Annual Report

2011

SIJ - Slovenian Steel Group

Ljubljana, March 2012

Annual Report 2011

SIJ - Slovenian Steel Group

ANNUAL REPORT CONTENTS

CONTENTS

Slovenska industrija jekla

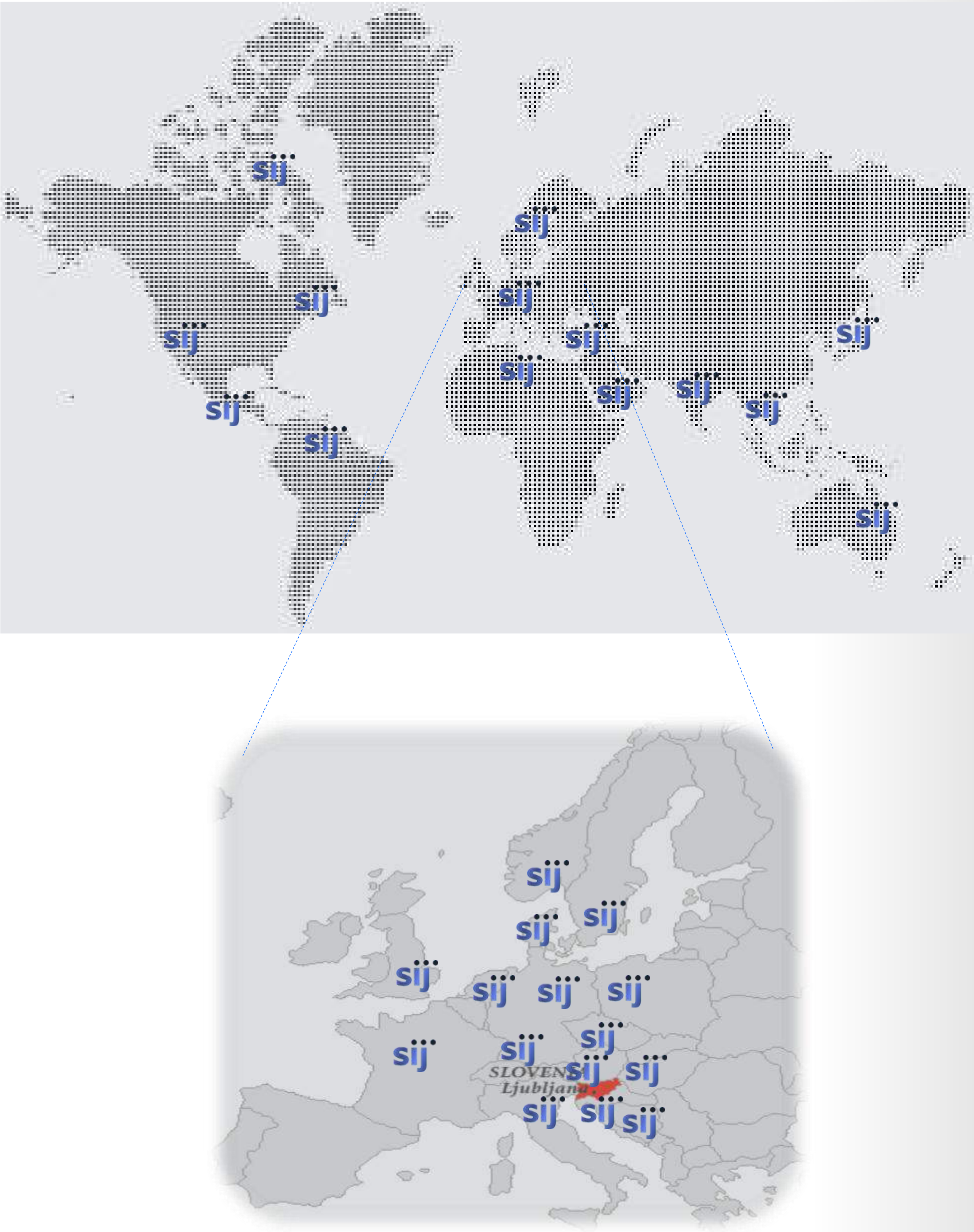
1 INTRODUCTION

Methodological Explanation

"In the annual report data from previous years can differ slightly from the data presented in the annual reports of those years. The data is presented according to the changed structure of the financial statements, approved by the management of SIJ – Slovenian Steel Group."

1.1 OPERATING HIGHLIGHTS

Global presence of SIJ – Slovenian Steel Group



1.2 KEY OPERATING FACTORS IN 2011

Global steel production in 2011 was 1,527 billion tonnes of raw steel, which is a 6.8% growth on the previous year. In the EU 177.4 million tonnes of raw steel were produced (which represents a 2.8% growth compared to 2010).

Demand was higher, particularly due to the recovery of the car industry, machine building, process engineering and the energy industry.

The crisis in the Eurozone also affected the real sector, while banking policy became more rigorous, the net interest margin increased, and the variable part of the interest rate decreased.

After the high increase in alloy prices at the beginning of the year the prices gradually stabilized, but only scrap steel prices remained stable throughout the year.

Our key markets in 2011 were still Italy and Germany, but their economic growth gradually slowed by the end of the year, which also affected the volume of our business operations. Italy was additionally affected by the financial crisis.

Global economic growth slowed. The key drivers of global economic growth remained the BRIC markets (Brazil, Russia, India, and China), of which India maintained the highest growth.

However, in 2011 the SIJ Group was able to substantially increase the physical volume and value of our operations, and significantly improve all ratios of business performance, compared to 2010:

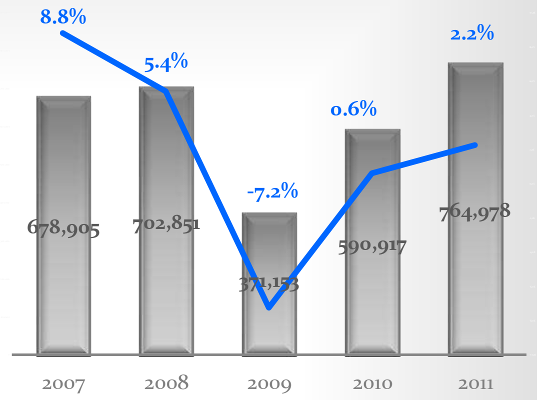
REVENUES
- + 11.5% higher physical volume of sales *(without sales of scrap metal)*
- + 29.5% higher revenues than in 2010

EBITDA
- + 58.4% higher than in 2010
- + 22.4% higher EBITDA margin

NET PROFIT
- + 4.7-times higher profit
- + 3.6-times higher share of profit in revenues

Revenues in EUR

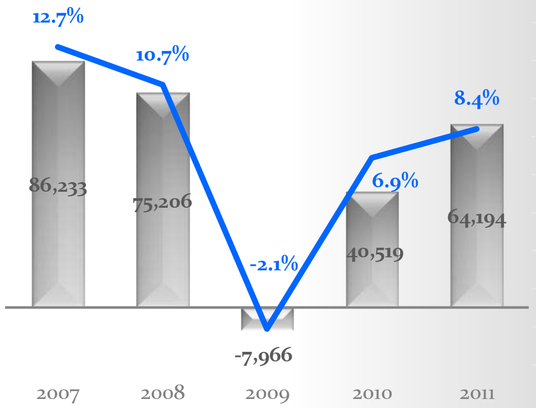
Share of net profit in revenues in %



We increased revenues both of total sales and per employee by **29.5%**.

EBITDA in EUR

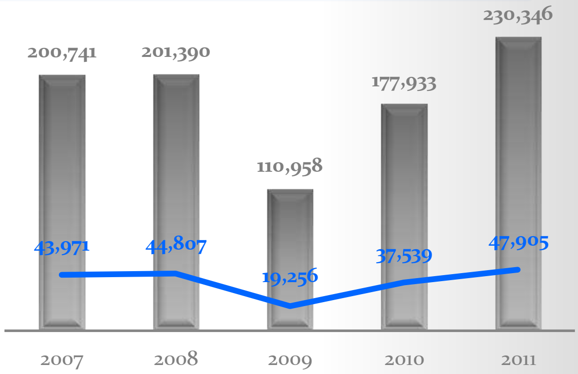
EBITDA margin in %



We generated a **58.4%** higher EBITDA and reached EBITDA margin of **8.4%.**

Revenues per employee in EUR

Added value per employee in EUR



The generated added value represents **20.8%** of revenues and is **6.9%** higher than the level achieved in 2008.

The added value per employee is **8.9%** higher than the level in 2008.

1.3 STATEMENT OF THE PRESIDENT OF THE SUPERVISORY BOARD

In 2011 the Supervisory Board of SIJ – Slovenska industrija jekla, d. d. (hereinafter: the Supervisory Board) monitored and revised the operations of the companies within SIJ – Slovenian Steel Group (hereinafter: companies of the SIJ Group) and of SIJ – Slovenska industrija jekla, d. d. (hereinafter: SIJ, d. d.), as well as making decisions in accordance with its powers, as specified in the Companies Act, the Financial Operations of Companies Act, the statute of SIJ, d. d., the Rules of Procedure of the Supervisory Board and other valid regulations.

In 2011 the Supervisory Board held three regular meetings and one correspondence meeting

1.3.1 Presentation of the Supervisory Board

The term of office of all the members of the Supervisory Board expired on 11 April 2011, so therefore new Supervisory Board Members were elected at the 21st General Assembly meeting of SIJ, d. d., on 5 April 2011:

Andrey Zubitskiy, Sergey Cherkaev, Leonid Novikov, Sergey Frolov, Alexey Reshotka, Mateja Gubanec and Ivan Simič.

ANDREY ZUBITSKIY

President of the Supervisory Board

Elected as President at the 5th meeting of the Supervisory Board on 3 April 2008, and re-elected on 7 June 2011

Shareholder of Dilon Cooperatief

Member of the Supervisory Board since 4 December 2007

17th meeting of the General Assembly of SIJ, d. d.

21st meeting: re-election

Term of office ends: 11 April 2015

IVAN SIMIČ

Vice-President of the Supervisory Board

Elected as Vice-President at the 1st meeting of the Supervisory Board on 7 June 2011

Member of the Supervisory Board since 5 April 2011

21st meeting of the General Assembly of SIJ, d. d.

Term of office ends: 11 April 2015

LEONID NOVIKOV

Member

Member of the Supervisory Board since 26 August 2009

19th meeting of the General Assembly of SIJ, d. d.

21st meeting: re-election

Term of office ends: 11 April 2015

SERGEY CHERKAEV

Member

Member of the Supervisory Board since 26 August 2009

19th meeting of the General Assembly of SIJ, d. d.

21st meeting: re-election

Term of office ends: 11 April 2015

SERGEY FROLOV

Member

Member of the Supervisory Board since 30 August 2010

20th meeting of the General Assembly of SIJ, d. d.

21st meeting: re-election

Term of office ends: 11 April 2015

ALEXEY RESHOTKA

Member

Member of the Supervisory Board since 5 April 2011

21st meeting of the General Assembly of SIJ, d. d.

Term of office ends: 11 April 2015

MATEJA GUBANEC

Member

Member of the Supervisory Board since 5 April 2011

21st meeting of the General Assembly of SIJ, d. d.

Term of office ends: 11 April 2015

At the first meeting of the new Supervisory Board Andrey Zubitskiy was re-elected as President of the Supervisory Board and Ivan Simič was elected as Vice-President.

1.3.2 The Supervisory Board's Work

- the 1st regular meeting of the Supervisory Board was held on Tuesday, 7 June 2011, via a videoconference system at two locations, in Moscow and Ljubljana. In Moscow Sergey Cherkaev, Sergey Frolov and Alexey Reshotka were present. In Ljubljana, Andrey Zubitskiy, Mateja Gubanec and Ivan Simič attended the meeting. Leonid Novikov, Supervisory Board Member, did not attend the meeting.
- the 2nd regular meeting of the Supervisory Board was held on Thursday, 8 December 2011, via videoconference system on two locations, Moscow and Ljubljana. In Moscow Sergey Cherkaev and Alexey Reshotka were present. In Ljubljana, Andrey Zubitskiy, Leonid Novikov and Mateja Gubanec attended the meeting. Supervisory Board Members Sergey Frolov and Ivan Simič did not attend the meeting.
- the 1st correspondence meeting was held between 12 July 2011 and 19 July 2011. All the members of the Supervisory Board cooperated in the decision-making process.

All the meetings of the Supervisory Board in 2011 were chaired by Andrey Zubitskiy.

The Supervisory Board monitored the operations of the companies of the SIJ Group and learned of the implementation of planned goals through information and reports by the Board of Directors of SIJ, d. d..

At its meetings the Supervisory Board discussed the following issues and made these decisions:

- At its first meeting in 2011, which was the 13th regular meeting, the Supervisory Board learned of the operations of the SIJ Group in 2010.
- At its first regular meeting the newly elected Supervisory Board discussed the 2010 Annual Report, together with the Auditor's Report, and had no comments. The Supervisory Board acknowledged that the Annual Report of the Board of Directors is a fair representation of the operations, and that it provides complete information on its operations in 2010. After the completed revision the Supervisory Board approved the submitted Annual Report, which meant that the Annual Report was also officially approved in accordance with the provisions of Article 282 of the Companies Act and the provisions of the statute of SIJ, d. d..
- The Supervisory Board also established that all the companies of the SIJ Group obtained positive audit reports on their statement of financial position, which, in the auditor's opinion, were in every aspect a fair representation of each individual company's financial position on 31 December 2010 and its profit or loss, other comprehensive income and cash flow for the financial year in question, in accordance with the International Financial Reporting Standards as adopted by the EU. In line with the first paragraph of Article 57, the auditors also reviewed the business reports which were, in their opinion, compliant with the audited statements of financial position.
- The Supervisory Board established that the distributable profit for 2010 amounted to EUR 12,232,599 and agreed with the proposal of Board of Directors to submit a resolution for approval to the General Assembly of that the distributable profit remains undistributed. At the same time the Supervisory Board also decided to propose to General Assembly to

dismiss the Board of Directors and the Supervisory Board for the financial year which ended on 31 December 2010. The Supervisory Board additionally suggested that the General Assembly should award the Members of the Supervisory Board for their successful work in 2010 with EUR 10,000 gross per member.

The General Assembly of approved all the submitted proposals at its 22nd meeting on 30 August 2011.

- The Supervisory Board approved the report on the operations of the companies of the SIJ Group in 2010 on the basis of the audited data, and learned of their operations in the first quarter of 2011. At its 2nd regular meeting the report on operations from January to September 2011 and the operations assessment for 2011 was discussed.
- The Supervisory Board approved the business plan of the companies of the SIJ Group for 2011, and the planned statements of financial position and costs of SIJ, d. d. for 2011. At the last meeting in 2011, the Board was also presented with the draft 2012 business plan for the companies of the SIJ Group.
- The Supervisory Board was informed about the process of choosing an auditor for the statements of financial position for the financial year 2011, and decided to make a final decision on who to propose as auditor for the financial year ending on 31 December 2011 to the General Assembly at the correspondence meeting. At this meeting, which ended on 19 July 2011, the Supervisory Board unanimously suggested to the General Assembly to appoint the audit company Deloitte revizija, d.o.o. to audit statement of financial position of SIJ, d. d. and the consolidated statements of financial position of the SIJ Group for the financial year ending on 31 December 2011.

The General Assembly approved the submitted proposal at its 22nd meeting on 30 August 2011.

- The Supervisory Board also submitted to the General Assembly the changes and amendments to the company's statute, with regard to the adjustment of activities to the Standard Classification of Activities and the adjustment of the statute provisions to the Companies Act, and to the approval of a clean copy of the company's statute.

The General Assembly approved the submitted proposals regarding the company's statute at its 22nd meeting on 30 August 2011.

- The Supervisory Board learned that the term of office was ending for all seven members of the Supervisory Board (Andrey Zubitskiy, Sergey Cherkaev, Sergey Frolov, Leonid Novikov, Konstantin Zaytsev, Marija Zagožen, Borut Frantar) and suggested to General Assembly to appoint new members of the Supervisory Board for a four-year period, beginning on 11 April 2011, namely Andrey Zubitskiy, Sergey Cherkaev, Sergey Frolov, Leonid Novikov, Alexey Reshotka, Marija Zagožen and Borut Frantar.

At the 21st meeting of the General Assembly of , held on 5 April 2011, the Capital Assets Management Agency of the Republic of Slovenia (AUKN) submitted its proposal regarding this matter. The decision was taken that the new members of Supervisory Board are Andrey Zubitskiy, Sergey Cherkaev, Sergey Frolov, Leonid Novikov, Alexey Reshotka, Mateja Gubanec and Ivan Simič.

- The Supervisory Board decided to re-appoint Tibor Šimonka as President of the Board of Directors, effective from 1 September 2011, and Viacheslav Korchagin as a Member of the Board of Directors, effective from 19 July 2011. The President and the Member of the Board of Directors were appointed for a period of five years.
- At the last meeting in 2011 the Supervisory Board ordered the Board of Directors to submit to the Members of the Supervisory Board written materials for discussion at individual meetings of the Supervisory Board at least one week prior to the date of the meeting.

Invitations for the meetings of the Supervisory Board, and the written materials which are the basis for the Supervisory Board's decisions, were sent to the members of the Supervisory Board via email.

1.3.3 Evaluation of the Board of Directors' Work and Cooperation With the Supervisory Board

The Supervisory Board carefully monitored and controlled the management of SIJ, d. d. and the SIJ Group throughout the year. The Board of Directors, together with its specialist services, has been present at all meetings. The President of the Board of Directors usually prepared an introductory explanation for each item on the agenda, and answered the raised questions together with the Member of the Board of Directors and their co-workers. The Supervisory Board assesses that the Board of Directors did everything in its power to achieve the set goals. The cooperation between the Board of Directors and the Supervisory Board was good, with frequent communication also outside the regular meetings of the Supervisory Board.

1.3.4 Approval of the Annual Report and Proposal on the Usage of Distributable Profit from 2011

The Supervisory Board carefully reviewed the Annual Report of SIJ, d. d. and the SIJ Group within the legally prescribed time limit. The audit report was also discussed, in which the audit company Deloitte revizija d.o.o. affirms that the statements of financial position are in every aspect a fair representation of each individual company's financial position on 31 December 2011 and its profit and loss statement and cash flow for the financial year in question, in accordance with the International Financial Reporting Standards as adopted by the EU. In line with the first paragraph of Article 57, the auditors also reviewed the business reports which are, in their opinion, compliant with the audited statements of financial position.

The Supervisory Board acknowledges that the Annual Report of the Board of Directors is a fair representation of operations and that it provides complete information on its operations in 2011. The Supervisory Board had no comments regarding the Annual Report and unanimously approved it. With this, the Annual Report was officially approved in accordance with the provisions of Article 282 of the Companies Act and the statute of SIJ, d. d..

Together with the Annual Report, the Supervisory Board also confirmed the Board of Directors' proposal on the usage of distributable profit.

SIJ, d. d. generated a net profit of EUR 220,175 in 2011, or EUR 209,166 profit after the formation of legal reserves, which, together with the retained earnings in the amount of EUR 12,232,599, represents the distributable profit of EUR 12,441,766 on 31 December 2011. The Board of Directors and the Supervisory Board, suggest to the General Assembly that the distributable profit remains undistributed.

Ljubljana, 22 March 2011

President of the Supervisory Board

SIJ – Slovenska industrija jekla, d. d.

Andrey Zubitskiy

1.4 STATEMENT OF THE PRESIDENT OF THE BOARD OF DIRECTORS

2011 was successfully concluded with 17 million euros of net profit. We managed to significantly improve all the key operating ratios compared to the previous year, by the hard work of all our employees, continuing modernization of technology and by leading a restrictive financial policy at the Group level.

The quality of our products was improved and we came closer to our customers' needs and requirements, and we also managed to keep our leading position in stainless steel quarto plates and tool steel on the European market. All these results give us confidence in our work so far and in the ability to achieve good operating results in the future, despite the unfavourable market situation and uncertain predictions.

MARKET ENVIRONMENT

After the great reduction in business volume in 2009, and the gradual recovery which began in the second quarter of 2010, the first half of 2011 was in line with our expectations and marked by an increasing volume of business and favourable price ratios. However, the second half of the year brought a gradual decrease in the number of orders, a decrease in raw material prices and great pressure on sales prices. The market situation did not improve by the end of the year; quite on the contrary, the last quarter was strongly marked by the decline in the global economy.

In the second half of the year the unfavourable market situation in Europe was somewhat mitigated by increased economic activity in the USA and better financial policy in the Eurozone, which brought initial results and thus reduced the threat of renewed general economic crisis.

Despite this there was (and still is) serious doubt about future positive movements in the steel market and in the economy as a whole, as steel products are components of the majority of economic sectors. We predict that the steel market in 2012 will witness relatively stable operations to which developing countries could contribute the most.

The situation in Slovenia in the past few years has not shown a positive trend, so domestic demand (which represents a smaller share of our sales) cannot generate important economic growth.

Our market shares in the European market are insignificant in some segments, but we have an important position in two: Acroni's sales of stainless steel quarto plates on the European market has been between 26% and 29% in the past few years, which ranks us among the leading suppliers; in 2010[1] we had a leading market position. Also, in 2010 Metal Ravne achieved a 13% share in sales of tool steel and was the third best on the European market. We are legitimately proud of these results, which were achieved by investments in technology and intensive marketing activities.

1 Data is always for the previous year

OUR ACTIVITIES IN 2011

In 2011 we continued to pursue our planned strategic goals. Within our investment policy we earmarked **over EUR 56 million for investments**, with a bigger share for our largest companies Acroni and Metal Ravne (EUR 31.4 million and 19.4 million), and a lesser share for our smaller companies. We followed our strategic orientation with investments to support increased production of quarto plates in Acroni, and the production of high-quality steel by setting a up new facility in Metal. The majority of assets came from our own sources, of which almost 57% was from amortisation.

In addition, our coordinated, centrally managed financial policy contributed greatly to our stable operations, as we guaranteed smooth business and the financing of working capital and investments with our conservative policy.

Our strength is also in our experts in the production and specialist departments, who closely monitor the operations of each individual company and the whole Group, as well as adopting appropriate measures to successfully achieve our goals. This is why one of our goals is to keep and create a safe and stable environment for our employees, which will motivate them to give their best at work and guarantee their loyalty to other workers and to the Group.

OPERATING RESULTS

If we now turn to our financial results, we are generally content with our operating results in 2011. Although we invested a lot of effort in 2011 to increase the physical volume of our operations and to improve the quality of our products, as well as keeping unchanged the number of employees and the level of business results, we still have not reached levels that we could compare to 2007 and 2008.

Sales in the first half of 2011 were better in value and quantity, but in the second half prices began to fall and growth in both categories began to decrease.

+ 29.5%

higher value of sales

+ 11.5%

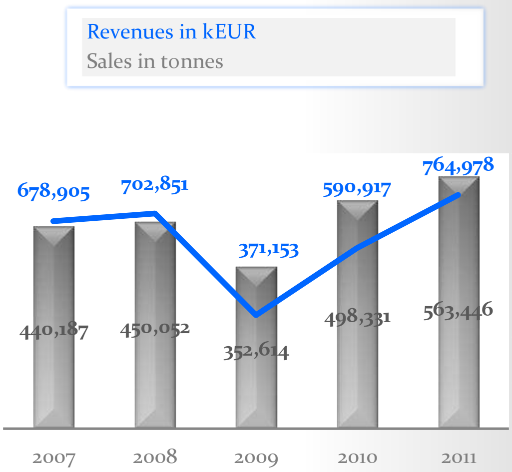
higher physical volume of sales

/without steel scrap/

+ 13.1%

higher physical volume of sales

/with steel scrap/



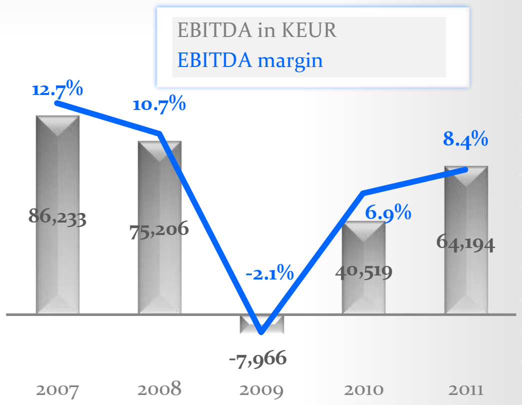
The EBITDA and EBITDA margins are the main ratios by which we monitor how successful our operations are, and the latter is also one of the measures we use for comparison with our competitors. At this point we can say that our results are comparable to the majority of our competitors.

+ 58.4%

higher EBITDA

+ 22.4%

higher EBITDA margin



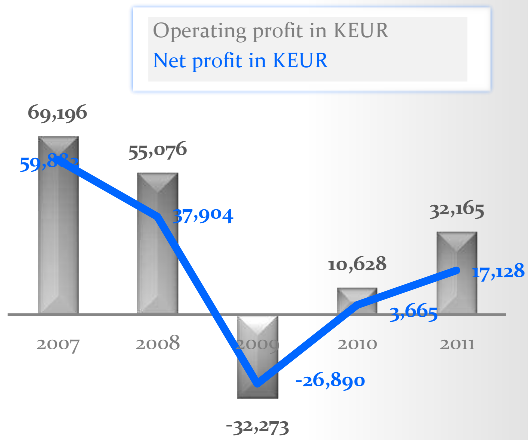
Our operations are becoming successful again, and we have achieved good results in operations and net profit.

3-times

higher operating profit

4.7-times

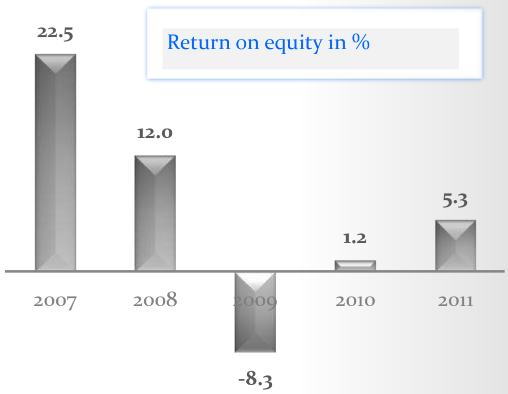
higher net profit



The return on equity is improving, but we still have not reached the pre-crisis level.

4.5-times

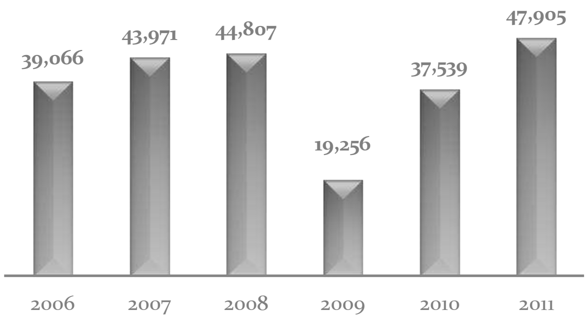
higher return on equity



As a result of an efficient financial policy and good management of working capital, which was reduced by 16.2%, we have achieved only 7.2% lower net financial debt despite our investments.

To measure work productivity, we mostly use the ratio of added value per employee, and productivity increased by 27.6% compared to the previous year and was 6.9% higher than that in 2008.

Added value per employee in EUR



The Supervisory Board supports our work with decisions and approval of our operations. We work in favour of the companies and the SIJ Group on the one hand, and to increase the value of the owners' assets on the other.

Trust between both parties is of key importance to guarantee stable operations.

President of the Board of Directors
Tibor Šimonka

1.5 GROUP MANAGEMENT

1.5.1 Board of Directors

Tibor Šimonka, 1953

President of the Board of Directors of SIJ, d. d.

1 June 1999	Named Member of the Board of Directors for Economics and Finance
1 September 2002	Named President of the Board of Directors
1 September 2006	Re-named President of the Board of Directors for a period of five years
1 September 2011	Prolonged term of office as President of the Board of Directors for a period of five years

Viacheslav Korchagin, 1975

Member of the Board of Directors

Vice-President of the Board of Directors

11 April 2007	Elected as Member of the Supervisory Board
19 July 2007	Named Member of the Board of Directors
19 July 2011	Prolonged term of office as Member of the Board of Directors for a period of five years

1.5.2 Executive Directors

Within the SIJ Group individual specialized areas are managed and coordinated by Executive Directors. Their powers are set out in the Contract on the Relationships and Unified Management of the SIJ Group.

Individual areas are managed by:

Prof. Vasilij Prešern, 1947 — **Strategic Development and Investments**

1 February 1992	Director for Strategic Development
1 January 1993	Director for Research and Development
11 April 1994	Director for Strategic Development and Marketing
15 December 1994	Temporary Member of the Board of Directors for Strategic Development and Marketing
1 February 1995	Member of the Board of Directors of Slovenske železarne d. d.
15 April 1996	Vice-President of the Board of Directors
29 October 1997	Member of the Board of Directors of Slovenske železarne d. d.
17 May 2007	Executive Director for Investments
15 November 2007	Executive Director for Strategy, Development and Investments

Dušica Radjenovič, 1965 — **Sales and Marketing**

1 April 1994	Assistant to the Member of the Board of Directors for Marketing
1 November 1998	Transferred to Metal Ravne d.o.o. as Member of Management for Sales
1 April 2002	*Employed outside the SIJ Group*
1 June 2006	Acroni Jesenice: Member of Management for Sales
1 July 2007	SIJ, d. d.: Executive Director for Sales

Igor Malevanov, 1976 — **Economics and Finance**

12 July 2007	Executive Director for Economics and Finance

Evgeny Zverev, 1981 — **Human Resources and Legal Matters**

12 July 2007	Executive Director for Legal Matters

1.5.3 Management of Companies

The Group comprises 22 companies, managed by the following directors:

Slavko Kanalec	Acroni
Andrej Gradišnik	Metal Ravne
Darko Ravlan	Noži Ravne
Jakob Borštnar	Elektrode Jesenice
Andrej Pogačnik	SUZ
Boštjan Taljat	Ravne Steel Center
Alenka Stres	ZIP Center
Andrej Dolenc	ODPAD Pivka
Danko Ordanić	Dankor Osijek, Croatia
Andrej Gradišnik	Serpa
Bogdan Ravnik	Acroni Italia, Italy
Sascha Karsten Kleijn	Acroni Deutschland, Germany
Steven Cucich	KOPO International, USA
Alenka Ruter	IUENNA Stahl, Austria
Henning Schreiber	Niro Wenden, Germany
Sascha Karsten Kleijn	SMG Edelstahl, Germany
Enrico Griffon	Griffon & Romano, Italy
Michel Bissestri	Sidertoce, Italy
Alessandro Cattelan	SIJ Obdelava jekla

1.5.4 General Assembly

In 2011 there were two meetings of the General Assembly: the first on 5 April 2011, at which a new Supervisory Board was named, and the second on 31 August 2011. At the August meeting the shareholders were presented with the Annual Report of SIJ, d. d., and the Consolidated Annual Report of the Group. The General Assembly approved the proposal of the Board of Directors that the distributable profit in the amount of EUR 12.2 million remains undistributed, and dismissed the Board of Directors and the Supervisory Board. It also appointed the audit company Deloitte revizija for the financial year of 2011.

1.6 ACTIVITIES OF THE GROUP

The main activity of the Group, which generates most of its income, is steel production - also the main business activity of Acroni and Metal Ravne. The processing activities of the companies include metal processing (Noži Ravne, Elektrode Jesenice, SUZ), scrap collection (Odpad Pivka and Dankor Osijek) and other services (ZIP Center).

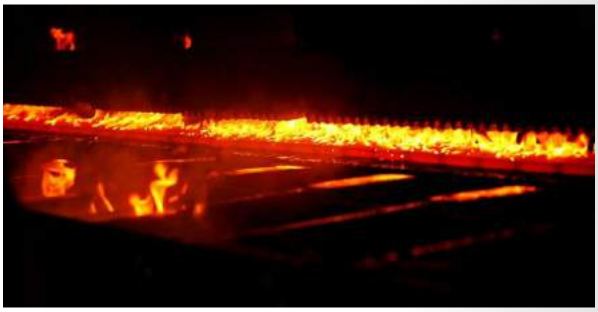
The sales network, which consists of nine companies at different locations from Slovenia to the USA, Germany, Austria and Italy, is responsible for different types of finishing procedures for steel products (including various types of cutting and heat processing), and gives higher added value to steel products, bringing our products closer to the end users and their needs.

Steelwork - Acroni

Forge - Metal

Winding of a welding wire - Elektrode

Hardening – Noži Ravne



1.7 IMPORTANT ACHIEVEMENTS AND EVENTS IN 2011

Acroni – the first industrial company in Slovenia with the 16001 standard, February 2011

On 21. February 2011 Acroni officially obtained the SIST EN 16001: ENERGY MANAGEMENT SYSTEMS certificate.

Acroni hosted the Triglav National Park exhibition – Jesenice, February 2011

By hosting the exhibition and supporting publications Acroni cooperated with the activities of the Triglav National Park associated with the Slovenian Presidency of the Alpine Convention between 2009 and 2011.

The companies in the Koroška region donated a defibrillator to a first-aid station – Ravne na Koroškem, March 2011

In the area of the former ironworks, the companies of SIJ, namely Metal Ravne, Noži Ravne and ZIP Center, joined with Oprema Ravne and BVD Ravne to buy an automatic defibrillator and donated it to the first-aid station in Ravne na Koroškem.

Stena Stal conference at Metal Ravne – Ravne na Koroškem, April 2011

Metal Ravne hosted a meeting of regional Directors of the Stena Stal company from Sweden. Metal Ravne has been successfully cooperating with this company for many years, as it successfully markets high quality steel products from Metal Ravne.

HK Acroni win the National Championship once again – Jesenice, April 2011

The hockey players of Acroni Jesenice, whose main sponsor is Acroni, won the Slovenian National Championship for the ninth time since Slovenia became an independent country.

Professional visit and meeting of metallurgy students at Acroni – Jesenice, May 2011

Acroni has traditionally hosted metallurgy students from the Faculty of Natural Sciences and Engineering, who visited all plants of the Acroni Steel Mill in the company of their Prof. Jakob Lamut and Acroni's engineers.

Regional awards for innovators from Metal Ravne – Ravne na Koroškem, May 2011

Koroška Chamber of Commerce and Industry awarded the best innovators from Koroška for their achievements. The first prize went to the innovators from Metal Ravne for their project "Artificial Intelligence and Laboratory Simulation of Re-forming Process".

Regional awards for innovators from Acroni – Jesenice, May 2011

Gorenjska Chamber of Commerce and Industry awarded the best innovators from Gorenjska and Acroni, who received a Silver Award for their project "Casting Technology on the New Machine for Continuing Casting of Steel".

The 2nd international marketing conference at Acroni – Jesenice, May 2011

Acroni successfully organized the second marketing conference with the participation of sales representatives from the markets of the EU, the USA, India and Slovenia.

Professional meeting and training of Russian metallurgists at Acroni – Jesenice, May 2011

Acroni's experts trained Russian experts from the company OMZ, which uses similar equipment to Acroni for steel production.

Young Researchers Award at Metal Ravne– Ravne na Koroškem, June 2011

Metal Ravne awarded Alen Šapek from a general upper secondary school for his research assignment "Recognizing the Type of Internal Faults in Steel Products".

Exhibition of paintings at Metal Ravne – Ravne na Koroškem, June 2011

The second exhibition of paintings, prepared by the Koroška Cultural Institute, presented works from different artists in the 'Metal Collection', which were mostly painted in courses sponsored by Metal Ravne.

Open day at Acroni – Jesenice, June 2011

At Acroni, June was employees' month. The main event – an open day – presented an opportunity for the families of Acroni's employees to visit the company's production facilities.

The 9th marketing conference of Metal Ravne – Portorož, September 2011

Metal Ravne organized a marketing conference for the ninth time in a row. The present and future market conditions in individual markets were presented by as many as 33 sales representatives of Metal Ravne from 15 countries.

National awards for innovators – Ljubljana, September 2011

The Slovenian Chamber of Commerce and Industry awarded the best innovators for their work in 2010. Innovators from Metal Ravne received a Gold Award for their project "Artificial Intelligence and Laboratory Simulation of Re-forming Process", and employees from Acroni received a Silver award for their project "Casting Technology on the New Machine for Continuing Casting of Steel".

The 15th conference on processing metallurgy at Acroni – Jesenice, October 2011

Acroni hosted the 15th conference on the processing metallurgy of steel, organized by the Faculty of Natural Sciences and Engineering from Ljubljana and Acroni's own employees.

Charity project to collect corks for Maša at Metal Ravne – Ravne na Koroškem, October 2011

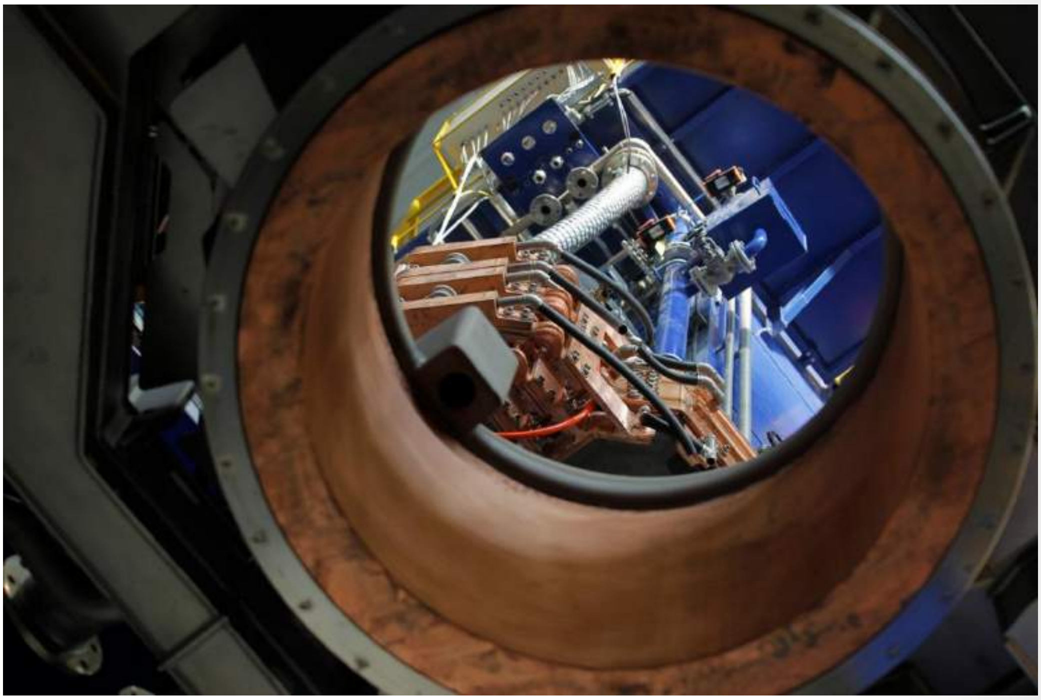
Employees of Metal Ravne successfully finished stage one of collecting corks for a disabled girl, Maša, who cannot see, speak or walk. The money obtained from collecting the corks is intended for medical equipment and the girl's hypotherapy.

Exhibition "Three Millennia of the Iron Industry in Slovenia" in Moscow – Moscow, October 2011

The exhibition "Three Millennia of the Iron Industry in Slovenia", held in Moscow and sponsored by SIJ Group, presented the history of the Slovenian steel industry to visitors to the Moscow Polytechnic Museum.

The 50th anniversary of the Research Department at Acroni – Jesenice, November 2011

25 November 2011 was marked at Acroni by the 50th anniversary of the Research Department in the former Jesenice Ironworks. Prof. Marin Gabrovšek, the initiator and first manager of the Research Department, made the ceremony even more special by his presence and complimentary speech.



2 BUSINESS REPORT

The SIJ Group is informally organized into several business areas. The core is represented by the production programs of flat and long steel, and the production of industrial knives, different types of welding materials and drawn steel bars.

The steel program is supported by the companies for scrap steel collection and the sales network, comprised of sales centres (steel centres), and the sales network in European countries and the USA.

Other companies are of marginal importance from the aspect of the program, as well as with regard to their contribution to the business performance of the Group.

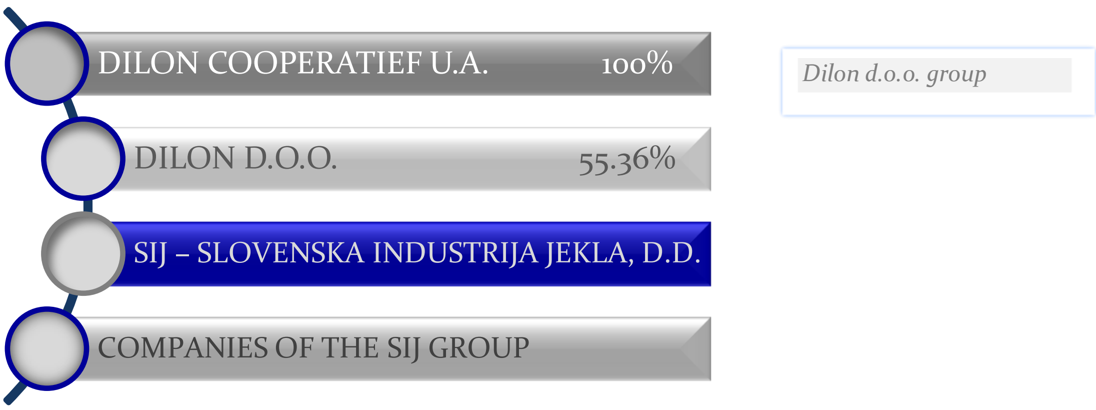
The SIJ Group is committed to constant development and adjustment to the needs and expectations of its customers.

Our strategic and short-term goals, investment activities, and employees are all bound to this cause.

2.1 PRESENTATION OF THE GROUP

2.1.1 Organizational Structure of the Group

The Group employs 3,248 people, most of them (95.1%) in Slovenia. Of the employees in the Group, 19.4% have vocational and professional higher education. One of our important future goals is to improve the educational qualifications of our staff.

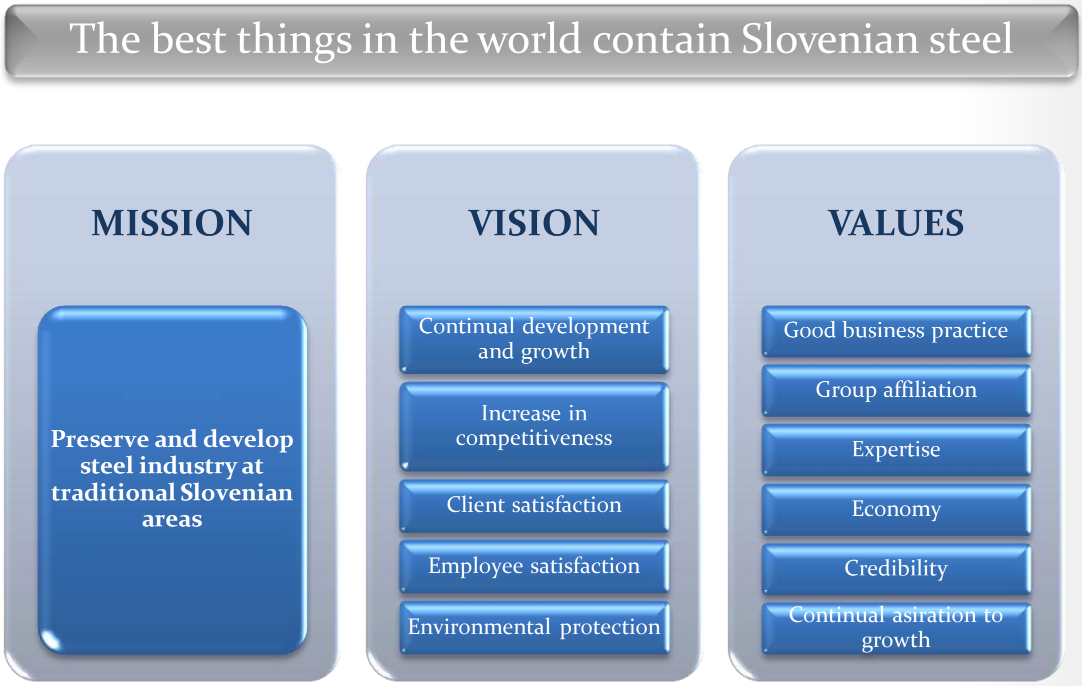


2.1.2 Strategy and Management of the Group

The Group's operations are subject to the implementation of the Group's mission statement, visions for future development, and values, enabling us to achieve our agreed strategic and short-term goals.

By implementing our agreed strategic goals we are becoming a specialized steel manufacturer of stainless steel quarto plates and cold rolled steel plates, highly specialized and mechanically resistant high-alloy tool and special steel, industrial knives for handling metal and plastic, and high-alloy welding materials.

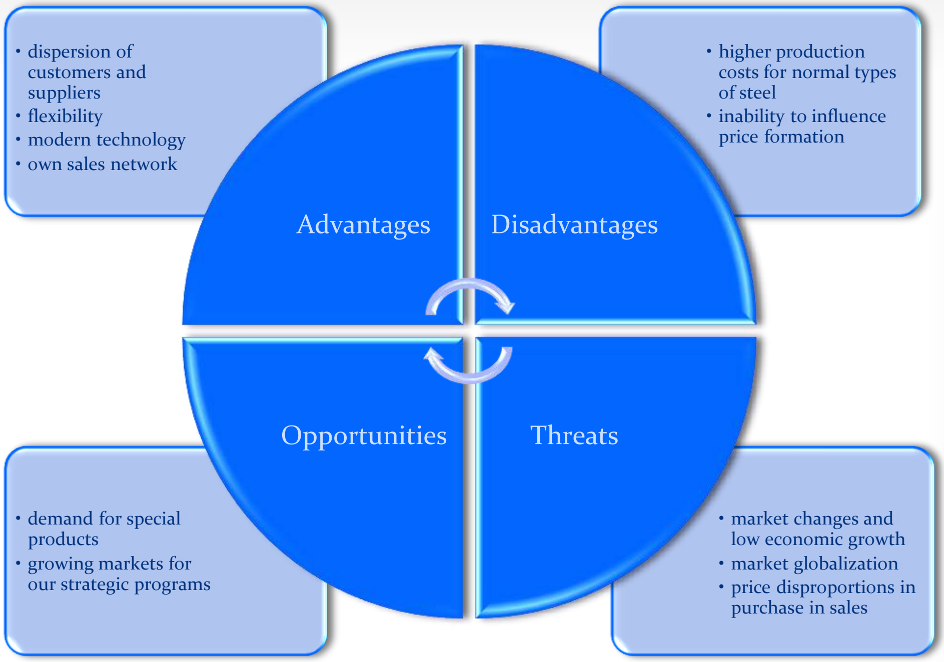
We are continuing to build our own sales network, especially in those areas with sales potential for our production programs.



Business Opportunities

The business opportunities of the SIJ Group are closely linked to trends in the global economy, especially in the steel purchase and sales market.

With a long-term investment policy, and by motivating our employees, we try to seize these opportunities and, additionally, to strengthen our advantages.



As we wish to seize the existing opportunities and retain our already gained advantages as well as minimize threats and overcome our disadvantages, we have focused our activities mainly on these four areas:

Sales and marketing

- Gaining new markets and customers for our strategic products
- Better understanding our customers' needs
- Improving our service for end customers

Production

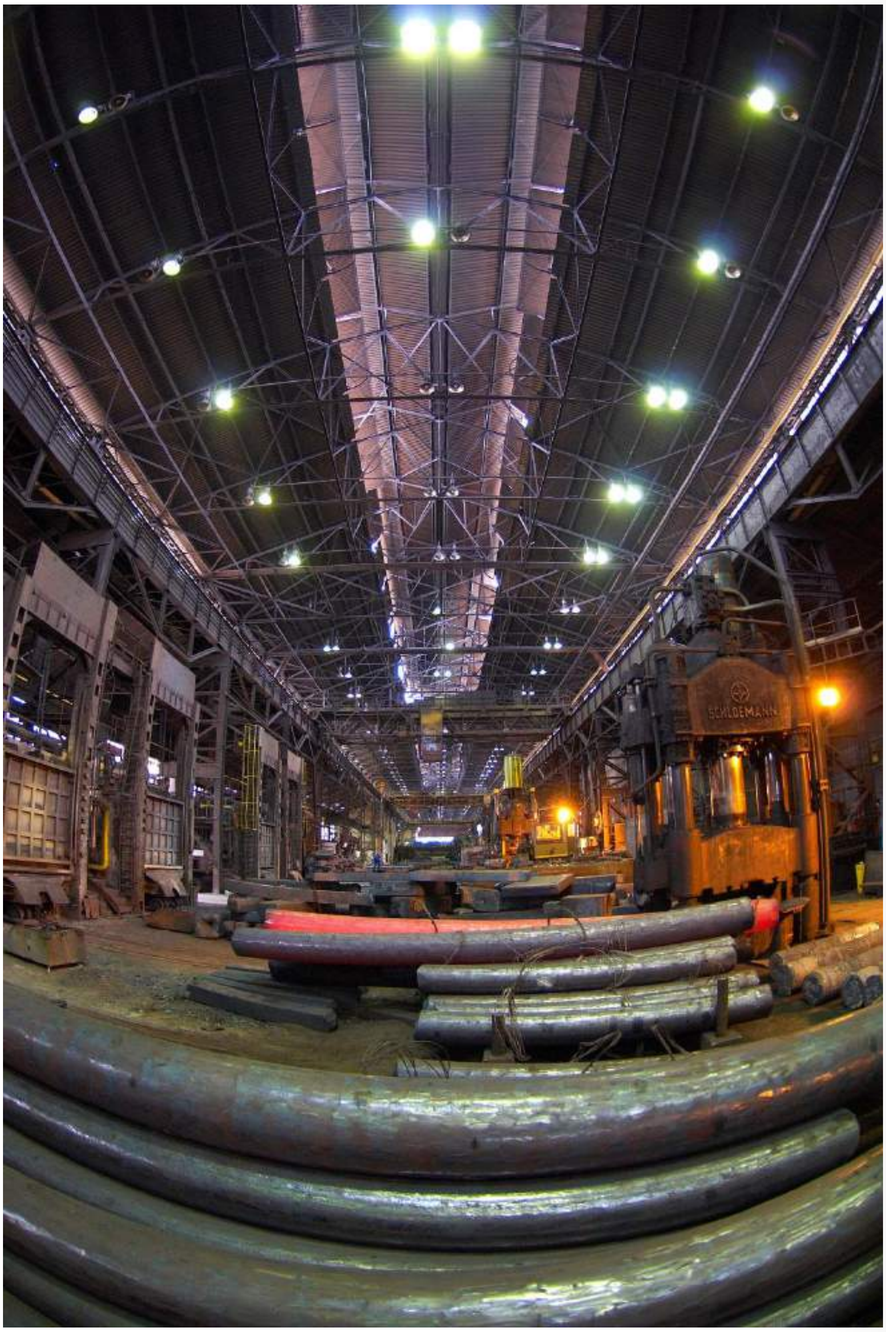
- Optimizing the program structure
- Improving the cost-effective use of all production resources
- Further improvement of the quality of our products

Development and innovations

- Supporting and encouraging innovation
- Technological modernization and maintaining competitiveness
- Development of new products

Human resources development

- Optimum usage of existing resources
- Improvement of employee structure
- Development of key personnel and education
- Promoting loyalty through assignment of different roles, positions and awarding them



2.2 OUR BUSINESS ENVIRONMENT

2.2.1 General Economic Trends

2.2.1.1 World

In 2011 global economic activity increased by 3.8% compared to 2010. Developed economies marked an approximately 1.6% growth, and the progressive economies, mostly from Asia, achieved an average growth of 6.2%. This is due to the low labour costs achieved by these economies, and the consequential transfer of a major part of the European economy to cheaper areas outside Europe.

The total volume of global trade increased by 6.9% in 2011, which is an interesting counterbalance to the activity in Europe.

Current predictions suggest that the annual growth rate will be 1.5%.

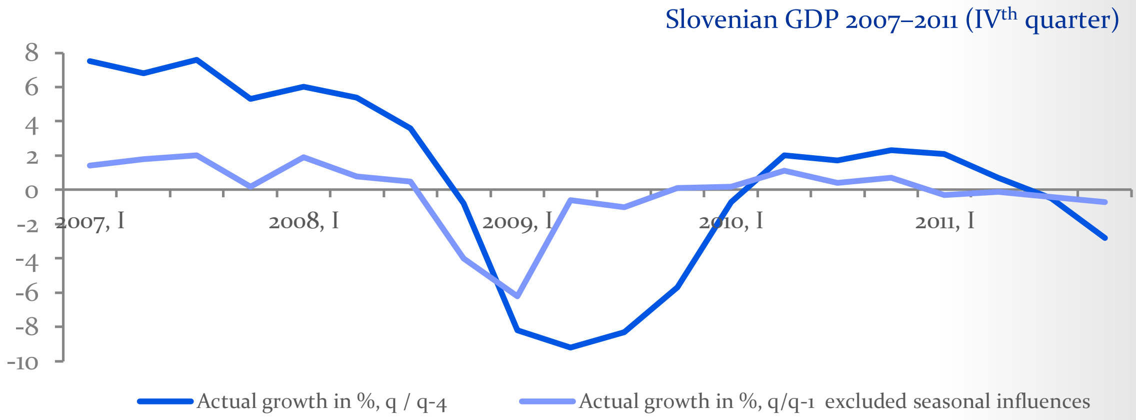
2.2.1.2 Europe

The economic crisis in the Eurozone reached new dimensions in 2011, which is also of wider social importance. Unemployment has been at around a 10% level since 2010, and it is not expected to decrease before 2013.

Private consumption is decreasing, and this consequently influences the lowering of GDP growth, resulting in fewer investment projects, especially in construction, which additionally weakens its value.

MACRO-ECONOMIC RATIOS OF EUROFER FOR THE EUROPEAN UNION		
year/year in %	**2010**	**2011**
GDP	**2.0**	**1.5**
Private consumption	0.7	0.2
Governmental use of assets	0.7	0.4
Investments	**0.0**	**1.4**
Investments in machines	2.9	6.6
Investments in construction	-3.9	0.0
Export	**10.9**	**5.9**
Import	9.8	3.5
Unemployment rate	9.7	9.5
Inflation	**1.9**	**3.0**
Industrial production	7.1	3.7

2.2.1.3 Economic Trends in Slovenia



In the final quarter of 2011, GDP decreased by 2.8% compared to the same period in 2010, and by 0.7% compared to the third quarter of 2011. This repeated fall in Slovenian economic activity and its influence on the GDP means that the Slovenian economy is once again in recession (defined as two consecutive quarters with decreased economic activity).

Domestic demand was weaker and this was reflected in the negative influence on the general economic state. Foreign demand positively influenced economic growth in the fourth quarter, but later began to decline.

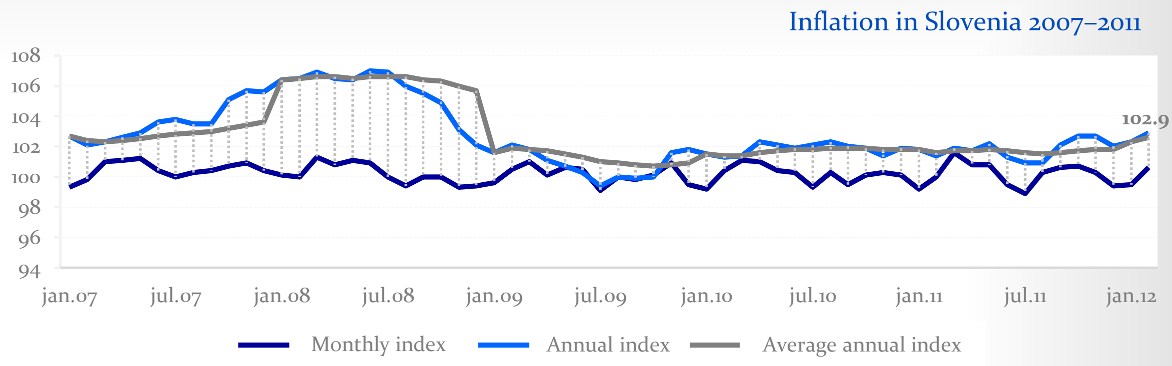
The export of goods and services in the final quarter was 3.0% higher than in the last quarter of 2010. Domestic consumption has actually significantly decreased; in the final quarter it was actually 4.4% lower than in the final quarter of 2010. This decrease is the consequence of an actual reduction in all elements of domestic consumption: individuals and companies.

The added value in the final quarter decreased in real terms in most activities: in the processing industry it was 2.6% lower than in the previous year, in construction 15.5% lower, in trade, transport, and accommodation and food service activities it was 1.5% lower, and in professional, scientific and similar activities 0.5% lower.

In 2011 inflation started to rise again, which was undoubtedly linked to the big jump in oil prices. The annual index of inflation growth at the end of 2008 was 102.1, and in December 2011, 102.0.

In the Eurozone Slovenia was the country with the lowest midyear inflation growth, which was 1.6% in December 2011, whereas it was as much as 2.1% elsewhere in the Eurozone.

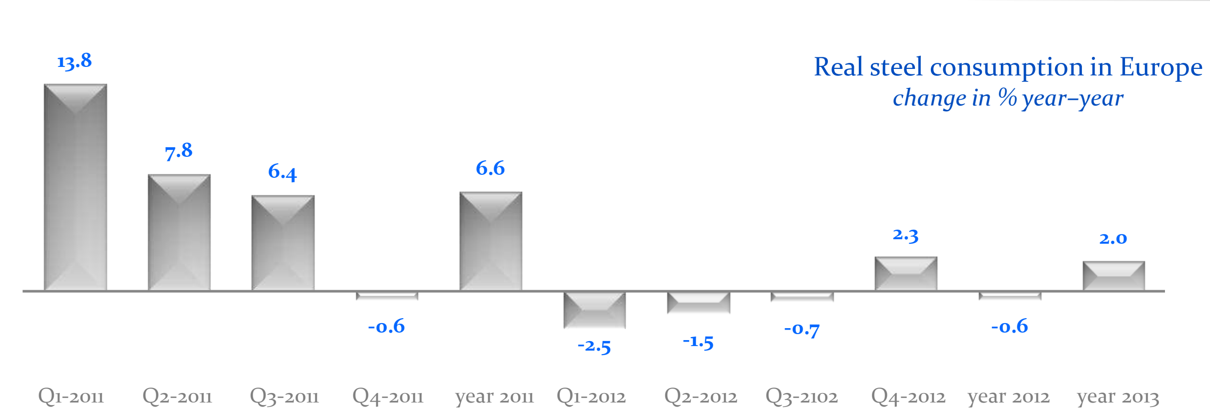
The prices of industrial manufacturers in Slovenia increased by 3.6% annually.



2.2.2 The Steel Market and the Markets of Our Customers

In the year in question we marked the strengthening and further development of the global steel market, with significant deviations in some markets.

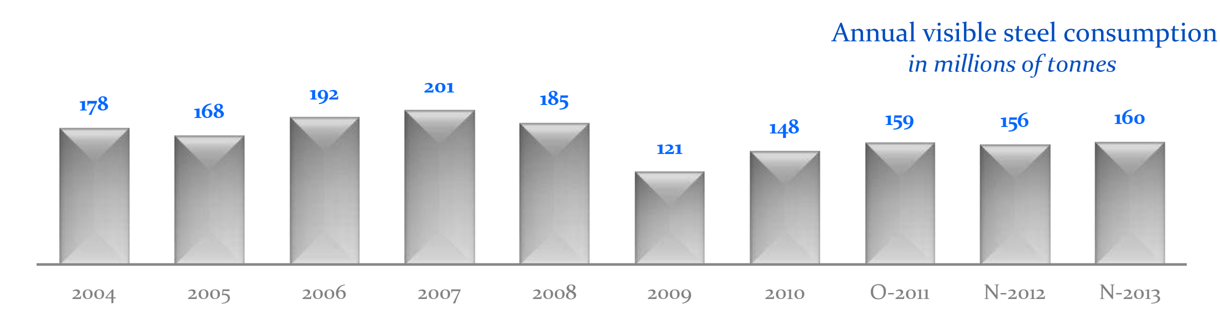
Global steel production increases from year to year, and 1,527 billion tonnes of raw steel were produced in 2011, a 6.8% growth compared to the previous year. In the EU 177.4 million tonnes of raw steel were produced (compared to 2010 this represents a 2.8% growth).



(Source: Eurofer, Economic and Steel Market Outlook 2012–2013, February 2012)

Real steel consumption in the EU in 2011 was 6.6% higher than in 2010. The growth in the first quarter of 2011 was 13.8%, with 7.8% in the second, 6.4% in the third and negative (–0.6 %) in the final quarter.

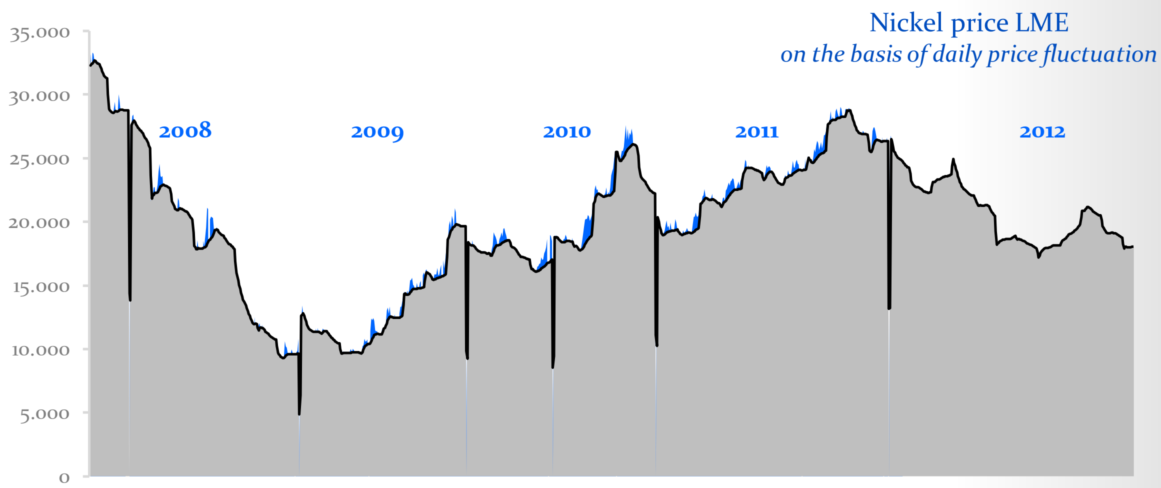
In the EU in 2011 the strongest growth was noted in the sectors of machine building (10.4%), the car industry (10.8%) and tube manufacture (9.9%). The expected growth rates for this year are far lower, with the highest growth rate of 1.5% predicted for machine building.



(Source: Eurofer, Economic and Steel Market Outlook 2012–2013, February 2012)

2.2.3 Raw Materials Market

2.2.3.1 Nickel



Nickel is one of the most strategic raw materials in the steel industry and as such is very sensitive to the supply and demand trends of steel buyers and the trends in stainless steel production in the world.

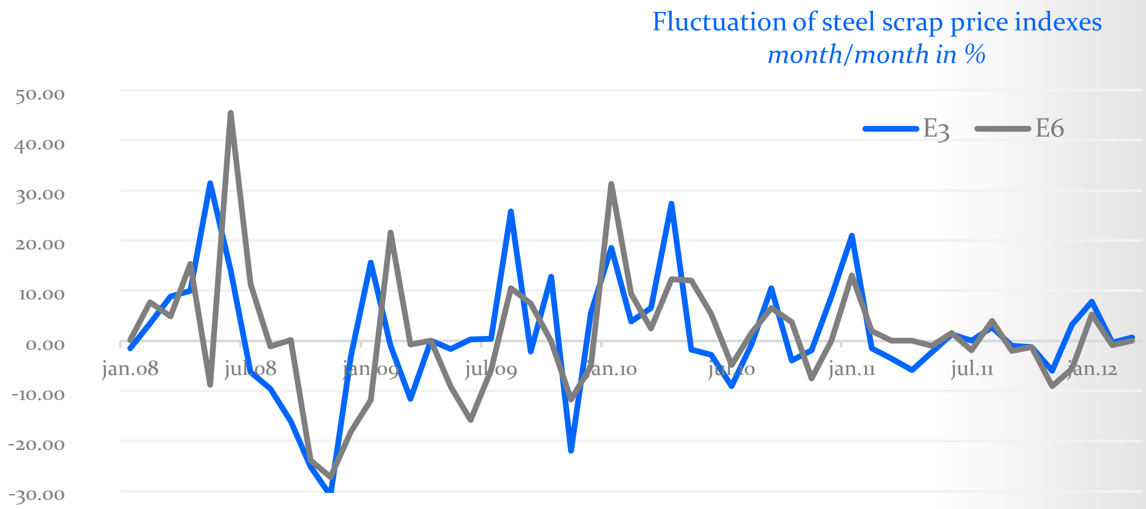
Nickel price had already reached its peak by the beginning of 2011. The trend of decline began in the second quarter of 2011 and did not stop: from USD 29,000 in February to USD 28,300 at the end of December. Occasional increases in 2011 were only short-term.

2.2.3.2 Scrap Steel

The available quantity of scrap steel on the market depends on the operating volume of the processing industry and the availability of old scrap.

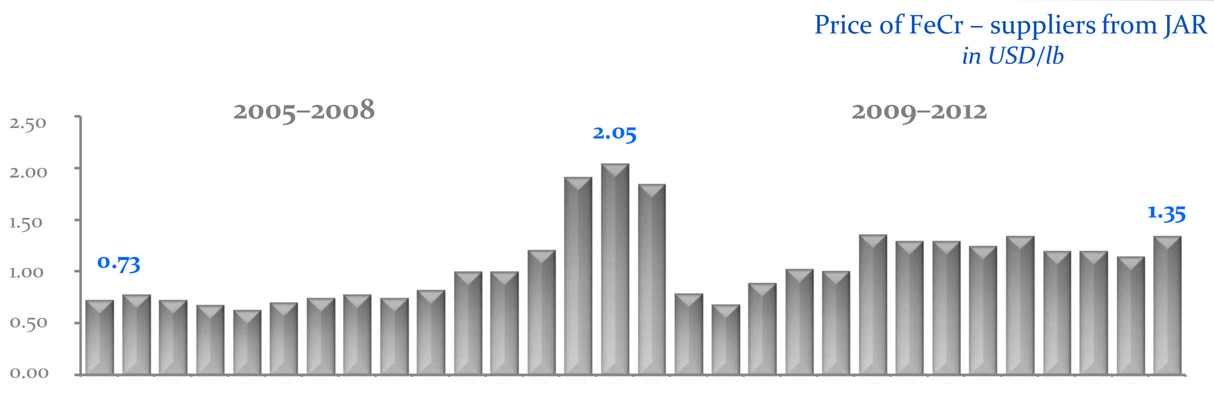
Scrap iron, which is also one of the strategic raw materials in the steel industry, was subjected to growth trends in 2011. Prices increased significantly at the beginning of the year and remained at a high level (with minor deviations) until the last quarter of 2011.

The prices of alloyed scrap material reflect the prices of nickel, chrome and scrap steel, as well as molybdenum regarding the molybdenum scrap. The availability and price fluctuations are a reflection of the stainless steel plates market. The aggravation of sales market conditions in the second quarter of 2011 was reflected in alloy prices, which substantially influenced the end value of alloyed scrap material. However, discounts were higher compared to the beginning of the year. In the summer the share of nickel in the price was 87%, compared to 91% at the end of the first quarter.



2.2.3.3 Ferromolybdenum and Ferrochrome

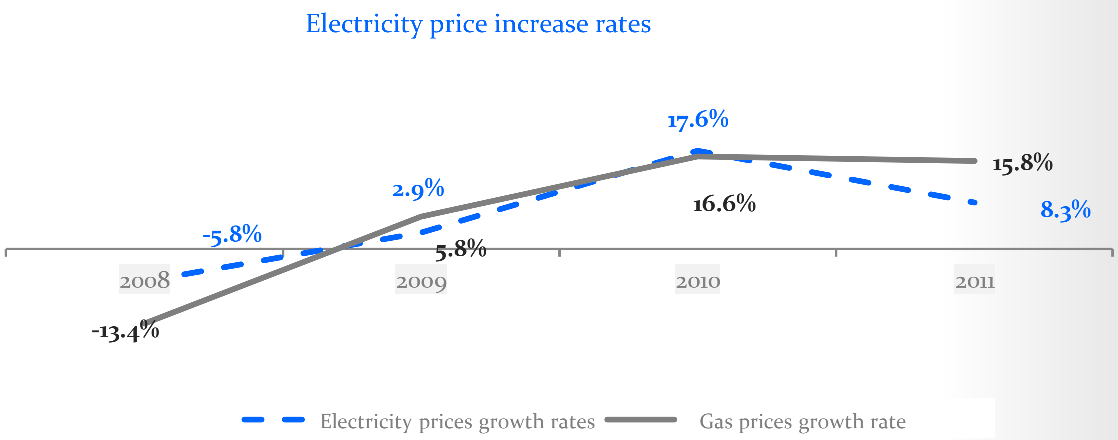
The price of ferromolybdenum fluctuated throughout the year in a relatively narrow zone of price deviations, and the yearly average reflects the negative price trend. A lower price level in comparison to the beginning of the year was also noticed for ferrochrome.



The future price fluctuation of basic raw materials is closely linked to the increase or decrease of the stainless steel market and to general economic trends. The foreign exchange ratio EUR/USD also has a great influence on prices on the European market.

2.2.3.4 Energy-Generating Sources

The electricity price in both steel companies, Acroni and Metal, has increased by 23.5% on average during the period between 2008 and 2012. In 2011 the electricity price in these companies was on average 17% higher than in 2010.

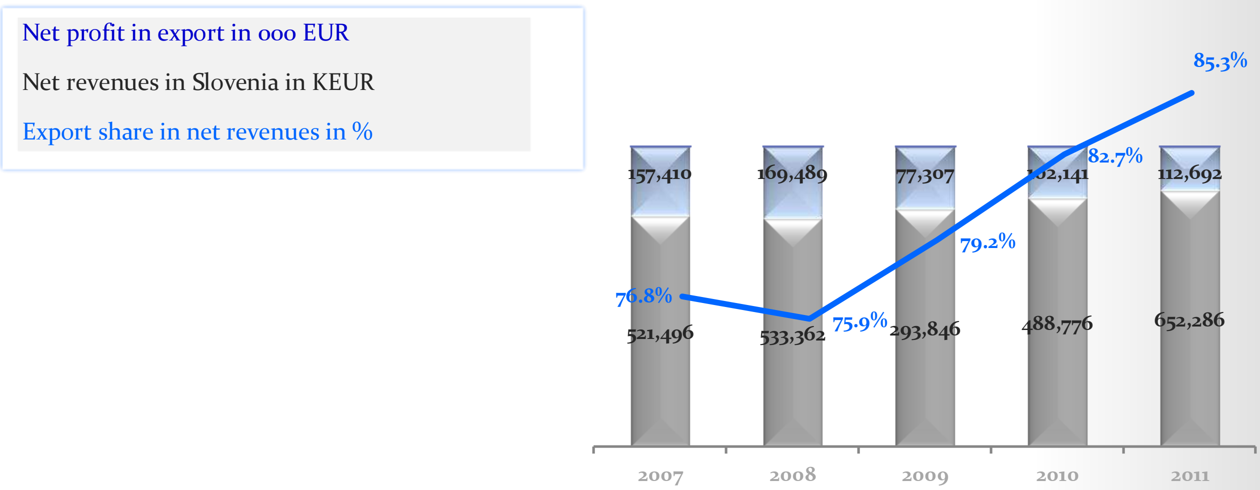


From 2008 to 2011 we noticed a moderate growth gas prices, which increased by only 8.8%. In 2011, the gas price in both steel companies increased by 16.5% on average compared to the previous period. The predicted increase in price for 2012 is 13.5%.

2.3 THE GROUP'S OPERATIONS

2.3.1 Key Figures and Operating Results

		2007	2008	2009	2010	2011
Sales	t	440,187	450,052	352,614	498,331	563,446
Revenues	EUR	678,905,418	702,851,130	371,152,894	590,916,742	764,977,836
EBITDA	EUR	86,232,794	75,205,633	-7,965,600	40,519,225	64,193,568
EBITDA margin	%	12.7	10.7	-2.1	6.9	8.4
Depreciation	EUR	17,036,869	20,129,678	24,307,596	29,891,453	32,029,018
Operating profit (EBIT)	EUR	69,195,923	55,075,956	-32,273,194	10,627,772	32,164,550
EBIT margin	%	10.2	7.8	-8.7	1.8	4.2
Profit/loss before taxes	EUR	78,188,664	48,024,713	-34,054,520	4,442,527	21,531,344
Net profit/loss	EUR	59,881,629	37,904,408	-26,890,145	3,665,277	17,127,530
Net profit margin (ROS)	%	8.8	5.4	-7.2	0.6	2.2
Assets	EUR	954,813,631	631,717,862	624,115,185	739,754,186	761,932,114
Return on Assets (ROA)	%	11.2	6.4	-4.3	0.5	2.3
Equity	EUR	297,054,154	335,351,385	308,702,836	314,276,543	331,297,201
Return on Equity (ROE)	%	22.5	12.0	-8.3	1.2	5.3
Net financial debt (NFD)	EUR	85,205,485	124,757,014	155,422,856	226,806,706	210,585,203
NFD/EBITDA		1.0	1.7	-19.5	5.6	3.3
Return on Capital Employed (ROCE)		18.11	12.45	-7.02	2.26	7.11



Annual Report 2011

2.3.1.1 Market Influence

After the big rise in the market during the spring, it fell drastically in the following months, right up until the end of 2011. The GDP growth rate of our largest market, Germany, fell from 4.6% in 2010 to 3.4% in 2011.

In 2011 the developed countries marked scarcely a 1.6% growth, with only 1.4% growth in the Eurozone and 1.7% in the USA, which is rather low compared to the developing markets, which achieved 6.2%.

Market growth in the BRIC countries did not substantially contribute to our sales results, as our companies are too small to be competitive on these markets, except for some special products.

The exchange rates in 2011 were favourable and we did not mark any losses due to exchange rate differences.

The mentioned movements affected our operations, especially in the flat steel program, which is more sensitive to general economic changes and movements on the steel market. We were able to greatly limit the influence of the lower volume of orders by aggressive marketing. In the long steel program these influences resulted in a lower number of orders as late as the last quarter of the year, and the stable American market had a positive influence in this matter.

While striving for stable operations we were more affected by disproportions in price between the movement and formation of sale prices on the one hand, and purchase prices on the other.

Scrap steel prices remained stable at a relatively high level up until the end of the year (section 2.2.3.2).

A high increase in the prices of energy-generating sources, especially gas, also had an important negative effect (section 2.2.3.4).

Other raw material prices fluctuated depending on the material type and seasonal influence: molybdenum prices rose considerably at the beginning of the year and then slowly declined throughout the year, whereas chrome prices remained at a relatively high level, although they did not achieve the level of 2008.

Sales prices were partially adjusted by alloy additions, although they mostly did not include changes in the prices of energy-generating sources, and partly also changes in scrap steel prices, changes in service prices and other costs. Sales prices did not match the increasing costs and this poorer profitability was partially compensated by an increased physical volume of operations.

In our efforts to reduce the negative influence of the market, we carefully monitored operating costs and improved the specific consumption and yield per tonne of our end products (Acroni was the first company to obtain a certificate for being an energy efficient company). With a revenues growth of 29.5% our operating expenses increased by 20.1% and material costs by 21.8%.

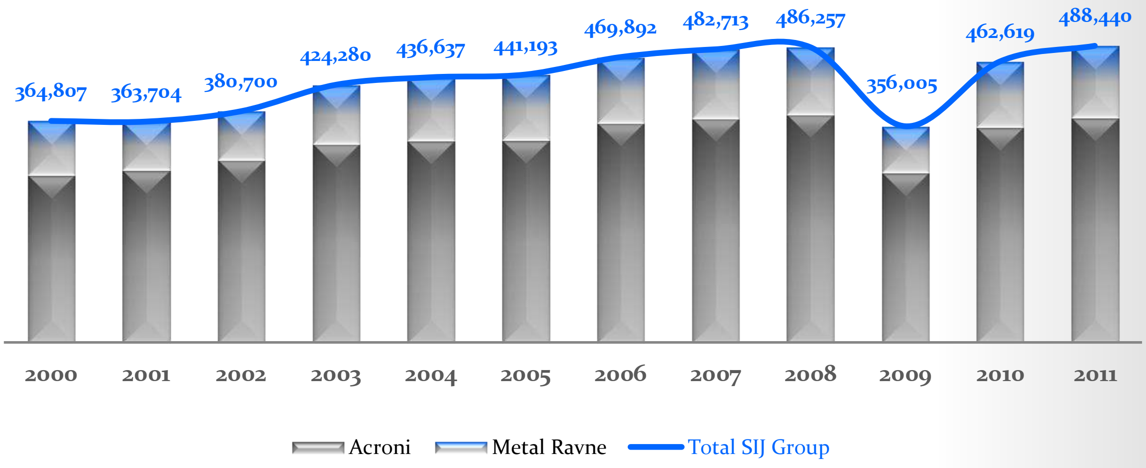
2.3.2 Production

The production of end products only includes the manufacture of our core companies, without the scrap steel processing companies.

The most important ratio of our operations is the production of cast steel in both steel companies, which in 2011 increased by 5.6% compared to the year before.

In the last 11 years we have achieved a **33.9%** increase in the production of cast steel without increasing the capacity of our furnaces.

Production of cast steel 2000–2011
in tonnes



2.3.3 Sales and Revenues

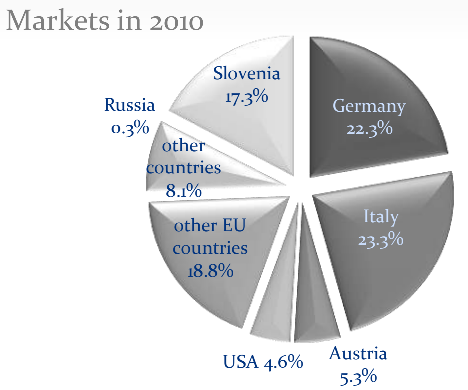
A 29.5% increase in revenues is 24% the result of a higher operating volume and 76% the result of a better structure or sales assortment, together with higher prices, where the odds are highly in favour of a better product range.

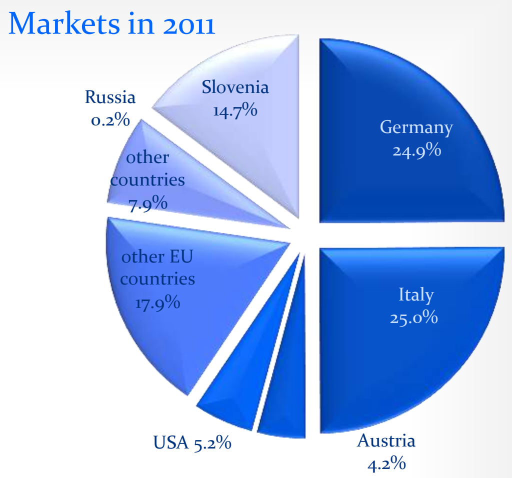
2.3.3.1 Sales per Markets

Our key markets are still the EU countries, with the Italian and German markets being the most important, as three of our companies are active in each market.

The Italian market has a 25% share in sales and the German market a 24.9% share.

The sales share on the domestic market has been declining for some years now, partly due to the expansion of our sales network to foreign markets and partly due to the extremely poor economic situation in Slovenia. For our products (particularly tool and special steel) the American market is also important when considering individual countries, and its share increased by 0.6 percentage points in 2011. The shares of other countries slightly reduced in 2011, among which the French, Polish and Hungarian markets are particularly important to us.



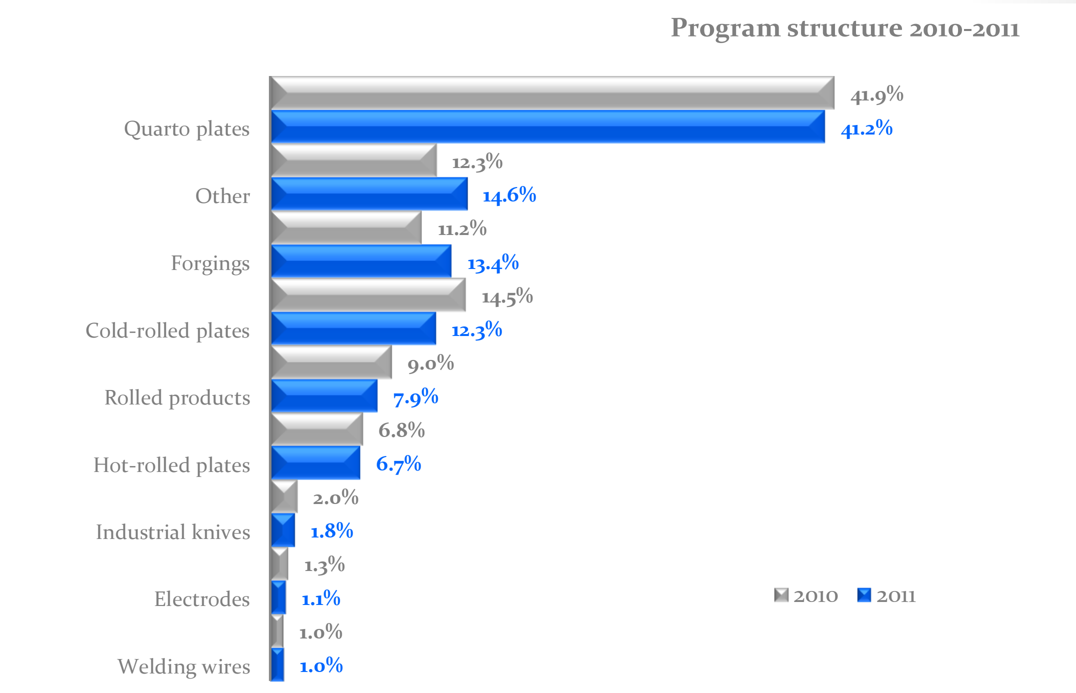


2.3.3.2 *Program Structure*

The most important sales program, which is also our strategic program for the next decade, is that of quarto plates (or even more accurately, stainless steel quarto plates). We are ranked among the top European manufacturers of stainless steel quarto plates, being third in 2010, and, according to our estimates, the second largest European manufacturer in 2011.

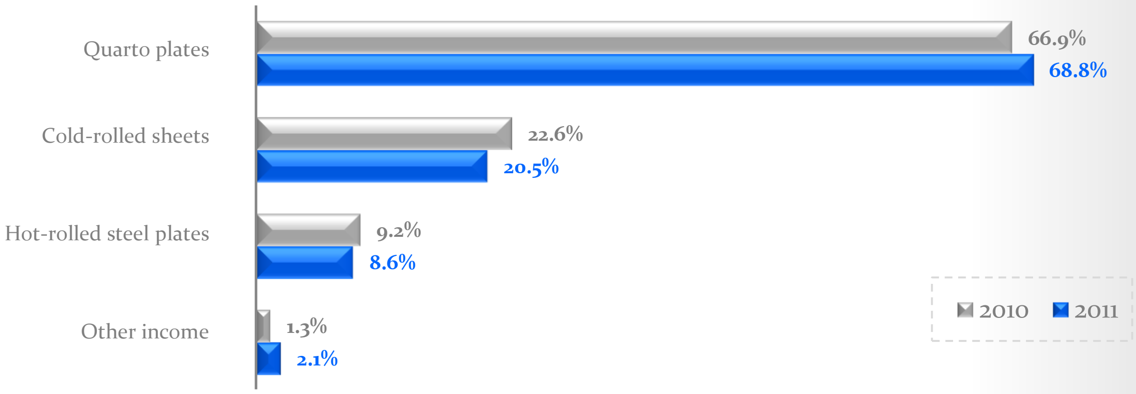
Strategic products in the long steel program include forged products such as high- and low-alloy tool and special steel, and we are one of the top European seller of tool steel (we were ranked third in 2010).

At the same time as we are achieving a higher share in the comprehensive programs, shares of some minor programs are decreasing. However, the share of other products, and especially services, increased, which is the result of incorporating new companies that are an integral part of the Group throughout the financial year of 2011, contrary to in 2010.



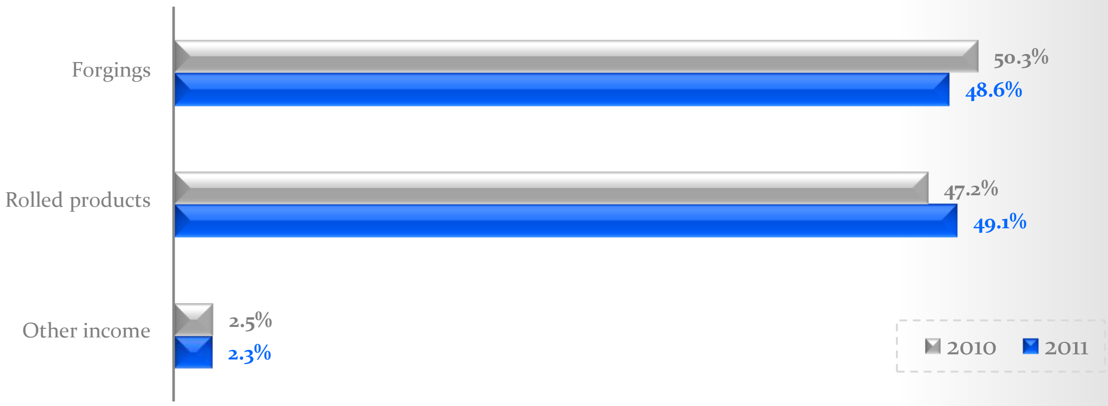
The program structure of the flat steel program is changing towards increasing the quarto plates share.

Program structure of the flat steel program
shares in sales value in %



The program structure of the long steel program is changing towards forged tool and special steel, although in 2011 the ratio between the rolled and forged programs was temporarily in favour of the rolled program.

Program structure of the long steel program
shares in sales value in %



2.3.4 Operating Results of the SIJ Group

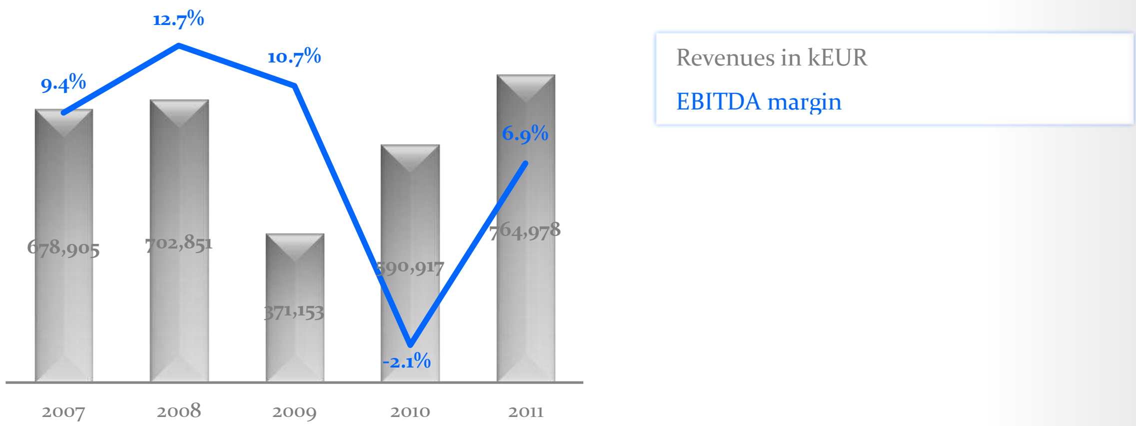
At this point we can emphasize that our strategic program orientation gives positive results, which is reflected in an important increase in revenues and improvement in operating results.

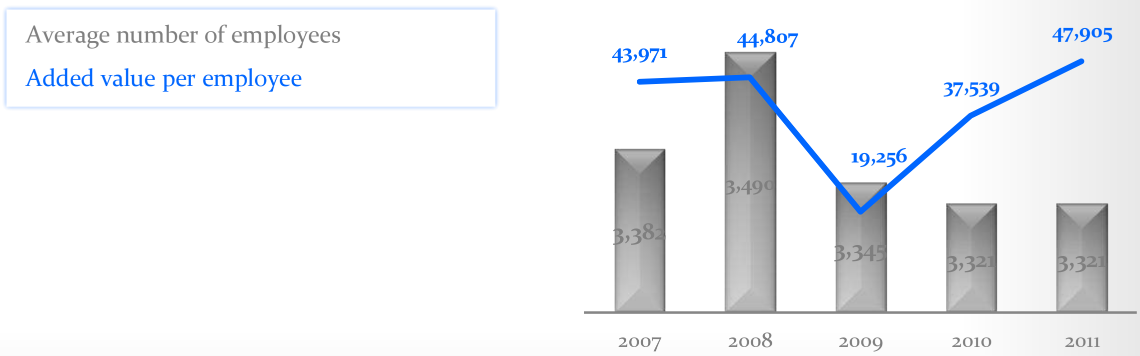
2.3.4.1 Key Figures

	2007	2008	2009	2010	2011	+ / - 2011/2010
Sales quantity (t)*	440,187	450,052	352,614	498,331	563,446	+13.1%
Revenues	678,905,418	702,851,130	371,152,894	590,916,742	764,977,836	+29.5%
EBITDA	86,232,794	75,205,633	-7,965,600	40,519,225	64,193,568	+58.4%
EBITDA margin in %	*12.7*	*10.7*	*-2.1*	*6.9*	*8.4*	+22.4%
Operating profit (EBIT)	69,195,923	55,075,956	-32,273,194	10,627,772	32,164,550	+202.6%
Net profit or loss	59,881,629	37,904,408	-26,890,145	3,665,277	17,127,530	+367.3%
Net profit or loss per employee	17,706	10,861	-8,039	1,104	5,157	+367.3%
Average nr. of employees	3,382	3,490	3,345	3,321	3,321	+0.0%

Note: All data is in EUR, unless stated otherwise

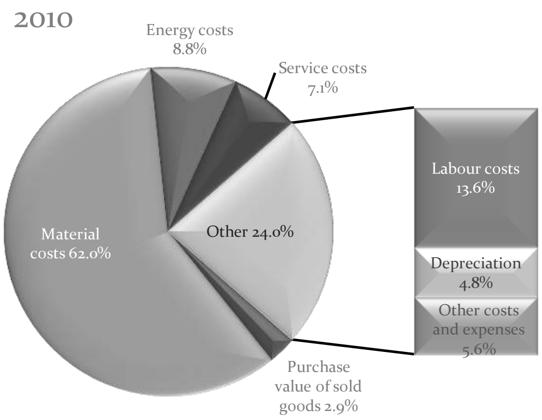
** Sales quantity without steel scrap amounted to 408,445 tonnes and was 11.5 % higher than that of 2010.*

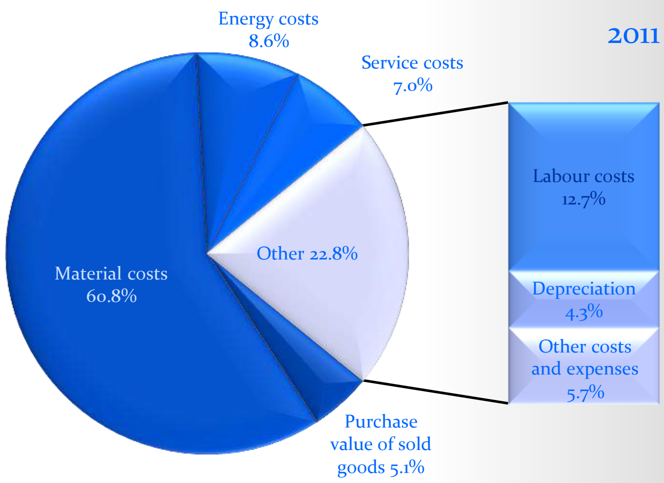




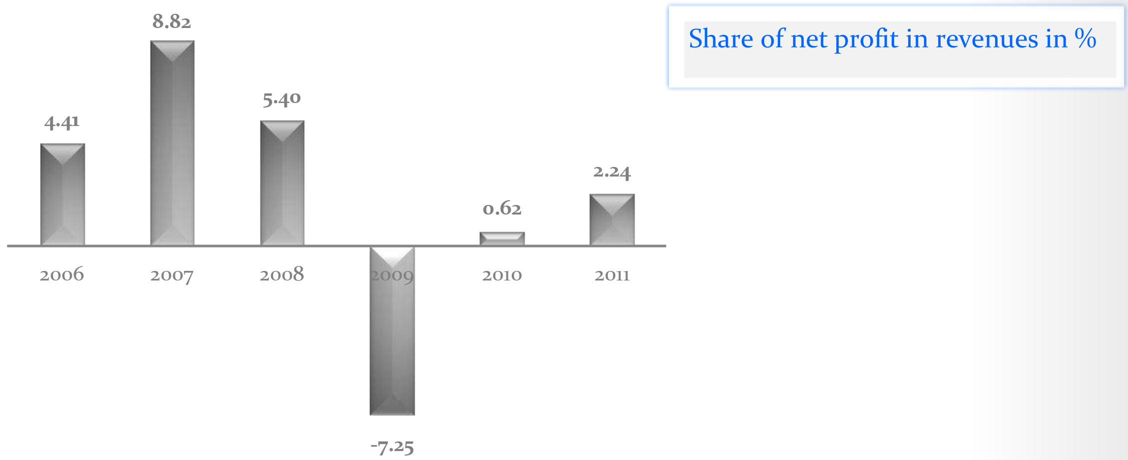
2.3.4.2 Costs and Expenses

In 2011 the share of material costs decreased by 1.2 percentage points compared to 2010, and their share in generated income decreased by 5.5 percentage points. The same also applies to other presented cost categories, except depreciation, whose share in the total operating costs and expenses increased by 0.5 percentage points, while its share in income decreased by 0.9 percentage points.



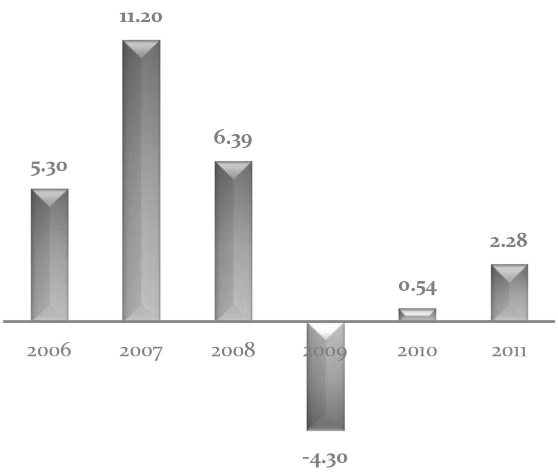


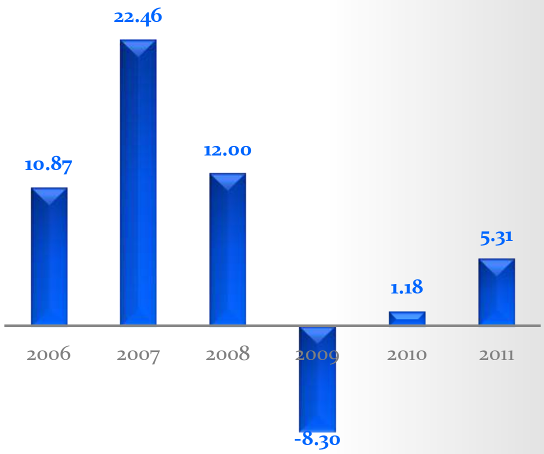
2.3.5 Ratios



The profitability of our operations is measured by the three ratios shown. They all exceed the level we achieved the previous year, but due to unfavourable price ratios we have not yet achieved the levels/results of 2008.

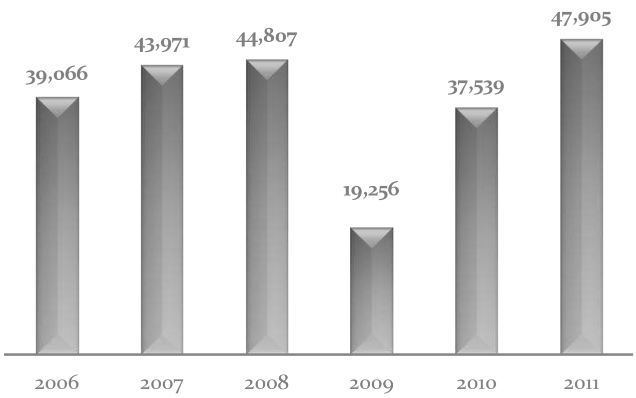
Share of net profit per assets used and per capital in %





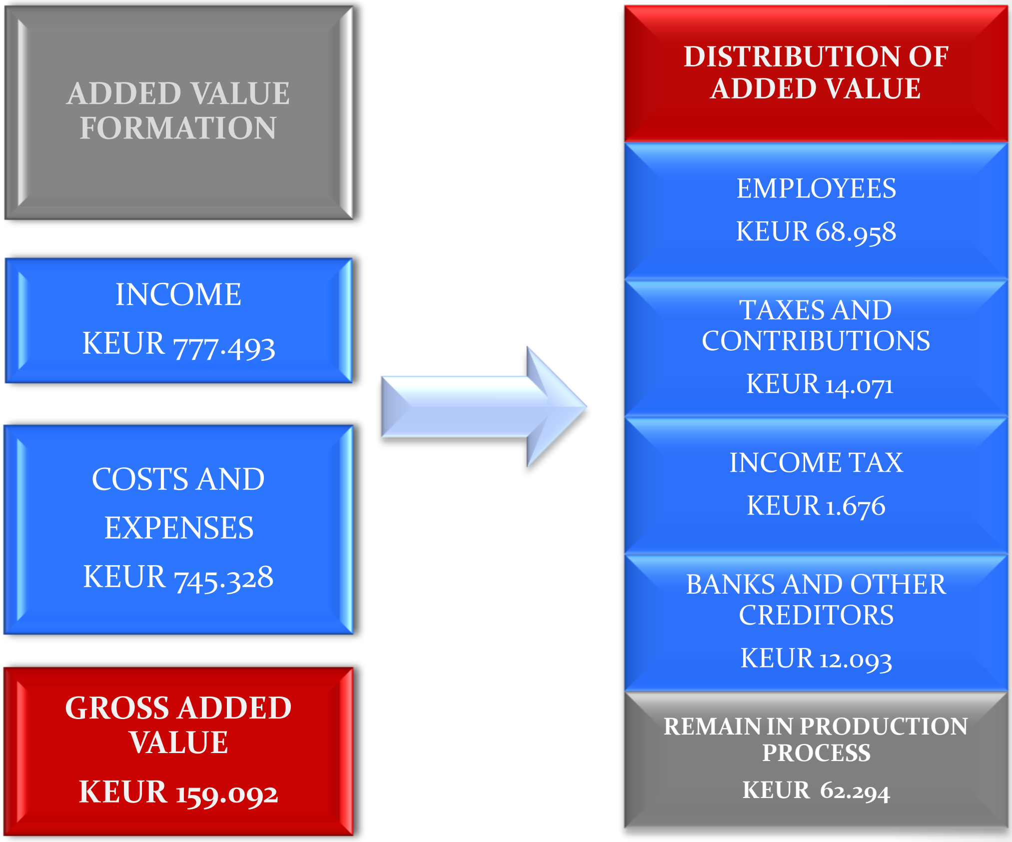
2.3.5.1 *Added Value*

Work productivity is not measured only by the actual production per employee, but also by the generated added value. In 2011 we achieved the highest added value of the past six years, which exceeds the value achieved in 2008 by **6.9%.**



Added value per employee in EUR

Formation of added value is an important ratio which has been monitored within the SIJ Group for many years. After distributing the generated added value among our employees (salaries), and paying taxes, contributions, and paying interests, we were left with assets available for working capital and investments.



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Slovenska industrija jekla

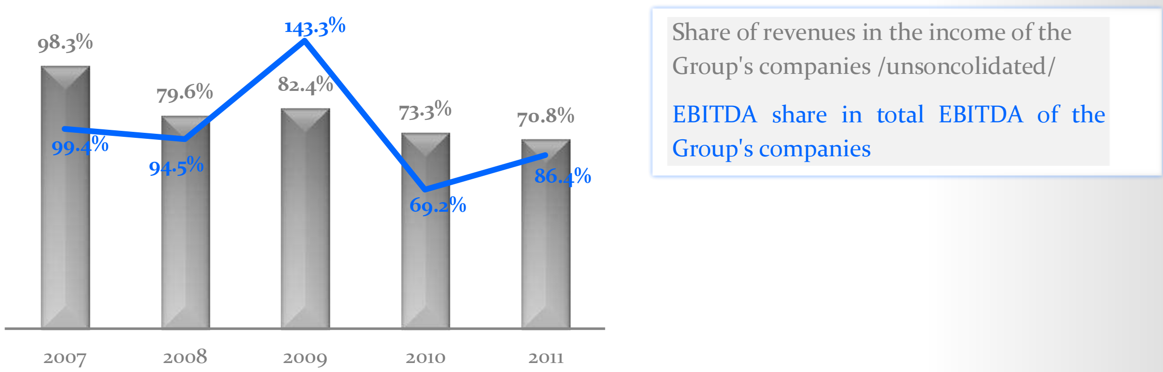
2.3.6 Results Per Business Area[2]

2.3.6.1 Core Companies

The core companies usually include Acroni, Metal Ravne, Noži Ravne and Elektrode, but in the table below we have also included the results of SUZ and ZIP Center.

in EUR	2007	2008	2009	2010	2011	Index 2011/2010
Revenues	665,049,071	688,147,801	350,345,752	532,900,512	648,419,193	121.7
EBITDA	83,508,959	73,196,747	-11,622,699	38,513,123	56,946,084	147.9
EBITDA margin in %	*12.6*	*10.6*	*-3.3*	*7.2*	*8.8*	*121.5*
EBIT	67,001,477	53,911,489	-34,725,273	10,967,724	29,002,117	264.4
Net profit or loss	47,896,419	36,300,308	-31,171,085	4,561,307	17,254,793	378.3
ROS in %	*7.2*	*5.3*	*-8.9*	*0.9*	*2.7*	*310.9*
Average number of employees	3,135	3,262	3,106	2,998	2,925	97.6

in EUR	2007	2008	2009	2010	2011	Index 2011/2010
Equity	243,427,468	279,727,780	248,522,167	243,088,286	260,347,890	107.1
Equity share in %	*48.79*	*49.33*	*45.61*	*39.65*	*41*	*103.0*
NFD	114,570,562	151,260,676	176,221,185	199,580,539	171,138,582	85.7
NFD/EBITDA	*1.37*	*2.07*	*-15.16*	*5.18*	*3.01*	*58.0*
Working capital	157,191,462	161,914,716	101,510,557	132,043,273	96,116,658	72.8
Total assets	498,943,476	567,036,104	544,880,994	613,070,411	637,551,662	104.0



The core companies represent almost three quarters of all the income of the companies of the SIJ Group. In 2011 they achieved very favourable results, which continued in the third quarter for the long steel program, but for the flat steel program the market did not recover until the beginning of 2012.

[2] Data is unconsolidated. Comparisons are based on unconsolidated data.

Slovenska industrija jekla

2.3.6.2 Collection and Processing of Scrap Steel

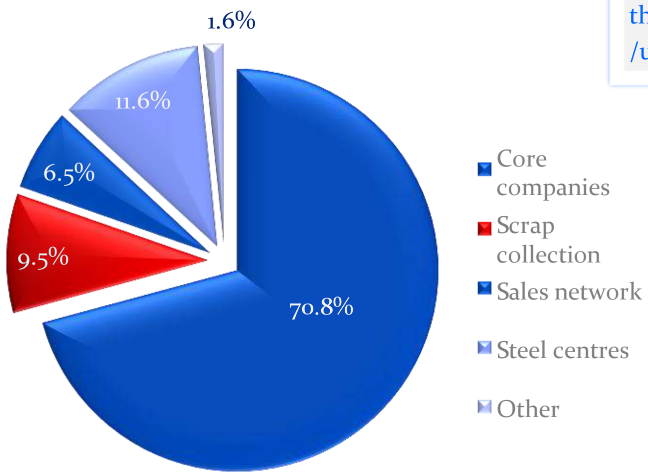
This group includes the company Odpad Pivka and its subsidiary Dankor from Osijek.

in EUR	2009*	2010	2011	Index 2011/2010
Revenues	27,160,800	61,698,936	87,023,262	141.0
EBITDA	975,632	2,149,621	2,059,471	95.8
EBITDA margin in %	*3.59*	*3.48*	*2.37*	*67.9*
EBIT	554,204	1,633,405	1,517,891	92.9
Net profit	318,353	907,387	406,664	44.8
ROS in %	*1.17*	*1.47*	*0.47*	*31.8*
Average number of employees	22	40	46	115.0

in EUR	2009*	2010	2011	Index 2011/2010
Equity	5,558,012	6,458,529	6,815,895	105.5
Equity share in %	*34.93*	*31.54*	*29.71*	*94.2*
NFD	8,121,744	11,130,134	12,557,942	112.8
NFD/EBITDA	*8.79*	*5.18*	*6.10*	*117.8*
Working capital	7,886,217	11,160,270	13,147,319	117.8
Total assets	15,910,312	20,474,705	22,945,274	112.1

** data only for Odpad*

Share of business areas in income of the Group's companies /unconsolidated/



Annual Report 2011

Slovenska industrija jekla

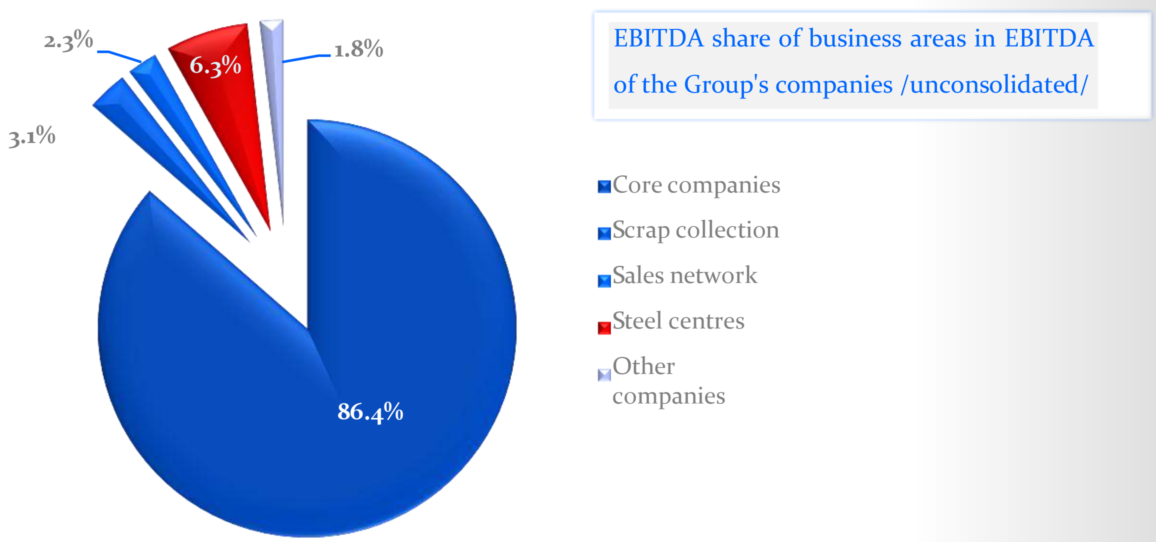
2.3.6.3 Steel Centres

This group consists of Ravne Steel Center (RSC), Niro Wenden, Sidertoce, Griffon & Romano (subsidiaries Inoxcut and Inoxpoint included) and SIJ Obdelava jekla.

in EUR	2009*	2010	2011	Index 2011/2010
Revenues	8,969,142	77,890,713	106,217,177	136.4
EBITDA	766,737	3,774,188	4,172,777	110.6
EBITDA margin in %	*8.55*	*4.85*	*3.93*	*81.1*
EBIT	504,001	1,961,239	2,550,911	130.1
Net profit or loss	256,143	-751,010	1,174,240	n.m.
ROS in %	*2.86*	*-0.96*	*1.11*	*n.m.*
Average number of employees	13	84	153	136.4

in EUR	2009*	2010	2011	Index 2011/2010
Equity	2,052,884	7,132,009	8,679,663	121.7
Equity share in %	*23.17*	*10.43*	*11.62*	*111.4*
NFD	3,580,653	33,078,050	38,146,024	115.3
NFD/EBITDA	*4.67*	*8.76*	*9.14*	*104.3*
Working capital	2,878,345	28,378,986	38,731,349	136.5
Total assets	8,861,547	68,388,945	74,686,669	109.2

** data only for RSC*



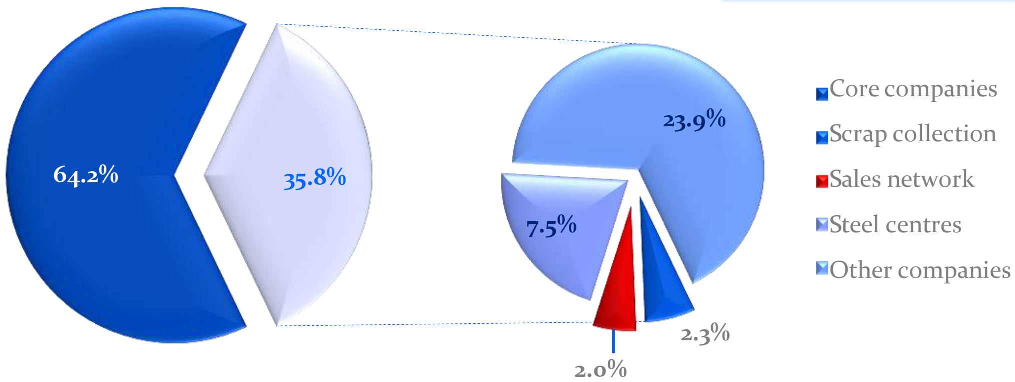
2.3.6.4 Sales Network

The sales network consists of Acroni Italia, Acroni Deutschland, KOPO International and Iuenna Stahl.

in EUR	2008	2009	2010	2011	Index 2011/2010
Revenues	113,735,906	30,264,441	43,157,162	59,836,244	138.6
EBITDA	1,075,182	631,798	1,420,345	1,539,398	108.4
EBITDA margin in %	*0.95*	*2.09*	*3.29*	*2.57*	*78.2*
EBIT	1,036,470	592,625	1,383,135	1,499,006	108.4
Net profit	602,737	488,721	968,179	915,762	94.6
ROS in %	*0.53*	*1.61*	*2.24*	*1.53*	*68.2*
Average number of employees	18	16	18	20	111.1

in EUR	2008	2009	2010	2011	Index 2011/2010
Equity	4,541,325	5,074,223	3,858,398	4,037,024	104.6
Equity share in %	*19.73*	*36.93*	*19.26*	*20.71*	*107.6*
NFD	924,510	-30,405	126,832	735,688	580.0
NFD/EBITDA	*0.86*	*-0.05*	*0.09*	*0.48*	*535.2*
Working capital	5,804,500	4,614,956	4,002,628	5,019,048	125.4
Total assets	23,012,769	13,740,368	20,036,820	19,492,276	97.3

Assets share of business areas in assets of the Group's companies /unconsolidated/



Annual Report 2011

Slovenska industrija jekla

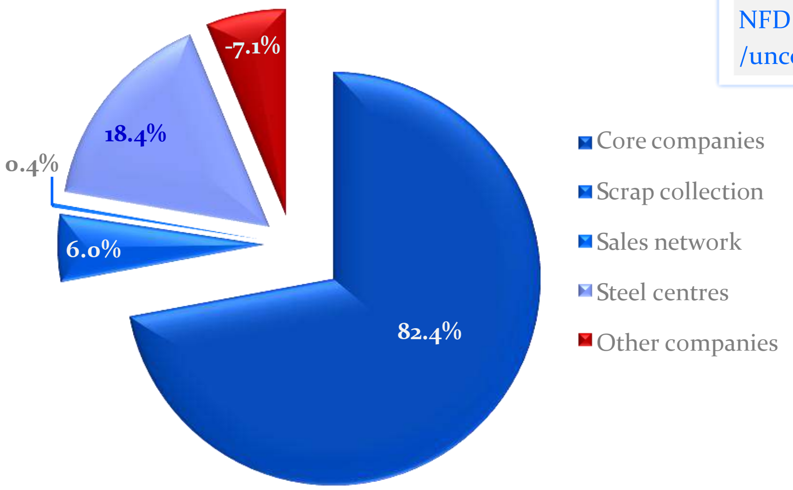
2.3.6.5 Other companies

Other companies include SIJ d. d., Serpa, Jesenice Ironworks, Wire Rolling Mill and SIJ Obdelava jekla.

	2007	2008	2009	2010	2011	Index 2011/2010
Revenues	11,687,740	16,061,112	8,343,360	11,608,870	14,238,190	122.6
EBITDA	522,416	1,618,276	1,137,407	9,768,343	1,161,265	11.9
EBITDA margin in %	*4.47*	*10.08*	*13.63*	*87.84*	*6.98*	*7.9*
EBIT	117,316	1,098,441	544,486	9,115,195	361,043	4.0
Net profit	11,543,308	1,125,966	3,050,873	10,153,355	827,274	8.1
ROS in %	*98.76*	*7.01*	*36.57*	*87.46*	*5.81*	*6.6*
Average number of employees	176	189	187	179	174	97.2

	2007	2008	2009	2010	2011	Index 2011/2010
Equity	179,721,224	180,781,447	183,861,026	193,827,702	194,491,670	100.3
Equity share in %	*95.15*	*90.17*	*84.32*	*83.42*	*81.84*	*22.0*
NFD	-38,975,945	-31,529,793	-33,028,686	-17,644,717	-14,810,178	83.9
NFD/EBITDA	*-74.61*	*-19.48*	*-29.04*	*-1.81*	*-12.75*	*706.0*
Working capital	1,510,885	4,294,876	5,292,162	6,158,343	10,078,447	163.7
Total assets	188,877,784	200,478,501	218,056,182	232,356,309	237,642,009	102.3

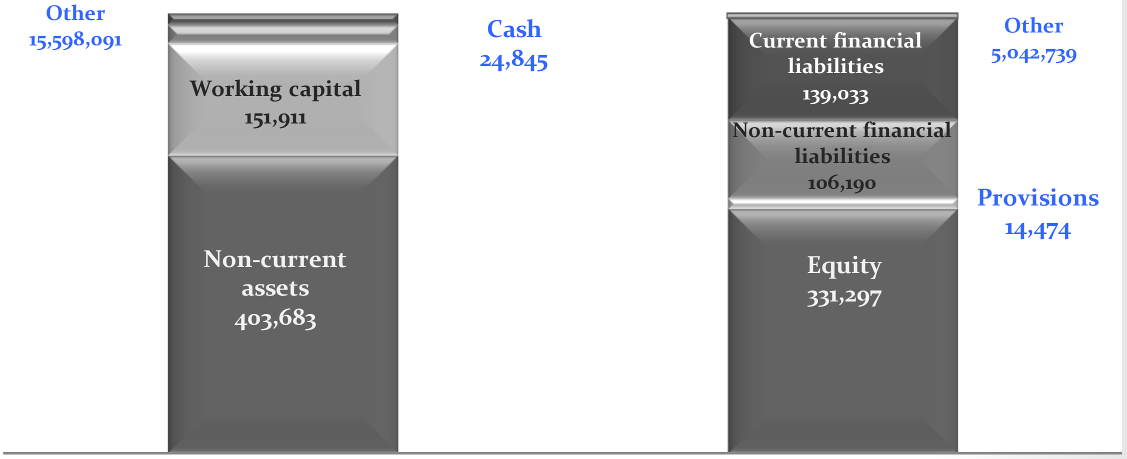
Net financial debt share of business areas in NFD of the Group's companies /unconsolidated/



2.3.7 Financial Position

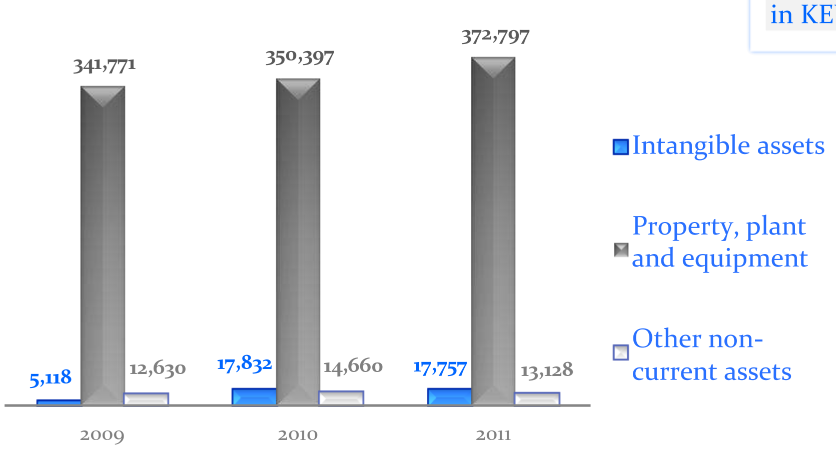
The structure of our assets did not change much during this year. The largest difference is that part of the long-term sources was changed to short-term sources, with the difference of 1 percentage point in favour of the reduction of non-current liabilities.

Structure of assets in 2011 in KEUR



We are increasing our property, plant and equipment with an intensive investment policy. With regard to the intangible assets, goodwill represents the largest share.

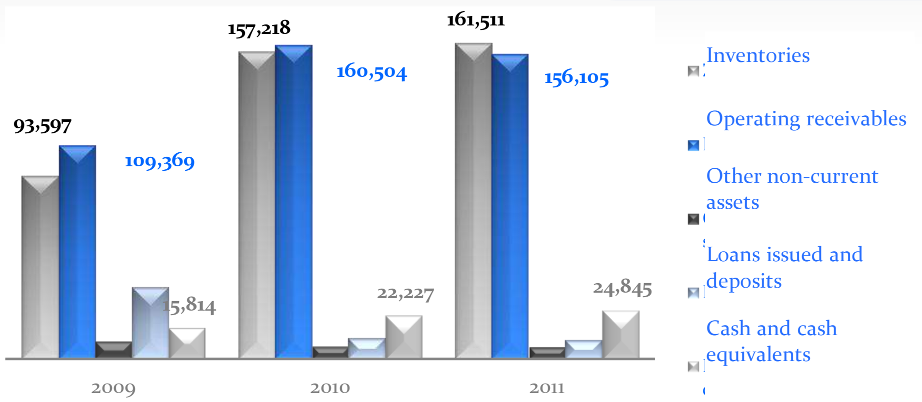
Non-current assets 2009–2011 in KEUR



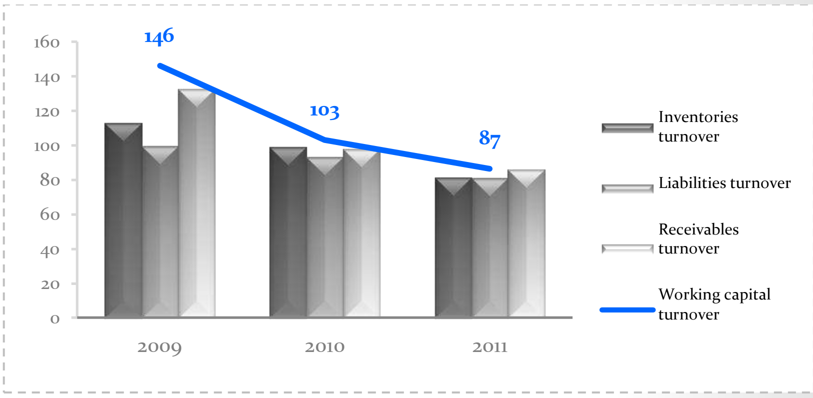
Among the current assets our inventories have increased in comparison to previous years, which is partly the result of a larger operating volume and partly the result of a one-month production shut-down in Acroni in December.

We managed to shorten the collection period of all working capital items, from inventories to receivables and liabilities, as well as the working capital itself.

Current assets in kEUR

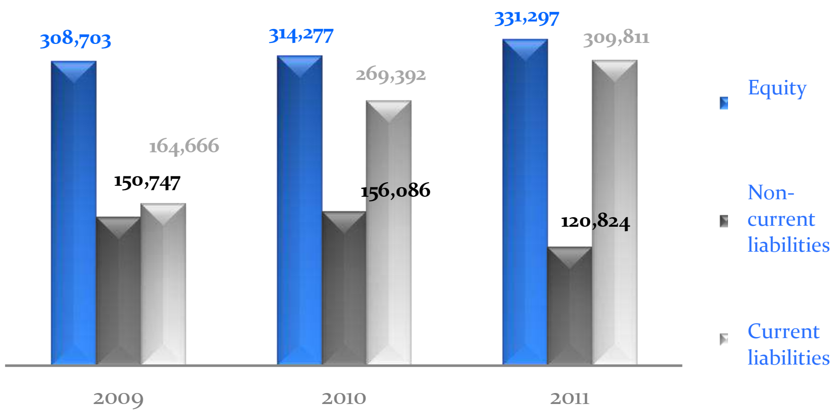


Collection period of working capital



The value of the Group's equity is increasing due to the generated profit. This also influences the increase in the carrying amount of share, which was on 31 December 2011 5.4 percent higher than in 2010.

Equity and liabilities



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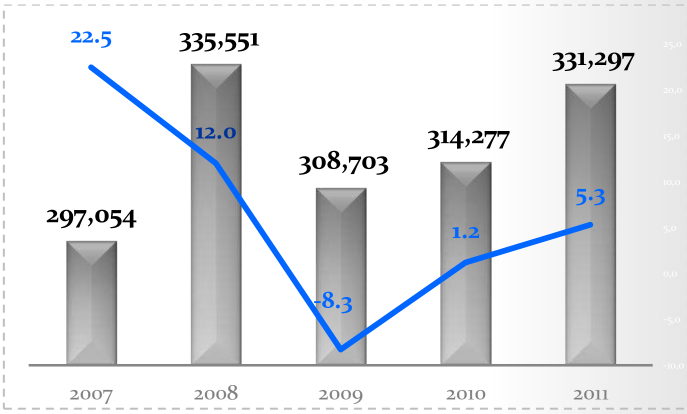
Slovenska industrija jekla

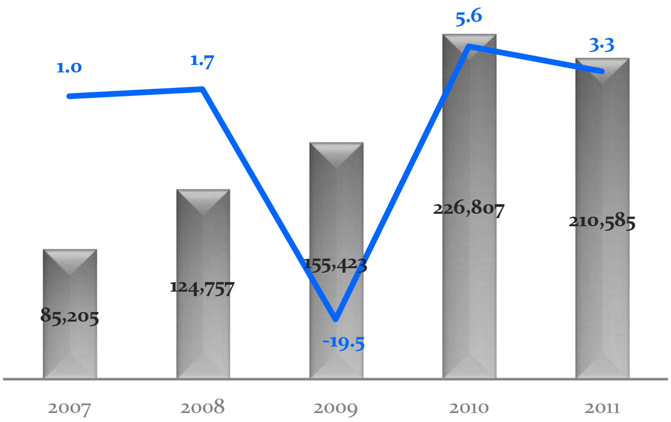
Annual Report 2011

The return on equity has started to increase after 2009, but has still not reached the pre-crisis level.

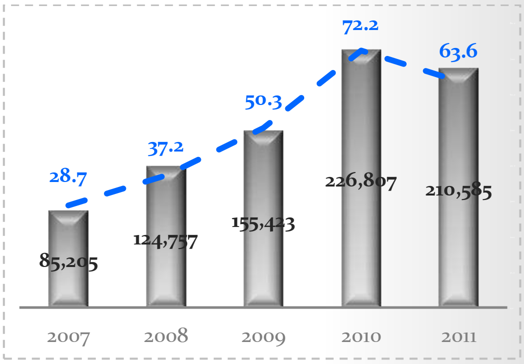
Equity
ROE – Return on Equity



NFD – Net financial debt in KEUR
NFD/EBITDA



NFD – Net financial debt in KEUR
GEARING ratio = NFD/equity

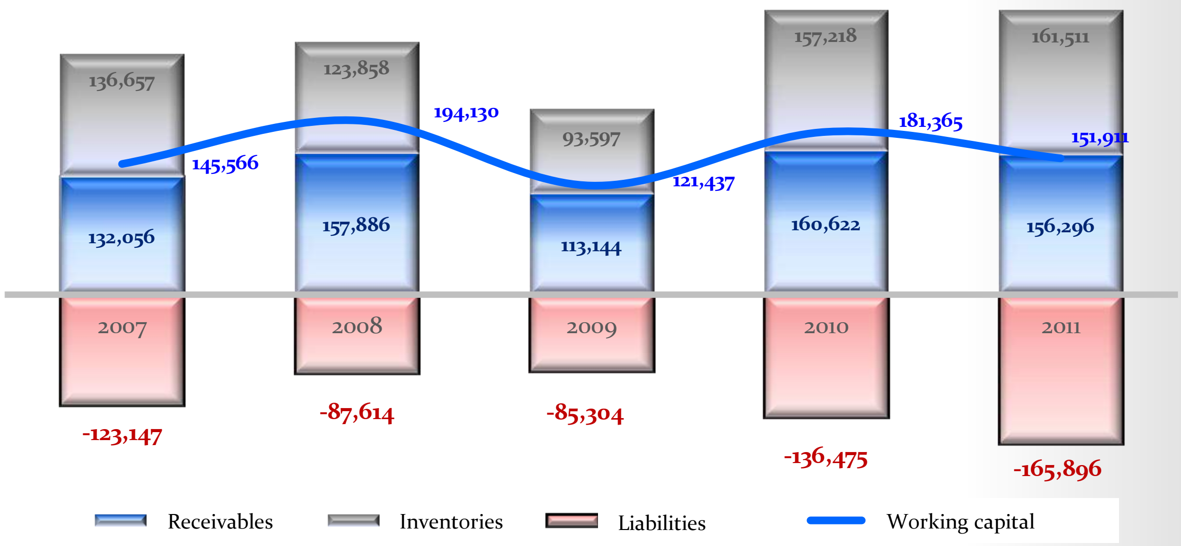


We reduced the net financial debt by EUR 16.2 million or 7.2% by the end of 2011. The net financial debt share of the equity has reduced by 8.6 percentage points.

2.3.7.1 Working Capital

Economizing on working capital has released deposited financial assets, which are being used for the implementation of investments in the companies of the SIJ Group. The working capital share in our income has decreased from 30.7% in 2010 to 19.9% in 2011.

Working capital in 2011 in kEUR



We lowered our working capital by

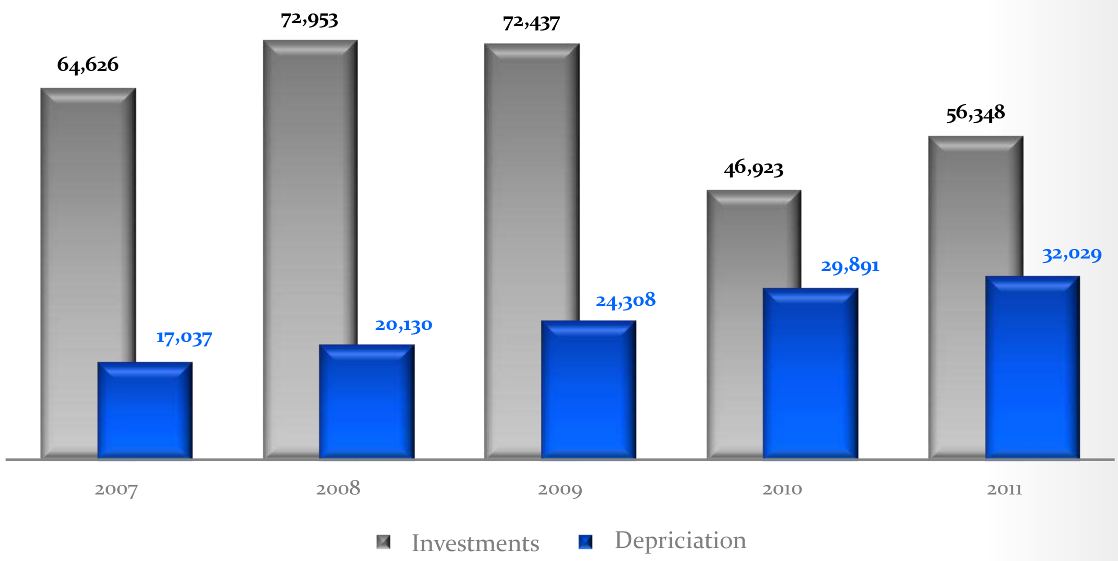
16.2%

in million EUR	
Inventories	+4.3
Receivables	-4.3
Liabilities	-29.4
Working capital	**-29.5**

2.3.7.2 Investments financing

The released assets from lowering the working capital were partially used for investments. Another important source of investments was depreciation, which has been growing constantly during the past few years due to a strong investment policy; namely by 17% on average in the last five years and by 7.2% in the last year.

Investments and investment coverage by depreciation in kEUR



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2.4 DEVELOPMENT AND INVESTMENTS

2.4.1 Investments

During 2011 we continued the trend of investments according to our strategic plan and raised our assets level by 20% compared to the previous year.

Most of the assets, EUR 51 million or 90% of the total assets used, were invested in our steel companies Acroni and Metal Ravne, where we continued with the investments in vital production sections (by modernizing both Steel Mills and Rolling Mills in the second phase of production process modernization).

Acroni has renovated the Steel Mill and Hot Rolling Mill during the past two years, and is now continuing with the second investment phase in the Quarto Plate Plant. The company is one of the largest suppliers of quarto plates in Europe, and all the investments in the modernization of quarto plate production are being carried out at a favourable market moment. We have also optimized logistics, the storing process, and system handling of processing data, all with the aim of achieving the highest possible level of automatic operation.

Metal Ravne has begun implementing a project in the Steel Mill, called the “New ESR III Plant”. In this way we are focusing on the most demanding programs of steel production. The project is to be finished by the beginning of the summer 2012.

In 2011 **Noži Ravne** realized two big investments to a total value of almost one million euros. A CNC milling machine with a working length of six metres enables the production of knives up to six metres long, thus giving the company a new position in this highly competitive market. A second large investment is represented by a straightening press, which guarantees progress in productivity and an ergonomic adjustment in work since it requires only one man to operate it.

The company **Elektrode Jesenice** started a new production line for filled wires in 2011. The special characteristic of this line is the laser welding of an already filled wire, and this represents the newest trend in filled wire production. This line allows the quality production of numerous filled wire types, and provides a quick and easy switch between different quality types.

Most of the assets were invested in equipment for monitoring and controlling the quality of filled wires, with which the company acquired modern machines for sample preparation and production and the line control of wire.

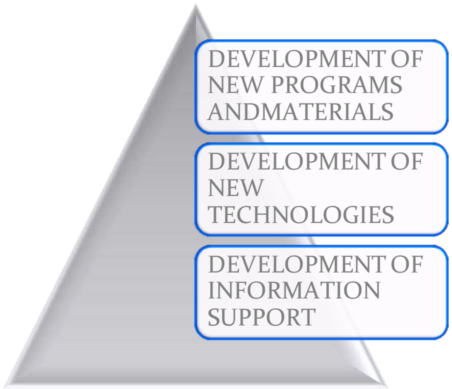
SUZ has not invested much in the past few years because it could not guarantee the implementation of projects due to its mission and operations. In 2011 the company's business stabilized and they began to invest in development as a guarantee for the future.

INVESTMENTS IN EUR	2007	2008	2009	2010	2011	TOTAL 2007–2011
Acroni	27,542,583	36,314,564	59,322,249	18,343,120	31,400,996	172,923,512
Metal Ravne	32,121,899	28,622,454	8,746,819	3,936,981	19,408,936	92,837,089
Noži Ravne	604,064	667,260	735,415	624,590	1,012,441	3,643,770
Elektrode	2,897,841	524,279	60,782	255,126	423,917	4,161,945
Other companies	1,459,670	1,533,571	1,388,989	2,904,866	4,101,978	11,389,074
Purchase of companies	0	5,290,850	2,182,500	20,858,500	0	28,331,850
Investments	**64,626,057**	**72,952,978**	**72,436,754**	**46,923,182**	**56,348,268**	**313,287,240**
Depreciation	17,036,869	20,129,678	24,307,596	29,891,453	32,029,018	123,394,614
Depreciation share in investments	26.4%	27.6%	33.6%	63.7%	56.8%	39.4%

Important Investments in the Group in 2011	
Acroni	Bela dispatch warehouse, furnace nr. 3 on the Wellman line, pickling bath with washing-drying line, new rolling mill
Metal Ravne	New ESR III (Electroslag Remelting) Plant, purchase of HTP production hall (heat processing and sandblasting hall), renovation of the Alino furnace in the Profile Rolling Mill, modernization of preparation of metallographic samples (MAPS), purchase of a used CMS grinding machine, new ultrasound device on the control line
Noži Ravne	CNC milling machine and straightening press
Elektrode Jesenice	Completion of production line for filled wires, equipment for monitoring and controlling the quality of filled wires
SUZ	Purchase of EJP levelling machine, roof repair in the production hall, installation of steering wheels for the bridge elevator, modernization of the electronics on the VS drawing line

2.4.2 Development

Development within the Group is focused on new programs and the development of new materials, new or improved technology, and the development of information support, all with the goal of better business transparency in order to contribute to the best decision-making processes of the individual company's and the Group's management. For this purpose we have organized Development and IT departments in all our larger companies, which cooperate in the field of development.



The development of new products is of key importance in order to stay among the top manufacturers of quality steel products, and we note particularly the development of special purpose products and those for individual customers' needs and those with specific characteristics. Cooperation with our business partners and research institutions helps us to achieve our planned goals in the development of specific products or improvement in steel quality. They mostly conduct tests and give us advice on the process of development.

The development of new technologies is the next important area for research and development, but an internal, technologically skilled, team of researchers and technicians is also important for running the new technology development process. Having a good knowledge of the manufacturing processes, engineering, and IT for process management is key for internal technology development, and excellent manufacturers of technical equipment also help with the development.

In research and development the companies solve issues in the fields of **business intelligence** and the **development of information support**, which enable them to make important strategic business decisions, supported by accurate and clear data about every process. Standardized company data are the basis of understanding our own information needs and connection to the environment.

The companies of the SIJ Group have allocated research and development funds mostly for internal developmental activities in technology: the development of new products and materials, along with new technological procedures, are undoubtedly the most important.

In the field of research and development within our business group we have mostly allocated funds for internal research and development, and we used over 90% of all the annual funds which had been earmarked for this activity. The remaining part was used for paying contractual researchers, external contractors in this field, and for cooperation with research institutions.

The share of funds in sales revenues varies depending on the volume of generated sales, but we strive to raise the funds level allocated for research and development every year, to such an extent that we can guarantee a stable competitive level among the providers of the best steel products.

Share of assets for research and development in revenues – in %
(Acroni, Metal Ravne, Noži Ravne, Elektrode Jesenice and SUZ)

2008
EUR 2,892,359
• 0.41% share in revenues

2009
EUR 2,478,193
• 0.67% share in revenues

2010
EUR 2,438,447
• 0.41% share in revenues

2011
EUR 3,156,845
• 0.41% share in revenues

Acroni focuses a large part of its developmental activities on optimizing the technology for the production of special and electrical steel, and we note particularly the technology for the production of stainless steel, which consequently influences the development of **more demanding products, intended for the most challenging uses. An important part of developmental activities is aimed at the development of new technology for heat processing and the removal of the oxide layer from the surface of stainless steel plates.**

Acroni's developmental opportunities lie in adjusting product specifications to customers' needs and of course in the optimization of technological processes, which guarantee cost-effective production. The cost of research and development in 2011 amounted to EUR 2.1 million.

The company continues its rich tradition of innovations. In 2011 the regional Chamber of Commerce and Industry of Slovenia (GZS) awarded 4 projects (3 Silver and 1 Gold award), and one of them even received the Silver Award of GZS at the national level.

Results confirm that Acroni is among the most innovative large companies in Slovenia.

Metal Ravne allocated its funds to the development of tool steel within the brand Metal (the most demanding steel to make, with high purity for specific purposes), the development of steel for the energy sector in both European and non-European markets, the development of steel for rollers and products, and for the permanent improvement of the macro- and micropurity of steel. **In 2011 the company allocated just under one million euros for research and development.**

Metal Ravne carried out 11 innovative projects, of which four were entered in the regional competition in 2010. The company received one Bronze and two Silver Awards, as well as one **Gold Award** for their work **"Artificial Intelligence and Laboratory Simulation of Re-forming Process". This project, designed in cooperation with** the Faculty of Natural Sciences and Engineering in Ljubljana, was also entered in the national competition, where it won a Gold Award.

The competition, organized by the Chamber of Commerce and Industry of Slovenia, was also used to promote innovative work, which in today's business environment is not only prestigious but also a real necessity. 17 employees worked together in the competition, and their work was noted over a wider area, not only within the company.

Noži Ravne used their development opportunities for improving their operating results. They are mostly focusing on the development of technology and an improvement in manufacturing capacity, the usage of new quality materials, the development of more cost-efficient and faster production, and they subcontract of production of less demanding knives. With this the company aims to guarantee a higher quality standard, a faster flow time and targeted marketing of the main products.

Developmental funding was allocated to the development of new products, the purchase of new tools, and the production of work appliances. In 2011 the company constructed 9 work appliances and conducted 14 tests of tools and 6 tests of grinds. The total cost of development in 2011 amounted to approximately EUR 30 thousand.

In 2011 the company did not introduce any new designs. However, it did increase its marketing of its innovation "Duralife + knives", which was introduced in 2010 and has already shown positive results.

Elektrode Jesenice: Development in the company is in accordance with its strategy of increasing the company's competitive advantages. They are focusing on developing more demanding types of alloyed electrodes, massive and filled wires, and welding flux for the production of challenging constructions. The costs in 2011 amounted to EUR 85 thousand and include the development of coated electrodes, flux, and massive and cored (filled) wires.

Innovations are an integral part of Elektrode's developmental tasks, research, and production technology, which gives the company the opportunity to improve operating results.

SUZ: Development in the company is in accordance with its strategy of increasing the company's competitive advantages. The focus was on prolonging the production process (processing of steel bars) and expanding it (production of special types of steel bars). In 2011 the company allocated EUR 15 thousand for research and development.

SUZ estimates that steel bars processing is its most important development project, which ensures that they will raise the added value of their products and gives them the possibility to enter new markets. The improved product structure from the viewpoint of profitability and increased sales quantity will undoubtedly contribute to better operating results of SUZ.

Their total number of innovations in 2011 was 22. Most of them were associated with technical improvements on the pulling and grinding lines, which resulted in higher yield and better quality of products.

2.5 RISKS

2.5.1 Introduction

The Group is, due to the great dynamic, complex and heterogeneous structure of the business environment, exposed to various types of risk – a result of the different geographic, market and operating conditions in which individual companies of the Group operate. In 2011, after an initial recovery, economic growth began to decline again, and the global economic and financial crisis deepened, which is why we were further exposed to various risks, from the point of view of the owners as well as other interested groups such as lenders, customers, suppliers and employees. All of this of course influences the companies' ability to achieve their planned strategic business goals. For this reason the management of risks has recently become even more important, especially because the results of future business events are always insecure to a certain extent and no company can avoid this.

The risks in 2011 have only partly changed from those in 2010, since the financial-economic crisis has not yet been replaced by more favourable business prospects. On the business side we face risks associated with the volume of orders, and on the financial side we are still facing solvency risks.

Within the SIJ Group the risk management process involves the recognition of the causes of risk, the evaluation of opportunities and threats, and the estimate of the expected consequences of the risk together with proposed limitations.

2.5.2 Internal Control

There is no organized internal audit of the companies' operations within the SIJ Group. Financial and operating results are controlled by the Accounting Departments of the Group and the Controlling Department of the controlling company.

Internal controls are largely associated with monitoring operations, in accordance with the prescribed procedures of the adopted ISO standards. To guarantee that we meet individual standards requirements (ISO, OHSAS, product certificates etc.), internal controls are carried out once or twice a year (more under section 2.5.9).

2.5.3 External Audit

In compliance with the Companies Act the SIJ Group and its individual companies are obliged to audit their financial statements. The external audit of financial statements within the Group and its companies has been carried out since 1994 (in some companies since 1996 and 1997), and since 2002 annual reports have also been audited.

Our first audit company was KPMG Slovenija, d. o. o., but for six years now our auditor has been Deloitte revizija d.o.o.

For the last ten years and more we have received the auditor's reports with no reservations, which means that the Group has had a working, controlled system of bookkeeping and accounting for years.

The external audit of our operations also includes external assessments of the certificates which we have been awarded, and certifications of quality and adequacy, which are carried out by external assessors annually or every two to three years, depending on the type of certificate (more under section 2.5.9).

2.5.4 Description of Risks

The SIJ Group classifies risk as anything that could have harmful consequences for the activities that the Group carries out in order to achieve its short-term and long-term goals.

The risks are divided into three groups:

- Strategic and operating risks are associated with the ability to manage operating processes, the possibility of generating operating revenues, and the ability to maintain the value of operating assets. They include external risks connected with the changes in the macroeconomic environment, operating conditions on key markets, sales risks and competitiveness in sales of products and services, purchase risks, and the unpredictability of purchase markets.
- Financial risks management within the Group focuses on the unpredictability of financial markets and tries to minimize potential negative effects on the company's financial performance. We distinguish between the risks associated with not collecting operating receivables (credit risks), the risks of change in financial market factors (interest, foreign exchange, inflation and other risks) and solvency risks.
- Other risks are connected with the design, implementation and control of operating processes and activities within the company.

2.5.4.1 Strategic and Operating Risks

These risks mostly depend on the assortment of programs of the companies of the SIJ Group, the market environment, and strategic investments associated with the agreed market orientation. Strategic risks are associated with:

- the implementation of our development strategy
- limitations regarding environmental protection
- global market trends

Operating risks are linked to the business environment, the behaviour and habits of customers, and the economic conditions in which the SIJ Group operates. They arise in the following areas:

- excessive production capacities on the steel market
- predominant focus on the European market
- expansion of Asian steel manufacturers

- weak market situation

By monitoring operating parameters through the implemented reporting system daily, and by its daily activities, SIJ, d. d. strives to assess risks regularly and to define appropriate measures to limit them. Appropriate measures are taken every time an individual company notices deviations from set trends.

INVESTMENT RISK

Investment risks are associated with achieving the goals of planned investments, the successful realization of investments in new product development, and the implementation of new technologies. We are limiting this type of risk by continually improving the quality of preparation, the implementation of investment projects, and by the revaluation of project by monitoring achieved results.

During the elaboration phase of a conceptual investment project, we try to find the most accurate assessment of the market situation and opportunities according to the available data. Furthermore, we try to evaluate the expected economic impacts, the timeline of the implementation and start-up, and to define an appropriate organizational structure with regard to size and complexity. Together with a project team, the project manager is actively involved in all phases in accordance with his powers. In connection with the market position and company's strategy of focusing on the segments of more demanding products and higher added value, non-implementation of corresponding technological modernization **represents a moderate risk** for maintaining competitiveness in the long-term.

In the past year we have continued with the implementation of strategic investments whose orientation was confirmed in the sales of quarto plates and the forging program, according to the market trends.

SALES RISKS

The SIJ Group operates in different geopolitical and macroeconomic conditions, as well as in a legal and competitive environment, as our sales are greatly dispersed. For this reason we are exposed to sales and market risks of varying intensity. A quick response to potential changes in operating conditions and the adjustment of sales activities to markets remains our key competitive advantage. We are constantly monitoring market conditions, since the loss of customers and a substantial fall in the price that customers are prepared to pay for our products has a big impact on our operations. The companies have tried to reduce the risks associated with the loss of customers by a better dispersion of customers across geographical areas, economic sectors and type.

Our marketing activities have focused on increasing sales in other, non-European markets, but the price competitiveness of Asian steel manufacturers, especially in China, is high due to unfair competition, which in turn makes it harder to enter these markets.

Market Changes

Market changes and the supply/demand ratio have a strong effect on our sales opportunities. This is why we constantly and carefully monitor trends on the steel and raw materials markets in different countries and industries. By adapting to these changes we limit the sales risk.

Price Risks

The prices of our products are subject to constant changes caused by fluctuations in raw material prices and the supply/demand ratio. We try to manage price fluctuation risks by constant and careful monitoring of raw material price changes, long-term contracts with our suppliers, agreement on fixed prices, constant calculation of profitability and the most accurate predictions of price increases or falls. This risk is reduced by additional payments for alloys for certain products and by insuring raw material prices.

The activities designed to manage these risks are:

- Achieving stronger long-term partnerships with global competitive suppliers, which have enough strategically important raw materials and are also capable of adjusting to the harsher market conditions with regard to quantity and price.
- Monitoring market conditions and predicting changes in the markets.
- Searching for substitute materials.
- Testing new materials and suppliers.
- Purchasing strategic materials from several suppliers.

Quality Risk

Poor quality of materials and consequentially of products has a major effect on costs. On the one hand there are costs related to complaints made by customers, while on the other there are costs related to internal complaints, where the poor quality of certain products is discovered at the end of the technological process, after the processing cost has already been incurred, which influences the operating profit or loss.

The risk of external complaints is managed by better output control, whereas the risk of internal rejects is managed by increased quality control during the process and by the assistance of professional teams who look for solutions to improve quality.

PURCHASE RISK

Purchase risks are mostly associated with price changes of raw materials and services, which depend on constant changes in the global market. The biggest and most unpredictable are changes in the price of input material, i.e. scrap steel and alloys, whose price is formed at the global level on raw material exchange or elsewhere. There are also risks regarding the quality of purchased materials, material shortages on the market for market or political reasons (e.g. export limitations), or due to monopoly of suppliers or problems with the supply of goods, e.g. because of jams on transport routes due to natural disasters. The companies lower these risks by the continuous control of input materials, stronger long-term partnerships with global competitive suppliers, the search for substitute materials, testing of new materials and suppliers, the purchase of strategic materials from several suppliers and by monitoring and predicting market changes.

Risk of Raw Materials Availability

The availability of steel scrap depends on the global and local ratios between supply and demand, so we constantly and carefully monitor trends in the steel and scrap steel markets, especially in countries with the most impact on this. The risk is being limited by the diversification of purchases and cooperation with suppliers in the SIJ Group.

Price Risk

Fluctuations in raw material prices is subject to constant changes on the global market. We manage this risk by constantly monitoring both the fluctuations in raw material prices and the actual demand for raw materials according to the volume of orders and production capacity. We reduce the risk by making purchases according to formulas incorporated into sale prices in the form of additional payments for alloys. Natural gas and electricity are extremely important expenses in our operations. The price of natural gas increased substantially in 2011 and had an important influence on the Group's operations. As most steel manufacturers are confronted with the same problem, we expect to be able to incorporate the price increase of natural gas into the prices of our final products.

ECOLOGICAL RISK

Ecological risk is a pressing concern for both steel companies, Acroni and Metal Ravne, with noise, dust and other emissions, and potential natural disasters being the main risk factors. A certain risk is also associated with the scrap disposal sites of steel plants. The possibility of severe natural disasters, especially earthquakes and floods, represents a constant risk.

Every change of an ever-stricter environmental legislation which may result in the cancellation of production activities presents a risk. Ecological risks can also be present in the case of environmental disasters that pose the danger of unplanned environmental pollution. Regarding the procedure for recognition and assessment of ecological risk we assess the risk level as moderate.

OPERATIONAL RISKS

Operating risks are mostly linked to inadequate or incorrect internal processes, employee activity, system faults or extraordinary events associated with natural disasters or even criminal acts.

2.5.4.2 Financial Risks

Financial risks include liquidity risk, credit risk, interest rate risk, foreign exchange risk and the risk of banks not approving the renewal of loans upon their maturity.

For an even better management of financial risks we try to reduce the negative effects of financial instability in our customers, and of price and currency trends on operating results, cash flow and the financial position of the Group and its individual companies.

Despite the stringent conditions on the financial market and the still incomplete recovery of the steel market, we have managed to successfully control financial risks in 2011.

INTEREST RATE RISK

In the Group, this risk arises mostly from the fact that the interest rate for the predominant part of current and non-current financial liabilities is comprised of a variable (EURIBOR) and a fixed part, which represents the net interest margin. The risk applies to the variable part of the interest rate. Due to an extremely low value of EURIBOR in the past this risk level was low. In 2011 we witnessed an increase in interest margin for most of the existing credits and for all new credits, but the nominal interest rate was still relatively low because of the low EURIBOR. Because of the slow economic recovery we do not expect that the variable part of the interest rate will increase in the future.

CREDIT RISK

Credit risk represents the possibility of loss due to unfulfilled contractual obligations of debtor to creditor. It is associated with the debtor's unwillingness or incapability, which can be temporary or permanent, to fulfil his financial liabilities within the agreed time period.

In the business world all companies are exposed to credit risk, as most companies do not receive immediate payment for their products and services, but only after a certain time period agreed in advance. This type of transaction is also called credit. During this period a company which delivered products or provided services assumes the credit risk, i.e. the possibility that the delivered products or provided services will not be paid. For this reason exposure to credit risk related to customers is limited by various activities: control of exposure to individual business partners; permanent control of wholesale customers; sale of goods on condition of receipt of appropriate collateral instruments (guarantees, letters of credit, advance payments); insurance of receivables with insurance companies; and continual collection of receivables.

Recently this risk has increased due to the compulsory composition of certain business partners. However our risk management strategy proved to be the correct one and there were no major adjustments to the value of receivables this year. For these reasons we assess the credit risk as moderate.

FOREIGN EXCHANGE RISK

We are exposed to foreign exchange risk, due to our dispersed international operations. By adopting the euro as a means of payment the exposure to foreign exchange risk was reduced for most companies of the Group; however, the risk of exchange rate movements remains, mainly related to the US dollar. We have been constantly monitoring our exposure to the US dollar and regulating the risk by coordinating US dollar sales and purchases.

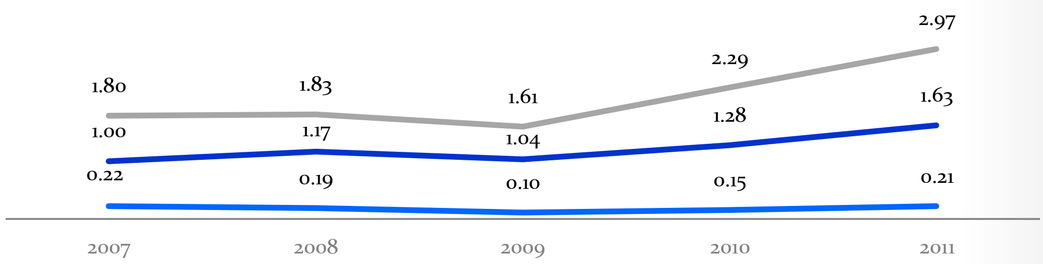
ix. SOLVENCY RISKS

The cash flow of the Group and its companies is meticulously planned for months in advance, and on a daily basis we carefully monitor the actual inflows and outflows to keep a positive cash flow. The Group's liquidity reserve is represented by revolving loans granted by Slovenian banks, which can be used if the need for additional liquidity funds should arise. We have been carefully monitoring the movement of receivables and regularly adopt measures to deal with non-paying customers. We regularly negotiate with banks to extend existing current loans, and major investments are financed by non-current assets.

Although solvency risk is considered to be one of the biggest risks for Slovenian companies, the Group assesses this risk as moderate due to our established system of planning and monitoring.

Liquidity ratios, which are stable and achieve quite favourable values, are shown below.

Current ratio / Quick ratio / Immediate ratio



Current ratio = current assets/current liabilities

Quick ratio = (current assets - inventories)/current liabilities

Immediate ratio = (financial investments + cash and cash equivalents)/current liabilities

UNWILLINGNESS OF BANKS TO RENEW LOANS ON THEIR MATURITY

In 2011, thanks to numerous bankruptcies and compulsory compositions as a result of the economic and financial crisis, banks became extremely cautious in approving credits to companies. This affected the significant increase of this risk, but due to the good credit rating of the SIJ Group we have had no real problems finding credit sources.

2.5.4.3 Other Risks

HUMAN RESOURCES RISK

The largest risks of the company in the field of human resources arise from the ability or inability to guarantee enough qualified workers for the present and future demands of the operations. We are aware that there are not enough skilled workers on the labour market, so we continually educate and train our employees, and by adopting motivational measures try to win their loyalty to the Group, which in turn reduces the possibility of them resigning. These are some other risks we have been facing:

- **Shortage of certain professions:** there are not enough skilled metallurgy workers on the labour market, so we cooperate with the Ministry of Education, Science, Culture and Sport in the formation of education programmes, from vocational schools to University study of metallurgy.
- **An optimum number of employees** is regulated by monitoring work productivity and negative health indicators – sick leave and disability.
- **The introduction of changes to the organization and distribution of work** after the technological and information modernization of production and work processes are completed: change and adjustment to change is stressful and causes resistance among employees, so every introduction of any new change demands a great deal of work with employees: training, transfer, changes to existing communication channels, etc.

RISK OF INFORMATION SYSTEM MALFUNCTIONS

The most important risks in the field of information technology are those of malfunction in our hardware, local area network, and communications and system software; risks of unreliable and inadequate applicable software; and risks associated with information system security.

We ensure that these risks are well managed by constantly monitoring them and immediately responding to deviations. Moreover, we have signed maintenance contracts with our suppliers, who ensure the continued operation of the system in the event of outages of any of its vital segments. Furthermore, the system itself is designed in such a way that these risks are essentially reduced (duplications of the most vital parts of the system, access to the Internet via two different providers, duplication of communication paths, and data backup).

RISKS ASSOCIATED WITH INJURIES AND/OR PROPERTY DAMAGE

In the SIJ Group most of the companies are located in larger industrial areas, where the danger of fire and other property damage is higher. For this reason the companies have set up a monitoring system for their facilities through contracted security companies which also patrol the premises. Critical points at some facilities are additionally monitored by surveillance cameras. All our property is insured with an insurance company against potential threats.

UNIFIED OPERATIONS AND MANAGEMENT

Our goal is to set up a strong and unified corporate policy of the Group's operations, thus reducing the size of our operating risks. With this goal in mind we are introducing unified rules and activities of individual operating functions, but this takes time. Important progress has been made in directing the strategic development of the Group and its individual parts, a unified system of reporting, the strategic purchase of basic raw materials and the pursuit of a unified financial policy. However, there is still plenty of work to be done regarding computerization of our operations, and in connecting different operational systems, unifying certain organizational procedures and formulating a common human resource policy.

ASSESSMENT OF EXPOSURE TO RISKS

The management of the SIJ Group assesses that in 2011, considering current assumptions about the development of economic environment factors, the total exposure to operating, financial and other risks was moderate, and that the SIJ Group was not exposed to excessive operating risks, with the exception of risks associated with the influences of potential repetition of the crisis period of 2008–2009.

2.6 QUALITY MANAGEMENT SYSTEM

A quality standard is a certificate which is absolutely essential to any company with ambitious goals to operate and become one of the best in their field. It represents good business practice and is therefore helpful for organizations looking for the best possible policies to follow. The system is mainly focused on the efficiency of quality management in fulfilling requirements and is meant for companies which desire to control and continuously improve their operations accordingly. This certificate can be compared to a certificate of excellence, which guarantees to customers and other partners that they are working with a company that has established operating criteria in all areas of operations.

Our business group is able to identify customers’ needs and to manage the business system by providing satisfaction to all the business parties involved. Fulfilling, identifying, and exceeding customers' expectations places us among the most reliable and capable suppliers of steel and steel products, which is confirmed by our operating results and market position of the Group.

Acroni has had the certificate of the ISO 9001 standard for its Quality Management System for 15 years. In 2011 it successfully fulfilled conditions for the sixth certificate of the ISO 9001 standard for quality management systems, which is valid until 2014.

Acroni was the first manufacturer in Slovenia to successfully upgrade its quality management system in the field of energy management. The company also obtained the certificate of the EN 16001 standard for efficient use of energy.

At the end of 2011 Acroni also began the process for obtaining the certificate as per the ISO 50001 system. The environmental management system as per the ISO 14001 standard, and the occupational health and safety management system as per the OHSAS 18001 standard, are both valid until 2012 and are in the process of extension. The chemical and mechanical laboratories of the company carry out their work with methods in accordance with the ISO 17025 standard, which was ratified by Slovenian Accreditation. The same is valid for the inspection body, accredited as per the ISO 17020 standard.

By obtaining a valid quality management systems certificate according to the ISO 9001 standard, the company also meets one of the conditions for obtaining and keeping product certificates and its supplier's certification of capability. Compliance with the requirements for obtaining these product certificates is examined by various certification bodies. Acroni has kept its position as a certified manufacturer of steel and steel products according to the requirements of TÜV SÜD Industrie Service, Lloyd's Register, Germanischer Lloyd, Det Norske Veritas, Bureau Veritas and Inštitut Građevinarstva Hrvatske (Civil Engineering Institute of Croatia) in Zagreb.

The product certificates awarded to Acroni by TÜV SÜD Industrie Service certification body on the basis of an assessment of technical standards are:

- certificate for the production of materials according to the requirements of AD 2000-Merkblatt W0/TRD 100;
- certificate for the production of materials which fulfil the special pressure requirements according to the Pressure Equipment Directive 97/23/EC (PED);
- certificate for the production and control of construction materials in accordance with the Construction Products Directive (CPD) 89/106/EEC and 93/68/EEC;
- certificate for the fulfilment of requirements according to the NORSOK M-650 standard.

Metal Ravne began introducing quality management procedures in 1992 in order to perform its operations in accordance with the guidelines of the ISO 9001 system, and to conform its processes in accordance with the requirements of this standard. For this purpose the company provided conditions for the development of this standard's principles in compliance with the development of the standard itself, and with constant improvements and updates of the system.

The company has an integrated quality management system which merges three certified management systems:

- the quality management system ISO 9001:2008; ISO 9004; 2009
- the environmental management system ISO 14001:2004;
- the occupational health and safety management system OHSAS 18001:2007.

These systems are interconnected and the basis for all of them is the quality management system. However, each system also has its specific features in its own field. The company also operates in accordance with the principles of the information security management system as per the ISO 27001 standard, and the energy management system as per the ISO 50001 standard. However, the company is not certified for these two standards.

The quality management system is based on a process approach and reflects the integration of four important elements, namely the management's responsibilities, the management of resources, the completion of products, and the measurements, analysis and improvement. Besides certified management systems, the company also obtained the following product certificates:

- TÜV SÜD Industrie Service
- Lloyd's Register
- Germanischer Lloyd
- Det Norske Veritas
- ABS
- Bureau Veritas Marine Division

The company **Noži Ravne** manages, documents and maintains its quality systems in accordance with ISO 9001. The quality manual of Noži Ravne is the basic document of the system to ensure the quality of the entire company, and combines elements of the quality system according to the provisions of the ISO 9001:2008 standard. *It includes quality policy, long-term quality objectives, company organization and procedures for process management.* The quality system is based on the Deming principle of measures system, also known as the PDCA cycle. It is planned by the company director and department heads responsible for certain fields, and the formulated tasks are carried out by all employees.

Elektrode Jesenice began its preparations for certification assessment and receipt of the ISO 9001 certificate in 1998. The adopted quality policy established fundamental values that serve as guidance for the development and progress of the company's operations. In 2009 the validity of the certificate was successfully renewed for the next three years in accordance with the requirements of the new standard 9001:2008, while in 2010 a control assessment was carried out by Bureau Veritas Certification.

In 2011 Bureau Veritas carried out another control assessment and confirmed that the company's quality management system is in accordance with ISO 9001:2008.

2.7 BUSINESS PLANS AND GOALS FOR 2012

Following our slogan "The best things in the world contain Slovenian steel" demands a more aggressive marketing approach, and stimulates us to win new market niches in which we can position ourselves only with high quality special products, where quality and small quantities matter, and which provide high added value.

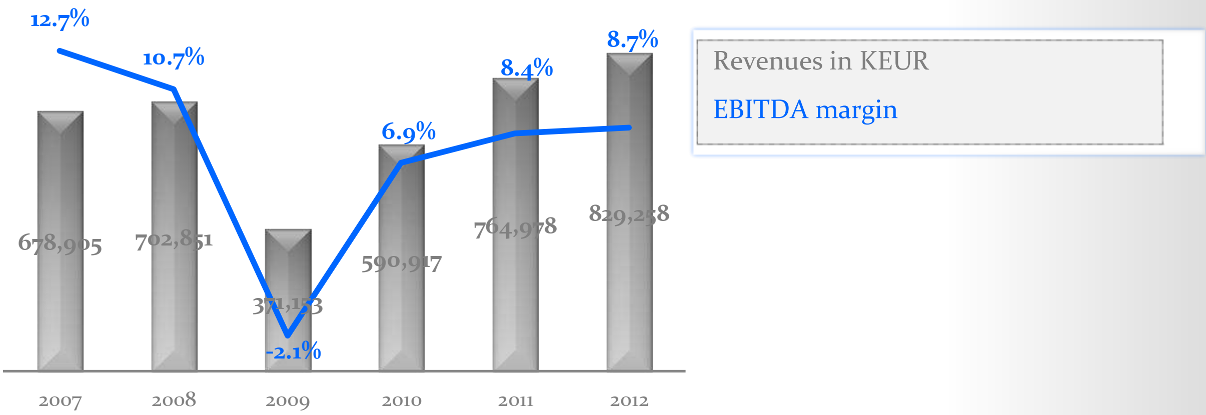
Our plans for successful operations in the future are focused on:

- guaranteeing high quality and excellent service to our customers;
- the optimization of operating processes by introducing new IT solutions;
- energy- and cost-effective production;
- maintaining an innovative environment;
- keeping our employees highly motivated.

The market environment in 2012 is not the most stimulating, as the crisis is still present, in some areas more than others.

We will continue to seize opportunities and strengthen our advantages. Our plan is to increase the physical volume of sales by 26% and the value of sales by 8%. Negative price fluctuations will be reflected in a lower growth of value and physical volume of sales, and in weaker business performance.

We are planning to achieve a 0.3 percentage points higher EBITDA margin and the same profit or loss as in 2011.



In 2012 we will greatly focus our attention on completing the present investments in the new rolling mill in the Blooming Rolling Mill, from which we expect higher productivity and the expansion of sales range with the possibility of manufacturing plates up to 2.5 m wide.

The next important project is the modernization of the information system at Acroni, Metal Ravne and SIJ, d. d., which will provide a basis for quicker and better decision-making processes and thus better performance in the future.

2.8 EVENTS FOLLOWING THE END OF THE FINANCIAL YEAR

- In January Acroni discontinued its production of profiles – the profiles department in the Hot Rolling Mill was cancelled.
- In January Acroni produced and sold a record quantity of stainless steel quarto plates (8,400 tonnes).
- On 10 February 2012 Metal Ravne started the liquidation process for its subsidiary Iuenna Stahl GmbH, which is 100% in the company's possession.
- In the first quarter of 2012 Elektrode Jesenice completed its investment in a closed cooling system in the production of electrodes and its investment in the high-tech production of laser-welded filled wires.

There were no other events after the reporting date that could influence the Group's financial statements.

3 SUSTAINABLE DEVELOPMENT

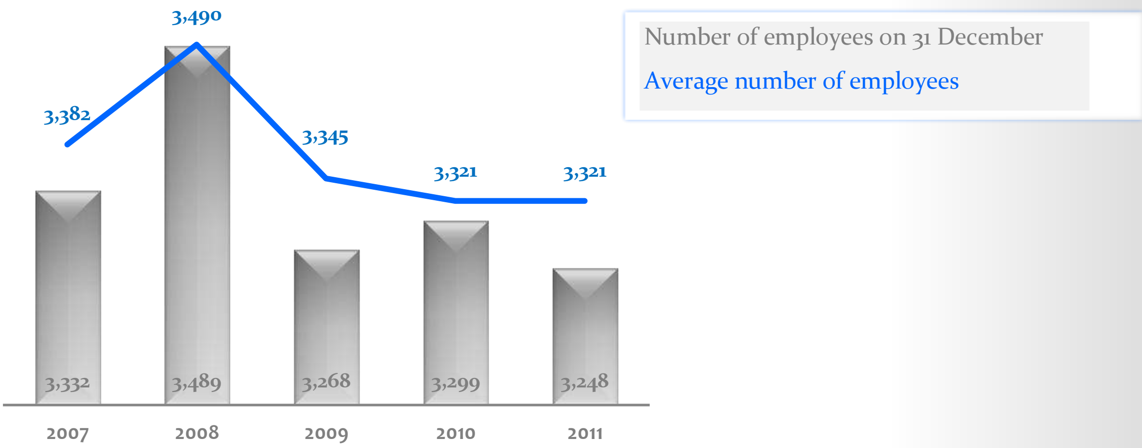
We understand social responsibility as a comprehensive, planned and long-term movement towards improving the quality of life of everyone who is directly or indirectly involved in the companies of the Group. The principles of sustainable development are integrated into our operations, products, services and contents. By understanding and respecting our interdependence and its impact on the environment, we are focusing on achieving a balance between management as a gainful activity and social responsibility towards our employees and civil society.

The employees of the SIJ Group, with their knowledge, experience and loyalty to other workers, are an important asset which we need to protect and develop within the Group and its companies.

3.1 RELATIONSHIP WITH EMPLOYEES

3.1.1 Employee Trends

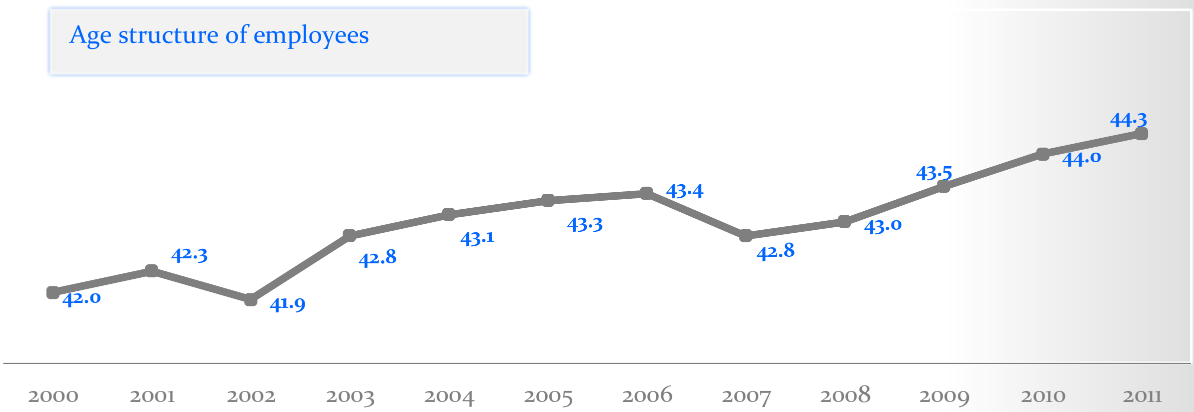
At the end of 2011 the SIJ Group had 3,248 employees, which means that the number of employees compared to the previous year decreased by 51 or 1.5%. The cumulative average remained the same as the previous year and is 3,321 employees.



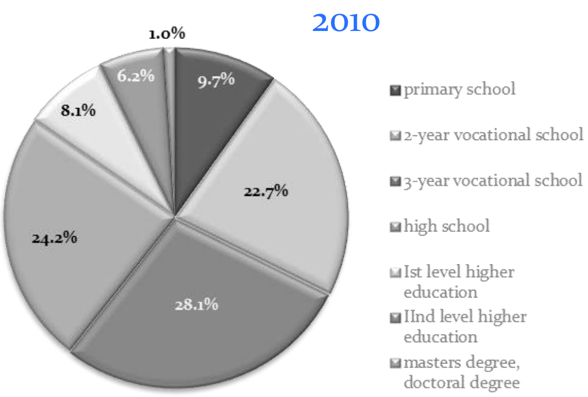
3.1.2 Employee Structure

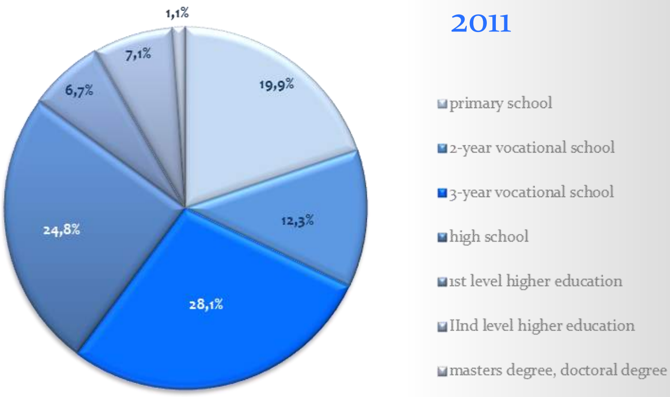
The SIJ Group employs 576 women, which represent 18% of all employees, and 2,672 men, which is 82%. The number of women employed decreased by 2, and the number of men by 49, compared to the previous year.

The average age of employees in the SIJ Group was 44.3 years. In the last four years the average age of employees has increased by 1.3 years.

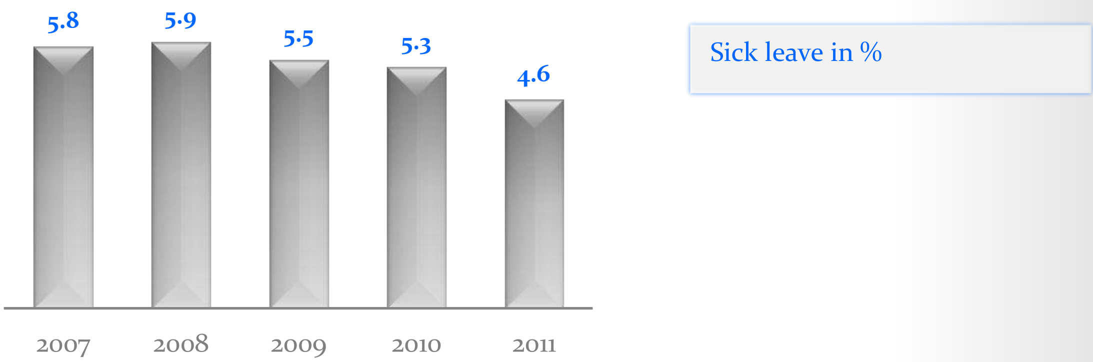


The educational structure has not changed much in the past few years. The main difference shows when we compare data for primary school and 2.5-year vocational school, but only due to the changed presentation of data on educational level in 2011, which follows the national classification of educational levels. If we merge both educational levels, they represent 32% of the total population in both years. There were also no important changes in the percentage of employees with 3- or 4-year vocational education; however, the percentage of employees with secondary vocational or general education increased a little. The number of employees with university education and specialization increased by almost 1%, and the percentage of employees with a Master's Degree or Ph.D. increased by 0.11%.



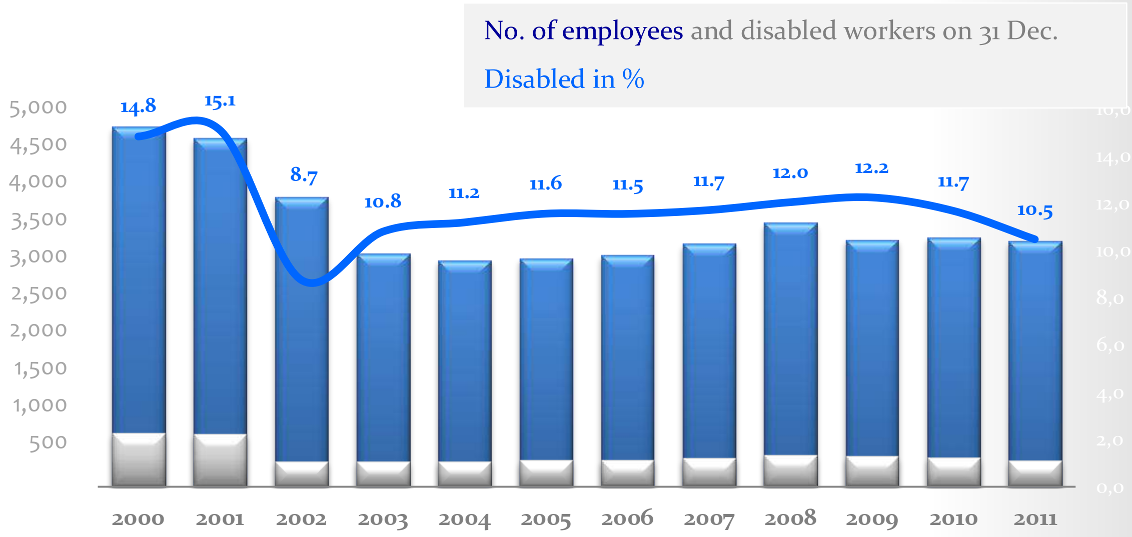


3.1.3 Utilization of Working Hours and Sick Leave



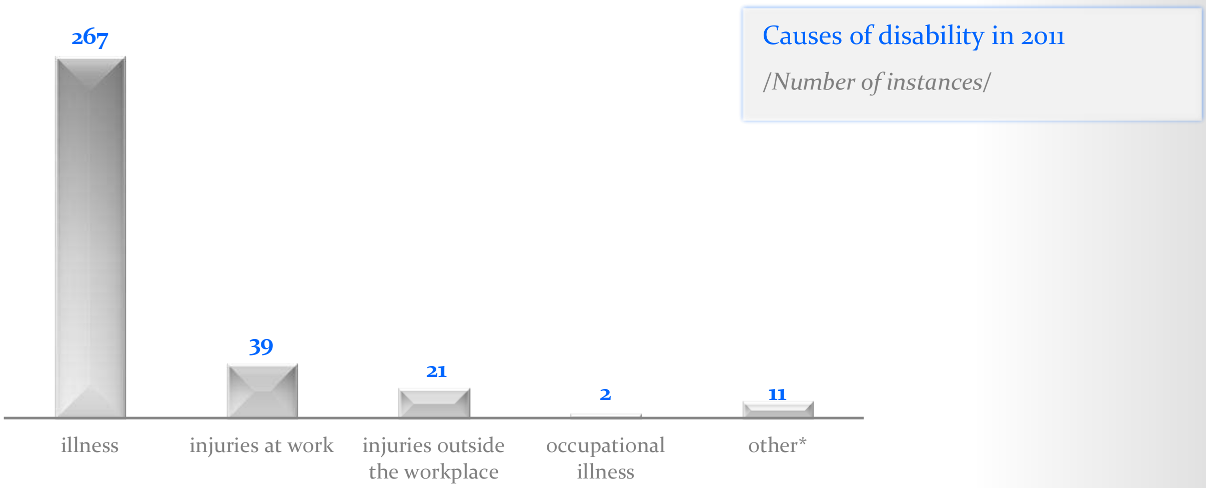
In 2011 sick leave in the SIJ Group accounted for 4.6% of total working hours. Compared to the previous year the proportion of absence decreased by 0.7%, and to the last four years by 1.3%. Out of a 4.6% share of sickness absence the country paid 1.6% and the company paid 3%. Of total sickness absence charged to the company, 73.5% was due to illness, 12.8% due to injuries both at work and outside the workplace, and 0.9% to other causes. In 2011, compared to the previous year, the proportion of absence due to illness increased by 4.9%, and the proportion of injuries outside the workplace decreased by 6%, while the proportion of injuries at work remained at a similar level.

3.1.4 Disabled workers



At the end of 2011, 340 employees had the disabled status, which is 11.7% or 45 employees less than the previous year. Retirement represents 55% of the staff turnover, and the completion of short-term contracts and termination of employment contracts for personal reasons represent the remaining share. 25 workers obtained a disability status in 2011.

The proportion of disabled people in the total number of employees has decreased by 1.6% in the last four years. Acroni particularly has reduced the numbers of disabled workers, as its share of disabled people decreased by 36.2% in comparison with the previous year. This lower proportion is the result of transferring disabled workers within the SIJ Group to SUZ, the company for the disabled, and of their retirement.



** other = on the basis of ZZRZI, ZUZI, Act on education and training of mentally and physically challenged children*

The causes of disability in our employees did not significantly differ in 2011 from that in previous years. The largest proportion, as much as 78.5%, is due to illness, 11.5% due to injuries at work, 6.2% due to injuries outside the workplace, 0.6% due to occupational disease, and 3.2% have a legally approved status according to ZZRZI[3], ZUZIO[4] and the Act on the Education and Training of Mentally and Physically Challenged Children. The number of those disabled due to illness decreased by 1 percentage point, as did the number of those disabled following injuries at work, and the number of those disabled due to occupational diseases decreased by 0.2 percentage points. The number of those disabled due to injuries outside the workplace increased by 0.7 percentage points, while the proportion of employees with a legally approved disability status increased by 1.4 percentage points.

3.1.5 Voluntary Pension Insurance

Voluntary pension insurance for our employees has been a key component of the SIJ Group's payment policy for several years. In 2011, nine years had passed since our largest company, Acroni, and some other companies started a program of voluntary pension insurance for their employees. In most companies, the payments of the employer and the employees that decided to join the retirement plan of Pokojninska družba A are guaranteed.

In compliance with Slovenian legislation 9 companies of the Group are included in the system of voluntary pension insurance. In 2010 the total amount of the premiums paid by the companies was EUR 1,583,305, with an average of 2,624 employees included. In 2011 the total amount of premiums paid by the companies was EUR 1,493,286, with an average of 2,569 employees included. The average premium paid per employee in 2011 amounted to EUR 835.

Collective voluntary pension insurance is the most favourable long-term saving for retirement due to the tax relief and guaranteed yield. The country offers tax relief for paid premiums up to 5,844% of the gross salary of an employee, or up to the annual premium in nominal amount, which is defined every year in compliance with the Rules on Determining Tax Relief and Scale for Personal Income Tax Assessment. From the very beginning the paid premiums are the property of an insured worker and are collected on his personal account at the guarantee fund, managed by the provider of the voluntary pension insurance. How high the amount of supplementary pension is depends on the amount of saved funds, retirement age and gender of the insured person. If an insured person's dies before retirement the total funds are part of his or her inheritance.

3.1.6 Awards and Motivation

Human resource management in the SIJ Group follows a well-planned employment policy. The system of awards and motivation, education and comprehensive development of employees enables us to annually

[3] *Vocational Rehabilitation and Employment of People with Disabilities Act (ZZRZI)*
[4] *Act on Training and Employment of Disabled Persons (ZUZIO)*

improve our employees' qualifications for the work they are performing and to promote them to new, more demanding work positions.

Most of the Group's wages are calculated with a fixed and a variable portion. For employees in production a system of measurable criteria was established, which calculates the variable portion based on the criteria met. The wages of employees with individual contracts are also calculated with a fixed and a variable portion; the variable portion depends on the agreed measurable criteria or goals which the employee has to meet monthly.

As part of the annual awards, a Christmas bonus has been given to employees for some years, which depends on the operating results achieved by individual companies during that year.

Employees are additionally motivated and rewarded through the system of idea management, where each employee has the opportunity to suggest and implement improvements in the company. Useful suggestions and ideas are also rewarded.

Employees also have the opportunity of free or subsidized use of sports facilities and participation in sports activities, as well as opportunities for cultural activities.

The SIJ Group has established a system of annual appraisals with employees in order to encourage their development and improve work conditions within the company or the working environment of employees.

3.1.7 Education and Training

In 2011 we allocated in total EUR 751,823 for education and training, which is 24.3% more than in 2010. We strive to have appropriately qualified, expert, creative, motivated, gifted employees who are prepared to take on new challenges, because this is the only way we can be successful on the most demanding global markets.

Education and training consist of function-specific education, in-service training, part-time study, scholarships and system of practice and mentoring.

Function-Specific Education, In-service Training

Function-specific education and training is carried out in all companies of the SIJ Group. In 2011 we allocated EUR 346,522 for this cause, which is twice as much as in 2010. Function-specific education includes content to provide greater expertise to individuals, broader knowledge of changes in legislation, training of employees at their work place in line with legally binding legislation and improving skills in new, technologically advanced methods. As part of this education we also organize in-service training, for which we earmarked EUR 18,703 in 2011, representing 46.8% more funds than in 2010. The main purpose of in-service training is the transfer of knowledge gained within the work process or sharing expert and practical knowledge in a sense of cooperation between employees.

Part-Time Study

Part-time study is mostly practised in the areas of mechanical engineering, metallurgy, electrical engineering, economics, management and information technology. In 2011 we allocated EUR 184,909 for part-time study, which is 4% less than the previous year. 255 employees studied part-time, which means 16 less than in 2010.

Scholarships

The Group is trying to lower the risks associated with shortages of professional workers, especially in the field of metallurgy, mechanical engineering and electrical engineering. For this reason different measures were introduced to motivate students in secondary school and university to choose occupations where there is a shortfall – measures include the presentation of our companies and occupations, as well as scholarships. In 2011 we allocated EUR 153,650 for scholarships, which is 21% less than the previous year. We have 104 scholarship holders in the Group, which is 18 less than in the previous year. The scholarship system focuses mainly on the study of metallurgy, mechanical engineering, mechatronics and electrical engineering.

Practice and Mentoring

One of the ways to present the activities of the SIJ Group to students is to enable them to do their work experience training in our companies and offer them mentoring for various natural science and sociological professions. For this purpose we allocated EUR 48,039 in 2011, which is 32% more than the previous year. 131 students from secondary schools and university did their work experience in our companies, which is 35 more than in 2010. Students from secondary school and university who did their work experience with us were also included in the formal study of metallurgy, mechanical engineering, mechatronics, computer science and metal forming.

3.1.8 Occupational Health and Safety

3.1.8.1 Employee Training

In line with legislation the companies perform periodical training of employees and check that they are well-trained in occupational health and safety. This also includes occupational health and safety training for new employees, when an employee is transferred to a different position, and when introducing employees into work with new technologies.

3.1.8.2 Work-Related Injuries

In 2011 the Group recorded 222 work-related injuries, which is an 8.3% share of the total sickness absence.

3.1.8.3 Standards

In order to ensure and control the occupational health and safety of their employees, the companies operate in line with these obtained quality management, environmental management, occupational health and safety, and energy management standards:

- ISO 9001 standard: Quality Management System
- ISO 14001 standard: Environmental Management System
- ISO standard OHSAS 18001: Occupational Health and Safety System
- EN 16001 certificate: Energy Management System

Our companies have obtained the following certificates:

	ISO 9001	ISO 14001	OHSAS 18001	EN 16001
ACRONI	√	√	√	√
METAL	√	√	√	
NOŽI	√			
ELEKTRODE	√			
SUZ	√			
ZIP	√	√		
SERPA	√			

3.2 RELATIONSHIP WITH BUSINESS PARTNERS

3.2.1 Relationship With Customers and Users of Our Products

Customer relationship management is one of the most important business factors for the Group. The competition in markets is growing, and customers are becoming better and better informed; they adapt quickly to the changed market situation and are becoming less loyal. This is why a joint, strategically managed sales department is extremely important.

We are trying to respond to market changes with efficient marketing and to adapt our product range to the needs, desires and objectives of our customers. We consistently consider the needs of our customers and manufacture products with the desired characteristics: environmentally friendly products with a long useful life and optimum costs of maintenance and repair.

We mainly manufacture products for customers that are already known to us, so being aware of their special requirements enables us to provide a more efficient sales service, to adjust to market trends faster, and to increase their satisfaction while retaining their loyalty. We regularly contact our customers and develop a relationship of full cooperation, respect and trust.

In 2011, like every year, we conducted individual research and customer satisfaction analyses, monitoring the results. We are aware that our success depends on their help and support. We have participated in several fairs, and Acroni organized the second marketing conference for sales representatives and service centres, while Metal Ravne organized the traditional marketing conference.

3.2.2 Relationship with Suppliers

The stabilization of the raw materials market and recovering economy, especially on the Asian market, once again shows the importance of long-term cooperation with our suppliers, who are known for their reliable supply tailored to the specific needs of a niche manufacturer of special steel, and who are globally competitive in a demanding market situation.

In accordance with our long-term goals we have maintained a high percentage of scrap steel supply on the domestic market. In the second half of the year we were able to fulfil some short-term needs with spot purchases at attractive prices, and achieved a stable supply by cooperating with strategic suppliers. We continued to minimize our inventories and paid special attention to maintaining the ratio between receivables and liabilities, achieving our set goals. Recovery and economic growth continued throughout the year, so we can be somewhat optimistic regarding the predictions for 2012.

In our relationship with suppliers we make sure that we respect good business practices, based on formal behaviour, loyalty, precision and the safety of business secrets, that we respect agreements, and that all our employees who are directly or indirectly involved in making and executing business deals respect moral and ethical principles.

Good connections, excellent business relationships, loyalty and long-term partnerships are necessary for a prompt and flexible response to the market situation. Our main suppliers are informed about our long-term plans, since this is the only way we can plan the necessary activities in time.

We meet our customers at the annual marketing conferences

We meet our suppliers and customers at openings of our larger investments

3.3 RELATIONSHIP WITH THE ENVIRONMENT IN WHICH WE OPERATE

3.3.1 Relationship With the Natural Environment

Taking care of a safe and healthy living environment is a fundamental condition for developing our activities. Environmental protection is one of the basic rights, obligations and responsibilities of all our employees and is treated as an integral part of the Group's management policy. Our activities are focused on minimizing the negative effects of our operations on the natural environment and active involvement in the improvement of the environment, which is achieved by minimizing the consumption of all kinds of natural and non-renewable sources, reducing all types of waste and environmental emissions, guaranteeing the reuse or recycling of waste materials and a well-ordered internal and external environment. By educating our employees about responsible behaviour towards the natural environment we are raising the awareness of all employees in the SIJ Group about the environment in which we live and work.

The increasing requirements of standards and environmental legislation influence the rules and conditions of behaviour, which we successfully implement. Special attention is given to the continuous reduction of emissions into the environment, to waste water, and to the reduction of air pollution, noise and waste. According to the IPPC directive all companies that can cause significant environmental damage need to obtain an environmental protection permit. Both our steel companies obtained this permit in 2010.

3.3.2 Relationship With the Social Environment

The SIJ Group is a socially responsible group that is willing to help in all the local communities where the companies of the Group operate. We are striving to improve the quality of life of our employees, their families, and the environment in which we work. We therefore cooperate with other companies, organizations, institutions and local inhabitants. We settle any conflicts that arise as a consequence of the operation of individual companies in the local area, and which affect the inhabitants and organizations in the immediate environment, in a timely manner.

The economic crisis has resulted in a slight reduction of financial assets allocated for donations and sponsorship, but nevertheless Acroni has remained a sponsor of the ACRONI Jesenice Hockey Club, and we also sponsored (or donated assets) to alpine skiing, volleyball and swimming in Ravne na Koroškem, and helped with the organization of the steelworkers' hike etc. Altogether the Group spent EUR 386.4 thousand of assets in 2011.

Our cooperation with local communities and various interest groups is reflected in several activities: from organized visits to our production facilities for students from primary school, secondary school and university, to cooperation with organizing different social and cultural events, etc.

With model cooperation with local communities our companies become part of the environment in which they operate, and at the same time promote and strengthen loyalty.

3.4 COMMUNICATION WITH PARTICIPANTS

3.4.1 Communication with Owners

We communicate with the owners daily through an established system of reporting, several times per year at the meetings of the Supervisory Board, and at least once a year at the General Assembly of the shareholders. Communication is made by the Board of Directors of the controlling company, and the Economics and Finance Department, which is the central point for collecting and processing information.

Besides daily and monthly reports, one of the most important areas is also mid- and long-term planning.

3.4.2 Communication with Banks

The Group cooperates with several banks, both domestic and foreign. Communication is made through the controlling company's Finance Department, which gives the bank all the necessary data that is needed for regular and up-to-date monitoring of our operations and planned investments, as well as operations planned in the future. This enables them to quickly decide how to proceed with our credit applications.

3.4.3 Communication with Customers

To communicate with our customers efficiently we have introduced different ways of communication through various media.

We have set up websites (www.sij.si) where customers can find basic information on our individual companies, their products, and their application and order possibilities.

Despite the possibilities that electronic media offer, we are aware that personal contact remains the most important. Besides regular visits, which provide a direct exchange of information, opinion, experience and requirements, we present ourselves to a larger number of existing and potential customers at different theme fairs.

We are always available for professional consultation and do our best to provide answers in the shortest possible time.

The best way to communicate with our customers are our products and services; whether they fulfil customers' requirements and whether customers are satisfied with our pre- and post-sales approach and service.

3.4.4 Communication with Employees

Employees are of key importance for the successful operation of each individual company.

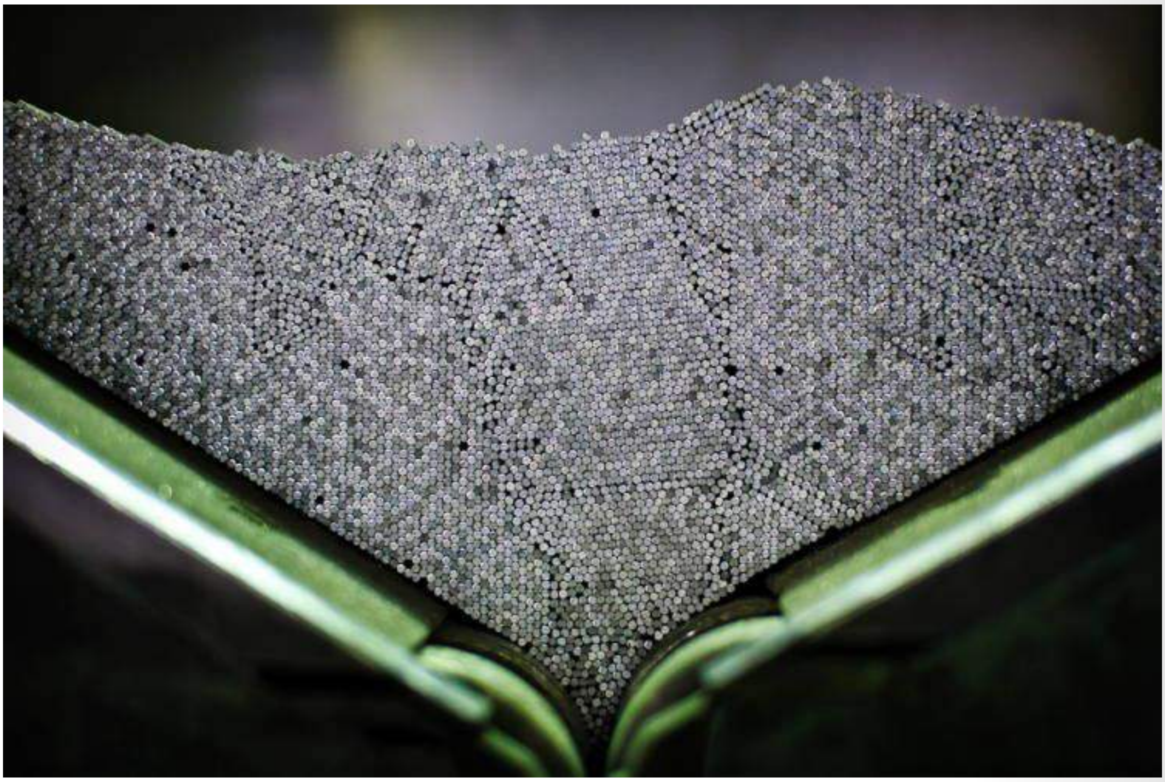
We have established a communication system through which we provide necessary information to our employees. The tools used in internal communication are: noticeboards, info points, the internal newspaper, the intranet and meetings.

Each month every employee receives the internal newspaper SIJ. In the newspaper we present the important events and achievements of individual companies, especially new innovations in work technology, investments, human resources and other business areas. At the same time we present our wider group, or important events within this wider group, managed by IMH (Industrial Metallurgical Holding). Some topics are dedicated to social events; we organize group travels around the world, hiking in our mountains and other sports activities. We have always encouraged our employees to actively contribute to the SIJ newspaper and, judging by their numerous articles and valuable initiatives, we can say that SIJ is definitely "our" newspaper, providing information and motivation for our employees.

Our internal newspaper also has an important role in the general communication sense, since it is used by the management of the Group and companies to provide important information to employees and the general public, i.e. our business partners, the local community and other important participants.

3.5 COMMUNICATION WITH MEDIA

Our target group, employees, customers, owners, investors, suppliers and local communities, also find information in the media, which is therefore an important factor in winning trust, reputation and better recognition of the Group. In order to form a long-term and productive relationship with the media we organize press conferences, press releases, information publications, posts on websites, other events and informal meetings. We always do our best to respond as quickly as possible and provide complete information. Communication with the media is made through the Public Relations Department of SIJ, d. d.



4 FINANCIAL REPORT

Slovenska industrija jekla

4.1 STATEMENT ON THE RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for drawing up consolidated financial statements for each individual financial year according to the International Financial Reporting Standards (IFRS) adopted by the European Union and the Companies Act, so that they give a true and fair view of the SIJ Group's operations.

The Board of Directors legitimately expects the Group to have enough resources in the foreseeable future to enable it to continue its operations. The consolidated financial statements are therefore based on the premise that the Group will continue its operations without a set time limit.

The responsibility of the Board of Directors in drawing up the consolidated financial statements includes the following:

- Properly selected and consistently applied accounting policies;
- Reasonable and rational assessments and estimates;
- The consolidated financial statements have been compiled in accordance with the IFRS adopted by the European Union. Any significant deviations are disclosed and explained in the report.

The Board of Directors is responsible for keeping corresponding records, which give a clear and accurate picture of the Group's financial position at any given time, and for making sure that the consolidated financial statements of the Group are in accordance with the IFRS, adopted by the European Union. The Board of Directors is also responsible for protecting the Group's assets, as well as discovering and preventing abuses and other irregularities.

The Board of Directors declares that the consolidated financial statements have been compiled in accordance with the IFRS, without reservations about their application.

The Board of Directors approved the consolidated financial statements on 22 March 2012.

President of the Board of Directors

Tibor Šimonka

Vice-President of the Board of Directors

Viacheslav Korchagin

4.2 CONSOLIDATED FINANCIAL STATEMENTS

4.2.1 Consolidated Statement of Financial Position

	Note	31 Dec. 2011	31 Dec. 2010
ASSETS			
Non-current assets		**403,682,707**	**382,888,912**
Intangible assets	4.3.7.1	17,757,457	17,832,081
Property, plant and equipment	4.3.7.2	372,797,060	350,397,085
Investment property	4.3.7.3	83,628	284,524
Investments in associates	4.3.7.4	301,260	-
Available-for-sale financial assets	4.3.7.5	651,412	855,805
Loans issued	4.3.7.6	143,461	2,434,961
Other assets	4.3.7.7	4,291,613	554,206
Deferred tax assets	4.3.7.8	7,656,816	10,530,250
Current assets		**358,249,407**	**356,865,274**
(Group's) assets classified as held for sale	4.3.7.9	4,331,037	4,553,811
Inventories	4.3.7.10	161,511,027	157,217,991
Financial assets at fair value through profit or loss	4.3.7.11	64,375	72,494
Loans issued	4.3.7.12	9,728,482	10,569,867
Operating receivables	4.3.7.13	156,104,915	160,503,563
Income tax assets	4.3.7.14	190,640	118,572
Cash and cash equivalents	4.3.7.15	24,844,734	22,227,460
Other assets	4.3.7.16	1,474,197	1,601,516
Total assets		**761,932,114**	**739,754,186**
EQUITY AND LIABILITIES			
Equity	4.3.7.17	**331,297,201**	**314,276,543**
Capital and reserves attributed to the owners of the parent company		**327,450,310**	**310,241,643**
Share capital		145,266,066	145,266,066
Capital surplus		11,461,176	11,461,177
Revenue reserves		(1,493,356)	(1,504,366)
Fair value reserves		(105,572)	57,734
Translation differences		(50,648)	(83,269)
Retained earnings		172,372,644	155,044,301
Non-controlling interest		**3,846,891**	**4,034,900**

	Note	31 Dec. 2011	31 Dec. 2010
Non-current liabilities		**120,824,044**	**156,085,712**
Retirement benefit obligations	4.3.7.18	11,314,713	11,364,789
Other provisions	4.3.7.19	2,536,961	4,487,290
Deferred revenues	4.3.7.20	622,189	536,492
Borrowings	4.3.7.21	97,535,025	120,504,818
Other financial liabilities	4.3.7.22	8,655,026	12,085,011
Operating liabilities	4.3.7.23	126,682	6,666,364
Deferred tax liabilities	4.3.7.8	33,448	440,948
Current liabilities		**309,810,869**	**269,391,931**
Borrowings	4.3.7.24	134,257,451	122,024,582
Other financial liabilities	4.3.7.25	4,775,292	5,062,116
Operating liabilities	4.3.7.26	165,006,399	135,920,355
Income tax liabilities	4.3.7.14	889,118	554,343
Other liabilities	4.3.7.27	4,882,609	5,830,535
Total equity and liabilities		**761,932,114**	**739,754,186**

The notes to the consolidated financial statements are an integral part of the consolidated financial statements and should be read in conjunction with them.

4.2.2 Consolidated Statement of Comprehensive Income

	Note	2011	2010
Revenues	4.3.7.28	764,977,836	590,916,742
Cost of sales	4.3.7.29	(635,183,843)	(508,559,351)
Gross profit		**129,793,993**	**82,357,391**
Distribution costs	4.3.7.29	(51,017,253)	(34,464,068)
General and administrative expenses	4.3.7.29	(51,075,484)	(44,548,529)
Other operating income	4.3.7.30	9,162,889	8,878,189
Other operating expenses	4.3.7.31	(4,699,595)	(1,595,211)
Operating profit		**32,164,550**	**10,627,772**
Finance income	4.3.7.32	1,459,359	2,802,124
Finance expenses	4.3.7.33	(12,094,425)	(8,987,369)
Finance costs - net		**(10,635,066)**	**(6,185,245)**
Share in loss of associates		1,860	-
Profit before tax		**21,531,344**	**4,442,527**
Income tax	4.3.7.34	(1,676,189)	(1,024,850)
Deferred tax	4.3.7.34	(2,526,884)	247,600
Operating profit from continuing operations		**17,328,271**	**3,665,277**
Loss from discontinued operations		(200,741)	-
Net profit for the year		**17,127,530**	**3,665,277**
Change in fair value reserves for available-for-sale financial assets	4.2.3	(204,133)	(210,863)
Exchange rate difference on translating foreign operations	4.2.3	24,750	55,614
Income tax related to components of comprehensive income	4.2.3	40,827	46,670
Other changes in comprehensive income	4.2.3	-	(22,488)
Comprehensive income		**16,988,974**	**3,534,210**

The notes to the consolidated financial statements are an integral part of the consolidated financial statements and should be read in conjunction with them.

	Note	2011	2010
Net profit or loss, attributed to		**17,127,529**	**3,665,277**
Owners of the parent company	4.2.3	17,344,572	3,700,098
Non-controlling interest	4.2.3	(217,043)	(34,821)

	Note	2011	2010
Comprehensive income, attributed to		**16,988,974**	**3,534,210**
Owners of the parent company	4.2.3	17,213,887	3,573,279
Non-controlling interest	4.2.3	(224,913)	(39,069)

	Note	2011	2010
Profit per share, attributed to the owners of the parent company			
Basic and diluted	4.3.7.35	17.58	3.75

4.2.3 Consolidated Statement of Changes in Equity

4.2.3.1 Consolidated Statement of Changes in Equity in 2011

	Capital of the owners of the parent company							Non-controlling interest	Total
	Share capital	Capital surplus	Revenue reserves	Fair value reserves	Translation differences	Retained earnings	Total		
Balance on 31 Dec. 2010	**145,266,066**	**11,461,177**	**(1,504,366)**	**57,734**	**(83,269)**	**155,044,301**	**310,241,643**	**4,034,900**	**314,276,543**
Purchase of additional minority share	-	-	-	-	-	-	-	(6,000)	**(6,000)**
Covering of loss	-	-	-	-	-	-	-	37,686	**37,686**
Transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**31,686**	**31,686**
Net profit or loss for the year	-	-	-	-	-	17,344,572	**17,344,572**	(217,043)	**17,127,529**
Change in fair value reserves due to available-for-sale financial assets	-	-	-	(204,133)	-	-	**(204,133)**	-	**(204,133)**
Exchange rate difference on translating foreign operations	-	-	-	-	32,621	-	**32,621**	(7,871)	**24,750**
Income tax relating to components of the comprehensive income	-	-	-	40,827	-	-	**40,827**	-	**40,827**
Changes in comprehensive income	**-**	**-**	**-**	**(163,306)**	**32,621**	**17,344,572**	**17,213,887**	**(224,914)**	**16,988,973**
Formation of legal reserves	-	-	11,010	-	-	(11,010)	-	-	-
Other changes	-	-	-	-	-	(5,219)	**(5,219)**	5,219	-
Changes in equity	**-**	**-**	**11,010**	**-**	**-**	**(16,229)**	**(5,219)**	**5,219**	**-**
Balance on 31 Dec. 2011	145,266,066	11,461,177	(1,493,356)	(105,572)	(50,648)	172,372,644	327,450,311	3,846,891	331,297,202

4.2.3.2 Consolidated Statement of Changes in Equity in 2010

	Capital of the owners of the parent company								
	Share capital	**Capital surplus**	**Revenue reserves**	**Fair value reserves**	**Translation differences**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total**
Balance on 31 Dec. 2009	145,266,066	11,461,177	(2,005,997)	244,415	(142,031)	151,844,731	306,668,361	2,034,475	308,702,836
Purchase of subsidiaries	-	-	-	-	-	-	-	2,039,494	2,039,494
Transactions with owners	-	-	-	-	-	-	-	2,039,494	2,039,494
Net profit or loss for the year	-	-	-	-	-	3,700,098	3,700,098	(34,821)	3,665,277
Change in fair value reserves due to available-for-sale financial assets	-	-	-	(210,863)	-	-	(210,863)	-	(210,863)
Exchange rate difference on translating foreign operations	-	-	-	-	59,863	-	59,863	(4,249)	55,614
Income tax relating to components of the comprehensive income	-	-	-	46,670	-	-	46,670	-	46,670
Other changes in comprehensive income	-	-	-	(22,488)	-	-	(22,488)	-	(22,488)
Changes in comprehensive income	-	-	-	(186,681)	59,863	3,700,098	3,573,279	(39,069)	3,534,210
Formation of legal reserves	-	-	501,631	-	-	(501,631)	-	-	-
Other changes	-	-	-	-	(1,101)	1,101	-	-	
Changes in equity	-	-	501,631	-	(1,101)	(500,530)	-	-	-
Balance on 31 Dec. 2010	145,266,066	11,461,177	(1,504,366)	57,734	(83,269)	155,044,301	310,241,643	4,034,900	314,276,543

The notes to the consolidated financial statements are an integral part of the consolidated financial statements and should be read in conjunction with them.

4.2.4 Consolidated Cash Flow Statement

	Note	2011	2010
Cash flow from operating activities			
Profit before tax		**21,531,344**	**4,442,527**
Adjusted for:			
Amortisation of intangible assets and depreciation of property, plant and equipment	4.3.7.1 4.3.7.2	32,029,018	29,891,453
Share in loss of associates		(1,860)	-
Interest income	4.3.7.32	(1,302,259)	(2,714,468)
Interest expenses	4.3.7.33	11,253,683	8,725,700
Exchange rate differences, net		65,557	50,766
Profit/loss from sales of financial assets	4.3.7.5	365,292	(1,291)
Impairment of assets		1,960,395	212,273
Reversal of allowances and provisions		(1,104,607)	(1,207,782)
Other adjustments		(2,770,652)	(2,334,783)
Operating cash flow before working capital changes		***62,025,911***	***37,064,395***
Changes in working capital			
Change in operating receivables		(1,759,861)	(44,151,875)
Change in inventories		(6,215,088)	(42,762,824)
Change in operating liabilities		28,363,022	38,396,695
Change in taxes other than income tax		128,597	519,156
Payments for disposal of provisions		(1,796,955)	(140,574)
Receipts due to government grant		483,866	986,629
Income tax payments/receipts		(1,414,773)	3,222,992
Other direct receipts	4.2.3	37,681	-
Changes in working capital		***17,826,489***	***(43,929,801)***
Net cash flow from operating activities		**79,852,400**	**(6,865,406)**
Cash flow from investment activities			
Payments for investments in subsidiaries		(2,205,999)	(10,335,661)
Payments for investments in associates		(299,400)	-
Payments for property, plant and equipment	4.3.7.2	(54,254,101)	(5,391,527)
Receipts from property, plant and equipment		1,013,227	318,037
Payments for intangible assets	4.3.7.1	(447,623)	(695,300)
Receipts from other assets		628,900	1,193,881
Payments for loans issued	4.3.7.6	(12,016,987)	(13,584,000)

	Note	2011	2010
Receipts from loans issued	4.3.7.12	15,425,872	37,377,133
Received interests	4.3.7.6 4.3.7.12	1,213,304	3,081,081
Received dividends		14,505	3,923
Net cash flow from investment activities		**(50,928,302)**	**11,967,567**
Cash flow from financing activities			
Receipts from borrowings	4.3.7.21 4.3.7.24	204,276,373	184,192,592
Payments for borrowings	4.3.7.21 4.3.7.24	(215,186,000)	(156,996,053)
Change in approved bank account overdrafts		22,179	(12,603,277)
Payments for finance lease	4.3.7.22 4.3.7.25	(4,047,651)	(4,584,697)
Interest paid		(11,381,315)	(8,528,531)
Net cash flow from financing activities		**(26,316,414)**	**1,480,033**
Cash and cash equivalents on 1 January		**22,227,460**	**15,814,460**
Translation differences		9,590	(169,194)
Increase		2,607,684	6,582,194
Cash and cash equivalents on 31 Dec.		**24,844,734**	**22,227,460**

The notes to the consolidated financial statements are an integral part of the consolidated financial statements and should be read in conjunction with them.

4.3 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.3.1 Reporting Entity

SIJ – Slovenska industrija jekla, d. d., is the controlling company of the SIJ Group with the registered office in Slovenia. The controlling company of the Group has a registered address on Gerbičeva ulica 98, 1000 Ljubljana. Given below are the consolidated financial statements for the year ending on 31 December 2011.

Consolidated financial statements for a smaller group of subsidiaries are compiled by SIJ – Slovenska industrija jekla, d. d. Consolidated financial statements for a wider group of subsidiaries are compiled by DILON Cooperatief U.A. The consolidated annual report for DILON Cooperatief group will be available at the headquarters of DILON Cooperatief U.A., Amsteldijk 166, 1079LH Amsterdam, the Netherlands.

4.3.2 Basis of Preparation

The consolidated financial statements for 2011 have been prepared in accordance with the IFRS as adopted by the European Union. The standards have been applied directly in disclosures and valuation of items. The exception was the valuation of items for which the standards allow several methods of valuation.

The consolidated financial statements in the report are expressed in euros (EUR), without cents. Due to the rounding off of value amounts, there may be insignificant deviations to the sums given in tables.

In the selection of accounting principles and their application, as well as in the preparation of these consolidated financial statements, the Board of Directors considered the following three requirements: financial statements are comprehensible, if users can understand them without difficulty; the information is adequate, if they help users make economic decisions; and the information is fundamental, if its exclusion or false presentation could influence users' economic decisions.

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

- Amendments to IAS 24 “Related Party Disclosures” – Simplification of requests for disclosure for companies related to the government and interpretation of the definition of the related party, adopted by the EU on 19 July 2010 (applies to annual periods beginning on or after 1 January 2011).
- Amendments to IAS 32 “Financial Instruments: Presentation” – Classification of Rights Issues, adopted by the EU on 23 December 2009 (applies to annual periods beginning on or after 1 February 2010).

- Amendments to IFRS 1 "First-Time Adoption of International Financial Reporting Standards" – Restricted exceptions of comparative disclosures according to IFRS 7 for users who apply IFRS for the first time, adopted by the EU on 30 June 2010 (applies to annual periods beginning on or after 1 July 2010).
- Amendments to different standards and interpretations "Improvements to IFRSs (2010)", arising from the annual project of improving IFRS, published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13), mainly with the purpose of dealing with non-conformities and definitions of texts, adopted by the EU on 18 February 2011 (most amendments need to be applied to annual periods beginning on or after 1 July 2010 or on 1 January 2011, depending on the standard/interpretation).
- Amendments to IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" – Advanced payments of requests for minimum funding, adopted by the EU on 19 July 2010 (applies to annual periods beginning on or after 1 January 2011).
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments", adopted by the EU on 23 July 2010 (applies to annual periods beginning on or after 1 July 2010).

The adoption of amendments to the existing standards did not in any way affect the accounting policies of the Group.

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

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

- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Transfers of Financial Assets, adopted by the EU on 22 November 2011 (applies to annual periods beginning on or after 1 July 2011).

The Group decided not to apply these standards, amendments and interpretations before their entry into force. The Group projects that the adoption of these standards, amendments and interpretations will not have a significant effect on the consolidated financial statement at their first application.

c) Standards and interpretations issued by IASB, but not yet adopted by the European Union

Currently there is no significant difference between the IFRS adopted by the European Union and the regulations adopted by IASB, with the exception of the following standards, amendments to the existing standards and interpretations, which had not yet been approved for use on 22 March 2011:

- IFRS 9 "Financial Instruments" (applies to annual periods beginning on or after 1 January 2015).

- IFRS 10 "Consolidated Financial Statements" (applies to annual periods beginning on or after 1 January 2013).
- IFRS 11 "Joint Arrangement" (applies to annual periods beginning on or after 1 January 2013).
- IFRS 12 "Disclosure of Interests in Other Entities" (applies to annual periods beginning on or after 1 January 2013).
- IFRS 13 "Fair Value Measurement" (applies to annual periods beginning on or after 1 January 2013).
- IAS 27 (amended in 2011) "Consolidated and Separate Financial Statements" (applies to annual periods beginning on or after 1 January 2013).
- IAS 28 (amended in 2011) "Investments in Associates" (applies to annual periods beginning on or after 1 January 2013).
- Amendments to IFRS 1 "First-Time Adoption of International Financial Reporting Standards" – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (applies to annual periods beginning on or after 1 July 2011).
- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Offsetting Financial Assets and Financial Liabilities (applies to annual periods beginning on or after 1 January 2013).
- Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" – Mandatory Effective Date of IFRS 9 and Transition Disclosures.
- Amendments to IAS 1 "Presentation of Financial Statements" – Presentation of Items of Other Comprehensive Income (applies to annual periods beginning on or after 1 July 2012).
- Amendments to IAS 12 "Income Taxes" – Deferred Tax: Recovery of Underlying Assets (applies to annual periods beginning on or after 1 January 2012).
- Amendments to IAS 19 "Employee Benefits" – Improved Accounting for Post-Employment Benefits (applies to annual periods beginning on or after 1 January 2013).
- Amendments to IAS 32 "Financial Instruments: Presentation" – Offsetting Financial Assets and Financial Liabilities (applies to annual periods beginning on or after 1 January 2014).
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (applies to annual periods beginning on or after 1 January 2013).

The Group projects that the adoption of these standards, amendments to the existing standards and interpretations will not have a significant effect on the consolidated financial statement at their first application. At the same time the accounting of hedging instrument in connection with the portfolio of financial assets and liabilities, the principles of which the European Union has not yet adopted, is still unregulated. The Group assesses that the use of accounting of hedging instrument in connection with financial assets and liabilities in accordance with the requirements of IAS 39: "Financial Instruments: Recognition and Measurement" would not have a significant influence on the consolidated financial statements, if it was used on the date of the statement of financial position.

4.3.3 Basis of Measurement

The consolidated financial statements have been prepared based on historical cost, except for the following assets and liabilities, measured at their fair value:

- derivative financial instruments,
- financial assets at fair value through profit or loss,
- available-for-sale financial assets.

4.3.4 Functional and Presentation Currency

The consolidated financial statements in this report are presented in euro (EUR) without cents; the euro is also the functional currency of the Group's controlling company, which compiles consolidated financial statements.

4.3.5 Application of Estimates and Judgments

The preparation of consolidated financial statements requires the Board of Directors to make estimates, judgments and assumptions that influence the disclosed amounts of assets and liabilities and the disclosed contingent assets and liabilities on the day of the preparation of the consolidated financial statements, as well as the disclosed amounts of income and expenses in the reporting period.

Estimates and assumptions are included in the following judgments at least:

- estimate of the useful life of assets subject to depreciation;
- impairment test of assets;
- estimate of the fair value of available-for-sale financial assets;
- estimate of the fair value of financial assets measured at fair value through profit or loss;
- estimate of the fair value of derivative financial instruments;
- estimate of the net realizable value of inventories;
- estimate of the recoverable value of receivables;
- estimate of the necessary provisions.

Since estimates are subject to subjective judgements and a level of uncertainty, the subsequent actual results can differ from those estimated. Estimates are reviewed on an on-going basis. Amendments to the accounting estimates are recognized during the period in which the estimates were revised, if the amendment only applies to this period, or during the period of the amendment and future periods, if the amendment applies to future periods.

4.3.6 Significant Accounting Policies

4.3.6.1 Composition of the Group of Related Parties

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

The group of companies, in which the parent company holds financial investments, includes the following companies:

	Activity	% of voting rights	Value of assets 31 Dec 2011	Value of equity 31 Dec 2011	Profit or loss in 2011
Parent company of the Group					
SIJ – Slovenska industrija jekla, d. d., Gerbičeva ulica 98, Ljubljana	Holding activity		206,827,771	167,570,074	220,175
SIJ – subsidiaries					
Acroni, d. o. o., Cesta Borisa Kidriča 44, Jesenice	Steel production	100	403,942,661	163,195,055	6,852,745
Metal Ravne, d. o. o., Koroška cesta 14, Ravne na Koroškem	Steel production	100	199,449,728	79,540,429	9,115,945
Noži Ravne d. o. o., Koroška cesta 14, Ravne na Koroškem	Production of industrial knives	100	16,918,504	11,409,019	1,004,659
Elektrode Jesenice, d. o. o., Cesta železarjev 8, Jesenice	Production of welding materials	100	12,351,760	5,297,356	60,741
SUZ, d. o. o., Cesta Borisa Kidriča 44, Jesenice	Production of drawn wires	100	3,519,346	814,358	212,018
ZIP Center, d. o. o., Koroška cesta 14, Ravne na Koroškem	Education and training of disabled	100	1,369,665	91,673	8,686
Železarna Jesenice, d. o. o., Cesta železarjev 8, Jesenice	Trading with own real estate	100	22,374,803	21,528,184	315,018
Žična Celje, d. o. o., Cesta v Trnovlje 7, Celje	Other business and management consulting	100	1,763,805	1,747,875	22,427
Odpad d. o. o. Pivka, Velika Pristava 23, Pivka	Recovery of secondary raw materials from scrap	74.90	20,554,129	6,182,306	302,134
NIRO Wenden GmbH, Glück-Auf-Weg 2, Wenden, Germany	Steel cutting, engineering and trade	85	8,383,477	2,099,907	559,243
SMG Edelstahl GmbH, Im Alber 4, Salach, Germany	Steel and machine trade	60	3,229,682	(2,259,366)	(381,971)
SIDERTOCE S.p.A., Via XX Settembre 198, C.P. 34, Gravellona Toce, Italy	Heat processing and special steel trade	100	15,257,819	2,455,163	44,549
Griffon & Romano Group, Via Tacito 8/10, Corsico, Italy	Heat processing and special steel trade	60	33,115,736	2,199,322	289,097
SIJ Obdelava jekla, d. o. o., Gerbičeva ulica 98, Ljubljana	Sales network management	100	42,246	(26,225)	(133,725)

	Activity	% of voting rights	Value of assets 31 Dec 2011	Value of equity 31 Dec 2011	Profit or loss in 2011
ACRONI – subsidiaries					
Acroni Italia S.r.l., Via San Michele 334, Gorica, Italy	Trade	100	2,684,757	1,463,103	711,168
Acroni Deutschland GmbH, Paulsmuhlenstrasse 42, Duesseldorf, Germany	Trade	100	634,983	412,165	91,096
METAL RAVNE – subsidiaries					
Iuenna Stahl Productions und Handelsgesellschaft m.b.H., Pliberk, Austria	Trade	100	2,451,755	1,027,244	20,996
KOPO International Inc., New Jersey, USA	Trade	100	13,727,729	1,134,512	92,502
Serpa d. o. o., Koroška cesta 14, Ravne na Koroškem	Production of metallurgic machines	85.61	6,675,628	3,645,537	269,653
Ravne Steel Center d. o. o., Litostrojska cesta 60, Ljubljana	Trade	100	14,659,430	3,755,657	975,409
ODPAD – subsidiary					
Dankor d. o. o., Europske avenije 22, Osijek, Croatia	Recovery of secondary raw materials from scrap	51	2,391,145	633,589	104,530

In 2011 the Group's parent company established a new subsidiary SIJ Obdelava jekla, d. o. o., for the management of sales network. Griffon & Romano Group has excluded its subsidiary from the group's consolidated financial statements in 2011 due to the beginning of the company's liquidation.

At the beginning of 2012 the liquidation process in the subsidiary Iuenna Stahl Productions und Handelsgesellschaft m.b.H. began. The company operated as a sales representative. All activities of the company will be transferred to the controlling company Metal Ravne, d. o. o.

The financial statements of the companies included in the consolidated financial statements are audited, except for the financial statements of Acroni Deutschland GmbH and Acroni Italia S.r.l. These two operate as agents and therefore (according to the local legislation) do not have to be audited. Also the newly founded company SIJ Obdelava jekla, d. o. o., is not audited.

4.3.6.2 Foreign Currency Conversion

Transactions in foreign currencies are translated into the functional currency at the exchange rate on the date of the transaction. Cash assets and liabilities denominated in foreign currency at the end of the period are translated into the functional currency at the then valid exchange rate. Positive or negative exchange rate differences are the differences between the amortised cost in functional currency at the beginning of the period, adjusted by the amount of effective interest rate and the payments during the period, and the amortised cost in foreign currency, calculated at the exchange rate at the end of the period. Non-cash assets and liabilities, denominated in foreign currency and measured at fair value, are translated to the functional currency at the exchange rate on the date when the fair value is set. Exchange rate differences are recognized in the income statement.

4.3.6.2.1 Companies of the Group

Income statements and cash flow statements of individual companies of the Group abroad, where the company's functional currency is not euro, are translated to the controlling company's reporting currency at the average exchange rate, whereas the statements of financial position are translated to the reporting currency at the exchange rate on 31 December. If the company abroad is sold, the exchange rate differences are recognized in the consolidated income statement as part of sales profit or loss.

4.3.6.3 Intangible Assets

At the initial recognition an intangible asset is recognised at cost. The cost also includes imported or non-refundable purchased receivables less business or other discounts, and all costs directly associated with the preparation of the asset for the intended use.

Amortisation is calculated on a straight-line basis over the estimated useful life of each individual part (component) of the intangible asset. Amortisation is accounted at cost when the asset becomes available for use.

The estimated useful life of individual intangible assets is 2–10 years.

Intangible assets with indefinite useful life are not amortised, they are impaired.

Amortisation methods, useful life and other group asset values are reviewed at the end of every financial year and adjusted if necessary.

Subsequent costs connected to intangible assets are capitalized only if they increase the future economic benefits derived from the assets to which the costs relate. All other costs are recognized in the income statement as expenses as soon as they are incurred.

Goodwill arising on consolidation represents the excess of the purchase value over the fair value of the group’s interest of the acquired identifiable assets, liabilities and contingent liabilities of a subsidiary on the date of acquisition. Negative goodwill is immediately recognized in the income statement at the date of acquisition. Goodwill is recognized as an asset and is tested at least once a year for impairment. Each impairment is immediately recognized in the income statement and is not reversed subsequently. Upon the disposal of subsidiary the relevant goodwill amount is included in the determination of profit or loss.

4.3.6.4 Property, Plant and Equipment

Tangible assets (property, plant and equipment) are carried at its cost less any accumulated depreciation and accumulated impairment losses, except for land and other assets that are not depreciated, which are shown at their cost, reduced by all relative impairments. The purchase value includes costs that can be directly attributed to the acquisition of each individual item of property, plant or equipment. Parts of property, plant and equipment with different useful lives are accounted as separate items of property, plant and equipment. Borrowing costs, directly attributable to the purchase, construction or production of a qualifying asset, i.e. to the availability of an asset for use, are recognized as part of the cost of such asset. The cost model is used for any subsequent measuring of property, plant and equipment.

Depreciation is calculated on a straight-line basis over the estimated useful life of each individual part (component) of the tangible asset and the residual value. Land and certain other assets are not depreciated. Depreciation is accounted when an asset becomes available for use. Unfinished construction is not depreciated.

The estimated useful life of individual property, plant and equipment type is:

	Useful life
Real estate	20–66 years
Production equipment	5–25 years
Computer equipment	1–6 years
Motor vehicles	3–8 years
Other equipment	1–15 years

Depreciation methods, useful life and other group asset values are reviewed at the end of every financial year and adjusted if necessary.

The replacement costs of items of property, plant and equipment are assigned to the carrying amount of this item, if it is probable that the future economic benefits embodied with this asset will flow to the company and the cost of the item can be measured reliably. All other costs (for example maintenance costs) are recognized in income statement as expenses as soon as they are incurred.

Costs incurred in connection with property, plant and equipment increase their carrying amount when they increase their future economic benefits in comparison to the originally assessed ones.

4.3.6.5 Investment Property

For recognition of investment property the cost model is applied. Subsequent to its recognition, it is recognised at cost less accumulated depreciation and accumulated impairment losses.

Depreciation rates and the depreciation calculation are treated the same as in the case of property, plant and equipment.

4.3.6.6 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 a significant influence on the operations, but which it does not control.

The equity method determines that the Group's share in profit/loss of the associate is recognized in the income statement.

4.3.6.7 Financial Instruments

- Financial instruments include the following items:
- non-derivative financial assets,
- non-derivative financial liabilities,
- derivative financial instruments.

Financial instruments are carried at fair value. Fair value is the amount for which an asset can be exchanged or the liability can be settled between two well-informed and willing parties in an arm's length business transaction.

For determining the fair value of financial instruments the following hierarchy levels of determining fair value are considered:

- the first level includes quoted prices (unadjusted) on active markets for the same assets or liabilities,
- the second level, in addition to the quoted prices at the first level, includes the input data which are directly (i.e. as prices) or indirectly (i.e. as derivatives from prices) observable as assets or liabilities,
- the third level includes input data for assets or liabilities which is not based on the observable market data.

Quoted prices are used as a basis for determining the fair value of financial instruments. If a financial instrument is not quoted on the organized market or the market is deemed non-active, input data at the second or third level are used to assess the fair value of the financial instrument.

4.3.6.7.1 Non-Derivative Financial Assets

Non-derivative financial assets include cash and cash equivalents, loans and receivables, and investments. The recognition of financial asset is eliminated when contractual rights of the cash flows from the asset expire, or when the rights of contractual cash flows are transferred from a financial asset on the basis of a business transaction in which all risks and benefits of ownership of the financial asset are transferred.

4.3.6.7.1.1 Financial Assets at Fair Value Through Profit or Loss

A financial asset is classified at fair value through profit or loss if it is meant for trading or is determined as such after the initial recognition. Financial assets are determined at fair value through profit or loss under the condition that such assets are manageable, and that the sale or purchase of these assets can be decided on the basis of fair value. After the initial recognition the pertained costs of the business transaction are recognized in profit or loss upon their occurrence. Financial assets at fair value through profit or loss are measured at fair value, whereas the amount of change in the fair value is recognized in the income statement. The trading value of a group of equal financial assets is determined by using the method of moving average prices.

4.3.6.7.1.2 Held-to-Maturity Financial Assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and certain maturity, which the Group undoubtedly plans and is capable of holding until maturity. Held-to-maturity financial assets are measured at amortised cost using the effective interest rate method.

4.3.6.7.1.3 Available-For-Sale Financial Assets

The available-for-sale financial assets are those non-derivative financial assets designated as available for sale or not included in the category of loans and receivables, or financial assets at fair value through profit or loss.

They are recognized at fair value if the fair value can be determined and profit or loss after the evaluation is recognized directly in the comprehensive income or equity. However, losses due to impairment, and profit and losses from the translation of exchange rate differences are excluded here. The recognition at fair value is applied until the recognition of the financial asset is reversed. In reversing an investment, the accumulated profits and losses shown in the comprehensive income are transferred to income statement.

If fair value cannot be reliably measured, because the wide range of estimates of reasonable fair values is important, and the probability of different estimates is hard to assess, the Group measures the financial asset at cost.

4.3.6.7.1.4 Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed on the active market. They are included in current assets, except for maturities exceeding 12 months after the date of the statement of financial position. In such cases they are classified as non-current assets. Loans and receivables are disclosed in the statement of financial position under operating, financial and other receivables measured at amortised cost using the method of effective interest rate.

4.3.6.7.1.5 Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, bank deposits up to three months, and other current and readily realizable investments with original maturity of three months or less. They are recognized at cost. Overdrafts on bank accounts are included under current financial liabilities.

4.3.6.7.2 Non-Derivative Financial Liabilities

The Group initially recognizes issued debt securities on the day they are settled (paid). All other financial liabilities are initially recognized on the trade date on which the Group becomes a contracting party in relation to the instrument. The Group derecognizes a financial liability when the contractual obligations are fulfilled, annulled or expired.

Financial liabilities include operating, financial and other liabilities. Financial liabilities are initially reported at fair value, increased by costs directly attributable to the business transaction. Subsequent to the initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method. Financial liabilities are part of non-current liabilities, except for liabilities or parts of liabilities with a maturity shorter than 12 months after the date of the statement of financial position. This type of liability is disclosed as part of current liabilities.

4.3.6.7.3 Derivative Financial Instruments

Derivative financial instruments are initially recognized at fair value; costs related to a business transaction are recognized in income statement when they are incurred. After the initial recognition the derivative financial instruments are measured at fair value.

4.3.6.8 Inventories

Inventories are measured at the lower of cost or net realizable value. The cost value consists of the purchase price, import duties and direct purchase costs. The purchase price is reduced by any discounts given. The direct purchase costs are transport costs, costs of loading, reloading and unloading, costs of monitoring goods, and other costs attributable to directly purchased merchandise, materials or services. Purchase discounts are those that are stated on the invoice, or which are given later and refer to individual purchases. The value of finished and unfinished products refers to all production costs, which include the costs of manufacturing materials, labour costs, depreciation, services and other production costs.

The inventories of materials and merchandise are valued at actual prices, while the inventories of finished and unfinished products are valued using the standard cost method with deviations to actual production prices. The use of inventories is stated at weighted average prices.

The net realizable value is estimated on the basis of the selling price in the ordinary course of business, less the estimated costs of completion and estimated distribution costs. Write-offs of damaged, expired and useless inventories are regularly performed during the year on individual items.

4.3.6.9 Assets Classified as Held for Sale

An asset or a group of assets, classified as held for sale, are those for which it can be legitimately assumed that their value will be settled by sale in the next 12 months rather than with further use.

An asset or a group of assets, classified as held for sale, are measured at their carrying amount or fair value, less the distribution costs, whichever is lower.

4.3.6.10 Impairment of Assets

4.3.6.10.1 Financial Assets

A financial asset is considered to be impaired if objective evidence exists which indicates that one or more events have caused a decrease in the estimated future cash flows from this asset, which can be reliably measured.

Objective evidence of the impairment of financial assets can include: debtor's non-fulfilment or violation; restructuring of the amount owed to the company if the company agrees; signs that the debtor will declare bankruptcy; disappearance of the active market for the instrument at hand.

4.3.6.10.1.1 Impairment of Receivables and Loans Issued

The Group assesses evidence regarding the impairment of receivables separately or collectively. All important receivables are measured separately for the purpose of special impairment. If it is assessed that the carrying amount of the receivables exceeds the fair value, i.e. the recoverable value, receivables are considered to be impaired.

Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. The Group creates groups on the basis of the maturity of receivables. In the evaluation of total impairment we use past trends in the probability of non-fulfilment, the reimbursement period, and the amount of incurred loss, which is revised for the Board of Directors' evaluation as to whether the actual losses due to current economic and credit conditions could be higher or lower than the losses foreseen in past trends.

The Group assesses the evidence of impairment for each important loan individually.

An impairment loss related to a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the expected future cash flows, discounted at an originally effective interest rate. The loss is recognized in the income statement.

4.3.6.10.1.2 Impairment of Available-For-Sale Financial Assets

Impairment loss of available-for-sale investment securities is recognized so that the potential accumulated loss, previously recognized in the comprehensive income of the period and included in the fair value reserve, is transferred into profit or loss. Any subsequent increase in the fair value of an impaired available-for-sale equity security is recognized in the comprehensive income for the period or in the fair value reserve.

4.3.6.10.2 Non-Financial Assets

At each reporting date, the Group review the carrying value of its important non-financial assets to determine whether there is an indication of impairments. If any such indication exists, the asset's recoverable value is estimated.

The recoverable value of an asset or cash-generating unit is the greater of their value in use or fair value, less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of cash and the risks specific to the asset. In order to test the impairment, the assets which cannot be tested individually are joined into the smallest possible group of assets, which create cash flows from further use and which are largely independent of the inflow of other assets or groups of assets (cash-generating unit).

The impairment of an asset or cash-generating unit is recognized if their carrying amount exceeds their recoverable value. The impairment is stated in the income statement.

The Group evaluates the impairment losses of previous periods at the end of the reporting period and thus determines whether the loss was reduced or even eliminated. An impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable value. An impairment loss is reversed only to such extent that the asset's carrying amount does not exceed the carrying amount that would have been determined after deducting the depreciation write-off, if no impairment loss had been recognized for the asset in previous years.

At least once a year, namely on the date of the drawing up of the financial statements, the Group evaluates the evidence on the impairment of inventories. The impairment of inventories is assessed for each individual type of inventory. Individual types of inventories are allocated to groups of inventories with similar characteristics on the basis of the time component of changes in inventories. The estimate of impairment for each individual group includes an expert assessment of the possibility of further use or sale.

4.3.6.11 Equity

4.3.6.11.1 Share Capital

Ordinary shares are classified as equity. Transaction costs directly linked to the issue of new shares, which is not related to an acquisition of a company, are presented as a decrease in equity. The equity of the controlling company is its liability to its owners, which falls due if the Group discontinues its operations, in which the equity volume is adjusted according to the currently attainable price of total assets. It is defined by the amounts invested by the owners, and the amounts that appeared during operation and belong to the owners. It is decreased by the loss from operations and payments to owners, and increased by the profit generated in the period.

4.3.6.11.2 Capital Surplus

Capital surplus consist of the amounts which the Group acquires from payments exceeding the lowest issue price per share that exceed the carrying amount upon the disposal of previously acquired own shares; the amounts on the basis of simplified decrease of share capital; and the amounts on the basis of reversal of general revaluation adjustment.

General revaluation adjustments for capital on 31 December 2002 included (according to the then applicable Slovenian Accounting Standards) a revalorization of the share capital before 2002. The adjustment due to the transition to the new Slovenian Accounting Standards was transferred to capital surplus. This amount can only be used for the increase of share capital.

4.3.6.11.3 Legal and Other Reserves

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

4.3.6.11.4 Treasury Shares

If the controlling company or its subsidiaries acquire an ownership interest, the paid amount including the transaction costs less tax is deducted from the total equity as treasury shares until such shares are withdrawn, reissued or sold.

4.3.6.11.5 Dividends

Until approved at the General Assembly of shareholders/partners, the planned dividends are treated as retained earnings.

4.3.6.12 Provisions

Provisions are recognized if the Group, due to a past event, had legal or indirect obligation which can be reliably measured, and if there is probablility that settling the obligation will require an outflow of resources, enabling economic benefits.

4.3.6.13 Retirement Benefit Obligations

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

The provisions are formed in the amount of estimated future payments for loyalty bonuses and severance pay, discounted at the end of the financial year. The calculation is made for individual employee and includes the costs of severance pay upon retirement and the costs of all expected loyalty bonuses up to retirement. The calculation is prepared by an actuary, selected at group level, on the basis of a projected unit.

4.3.6.14 Non-Current Deferred Revenues

Non-current deferred revenues are deferred revenues expected to cover the estimated expenses during a period exceeding one year.

4.3.6.15 Revenues

Sales revenues are recognized at fair value of received repayments or receivables in this matter, decreased by repayments, discounts, rebates for further sales and quantity discounts. Revenues are recognized when the buyer assumes all significant risks and benefits connected to the asset's ownership, and it is certain that compensation and related costs will be repaid or there is a possibility of returning products, and when the Group ceases to make decisions about sold products.

Finance income comprises income from interest, from the disposal of available-for-sale financial assets, positive exchange rate differences resulting from financing and investing, and profit from hedging instruments, recognized in the income statement.

4.3.6.16 Expenses

Expenses are recognized if a decrease in economic benefits during the reporting period is associated with a decrease in assets or an increase in debts, and if this decrease can be measured reliably. Operating expenses are recognized when the costs are no longer held in inventories, finished and unfinished products, or when goods are sold. The costs that cannot be held in inventories of finished and unfinished products are recognized as operating expenses when they appear.

Finance expenses include borrowing costs (if not capitalised), exchange rate losses resulting from financing and investing, changes in the fair value of financial assets at fair value through profit or loss, losses from the value impairment of financial assets, and losses from hedging instruments, recognized in the income statement. Borrowing costs are recognized in the income statement using the effective interest rate method.

4.3.6.17 Taxation

Taxes comprise current income tax liabilities and deferred tax. Current income tax is recognized in the income statement except to the extent that refers to business combinations or items shown directly in the comprehensive income.

Current income tax liabilities are based on the taxable profit for the financial year. Taxable profit differs from net profit, reported in the income statement, because it excludes the items of income or expenses that are taxable or deductible in other years, as well as items that are never taxable or deductible. The group's current income tax liability is calculated using tax rates applicable on the reporting date.

Deferred tax is shown in total by applying the method of obligations after the statement of financial position for temporary differences, arising from tax values of assets and liabilities and their carrying amounts in financial statements. Deferred income tax is calculated by using tax rates (and laws), applicable on the date of the statement of financial position, which are expected to be used when the deferred tax asset is realized or the deferred tax liability is recovered.

A deferred tax asset is recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilized.

A deferred tax liability is recognized for all taxable temporary differences, unless they come from initial goodwill recognition or the initial recognition of an asset or liability in a business transaction which is not a business combination, and which does not affect the accounting or taxable profits (tax loss) during the transaction.

4.3.6.18 Net Earnings per Share

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

4.3.6.19 Cash Flow Statement

The cash flow statement shows changes in the balance of cash and cash equivalents for the financial year concerned. The cash flow statement is compiled according to the indirect method.

4.3.6.20 Segment Reporting

In the Annual Report, the Group does not disclose operations by segments. Segment reporting in the Annual Report is required for companies or groups whose debt or equity securities are publicly traded, and companies or groups that are in the process of issuing equity or debt securities on a public securities market.

4.3.7 Notes to Individual Items in the Consolidated Financial Statements

4.3.7.1 *Intangible Assets*

4.3.7.1.1 Table of Movement of Intangible Assets in 2011

	Non-current property rights	Other	Goodwill	Assets under construction	Total
Cost on 31 Dec. 2010	**3,425,474**	**7,500**	**14,849,222**	**1,150,158**	**19,432,354**
New additions	-	-	-	447,623	447,623
Transfer from acquisition	347,710	-	-	(347,710)	-
Write-offs and disposals	(12,668)	-	-	-	(12,668)
Other changes	18,750	(7,500)	-	-	11,250
Disposal of subsidiary	(1,521)	-	-	-	(1,521)
Cost on 31 Dec. 2011	**3,777,745**	-	**14,849,222**	**1,250,071**	**19,877,038**
Accumulated amortisation on 31 Dec. 2010	**(1,599,549)**	**(724)**	-	-	**(1,600,273)**
Amortisation	(529,585)	-	-	-	(529,585)
Write-offs and disposals	12,668	-	-	-	12,668
Other changes	(4,305)	724	-	-	(3,581)
Disposal of subsidiary	1,190	-	-	-	1,190
Accumulated amortisation on 31 Dec. 2011	**(2,119,581)**	-	-	-	**(2,119,581)**
Present value on 31 Dec. 2010	**1,825,925**	**6,776**	**14,849,222**	**1,150,158**	**17,832,081**
Present value on 31 Dec. 2011	**1,658,164**	-	**14,849,222**	**1,250,071**	**17,757,457**

Intangible assets of the Group comprise computer and similar software and licences. The largest acquisitions in 2011 were purchases of new programs for monitoring production, which are still being tested. The disposal of intangible assets refers to licences which the Group ceased to use in 2011. Other changes refer to the transfer of assets from property, plant and equipment. The useful life of intangible assets is final, except for goodwill, which has an indefinite useful life.

Goodwill is a result of the purchases of subsidiaries and represents the excess of the purchase value over the fair value of the Group's interest in the acquired identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition. See 4.3.7.37.

On 31 December 2011 the goodwill was tested for potential impairment and the company determined no signs of impairment. Based on the test performed, the Board of Directors assesses that on 31 December 2011 the recoverable value of investments in interests of the companies in which the goodwill arose was higher of their purchase value at the time of business combination. Therefore impairment of goodwill which arose from business combinations is not necessary.

The recoverable value of investments which corresponds to the value of investments in use was assessed by the method of present value of the estimated cash flows. All assumptions used for calculating cash flow are based on past experience of companies' operations and reasonable expectations of future operations. The valuation model considers required income rates from 3.00 to 12.00 per cent and yearly growth rate of the free cash flow (residual) amounting to 2.00 per cent.

On 31 December 2011 the Group had EUR 14,577 of liabilities for purchase of intangible assets.

The intangible assets are not pledged as security for liabilities.

The Group reviewed the value of intangible assets, and established that the carrying amount does not exceed the recoverable amount.

4.3.7.1.2 Table of Movement of Intangible Assets in 2010

	Non-current property rights	Other	Goodwill	Assets under construction	Total
Cost on 31 Dec. 2009	**2,490,016**	**-**	**2,384,927**	**1,493,196**	**6,368,139**
Purchase of subsidiaries	524,700	7,500	12,464,295	17,834	13,014,329
New additions	-	-	-	695,300	695,300
Transfer from acquisition	525,854	-	-	(525,854)	-
Write-offs and disposals	(66,586)	-	-	-	(66,586)
Other changes	(48,510)	-	-	(530,318)	(578,828)
Cost on 31 Dec. 2010	**3,425,474**	**7,500**	**14,849,222**	**1,150,158**	**19,432,354**
Accumulated amortisation on 31 Dec. 2009	**(1,249,802)**	**-**	**-**	**-**	**(1,249,802)**
Amortisation	(426,302)	(724)	-	-	(427,026)
Write-offs and disposals	54,505	-	-	-	54,505
Other changes	22,050	-	-	-	22,050
Accumulated amortisation on 31 Dec. 2010	**(1,599,549)**	**(724)**	**-**	**-**	**(1,600,273)**
Present value on 31 Dec. 2009	**1,240,214**	**-**	**2,384,927**	**1,493,196**	**5,118,337**
Present value on 31 Dec. 2010	**1,825,925**	**6,776**	**14,849,222**	**1,150,158**	**17,832,081**

4.3.7.2 *Property, Plant and Equipment*

4.3.7.2.1 Table of Movement of Property, Plant and Equipment in 2011

	Land	Buildings	Equipment	Other	Assets under construction	Total
Cost on 31 Dec. 2010	**23,219,586**	**252,778,177**	**707,503,158**	**20,820,671**	**13,527,075**	**1,017,848,667**
New additions	-	-	-	-	54,806,826	54,806,826
Transfer from assets under construction	1,262,411	3,272,199	19,872,923	2,694,325	(27,101,858)	-
Write-offs and disposals	(155,643)	(1,469,810)	(7,339,646)	(1,363,595)	-	(10,328,694)
Translation differences	(16,224)	(9,446)	(11,705)	913	(784)	(37,246)
Other changes	-	(500)	(48,310)	(10,750)	-	(59,560)
Sale of subsidiary	-	-	(148,000)	-	-	(148,000)
Cost on 31 Dec. 2011	**24,310,130**	**254,570,620**	**719,828,420**	**22,141,564**	**41,231,259**	**1,062,081,993**
Accumulated depreciation on 31 Dec. 2010	**-**	**(163,595,253)**	**(487,578,070)**	**(16,278,259)**	**-**	**(667,451,582)**
Depreciation	-	(4,854,013)	(24,816,100)	(1,829,320)	-	(31,499,433)
Write-offs and disposals	-	1,434,562	7,135,175	1,074,015	-	9,643,752
Translation differences	-	1,199	3,605	(938)	-	3,866
Other changes	-	22	4,815	3,561	-	8,398
Sale of subsidiary	-	-	10,065	-	-	10,065
Accumulated depreciation on 31 Dec. 2011	**-**	**(167,013,483)**	**(505,240,510)**	**(17,030,941)**	**-**	**(689,284,934)**
Present value on 31 Dec. 2010	**23,219,586**	**89,182,924**	**219,925,088**	**4,542,412**	**13,527,075**	**350,397,085**
Present value on 31 Dec. 2011	**24,310,130**	**87,557,137**	**214,587,910**	**5,110,623**	**41,231,259**	**372,797,059**

Major new additions and finished investments in property, plant and equipment include:

- construction of horizontal heating equipment;
- construction of pickling bath nr. 3;
- installation of furnace nr. 3 on the Wellman line;
- dispatch warehouse for quarto plates;
- construction of device for electroslag remelting (ESR) III;
- modernization of the Alino furnace;
- purchase of equipment for laser-welded filled wires;
- purchase and renovation of buildings and land.

Assets under construction also include unfinished construction of a new rolling mill for rolling plates and the running upgrades of existing components of production capacities.

Disposals of property, plant and equipment mostly refer to the sales and write-offs of equipment, connected with the renovation of the grinding machine and ESR machine, and to write-offs of unusable and out-dated equipment.

Other changes refer to the transfer of assets to intangible assets and to reversal of incorrectly recognized property, plant and equipment.

Property, plant and equipment, whose present value on 31 December 2011 amounts to EUR 243,070,955, are pledged as security for liabilities. On 31 December 2011 the Group's unsettled liabilities for purchase of property, plant and equipment amounted to EUR 5,129,505 and its contractual liabilities for purchase of property, plant and equipment, which are to be realized in 2012, amounted to EUR 20,048,882. The present value of property, plant and equipment under finance lease is EUR 20,030,505.

The Group capitalized EUR 334,267 of borrowing costs, for which the interest rates were between 4.00 and 5.49 percent.

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

4.3.7.2.2 Table of Movement of Property, Plant and Equipment in 2010

	Land	Buildings	Equipment	Other	Assets under construction	Total
Cost on 31 Dec. 2009	**22,427,445**	**244,083,148**	**659,654,139**	**19,465,631**	**40,787,418**	**986,417,781**
Purchase of subsidiaries	779,000	4,755,177	9,500,044	857,977	310,007	16,202,205
New additions	-	-	-	-	21,562,015	21,562,015
Transfer from assets under construction	5,418	4,361,003	44,334,970	960,139	(49,661,530)	-
Write-offs and disposals	(16,981)	(465,172)	(5,981,209)	(464,853)	-	(6,928,214)
Translation differences	(9,028)	(4,489)	(4,786)	1,777	(1,153)	(17,679)
Other changes	33,731	48,510	-	-	530,318	612,559
Cost on 31 Dec. 2010	**23,219,586**	**252,778,177**	**707,503,158**	**20,820,671**	**13,527,075**	**1,017,848,667**
Accumulated depreciation on 31 Dec. 2009	**-**	**(159,967,675)**	**(469,270,709)**	**(15,408,726)**	**-**	**(644,647,110)**
Depreciation	-	(4,013,190)	(24,118,282)	(1,332,955)	-	(29,464,427)
Write-offs and disposals	-	407,274	5,809,549	464,852	-	6,681,675
Translation differences	-	390	1,372	(1,430)	-	332
Other changes	-	(22,052)	-	-	-	(22,052)
Accumulated depreciation on 31 Dec. 2010	**-**	**(163,595,253)**	**(487,578,070)**	**(16,278,259)**	**-**	**(667,451,582)**
Present value on 31 Dec. 2009	**22,427,445**	**84,115,473**	**190,383,430**	**4,056,905**	**40,787,418**	**341,770,671**
Present value on 31 Dec. 2010	**23,219,586**	**89,182,924**	**219,925,088**	**4,542,412**	**13,527,075**	**350,397,085**

4.3.7.3 *Investment Property*

4.3.7.3.1 Table of Movement of Investment Property in 2011

	Buildings	Total
Cost on 31 December 2010	**1,332,988**	**1,332,988**
Disposals	(986,012)	(986,012)
Cost on 31 December 2011	**346,976**	**346,976**
Accumulated depreciation on 31 December 2010	**(1,048,464)**	**(1,048,464)**
Depreciation	(9,793)	(9,793)
Disposals	794,909	794,909
Accumulated depreciation on 31 December 2011	**(263,348)**	**(263,348)**
Present value on 31 December 2010	**284,524**	**284,524**
Present value on 31 December 2011	**83,628**	**83,628**

In 2011 the Group generated EUR 9,793 of expenses and EUR 10,407 of income in investment properties. The Group sold its investment property, the building of Special Steel Mill, which generated profit in the amount of EUR 422,447.

The carrying amount of investment property does not exceed its realizable value.

Investment properties are:

- the Lubricant Storage Facility, the Input Storage Facility and the Narrow-gauge Truck Workshop in Jesenice covering in total 1,844 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 Zoisova ulica 3 in Celje, covering 48.15 m^2.

4.3.7.3.2 Table of Movement of Investment Property in 2010

	Buildings	Total
Cost on 31 December 2009	**1,350,926**	**1,350,926**
Other changes	(17,938)	(17,938)
Cost on 31 December 2010	**1,332,988**	**1,332,988**
Accumulated depreciation on 31 December 2009	**(1,033,034)**	**(1,033,034)**
Depreciation	(29,176)	(29,176)
Other changes	13,746	13,746
Accumulated depreciation on 31 December 2010	**(1,048,464)**	**(1,048,464)**
Present value on 31 December 2009	**317,892**	**317,892**
Present value on 31 December 2010	**284,524**	**284,524**

4.3.7.4 Investments in Associates

	31 Dec. 2011	31 Dec. 2010
Jesenice Development Centre	301,260	-
Investments in Associates	**301,260**	-

In 2011 the Group contributed share capital for the Jesenice Development Centre, Cesta Franceta Prešerna 61, 4270 Jesenice, which develops new materials and raw materials.

Investments in associates are valued on the basis of equity method. The equity method determines that the Group's share in profit/loss of the associate is recognized in the income statement.

4.3.7.5 Available-For-Sale Financial Assets

	31 Dec. 2011	31 Dec. 2010
Available-for-sale financial assets – at cost	367,361	367,618
Available-for-sale financial assets – at fair value	284,051	488,187
Available-for-sale financial assets	**651,412**	**855,805**

Available-for-sale financial assets, carried at cost, refer to shares and interests in companies that are not traded on the regulated market and whose fair value cannot be measured reliably. These assets increased due to purchase of shares in the amount of EUR 199,000 and decreased due to formation of allowances in the same amount, charged to loss because of the commencement of bankruptcy proceedings against a company.

Available-for-sale financial assets, carried at fair value, refer to shares and interests in companies that are traded on the regulated market and whose fair value can be measured reliably. These assets decreased due to revaluation at fair value in the amount of EUR 204,136 charged to the comprehensive income.

Received dividends in 2011 amounted to EUR 12,752.

4.3.7.6 Non-Current Loans Issued

	31 Dec. 2011	31 Dec. 2010
Loans issued	143,461	2,434,961
Non-current loans issued	**143,461**	**2,434,961**

Interest rates on loans issued are fixed. The loans are not secured.

4.3.7.6.1 Table of Movement of Non-Current Loans Issued

	2011	2010
Balance on 1 January	2,434,961	-
Purchase of subsidiaries	-	102,961
Current portion of non-current loans issued	(2,351,400)	(2,266,000)
Loans issued	8,029,900	4,598,000
Received payments for loans issued	(7,970,000)	-
Balance on 31 December	**143,461**	**2,434,961**

4.3.7.7 Other Non-Current Assets

	31 Dec. 2011	31 Dec. 2010
Emission coupons	222,970	260,440
Operating receivables	6,191,310	358,629
Allowances for operating receivables	(2,122,667)	(64,863)
Other non-current assets	**4,291,613**	**554,206**

Non-current operating receivables consist of scholarship receivables, the non-current part of receivables from the disposal of assets, the non-current divided costs of gaining loans and the non-current part of trade receivables. These increased due to transfer from current operating receivables, which will be repaid in the following years on the basis of decisions regarding the confirmed compulsory composition. Correspondingly, the allowance was also transferred from current to non-current operating receivables.

The disclosed value of other non-current assets does not exceed their realizable value.

4.3.7.8 Deferred Tax Assets and Liabilities

	31 Dec. 2011	31 Dec. 2010
Deferred tax assets	7,656,816	10,530,250
Deferred tax liabilities	(33,448)	(440,948)
Deferred tax assets/liabilities, net	**7,623,368**	**10,089,302**

4.3.7.8.1 Table of Movement of Deferred Tax Assets/Liabilities in 2011

	31 Dec. 2010	Translation differences	Changes in the income statement	Changes in the comprehensive income	Sale of subsidiary	31 Dec. 2011
Inventories	46,078	-	(46,078)	-	-	-
Property, plant and equipment	(798,367)	-	744,534	-	20,386	(33,448)
Available-for-sale financial assets	(14,434)	-	-	14,434	-	-
Other	325,775	-	(325,775)	-	-	-
Deferred tax liabilities	**(440,948)**	**-**	**372,681**	**14,434**	**20,386**	**(33,448)**
Provisions for environmental rehabilitation	156,045	-	(156,045)	-	-	-
Other provisions	39,862	-	(9,386)	-	-	30,476
Unused tax losses	7,846,777	-	(1,937,836)	-	-	5,908,941
Inventories	75,537	(266)	112,424	-	-	187,695
Operating receivables	1,045,362	13	(289,916)	-	-	755,459
Retirement benefit obligations	1,522,808	-	(32,861)	-	-	1,489,947
Property, plant and equipment	(392,158)	(9)	(583,070)	-	-	(975,237)
Available-for-sale financial assets	-	-	-	26,393	-	26,393
Other	236,017	-	(2,875)	-	-	233,142
Deferred tax assets	**10,530,250**	**(262)**	**(2,899,565)**	**26,393**	**-**	**7,656,816**
Deferred tax assets/liabilities	**10,089,302**	**(262)**	**(2,526,884)**	**40,827**	**20,386**	**7,623,368**

Deferred tax assets do not include asset from unused tax loss of the Group's controlling company, which on 31 December 2011 amounted to EUR 68,772,361, as the controlling company does not expect taxable profits in the future. Deferred tax asset from unused tax losses would amount to EUR 13,754,472. Unused tax loss refers to the unused tax loss from financial years of 2001, 2002 and 2007, when the influence of the transition to IFRS on the tax balance of the controlling company was calculated.

4.3.7.8.2 Table of Movement of Deferred Tax Assets/Liabilities in 2010

	31 Dec. 2009	Purchase of subsidiary	Translation differences	Changes in the income statement	Changes in the comprehensive income	31 Dec. 2010
Inventories	-	(272,871)	-	318,949	-	46,078
Property, plant and equipment	-	(1,135,678)	-	337,311	-	(798,367)
Available-for-sale financial assets	(56,606)	-	-	-	42,172	(14,434)
Other	(4,662)	488,116	-	(162,177)	4,498	325,775
Deferred tax liabilities	**(61,268)**	**(920,433)**	-	**494,083**	**46,670**	**(440,948)**
Provisions for environmental rehabilitation	449,020	-	-	(292,975)	-	156,045
Other provisions	-	-	-	39,862	-	39,862
Unused tax losses	6,841,702	1,211,651	10,981	(217,557)	-	7,846,777
Inventories	95,808	(202,638)	635	181,732	-	75,537
Operating receivables	998,532	-	109	46,721	-	1,045,362
Retirement benefit obligations	1,545,477	2,118	-	(24,788)	-	1,522,808
Property, plant and equipment	378,889	(701,483)	(55)	(69,509)	-	(392,158)
Other	145,987	-	-	90,031	-	236,017
Deferred tax assets	**10,455,415**	**309,648**	**11,670**	**(246,483)**	-	**10,530,250**
Deferred tax assets/liabilities	**10,394,147**	**(610,785)**	**11,670**	**247,600**	**46,670**	**10,089,302**

4.3.7.9 (Group's) Assets Classified as Held for Sale

	31 Dec. 2011	31 Dec. 2010
Assets classified as held for sale	4,331,037	4,553,811
(Group's) assets classified as held for sale	**4,331,037**	**4,553,811**

The Group owns lands and buildings (outbuildings and apartments) in Jesenice and Celje. Sales activities are constantly underway. The assets are not pledged as security for liabilities.

The carrying amount of assets classified as held for sale does not exceed their realizable value.

4.3.7.10 Inventories

	31 Dec. 2011	31 Dec. 2010
Raw material	63,967,968	64,413,475
Work in progress	53,734,434	45,835,804
Finished products	32,985,861	37,982,763
Trade goods	10,822,764	8,985,949
Inventories	**161,511,027**	**157,217,991**

The value of inventories, pledged as security for liabilities, amounted to EUR 12,600,000 on 31 December 2011. On 31 December 2011 the Group checked the value of inventories. It discovered that the net realizable value of inventories of finished products is lower that their production value and made impairment of the inventories in the amount of EUR 1,960,395.

To ensure accordance with the current year the Group redistributed the 2010 values of inventories of finished products, work in progress and goods.

4.3.7.10.1 Table of Movement of Allowances for Inventories

	2011	2010
Balance on 1 January	**4,446,585**	**5,052,396**
Allowance changes with influence on profit or loss	140,248	(461,313)
Allowance changes without influence on profit or loss	(139,923)	(143,864)
Translation differences	1,659	(634)
Balance on 31 December	**4,448,569**	**4,446,585**

4.3.7.11 Financial Assets at Fair Value Through Profit or Loss

	31 Dec. 2011	31 Dec. 2010
Financial assets at fair value through profit or loss	64,375	72,494
Financial assets at fair value through profit or loss	**64,375**	**72,494**

Financial assets at fair value through profit or loss refer to shares in companies that are traded on the regulated market of securities. These assets decreased due to revaluation at fair value in the amount of EUR 8,582 charged to the profit or loss.

During the year the Group secured the supply of certain key raw materials in dollars with derivative financial instruments. This generated EUR 157,709 of loss.

4.3.7.11.1 Table of Movement of Financial Assets at Fair Value Through Profit or Loss

	2011	2010
Balance on 1 January	**72,494**	**70,023**
Revaluation at fair value	(166,291)	67,681
Sales	(22,441,499)	(3,609,774)
Purchases	22,599,671	3,544,564
Balance on 31 December	**64,375**	**72,494**

4.3.7.12 *Current Loans Issued*

	31 Dec. 2011	31 Dec. 2010
Loans issued and deposits	10,199,937	11,041,322
Allowances for loans issued	(471,455)	(471,455)
Current loans issued	**9,728,482**	**10,569,867**

The interest rates for loans issued and deposits were between 1.25 and 9.00 percent. Loans issued and deposits are secured by pledged business shares and a letter of guarantee.

Under loans issued and deposits the Group discloses EUR 6,000,000 of loans issued to other associates with an interest rate of 9.00 percent, secured by received business shares.

4.3.7.12.1 Table of Movement of Current Loans Issued

	2011	2010
Balance on 1 January	**10,569,867**	**36,719,806**
Current portion of non-current loans issued	2,351,400	2,266,000
Loans issued and deposits	3,987,087	8,986,000
Repayments of loans issued and deposits	(7,455,872)	(37,377,133)
Other	276,000	(24,806)
Balance on 31 December	**9,728,482**	**10,569,867**

4.3.7.13 *Current Operating Receivables*

	31 Dec. 2011	31 Dec. 2010
Trade receivables	141,242,085	147,912,478
Allowances for trade receivables	(3,028,469)	(5,890,597)
Interest receivables	71,308	77,492
VAT receivables	7,766,235	7,116,054
Issued advance payments and cautions	7,663,767	9,046,403
Other operating receivables	2,389,989	2,241,733
Current operating receivables	**156,104,915**	**160,503,563**

4.3.7.13.1 Table of Movement of Allowances for Receivables from Customers

	2011	2010
Balance on 1 January	**5,890,597**	**4,580,235**
Purchase of subsidiaries	-	1,397,829
Allowance changes with influence on profit or loss	1,054,537	546,752
Allowance changes without influence on profit or loss	(3,828,764)	(634,472)
Translation differences	111	253
Disposal of subsidiary	(88,012)	-
Balance on 31 December	**3,028,469**	**5,890,597**

The majority of the Group's receivables from customers are insured against commercial risks with the insurance company SID-PKZ d. d., Ljubljana. The value of receivables from customers, pledged as security for liabilities, amounted to EUR 32,704,310 on 31 December 2011.

The allowances for receivables from customers decreased due to the transfer to non-current operating receivables and due to write-off of formed allowances for receivables on the basis of confirmed compulsory composition.

The disclosed value of operating receivables does not exceed their realizable value.

4.3.7.14 *Income Tax Assets/Liabilities*

	31 Dec. 2011	31 Dec. 2010
Income tax assets	190,640	118,572
Income tax liabilities	(889,118)	(554,343)
Income tax assets/liabilities, net	**(698,478)**	**(435,771)**

4.3.7.15 Cash and Cash Equivalents

	31 Dec. 2011	31 Dec. 2010
Cash in national currency	22,486,064	20,460,374
Cash in foreign currency	1,613,528	295,713
Restricted cash	745,142	1,471,373
Cash and cash equivalents	**24,844,734**	**22,227,460**

Cash in national and foreign currency includes cash in hand and balances on bank accounts which are EUR 3,689,402 on 31 December 2011. Deposits in the amount of EUR 20,410,190 are in national currency and have a maturity of up to three months. The interest rates for deposits with maturity of up to three months are fixed.

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

4.3.7.16 Other Current Assets

	31 Dec. 2011	31 Dec. 2010
Deferred expenses	1,343,377	599,094
Accrued revenues	130,820	1,002,422
Other current assets	**1,474,197**	**1,601,516**

Deferred expenses refer to advance payments of costs, which in 2012 will debit against profit or loss, and accrued revenues of VAT according to tax decision.

4.3.7.17 Equity

	31 Dec. 2011	31 Dec. 2010
Capital of the owners of the controlling company	**327,450,311**	**310,241,643**
Share capital	145,266,066	145,266,066
Capital surplus	11,461,177	11,461,177
Revenue reserves	(1,493,356)	(1,504,366)
Fair value reserves	(105,572)	57,734
Translation differences	(50,648)	(83,269)
Retained earnings	172,372,644	155,044,301
Non-controlling interest	**3,846,891**	**4,034,900**
Equity	**331,297,202**	**314,276,543**

The share capital of the controlling company is recognized in the amount of EUR 145,266,066 and is distributed among 994,616 shares. The face value of share is EUR 146.05. The number of shares did not change in 2011.

4.3.7.17.1 The Ownership Structure of the Controlling Company

Shareholder	Nr. of shares 31 Dec 2011	Nr. of shares 31 Dec 2010
DILON, d. o. o., Gerbičeva ulica 98, Ljubljana	550,589	550,569
Republic of Slovenia, Gregorčičeva ulica 20, Ljubljana	248,655	248,655
OAO KOKS, 1ST STAKHANOVSKAYA STR.6, Kemerovo, Russian Federation	167,762	167,762
D.P.R., d. d., Koroška cesta 14, Ravne na Koroškem	11,468	11,468
Stanovanjsko podjetje, d. o. o., Ob Suhi 19, Ravne na Koroškem	8,205	8,205
SIJ – Slovenska industrija jekla, d. d., Gerbičeva ulica 98, Ljubljana	7,917	7,917
MERKUR, d. d., Cesta na Okroglo 7, Naklo	-	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**

In 2011 there were no significant changes in the ownership structure of the controlling company. On 4 July 2011 DILON, d. o. o., bought 20 shares from Merkur, d. d. The ownership interest of DILON, d. o. o., increased by 0.20 basis points with this transaction.

4.3.7.17.2 Capital Surplus

Capital surplus in the amount of EUR 11,461,177 were formed during the simplified decrease of the controlling company's capital.

4.3.7.17.3 Revenue Reserves

	31 Dec. 2011	31 Dec. 2010
Legal reserves	761,371	750,361
Treasury shares	(2,254,727)	(2,254,727)
Revenue reserves	**(1,493,356)**	**(1,504,366)**

Legal reserves increased by 5.00 percent of net profit of the Group's controlling company according to the Companies Act.

The controlling company acquired treasury shares on the basis of the Act Regulating the Incurrence and Settlement of Liabilities of Slovenske železarne as regards the Restructuring Programme (Official Gazette of the RS, nr. 111/2001) and in line with the Privatization of Slovenske železarne Act (Official Gazette of the

RS, nr. 13/1998). Treasury shares were acquired by exchanging interests in subsidiaries for shares of the company, owned by authorized companies.

The shares were acquired ex lege and not in line with the Companies Act, which is why the controlling company did not establish a treasury shares fund. Shares are recognized at cost.

4.3.7.17.4 Fair value reserves

	31 Dec. 2011	31 Dec. 2010
Fair value reserves due to available-for-sale financial assets	(131,968)	72,168
Deferred tax liability	26,394	(14,434)
Fair value reserves	**(105,572)**	**57,734**

4.3.7.17.5 Distributable Profit

	2011	2010
Balance on 1 January	**155,044,301**	**151,844,731**
Net profit for the year	17,344,572	3,700,098
Formation of legal reserves	(11,010)	(501,631)
Other changes	(5,219)	1,103
Balance on 31 December	**172,372,644**	**155,044,301**

The Group is not a legal entity nor does it hold the decision-making rights. Retained earnings and net profit for the financial year of subsidiaries, included in the consolidated financial statements, are divided on the level of respective subsidiaries.

4.3.7.18 Retirement Benefit Obligations

	31 Dec. 2011	31 Dec. 2010
Provisions for severance pay	9,177,743	8,858,306
Provisions for loyalty bonuses	1,705,666	2,063,993
Provisions for post-employment benefits	431,304	442,490
Retirement benefit obligations	**11,314,713**	**11,364,789**

4.3.7.18.1 Table of Movement of Retirement Benefit Obligations in 2011

	31 Dec. 2010	Formation	Reversal	Utilization	Translation differences	31 Dec. 2011
Provisions for severance pay	8,858,306	605,862	(153,651)	(132,760)	(14)	9,177,743
Provisions for loyalty bonuses	2,063,993	59,262	(417,558)	-	(31)	1,705,666
Provisions for post-employment benefits	442,490	6,048	(12,753)	(4,481)	-	431,304
Retirement benefit obligations	**11,364,789**	**671,172**	**(583,962)**	**(137,241)**	**(45)**	**11,314,713**

4.3.7.18.2 Table of Movement of Retirement Benefit Obligations in 2010

	31 Dec. 2009	Purchase of subsidiaries	Formation	Reversal	Utilization	31 Dec. 2010
Provisions for severance pay	7,534,035	1,288,509	251,797	(96,573)	(119,462)	8,858,306
Provisions for loyalty bonuses	2,034,094	-	73,651	(43,752)	-	2,063,993
Provisions for post-employment benefits	-	441,053	8,219	(1,793)	(4,989)	442,490
Retirement benefit obligations	**9,568,129**	**1,729,562**	**333,667**	**(142,118)**	**(124,451)**	**11,364,789**

Provisions were formed for the estimated payments of loyalty bonuses, severance pay and post-employment benefits as the consequence of long-term employment on the date of the statement of financial position, discounted to the present value. The estimated provisions were formed for expected payments.

Actuarial calculations have been made on the basis of actuarial model and assumptions, derived from the tables of death, staff turnover, growth of salaries in the country of the Group's company and in the individual Group's companies, and on the basis of a yield curve, which represents the relationship between market yields of government bonds in the euro area and the time remaining to maturity of liabilities, discounted at an interest rate of 0,068 to 3,110 percent, depending on the age structure of employees or maturity.

4.3.7.19 Other Provisions

	31 Dec. 2011	31 Dec. 2010
Provisions for environmental rehabilitation	1,171,680	3,118,111
Provisions for law suits	1,050,569	960,610
Other provisions	314,712	408,569
Other provisions	**2,536,961**	**4,487,290**

4.3.7.19.1 Table of Movement of Other Provisions in 2011

	31 Dec. 2010	Formation	Reversal and utilization	31 Dec. 2011
Provisions for environmental rehabilitation	3,118,111	107,366	(2,053,797)	1,171,680
Provisions for law suits	960,610	95,000	(5,041)	1,050,569
Other provisions	408,569	102,000	(195,857)	314,712
Other provisions	**4,487,290**	**304,366**	**(2,254,695)**	**2,536,961**

In compliance with the IPPC directives the Group formed two provisions for environmental rehabilitation – one for the stabilization of the Sava river bank and one for the rehabilitation of the white slag disposal site at Javornik. After obtaining environmental permit in 2011 the Group reversed the provision for the rehabilitation of white slag disposal site, as it was no longer necessary. The provision for stabilizing the Sava river bank was released in accordance with the signing of the agreement for steel slag processing, which is a side product of steel production and can be adequately processed for stabilizing the bank. The rehabilitation will be carried out over the course of five years.

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

4.3.7.19.2 Table of Movement of Other Provisions in 2010

	31 Dec. 2009	Purchase of subsidiaries	Formation	Reversal and utilization	31 Dec. 2010
Provisions for environmental rehabilitation	3,989,839	-	111,315	(983,043)	3,118,111
Provisions for law suits	994,600	-	4,375	(38,365)	960,610
Other provisions	560,329	4,809	2,000	(158,569)	408,569
Other provisions	**5,544,768**	**4,809**	**117,690**	**(1,179,977)**	**4,487,290**

4.3.7.20 Non-Current Deferred Revenues

	31 Dec. 2011	31 Dec. 2010
Assigned contributions	581,954	451,866
Other non-current deferred revenues	40,235	84,626
Non-current deferred revenues	**622,189**	**536,492**

4.3.7.20.1 Table of Movement of Non-Current Deferred Revenues in 2011

	31 Dec. 2010	Formation	Reversal and utilization	31 Dec. 2011
Assigned contributions	451,866	1,370,039	(1,239,951)	581,954
Other non-current deferred revenues	84,626	609,857	(654,248)	40,235
Non-current deferred revenues	**536,492**	**1,979,896**	**(1,894,199)**	**622,189**

4.3.7.20.2 Table of Movement of Non-Current Deferred Revenues in 2010

	31 Dec. 2009	Purchase of subsidiaries	Formation	Reversal and utilization	31 Dec. 2010
Assigned contributions	401,051	-	1,376,285	(1,325,470)	451,866
Other non-current deferred revenues	135,083	1,277	1,124,461	(1,176,195)	84,626
Non-current deferred revenues	**536,134**	**1,277**	**2,500,746**	**(2,501,665)**	**536,492**

4.3.7.21 *Non-Current Borrowings*

	31 Dec. 2011	31 Dec. 2010
Borrowings	97,535,025	120,504,818
Non-current borrowings	**97,535,025**	**120,504,818**

Non-current borrowings include loans from domestic and foreign banks. The interest rate for non-current borrowings is flexible and based on EURIBOR. Properties were pledged for non-current borrowings in the amount of EUR 87,767,693, whereas other non-current borrowings are not secured.

4.3.7.21.1 Table of Movement of Non-Current Borrowings

	2011	2010
Balance on 1 January	**120,504,818**	**128,337,634**
Purchase of subsidiaries	-	4,210,804
Borrowings	29,574,240	48,297,374
Repayments for borrowings	-	(15,004,054)
Current portion of non-current borrowings	(52,646,600)	(45,333,620)
Exchange rate differences	42,854	2,398
Translation differences	(9,384)	(5,718)
Other	69,097	-
Balance on 31 December	**97,535,025**	**120,504,818**

4.3.7.22 *Other Non-Current Financial Liabilities*

	31 Dec. 2011	31 Dec. 2010
Liabilities arising from finance lease	8,655,026	12,085,011
Other non-current financial liabilities	**8,655,026**	**12,085,011**

The interest rate for liabilities arising from finance lease is flexible and based on EURIBOR.

4.3.7.22.1 Minimum Payments of Liabilities Arising from Finance Lease

	Due for payment in 1 year	Due for payment in 1 to 5 years	Due for payment after 5 years
Minimum lease payments	4,281,885	8,153,228	1,224,695
Future finance costs	(475,973)	(632,577)	(90,320)
Present value of minimum lease payments on 31 December 2011	**3,805,912**	**7,520,651**	**1,134,375**

4.3.7.22.2 Table of Movement of Non-Current Liabilities Arising from Finance Lease

	2011	2010
Balance on 1 January	**12,085,011**	**6,050,905**
Purchase of subsidiaries	-	3,834,635
Liabilities arising from finance lease	325,313	7,977,705
Repayment of liabilities arising from finance lease	-	(892,549)
Current portion of non-current liabilities arising from finance lease	(3,736,126)	(4,910,400)
Exchange rate differences	3,900	26,673
Translation differences	(2,708)	(1,958)
Other	(20,364)	-
Balance on 31 December	**8,655,026**	**12,085,011**

4.3.7.23 *Non-Current Operating Liabilities*

	31 Dec. 2011	31 Dec. 2010
Emission coupons	92,904	259,259
Other liabilities	33,778	6,407,105
Non-current operating liabilities	**126,682**	**6,666,364**

Non-current operating liabilities refer to liabilities for purchase of subsidiaries, which are due for payment in 2012. This is why they were transferred to current operating liabilities.

4.3.7.24 *Current Borrowings*

	31 Dec. 2011	31 Dec. 2010
Borrowings	132,756,583	120,545,893
Approved overdrafts on bank accounts	1,500,868	1,478,689
Current borrowings	**134,257,451**	**122,024,582**

Current borrowings include loans from domestic and foreign banks. Current borrowings in the amount of EUR 47,943,460 are secured with properties, in the amount of EUR 12,600,000 with inventories and in the amount of EUR 14,168,726 with receivables. Other current borrowings are not secured. The interest rate for current borrowings is flexible and based on EURIBOR.

4.3.7.24.1 Table of Movement of Current Borrowings

	2011	2010
Balance on 1 January	**122,024,582**	**70,848,453**
Purchase of subsidiaries	-	24,561,037
Current portion of non-current borrowings	52,646,600	45,333,620
Borrowings	174,702,133	135,895,217
Repayments for borrowings	(215,186,000)	(141,991,999)
Change in approved bank account overdrafts	22,179	(12,603,277)
Exchange rate differences	(29,643)	2,389
Translation differences	66,272	(20,858)
Other	11,328	-
Balance on 31 December	**134,257,451**	**122,024,582**

4.3.7.25 *Other Current Financial Liabilities*

	31 Dec. 2011	31 Dec. 2010
Interest liabilities	969,381	977,953
Liabilities arising from finance lease	3,805,911	4,084,163
Other current financial liabilities	**4,775,292**	**5,062,116**

The interest rate for liabilities arising from finance lease is flexible and based on EURIBOR.

The lowest sum of future leases, due for payment in the next financial year, amounts to EUR 4,281,885 on 31 December 2011, at which the net present value of leases amount to EUR 3,805,911.

4.3.7.25.1 Table of Movement of Current Liabilities Arising from Finance Lease

	2011	2010
Balance on 1 January	**4,084,163**	**2,193,926**
Purchase of subsidiaries	-	641,111
Liabilities arising from finance lease	24,881	28,943
Repayment of liabilities arising from finance lease	(4,047,651)	(3,692,148)
Current portion of non-current liabilities arising from finance lease	3,736,125	4,910,400
Exchange rate differences	2,500	2,862
Translation differences	(1,609)	(931)
Other	7,502	-
Balance on 31 December	**3,805,911**	**4,084,163**

4.3.7.26 Current Operating Liabilities

	31 Dec. 2011	31 Dec. 2010
Operating trade payables	146,829,295	113,876,843
Liabilities to employees	4,256,959	4,571,172
Received advance payments	1,447,897	1,503,080
Tax liabilities	3,696,939	3,568,338
Other operating liabilities	8,775,309	12,400,922
Current operating liabilities	**165,006,399**	**135,920,355**

Liabilities to employees include liabilities for net salaries and compensations for December salaries paid in January 2012. 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 from assignment contracts.

4.3.7.27 Other Current Liabilities

	31 Dec. 2011	31 Dec. 2010
Accrued customer fees	817,872	662,634
Accrued audit expenses	240,431	146,851
Accrued expenses for unused annual leave	1,346,321	1,622,677
Accrued expenses for law suits	62,897	-
Accrued expenses for loyalty bonuses	122,651	167,100
Current portion of non-current provisions (Sava river bank)	202,928	1,269,975
Other liabilities	2,089,509	1,961,298
Other current liabilities	**4,882,609**	**5,830,535**

The Group reversed the provision for the rehabilitation of white slag disposal site. The provision for stabilizing the Sava river bank was released in accordance with the signing of the agreement for steel slag processing, which is a side product of steel production and can be adequately processed for stabilizing the bank.

4.3.7.28 Revenues

	2011	2010
Revenues in Slovenia	112,691,650	102,140,557
Revenues in foreign countries	652,286,186	488,776,185
- Germany	*190,224,656*	*131,733,077*
- Italy	*191,250,623*	*137,928,415*
- Austria	*32,421,955*	*31,205,293*
- USA	*40,195,941*	*27,119,291*
- Other countries	*198,193,011*	*160,790,109*
Revenues	**764,977,836**	**590,916,742**

4.3.7.29 Operating Expenses

	2011	2010
Costs of goods, materials and services	607,778,302	499,153,349
Labour costs	94,898,881	84,147,593
- wages and salaries	*68,958,367*	*60,094,866*
- social security costs	*14,070,996*	*12,250,150*
- other labour costs	*11,869,518*	*11,802,577*
Depreciation costs	32,029,018	29,891,453
Other costs	5,922,588	3,319,214
Change in the value of inventories	(3,352,209)	(28,939,661)
Operating expenses	**737,276,580**	**587,571,948**

The auditing costs for the 2011 Annual Report amounted to EUR 235,933.

4.3.7.29.1 Review of Costs by Type in 2011

	Cost of sales	Distribution costs	General and administrative costs	Total
Costs of goods, materials and services	548,729,723	42,904,097	16,144,482	607,778,302
Labour costs	58,944,767	7,648,387	28,305,727	94,898,881
Depreciation costs	27,982,752	392,662	3,653,604	32,029,018
Other costs	2,878,810	72,107	2,971,671	5,922,588
Change in the value of inventories	(3,352,209)	-	-	(3,352,209)
Operating expenses	**635,183,843**	**51,017,253**	**51,075,484**	**737,276,580**

4.3.7.29.2 Review of Costs by Type in 2010

	Cost of sales	Distribution costs	General and administrative costs	Total
Costs of goods, materials and services	456,617,080	28,343,816	14,192,453	499,153,349
Labour costs	54,015,851	5,747,804	24,383,938	84,147,593
Depreciation costs	26,540,900	268,540	3,082,013	29,891,453
Other costs	325,181	103,908	2,890,125	3,319,214
Change in the value of inventories	(28,939,661)	-	-	(28,939,661)
Operating expenses	**508,559,351**	**34,464,068**	**44,548,529**	**587,571,948**

4.3.7.29.3 Average Number of Employees by Category According to Their Level of Education

	2011	2010
Primary school	675	309
2.5-year vocational school	410	751
3- or 4-year vocational school	928	956
Master craftsman, foreman, manager exam	1	3
Secondary vocational or general school	820	808
Higher education I. level	252	224
Higher education II. level	196	238
Master's Degree, Ph.D.	39	32
Total	**3,321**	**3,321**

4.3.7.30 Other Operating Income

	2011	2010
Reversal of allowances for inventories	-	461,313
Reversal of allowances	3,095,407	1,632,312
Profit from sale of property, plant and equipment	328,287	105,223
Profit from sale of investment property	422,447	-
Profit from sale of assets classified as held for sale	227,885	-
Revenues from application of received subsidies	1,894,199	2,501,665
Revenues from capitalized own products	627,595	208,884
Received compensations	678,270	1,270,698
Contractual penalties	1,411,433	1,641,400
Profit from selling emission coupons	191,487	536,216
Other operating income	285,879	520,478
Other operating income	**9,162,889**	**8,878,189**

4.3.7.31 Other Operating Expenses

	2011	2010
Allowances for receivables	1,976,801	546,752
Allowances for inventories	140,248	-
Impairment of inventories	1,960,395	212,273
Retirement benefit obligations	-	191,550
Loss from sale of intangible assets	-	12,081
Loss from sale of assets classified as held for sale	-	112,330
Expenses for donations and sponsorships	409,153	396,685
Other operating expenses	212,998	123,540
Other operating expenses	**4,699,595**	**1,595,211**

4.3.7.32 Finance Income

	2011	2010
Profit from sale and revaluation of available-for-sale financial assets	-	1,291
Positive exchange rate differences from financing activities	118,924	11,694
Positive exchange rate differences from investing activities	29,290	74,671
Interest income	1,302,259	2,714,468
Other finance income	8,886	-
Finance income	**1,459,359**	**2,802,124**

4.3.7.33 Finance Expenses

	2011	2010
Loss from sale and revaluation of available-for-sale financial assets	365,292	-
Negative exchange rate differences from financing activities	264,839	79,511
Negative exchange rate differences from investing activities	94,847	57,620
Interest expenses	11,253,683	8,725,700
Other finance expenses	115,764	124,538
Finance expenses	**12,094,425**	**8,987,369**

4.3.7.34 Taxes

	2011	2010
Income tax	(1,676,189)	(1,024,850)
Deferred tax	(2,526,884)	247,600
Taxes	**(4,203,073)**	**(777,250)**

	2011	2010
Profit before tax	21,531,344	4,442,527
Income tax liability at applicable tax rate	4,684,540	888,505
Tax effects from:		
- non-taxable income	(127,550)	(21,457)
- tax non-deductible expenses	451,170	323,907
- tax relief	(805,087)	(413,705)
Taxes	**4,203,073**	**777,250**

4.3.7.35 Net Earnings per Share

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

	2011	2010
Earnings of the owners of the controlling company	17,344,572	3,700,098
Weighted number of issued ordinary shares	986,699	986,699
Basic and diluted earnings per share	**17.58**	**3.75**

4.3.7.36 Contingent Assets and Liabilities

Contingent assets amounted to EUR 1,360,920 on 31 December 2011 and refer to received guarantees for the elimination of errors in the warranty period. The Group expects no inflows from received guarantees.

Contingent liabilities amounted to EUR 11,767,459 on 31 December 2011. They include issued securities for borrowings in the value of EUR 2,110,383, and customs bond and guarantees for good work performance in the value of EUR 9,657,076. The Group expects no outflows from the issued securities and guarantees.

4.3.7.37 Business Combinations

The Group bought an 85% share of NIRO Wenden GmbH on 31 March 2010. In 2010 the Group considered temporary fair values of acquired assets as fair for the initial accounting for the business combination of purchasing the company, in accordance with the first clause of IFRS 3.45. In 2011 the Group recalculated the initial recognition of acquired assets.

The fair values of acquired assets were defined on the basis of the estimate of acquired assets. The estimate was given by an authorized valuer. The estimate of acquired assets is based on the dynamic method, in which market values of acquired assets were considered.

The statement of financial position of the NIRO Wenden GmbH company on the date, when the Group acquired the controlling interest, is given below:

	Fair value	Temporary fair value
ASSETS		
Cash and cash equivalents	2,141	2,141
Property, plant and equipment, intangible assets	5,204,049	3,771,375
Inventories	5,844,198	5,844,198
Operating receivables	1,974,972	1,974,972
Other assets	330,625	757,993
EQUITY AND LIABILITIES		
Provisions	39,888	39,888
Borrowings	7,082,239	7,082,239
Other liabilities	3,231,427	3,231,427
NET ASSETS	**3,002,431**	**1,997,125**
Non-controlling interest (15%)	450,365	
ACQUIRED NET ASSETS	**2,552,066**	
Purchase price	5,737,500	
Carrying amount of acquired net assets	2,552,066	
GOODWILL	**3,185,434**	

The Group bought a 60% share of SMG Edelstahl GmbH on 30 June 2010. In 2010 the Group considered temporary fair values of acquired assets as fair for the initial accounting for the business combination of purchasing the company, in accordance with the first clause of IFRS 3.45. In 2011 the Group recalculated the initial recognition of acquired assets.

The fair values of acquired assets were defined on the basis of the estimate of acquired assets. The estimate was given by an authorized valuer. The estimate of acquired assets is based on the dynamic method, in which market values of acquired assets were considered.

The statement of financial position of SMG Edelstahl GmbH on the date, when the Group acquired the controlling interest, is given below:

	Fair value	Temporary fair value
ASSETS		
Cash and cash equivalents	343,796	261,812
Property, plant and equipment, intangible assets	1,738,250	1,738,250
Inventories	822,838	822,838
Operating receivables	424,798	424,798
EQUITY AND LIABILITIES		
Provisions	401,165	401,165
Borrowings	2,542,696	2,542,696
Other liabilities	1,042,840	1,042,840
NET ASSETS	**(657,019)**	**(739,003)**
Non-controlling interest (40%)	(262,808)	
ACQUIRED NET ASSETS	**(394,211)**	
Purchase price	321,000	
Carrying amount of acquired net assets	(394,211)	
GOODWILL	**715,211**	

The Group bought a 90% share of SIDERTOCE S.p.A. on 30 June 2010. In 2010 the Group considered temporary fair values of acquired assets as fair for the initial accounting for the business combination of purchasing the company, in accordance with the first clause of IFRS 3.45. In 2011 the Group recalculated the initial recognition of acquired assets.

The fair values of acquired assets were defined on the basis of the estimate of acquired assets. The estimate was given by an authorized valuer. The estimate of acquired assets is based on the dynamic method, in which market values of acquired assets were considered.

The statement of financial position of SIDERTOCE S.p.A. on the date, when the Group acquired the controlling interest, is given below:

	Fair value	Temporary fair value
ASSETS		
Cash and cash equivalents	70,496	70,496
Property, plant and equipment, intangible assets	5,291,950	4,886,913
Inventories	3,962,040	3,962,040
Operating receivables	4,274,153	4,274,153
Other assets	258	46,114

	Fair value	Temporary fair value
EQUITY AND LIABILITIES		
Provisions	702,684	676,878
Borrowings	3,982,820	3,982,820
Other liabilities	5,655,439	5,588,645
NET ASSETS	**3,257,954**	**2,991,373**
Non-controlling interest (0%)	-	
ACQUIRED NET ASSETS	**3,257,954**	
Purchase price	6,815,000	
Carrying amount of acquired net assets	3,257,954	
GOODWILL	**3,557,046**	

The Group bought a 60% share of the controlling company of the Griffon & Romano group on 31 August 2010. In 2010 the Group considered temporary fair values of acquired assets as fair for the initial accounting for the business combination of purchasing the company, in accordance with the first clause of IFRS 3.45. In 2011 the Group recalculated the initial recognition of acquired assets.

The fair values of acquired assets were defined on the basis of the estimate of acquired assets. The estimate was given by an authorized valuer. The estimate of acquired assets is based on the dynamic method, in which market values of acquired assets were considered.

The statement of financial position of the Griffon & Romano group on the date, when the Group acquired the controlling interest, is given below:

	Fair value	Temporary fair value
ASSETS		
Cash and cash equivalents	865,348	865,348
Property, plant and equipment, intangible assets	4,517,990	2,243,931
Inventories	9,982,553	9,982,553
Operating receivables	11,974,516	11,974,516
EQUITY AND LIABILITIES		
Provisions	591,911	591,911
Borrowings	15,164,088	15,164,088
Other liabilities	6,939,074	6,364,313
Non-controlling interests	(10,331)	32,804
NET ASSETS	**4,655,665**	**2,913,232**
Non-controlling interest (40%)	1,862,266	
ACQUIRED NET ASSETS	**2,793,399**	
Purchase price	7,800,000	
Carrying amount of acquired net assets	2,793,399	
GOODWILL	**5,006,601**	

Due to the changed values for the initial classification of business combinations of purchase of new companies the consolidated financial statements of the SIJ Group have also changed.

The consolidated financial statements of the SIJ Group for 2010, disclosed in the present report, also differ from the consolidated financial statements of the SIJ Group for 2010, disclosed in the Annual Report of the SIJ Group for 2010.

Presented below are the two primary financial statements – Statement of Comprehensive Income and Statement of Financial Position – disclosed in this report and in the annual report for 2010.

Consolidated Statement of Comprehensive Income	2010 Annual report 2011	2010 Annual report 2010
Revenues	590,916,742	590,916,742
Cost of sales	(508,559,351)	(508,106,088)
Gross profit	**82,357,391**	**82,810,654**
Distribution costs	(34,464,068)	(34,448,070)
General and administrative expenses	(44,548,529)	(44,484,539)
Other operating income	8,878,189	8,869,908
Other operating expenses	(1,595,211)	(1,617,261)
Operating profit	**10,627,772**	**11,130,692**
Finance income	2,802,124	2,802,124
Finance expenses	(8,987,369)	(8,987,369)
Finance cost -net	**(6,185,245)**	**(6,185,245)**
Share in loss of associates	-	-
Profit before tax	**4,442,527**	**4,442,527**
Income tax	(1,024,850)	(697,703)
Deferred tax	247,600	(385,092)
Operating profit from continuing operations	**3,665,277**	**3,862,652**
Loss from discontinued operations	-	-
Net profit for the year	**3,665,277**	**3,862,652**
Change in fair value reserves for available-for-sale financial assets	(210,863)	(210,863)
Exchange rate difference on translating foreign operations	55,614	55,614
Income tax related to components of comprehensive income	46,670	46,670
Other changes in comprehensive income	(22,488)	(22,488)
Comprehensive income	**3,534,210**	**3,731,585**

Consolidated Statement of finacial position	31. 12. 2010 Annual report 2011	31. 12. 2010 Annual report 2010
ASSETS		
Non-current assets	**382,888,912**	**383,155,420**
Intangible assets	17,832,081	20,232,820
Property, plant and equipment	350,397,085	346,923,813
Investment property	284,524	284,524
Available-for-sale financial assets	855,805	855,805
Loans issued	2,434,961	2,434,961
Other assets	554,206	1,662,949
Deferred tax assets	10,530,250	10,760,548
Current assets	**356,865,274**	**355,564,004**
(Group's) assets classified as held for sale	4,553,811	4,553,811
Inventories	157,217,991	157,217,991
Financial assets at fair value through profit or loss	72,494	72,494
Loans issued	10,569,867	10,569,867
Operating receivables	160,503,563	158,757,907
Income tax assets	118,572	562,958
Cash and cash equivalents	22,227,460	22,227,460
Other assets	1,601,516	1,601,516
Total assets	**739,754,186**	**738,719,424**
EQUITY AND LIABILITIES		
Equity	**314,276,543**	**313,636,485**
Capital and reserves attributed to the owners of the parent company	**310,241,643**	**310,429,383**
Share capital	145,266,066	145,266,066
Capital surplus	11,461,177	11,461,177
Revenue reserves	(1,504,366)	(1,504,366)
Fair value reserves	57,734	57,734
Translation differences	(83,269)	(83,269)
Retained earnings	155,044,301	155,232,041
Non-controlling interest	4,034,900	3,207,102
Non-current liabilities	**156,085,712**	**155,691,005**
Retirement benefit obligations	11,364,789	11,361,033
Other provisions	4,487,290	4,487,290
Deferred revenues	536,492	536,492
Borrowings	120,504,818	120,504,818
Other financial liabilities	12,085,011	12,085,011
Operating liabilities	6,666,364	6,666,364
Deferred tax liabilities	440,948	49,997
Current liabilities	**269,391,931**	**269,391,934**
Borrowings	122,024,582	122,024,582
Other financial liabilities	5,062,116	5,062,116
Operating liabilities	135,920,355	135,964,667
Income tax liabilities	554,343	510,034
Other liabilities	5,830,535	5,830,535
Total equity and liabilities	**739,754,186**	**738,719,424**

4.3.8 Related Parties

Related parties comprise the parent company, subsidiaries, associated companies, other related parties and the management of the company. Other related parties include the companies of the parent company's Group, the parent companies of the parent company and companies included in their groups.

4.3.8.1 Related Party Transactions Excluded from Consolidated Financial Statements

	2011	2010
Revenues/expenses	145,184,288	104,016,371

	31 Dec. 2011	31 Dec. 2010
Operating receivables/liabilities	50,541,220	46,985,361
Loans issued/borrowings	38,345,515	28,547,702
Financial investments in subsidiaries	162,379,893	162,457,393

4.3.8.2 Transactions with the Parent Company

	2011	2010
Revenues	16,992	847

	31 Dec. 2011	31 Dec. 2010
Receivables	100,920	276,272

4.3.8.3 Transactions with Other Related Parties

	2011	2010
Revenues	540,000	1,013,375

	31 Dec. 2011	31 Dec. 2010
Receivables	6,000,000	6,000,000

4.3.8.4 Transactions with Management

Total amount of receipts on the basis of the business management contract, received in the financial year for the performance of functions or tasks in the company by Members of the Board of Directors, other workers, employed on contracts for which the tariff part of collective agreement does not apply, and Members of the Supervisory Board.

	2011	2010
Management	5,631,825	4,797,250
Individuals on service contracts	8,364,586	7,095,315
Members of the Supervisory Board	29,136	21,200

The receipts include gross salaries, paid reimbursements related to work in accordance with the regulation (daily allowance, mileage, overnight accomodation etc.), and bonuses.

The Group did not grant any loans, issue any guarantees nor make any advance payments to the management of the Group or the Members of the Supervisory Board in 2011.

The management of the Group is represented by the management of the controlling company and management of subsidiaries.

4.3.9 Financial Instruments and Risks

4.3.9.1 Credit Risk

The largest exposure on the reporting date arises from operating receivables, loans issued and deposits.

4.3.9.1.1 Structure of Outstanding Financial Assets

31 Dec. 2011	Group 1	Group 2	Group 3	Total
Trade receivables	28,316,754	74,517,604	11,712,081	114,546,438
Other operating receivables	1,374,229	10,954,935	1,178,554	13,507,718
Loans issued and deposits	30,282,133	-	-	30,282,133
Total	**59,973,116**	**85,472,539**	**12,890,635**	**158,336,290**

31 Dec. 2010	Group 1	Group 2	Group 3	Total
Trade receivables	15,931,986	88,677,652	12,111,919	116,721,557
Other operating receivables	5,102,300	7,004,201	143,822	12,250,323
Loans issued and deposits	7,352,528	105,000	5,547,300	13,004,828
Total	**28,386,814**	**95,786,853**	**17,803,041**	**141,976,708**

Group 1: Exposure to companies with which we have had business contacts for more than one year and which have never been late in meeting their obligations (i.e. business partner pays its liabilities within the due time).

Group 2: Exposure to companies with which we have had business contacts for more than one year and which are occasionally late in meeting their obligations (i.e. business partner does not always pay its liabilities within the due time).

Group 3: Exposure to companies with which we have had business contacts for a period shorter than one year.

4.3.9.1.2 Age Structure of Financial Assets Due but not Impaired

31 Dec. 2011	Up to 3 months	3 months to 1 year	1 year to 3 years	Over 3 years	Total
Trade receivables	20,372,648	3,100,810	182,158	11,559	23,667,176
Other operating receivables	201,524	-	5,926	56,392	263,842
Total	**20,574,172**	**3,100,810**	**188,084**	**67,951**	**23,931,018**

31 Dec. 2010	Up to 3 months	3 months to 1 year	1 year to 3 years	Over 3 years	Total
Trade receivables	16,121,973	5,016,476	4,161,875	-	25,300,324
Other operating receivables	11,717	2,276	63,791	-	77,784
Total	**16,133,690**	**5,018,752**	**4,225,666**	-	**25,378,108**

4.3.9.1.3 Movement of Allowances for Financial Assets

	Allowance on 31 Dec. 2010	Disposal of subsidiary	Formation of allowance for year	Repayment of assets subject to allowance	Other changes without influence on profit or loss	Allowance on 31 Dec. 2011
Trade receivables	5,890,597	(88,012)	1,564,372	(509,835)	(3,828,653)	3,028,469
Other operating receivables	2,172,457	-	1,380,560	(74,760)	(601,410)	2,876,847
Loans issued and deposits	471,455	-	-	-	-	471,455
Total	**8,534,509**	**(88,012)**	**2,944,932**	**(584,595)**	**(4,430,063)**	**6,376,771**

	Allowance on 31 Dec. 2009	Purchase of subsidiary	Formation of allowance for year	Repayment of assets subject to allowance	Other changes without influence on profit or loss	Allowance on 31 Dec. 2010
Trade receivables	4,580,235	1,397,829	896,485	(349,733)	(634,219)	5,890,597
Other operating receivables	1,430,309	-	2,052,675	(845,862)	(464,665)	2,172,457
Loans issued and deposits	876,240	-	-	-	(404,785)	471,455
Total	**6,886,784**	**1,397,829**	**2,949,160**	**(1,195,595)**	**(1,503,669)**	**8,534,509**

Other changes without influence on profit or loss disclose write-offs of assets for which allowance was formed, calculated exchange rate differences, calculated translation differences and transfer of allowances between non-current and current assets.

4.3.9.2 Liquidity Risk

The Group is managing liquidity risk with appropriate planning of cash flow and current credit lines from banks agreed in advance, which ensures that the Group is capable of settling any overdue liabilities at any time.

31 Dec. 2011	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years
Trade payables	140,823,041	6,006,254	-	-
Liabilities for borrowings	33,907,274	100,350,176	67,479,028	30,055,999
Other operating and financial liabilities	6,525,001	13,966,164	21,558,603	4,736,393
Total	**181,255,316**	**120,322,594**	**89,037,631**	**34,792,392**

31 Dec. 2010	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years
Trade payables	110,319,200	3,557,543	-	-
Liabilities for borrowings	68,002,048	54,022,535	81,136,544	39,368,271
Other operating and financial liabilities	15,455,114	8,062,559	16,901,528	1,590,590
Total	**193,776,362**	**65,642,637**	**98,038,072**	**40,958,861**

Exposure to banks is assessed as moderate. The Group fully complies with the conditions stated in loan contracts in the section defining the disclosure of data, payment of interest and repaying the principal value. In 2011 the Group did not fulfil part of its liabilities for two long-term loan contracts in the total amount of EUR 2,100,000. The violation of the first contract does not automatically give the bank the right to prematurely terminate the contract, while there is a very slight probability for the assets of the second contract to be collected prematurely. The assessment is based on an independent review of the contract and on a precedent from the year before, when a violation of obligation, higher than this year, did not result in premature collection of assets. Given the reasons stated above on the date of the statement of financial position the Group does not state these non-current liabilities as current liabilities.

4.3.9.3 Foreign Exchange Risk

The consolidated financial statements of the Group are based on the following exchange rates:

• EUR/USD	1,2939
• EUR/GBP	0,8353
• EUR/CHF	1,1256
• EUR/JPY	100.20
• EUR/SEK	8,9120
• EUR/HRK	7,5370

Net exposure (assets – liabilities) in foreign currencies, expressed in EUR, is:

• USD	(12,288,381)
• GBP	198,645
• CHF	(94,377)
• JPY	(9,800)
• SEK	(228,570)
• HRK	(159)
• EUR	(841,728)

4.3.9.4 Interest Rate Risk

A change in interest rate by 100 or 200 basis points on the reporting date would result in an increase (decrease) of profit or loss by the amounts stated below. The analysis assumes that all other variables, in particular exchange rates, remain unchanged. The analysis for 2010 was prepared in the same manner:

	2011	2010
Change in profit/loss if increased by 200 bp	(4,089,438)	(4,437,524)
Change in profit/loss if increased by 100 bp	(2,045,278)	(2,220,877)
Change in profit/loss if decreased by 100 bp	2,045,278	2,220,877
Change in profit/loss if decreased by 200 bp	4,089,438	4,437,524

4.3.9.5 Equity Management

The Group monitors the status of overdue receivables on a daily basis, and prepares 3-month plans twice a month with the aim of achieving optimum debt. Larger investments are financed by non-current assets.

	2011	Debt increase by 10%	Debt decrease by 10%
Level of debt on equity	74.02	81.42	66.62
Equity	331,297,201	331,297,201	331,297,201
Financial liabilities	245,222,794	269,745,073	220,700,515

4.3.9.6 Carrying Amounts and Fair Values of Financial Instruments

	31 Dec. 2011		31 Dec. 2010	
Type of financial instrument	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets at fair value through profit or loss	64,375	64,375	72,494	72,494
Available-for-sale financial assets	651,412	651,412	855,805	855,805
Loans issued and deposits	9,871,943	9,871,943	13,004,828	13,004,828
Operating receivables	160,173,558	160,173,558	160,797,329	160,797,329
Cash	24,844,734	24,844,734	22,227,460	22,227,460
Borrowings	(231,792,476)	(231,792,476)	(242,529,400)	(242,529,400)
Other financial liabilities	(13,430,318)	(13,430,318)	(17,147,127)	(17,147,127)
Operating liabilities	(165,133,081)	(165,133,081)	(142,586,719)	(142,586,719)
Total	**(214,749,853)**	**(214,749,853)**	**(209,714,910)**	**(209,714,910)**

4.3.9.7 Financial Assets Determined at Fair Value by Hierarchy

	31 Dec. 2011	31 Dec. 2010
Financial assets at fair value of first level	348,426	560,681
Financial assets at fair value of third level	367,361	367,618
Total financial assets at fair value	**715,787**	**928,299**

4.3.10 Events After the Reporting Date

- In January Acroni discontinued its production of profiles – the profiles department in the Hot Rolling Mill was cancelled.
- In January Acroni produced and sold a record quantity of stainless steel quarto plates (8,400 tonnes).

- On 10 February 2012 Metal Ravne started the liquidation process for its subsidiary Iuenna Stahl GmbH, which is 100% in the company's possession.
- In the first quarter of 2012 Elektrode Jesenice finished the investment in a closed cooling system in the production of electrodes and the investment in the high-tech production of laser-welded filled wires.

There were no other events after the reporting date that could influence the Group's financial statements.

5 AUDITORS REPORT

5 AUDITORS REPORT

The Group obtained positive audit opinion for 2011

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INDEPENDENT AUDITORS REPORT TO THE OWNERS OF SIJ – SLOVENSKA INDUSTRIJA JEKLA d.d.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the SIJ-Slovenska industrija jekla group, which comprise the statement of financial position as at 31.12.2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 entities' 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.

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, ustanovljeno v skladu z zakonodajo Združenega kraljestva Velike Britanije in Severne Irske (v izvirniku »UK private company limited by guarantee«), in mrežo njenih članic, od katerih je vsaka ločena in samostojna pravna oseba. Podroben opis pravne organiziranosti združenja Deloitte Touche Tohmatsu Limited in njenih družb članic je na voljo na www.deloitte.com/si/nasa-druzba.

Member of Deloitte Touche Tohmatsu Limited

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the SIJ-Slovenska industrija jekla group as of 31.12.2011, and their financial performance and their 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

The management is also responsible for the preparation of the business report in accordance with the requirements of the Companies Act (ZGD-1). Our responsibility is to provide an assessment of whether the business report is consistent with the audited financial statements. Our procedures have been conducted in accordance with the International Standard on Auditing 720 and are limited solely to assessing of whether the business report is consistent with the audited financial statements. In our opinion, the business report is consistent with the audited financial statements.

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

DELOITTE REVIZIJA d.o.o.

Maruša Tratnjek
Certified auditor

Yuri Sidorovich
President of the Board

Ljubljana, 22 March 2012

Deloitte.
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Ljubljana, Slovenija 1

FOR TRANSLATION PURPOSES ONLY- ORIGINAL PREVAILS