law legislation as well as the risks due to natural and other disasters. Partial hedging is available only against the risks related to natural and other disasters by means of property and personal insurance, whereas the risks related to the legislative amendments are more unpredictable and can be hedged against by systematic monitoring and timely response.

2.4.2. 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 seeks 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 co-ordination with the parent company's financial department.

2.4.2.1. 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 and in case of poor credit rating goods are sold only provided appropriate guarantee instruments are received; regular monitoring of outstanding receivables and constant recovery of receivables; and insuring of receivables with different insurance companies. Credit risk in the Group is estimated not to be high.

2.4.2.2. Interest rate risk

The Group's interest rate risk stems from long- and short-term 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 situation 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.

2.4.2.3. Foreign exchange risk

The Group operates also in the international environment and so to a certain extent it is exposed also to foreign exchange risk. When Slovenia adopted the euro in 2007, the exposure to foreign exchange risk decreased significantly. Nevertheless, the Group carefully 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 fluctuation compared to the euro in the interim period.

2.4.2.4. Solvency risk

Liquidity risk was insignificant during 2008, as the Group did not generate surplus cash. In the existing global economic conditions this risk is increasing, which is why special attention is paid to cash flow. This type of risk is managed by matching of inflows and outflows as well as co-operation with customers and suppliers, since deteriorated payment discipline results in extended payment deadlines with suppliers. The Group's liquidity reserve represents revolving loans granted by Slovenian banks, which can be drawn should the need for additional liquidity funds arise.

2.4.3. BUSINESS RISKS

2.4.3.1. Sales risk

The greatest risk to which the Group and individual companies are exposed is the risk of the sales being restricted to only a few large customers or a certain market, in which case the loss of a single customer would greatly jeopardise the existence of an individual Group company. Our goal is to disperse sales to as many different users of our products as possible and to a maximum number of markets, which have to be economically viable. Therefore, the sales are distributed on all global markets and among different types of customers: wholesalers with warehouses, local warehouse centre and end users of steel.

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

2.4.3.2. Purchase risk

Every purchase entails risk. Purchase risks arise mainly from unexpected changes in prices, delivery deadlines, the quality of input raw material, other material and services.

The following activities are carried out to manage these risks:

- daily monitoring of market situation and projection of market changes;
- strategic purchases based on long-term contracts with suppliers;
- establishment of business processes with suppliers based on partnerships;
- dispersed purchasing of strategic materials from several suppliers;
- assessment of the adequacy of suppliers (supplier estimates) to ensure quality material.

In view of the market situation in 2008 we can assert that purchase risk was very high in this period, but very well managed.

In spite of unfavourable market conditions in 2008, the Group in due time identified purchase risks and at the same time successfully conducted activities for optimal functioning of business processes within the Group.

2.4.3.3. 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.

Already in the early project assessment phase we prepare a schedule, as realistic as possible, determine the scope and size of the project, and the complexity of the project structure. The project manager, who is conferred powers, contributes to satisfactory planning and follow-up of the project.

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

2.4.4. OTHER RISKS

2.4.4.1. Human resources risk

Major human resources risks include:

- The inability to ensure an optimal number of properly qualified personnel, i.e. preserving the critical mass of employees, which can quickly adapt to the changing production volume;
- Lack of employees with vocational education;
- Lack of interest among youth for technical – metallurgy occupations;
- Granting scholarships;
- High average age of employees.

Due to the nature of work the risk of disability is higher. The age of employees further increases this risk. The activities we conduct to reduce this type of risk include the modernisation of production processes, reducing physical strain, improving working conditions, scholarships and systematic promotion of vocational education and raising the awareness of employees to devote care to healthy and safe work.

2.4.4.2. Environmental-protection risk

This type of risk entails a certain hazard in the event of an environmental disaster (pollution). Great risk arises also 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.

2.5. STATEMENT ON CORPORATE GOVERNANCE

The Management Board of the Group does not apply any corporate governance code nor is such code applied within the SIJ Group.

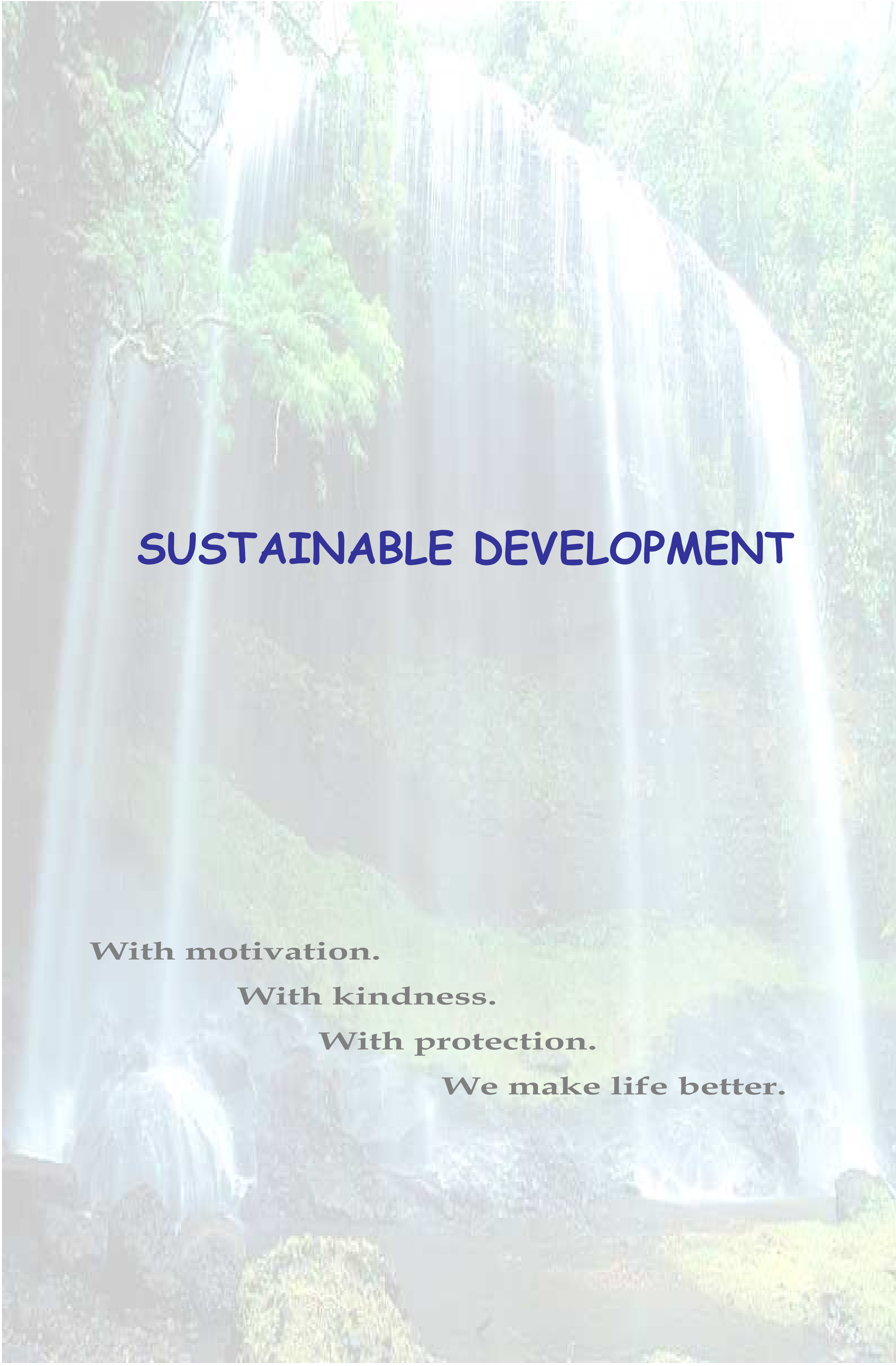
2.6. IMPACT OF THE PARENT COMPANY

No legal transactions were conducted in the Group companies in 2008 resulting in any disadvantage to the Group companies due to the impact of the controlling company DILON d.o.o. Ljubljana and its associates.

2.7. EVENTS AFTER THE END OF THE BUSINESS YEAR

On account of the economic and financial crisis most companies within the Group recorded a significant decrease in orders, which is why Acroni, Metal Ravne, Noži Ravne, SUZ and Elektrode Jesenice introduced a shorter, 36-hour working week in the first quarter. On the day the shorter working hours were introduced the companies requested a state subsidy.

There were no other major business events after the end of the business year.



SUSTAINABLE DEVELOPMENT

With motivation.
With kindness.
With protection.
We make life better.

3. SUSTAINABLE DEVELOPMENT

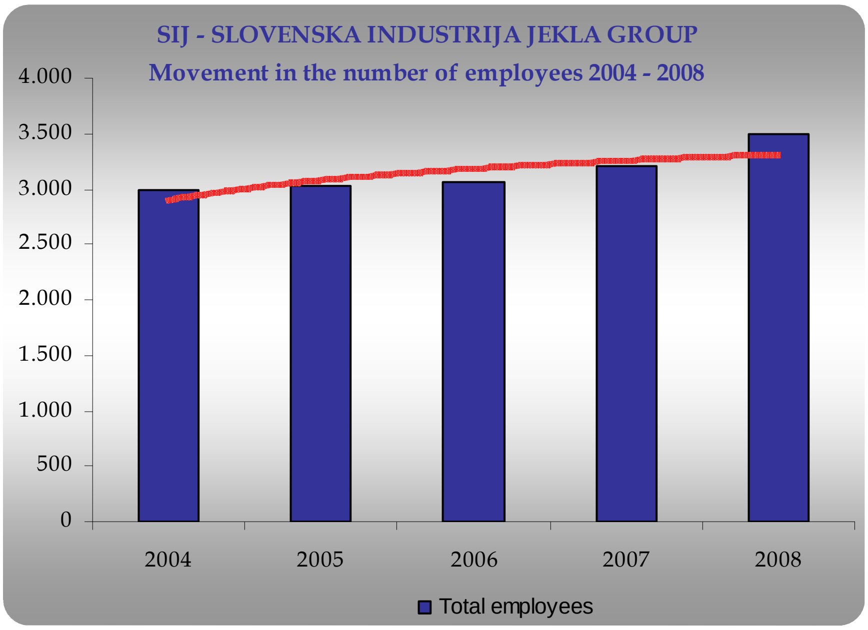
Our vision indicates that we strive to be a good and responsible employer, at the same time encouraging employees to responsible and engaged work as well as the achievement of the company's and the Group's goals.

We want to treat the environment we operate it conscientiously, not only because of the binding regulations, but also because of the local communities we work and live in.

We strive to be a part of the society and therefore we act socially accountable; we sponsor sports activities, cultural and educational institutions and successful individuals who promote not only our companies and the Group, but also our country.

3.1. EMPLOYEES

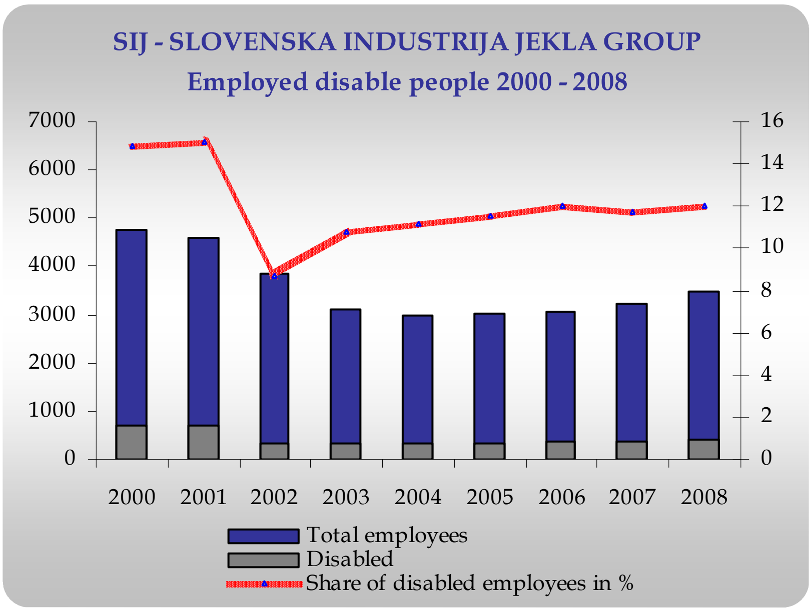
3.1.1. MOVEMENT IN THE NUMBER OF EMPLOYEES



In the period following Slovenia's independence, the number of employees had been decreasing for a series of years, partly due to the sale of companies and partly on account of company and Group restructuring. Since 2004 the number of employees has been climbing again. In 2008, it grew by as much as 3.2%, which is the most in the past five years.

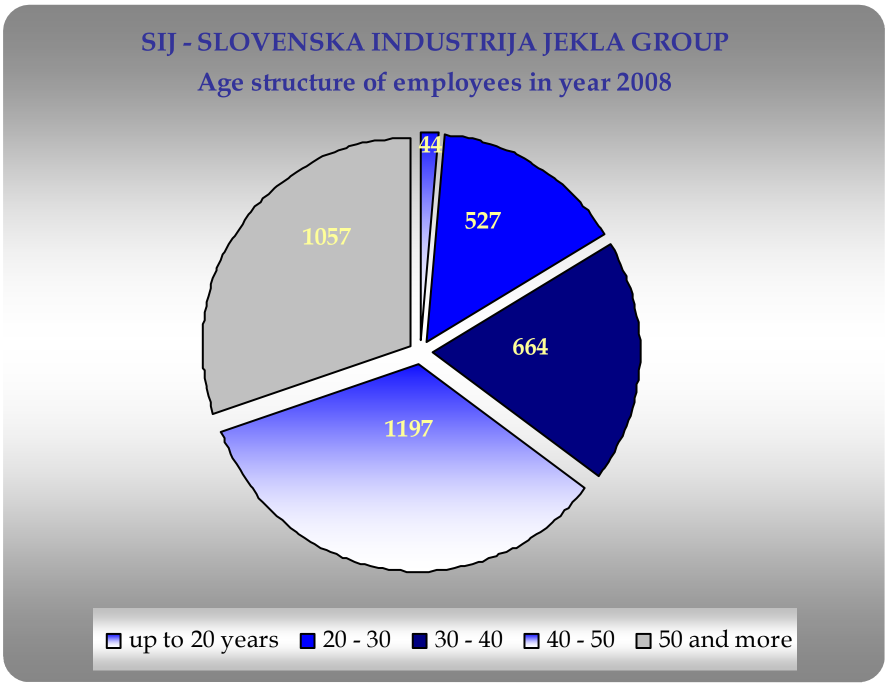
3.1.2. DISABLED EMPLOYEES

After the bankruptcy of two companies for personnel restructuring (CPK and Logistični center) in 2002, the share of disabled employees dropped below 10%, however, it has been constantly increasing since then. In 2008, the share of disabled employees stood already at 12%.
The reasons of disability include disease (82%), occupational injury (12%), occupational disease (1%) and other (5%).



3.1.3. AGE STRUCTURE

For several years we have witnessed a high average age of employees, that is between 42 and 43 years. The bulk of employees are on average older than 50, which means that (if the legislation remains unchanged) in the next 7–8 years we will replace no less than one third of employees.



3.1.4. EMPLOYEES BY SEX

SEX	31.12. 2008	31.12. 2007
MEN	2,884	2,794
WOMEN	605	588
TOTAL	3,489	3,382

3.1.5. SCHOLARSHIPS

On account of high age structure we pay special attention to scholarships, since metallurgy professions are in extremely short supply. In the past, several metallurgy study programmes were abolished on all educational levels. With the support of the companies from the SIJ Group some programmes in occupational and secondary schools have been or will be reintroduced.

The Group provides scholarships to 163 secondary school and university students at various educational levels.

3.2. COMMUNICATION

The Group is operating in an ever more developed and competitive market environment, to which it is adapting by faster response to the needs of its business partners, provision of competitive conditions for employing the necessary experts, environmental care and last but not least by ensuring various forms of integration into the direct and wider community.

3.2.1. COMMUNICATION WITH CUSTOMERS

The Group fosters long-term relations with its customers and ensures constant communication. We regularly meet our customers and co-operate with them in sales and technical area. In addition, customer satisfaction is analysed annually, based on which we adopt measures for further improvement of co-operation.

3.2.2. COMMUNICATION WITH EMPLOYEES

Open communication and fast provision of information is crucial for informing, motivating and ensuring employee loyalty. We employ various internal communication tools. We make sure that our employees are as much as possible informed of events in the company and encourage them to express their opinions and submit proposals. Information about major events is regularly published in the monthly internal newsletter SIJ, which contains information about the development strategy, plans and achievements as well as various important business and social events within the Group and in the local environment. Information is forwarded to employees also via e-mail or published on the notice boards in individual work environments.

3.2.3. COMMUNICATION WITH THE SOCIAL ENVIRONMENT

Individual companies of the Group are important players in respective local communities, which is why we all strive to improve the quality of life of our employees and other population.

3.2.3.1. Sport

The company Acroni is the lead sponsor of the Jesenice Hockey Club, the company Metal Ravne actively supports the Fužinar Swimming Club, alpine skiing and volleyball, whereas the company SIJ - Slovenska industrija jekla, d.d. donates funds to alpine skiing, ski jumping and table tennis.

3.2.3.2. Education and culture

We sponsor various cultural events and support professional business meetings. Moreover, we donate funds for humanitarian purposes.

3.2.4. COMMUNICATION WITH THE MEDIA

Communication with the media is the responsibility of the Public Relations Department of SIJ – Slovenska industrija jekla, d.d. The media and other stakeholders are informed of important business events at press conferences, through press releases, invitations to major events and other communication methods. We are aware that credible and timely informing of stakeholders is the basis of sound co-operation and trust.

3.2.5. ENVIRONMENTAL COMMUNICATION

Customers, suppliers, employees, authorities and the general public are regularly informed about our activities and principles of operations. The companies of the Group operate in the approximate vicinity of residential areas. Pleasant cohabitation with the local people and other interested publics is our fundamental objective. We are an open group with accessible policy. We accept the initiatives by the public, respond to them and seriously take them into consideration in our work.

3.3. PROTECTION OF THE ENVIRONMENT

We are aware that taking care of 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 treated as a component of the management policy.

The Group companies devote a lot of attention to the environment and ecology. In recent years, numerous investments have been made in the modernisation of infrastructure and harmonisation with the requirements imposed by the applicable legislation, especially in waste management, emissions into water and air, and noise emissions. SIJ - Slovenska industrija jekla, d.d. does not need an environmental protection permit for its operations, whereas the Group companies for which such permit is prescribed have acquired it or the acquisition in progress.

Both steel companies, Acroni and Metal Ravne, are obligated to comply with the IPPC directives and consequently very strict European and Slovenian legislation; both companies are in the process of obtaining the permit and were approved suitable transitional period. The companies have adequate approved and verified rehabilitation programmes.

For obtaining the IPPC permit Acroni was approved the transitional period until October 2010. The company disposes with or has set aside to provisions all the funds necessary for the implementation of the entire rehabilitation programme.

The transitional period for obtaining the IPPC permit by Metal Ravne lasts until 2012 and the company has an approved rehabilitation programme, which will be carried out by the deadline.

The Group and its companies will in the future continue making investments needed for meeting the legally prescribed standards and requirements related to ecology and environment. The planned value of environment-related investments in the next three years is over EUR 11 million.

We have been constantly improving our attitude to environment, safety and health at work, which is proved by the international standards – Environmental Management System ISO 14001 and the Occupational Health And Safety System OHSAS 18001 - the company Acroni has acquired both certificates and the company Metal Ravne ISO 14001.

We have been introducing new technological procedures in companies with minimum burden on the environment and the least possible impact on the safety and health of employees. We equally carefully handle all energy sources and monitor rational energy consumption. Waste generation, emissions into air and waste waters are monitored on a regular basis.

Furthermore, a few years back we launched the rehabilitation of cooling systems in both steel companies. The goals of the project "Reducing process water consumption" were mainly the ecological upgrade of the system, decreased consumption of process water, improved quality of process water, closing of circuits, process automation, reduction of water supply costs and operating costs.

Efficient use of energy is reflected both in lower operating costs and smaller emission of hazardous substances into the environment.

FINANCIAL REPORT

Caught in time.

Caught in space.

Caught in steel.

4. CONSOLIDATED FINANCIAL REPORT

4.1. CONSOLIDATED FINANCIAL STATEMENTS

4.1.1. CONSOLIDATED BALANCE SHEET

	Note	31.12. 2008	31.12. 2007
ASSETS			
Non-current assets		**285,946,887**	**244,736,350**
Intangible assets	4.3.1.	2,823,439	1,141,933
Property, plant and equipment	4.3.2.	276,854,886	237,877,551
Investment property	4.3.3.	347,067	973,522
Available-for-sale financial assets	4.3.4.	1,366,346	905,949
Investments in associates	4.3.5.	736,452	517,244
Other non-current assets	4.3.7.	862,830	536,906
Deferred income tax assets	4.3.8.	2,955,867	2,783,245
Current assets (excluding prepaid expenses and accrued revenues)		**345,567,812**	**310,015,599**
Assets held for sale	4.3.9.	4,900,950	4,551,889
Inventories	4.3.10.	123,858,093	136,657,438
Financial assets at fair value through profit or loss	4.3.11.	90,787	497,697
Loans issued and deposits	4.3.12.	25,940,132	143,452
Trade and other receivables	4.3.13.	157,885,510	132,056,127
Cash and cash equivalents	4.3.14.	32,892,340	36,108,996
Prepaid expenses and accrued revenues	**4.3.15.**	**203,163**	**61,682**
Current assets		**345,770,975**	**310,077,281**
Total assets		**631,717,862**	**554,813,631**

	Note	31.12.2008	31.12.2007
EQUITY AND LIABILITIES			
Equity	**4.3.16.**	**335,551,385**	**297,054,154**
Capital and reserves attributed to equity holders of the Company		**333,543,460**	**295,655,490**
Share capital		145,266,066	145,266,066
Capital reserves		11,461,177	19,404,273
Revenue reserves		(2,134,473)	(2,148,193)
Legal reserves		120,254	106,534
Treasury shares		(2,254,727)	(2,254,727)
Revaluation reserves		386,255	413,352
Currency translation reserves		(72,184)	(163,939)
Retained earnings		140,827,031	73,498,215
Net profit for the year		37,809,588	59,385,716
Minority interest		**2,007,925**	**1,398,664**
Provisions and long-term deferred revenues		**17,675,845**	**17,709,494**
Provisions	4.3.17.	7,300,228	8,792,904
Long-term deferred revenues	4.3.18.	687,307	687,710
Retirement benefit obligations	4.3.19.	9,688,310	8,228,880
Non-current liabilities		**89,153,499**	**67,381,981**
Borrowings	4.3.20.	81,461,999	62,029,282
Other non-current financial liabilities	4.3.21.	6,942,221	5,223,104
Other non-current trade liabilities	4.3.22.	646,603	129,595
Deferred income tax liabilities	4.3.8.	102,676	-
Current liabilities		**182,890,153**	**167,850,644**
Borrowings	4.3.23.	92,673,353	42,589,317
Other current financial liabilities	4.3.24.	2,602,700	2,113,927
Trade and other payables	4.3.25.	87,249,585	110,898,482
Current income tax payable	4.3.26.	364,515	12,248,917
Accrued costs and deferred revenues	4.3.27.	**6,446,980**	**4,817,358**
Total liabilities		**296,166,477**	**257,759,477**
Total equity and liabilities		**631,717,862**	**554,813,631**

The notes and policies on pages 61 through 113 represent an integral part of these consolidated financial statements.

4.1.2. CONSOLIDATED INCOME STATEMENT

	Note	Year 2008	Year 2007
Revenues	4.3.28.	702,851,130	678,905,418
Cost of products sold (including depreciation and amortisation)	4.3.29.	(558,249,288)	(528,558,362)
Gross profit/loss		**144,601,842**	**150,347,056**
Distribution costs (including depreciation and amortisation)	4.3.29.	(46,698,229)	(34,569,646)
General and administrative costs (including depreciation and amortisation)	4.3.29.	(43,506,717)	(43,483,641)
Other operating income	4.3.30.	6,477,721	3,438,355
Other operating expenses	4.3.31.	(5,798,661)	(6,536,201)
Operating profit		**55,075,956**	**69,195,923**
Income/expenses from the valuation and sale of financial investments	4.3.32.	(553,694)	80,484
Finance income	4.3.33.	2,143,488	2,470,930
Finance expenses	4.3.34.	(8,764,048)	(7,303,261)
Share of net results of associates		219,208	314,218
Exchange gains	4.3.35.	90,291	636,076
Exchange losses	4.3.36.	(186,488)	(478,367)
Other income	4.3.37.	-	13,272,660
Profit before taxation		**48,024,713**	**78,188,664**
Income tax expense	4.3.38.	(10,286,076)	(14,348,161)
Deferred income tax	4.3.38.	165,771	(3,958,875)
PROFIT FOR THE YEAR		**37,904,408**	**59,881,629**
Profit attributable to equity holders		37,823,307	59,385,716
Profit attributable to minority interest		81,101	495,913
Earnings per share for profit attributable to the equity holders of the company	4.3.39.		
- basic		38.33	60.19
- diluted		38.33	60.19

The notes and policies on pages 61 through 113 represent an integral part of these consolidated financial statements.

4.1.3. CONSOLIDATED CASH FLOW STATEMENT

	2008	2007
Cash flow from operating activities		
Profit before income tax	**48,024,710**	**78,188,664**
Adjustments for:		
Depreciation and amortisation of property, plant and equipment and intangible assets	20,129,680	17,036,868
Share net results of associates	(219,208)	(314,218)
Excess of net asset fair value over cost of acquisition (negative goodwill)	(62,991)	-
Finance income	(2,137,726)	(2,415,782)
Finance expenses	8,764,008	6,926,260
Exchange rate differences, net	96,198	(157,710)
Gains/(losses) on the sale of financial investments	553,693	(13,353,144)
Reversal/accrual of allowances	(2,198,243)	2,710,278
Other adjustments	2,420,318	(2,672,913)
Cash flow from operating activities before working capital	*75,370,439*	*85,948,303*
Changes in working capital		
Increase/decrease in trade and other receivables	(22,729,407)	14,590,794
Decrease /increase in inventories	12,527,676	(11,079,729)
Decrease / increase in trade and other payables	(19,681,260)	627,965
Decrease / increase in taxes, other than corporate income tax	(1,322,971)	1,331,289
Income tax paid	(23,518,309)	(3,931,762)
Other payments directly to retained earnings	-	945,620
Net cash flow generated from operating activities	**20,646,168**	**88,432,480**
Cash flow from investing activities		
Acquisition of subsidiaries	(5,270,103)	-
Purchase of property, plant and equipment	(52,165,633)	(59,185,458)
Sale of property, plant and equipment	80,430	214,669
Net sale of held-for-trading financial investments	189,987	13,353,144
Changes in restricted cash	(14,107)	187,692
Loans issued	(56,147,048)	(4,694,902)
Repayment of loans issued	30,350,368	7,981,385

	2008	2007
Interest received from loans issued	1,854,690	2,418,764
Dividends received	33,378	17,460
Net sale of available-for-sale financial investments	23,380	550,195
Sale of intangible assets	(885,294)	(1,087,145)
Net cash flow used in investing activities	**(81,949,952)**	**(40,244,196)**
Cash flow from financing activities		
Proceeds from loans and borrowings	234,022,192	316,277,644
Repayment of loans and borrowings	(173,547,409)	(351,102,494)
Repayment of finance lease liabilities	(1,694,301)	(2,710,669)
Repayment of interest on loans and borrowings	(8,663,084)	(7,076,524)
Dividend payout	(300,000)	-
Net cash flow generated/(used) from financing activities	**49,817,398**	**(44,612,043)**
Net decrease/increase in cash	**(11,486,386)**	**3,576,242**
Net cash and cash equivalents at the beginning of the period	33,884,182	30,307,939
Net cash and cash equivalents at the end of the period	22,397,796	33,884,181

Cash and cash equivalents	2008	2007
Net cash and cash equivalents in the balance sheet as at 31 December	32,892,340	36,108,996
decreased by restricted cash	(47,601)	(33,494)
decreased by approved overdrafts	(10,446,943)	(2,191,321)
Cash and cash equivalents used for cash flow statement at 31 December	22,397,796	33,884,181

The notes and policies on pages 61 through 113 represent an integral part of these consolidated financial statements.

4.1.4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

4.1.4.1. Consolidated statement of changes in equity for the year 2008

	Capital and reserves attributed to equity holders of the Company									Minority interest	Total equity
	Share capital	Capital reserves	Legal reserves	Treasury shares	Retained earnings	Profit for the year	Revaluation reserves	Currency translation reserves	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
Fair value gains/(losses), net of tax:											
- available-for-sale financial assets	-	-	-	-	-	-	(27,097)	-	**(27,097)**	-	**(27,097)**
Acquisition of minority interest	-	-	-	-	-	-	-	-	**-**	828,162	**828,162**
Currency translation differences	-	-	-		4	-	-	91,755	**91,759**	-	**91,759**
Net income/(expenses) recognised directly in equity	**-**	**-**	**-**	**-**	***4***	**-**	***(27,097)***	***91,755***	***64,662***	***828,162***	***892,824***
Net profit for the financial year	-	-	-	-	-	37,823,308	-	-	**37,823,308**	81,099	**37,904,407**
Total recognised income and expenses	**-**	**-**	**-**	**-**	**4**	**37,823,308**	**(27,097)**	**91,755**	**37,887,970**	**909,261**	**38,797,231**
Settlement of loss	-	(7,943,096)	-	-	7,943,096	-	-	-	**-**	-	**-**
Established legal reserves	-	-	13,720	-	-	(13,720)	-	-	**-**	-	**-**
Transfer of net profit from previous years	-	-	-	-	59,385,716	(59,385,716)	-	-	**-**	-	**-**
Dividend payout	-	-	-	-	-	-	-	-	-	(300,000)	(300,000)
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**

4.1.4.2. Consolidated statement of changes in equity for the year 2007

	Capital and reserves attributed to equity holders of the Company										Minority interest	Total equity
	Share capital	Capital reserves	Legal reserves	Reserves for treasury shares	Treasury shares	Retained earnings	Profit for the year	Revaluation reserves	Currency translation reserves	Total		
Balance as at 31.12.2006	145,266,066	19,404,273	106,534	5,008	(2,259,735)	48,008,932	24,538,657	147,544	(51,035)	235,166,244	902,749	236,068,993
Fair value gains, net of tax:												
- available-for-sale financial investments	-	-	-	-	-	-	-	265,808	-	**265,808**	-	**265,808**
Return of paid income tax	-	-	-	-	-	945,618	-	-	-	**945,618**	-	**945,618**
Currency translation differences	-	-	-	-		-	-	-	(112,904)	**(112,904)**	-	**(112,904)**
Net income/(expenses) recognised directly in equity	**-**	**-**	**-**	**-**	**-**	***945,618***	**-**	***265,808***	***(112,904)***	***1,098,522***	**-**	***1,098,522***
Net profit for the financial year	-	-	-	-	-	-	59,385,716	-	-	**59,385,716**	495,915	**59,881,631**
Total recognised income and expenses	**-**	**-**	**-**	**-**	**-**	**945,618**	**59,385,716**	**265,808**	**(112,904)**	**60,484,238**	**495,915**	**60,980,153**
Transfers of net profit from previous years	-	-	-	-	-	24,538,657	(24,538,657)	-	-	**-**	-	**-**
Sale of treasury shares	-	-	-	(5,008)	5,008	5,008	-	-	-	**5,008**	-	**5,008**
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**

The notes and policies on pages 61 through 113 represent an integral part of these consolidated financial statements.

4.2. ACCOUNTING POLICIES

The main accounting policies used in compiling consolidated financial statements are stated below.

4.2.1. BASES FOR PREPARING THE ANNUAL REPORT

The 2008 consolidated financial statements of the SIJ Group have been compiled in accordance with the International Financial Reporting Standards (hereinafter: the IFRS) adopted in the EU. 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 evaluation.

Consolidated financial statements in the report are presented in Euros (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 as adopted by the EU 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 of the Group 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.

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

a) Currently applicable standards and interpretations

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

- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" Reclassification of Financial Assets" (effective date as of and including 1 July 2008).

The adoption of amendments to existing standards has not yet resulted in changes of the Group's consolidated accounting policies.

b) Standards and interpretations not yet adopted

On the day the consolidated financial statements were approved, the EU passed the following standards, revisions of standards and interpretations that have not yet entered into force:

- IFRS 8 "Operating Segments" adopted by the EU on 21 November 2007 (applies to the annual periods beginning on or after 1 January 2009).
- Amendments to IFRS 1 "First-Time Adoption of IFRS" and IAS 27 "Consolidated and Separate Financial Statements" - Investment costs of a subsidiary, jointly controlled or associated company, which the EU adopted on 23 January 2009 (applies to the annual periods beginning on or after 1 January 2009).
- Amendments to various standards and interpretations arising from the IFRS Annual Improvements Project (IAS 1, IFRS 5, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41), primarily in terms of the elimination of inconsistencies and clearer wording, which the EU adopted

on 23 January 2009 (most amendments apply to the annual periods beginning on or after 1 January 2009).

- Amendment to 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 1 (revised) "Presentation of Financial Statements" - Revised presentation, adopted by the EU on 17 December 2008 (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).
- Amendments to 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 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 of the Group.

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

At present the IFRS adopted by the EU do not significantly differ from the regulations adopted by the IASB, with the exception of the following standards, amendments to existing standards and interpretations, which were not approved for application as at 3 March 2009:

- IFRS 3 (revised) "Business Combinations" (applies to the annual periods beginning on or after 1 July 2009).
- IFRS 1 (revised) "First-time Application of IFRS" (applies to the annual periods beginning on or after 1 January 2009).
- Amendment to IAS 27 "Consolidated and Separate Financial Statements" (applies to the annual periods beginning on or after 1 July 2009).
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" - Eligible Hedged Items (applies to the annual periods beginning on or after 1 July 2009).
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" Reclassification of Financial Assets, effective date and transition (effective date as of and including 1 July 2008).
- IFRIC 12 "Service Concession Arrangements" (applies to the annual periods beginning on or after 1 January 2008).
- IFRIC 15 "Agreements for the Construction of Real Estate" (applies to the annual periods beginning on or after 1 January 2009).
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (applies to the annual periods beginning on or after 1 October 2008).
- IFRIC 17 "Distributions of Non-cash Assets to Owners" (applies to the annual periods beginning on or after 1 July 2009).
- IFRIC 18 "Transfers of Assets from Customers" (applies to the annual periods beginning on or after 1 July 2009).

The Group projects that the first-time application of these standards, supplementation of standards and interpretations will not have a significant impact on the consolidated financial statements of the Group.
At the same time the hedge accounting of the financial assets and liabilities portfolio for which the EU did not adopt principles, remains unregulated. According to the Group's projections, the application of hedge accounting to the financial assets and liabilities portfolio in line with IAS 39 "Financial Instruments: Recognition and Measurement" would not have a significant influence if applied as at the balance sheet cut-off date.

Financial risk management is detailed in item 2.4. of the business part of the Consolidated Annual Report.

4.2.2. CONSOLIDATION

Subsidiaries, in which the Group directly or indirectly holds a stake 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 stake in them, and they are excluded from consolidation when the Group ceases to hold the controlling stake. 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 minority shareholders equally as transactions with external partners. Profit and loss of minority shareholders are disclosed in the Group's income statement. Purchase acquisitions are reflected in higher minority capital and increased goodwill or negative goodwill, as the difference between the share of minority shareholders in book value and fair value of the acquired company.

Consolidated financial statements assembles parent company SIJ – Slovenska industrija jekla, d.d.. Consolidated Annual report is available at the main office of SIJ - Slovenska industrija jekla, d.d., on Gerbičeva 98, Ljubljana.

Parent company of the Group is DILON d.o.o., Gerbičeva 98, Ljubljana. A consolidated financial statement for narrow circle of subsidiaries assembles DILON d.o.o., consolidated financial statements for broad circle of subsidiaries assembles OAO KOKS, Kemerovo, Russian Federation.

Consolidated Annual report for DILON Group is available at the main office of DILON d.o.o. on Gerbičeva 98, Ljubljana. Consolidated Annual report for OAO KOKS Group is available at the main office of OAO KOKS, 1st Stakhanovskaya ulitsa 6, 650021 Kemerovo, Russian Federation.

4.2.3. COMPOSITION OF THE GROUP OF RELATED 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 related companies in which SIJ - Slovenska industrija jekla, d.d. holds financial stakes comprises the following companies:

	Company's activity	% of participation	Value of equity of the company as at 31 Dec. 2008	Profit/loss for 2008
Controlling company				
SIJ - Slovenska industrija jekla, d.d., Gerbičeva 98, Ljubljana	Holding activity		155,239,712	274,406
Subsidiaries of SIJ				
Acroni, d.o.o., Cesta Borisa Kidriča 44, Jesenice	Manufacturing of steel	100	182,640,447	20,810,598
Metal Ravne, d.o.o., Koroška cesta 14, Ravne na Koroškem	Manufacturing of steel	100	80,024,040	13,550,928
Noži Ravne d.o.o, Koroška cesta 14, Ravne na Koroškem	Manufacturing of industrial knives	100	10,771,453	1,252,672
Elektrode Jesenice, d.o.o., Cesta železarjev 8,Jesenice	Manufacturing of filler materials for welding	100	5,431,448	672,019
SUZ, d.o.o., Cesta Borisa Kidriča 44, Jesenice	Manufacturing of drawn wires	100	789,657	8,166
ZIP Center, d.o.o., Koroška cesta 14, Ravne na Koroškem	Training and education of disabled persons	100	70,735	5,925
Železarna Jesenice, d.o.o., Cesta železarjev 8, Jesenice	Trading in own real estate	100	20,279,868	437,033
Žična Celje, d.o.o., Cesta v Trnovlje 7, Celje	Service activity	100	1,672,049	18,718
Odpad d.o.o. Pivka, Velika Pristava 23, Pivka	Collecting of scrap	74.90	3,632,860	95,269

	Company's activity	% of participation	Value of capital of the company as at 31 Dec. 2008	Profit/loss for 2008
Subsidiaries of ACRONI				
Acroni Italia s.r.l., Via del San Michele 334, Gorica, Italy	Trade activity	70	639,173	18,376
Acroni Deutschland GmbH, Paulsmuhlenstrasse 42, Duesseldorf, Germany	Trade activity	100	987,186	210,721
Acroni Scandinavia AB, Box 17136, 200 01 Malmö, Sweden	Trade activity	100	9,200	-
Subsidiaries of METAL RAVNE				
Iuenna Stahl Productions und Handelsgesellschaft m.b.H., Bleiburg, Austria	Trade activity	100	1,842,744	408,163
KOPO International Inc., New Jersey, USA	Trade activity	100	858,853	(27,966)
Serpa d.o.o., Koroška cesta 14, Ravne na Koroškem	Manufacturing of metallurgic equipment	85.61	3,073,243	338,853

In 2008, the company ODPAD Pivka, d.o.o. was included in consolidation as at 1 May 2008.

4.2.4. INVESTMENTS IN ASSOCIATES

Investments in associates are accounted on the basis of 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 income statement.

	Company's activity	% of participation	Value of capital of the company as at 31 Dec. 2008	Profit/loss for 2008
Ravne Steel center d.o.o., Litostrojska cesta 60, Ljubljana	Trade activity	45	873,192	232,860

4.2.5. 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 (euro), 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.

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

Income statement and cash flow statement of subsidiaries 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 balance sheets are 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 gains or loss arising from the sale.

4.2.6. REVENUE RECOGNITION

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.

Finance income is recognised upon accounting, regardless of receipts unless there exists 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.

4.2.7. RECOGNITION OF EXPENSES

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

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

4.2.8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at their historical cost, reduced by accrued depreciation and impairments.

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

Real estate	from 20 to 77 years
Production equipment	from 3 to 27 years
Computer equipment	from 2 to 6 years
Motor vehicles	from 4 to 10 years
Other equipment	from 1 to 12 years

Land is not depreciated as it is assumed to have unlimited useful life. Assets under construction are also not depreciated until they are available for use.

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 operating profit/loss.

The cost of financial liabilities for financing investments in tangible fixed assets are disclosed in expenses upon their occurrence. Subsequent expenditure on an item of tangible fixed assets 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 financial year of their occurrence.

4.2.9. INVESTMENT PROPERTY

Investment property is defined as property, possessed by the Group in order to generate rent from operating lease or increase the value of long-term investment or both (IAS 40). Investment property is defined as land or building, possessed in order to increase the value of long-term investment or given to operating 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 Group applies the cost model 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 investment property. Land is not depreciated. The Group defines useful life of investment property itself and such useful life is from 20 to 41 years.

In case 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 cost model, are recognised immediately in the income statement.

4.2.10. INTANGIBLE ASSETS

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

The Group uses the cost model (IAS 38.74), which is why intangible assets are carried at their cost value reduced by the accumulated amortisation and impairment losses.

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.

4.2.11. GOODWILL

Goodwill arising on consolidation 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 a subsidiary at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss 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 upon disposal.

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 income statement at the date of acquisition.

4.2.12. 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 short-term assets. These assets are disclosed at fair value, and realised/unrealised gains and losses resulting from changes in fair value are included in the 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 listed on an active market. They are included in short-term assets except for maturities exceeding 12 months after the balance sheet date. In such case they are classified into long-term assets. Loans and receivables are disclosed in the balance sheet under operating and other receivables.

Initially, 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 also 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 surplus. Initially, they are recognised at cost, and later revaluated to fair value.

4.2.13. 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 profit or loss. 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 profit or loss.

4.2.14. 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 loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

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 profit or loss. 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 then 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 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 prior periods are assessed at each balance sheet 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 prior years.

4.2.15. ASSETS HELD FOR SALE

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

4.2.16. INVENTORIES

Inventories are measured at the lower of cost and net realisable value. The cost of inventories include cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of purchase of inventories comprise the purchase price, import duties and other taxes and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining costs of purchase.

Finished products and production in progress values include all production costs, which consist of cost of material, direct labour costs, depreciation, cost of services and other production costs.

The Group uses weighted average cost method for inventories of materials and standard cost method for measurement of finished products and production in progress inventories.

Assesment of net realisable value in ordinary course of business, is made according to selling prices, decreased for the other cost of completion and the cost to be incurred before sale.

4.2.17. 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 short-term financial liabilities in the balance sheet. Cash and cash equivalents are carried at cost.

4.2.18. SHORT-TERM ACCRUED AND DEFERRED ITEMS

Prepaid expenses 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.

Short-term 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.

4.2.19. EQUITY

4.2.19.1. 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.

4.2.19.2. 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 and the amounts on the basis of simplified decrease of share capital.

4.2.19.3. Own 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 own shares (treasury shares) until such shares are withdrawn, reissued or sold.

4.2.19.4. Dividends

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

4.2.20. 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.

4.2.21. 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 include also 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.

4.2.22. PROVISIONS FOR JUBILEE AWARDS AND SEVERANCE PAY

In accordance with the IFRS the provisions, arising from future liabilities to employees, for severance pay upon retirement and jubilee awards in accordance with the collective agreement must be recognised in the balance sheet. The provisions are established based on actuarial calculations.

4.2.23. DEFERRED TAXES

Deferred tax is shown in total by applying the method of obligations under temporary tax differences, based on assets and liabilities and the amounts of tax reported in financial statements. Deferred tax is calculated by using the tax rate (and legislation) which is laid down by law and applicable as at the balance sheet date and which is expected to be applied when deferred tax assets are realised or recovered.

Deferred tax assets are recognised if tax 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 from the Group 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.
In 2008 the tax rate was 22%, in 2009 it will be 21% and as of 2010 it will be 20%.

4.2.24. TRADE LIABILITIES

Upon initial recognition trade liabilities are valued at the amounts stated in the underlying documents on the occurrence of such liabilities. Trade liabilities are recognised in books of account and consolidated balance sheet as a liability, taking into account the contractual date.

4.2.25. 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 income statement throughout the period of the financial liability.

4.2.26. CASH FLOW STATEMENT

Cash flow statement shows changes in cash balances for the financial year concerned. Cash flow statement (version II) is compiled by the application of indirect method. The cash flow statement presents cash flows from or used in operating, investing and financing activities for the period. Net cash flow in the period, and the opening and closing balance of cash in the period are shown at the end of cash flow statement.

4.2.27. SEGMENT REPORTING

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

4.3. NOTES TO THE FINANCIAL STATEMENTS

4.3.1. INTANGIBLE ASSETS

	Long-term 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
Acquisition 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)
Net book value as at 31.12.2007	**1,120,440**	**21,493**	**-**	**-**	**1,141,933**
Net book value as at 31.12.2008	**1,426,907**	**-**	**1,396,531**	**-**	**2,823,438**

Long-term property rights of the Group comprise computer and similar applications and licenses. Goodwill arose on the acquisition of a subsidiary 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 the subsidiary at the date of acquisition (see item 4.3.40.).

Major acquisitions in the financial year 2008 included the purchase of new software and licenses for using software applications.

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

4.3.2. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Equipment	Other	PPE 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
Acquisition 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 fixed asset 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)
Exchange rate 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
Exchange rate 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)
Net book value as at 31.12.2007	**20,372,160**	**67,962,613**	**82,818,794**	**7,121,605**	**59,602,379**	**237,877,551**
Net book value as at 31.12.2008	**20,894,336**	**78,372,148**	**115,899,383**	**6,881,263**	**54,807,756**	**276,854,886**

Major acquisitions of property, plant and equipment refer to the purchase of an end-pusher furnace, tempering tanks, the purchase of chamber annealing furnace, the Elpit furnace, a press, CNC milling machines and graphite furnace holders, the construction of the hall for the manufacturing of welding wire, boosting of warehouse capacities for steel waste, reconstruction of scale pits and of the equipment for steel plate processing, the modernisation of casting device in Steel mill, the relocation of the energy bridge in the Javornik region, the renovation of the 110 KW juncture point at Bela and the renovation of the manipulator on the forging machine.

Fixed assets under construction refer to the project for modernising the CT skin-pass mills in the cold mill, the project for producing devices for steel plate processing and the project for designing the tempering furnace.

Other changes in tangible fixed assets refer to the transfer of assets from investment property to property, plant and equipment, as the Group no longer leases them, and to intangible assets.

Property, plant and equipment with the present value equalling EUR 81,189,250 as at 31 December 2008 are mortgaged (land and real estate) as collateral for long-term loans raised with domestic banks.

Disposals of property, plant and equipment consist of the sale and write-offs of tangible fixed assets.

Liabilities to suppliers arising from property, plant and equipment amounted to EUR 7,916,662 as at 31 December 2008. The present value of property, plant and equipment under finance lease totalled EUR 10,315,410 as at 31 December 2008.

4.3.3. INVESTMENT PROPERTY

	Land	Buildings	Total
Cost as at 31.12.2007	556,284	1,566,879	2,123,163
Disposals	-	(3,724)	(3,724)
Other changes	(556,284)	(279,377)	(835,661)
Cost as at 31.12.2008	-	1,283,778	1,283,778
Accumulated depreciation as at 31.12.2007	-	(1,149,641)	(1,149,641)
Depreciation	-	(30,753)	(30,753)
Disposals	-	2,295	2,295
Other changes	-	241,388	241,388
Accumulated depreciation as at 31.12.2008	-	(936,711)	(936,711)
Net book value as at 31.12.2007	**556,284**	**417,238**	**973,522**
Net book value as at 31.12.2008	**-**	**347,067**	**347,067**

Investment property is carried at cost model. The value of investment property is decreased by depreciation charge. In the financial year 2008 the Group posted EUR 44,929 and EUR 84,652 of expenses and revenues respectively. The carrying amount of investment property does not exceed its realisable value.

Investment property decreased as the agricultural land in the Municipality of Jesenice was transferred to disposal assets, and the real estate was transferred to property, plant and equipment, because the Group no longer leases it.

Investment property refers to:

- 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.

4.3.4. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31.12. 2008	31.12. 2007
Available-for-sale financial assets – purchase value	367,361	380,768
Available-for-sale financial assets – fair value	998,985	525,181
Available-for-sale financial assets	**1,366,346**	**905,949**

Long-term 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 long-term 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 the financial year 2008 the Group impaired the available-for-sale financial assets by EUR 342,705 through profit or loss due to a significant decrease in its fair value.

4.3.5. INVESTMENTS IN ASSOCIATES

	31.12. 2008	31.12. 2007
Financial investments in associates	736,452	517,244
Financial investments in associates	**736,452**	**517,244**

Investments in associates are accounted on the basis of equity method. The equity method determines that the share of the Group in profit/loss of the associated company is recognised in the income statement.

4.3.6. LONG-TERM LOANS ISSUED AND DEPOSITS

	31.12. 2008	31.12. 2007
Long-term loans issued and deposits	-	658,657
Allowances for long-term loans issued and deposits	-	(658,657)
Long-term loans and deposits	**-**	**-**

In 2008, EUR 658,657 of long-term loans issued were written-off in full. The allowances for these loans arising from concluded bankruptcy proceedings of debtors totalled the same amount.

4.3.7. OTHER NON-CURRENT ASSETS

	31.12. 2008	31.12. 2007
Other long-term assets	586,794	-
Non-current trade receivables	476,592	737,462
Allowances of non-current trade receivables	(200,556)	(200,556)
Other non-current assets	**862,830**	**536,906**

The disclosed non-current trade receivables do not exceed net realisable value. Non-current trade receivables decreased owing to repayments by debtors. Other non-current assets consist of emission coupons.

4.3.8. ASSETS/LIABILITIES FOR DEFERRED TAXES

	31.12. 2008	31.12. 2007
Deferred tax assets	2,955,867	2,783,245
Deferred tax liabilities	(102,676)	-
Deferred tax assets / liabilities, net	**2,853,191**	**2,783,245**

4.3.8.1. Table of movement of deferred tax assets/liabilities

	31.12. 2007	Acquisition of subsidiary	Changes in the income statement	Changes in equity	31.12. 2008
Available-for-sale assets	-	-	-	(102,676)	(102,676)
Deferred tax liability	-	-	-	(102,676)	(102,676)
Other provisions	450,676	-	-	-	450,676
Unused tax losses	122,831	-	46,818	-	169,649
Inventories	119,527	-	(26,155)	-	93,372
Trade and other receivables	238,261	-	24,238	-	262,499
Provisions for severance pay and jubilee awards	1,452,664	6,469	140,790	-	1,599,923
Other	399,286	-	(19,538)	-	379,748
Deferred tax assets	2,783,245	6,469	166,153	-	2,955,867
Deferred tax assets / liabilities	**2,783,245**	**6,469**	**166,153**	**(102,676)**	**2,853,191**

Deferred tax assets do not include a receivable arising from unused tax losses of the SIJ Group's parent company which as at 31 December 2008 amounted to EUR 82,069,374, as the parent company of the SIJ Group does not expect taxable profits in the future. Deferred taxes assets arising from unused tax losses would amount to EUR 16,413,875. Unused tax loss pertains to unused tax loss from fiscal years 2001, 2002 and fiscal year 2007, when we calculated the influence of the transition to the IFRS on the tax balance of the Group's parent company.

4.3.9. ASSETS HELD FOR SALE

	31.12. 2008	31.12. 2007
Assets held for sale	4,900,950	4,551,889
Assets held for sale	**4,900,950**	**4,551,889**

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 held for sale increased owing to the transfer of agricultural land from investment property. The carrying amount of assets held for sale does not surpass their realisable value.

4.3.10. INVENTORIES

	31.12. 2008	31.12. 2007
Inventories of material	47,873,742	42,536,202
Inventories of work-in-progress	28,266,371	44,660,703
Inventories of finished products	52,103,264	56,514,358
Merchandise inventories	418,094	419,100
Allowances for inventories	(4,803,378)	(7,472,925)
Inventories	**123,858,093**	**136,657,438**

4.3.10.1. Table of movement in allowances for inventories

	2008	2007
Balance as at 1.1.	7,472,925	7,087,035
Allowances established in 2008	1,283,598	3,156,371
Consumption / elimination in the year	(3,953,147)	(2,770,481)
Balance as at 31.12.	**4,803,376**	**7,472,925**

The Group noted EUR 11,121 worth of inventory surpluses and EUR 170,240 of inventory deficits during the 2008 year-end count.

The Group did not pledge any inventories as collateral for received loans. The carrying amount of inventories does not exceed their realisable value.

4.3.11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12. 2008	31.12. 2007
Financial investments measured at fair value through profit or loss	90,787	497,697
Financial investments measured at fair value through profit or loss	**90,787**	**497,697**

Financial investments held for trading 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. 2007	Revaluation to fair value	Sale	Purchase	31.12. 2008
Shares	497,697	(216,923)	(312,545)	122,558	90,787
Total	**497,697**	**(216,923)**	**(312,545)**	**122,558**	**90,787**

4.3.12. SHORT-TERM LOANS ISSUED AND DEPOSITS

	31.12. 2008	31.12. 2007
Short-term loans issued and deposits	26,816,372	1,478,972
Allowances of short-term loans issued and deposits	(876,240)	(1,335,520)
Short-term loans issued and deposits	**25,940,132**	**143,452**

Interest rate on short-term loans issued and deposits ranges from 3.6% to 8%; the short-term loans issued are secured with letter of credit. The carrying amount of short-term loans and deposits issued does not exceed their fair value.

In 2008 short-term loans issued to others were written off in the amount of EUR 459,280; allowances were made in the same amount due to closed bankruptcy proceedings.

4.3.13. TRADE AND OTHER RECEIVABLES

	31.12. 2008	31.12. 2007
Trade receivables due from customers	127,363,580	115,784,655
Allowances for short-term trade receivables due from customers	(1,349,022)	(1,273,514)
Short-term receivables from interest	155,957	61,060
Short-term receivables related to VAT	8,241,904	8,632,836
Advances payments given	21,267,156	7,704,735
Other short-term receivables	2,205,935	1,146,355
Trade and other receivables	**157,885,510**	**132,056,127**

4.3.13.1. Table of movement in allowances for receivables due from customers

	2008	2007
Balance as at 1.1.	**1,273,514**	**3,186,834**
Acquisition of subsidiary	21,956	-
Established in the financial year	829,170	321,214
Final write-offs of receivables	(482,566)	(1,662,832)
Collected receivables previously written-off	(293,052)	(571,702)
Balance as at 31.12.	**1,349,022**	**1,273,514**

4.3.13.2. Maturity of receivables due from customers

	2008	2007
Outstanding	101,338,121	103,752,525
Up to 90 days overdue	24,057,793	9,931,546
Up to 365 days overdue	580,385	514,149
More than 365 days overdue	1,387,281	1,586,435
Balance as at 31.12.	**127,363,580**	**115,784,655**

Most receivables of the Group are insured against commercial risks with the insurance company SID-PKZ, d.d. Ljubljana. The Group has no receivables due from employees and members of the Management Board. The carrying amount of total operating receivables does not exceed their realisable value.

4.3.14. CASH AND CASH EQUIVALENTS

	31.12. 2008	31.12. 2007
Cash in domestic currency	32,137,620	35,637,034
Cash in foreign currency	707,119	438,469
Restricted cash	47,601	33,493
Cash and cash equivalents	**32,892,340**	**36,108,996**

Cash in domestic and foreign currency includes cash in hand and balances in transaction accounts totalling EUR 2,698,025 as at the balance sheet date. Deposits in the amount of EUR 30,194,315 have up to three month maturity. The interest rate on these deposits is between 2.3% and 5.8%.

Restricted cash represents assets under the management contract signed with the financial company and a bank deposit that represents the guarantee collateral.

4.3.15. SHORT-TERM PREPAID EXPENSES AND ACCRUED REVENUE

	31.12. 2008	31.12. 2007
Short-term prepaid expenses	203,163	61,682
Short-term prepaid expenses and accrued revenue	**203,163**	**61,682**

Short-term deferred costs and accrued revenues are related to payments for professional literature and other expenses debited against profit for 2009.

4.3.16. EQUITY

	31.12. 2008	31.12. 2007
Capital and reserves attributed to equity holders of the Company	**333,543,460**	**295,655,490**
Share capital	145,266,066	145,266,066
Capital reserves	11,461,177	19,404,273
Revenue reserves	(2,134,473)	(2,148,193)
Legal reserves	120,254	106,534
Own shares	(2,254,727)	(2,254,727)
Revaluation reserves	386,255	413,352
Currency translation reserves	(72,184)	(163,940)
Retained earnings	140,827,031	73,498,215
Profit for the year	37,809,588	59,385,716
Minority interest	**2,007,925**	**1,398,664**
Equity	**335,551,385**	**297,054,154**

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 2008 remained the same.

The majority shareholder equity is recognised in the amount of EUR 333,543,460 and is higher then the amount recognised as at 31 December 2007 by EUR 37,887,970. The equity increased by generated net profit pertaining to the majority shareholders in the amount of EUR 37,823,308 and the accounted foreign exchange differences of EUR 91,755, whereas the decrease is due to the reversal of revaluation reserves amounting to EUR 27,097. The revaluation surplus includes financial investments available for sale carried at fair value through equity.

The minority shareholder equity is recognised in the amount of EUR 2,007,925 and is higher then the amount recognised as at 31 December 2007 by EUR 609,261. The equity increase originates from net profit pertaining to minority shareholders in the amount of EUR 81,099, the purchase of additional minority interest equalling EUR 828,162, whereas the decrease results from dividend payout totalling EUR 300,000.

4.3.16.1. Ownership structure of the controlling company

SHAREHOLDERS	Registered ownership No. of shares as at 31.12. 2008	No. of shares as at 31.12. 2007
DILON d.o.o., Gerbičeva 98, Ljubljana	550,511	550,511
Republika Slovenija, Gregorčičeva 20, Ljubljana	248,655	248,655
OAO KOKS, 1 ST STAKHANOVSKAYA STR. 6, Kemerovo, Russia	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 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**

4.3.16.2. Capital reserves

Capital reserves in the amount of EUR 19,404,273 were formed during the simplified decrease of share capital of the parent company after the covering of retained losses in previous years. In 2008 they decreased by EUR 7,943,096 on account of previous loss covered based on the resolution of the General Meeting of Shareholders of the Group's parent company. Capital reserves as at 31 December 2008 amounted to EUR 11,461,177.

4.3.16.3. Revenue reserves

	31.12. 2008	31.12. 2007
Legal reserves	120,254	106,534
Own shares (deduction item of Equity)	(2,254,727)	(2,254,727)
Revenue reserves	**(2,134,473)**	**(2,148,193)**

The company acquired own 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 stock fund was not established. Shares are carried at cost.

4.3.16.4. Revaluation reserves

	31.12.2008
Fair value of available-for-sale financial assets	488,931
Deferred tax liabilities	(102,676)
Revaluation reserves	**386,255**

4.3.16.5. Distributable profit

	31.12. 2008	31.12. 2007
Retained earnings	140,827,031	73,498,215
Profit for the period	37,809,588	59,385,716
Distributable profit	**178,636,619**	**132,883,931**

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.

4.3.17. PROVISIONS

	31.12. 2008	31.12. 2007
Provisions for ecological rehabilitation	5,800,211	7,196,814
Provisions for legal actions	1,007,159	1,017,020
Other provisions	492,858	579,070
Provisions	**7,300,228**	**8,792,904**

4.3.17.1. Table of movement of provisions

	31.12. 2007	Established	Disbursed and reversed	31.12. 2008
Provisions for ecological rehabilitation	7,196,814	-	(1,396,603)	5,800,211
Provisions for legal actions	1,017,020	-	(9,861)	1,007,159
Other provisions	579,070	8,818	(95,030)	492,858
Provisions	**8,792,904**	**8,818**	**(1,501,494)**	**7,300,228**

Provisions for ecological rehabilitation refer to the rehabilitation of the Sava bank in amount of EUR 4,952,752, the rehabilitation of the slag disposal site in the amount of EUR 347,459 and the rehabilitation of noise impact in the amount of EUR 500,000. 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. In 2008, a new study was made on the white slag disposal site based on which EUR 1,396,603 of provisions were reversed.

Provisions for legal action decreased compared to the previous year due payment of claims recovered through court and other provisions are lower on account of reversal of provisions for unsolved complaints.

4.3.18. LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES

	31.12. 2008	31.12. 2007
Long-term accrued costs and deferred revenues – assigned contributions	518,940	687,710
Other long-term accrued costs and deferred revenues	168,367	-
Long-term accrued costs and deferred revenues	**687,307**	**687,710**

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

	31.12. 2007	Acquisition of subsidiary	Established	Disbursed and reversed	31. 12. 2008
Long-term subsidies – assigned contributions	687,710	-	1,472,719	(1,641,489)	518,940
Other long-term subsidies	-	212,761	648,564	(692,958)	168,367
Long-term accrued costs and deferred revenues	687,710	212,761	2,121,283	(2,334,447)	687,307

4.3.19. RETIREMENT BENEFIT OBLIGATIONS

	31.12. 2008	31.12. 2007
Provisions for severance payment	7,647,383	6,221,324
Provisions for jubilee awards	2,040,927	2,007,556
Retirement benefit obligations	**9,688,310**	**8,228,880**

Provisions were formed for estimated payments of severance payment and jubilee awards as the consequence of long-service benefits as at the balance sheet 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 3.93% to 4.69%, depending on employee age structure and maturity.

In 2008, the liabilities for severance payment and jubilee awards were calculated by an authorised actuary. On the basis of the calculation additional provisions in the amount of EUR 1,644,878 were made for severance payment and EUR 116,879 for jubilee awards. Severance payments provisions in the amount of EUR 242,541 and jubilee awards provisions in the amount of EUR 90,593 were reversed. Owing to the acquisition of a subsidiary, the provisions for jubilee awards and severance payment rose by EUR 7,084 and EUR 23,723 respectively.

4.3.20. LONG-TERM BORROWINGS

	31.12. 2008	31.12. 2007
Long-term borrowings	81,461,999	62,029,282
Long-term borrowings	**81,461,999**	**62,029,282**

Long-term borrowings include loans raised with banks, domestic and foreign. Long-term borrowings are secured by real estate worth EUR 81,189,250 as at 31 December 2008. The effective interest rate on long-term loans received is between 3.6% and 4.9%.

4.3.20.1. Table of movement in long-term borrowings

	2008	2007
Long-term borrowings as at 1.1.	62,029,282	51,176,235
Acquisition of subsidiary	171,348	-
Long-term borrowings	67,137,333	62,759,876
Repayment of long-term borrowings	(3,837,251)	(33,759,923)
Short-term portion of long-term borrowings	(44,038,713)	(18,150,023)
Exchange rate differences	-	3,117
Long-term borrowings as at 31.12.	**81,461,999**	**62,029,282**

4.3.21. OTHER LONG-TERM FINANCIAL LIABILITIES

	31.12. 2008	31.12. 2007
Long-term financial liabilities arising from finance lease	6,942,221	5,223,104
Other long-term financial liabilities	**6,942,221**	**5,223,104**

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

4.3.21.1. Table of movement in long-term financial liabilities arising from finance lease

	2008	2007
Long-term liabilities arising from finance lease as at 1.1.	5,223,104	3,266,363
Long-term liabilities arising from finance lease	3,756,379	4,303,114
Repayments of long-term liabilities arising from finance lease	-	(595,887)
Short-term portion of long-term liabilities arising from finance lease	(2,044,827)	(1,750,486)
Recalculation of interest	7,565	-
Long-term liabilities arising from finance lease as at 31.12.	**6,942,221**	**5,223,104**

4.3.22. OTHER NON-CURRENT TRADE LIABILITIES

	31.12. 2008	31.12. 2007
Emission coupons	586,794	-
Other non-current liabilities	59,809	129,595
Other non-current trade liabilities	**646,603**	**129,595**

4.3.23. SHORT-TERM BORROWINGS

	31.12. 2008	31.12. 2007
Short-term borrowings	82,226,411	40,397,996
Transaction account overdrafts	10,446,942	2,191,321
Short-term borrowings	**92,673,353**	**42,589,317**

Short-term borrowings include loans raised with banks, domestic and foreign. Short-term borrowings are not secured; the short-term portion of long-term borrowings is backed by real estate with present value equalling EUR 81,189,250 as at 31 December 2008. The effective interest rate on short-term loans received ranges between 3.3% and 6.44%.

4.3.23.1. Table of movement in short-term borrowings

	2008	2007
Short-term borrowings as at 1.1.	**42,589,317**	**87,916,663**
Acquisition of subsidiary	749,640	-
Short-term portion of long-term borrowings	44,038,713	18,150,023
Short-term borrowings	166,884,856	253,517,768
Repayment of short-term borrowings	(169,710,158)	(317,342,571)
Revaluation	-	(45,191)
Write-off of borrowings	(4,471)	-
Exchange rate differences	(130,166)	(4,461)
Change in transaction account overdrafts	8,255,622	397,086
Short-term borrowings as at 31.12.	**92,673,353**	**42,589,317**

4.3.24. OTHER SHORT-TERM FINANCIAL LIABILITIES

	31.12. 2008	31.12. 2007
Short-term liabilities arising from interest	799,168	690,925
Short-term liabilities arising from finance lease	1,803,532	1,423,002
Other short-term financial liabilities	**2,602,700**	**2,113,927**

4.3.24.1. Table of movement in short-term liabilities arising from finance lease

	2008	2007
Short-term liabilities arising from finance lease as at 1.1.	1,423,002	1,768,846
Short-term liabilities arising from finance lease	30,004	18,362
Repayments of short-term liabilities arising from finance lease	(1,694,301)	(2,114,782)
Short-term portion of long-term liabilities arising from finance lease	2,044,827	1,750,485
Exchange rate differences	-	91
Short-term liabilities arising from finance lease as at 31.12.	**1,803,532**	**1,423,002**

4.3.25. TRADE AND OTHER LIABILITIES

	31.12. 2008	31.12. 2007
Trade payables to suppliers	71,890,469	99,998,623
Operating liabilities to employees	3,964,703	3,883,941
Issued advances	715,589	353,608
Other operating liabilities	10,678,824	6,662,310
Trade and other liabilities	**87,249,585**	**110,898,482**

Liabilities to employees include liabilities for net salaries and compensation for December salaries paid in January 2009.

Other operating liabilities include liabilities for contract work and work under author's contracts, VAT liabilities, liabilities for taxes and employer's contributions arising from December salaries and liabilities for taxes and contributions to the state arising from unrealised capital increase by the state in accordance with the Acceptance of and Method of Meeting Liabilities of Slovenian Ironworks in Connection with the Restructuring Programme Act.

4.3.26. SHORT-TERM LIABILITIES TO PAY TAX

	31.12. 2008	31.12. 2007
Short-term liabilities to pay tax on profit	364,515	12,248,917
Short-term liabilities to pay tax	**364,515**	**12,248,917**

In 2007, the Group generated net profit of EUR 59,881,627, which is 37% more than in 2008. Consequently, high corporate income tax was prepaid in 2008 and the final tax assessment is low compared to 2007.

4.3.27. SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUES

	31.12. 2008	31.12. 2007
Provisions for arbitration procedure	-	443,718
Accrued costs of complaints	1,240,000	-
Accrued customer fees	744,754	160,000
Accrued audit costs	88,515	17,010
Accrued costs of unused holiday leave	1,143,782	1,497,324
Accrued costs for borrowings	-	81,893
Accrued liabilities arising from legal action	215,554	166,307
Accrued liabilities arising from occupational injuries	5,530	165,450
Accrued liabilities for employee bonuses	947,820	1,483,844
Accrued liabilities for Christmas bonus	840,236	-
Other accrued costs and deferred revenues	1,220,789	801,812
Short-term accrued costs and deferred revenues	**6,446,980**	**4,817,358**

4.3.28. REVENUES

4.3.28.1. Analysis of net sales revenues by main groups of products

	2008	2007
Long range	447,236,555	441,678,178
Flat range	160,232,130	143,802,303
Other products and services	95,382,445	93,424,937
Net revenues from sales	**702,851,130**	**678,905,418**

4.3.28.2. Analysis of net sales revenues by country

	2008	2007
Net revenue from sales in Slovenia	**169,489,280**	**157,409,551**
Net revenue from sales abroad	**533,361,850**	**521,495,867**
- Germany	*143,697,188*	*133,757,163*
- Italy	*124,689,333*	*133,275,932*
- Austria	*46,485,158*	*49,446,829*
- USA	*28,824,030*	*30,867,706*
- Other	*189,666,141*	*174,148,237*
Net revenues from sales	**702,851,130**	**678,905,418**

4.3.29. OPERATING EXPENSES

4.3.29.1. Analysis of costs by categories for 2008

	2008	2007
Cost of goods, material and services	525,473,531	519,760,450
Labour costs	80,311,917	75,211,340
- wages and salaries	*55,774,931*	*51,073,510*
- costs of social security	*11,055,754*	*10,179,485*
- other labour costs	*13,481,232*	*13,958,345*
Depreciation cost	20,129,678	17,036,869
Other costs	2,491,631	2,104,925
Change in the value of inventories	20,047,477	(7,501,935)
Operating expenses	**648,454,234**	**606,611,649**

4.3.29.2. Analysis of costs by categories for 2008

	Production costs of sold products and goods	Distribution cost	General and administrative costs	Total
Labour costs	52,742,428	3,912,968	23,656,521	80,311,917
Depreciation cost	16,671,607	72,103	3,385,968	20,129,678
Cost of goods, material and services	468,776,093	42,713,158	13,984,280	525,473,531
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**

4.3.29.3. Analysis of costs by type for 2007

	Production costs of sold products and goods	Distribution cost	General and administrative costs	Total
Labour costs	49,462,937	3,756,913	21,991,490	75,211,340
Depreciation cost	13,799,550	-	3,237,319	17,036,869
Cost of goods, material and services	472,797,810	30,812,733	16,149,907	519,760,450
Other costs	-	-	2,104,925	2,104,925
Change in the value of inventories	(7,501,935)	-	-	(7,501,935)
Operating expenses	**528,558,362**	**34,569,646**	**43,483,641**	**606,611,649**

4.3.30. OTHER OPERATING INCOME

	2008	2007
Reversal of allowances for receivables, loans issued	-	1,560,771
Reversal of allowances for inventories	2,193,388	-
Reversal of provisions	12,672	-
Income arising from subsidies received	2,334,445	1,860,124
Negative goodwill	62,991	-
Capitalised own products	769,485	-
Damage compensation received	401,505	-
Other operating income	703,235	17,460
Other operating income	**6,477,721**	**3,438,355**

4.3.31. OTHER OPERATING EXPENSES

	2008	2007
Allowances for receivables and interests	501,179	-
Allowances for inventories	-	527,848
Impairment of inventories	3,953,962	-
Established provisions	-	3,562,096
Loss on disposal of intangible and tangible assets	332,412	625,559
Expenses for donations and sponsorships	662,553	987,753
Other operating expenses	348,555	832,945
Other operating expenses	**5,798,661**	**6,536,201**

4.3.32. INCOME/EXPENSES FROM THE VALUATION AND SALE OF FINANCIAL INVESTMENTS

	2008	2007
Expenses from the valuation and sale of financial investments	553,694	-
Expenses from the valuation and sale of financial investments	**553,694**	**-**

Expenses arose from the revaluation of held-for-trading financial investments measured at fair value through profit or loss and from the revaluation of available-for-sale financial investment as a result of a significant decrease in the value of that investment.

In 2007, the Group generated income from the revaluation of held-for-trading financial investments.

	2008	2007
Income from the valuation and sale of financial investments	-	80,484
Income from the valuation and sale of financial investments	**-**	**80,484**

4.3.33. FINANCE INCOME

	2008	2007
Financial income from interest	2,137,726	2,415,784
Other finance income	5,762	55,146
Finance income	**2,143,488**	**2,470,930**

4.3.34. FINANCE EXPENSES

	2008	2007
Finance expenses for interest	8,764,007	6,926,260
Other finance expenses	41	377,001
Finance expenses	**8,764,048**	**7,303,261**

4.3.35. EXCHANGE GAIN

	2008	2007
Exchange rate gains from financing activity	89,694	636,076
Exchange rate gains from investing activity	597	-
Exchange gain	**90,291**	**636,076**

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

4.3.36. EXCHANGE LOSS

	2008	2007
Exchange rate losses from financing activity	184,243	443,018
Exchange rate losses from investing activity	2,245	35,349
Exchange loss	**186,488**	**478,367**

4.3.37. OTHER INCOME

	2008	2007
Extraordinary income	-	13,272,660
Other income	**-**	**13,272,660**

In 2007, the Group acquired and sold the option based on the Ownership Transformation of Insurance Companies Act. By selling this derivative financial instrument the Group generated income of EUR 13,272,660.

4.3.38. TAXES

	2008	2007
Income tax	10,286,076	14,348,161
Deferred tax	(165,771)	3,958,875
Taxes	**10,120,305**	**18,307,036**

	2008	2007
Profit/loss before tax	48,024,713	78,188,664
Income tax liability at the tax rate applicable in the country of the company's registered office	10,697,784	18,833,274
Income not subject to income tax	(273,931)	(520,927)
Expenses not deductible for tax purposes	2,352,233	2,003,010
Utilisation of previously unrecognised tax losses	(1,857,684)	1,217,817
Income tax relief	(798,097)	(3,226,138)
Taxes	**10,120,305**	**18,307,036**

4.3.39. 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.

	2008	2007
Profit attributed to the equity holders of the Company	37,823,307	59,385,716
Weighed average number of ordinary shares outstanding during the period	986,699	986,581
Basic earnings per share	38,33	60,19
Diluted earnings per share	38,33	60,19

4.3.40. BUSINESS COMBINATIONS

In January 2008, the Group acquired a 30% interest in IUENNA Stahl Productions und Handelsgesellshaft m.b.H. 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 income statement in the amount of EUR 62,991.

On 28 April 2008, the Group bought a 74.9% holding in Odpad d.o.o., Pivka and 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.
Balance sheet of ODPAD PIVKA d.o.o. as at the day the SIJ Group acquired the controlling interest is given below.

	Fair value	Carrying amount before acquisition
ASSETS	**7,706,460**	**7,706,460**
Cash and cash equivalents	20,746	20,746
Property, plant and equipment	3,713,790	3,713,790
Deferred tax assets	6,469	6,469
Inventories	1,582,138	1,582,138
Trade and other receivables	2,383,317	2,383,317
EQUITY AND LIABILITIES	**2,920,988**	**2,920,988**
Provisions	212,761	212,761
Retirement benefit obligations	30,807	30,807
Borrowings	920,986	920,986
Trade and other liabilities	1,756,434	1,756,434
NET ASSETS	**4,785,472**	**4,785,472**
Minority capital (25.1%)	1,201,153	1,201,153
NET ASSETS ACQUIRED	**3,584,319**	**3,584,319**
Payment	4,980,850	
Carrying amount of net assets acquired	3,584,319	
Goodwill	**1,396,531**	

4.3.41. 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, in the scope ensuring that the Group is capable of settling overdue obligations at any time.

31.12. 2008	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years
Trade payables to suppliers	70,951,719	938,750	-	-
Financial liabilities from borrowings and deposits	17,517,626	64,708,786	61,414,243	20,047,755
Other trade 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**

31.12. 2007	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years
Trade payables to suppliers	99,529,095	894,482	-	-
Financial liabilities from borrowings and deposits	14,343,517	28,245,801	48,547,863	13,481,418
Other trade and financial liabilities	12,734,438	13,461,679	14,499,017	810,331
Total	**126,607,050**	**42,601,962**	**63,046,880**	**14,291,749**

b) Credit risk

The major exposure to credit risk as at the reporting date arises from operating receivables, loans used and deposits.

31.12. 2008	Group 1	Group 2	Group 3	Total
Trade receivables	12,881,781	70,669,377	17,786,963	101,338,121
Other trade receivables	7,406,623	10,401,840	5,684,063	23,492,526
Loans issued and deposits	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**

31.12. 2007	Group 1	Group 2	Group 3	Total
Trade receivables	8,065,069	87,246,391	8,441,064	103,752,524
Other trade receivables	3,144,392	1,420,520	121,514	4,686,426
Loans issued and deposits	143,452	-	-	143,452
Deposits with up to 3-month maturity	30,390,930	-	-	30,390,930
Total	**41,743,843**	**88,666,911**	**8,562,578**	**138,973,332**

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 due but not impaired

31.12. 2008	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Trade receivables	24,057,794	580,385	27,197	11,062	24,676,438
Other trade receivables	7,816	877,296	-	-	885,112
Loans issued and deposits	-	-	-	-	-
Total	**24,065,610**	**1,457,681**	**27,197**	**11,062**	**25,561,550**

31.12. 2007	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Trade receivables	9,931,546	514,149	265,341	47,581	10,758,617
Other trade receivables	1,671	119	707	7,169	9,666
Loans issued and deposits	4,410,643	404,000	-	-	4,814,643
Total	**14,343,860**	**918,268**	**266,048**	**54,750**	**15,582,926**

Movement in allowances of financial assets

2008	Allowances as at 31.12. 07	Acquisition of subsidiary	Allowances made in the period	Write-off of allowances	Repayment of assets subject to allowances	Allowances as at 31.12.08
Trade receivables	1,273,514	21,956	829,170	(293,052)	(482,565)	1,349,023
Other trade receivables	2,450,409	-	429,726	(1,444,402)	(275,155)	1,160,578
Loans issued and deposits	1,994,177	-	-	(1,117,937)	-	876,240
Total	**5,718,100**	**21,956**	**1,258,896**	**(2,855,391)**	**(757,720)**	**3,385,841**

2007	Allowances as at 31.12. 06	Allowances made in the period	Write-off of allowances	Repayment of assets subject to allowances	Allowances as at 31.12. 07
Trade receivables	3,186,834	321,214	(1,662,832)	(571,702)	1,273,514
Other trade receivables	2,790,890	462,624	(408,454)	(394,651)	2,450,409
Loans issued and deposits	2,286,573	-	(239,492)	(52,904)	1,994,177
Total	**8,264,297**	**783,838**	**(2,310,778)**	**(1,019,257)**	**5,718,100**

c) Interest rate risk

The change in interest rate by 100 or 200 basic 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 2007 was prepared in the same manner:

	2008	2007
Interest rate increase by 200 bp	(2.485.008)	(1.568.905)
Interest rate increase by 100 bp	(1.243.437)	(785.111)
Interest rate decrease by 100 bp	1.243.437	785.111
Interest rate decrease by 200 bp	2.485.008	1.568.905

4.3.42. RELATED-PARTY TRANSACTIONS

Related parties comprise subsidiaries, associated companies and the management of the company.

4.3.42.1. 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.

	2008	2007
Management	2,393,376	1,573,509
Employees employed under service contracts	6,622,796	5,201,934
Members of the Supervisory Board	40,000	17,306

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

In 2008, the SIJ Group approved no advances and loans nor issued any guarantees to the management of the Group, the members of the General Meeting of Shareholders and the Supervisory Board members.

Management of the Group represents management of the holding company and management of subsidiaries. Disclosures for the year 2007 are prepared in the same manner.

4.3.42.2. Related-party transactions excluded from consolidated financial statements

	2008	2007
Trade receivables/Trade payables	21,502,526	40,611,683
Loans issued/Borrowings	12,433,140	11,464,305
Revenue/Expenses	144,335,250	248,999,940
Long-term financial investments in subsidiaries	138,874,097	133,583,248

4.3.43. COST OF AUDIT

	2008
Cost of annual audit	132,000

4.3.44. EDUCATIONAL STRUCTURE OF EMPLOYEES

Average number of employees by category according to the level of education	TOTAL	SHARE
Unfinished and finished primary school	373	10.7%
Verified courses	444	12.7%
2-year vocational school	411	11.8%
3-year vocational school	974	27.9%
4-year secondary school	837	24.0%
Higher vocational education	162	4.6%
Professional college	61	1.8%
University degree	197	5.6%
Specialisation, master's degree	25	0.7%
Doctor's degree	6	0.2%
TOTAL	**3.490**	**100.0%**

4.3.45. OFF-BALANCE SHEET RECORDS

Off-balance sheet records on 31 December 2008 show pledged fixed assets with the present value of EUR 81,189,250, pledged as collateral for borrowings, received guarantees in the amount EUR 27.537.862, issued guarantees in amount EUR 4.350.190, for letters of credit totalling EUR 39,128,234, liabilities arising from bills of exchange in the amount of EUR 4,609,335 and unused overdrafts and undrawn loans of EUR 83,687,727.
Off-balance sheet records on 31 December 2007 included pledged fixed assets with the present value EUR 96.124.836, pledged as collateral for borrowings, issued guarantees in amount EUR 11.093.163 and for letters of credit totalling EUR 16.179.759.

4.3.46. EVENTS AFTER THE BALANCE-SHEET DATE

In January 2009, the Group acquired a 30% holding in Acroni Italia S.r.l. and gained full ownership of the company. In March 2009, it purchased a 55% interest in Ravne Steel Center d.o.o. and became a 100% owner of this company.

In 2009, the consequences of the economic and financial crisis are reflected also in the operations of the Group companies, notably in decreased volume of orders, differing by product range.

There were no other events after the balance-sheet date with a significant impact on consolidated financial statements.

5. AUDITOR'S REPORT

Deloitte.

DELOITTE REVIZIJA d.o.o.
Davčna ulica 1
1000 Ljubljana
Slovenia

Tel: +386 (0) 1 3072 800
Fax: +386 (0) 1 3072 900
www.deloitte.si

INDEPENDENT AUDITOR'S 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 balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the SIJ – Slovenska industrija jekla Group as at 31 December 2008, 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 Group's business report. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Dušan Hartman
Certified Auditor
Member of the Board

Ljubljana, 16 March 2009

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

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS