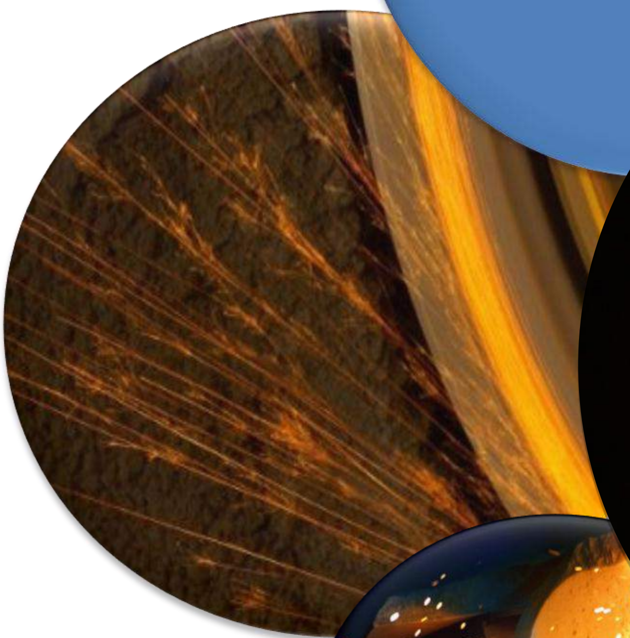
sij skupina

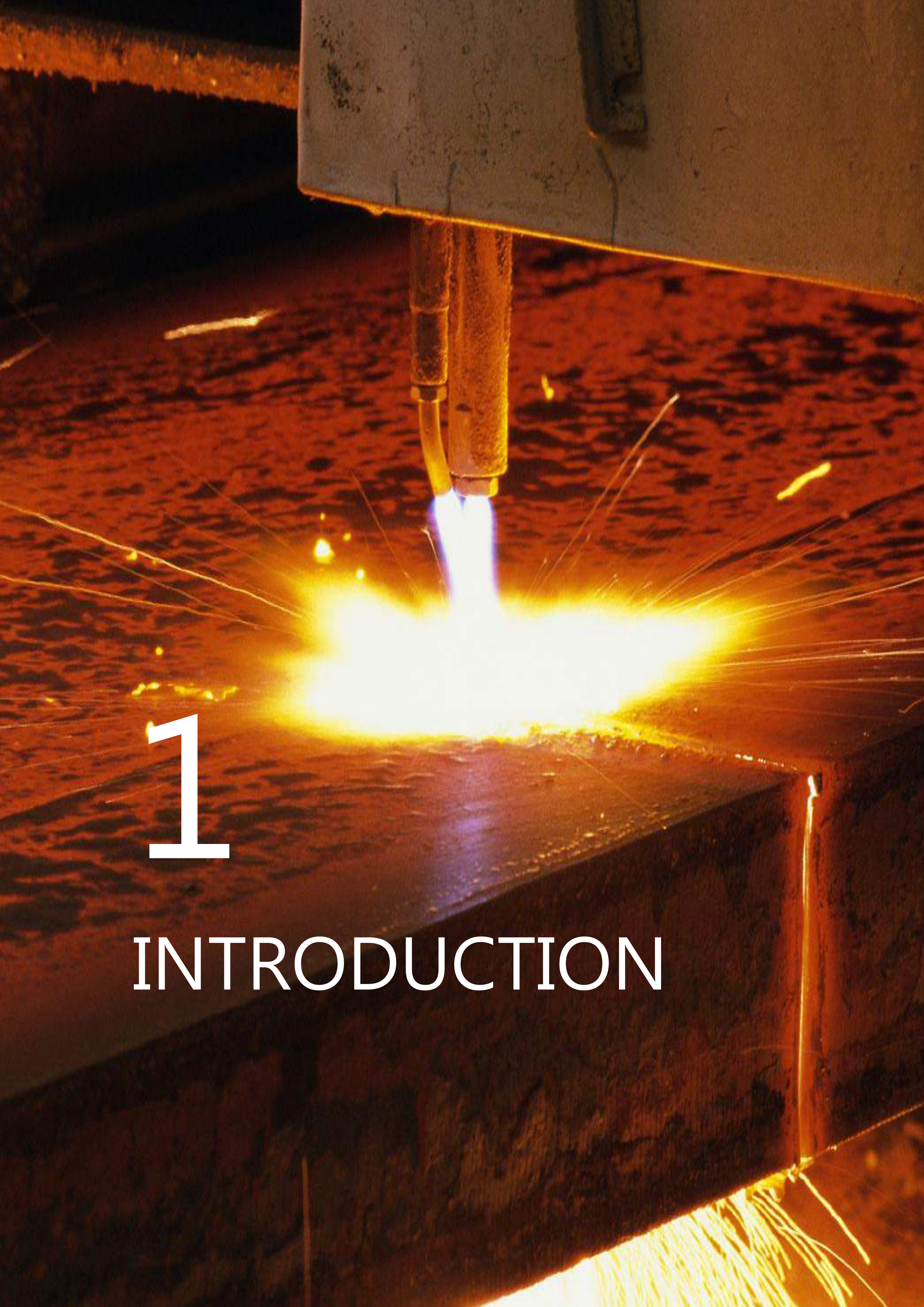
Slovenska industrija jekla

Annual report 2013



SIJ GROUP

Ljubljana, March 2014



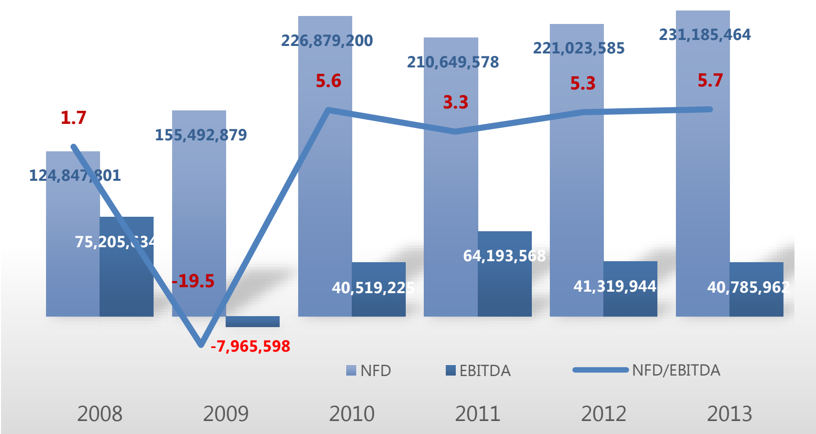
1 INTRODUCTION

INTRODUCTION

KEY FIGURES

Physical ratios (t)	2008	2009	2010	2011	2012	2013
Cast steel production	486,257	356,005	462,619	488,440	494,123	468,761
Output of finished products	411,898	282,573	367,232	394,389	406,895	370,954
Sales	406,175	352,614	498,331	565,543	550,249	560,846
Financial data (EUR)						
Revenues	702,851,130	371,152,894	590,916,742	764,977,836	732,549,967	658,653,447
Exports	75.9%	79.2%	82.7%	85.3%	85.4%	86.3%
EBITDA[1]	75,205,634	–7,965,598	40,519,225	64,193,568	41,319,944	40,785,962
EBITDA margin	10.7%	–2.1%	6.9%	8.4%	5.9%	6.2%
Operating cash flow	20,646,168	64,832,780	–6,865,406	79,852,400	61,951,957	51,319,275
Outflows for investments	78,158,757	68,046,922	35,730,914	41,280,447	47,049,882	48,750,324
Statement of financial position (EUR)						
Total assets	631,717,862	624,115,185	739,754,186	761,932,114	763,574,012	775,840,476
Equity	335,551,385	308,702,836	314,276,543	331,297,201	328,003,560	323,646,861
Net financial debt[2]	124,847,801	155,492,879	226,879,200	210,649,578	221,023,585	231,185,464
Net financial debt / EBITDA	1.66	–19.52	5.60	3.28	5.35	5.67
Number of employees on 31 December	3,489	3,268	3,299	3,248	3,141	3,162

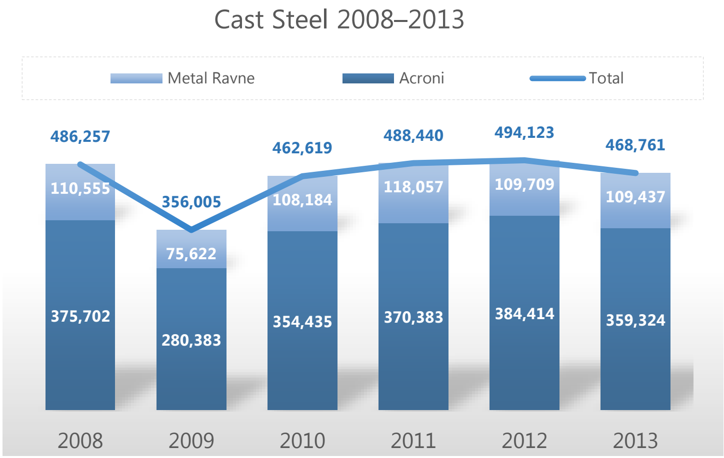
NFD and EBITDA (EUR)



[1] EBITDA = Operating profit + Amortization

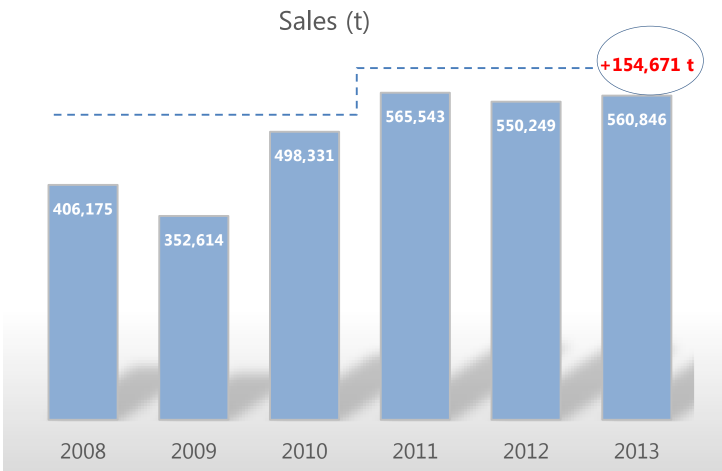
[2] Net financial debt = (Financial liabilities – Cash and cash equivalents – Short-term loans and deposits issued)
The data for previous years is calculated using the same methodology

Slovenska industrija jekla



In recent years the quantity of steel production has decreased due to two factors: stringent market conditions, and changes in the structure of manufactured steel, heading towards higher quality with added value, which needs longer lead times.

The change in steel production is even more obvious in Acroni, where the production of stainless steel has been growing – by a total of 26.6% over the last six years. If the program structure stays the same as in 2013, we will produce 441,000 tonnes of cast steel, which is 22.8% more.

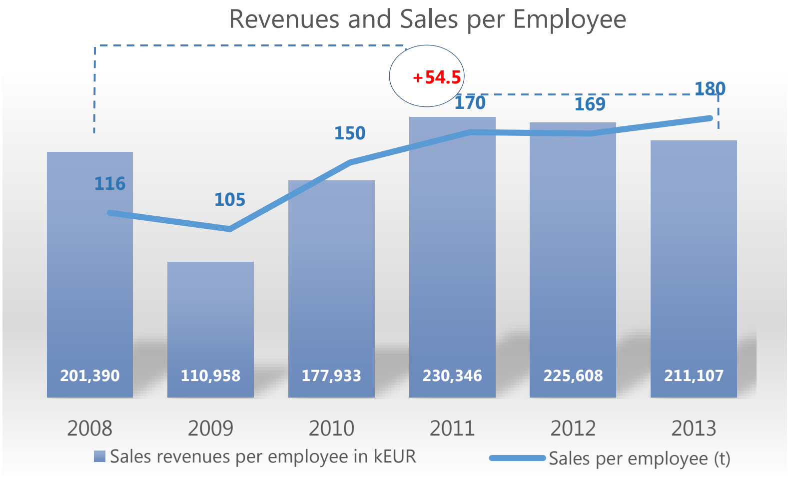


In the past six years sales have grown by 38%, that is by 154,671 tonnes. There has been a negative trend in the past two years, but in 2013 we came close to our highest sales figures, missing them by less than one %. What is important, however, is that during this period we managed to substantially improve the program structure by focusing on products with a higher added value.

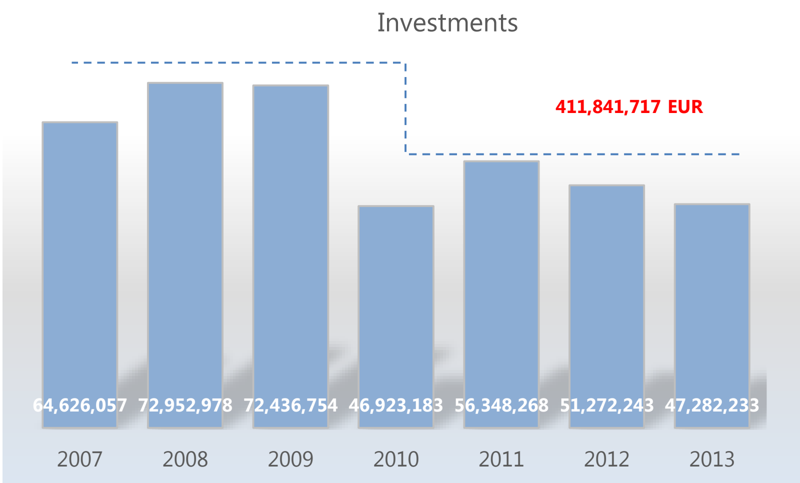
Note[3]

Our strategic orientation towards more demanding products, especially in the production and sales of stainless steel, has been backed up by investments, especially those aimed towards the production of stainless steel quarto plates.

[3] *The data in the diagram also include sales of scrap steel*



The sales value per employee has been decreasing in the last three years due to lower sales prices. This fall in prices was partly the consequence of cheaper input strategic raw materials and partly due to strong competition on the steel market. The sales quantity per employee has increased by 11 tonnes in the past year.

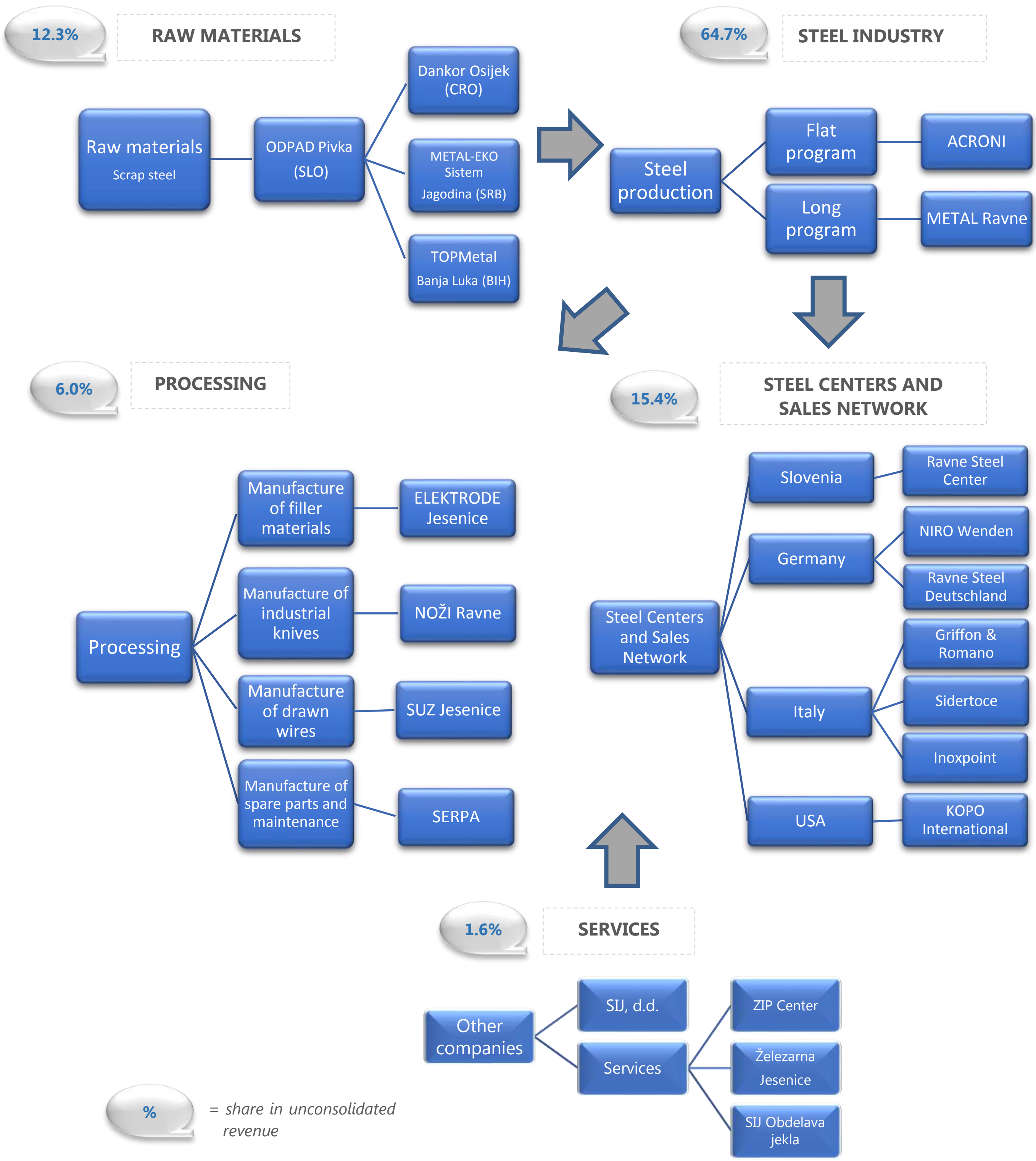


Based on our strategy for 2007-2012, we started an intensive investment cycle in 2007, which at the beginning mostly comprised technological modernizations and setting up a raw materials base and sales network. In the past two years our investment activities have been oriented toward improving the program structure with products of higher added value, that is, with stainless steel and special quarto plates, as well as special and tool steels.

CONTENTS

ABOUT SIJ GROUP

VERTICAL INTEGRATION STRUCTURE OF THE SIJ GROUP



Our main goal is for the SIJ Group to become a vertically integrated group which provides its end users with special, technologically advanced steel products.

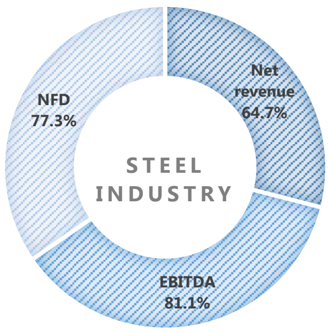
Our own raw materials cover approximately 30% of our needs for regular steel scrap; our next goal is to be able to cover part of our need for stainless steel scrap.

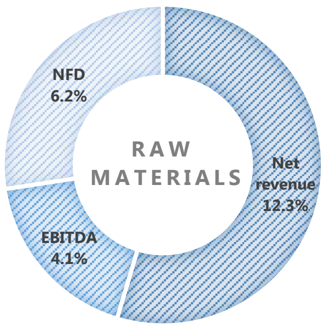
Our own service and sales centers cover 5.1% of total sales.

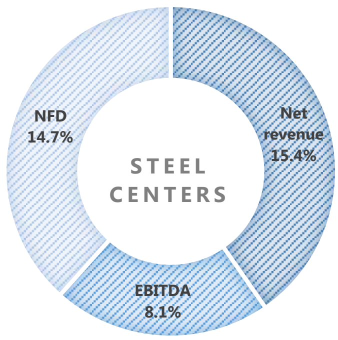
The proportions held by individual areas, as shown by the group's key ratios, are broken down in the table below. The largest share is obviously the steel industry, creating 81.21% of EBITDA, with 64.7% of revenues and 77.3% of total net financial debt.

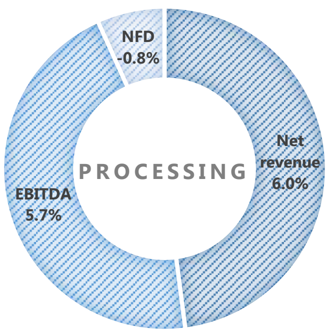
	Steel industry	Raw materials	Steel centers and sales network	Processing	Services
Net revenue	64.7%	12.3%	15.4%	6.0%	1.6%
EBITDA	81.1%	4.1%	8.1%	5.7%	1.0%
NFD	77.3%	6.2%	14.7%	–0.8%	2.7%

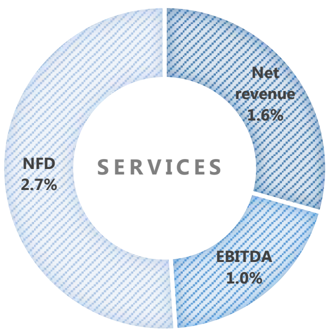
Note[4]











Calculation is based on unconsolidated data.

PROGRAM STRUCTURE

Within the SIJ Group, there is a whole range of very different programs. The emphasis is on the production of flat and bar steel, with more than 30% of the required scrap steel, the main raw material in the production of steel, provided through companies in the Group. Service and sales centers support the steel industry, selling 5.1% of our products (unconsolidated data).

Smaller, but nonetheless very significant, are the programs of industrial knives and of welding materials.

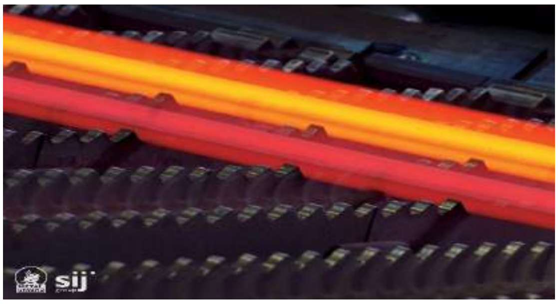
The SIJ Group is best known for the stainless steel quarto plates of Acroni, the tool steel of Metal Ravne and the RAVNE industrial knives trademark, representing Noži Ravne.

Steel Industry

Production of flat steel

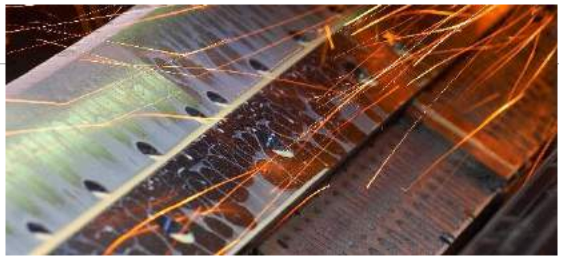
- stainless steel
- structural steel
- non-oriented electrical sheets
- special steel
- tool steel
    - → quarto plates
    - → cold rolled steel plates
    - → hot rolled steel plates
    - → non-processed quarto plates

Production of bar steel



- structural steels
- cold-work steels
- hot-work steels
- low-alloy tool steels
- fast cutting steels
- special steels

Processing



Industrial knives

- knives for metal
- paper knives
- knives for wood
- knives for recycling and plastics

Welding materials

- coated electrodes
- welding wires
- agglomerated fluxes
- coating flux
- flux-cored wires

Manufacture of drawn wires

- manufacture of drawn, polished and peeled steel bars
- manufacture of metal products

Manufacture and maintenance of spare parts

- production of various machine parts
- the layout of all kinds of machine tools
- construction services
- maintenance

Steel Centers and Sales Network

This group can be divided into companies selling products from the flat steel program, namely

- Griffon&Romano with its subsidiary Inoxpoint
- Niro Wenden
- KOPO International

and those selling products from the bar steel program:

- Ravne Steel Center
- Ravne Steel Deutschland
- Sidertoce
- KOPO International

KOPO International is increasing its sales of products from the flat steel program in the USA, selling approximately 42% of total sales in 2013.

Services

The ZIP Center is a processing company which offers social and concessionary services for the disabled. One of its activities is also production, including

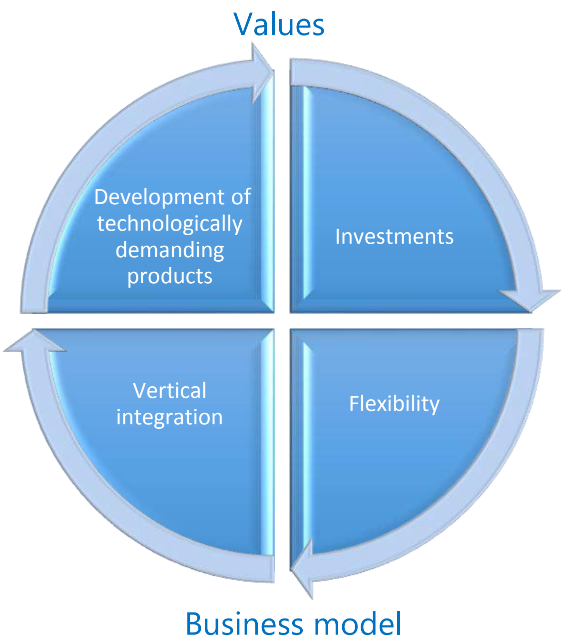
- carpentry – manufacturing custom-made furniture
- printing
- crafts workshop

SIJ, d. d. provides business services for the companies of the SIJ Group, whereas SIJ Obdelava jekla provides marketing services.

Železarna Jesenice is focused mostly on the sale of its assets.

SIJ BUSINESS MODEL

The advantages of the SIJ Group are defined in its business model, which is our foundation for creating added value. The business model is aimed at strengthening and using our advantages. Our main mission is to achieve our set goals.



Development of technologically demanding products

We are continuing to develop stainless and special steels in the areas of steel quarto plates, tool and special bar steels, in order to create the highest possible added value.

Investments

Our investments support the development of products and help us become an even more technologically highly developed group.

Flexibility

We are developing the advantages of our niche producers in both focus areas (stainless and special steels in the areas of steel quarto plates, tool and special bar steels) and by introducing short delivery times and appropriate quality are adapting ourselves to the end users and their individual requirements.

Vertical integration

By developing our own raw materials base we aim to become less dependent on the unpredictable scrap steel market.

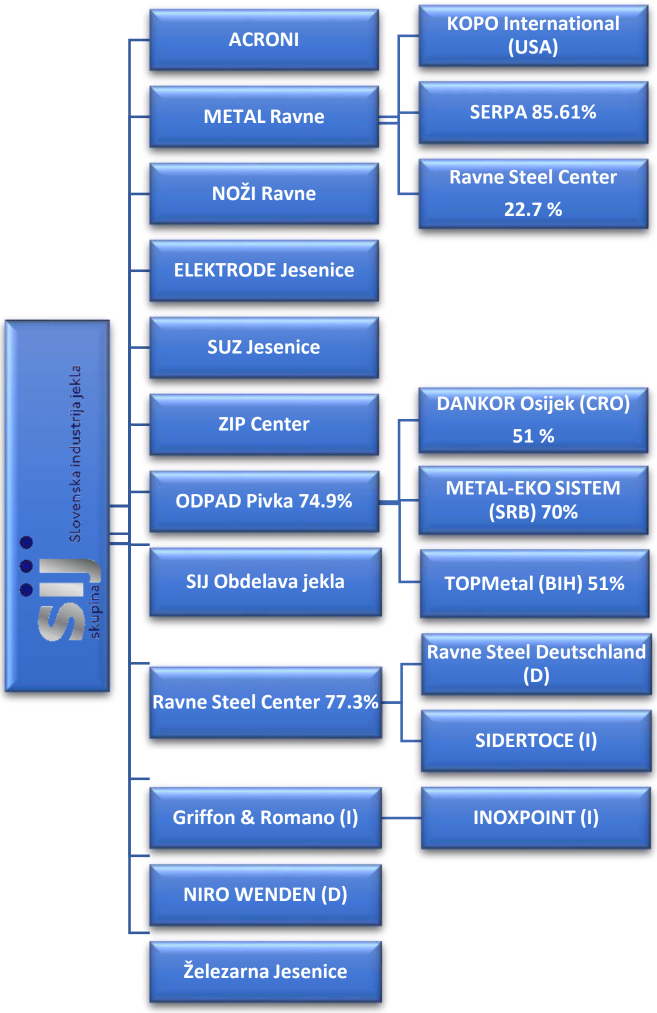
By developing our own sales network we are hoping to achieve a higher finalization and added value adapted to the end user.

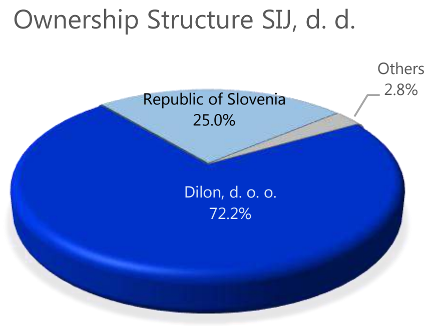
Values

We will further develop the values of our business excellence (expertise, business attitude, honesty, credibility) and support all of the participants in their efforts to achieve the highest economic efficiency.

We are developing group loyalty by different forms of employee motivation (public and social responsibility, new types of awards).

ORGANIZATIONAL AND OWNERSHIP STRUCTURE





In 2013 some minor changes in the structure of the SIJ Group took place: Odpad became a 51% owner of TOPMetal in Bosnia and Herzegovina, which is also engaged in collecting and recycling scrap steel.

Ravne Steel Center established Ravne Steel Deutschland as the new service center in Germany.

The liquidation procedures for Acroni Deutschland and Acroni Italia, initiated this year, have not yet been completed. Žična was liquidated on 30 June 2013.

The ownership structure changed at the end of 2013; Dilon, d.o.o. became the owner of 16.87% of shares from OAO KOKS, thereby increasing its share to 72.22%. The legal and official transfer of shares to Dilon, d.o.o. will be finished by March 2014. Administrative rights have already been transferred to Dilon, d.o.o., on 31 December 2013.

MANAGEMENT OF THE COMPANY AND THE SIJ GROUP

The SIJ Group and SIJ, d. d. have had new management since 17 January 2014. Before that date the company was managed by the President of the Board of Directors, Tibor Šimonka, and the Vice-President of the Board of Directors, Viacheslav Korchagin.

New Management

President of the Board of Directors

Anton Chernykh

Vice-President of the Board of Directors and CFO

Igor Malevanov

The wider management is composed of:

Executive Director for Sales	Dušica Radjenovič
Consultant to the Board of Directors	Prof. Dr. Vasilij Prešern
Executive Director for HR and Legal Affairs	Evgeny Zverev
Executive Director for Technology (since 21 January 2014)	Slavko Kanalec




GENERAL ASSEMBLY

There was one meeting of the General Assembly in 2013, on 30 August 2013, at the registered office of the company, Gerbičeva ulica 98, Ljubljana, Slovenia.

Decisions adopted at the General Assembly:

- The General Assembly agreed with the Board of Directors' proposal that the stated distributable profit of 2012 to the amount of EUR 22,837,529 should remain undistributed.

- The General Assembly dismissed the Board of Directors and the Supervisory Board for the financial year which ended on 31 December 2012.

- The auditing company Deloitte revizija d. o. o., Ljubljana was appointed for the audit of the statement of the financial position of the Group (SIJ – Slovenska industrija jekla, d. d.), and the consolidated financial statements of the SIJ Group for the financial year ending on 31 December 2013.

- The General Assembly made the decision to dismiss the supervisors Alexey Reshotka, Leonid Novikov, Ivan Simič and Mateja Gubanec. It nominated the following new members of the Supervisory Board for the period until 11 April 2015: Igor Malevanov, Evgeny Zverev, Janko Jenko and Tomaž Stare.

STATEMENT OF THE PRESIDENT OF THE BOARD OF DIRECTORS

We are commencing a new success story

As the new management of the SIJ Group we have set new goals and accepted new responsibilities, which will actively support our path to the future.

2013 was a year when our business environment was not very favorable, and we were even concerned that it would be as bad as the crisis year, 2009.

At the beginning of 2013 analysis predicted a decrease in the consumption of steel and up to a 60% decrease in the usage of capacities of metallurgic companies. These predictions were based on the difficult economic conditions both in Europe and worldwide, which resulted in a slowdown in industrial growth. Important factors were also the increased exports of Chinese metals and the slowdown of the construction sector in Europe.

The predicted economic and political instability puts the metal industry, as well as the SIJ Group, under pressure to optimize and mobilize our own capabilities, to enable us to successfully face the challenges ahead.

The extensive investments in technological modernization in all areas of business, be it within the steel industry or in setting up our own raw materials and sales network, which we have carried out over the last seven years, have not yet shown the results expected from the 411 million worth investment.

Although by making these investments we did in fact catch up to our competitors and achieved similar results to some of theirs, we could not or did not know how to break through to the most profitable areas of operation.

Although the orientation of profiling the program structure toward special and stainless steels, industrial knives for metal, flux cored welding wires, and drawn stainless wires turned out to be correct, it is now time to start increasing the added value of our products and thereby ensuring the owners an added value to their investment.

2013 showed a few weak points in our business, including marketing, therefore our main mission in 2014 is to deal with these weak points.

In doing that the new board of directors will need collaboration from all employees at the managerial and operational levels in all business functions. I therefore hope that this story of success will be the result of our common effort.

I want to take this opportunity to congratulate everybody for their active collaboration in the first two months of 2014.

President of the Board of Directors

Anton Chernykh

SUPERVISORY BOARD

Structure of the Supervisory Board

In accordance with the provisions of the statute of SIJ – Slovenska industrija jekla, d. d., the Supervisory Board of SIJ consists of seven members.

Between 1 January 2013 and 29 August 2013 the members of the Supervisory Board were: Andrey Zubitskiy, Ivan Simič, Sergey Frolov, Sergey Cherkaev, Leonid Novikov, Alexey Reshotka and Mateja Gubanec.

Between 30 August 2013 and 31 December 2013, however, the members of the Supervisory Board were the following: Andrey Zubitskiy, Sergey Frolov, Sergey Cherkaev, Igor Malevanov, Evgeny Zverev, Janko Jenko and Tomaž Stare.

- Andrey Zubitskiy, President of the Supervisory Board

  He was first elected a member of the Supervisory Board at the 17th meeting of the company's General Assembly on 4 December 2007 for the term to 11 April 2011. After the expiry of the term he was re-elected a member of the Supervisory Board at the 21st meeting of the company's General Assembly on 5 May 2011 for a term of four years, commencing on 11 April 2011.

  He was first elected Chairman of the Supervisory Board during his first term at the 5th meeting of the Supervisory Board, on 3 April 2008. During his second term he was elected Chairman of the Supervisory Board at the first meeting, on 7 June 2011.

- Ivan Simič, Deputy Chairman of the Supervisory Board

  He was first elected a member of the Supervisory Board at the 21st meeting of the General Assembly, on 5 May 2011, for a term of four years commencing on 11 April 2011, serving as a member of the Supervisory Board until his dismissal from the office at the 24th meeting of the General Assembly of SIJ – Slovenska industrija jekla, d. d., on 30. August 2013, while serving as the Deputy Chairman.

- Sergey Frolov - Member of the Supervisory Board

  He was elected a member of the Supervisory Board at the 20th meeting of the company's General Assembly on 30 August 2010 for the term to 11 April 2011. After the expiry of the term he was re-elected a member of the Supervisory Board at the 21st meeting of the company's General Assembly on 5 May 2011 for a term of four years, commencing on 11 April 2011.

- Sergey Cherkaev – Member of the Supervisory Board

  He was elected a member of the Supervisory Board at the 19th meeting of the company's General Assembly on 26 August 2009 for the term to 11 April 2011. After the expiry of the term he was re-elected a member of the Supervisory Board at the 21st meeting of the company's General Assembly on 5 May 2011 for a term of four years, commencing on 11 April 2011.

- Leonid Novikov – Member of the Supervisory Board

  He was elected a member of the Supervisory Board at the 19th meeting of the company's General Assembly on 26 August 2009 for the term to 11 April 2011. After the expiry of the term he was re-elected a member of the Supervisory Board at the 21st meeting of the General Assembly, on 5 April 2011, serving as a member of the Supervisory Board until his dismissal from the office at the 24th meeting of the company's General Assembly on 30 August 2013.

- Alexey Reshotka – Member of the Supervisory Board

  He was first elected a member of the Supervisory Board at the 21st meeting of the General Assembly, on 5 May 2011, for a term of four years commencing on 11 April 2011, serving as a member of the Supervisory Board until his dismissal from the office at the 24th meeting of the General Assembly on 30. August 2013.

- Mateja Gubanec – Member of the Supervisory Board

  She was first elected a member of the Supervisory Board at the 21st meeting of the General Assembly, on 5 May 2011, for a term of four years commencing on 11 April 2011, serving as a member of the Supervisory Board until her dismissal from the office at the 24th meeting of the General Assembly on 30. August 2013.

- Igor Malevanov – Member of the Supervisory Board

  He was elected a member of the Supervisory Board at the 24th meeting of the company's General Assembly on 30 August 2013 for the term to 11 April 2015. On 17 January 2014 he resigned from the office.

- Evgeny Zverev – Member of the Supervisory Board

  He was elected a member of the Supervisory Board at the 24th meeting of the company's General Assembly on 30 August 2013 for the term to 11 April 2015.

- Janko Jenko – Member of the Supervisory Board

  He was elected a member of the Supervisory Board at the 24th meeting of the company's General Assembly on 30 August 2013 for the term to 11 April 2015.

- Tomaž Stare – Member of the Supervisory Board

  He was elected a member of the Supervisory Board at the 24th meeting of the company's General Assembly on 30 August 2013 for the term to 11 April 2015.

Tasks of the Supervisory Board in 2013

In 2013 the Supervisory board of SIJ – Slovenska industrija jekla, d. d. (hereinafter: the Supervisory Board), revised the operations of the companies within SIJ – Slovenian Steel Group and of SIJ – Slovenska industrija jekla, d. d, and also made 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 2013 the Supervisory Board only held one regular meeting, the 6th meeting, held on 8 July 2013.

The meeting of the Supervisory Board was chaired by Andrey Zubitskiy.

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

- The Supervisory Board reviewed both Annual Reports of SIJ, d. d. and of the SIJ Group within the legally prescribed time limit. The revision report was also discussed, in which the audit company Deloitte revizija d. o. o. affirmed that the statements of financial position were in every aspect a fair representation of each individual company's financial position on 31 December 2012 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. It was further confirmed that, in line with the first paragraph of Article 57 of the Companies Act, the auditors also reviewed the business reports which are, in their opinion, compliant with the audited statements of financial position.

- The Supervisory Board acknowledged that the Annual Reports of the SIJ company and the SIJ Group are fair representations of the operations, and that they provide complete information on their operations in 2012. Since there were no objections regarding these Annual Reports, they were unanimously approved by the Board. With this, the Annual Reports of the SIJ company and of the SIJ Group, in line with the provisions of the Article 282 of the Companies Act and the Article of Association of the company SIJ d. d., were officially approved. Together with the Annual Report, the

Supervisory Board also confirmed the Board of Directors' proposal on the usage of distributable profit, which amounted to 22,837,529 EUR on 31st December 2012.

- The Supervisory Board also decided to propose to the General Assembly of the SIJ company – Slovenska industrija jekla, d. d. that the stated distributable profit of 2012 to the amount of 22,837,529 EUR should remain undistributed and that both the Board of Directors and the Supervisory Board be dismissed for the year that ended on 31 December 2012.
- The Supervisory Board took note of the information regarding the business operations of the companies of SIJ Group during 2013, and of the information regarding the SIJ Group's business plan for 2013.
- The Supervisory Board came to the decision to propose to the General Assembly of the SIJ company SIJ – Slovenska industrija jekla, d. d. that Deloitte revizija d. o. o Ljubljana be appointed for the audit of the statement of the financial position of SIJ – Slovenska industrija jekla, d. d., and the consolidated financial statements of the SIJ Group for the financial year 2013.
- The Supervisory Board also came to the decision to propose to the General Assembly of the company SIJ – Slovenska industrija jekla, d. d. a decision on the dismissal of two members of the Supervisory Board and the election of two new members to replace them.
- The Supervisory Board also received the verdict of the Higher Court in Ljubljana, which ordered SIJ, d.d., to provide the company D.P.R. with a 20% share in its subsidiaries Metal Ravne, d. o. o. and Noži Ravne d. o. o. by signing exchange agreements, and to exchange these shares with the shares of SIJ, d. d., owned by D.P.R., in a way that will make SIJ, d. d. the owner of its own shares after the exchange. SIJ – Slovenska industrija jekla d. d., initiated audit proceedings at the Higher Court.

The invitations to the meeting of the Supervisory Board, and the written material which was the basis for the Supervisory Board's decisions, was sent to the members of the Supervisory Board via email.

Evaluation of the Board of Directors' Work and Cooperation with the Supervisory Board

The Supervisory Board monitored and controlled the management of SIJ, d. d. and the SIJ Group throughout the year. The members of the Supervisory Board had all the necessary data, reports and information at their disposal. The Board of Directors presented them with more detailed or additional reports at their request.

The material was given in the week before the meeting, and thus the preparation for the meeting was carried out smoothly. The Board of Directors, together with its specialist services, was 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 Members of the Board of Directors and their co-workers. 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.

The Supervisory Board assesses that the Board of Directors did everything in its power to achieve the set goals in this difficult situation. Despite this, the results were negative.

President of the Supervisory Board

Andrej Zubitskiy

Approval of the Annual Report

The Supervisory Board reviewed the Annual Reports of both SIJ, d. d. and the SIJ Group within the legally prescribed time limit. The revision report was also discussed, in which Deloitte revizija d. o. o. affirmed that the statements of financial position were in every aspect a fair representation of each individual company's financial position on 31 December 2013 and of 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 of the Companies Act, 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 2013. Since there were no objections with regard to the Annual Report, the Board unanimously approved it at the meeting on 15 July 2014. 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 for the usage of distributable profit.

SIJ generated a net profit of EUR 1,751,428 in 2013, or EUR 1,663,857 after forming legal reserves. This, together with retained profits to the amount of EUR 22,837,529 represents the distributable profit of EUR 24,501,386 as at 31 December 2013.

The Board of Directors and the Supervisory Board of SIJ, d. d., suggested to the General Assembly that the distributable profit remains undistributed.

IMPORTANT EVENTS AND ACHIEVEMENTS IN 2013

Andrej Gradišnik, the Managing Director of Metal Ravne, received an award from the Slovenian Chamber of Commerce– Ljubljana, March 2013

The award from the Slovenian Chamber of Commerce for Outstanding Economic Achievements in large companies was presented to the Managing Director of Metal Ravne, Andrej Gradišnik, for his good work and excellent results, at its 45th awards ceremony.

Sponsorship of the Ski Jumping World Cup in Planica – Planica, March 2013

As usual the SIJ Group – Slovenska industrija jekla sponsored the Ski Jumping World Cup in Planica.

The new Rolling Mill was put into operation at Acroni – Jesenice, May 2013

The new modern Rolling Mill will enable Acroni to produce wider – up to 2500 mm wide – thinner and more demanding cutting-edge steel products. In this way, Acroni is expanding its range of products, thereby strengthening its position as the leading producer of quarto plates in the EU. Special guests at the ceremony included the Prime Minister Alenka Bratušek, the Minister of the Economy Stanko Stepišnik, and the Olympic bronze medal winner in cross-country skiing Petra Majdič, after whom the new Rolling Mill was named.

A big investment by Metal Ravne into the production of special steels – Ljubljana, July 2013

SIJ Group – Slovenska industrija jekla and its company Metal Ravne signed a contract at the end of July with two companies from the SMS Group – the Italian SMS INNSE and the German SMS Mevac. This commits the undersigned parties to adhere to their agreed plan to invest in the development of secondary metallurgy by March 2015, i.e. the new ladle furnace and vacuum station (VD/VOD in the Metal Ravne Steel Mill. This contract is worth EUR 12.5 million and is part of a EUR 18.2 million investment project.

Metal Ravne and Acroni win awards for innovative ideas– Brdo pri Kranju, September 2013

At a ceremony held on the 11th Innovation Day on 17 September 2013, at Brdo pri Kranju, the Slovenian Chamber of Commerce (GZS) gave national awards to the most creative individuals and their companies for the year 2012. Prestigious silver awards were received by 20 projects, including those from Metal Ravne, the Jesenice Development Center and Acroni.

Signing a 4-year contract with the Olympic Committee of Slovenia – Ljubljana, November 2013

In November 2013 we signed a sponsorship agreement with the Olympic Committee of Slovenia for the next four years.

2
BUSINESS REPORT

BUSINESS REPORT

BUSINESS ENVIRONMENT AND STRATEGY

DEVELOPMENTAL ORIENTATION AND GOALS

The basis for setting goals and orienting our further development is the analysis of advantages and disadvantages, which is dynamic and changes through the years.

The main goal of the SIJ Group is to become a vertically integrated group which provides its end users with special technologically advanced steel products.

Developmental orientation:

- Vertical integration: our own scrap collection division should cover up to 60% of our regular scrap steel demands and should start the collection of alloy scrap.
- Production of custom-made technologically advanced steel products: investments in new equipment for expanding our range of products with strategic potential. Become the most successful niche producer in Europe.
- End users: our own sales network, especially in the form of sales and processing centers, which will cover up to 12% of sales in key markets and provide direct feedback about the situation on the markets and customer requirements.
- Highly qualified and motivated employees.

The key goals we will be aiming to achieve in the next ten years are focused on increasing the production and sales of stainless steel and special steel quarto plates to become the leading manufacturer in Europe.

In the segment of highly specialized and mechanically processed high-alloy tool and special steels we want to become a more visible player in the European market (our present share is 7–9%).

Geographically we wish to increase our share in the American market for both core programs (stainless steel and special steel quarto plates as well as tool and special bar steels).

Sales of industrial knives and welding and filler materials still form part of our core programs.

To further connect our production with our end customers we have been strengthening our sales network by developing steel centers for the last three years. We will continue to aim for these goals in the future, in order to reduce the number of intermediaries and bring our products closer to our end customers.

THE STEEL MARKET

The steel market has always been cyclical and closely connected to the general economic situation, due to the trends in steel capacities and the trends in the demands of individual markets. The main reason for this are fluctuations or cyclical trends in some industries such as the automotive, construction, engineering and vehicle manufacturing for transportation as the main steel users.

After a period of consistent growth from 2004 to 2008 there was a rapid decrease in demand due to the global economic crisis, which revealed the vulnerability and instability of the steel market. After a short recovery in 2010 and 2011 the year 2012 was negatively marked by the crisis in the Eurozone. Meanwhile, worldwide demand outside China was decreasing until the last quarter of 2012.

After a significant decrease in demand for steel in Europe in the year 2012, this trend continued throughout the first half of 2013, resulting in decrease in demand of more than 30% compared to 2007. In the USA demand also decreased slightly in 2013, whereas in China, after a bad year in 2012, there was a growth in demand for steel due to a greater number of infrastructure and construction investments.

Despite an optimistic forecast for the first half of 2013, real recovery in the European economy was not evident until the second half of the year. The growth in markets outside Europe in 2013 was also not as expected, which, together with over-capacities, resulted in a very difficult year for the steel industry. Usage, especially on the European market, fell once again, bridging the gap between sales and purchase prices.

Although world steel production grew by 3.5%, it once again fell in the developed world - both in the USA as well as in Europe - by almost 2%.

World steel production in million t[5]	2012	2013	2013/2012
Europe	319.5	313.1	-2.0%
EU (27)	*168.6*	*165.6*	*-1.8%*
CIS	*111.0*	*108.9*	*-1.9%*
North America	121.6	119.3	-1.9%
USA	*88.7*	*87.0*	*-1.9%*
South America	46.4	46.0	-0.9%
Africa	15.3	16.0	4.6%
Middle East	24.7	26.3	6.5%
Asia	1,019.6	1,080.9	6.0%
China	*724.7*	*779.0*	*7.5%*
Australia and New Zealand	5.8	5.5	-5.2%
World	1,552.9	1,607.2	3.5%

World GDP grew by 3.1%, which is 0.1 percentage points less than in 2012. This growth was limited to China and other fast developing economies, while in Europe it stagnated.

The forecast for 2014 is positive, with world GDP expected to grow by 4%, which is 0.9 percentage points more than in 2013. After two years of stagnation moderate growth is also expected in Germany, Italy and the USA, our biggest buyers.

The use of steel, as already mentioned, largely depends on the development and demand of the industries represented in the table below. Our Steel Mills are closely connected to mechanical engineering, shipbuilding, the car industry and other metal production. During the past few years a positive trend was

[5] *Source: WSA*

recorded only in the car industry, tube manufacture and the metal industry, and these are exactly the industries with the best outlook for the next few years.

EUROFER - Development of Main Sectors - Steel Users[6]								
Change year-on-year (SWIP - weighted average of steel production))								
	% of total consumption	Q1 13	Q2 13	Q3 13	Q4 13	2013	2014	2015
Construction	35%	–7.5	–3.3	–1.1	–0.5	–2.9	1.3	2.4
Machine manufacture	14%	–7.6	–3.3	–2.6	–0.8	–3.6	2.9	4.4
Car industry	18%	–8.5	2.5	4.0	6.0	0.7	3.0	2.5
Household appliances	3%	–1.9	1.3	3.1	1.9	1.1	2.9	3.7
Other vehicles	2%	0.3	–0.4	4.3	4.4	2.1	4.4	3.8
Tubes	12%	–7.6	–3.6	–6.8	0.7	–4.4	3.1	5.2
Metal products	14%	–4.7	–0.2	2.1	3.3	0.0	2.7	3.4
Other	2%	–4.7	–0.9	0.4	2.8	–0.6	3.1	3.3
TOTAL	**100%**	**–6.9**	**–1.6**	**–0.3**	**1.6**	**–1.8**	**2.5**	**3.3**

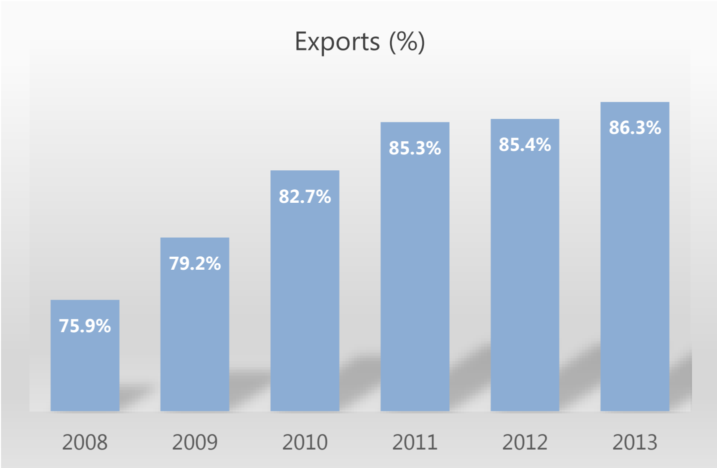
SIJ GROUP MARKETS

From a geographical viewpoint the Group is mainly spread throughout Europe, with 18 companies having their registered offices inside the European Union, two in former Yugoslavia and one in the United States. Europe is also our most important and largest market segment, representing (together with sales in Slovenia) 89% of product sales. The characteristics of the European market, especially the EU, have also created the level of demand for our products in 2013. As already stated, 76.7% of products were sold on the EU market, despite the fact that the EU market was suffering from the Euro crisis in addition to the economic crisis.

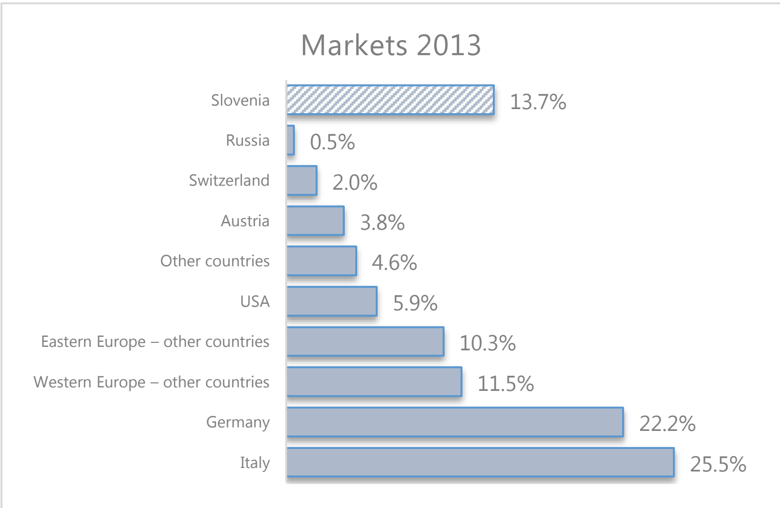
The demand for the individual products of the SIJ Group is closely related to the development of individual industries. Since 2009 the construction industry, mechanical engineering and metal products have suffered from negative growth, which is reflected not only in sales of steel products but also in sales of welding materials. The low economic growth has had a negative effect on our processing industries, especially the manufacture of industrial knives. The car industry has been in crisis for years. However, state aid since 2010 has helped in achieving less negative growth than otherwise might have been.

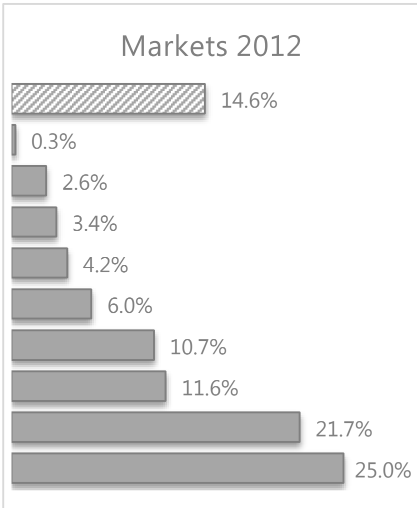
The sales of our products on the local market in the past several years has been decreasing, whereas exports, especially to the EU markets where we have managed to export over 69.3% of our products (0.3 percentage points more than 2012) have been increasing.

[6] *Source: EUROFER Forecast January 2014*



The biggest increase on the EU markets was recorded in Italy and Germany, where we have our own sales and processing centers (service centers). Sales on the Austrian market are once again increasing. Since the EU market has been shrinking for the past several years, we are pleased to have received positive results from our orientation towards other non-European markets.



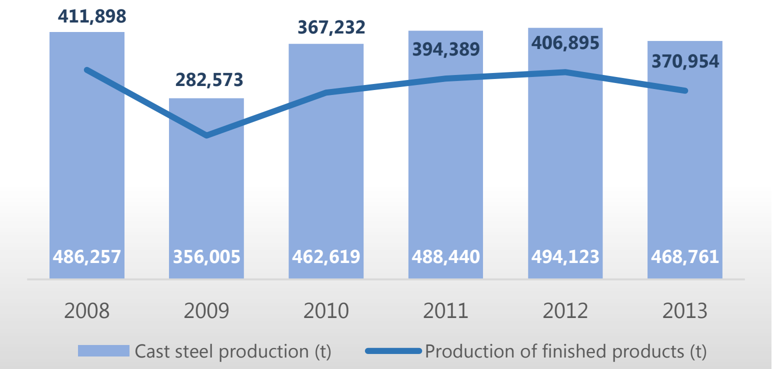


BUSINESS RESULTS

PRODUCTION

Physical ratios (t)	2008	2009	2010	2011	2012	2013
Cast steel production	486,257	356,005	462,619	488,440	494,123	468,761
Production of finished products[7]	411,898	282,573	367,232	394,389	406,895	370,954
Flat range	317,203	219,617	286,016	299,865	317,100	284,110
Long range	77,168	51,175	67,017	76,967	74,208	72,155

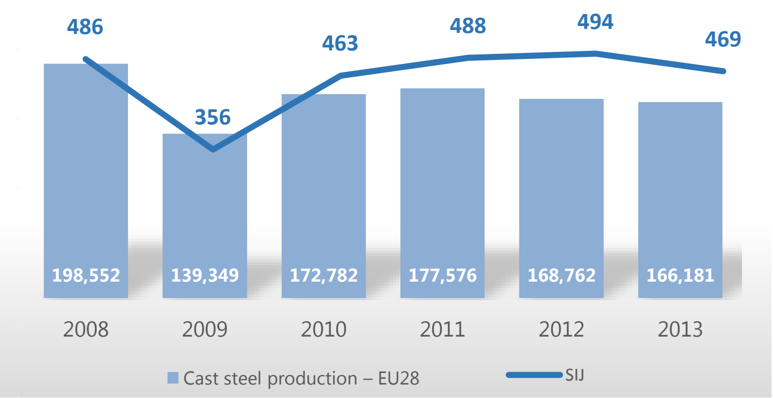
Cast Steel and Finished Products Production



Cast steel production still has not reached the levels of 2008, since it has not yet recovered from the economic and financial crisis of the European economy, which is our main market. The recovery was highest in the German economy, whereas the southern part of the EU (Spain, Italy, and also Slovenia) is still in crisis.

European steel production fell by 16.3% from 2008 to 2013, that is from 198.6 million tonnes to 166.2 million tonnes.

Cast Steel Production – EU28 and SIJ (in kTonnes)



[7] *Production of companies Acroni, Metal Ravne, Noži Ravne, Elektrode Jesenice and SUZ Jesenice*

SALES

Sales Volume

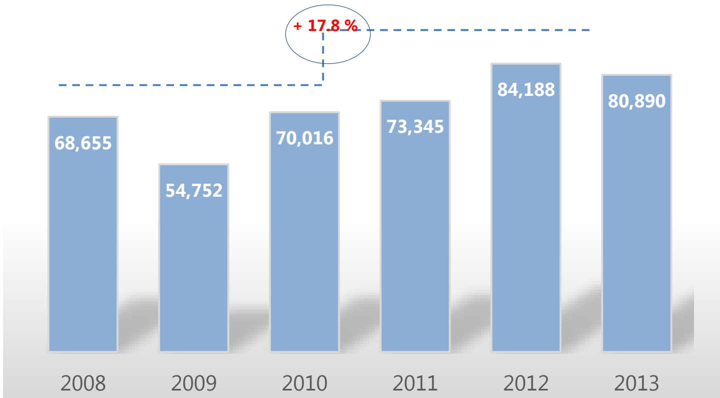
Physical ratios (t)	2008	2009	2010	2011	2012	2013
Sales [8]	406,175	352,614	498,331	565,543	550,249	560,846
Flat range	293,602	220,029	276,514	288,776	301,079	256,273
Long range	60,617	39,325	44,168	52,927	52,844	52,779

In the past six years sales have grown by 38%, that is by 154,671 tonnes. However, the trend over the last two years was not positive, reaching its highest point of sales quantity in 2011, but in 2013 still almost 1% lower than before.

The biggest sales share goes to our steel program, where the largest proportion is represented by stainless and special steels. Sales of stainless flat steel have grown by 17.8% in the last six years, whereas sales of special flat and bar steel have grown by 6.9%.

The stability of the long steel or bar steel market is higher than that of the flat program, where the market tends to be very volatile. Fluctuations on the market tend to have the greatest impact on stainless steel since during unfavorable market and economic conditions the demand for low-cost complementary material increases.

Stainless flat steel, with its program of stainless steel quarto plates, is the largest program inside the SIJ Group. Quarto plates represented 42.4% of all sales of the SIJ Group in 2013.



[8] *Includes the sales of the companies of the steel industry, the raw material base, and the processing and service centers together with the sales network*

Revenues

2013 was marked by very low, stable prices of raw materials, which (together with lower sales prices) resulted in lower income. Sale price influence contributed a 92.9 million lower income, whereas the influence of the sales volume was positive, amounting to EUR 14.3 million based on the total operating income.[9]

in EUR	2008	2009	2010	2011	2012	2013
Net sales revenues	702,851,130	371,152,894	590,916,742	764,977,836	732,549,967	658,653,447
Other operating income	6,477,721	7,088,495	8,878,189	9,162,889	8,359,307	3,643,735
Finance income	2,233,779	4,242,357	2,802,124	1,459,359	968,639	1,207,874
Total revenues	**711,562,630**	**382,483,746**	**602,597,055**	**775,600,084**	**741,877,913**	**663,505,056**

Between 2008 and 2013 the Group made between 97 and 99.3% of revenues by selling its products. Among other operating incomes are revenues from the application of received subsidies (EUR 1.6 million) and revenues from capitalized own products and received compensations (a total of EUR 1.8 million for both).

Revenues by Markets

Revenues	2008	2009	2010	2011	2012	2013
Revenues (EUR)	702,851,130	371,152,894	590,916,742	764,977,836	732,549,967	658,653,447
Exports (%)	75.9%	79.2%	82.7%	85.3%	85.4%	86.3%

Problems in the local market increase sales abroad. The proportion of exports has been growing for years now (longer than shown in the timeline above). Despite the crisis in 2009 we have managed to increase the share of our exports by 3.3 percentage points.

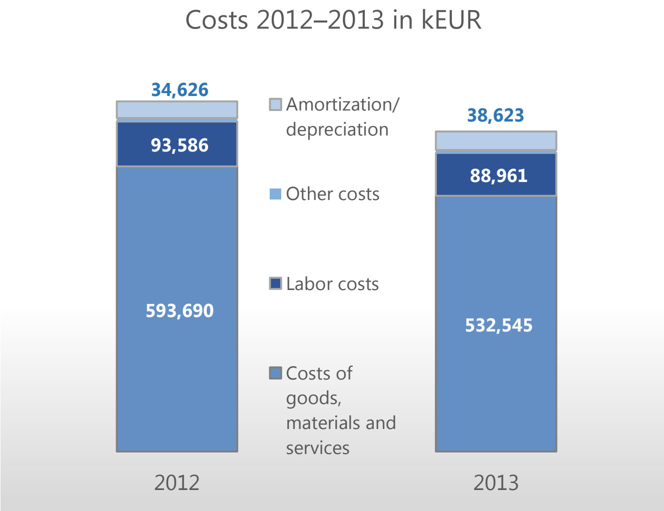
Our biggest partners amongst foreign markets are the countries of the EU, representing a 69.3 percentage sales share and 80.3% of export in 2013. Our biggest partners are Italy and Germany (representing together 47.7% of all income), whereas outside the EU our biggest buyer is the USA, representing approximately 6% (5.9 in 2013) sales share of all products and a 6.9% share of exports in 2013.

COSTS

The biggest share in the cost structure of goods, materials and services goes to material costs; averaging 74.1% over the last six years. In 2013 it was 2.6 percentage points lower, and 1.6 percentage points lower compared to 2012.

In some fixed costs the shares grew due to lower income and expenses values; for example, the cost of labour grew by 0.5 percentage points, despite reaching a face value of EUR 4.6. million. Compared to the previous year the amortization share grew in value as well as structurally (by one percentage point).

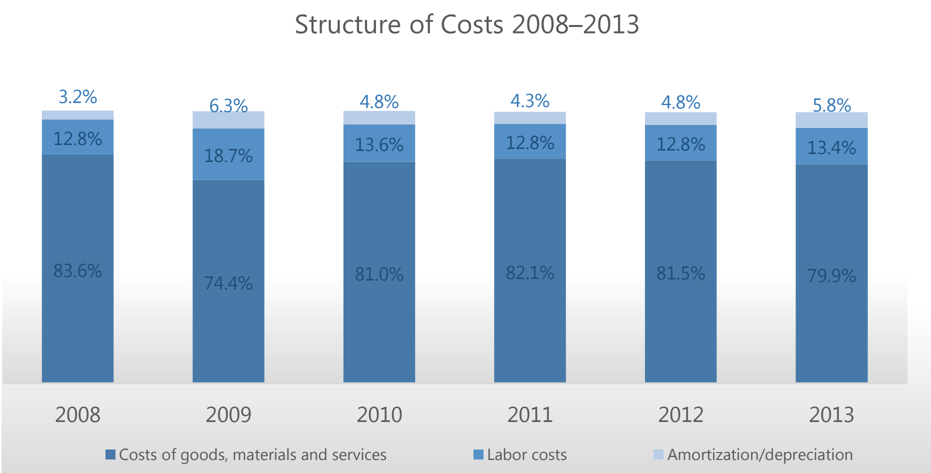
[9] *Total operating income = net sales revenues + other operating income*



Costs of materials, goods and services in 2013 were more than EUR 60 million lower, representing 79.9% of all costs structurally or 1.5 percentage points less than in 2012.

Return on work carried out has increased since costs per employee, compared to the previous year, fell by 4.9%.

Historically the proportion of individual expenses on average has not changed; the only noticeable difference was recorded in 2009, marked by the crisis, which caused a huge overall discord. Costs of energy in 2013 represented 12.2% of all costs of materials, goods and services, reaching the same proportion as in 2012.



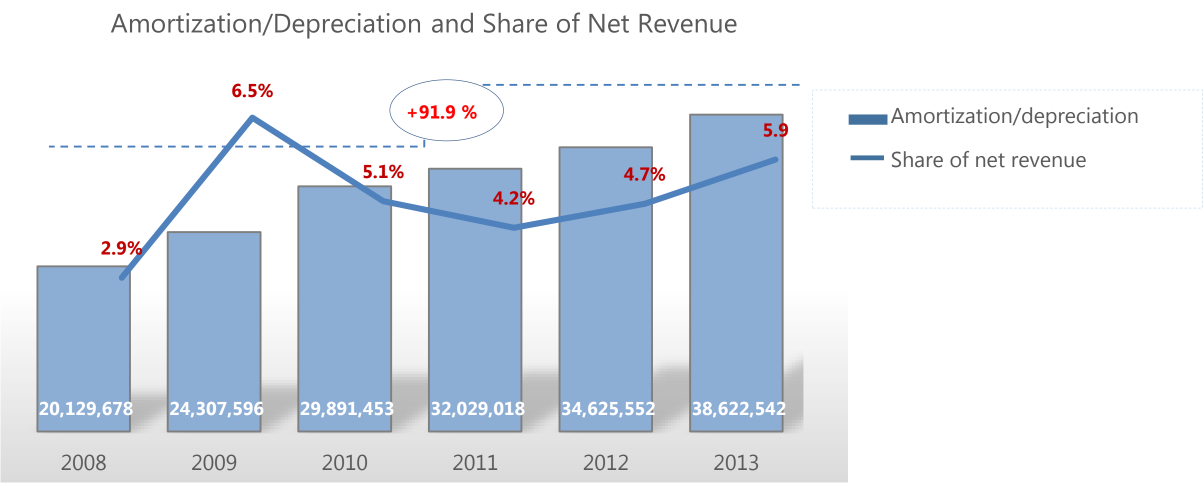
In the past six years labor costs per employee increased by 23.9%, which is partly the consequence of the growing prices of basic necessities (salary escalation) and partly due to salary increases due to promotions, increasing the length of the employment period and improving the employee structure.

The inflation rate from the beginning of January 2008 and until the end of December 2013 was 11.6%.

Amortization/Depreciation

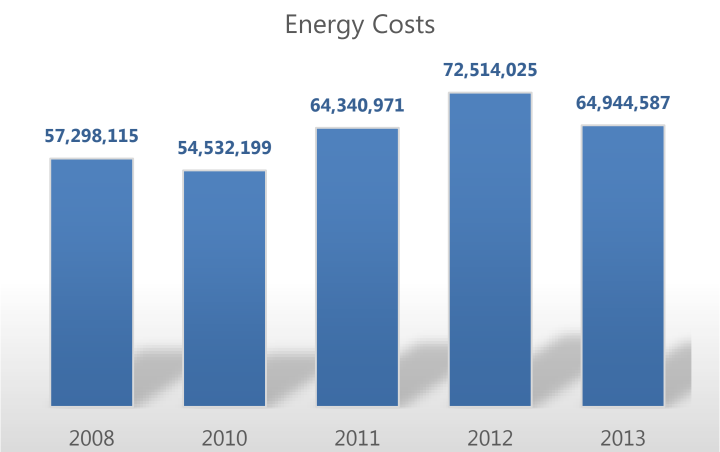
Due to our active investment policy, amortization/depreciation[10] grew both in value (by four million) as well as structurally (by one percentage point) compared to the previous year.

Looking over the last six years, we have almost doubled the value of amortization/depreciation, as we have invested over EUR 345 million during this period, and EUR 410 over the last 7 years, mostly for upgrading the existing machinery from a technological viewpoint, and, in the last two years, with a focus on expanding our production programs.



Energy

The utilization of energy-generating sources, and improving our energy efficiency, is one of the areas which has also received more of our attention, since energy-generating sources represented from 10.6 to 12.2% in the structure of costs between the years 2008 and 2013. The biggest users are companies in the steel and processing industry, which used nearly 500,000 MWh of electricity and 70 million m3 of natural gas in 2013.



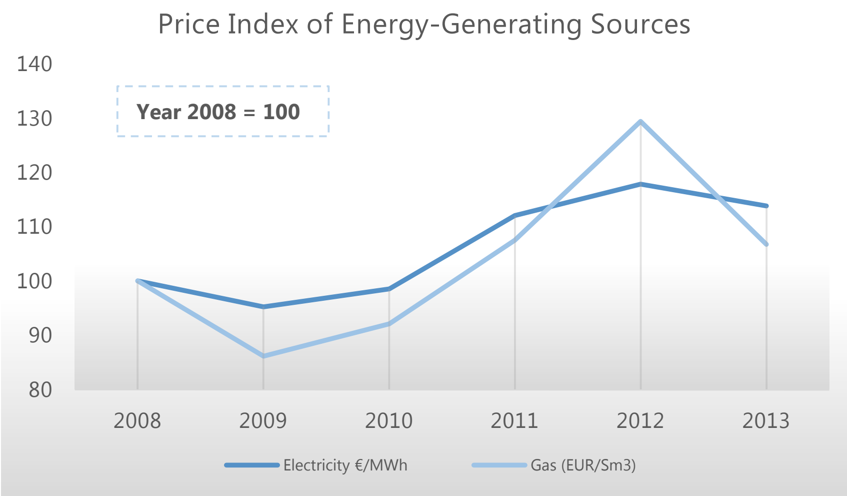
The consumption of electricity per tonne of product has decreased by 22.5% over the last five years. At the same time the structure of production towards those products which are more demanding of energy has improved.

If prices remained the same, the estimated saving (measured by usage/t in 2008) amounts to EUR 3.6 million.

[10] More on this on page 56

Slovenska industrija jekla

The efficiency of natural gas consumption over the last five years has improved, that is, by 18.8% per tonne of final product. The estimated saving (measured by usage/t in 2008) amounts to EUR 1.3 million.



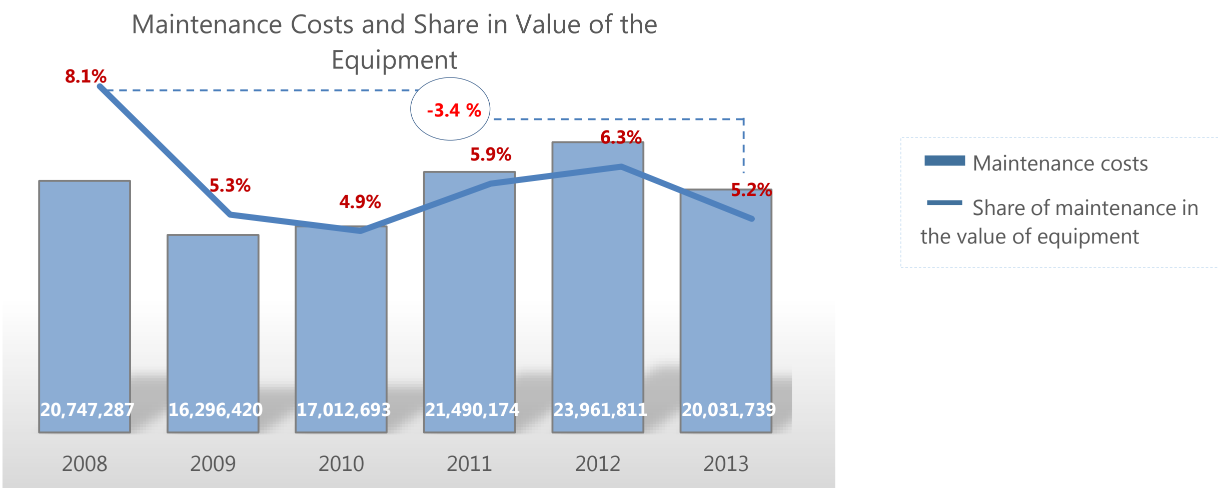
Measures for Lowering Costs and Their Effects

By introducing measures for lowering fixed and variable costs we have been able to save nearly EUR 6.5 million in 2013.

A particular focus has been on labor costs, which have increased within the structure of total costs, due to lower realized prices of income materials that lowered the total operational cost. The income generated was EUR 1.5 million.

Other important areas were maintenance, where we have been decreasing the proportion of maintenance costs in the value of equipment for the past several years, including 2013. These costs were EUR 3.9 million lower in 2013 than in the previous year.

Energy efficiency was improved, saving us a total of EUR 4.9 million (not including savings based on lowering costs).



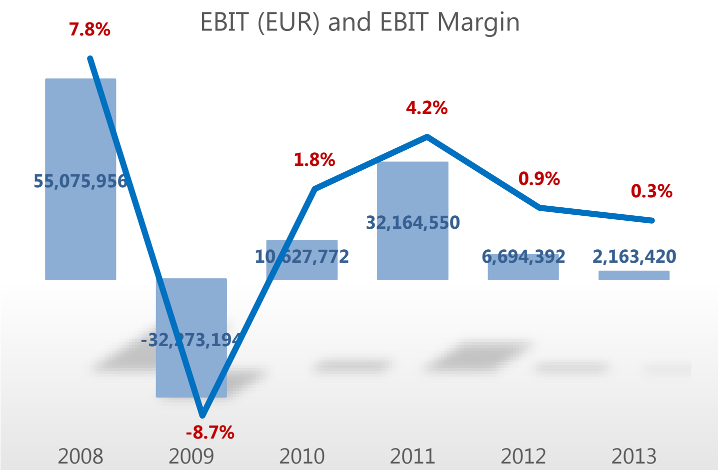
OPERATING PROFIT

	2008	2009	2010	2011	2012	2013
Revenues (EUR)	702,851,130	371,152,894	590,916,742	764,977,836	732,549,967	658,653,447
EBITDA (EUR)	75,205,634	–7,965,598	40,519,225	64,193,568	41,319,944	40,785,962
EBITDA margin	10.7%	–2.1%	6.9%	8.4%	5.6%	6.2%
Operating cash flow (EUR)	20,646,168	64,832,780	–6,865,406	79,852,400	61,951,957	51,319,275
Outflows for investments (EUR)	78,158,757	68,046,922	35,730,914	41,280,447	47,049,882	48,750,324

In 2013 the sales quantity per employee grew by 6.1%, whereas the income per employee fell by almost the same amount, that is by 6.4%. This is an indicator for the huge decrease in sales prices in the past year, which was also partially aided by a decrease in purchase prices. Due to the excessive supply on the market the pressure of buyers was extra high.

The gap between sales and purchase prices was negative and reached almost EUR 30 million. In order for the Group to reach a profit of EUR 25 million it would have had to raise prices for its customers based on the changes in purchase prices.

Operating Profit (EBIT)

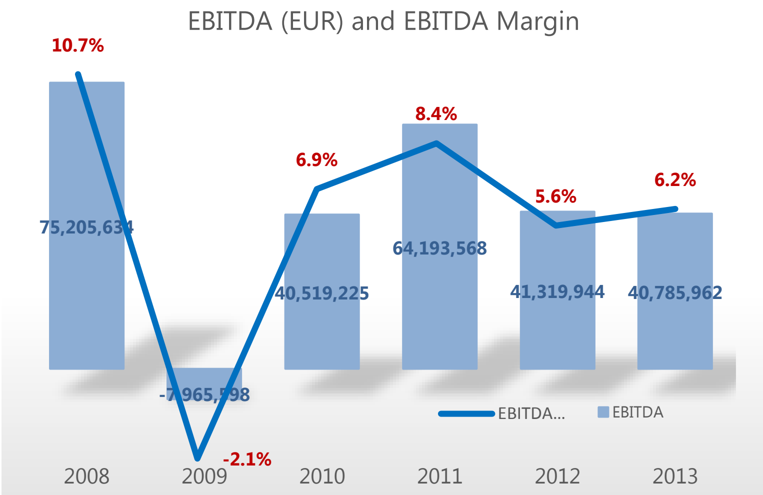


In 2013 the biggest factors in operating profits were lower quantities of sold products and lower sales prices compared to the level of raw material prices. Cover of the fixed costs per unit of product has therefore decreased.

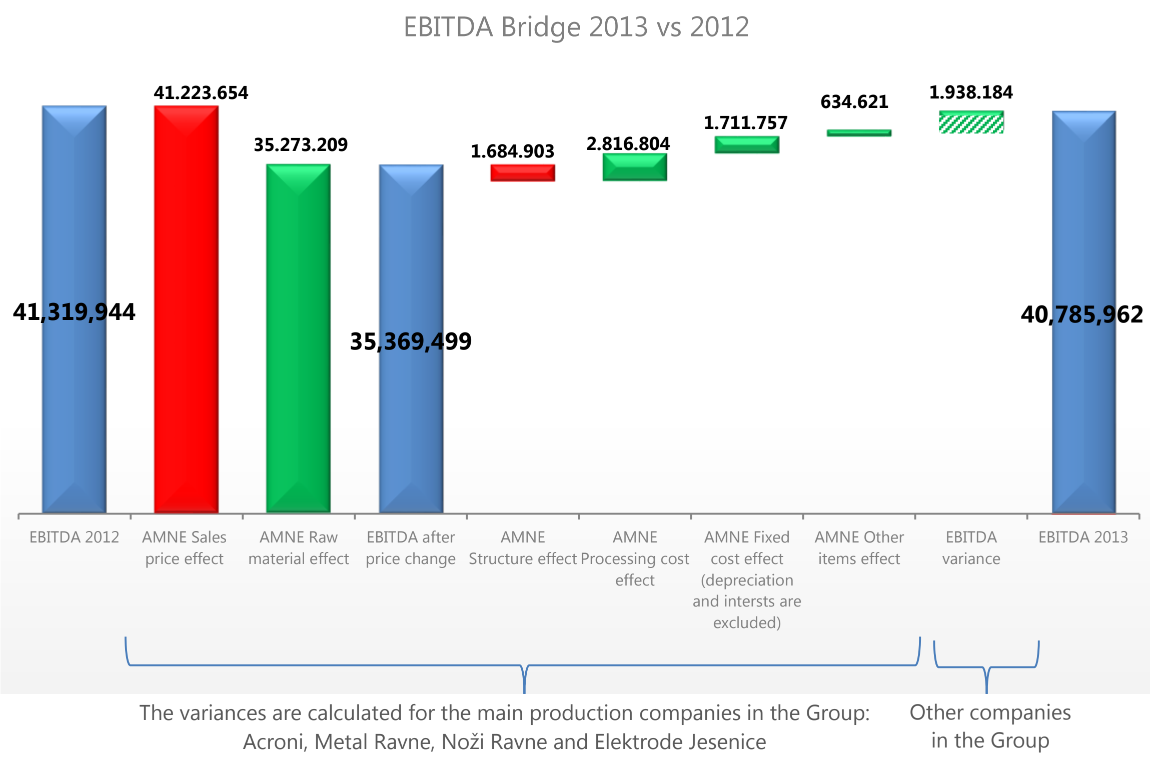
EBITDA

The EBITDA is our key performance ratio, enabling us to evaluate our business performance and our investment capacity.

The EBITDA in 2013 was EUR 0.5 million lower, which is the consequence of a EUR 4.5 million lower operating profit and EUR 4 million higher amortization.



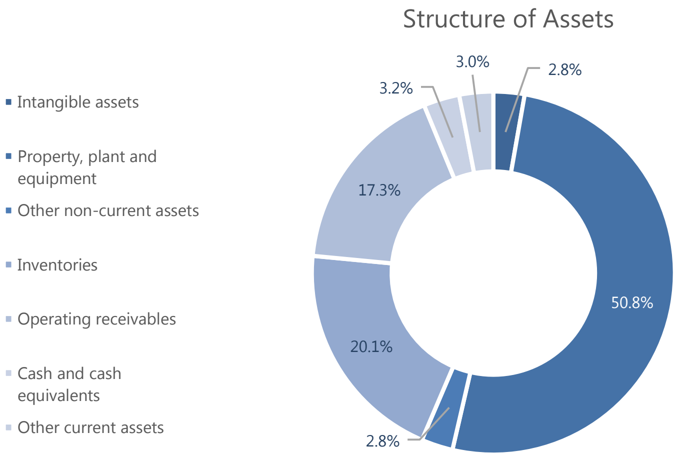
The steel companies Acroni and Metal Ravne were those that contributed most (altogether 35.2%) to forming the EBITDA at a value of EUR 40.8 million. The sales network and service centers contributed EUR 3.5 million to the EBITDA, with all the other divisions contributing somewhere between EUR 0.5 and 1.7 million.



FINANCIAL POSITION

Key figures in the Financial Position

Statement of Financial Position	2008	2009	2010	2011	2012	2013
Total assets	631,717,862	624,115,185	739,754,186	761,932,114	763,574,012	775,840,476
Equity	335,551,385	308,702,836	314,276,543	331,297,201	328,003,560	323,646,860
Net financial debt	124,847,801	155,492,879	226,879,200	210,649,578	221,023,585	231,185,464
Net financial debt / EBITDA	1.66	–19.52	5.60	3.28	5.35	5.67
Number of employees 31 Dec.	3,489	3,268	3,299	3,248	3,141	3,162

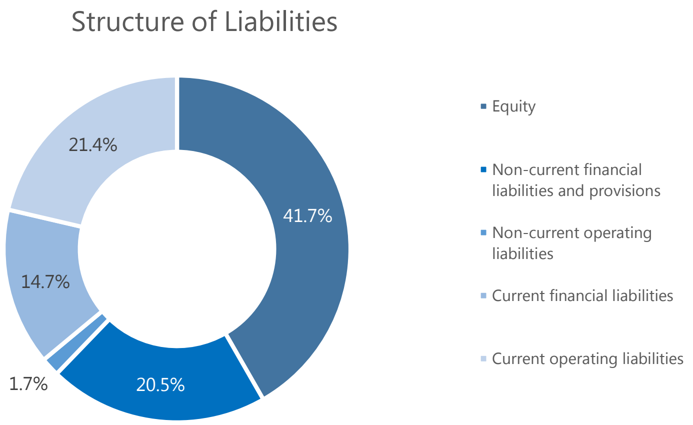


Due to investments all non-current assets grew by a total of EUR 15.8 million, whereas current assets fell by less than EUR 4 million.

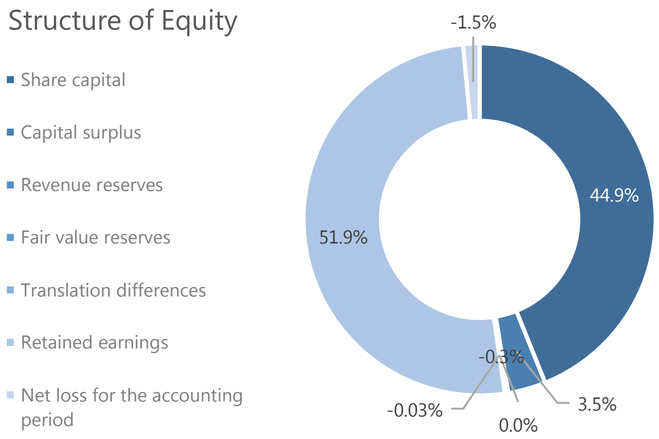
The biggest change in the assets was recorded in the share of operating receivables, which increased by 1.6 percentage points. Although the value of basic assets increased by EUR 8.4 million, it fell structurally by 0.3 percentage points. Intangible assets that increased structurally by 0.2 percentage points, grew by almost EUR 1.8 million, mostly due to investments in software.

When it comes to liabilities the biggest change was recorded in non-current financial liabilities and provisions, which increased by EUR 16.8 million, whereas provisions and other non-current financial liabilities and provisions remained more or less the same.

Current liabilities decreased by slightly less than EUR 0.5 million, financial liabilities increased by EUR 1.8 million and operating liabilities decreased by EUR 2 million.

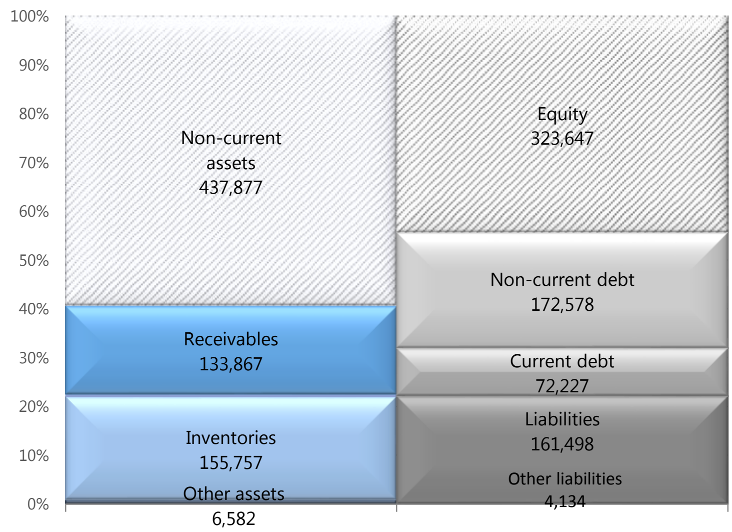


The biggest share of equity is held by transferred profits, which exceed called-up capital by 7.9 percentage points. The majority of this surplus was created between the years 2006 and 2008, when the steel market was in full swing, overtaking the financial market, before the economic collapse of 2009.



Covering Assets with Sources

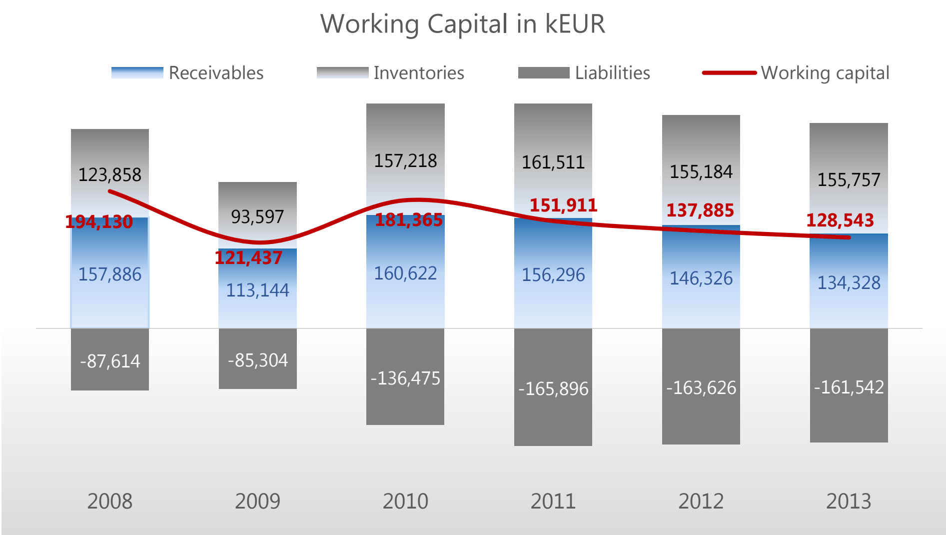
Non-current assets are entirely covered by non-current sources, which also cover more than a third of receivables value. A smaller share of inventories (16.6%) is covered by suppliers (in kEUR).



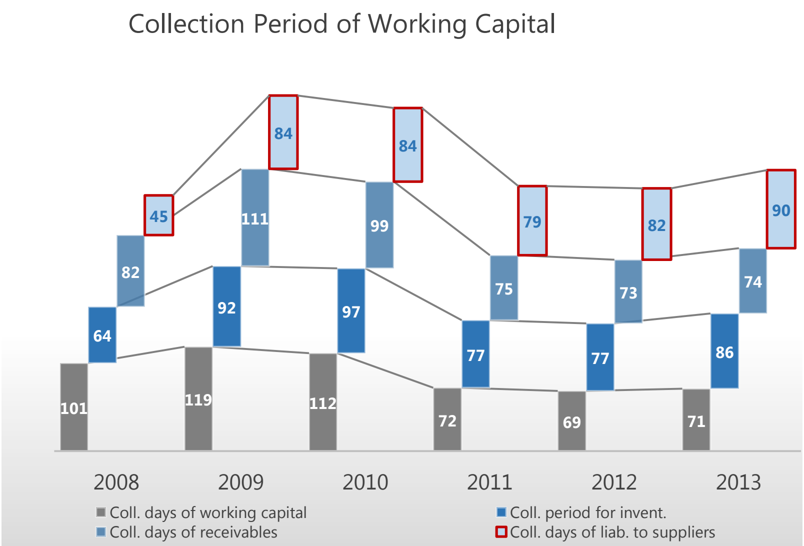
Working Capital

Good management of working capital has favorable financial effects on the available financial resources, used mostly for financing investments, as well as to fulfil all the extra needs for working capital related to new investments.

In 2013 we were successful at managing these assets, since we were able to decrease working capital by EUR 9.3 million, increasing inventories by EUR 0.5 million, decreasing receivables by EUR 12 million and liabilities by EUR 2 million.



Changes in working capital are closely related to changes in operating volume; the higher the operating volume, the higher the need for working capital. Under those circumstances managing working capital is connected to the need for additional money sources.

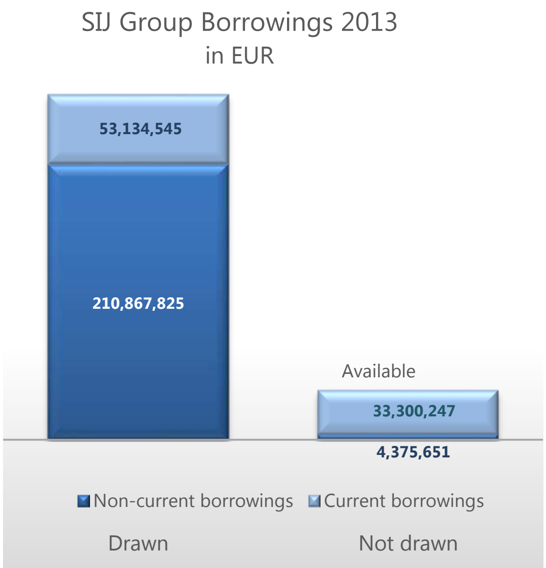


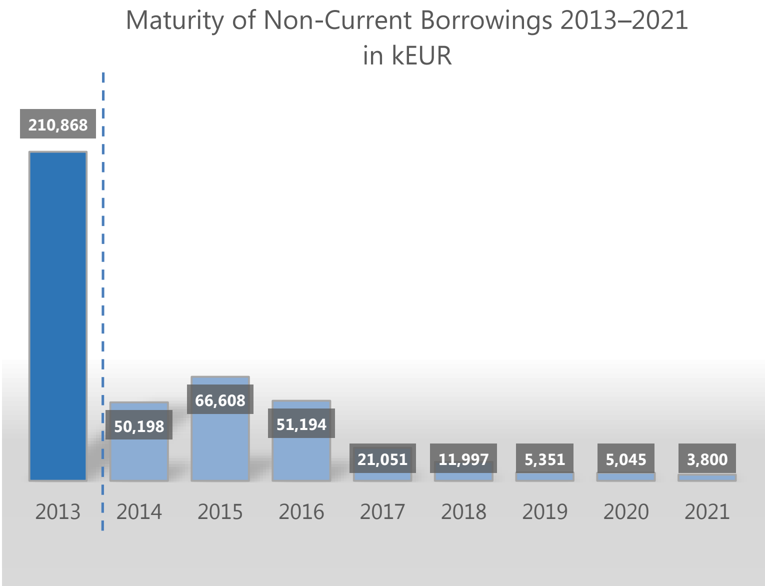
Including 2009, when the deviation due to low operating volume was high, we have been able to consistently lower the volume of working capital during the last six years; in total, during the whole period, by EUR 65.6 million or 33.8%.

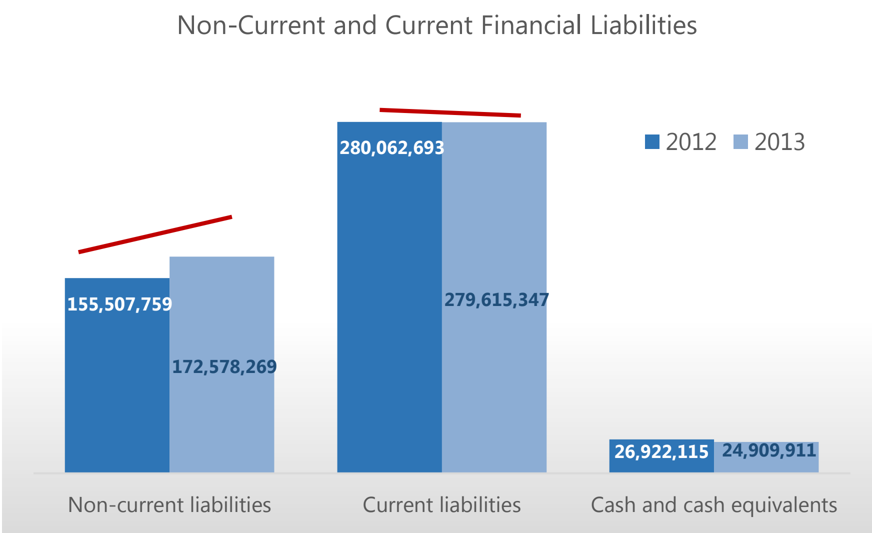
The share of working capital in revenues has been decreasing, averaging 27.6% over the last six years and falling to 19.5% in 2013.

Financial Debt

Just as in the past, borrowings in 2013 were mostly used for financing investments and increasing operating volume. Since 2007, we have invested more than EUR 410 million in improving the operational profitability and competitiveness of the companies of the Group on the tough steel market.



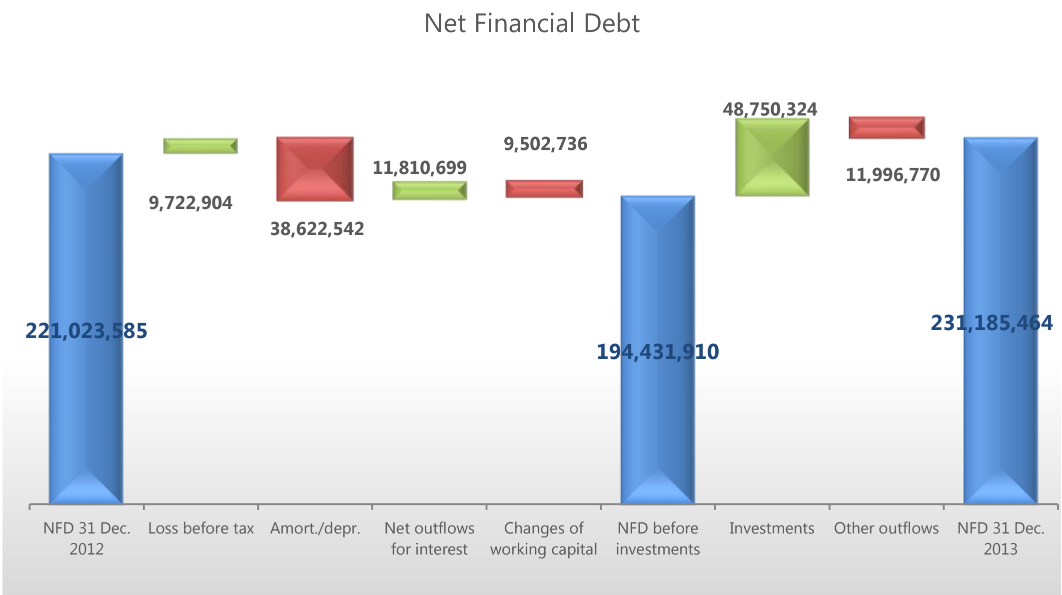




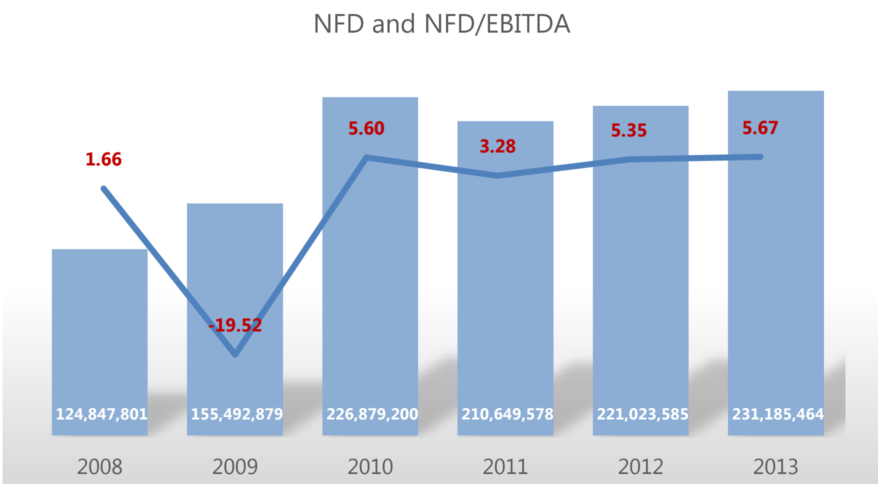
The quality of financial sources in 2013 improved, with 79.9% of all borrowings going to non-current borrowings and leasings.

Most credits were loaned in order to support our investment activity, with a third going to support working capital.

The second most important ratio used for evaluating our operating performance is net financial debt (NFD), which is the basis for calculating the net financial debt to EBITDA ratio[11].



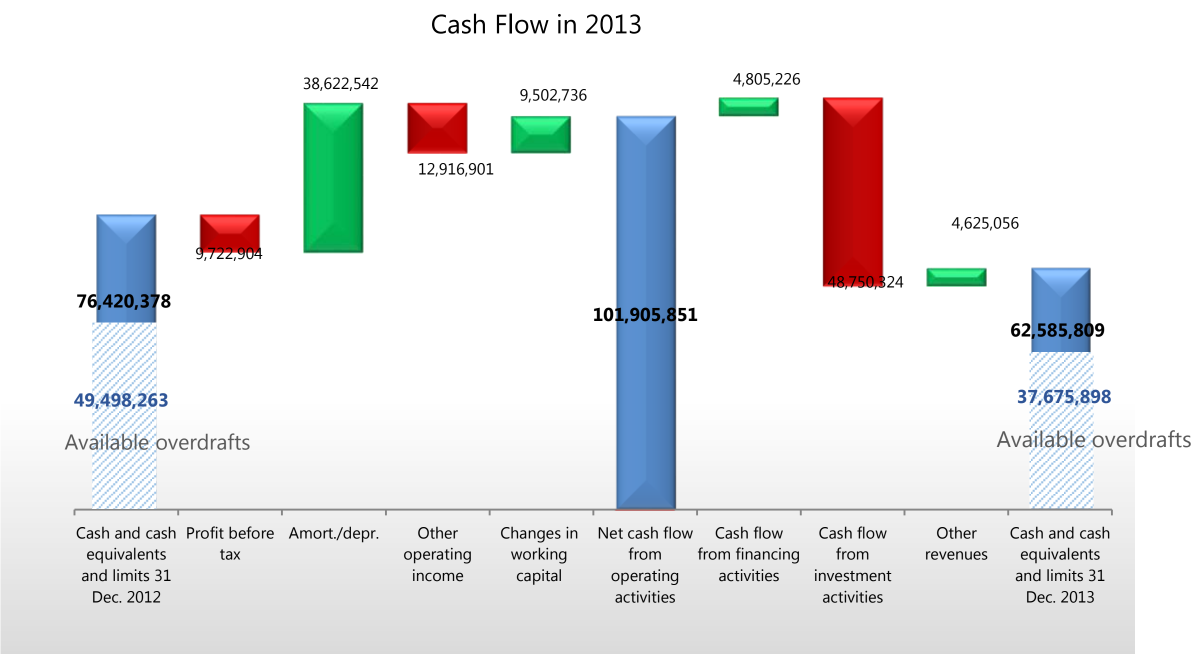
The net financial debt in 2013 was increased by EUR 47 million, mostly due to investments, with an additional negative effect due to loss before tax.



The key ratio for monitoring our financial results is based on the net financial debt to EBITDA ratio. Despite the increase of this ratio in 2013 we have managed to keep our finances stable throughout the year.

[11] The definition of both calculations is shown on page 3

Cash Flow



In 2013 we recorded a positive operating cash flow. The key factors in this were amortization/depreciation and the positive influence of working capital. EUR 48.7 million were used for investments. With minimum financing inflows and other positive inflows (EUR 17.5 million) we were able to maintain the same level of funds as in the previous year. During 2013 there were no liquidity issues, since we had EUR 37.7 million overdraft available.

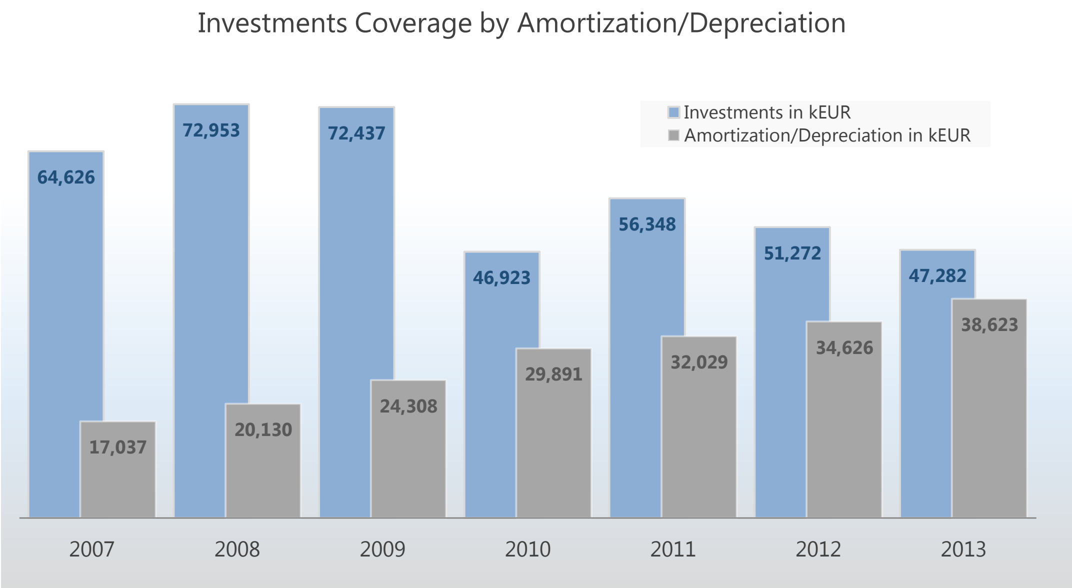
Investments

In 2013 our intensive investment policy was limited to completing projects started in previous years. At Acroni we completed the investment in a new Rolling Mill and expanding steel sheet rolling to a width of 2.5m, completed the investment in the peeling machine and began a new investment in a new VOD device in Metal Ravne. After a slightly longer time period due to the technological modernization of equipment, we have also invested more in Noži Ravne.

Investments[12]	2012	2013	Index 2013/2012
ACRONI	33,600,765	28,835,433	85.8
METAL RAVNE	11,464,110	10,041,057	87.6
NOŽI RAVNE	148,399	1,663,897	1121.2
ELEKTRODE JESENICE	443,146	99,099	22.4
Other companies	3,382,231	5,311,667	157.0
Purchase of companies	2,233,592	1,331,080	59.6
Total	**51,272,243**	**47,282,233**	**92.2**

[12] *Data based on invoices received*

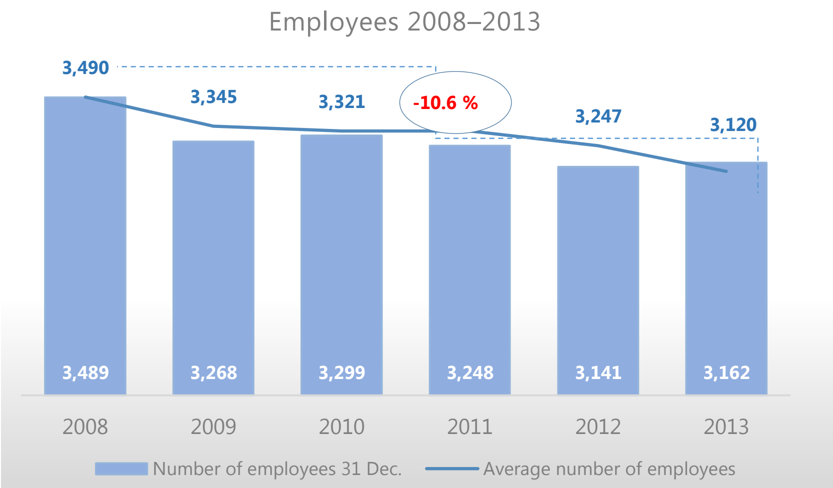
All our investments in the period between 2007 and 2013 amounted to a total of EUR 411.8 million.



SUSTAINABLE DEVELOPMENT

EMPLOYEES

	2008	2009	2010	2011	2012	2013
Number of Employees on 31 December	3,489	3,268	3,299	3,248	3,141	3,162
Average number of employees	3,490	3,345	3,321	3,321	3,247	3,120



Employee Trends

The total number of employees in the SIJ Group in 2013 was 3,162, which decreased by 21 or 0.7% compared to the previous year The cumulative average number of employees is 3,120, that is 3.9% lower than in 2012.

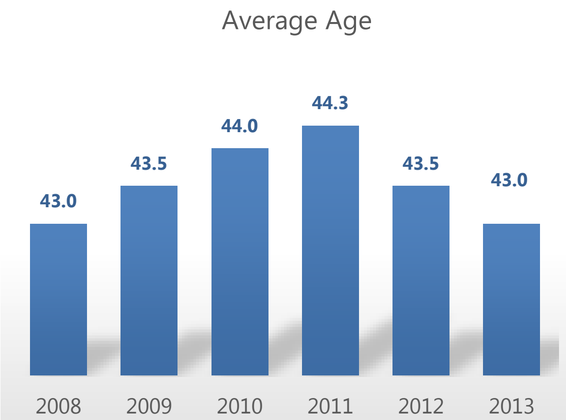
Company	31 Dec. 2012	31 Dec. 2013
SIJ – SLOVENSKA INDUSTRIJA JEKLA, D.D.	43	44
ACRONI	1,164	1,163
METAL RAVNE	963	980
NOŽI RAVNE	194	200
SUZ JESENICE	121	115
ELEKTRODE JESENICE	170	168
ŽELEZARNA JESENICE	1	1
ZIP CENTER	110	113
SERPA	142	147
ODPAD PIVKA	27	28
DANKOR	19	17
RAVNE STEEL CENTER	24	26
ACRONI DEUTSCHLAND	1	0

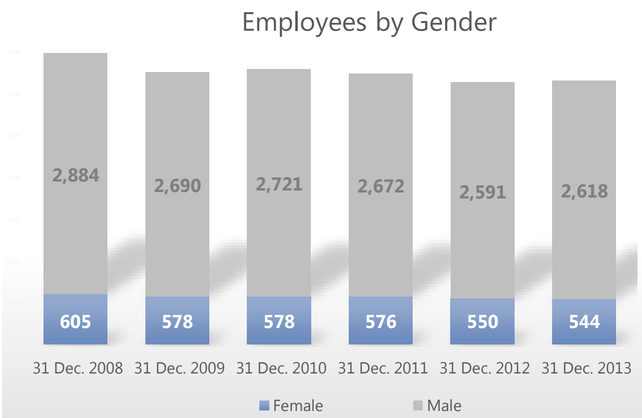
Company	31 Dec. 2012	31 Dec. 2013
ACRONI ITALIA	6	0
KOPO INTERNATIONAL	2	3
NIRO WENDEN	49	47
SIDERTOCE	24	23
GRIFFON & ROMANO GROUP	44	39
SIJ OBDELAVA JEKLA	1	2
METAL – EKO SISTEM	36	38
TOPMETAL	-	8
TOTAL	**3,141**	**3,162**

Employee Structure

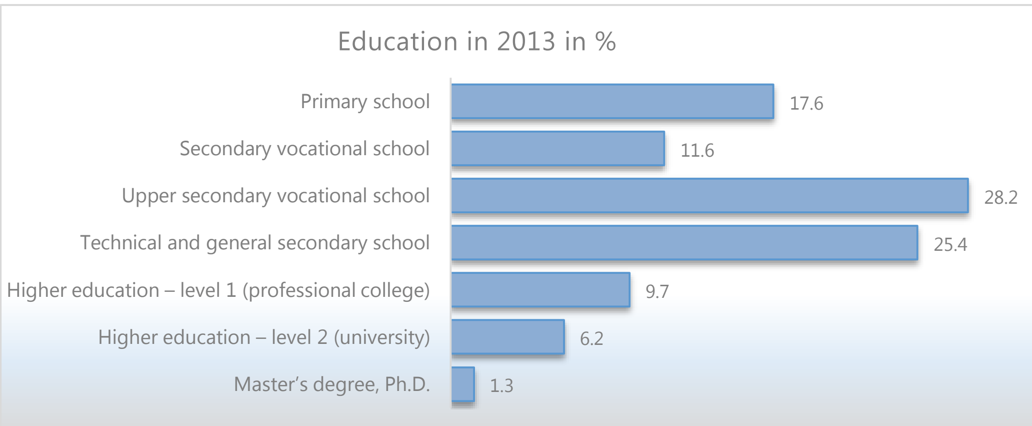
There are 544 women employed in the SIJ Group, representing 17.2% of all employees, and 2,618 men, representing 82.8%. Compared to the previous year, the number of women employed decreased by 6 or 1.1%, and the number of men by 27 or 1.0%.

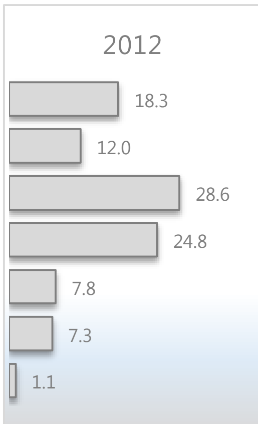
The average age of employees is 43 years. After increasing in the previous years, the average age has decreased by 1.3 years over the past two years.



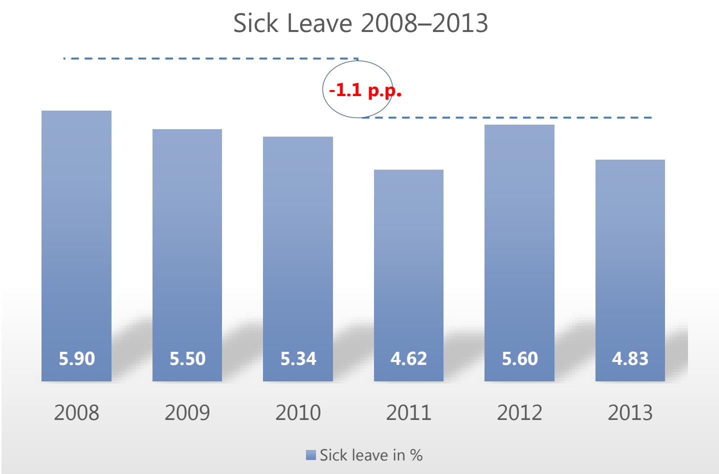


The educational profile has remained more or less the same for the past several years. In 2013 a change has been reflected in a decrease in the number of employees with only primary, lower vocational or secondary vocational education, a total of 1.5 percentage points. The number of employees with secondary education increased by 0.6%, whereas the proportion of employees with level 1 higher education increased by 1.9 percentage points. The proportion of employees with level 2 higher education increased by 1.1%, whereas that of employees with a Masters' degree or a Ph. D. increased by 0.2 percentage points.





Utilization of Working Hours and Sick Leave

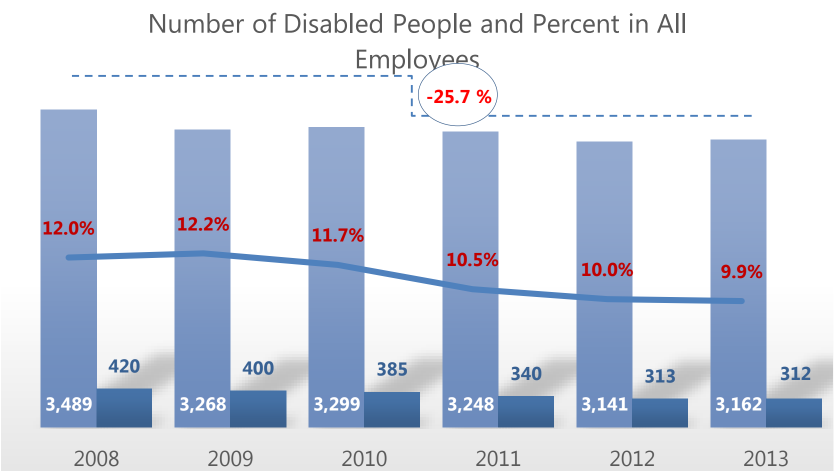


In 2013 sick leave in the SIJ Group accounted for 4.8% of total working hours. The proportion of sick leave was higher in 2012 than in the previous three years, but in 2013 it decreased by 0.8%.

In 2013, there were 202 work-related injuries in the Group, compared to 227 in 2012, a drop of 11.0%.

Disability

At the end of 2013, 312 employees had a disabled status, which is one employee less than in the previous year. The proportion of disabled employees was 9.9% this year and 10.0% in the previous year. The 58% reduction in the number of employees is mostly due to retirement; the remainder is due to the termination of fixed-term contracts or for other reasons. In 2013, 19 employees obtained a disability status, which is 4 employees more than in the previous year. Amongst the companies of SIJ five employees were repositioned and 12 disabled employees were newly employed. The proportion of disabled workers has been gradually decreasing since 2009, from 12.2% to 9.9% in 2013.



Awards and Motivation

The companies of SIJ are aware that a suitable system of awards leads to good business results, higher productivity and employee satisfaction, and that it is the only way to retain the key personnel contributing most to the Group's success and organizational development. The success of the company does not depend only on the management team and their ability to provide an environment and atmosphere that will activate the entire intellectual capital, but also on the employees' loyalty to the Group. The main task of the management is to enable the employees to become and remain successful and motivated.

As part of the annual awards, a Christmas bonus has been given to employees for several years now, depending on the operating results achieved by individual companies during that year. Employees have at their disposal the use of sports facilities, equipment and activities, as well as cultural activities. They are also able to use holiday accommodation at various locations. In cooperation with the company's Union, Labour day events are organized as part of local celebrations, and at the end of the year the traditional New Year party takes place.

Supplementary Pension Insurance

Supplementary Pension Insurance is a way of rewarding employees, showing that we care about their long-term social security. Good business results in the past have enabled us to provide these types of rewards, since we have (with the exception of the year 2009) always made a profit.

In 2001, most of the companies in the Group entered a supplementary pension insurance scheme with Pokojninska družba A. The premiums are mainly paid on an "employee and employer" basis. In compliance with Slovenian legislation nine companies of the Group are included in the system of voluntary pension insurance. In 2012 the total amount of premiums paid by the companies was EUR 1,482,125, with an average of 2,537 employees included, and the average premium paid per employee amounted to EUR 1.161. In 2013 the total amount of premiums paid was EUR 1,250,399, with an average of 2,065 employees included, and the average premium paid per employee amounted to EUR 1,132.

Education and Training

In 2013, we invested a total of EUR 489,601 in education and training. We strive to have appropriately qualified, expert, creative, motivated, talented employees who are prepared to take on new challenges, because this is the only way we can be successful in the most demanding global markets. Education and training consist of function-specific education, in-service training, part-time study and scholarships, as well as practice and mentoring.

Functional education and training are implemented in all the companies of SIJ Group. In 2013 we allocated EUR 244,803 for this purpose. Function-specific education includes content to provide greater expertise to individuals, broader knowledge of changes in legislation, training of employees at their workplace in line with legally-binding regulations, and improving skills in new, technologically advanced methods. The main purpose of in-service training is the transfer of knowledge gained within the work process and sharing expert and practical knowledge in a sense of cooperation between employees.

Part-Time Study

Part-time study is mostly practiced in the areas of mechanical engineering, metallurgy, electrical engineering, economics, management and information technology. In 2013 EUR 146,146 was spent on part-time study. There were 127 employees studying part-time.

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 have been introduced to motivate students in secondary school and university to choose occupations where there is a shortfall; these measures include the presentation of our companies and occupations, as well as scholarships. In 2013, EUR 72,384 were earmarked for scholarships. There are 58 scholarship holders in the Group. The scholarship system mainly covers the programs 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 and find our future professional workers is to enable them to do their work experience training in our companies, and to offer them mentoring for various natural science and sociological professions. There were 99 students from secondary schools and universities included in the internship system. Students from secondary schools and universities, who had completed their work experience with us, were mostly involved in the formal study of metallurgy, mechanical engineering, mechatronics, computer science and chemistry.

Occupational Health and Safety

In line with legislation, the companies carry out periodic 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, employees being transferred to a different position, and employees beginning to work with new technologies.

In order to provide a safe working environment, part of the investment funds are earmarked for reducing the stress of the workplace, and all new investments aim to improve the security and stress levels of the environment.

Cooperation with the Union's subsidiaries

The Board of Directors of SIJ, d. d. held regular quarterly meetings with representatives of the Union's subsidiaries, where both representative Unions were acquainted with operating results, and agreements on the amount of holiday bonuses and end-of-the-year awards for successful operations in the individual companies were made.

Cooperation between the management of SIJ and the Union's representatives was tolerant and creative. The management did its best to find solutions to the problems presented by the Union's representatives, who reasonably acknowledged and accepted the limitations faced by the process of fulfilling their needs and expectations.

ECOLOGICAL AWARENESS

Environmental protection is one of the basic rights, duties and responsibilities of all employees of SIJ and is considered an integral part of the management policy.

Steel is the only material which can be 100% recycled. It is not a threat to the environment since the scrap produced can be continuously reused.

Ensuring sustainable development is only possible by making sure our actions do not threaten the environment, neither now nor in the future.

Our actions are therefore aimed at protecting the environment from waste that is the result of our operations, and ensuring effective use of the necessary raw materials and energy. By using the implemented technologies, upgrading the production process and lowering the amount and type of waste, as well as re-using residual products of our processes: slag, hot water and cooling water, we are improving the return on our operations and keeping the environment clean, which leads to long-term sustainable development.

Relationship With the Natural Environment

The regulations and laws, laid down by the European Union, the Republic of Slovenia and the local communities, which govern our relationship with the environment are carefully followed by the SIJ Group. Our industry is extremely vulnerable to the criticism of the public. We have indeed put a lot of effort and means into providing a high-quality integration with the local environment.

We were one of the first companies in Slovenia to be awarded the ISO 14000 standard for dealing with the environment and natural resources, which includes elements and directions for effectively dealing with the environment.

The complete actions include emission and pollution control (IPPC directive[13] - Integrated Pollution and Prevention Control, controlled by ARSO[14]); this particularly applies to non-renewable resources such as running water and air.

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.

Due to their conscientious and responsible treatment of the environment and environmental resources, our steel companies Acroni and Metal Ravne were among the first in Slovenia to obtain the IPPC license.

Environmental costs, including monitoring, fees, water returns, dust, rehabilitation and slag usage, and dealing with dangerous waste, represent key financial burdens for our companies.

Our environment protection strategy includes finding fast and appropriate solutions when it comes to preventing and redressing possible negative consequences of environmental issues. By educating adults

[13] *IPPC – Integrated Pollution Prevention and Control*
[14] *The Slovenian Environment Agency*

about the responsible handling of the environment we reduce the risk of pollution. All new investments in the company utilize the best possible technologies, which help us protect the environment to the best of our ability.

The environment is our primary resource for manufacturing and energy for processing. By preserving and protecting it from harmful impacts we are ensuring the long-term capability of our own activities.

Investments in the Environment

Between 2007 and 2013 our core companies invested more than EUR 12 million in environmental and employee protection. The investments were in accordance with European legislation, which in 2007 and 2008 was especially demanding on big companies in heavy industry. Constant emission measurements and the trading of emission coupons required an adjustment of the production process towards technically more demanding systems of measurements and operation.

Investments in the environment	2007	2008	2009	2010	2011	2012	2013	2007-2013
ACRONI	3,235,000	4,998,307	346,289	147,948	125,018	261,576	1,228,707	10,342,845
METAL RAVNE	0	131,000	279,000	273,000	297,000	677,000	191,000	1,848,000
NOŽI RAVNE	0	0	0	0	11,760	0	0	11,760
ELEKTRODE JESENICE	30,623	0	2,710	3,300	20,525	45,938	0	103,096
Total investments in ecology	3,265,623	5,129,307	627,999	424,248	454,303	984,514	1,419,707	12,305,701

Of the SIJ companies, the biggest investment in ecology came from Acroni, who completely adhered to the IPPC directive and, as one of the largest representatives of heavy industry (together with Metal Ravne), also gained all the required permissions from the beginning of the strategic environmental protection policy.

Energy Supply and Energy Efficiency

The annual consumption of electricity in the steel industry in 2013 amounted to 479,451,967 kWh. The number of kWh used was 1.3% lower than in 2012, thanks to more energy-efficient devices and smaller losses. Had our capacities been optimally used (we did not reach an optimal level of orders), the results could have been even better.

Energy makes up more than 12% of the total costs of the Group. By using energy rationally and effectively we are lowering negative impacts on the environment and lowering operational costs.

In 2009 EN 16001, the European Energy Management System standard, was introduced. That same year it was also adopted in Slovenia.

Acroni commenced certification by this standard at the beginning of 2011, being the first industrial company in Slovenia to gain the energy certificate.

We have established a complete monitoring system of energy consumption in Acroni, for controlling the use of energy-generating sources and other media. This system was independently audited in accordance with the EN 16001 standard and improved to comply with the requirements of the ISO 50001 standard. Metal has been working towards fulfilling the requirements of this standard, but has not yet gone through the evaluation to receive the certificate.

The EN 16001 standard systematically covers the field of energy efficiency, from devising strategy, goals and prioritizing activities to organizational structure and systematic control.

Standards

In order for the Group to more easily adapt to a strategy of protecting both the employees and the environment in which we operate, one form of preventative and curative action is to receive certificates and comply with them.

SIJ works hard to ensure and control the occupational health and safety of our employees by operating in line with the following quality management, environmental management, occupational health and safety, and energy management standards, which we have already been awarded:

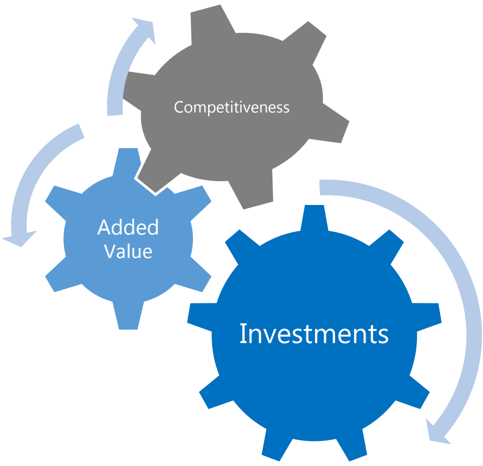
- ISO 9001 standard: Quality Management System
- ISO 14001 standard: Environmental Management System
- ISO OHSAS 18001 standard: Occupational Health and Safety System
- EN 16001 certificate: Energy Management System

SIJ has received the following certificates:

	ISO 9001	ISO 14001	OHSAS 18001	EN 16001
ACRONI	*	*	*	*
METAL RAVNE	*	*	*	*Planned 2015*
NOŽI RAVNE	*	*Planned 2015*	*Planned 2016*	
ELEKTRODE JESENICE	*	*Planned 2015/2016*		*Planned 2017/2018*
SUZ JESENICE	*	*Planned 2015*		
ZIP CENTER	*	*	*Planned 2015*	
SERPA	*			

TECHNOLOGICAL DEVELOPMENT

INVESTMENT ACTIVITY



Investments are the moving force behind development and competitiveness.

Key strategic investments help us achieve recognition and help the companies of the Group to reach a higher level of competitiveness.

Over the last eight years we have started a strategic cycle of investment as the primary condition for increasing our own competitiveness. By investing in vital parts of production, primarily in the steel mills, and then in the rolling mills as the secondary phase of the production, using our own brand, we have made a name for ourselves that stands for quality and development. The peak of investment was reached in 2008 and 2009, when we invested more than EUR 145 million in modernization.

The total investments in the period shown, between 2007 and 2013, amount to EUR 411.8 million.

Investments	2007	2008	2009	2010	2011	2012	2013	Total 2007-2013
ACRONI	27,542,583	36,314,564	59,322,249	18,343,120	31,400,996	33,600,765	28,835,433	235,359,710
METAL RAVNE	32,121,899	28,622,454	8,746,819	3,936,981	19,408,936	11,464,110	10,041,057	114,342,256
NOŽI RAVNE	604,064	667,260	735,415	624,590	1,012,441	148,399	1,663,897	5,456,066
ELEKTRODE JESENICE	2,897,841	524,279	60,782	255,126	423,917	443,146	99,099	4,704,190
Other companies	1,459,670	1,533,571	1,388,989	2,904,866	4,101,978	3,382,231	5,311,667	20,082,973
Purchase of companies	0	5,290,850	2,182,500	20,858,500	0	2,233,592	1,331,080	31,896,522
Total	**64,626,057**	**72,952,978**	**72,436,754**	**46,923,183**	**56,348,268**	**51,272,243**	**47,282,233**	**411,841,717**

RESEARCH AND DEVELOPMENT

Developmental Activities and Technical Advances in 2013

Development of New Materials and Programs and Development of Technologies

We have invested a great deal into the development of new technologies and materials, since in order to keep our place on the global steel market we must be competitive. Our companies are known for producing quality products and materials, and by introducing new technologies and materials they can conquer new niche markets and develop materials in cooperation with customers. Dealing with extremely demanding and tight-focused customers, ordering materials with special qualities and certificates, assures the SIJ Group a position as an advanced and goal-oriented group of steel companies.

Working together with the energy, petrochemical and car industries and with customers that hold highly demanding certificates opens us to more exacting markets, where quality is highly appreciated, as well as the adaptability and readiness to cooperate in developing new products.

Development of Business Intelligence and IT Systems

We are entering the last phase of implementing a comprehensive integrated IT system, that has been successfully begun in three companies: Acroni, Metal Ravne and SIJ, d. d.

We are currently in the phase of final implementation; after carrying out data migration and report testing (to be introduced in the summer of 2014) the new ERP software will go live this fall.

After the system has been implemented in the first three companies and in SIJ, d. d., the information system will be gradually introduced to the remainder of the SIJ companies.

Given the fact that the system will connect all the vital areas of business and production into a single whole, it will also significantly contribute to connectivity and strategic decision making within the entire group.

The new IT system project includes systems for the planning of sales, purchasing and production, including optimizations of certain business functions, as well as planning in the financial field, where VCP (Value Chain Planning) solutions and Hyperion, altered to meet the particular requirements of our Group, are being introduced.

Besides carrying out this project, we are also renewing the information system for managing production in the processing companies.

Innovations

In the area of innovation we have a proven system of working with our employees to improve the execution of production and business processes and their individual parts, and rewarding them for making valuable suggestions and improvements. Our employees are a priceless source of knowledge and innovation. The positive attitude of the management towards employees' knowledge and their willingness to work together brings excellent results.

The system of innovation uses the model of "8+1 business attitudes".

(right image; source: Annual Report 2013 of Acroni).

SOCIAL RESPONSIBILITY

We are aware of our responsibilities. We put them into practice by acknowledging the interests of all the participants in the group, i.e. the owners, employees, suppliers, customers and the social environment in which we do business, when making business decisions.

Our operation is based on ethical principles and on all our employees working toward sustainable development, keeping the environment healthy and thereby contributing to the wellbeing of the broader social environment. Our relationship with the environment expands to all segments of our operations. This is also one of our key values and missions, since we are keeping both the people and the environment safe and healthy. We realize that in the future social awareness will be the key factor in reaching greater business success, competitiveness and productivity, thereby providing strategic guidelines for sustainable operation.

Our cooperation with the environment at large is also based on supporting the activities of different humanitarian, cultural and sports events and activities.

In 2013 most of our resources were invested in sports (EUR 165,000). We have financially backed:

- the Olympic Committee of Slovenia, with which we signed a 4-year agreement intended to promote the SIJ Group and help our athletes prepare for the Olympic Games;
- the ski jumping World Cup in Planica;
- the activities of sports clubs in Koroška (swimming club, ski club, volleyball);
- humanitarian and cultural organizations with small contributions.

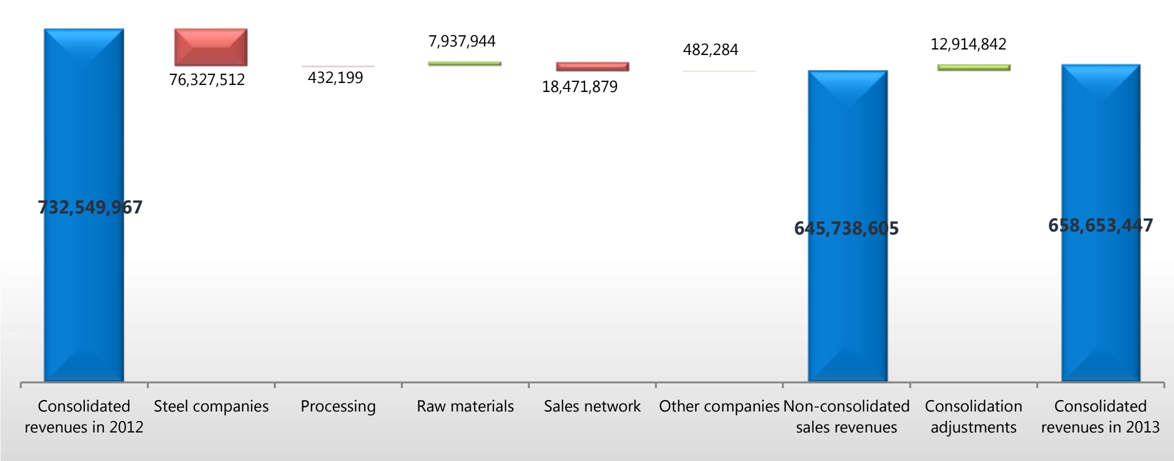
OPERATION BY BUSINESS AREAS

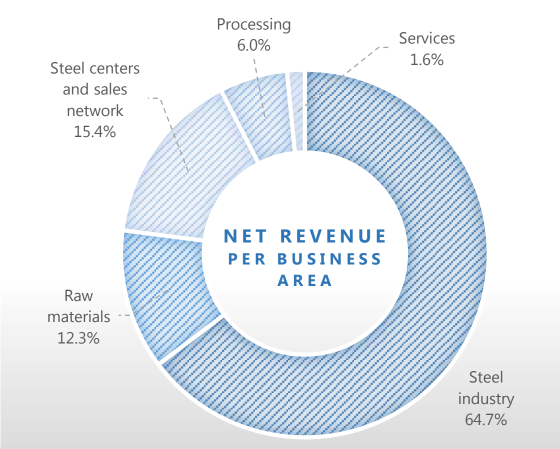
RESULTS PER BUSINESS AREA[15]

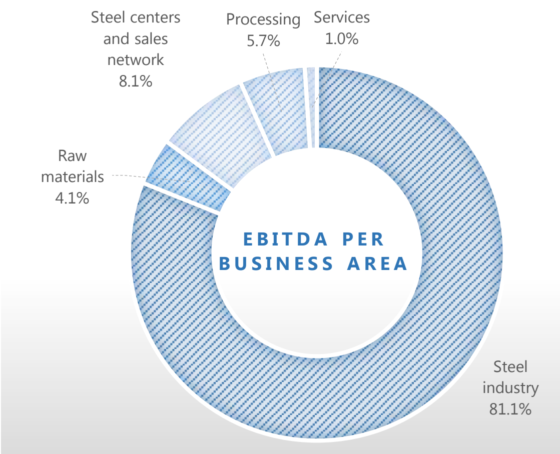
The biggest decrease in income was recorded by sales networks and service centers, that is, 13% compared to last year. Lower income was recorded, especially by both Italian companies. The decrease in sales of the steel companies was 12.8%, while minimal negative growth was also recorded by the processing companies.

	Steel industry	Raw materials	Steel centers and sales network	Processing	Services	*Consolidation adjustments*	SIJ Group
Net sales revenue	518,647,467	98,996,439	123,698,938	48,005,974	12,509,567	*–143,204,938*	658,653,447
EBITDA	35,263,016	1,766,529	3,539,255	2,460,099	451,497	*–2,694,434*	40,785,962
EBITDA margin	6.8%	1.8%	2.9%	5.1%	3.6%		6.2%
NFD	190,161,027	15,244,190	36,127,851	–2,073,503	6,675,445	*–14,949,546*	231,185,464
NFD / EBITDA	5.4	8.6	10.2	–0.8	14.8		5.7

SIJ Group – Revenues 2013 Compared to 2012

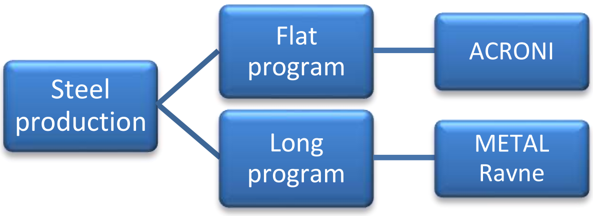




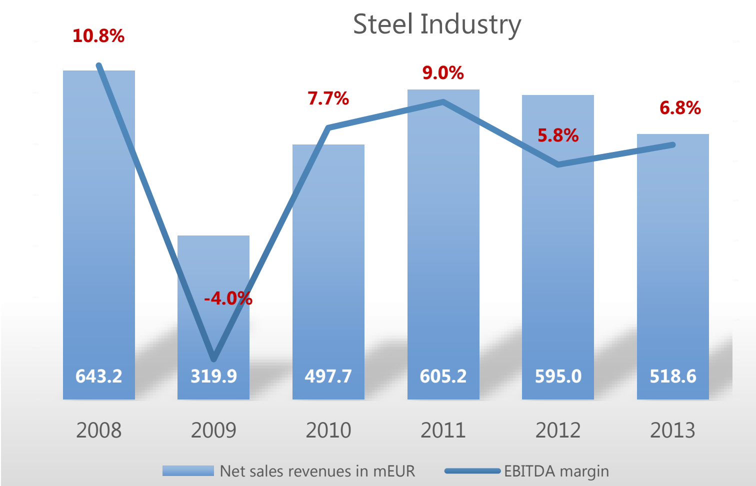


[15] *All the illustrations in this chapter are based on unconsolidated data, except when stated otherwise*

STEEL INDUSTRY



Steel industry	2008	2009	2010	2011	2012	2013
Net sales revenues	643,161,748	319,904,254	497,653,745	605,177,801	594,974,979	518,647,467
EBITDA	69,495,233	–12,809,748	38,105,680	54,214,898	34,543,063	35,263,016
EBITDA margin	10.8%	–4.0%	7.7%	9.0%	5.8%	6.8%
EBIT	51,382,590	–34,640,145	11,852,631	27,592,514	4,621,263	1,316,070
EBIT margin	8.0%	–10.8%	2.4%	4.6%	0.8%	0.3%
Net profit	34,361,526	–31,108,945	5,236,159	15,968,691	534,630	–4,816,713
Average number of employees	2,602	2,487	2,402	2,333	2,240	2,121
Added value per employee	49,475	15,686	40,268	49,712	41,657	43,036
Net financial debt	150,646,241	176,512,718	200,527,735	173,438,931	171,839,150	190,161,027
NFD / EBITDA	2.17	–13.78	5.26	3.20	4.97	5.39



Program Structure

Flat Range

The manufacturing program comprises steel products manufactured by Acroni:

- stainless steels
- electrical sheets
- structural steels
- special steels
- cold-rolled profiles

Stainless steels, mostly quarto plates, are the leading products and the leading sales program of the SIJ Group. They belong to the group of corrosion resistant steels, which contain at least 10.5% chromium. It is a niche product, intended for use in the production of oil and natural gas, machine manufacture and others. Acroni holds the leading position in this niche in the European market.

The program that Acroni is gaining more and more recognition for is the program of special steel quarto plates. It includes a large array of steels for different purposes, mostly for use in the production of construction machinery and mining equipment. Various kinds of hot processed steels are used.

Non-oriented electrical sheets are materials with special physical properties. They are used in the production of electrical machinery and devices with rotating magnetic fields. Annealed electrical sheets are also widely used in building electrostatic appliances.

Unalloy structural steels are steels intended for the manufacture of different construction and machine parts, for example for building different structures, amongst others factory halls, bridges, parts of agricultural mechanization, profiles and so on.

Bar Program

Bar steel is manufactured by Metal Ravne. The production program consists of:

- non-alloy structural steel
- alloy structural steel
- low-alloy tool steel
- high-alloy cold-work tool steel
- special steels
- high-alloy hot-work tool steel
- high-speed cutting steels

Production programs consist of the Steel, Rolling and Forging programs offering a total of more than 200 qualities of steel of different dimensions and shapes.

Steel Mill

The Steel Mill consists of two key departments, the Steel Mill and the Electro-Slag Remelting department. The basic equipment in the Steel Mill is the 45-tonne electric arc furnace (EOP/UHP) and the 45-tonne vacuum ladle furnace (VAD). A state-of-the-art casting unit is used for casting classic ingots. In the electro-slag remelting department we use the maximum-sized 50-tonne ESR machine, the large 36-tonne ESR machine and the smaller 3-tonne ESR machine for the purpose of remelting.

Rolling Mill

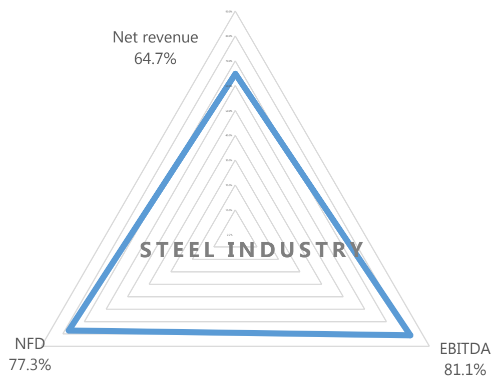
The Rolling Mill comprises the Billet Rolling Mill, the Profile Rolling Mill and the Steel Drawing Mill. The main piece of equipment in the Billet Rolling Mill is the new heavy rolling tool, while subsequent machining is carried out in the cooling and heat treatment furnace, grinding machines and on the testing line. In the Rolling Mill for profiles we can produce round, square and flat profiles of different dimensions on the medium and light rolling lines. In addition to the rolling lines, the rolling range includes furnaces for heat treatment and machines for straightening, cutting, sandblasting, varnishing and the control of rolled profiles. In the production of light profiles we manufacture products with drawn, peeled or ground surfaces on different machines.

Forge

In the Forging program products of smaller dimensions are produced on the SX-40 forging machine, while the larger ones are produced on the 12 MN, 25 MN and 40MN presses. All the forged products can be supplied both in raw or heat-processed state. Heat treatment is carried out in modern furnaces using different techniques. An important component of the Forging Program is also the equipment for the machining and cutting of materials. In addition to products with black surfaces, we can produce products with bright surfaces, using the procedures of peeling, turning and milling. They can also be cut to specified dimensions.

The Steel Industry in the Group's Structure

The steel industry is the core of the Group and contributes most to the net revenues and creating EBITDA, with the EBITDA share being 16.4 percentage points higher than net revenues. Since the largest investments take place in the steel industry, it also carries the greatest share of net financial debt.



Business Results

Flat range	2013	2012	Index
Net revenue	380,898,746	435,162,939	87.5
Operating expenses	–324,693,253	–381,194,438	85.2
EBITDA	24,875,753	20,335,447	122.3
EBITDA margin	6.5%	4.7%	139.8
Average number of employees	1,160	1,254	92.5
Added value/employee	48,453	43,037	112.6

Bar program	2013	2012	Index
Net revenue	148,475,398	161,234,669	92.1
Operating expenses	–113,404,859	–121,824,849	93.1
EBITDA	10,387,263	14,207,617	73.1
EBITDA margin	7.0%	8.8%	79.4
Average number of employees	1,160	1,254	92.5
Added value/employee	30,233	31,427	96.2

Investments

In 2013, in the flat steel program, the largest investment was in the new Rolling Mill and expanding the production program of steel quarto plates up to the width of 2.5 m.

2013 was marked by two important strategic investments: investment in the new Rolling Mill and investment in expanding the production in the Quarto Plates Processing Mill. Investments are an important part of the strategy of development aiming to increase the production and market shares of stainless and special steel quarto plates. Expanding the production in the Quarto Steel Processing Mill to the width of 2.5 m makes it possible to upgrade the existing quality, reach higher yields and produce more.

The investment in the new Rolling Mill totaled EUR 42.7 million (EUR 23 million in 2013 alone). At the end of the year a technical review of the new mill and grinding machine for mills was made and the crane runway was reconstructed.

To support the production of quarto steel plates, several parallel investments were made in order to increase the flow of the production process and the quality of products: the new cooling device of the Wellman line, the new leveling machine as part of all transport rollers, a transporter of the Wellman line, the line for mechanical cutting, the sandblasting line, remodeling the head scissors for mechanical cutting and an additional roller table with a portal 24-tonne gantry crane.

We have completed the investment in increasing the capacity of quarto plates heat treatment from 95 kilotonnes to 125,000 tonnes annually (EUR 1.1 million were invested).

In 2013 we continued with the reconstruction of the crane runway in hall B and its equipment (cooling machine, leveling machine and level measuring tool). The total value of the investment is EUR 15 million.

In 2013 we also continued the project to set up a new information system at all levels of operation: from production to monitoring the financial functions.

In 2013 more than EUR 10 million were spent on investments and modernization in the bar steel program. The next strategic investment will be the vacuum ladle furnace.

We commenced production on a new peeling machine for mechanical processing at the forge (worth EUR 0.3 million together with the ultrasound device) in 2013. With this we expanded the range of achievable tolerances and the production capacities of peeling. The contract for buying a new portal milling machine was signed. The remainder of smaller investments were connected to the existing production equipment.

The contract for buying the main technological equipment as part of the new investment project New Vacuum Ladle Furnace, which is of key importance for the further development of this program, was signed.

After carrying out operation monitoring we gained an operating permit for the new ESR III in the Steel Mill.

With the new double-chambered hardening yielding furnace in the profile Rolling Mill (EUR 0.4 million) we are expanding the range of heat treatment of steels, which will enable the production of special steels for the energy sector. A further part of the project will be modernizing the equipment for control and development. The contract for buying the new ripping machine, the dilatometer, and the measuring tool for surface toughness and conductivity (EUR 0.1 million) for conquering the production of more demanding steels was also signed.

Amongst the more important investments is the implementation of the IT system which will support and unify the management of some of the business functions of the SIJ Group (purchasing, finances, planning, reporting), since we are planning to implement this IT system in all the companies of the Group.

Research and Development

In the flat steel program we have invested considerably in raising the potential of stainless quarto plates and heat-treated special quarto plates – SIJ Group is one of Europe's biggest producers of quarto plates. We are developing the technology of production of the most demanding austenite, ferritic and refractory stainless qualities.

Our development strategy is oriented towards new qualities based on customer requirements. We are the world's leading producer of certain types of steel, thanks to our cooperation with the developmental department in the bar steel program.

In 2012 we co-founded the Jesenice Development Center, thereby upgrading our developmental activities. The yield was high in 2013 as well; amongst other things, new steels in the qualities of stainless steels were developed, ferritic stainless steel, the development of super duplex steel, sheated Protac plates, alloy boiler steel plates for use in high temperature areas, the development of thin electrical steel and platinized steel plates.

In addition to new qualities the technology and technological paths that will enable us to process high-alloy electro steels were optimized. With the companies of the SIJ Group working together, we received the certificate for the qualities PROTAC 500 and PROTAC 600 in this program, and are one of the first companies worldwide to start electro-slag remelting (EPŽ).

The main areas of development in the steel bar program support the development of our own trademark, manufacturing top quality steels and products according to special standards. We are connecting with customers in the energy, petrochemical and car industry markets.

In 2013 we continued introducing new steels of our own brand RAVNEXHD – top quality tool hot-work steel which can be highly tempered and used for manufacturing large tools and inputs of tools of larger dimensions for press casting of metals and alloys without iron. In the area of finished heat and mechanically treated rollers and forgings (also for customers on the energy market) we have developed new products with higher steel requirements for turbine blades. We continued the development of manufacturing demanding molded forgings for the energy market and developed technology in the area of extra clean steels.

We were nominated for three innovations in a competition by the Chamber of Commerce, one of which went to the national level and won a silver award.

Quality Management System in 2013

This certificate of quality can be compared to a certificate of excellence, which guarantees to customers and other partners that they are working with a company which has established operating criteria in all areas of operation.

The standard of quality is the key document that opens possibilities of collaborating with other partners in the business world. Receiving this certificate is important for our business, since it gives us the status of an excellent business partner.

Flat Range

Energy saving also falls under this area. We have established a system of complete energy consumption monitoring in Acroni, for controlling the use of energy-generating sources and other media in the flat steel program. This system was independently audited in accordance with the EN 16001 standard and later improved to comply with the requirements of the ISO 50001 standard.

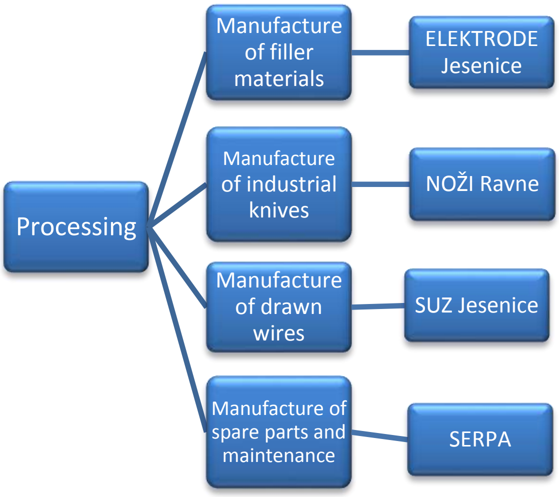
With regard to product certificates and the supplier's certification of capability, we are being audited by the certification companies TÜV SÜD Industrie Service, Lloyd's Register, Germanischer Lloyd, Det Norske Veritas and Bureau Veritas.

Bar Program

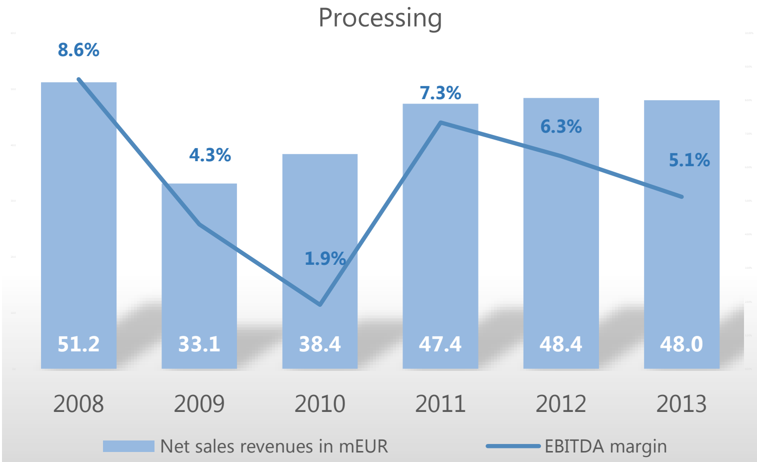
We are the carrier of the integrated quality management system that comprises three certified management systems. The quality management system is based on a process approach and reflects the integration of four important elements, namely the management's responsibilities, the management of resources, the completion of products, and measurements, analysis and improvement.

Apart from the certified management systems, we also have the following product certificates: TÜV SÜD Industrie Service, Lloyd's Register, Det Norske Veritas, ABS, and Bureau Veritas Marine Division.

PROCESSING COMPANIES



Processing	2008	2009	2010	2011	2012	2013
Net sales revenues	51,232,793	33,113,183	38,395,518	47,370,579	48,438,173	48,005,974
EBITDA	4,420,394	1,423,057	731,439	3,478,329	3,071,135	2,460,099
EBITDA margin	8.63%	4.30%	1.91%	7.34%	6.34%	5.12%
EBIT	3,027,368	–143,737	–935,157	1,765,612	1,335,167	792,525
EBIT margin	5.91 %	–0.43%	–2.44%	3.73%	2.76%	1.65%
Net profit	2,328,666	–189,933	–773,244	1,547,070	1,157,475	893,560
Average number of employees	697	661	640	635	642	624
Added value per employee	26,932	20,346	21,265	28,062	27,501	27,147
Net financial debt	1,265,257	1,700,349	2,333,705	443,139	–1,659,731	–2,073,503
NFD/EBITDA	0.29	1.19	3.19	0.13	–0.54	–0.84



Program Structure

Industrial Knives

Production is based on four main programs, namely, metal cutting knives, wood cutting knives, paper recycling cutting knives and other knives that are manufactured depending on the available capacities of our machine park.

Metal cutting knives represent almost one fourth of the entire production range. In the past four years the production of metal cutting knives has increased the most, which is mainly the consequence of intentional investments in the program. This includes knives for cold and hot cutting, knives used in Rolling Mills for cutting quarto plates, and knives for profile cutting.

Wood cutting knives also represent almost a quarter of the production quality-wise. This includes knives for plywood, used in manufacturing all types of plywood, and axe machine knives, used for grinding different types of wood. This wooden mass is later used to manufacture different kinds of wooden plates or as an energy-producing mass.

Knives for grinding plastics and recycling make up a further quarter of production. These quantity of products is also increasing, since environmental awareness is rising globally. More and more waste is crushed, ground and recycled, for which these types of knives are used.

Paper cutting knives make up a small part of the entire production. These knives tend to reach high prices due to their high tolerances. From this point of view the production of these knives is especially interesting for us.

Amongst other important products are base plates for linear motors and wear plates.

Manufacture of Welding Materials

The programs include manufacturing welding materials for manual, semi-automatic and automatic welding of steel and various colored metals.

Products of the company consist of coated electrodes, welding wires and bars, flux-cored wires and welding fluxes. They are used for welding all types of steels: unalloy, stainless, nickel and copper alloys, as well as for cladding non-abrasive materials, and for cutting and gouging.

The manufacturing program consists of the following three groups of products:

- coated electrodes
- welding wires
- agglomerated fluxes

- coating flux
- flux-cored wires

Manufacture of Drawn Wires

The manufacturing program consists of:

- manufacture of drawn, polished and peeled steel bars
- manufacture of metal products

Steel bars are made in different qualities (automatic steels, carbon steels, alloy steels, stainless steels), different dimensions, and states of supply (drawn, ground, etc).

Metal products are different metal products that can be used as tools, spare machine parts, parts of furniture, etc.

Services:

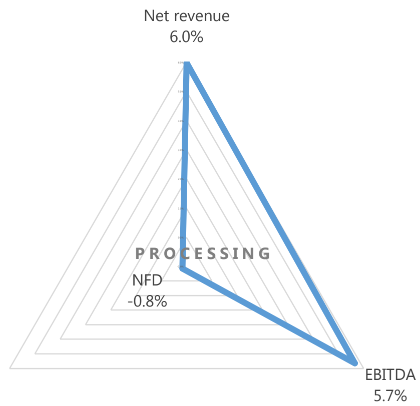
- turning, milling, circular and superficial grinding, and MIG/MAG welding for metal products.
- coating, leveling and grinding steel bars.

Manufacture and Maintenance of Spare Parts

Apart from carrying out all types of maintenance work, the program includes the manufacture of different machine parts, the layout of all types of processing machines, and construction services.

Structure of the Group by Area

The area of processing, with 6.0% of income creates 5.7% of EBITDA. The negative net financial debt of this area amounts to EUR 2.1 million, which means it is very efficient at managing cash flows, since it creates operational savings that it can later on lend and thereby create positive financial effects.



Investments

Investments in the production of industrial knives in 2013 amounted to EUR 1.7 million, which we entirely covered with our own assets.

In order to increase competitiveness, productivity and the quality of products, we bought two CNC milling centers in 2013. The 4-axis CNC milling center, with a processing option of up to a length of four meters, is used for processing the larger workpieces that are becoming more common on the market. The CNC milling center with 5 axes, a rotating table and the option of processing up to the length of 1.3 meters, is used for manufacturing small knives with sophisticated shapes. Both machines will increase competitiveness. The two CNC milling machines cost EUR 0.9 million.

Heat treatment furnaces 1.5 and 0.3 meters long were purchased for heat treating products in the total value of EUR 0.3 million. By this we increased the product flow in the tempering area. The heat treatment furnaces are computer controlled and the input and transfer of data on individual input is transferred to the Microsoft SQL database.

The production of welding materials required no large investments in 2013, therefore the assets were only used for completing past investments.

Research and Development

In 2013 we made progress in the area of industrial knives, specifically in the field of technology of knives for cutting quarto plates, that are highly competitive when it comes to material properties. The development project to learn the entire technology of the new high-alloy steel will be completed in 2014.

In addition to the aforementioned technology we have also developed material for pressure bars that is used with knives for plywood peeling.

We are continuously introducing new procedures of mechanical and thermo processing to the program. Innovations and changes together with new materials are being tested and introduced in the production process.

In the production of welding materials the greatest part of investments went to developing medium and high-alloy coated electrodes, medium alloy flux-cored wires and special kinds of fluxes. The improved technology of manufacturing flux-cored wires by introducing additional technological improvements in individual production phases will optimize production.

In 2013 we introduced vacuum processing of fillers that ensures lower sedimentation of fillers in the storing process before usage. We implemented a new type of protection and surface treatment which also improved the technical and welding properties of wires. An innovation in the production of welding fluxes is hermetically sealed packaging for keeping welding materials safer during storage and transportation.

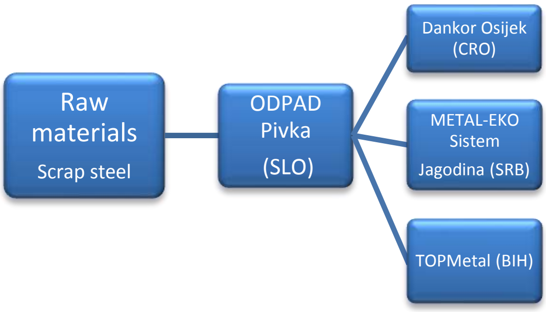
The development of new materials in the area of coated electrodes was oriented toward low-priced electrodes for improving their welding properties and lowering production costs, which remains one of the top priorities of developing coated electrodes in 2014. Collaboration with customers in the area of development was effective in developing basic high-alloy electrodes for special purposes in foundries. Amongst the results is the INOX R 19/12/3 NC electrode and underwater welding electrode. The quality of certain massive electrodes and cladding electrodes was improved. Our electrodes tested positive for deformation resistance before tearing, carried out in Germany (EVB 91CrMoV in EVB 911), which represents an excellent base for selling products with high added value to our most demanding customers.

The development of the welding wire program was oriented towards manufacturing different qualities of flux-cored wires, and for joint welding and cladding as well as repairing used materials.

In the MIG/MAG welding wires program we started developing the technology of MIG90, which we will start to manufacture in 2014.

Technological processes were optimized with the Kopa information system, renewing the process of manufacture management and the monitoring of inventories of input materials, packaging and semi-finished products.

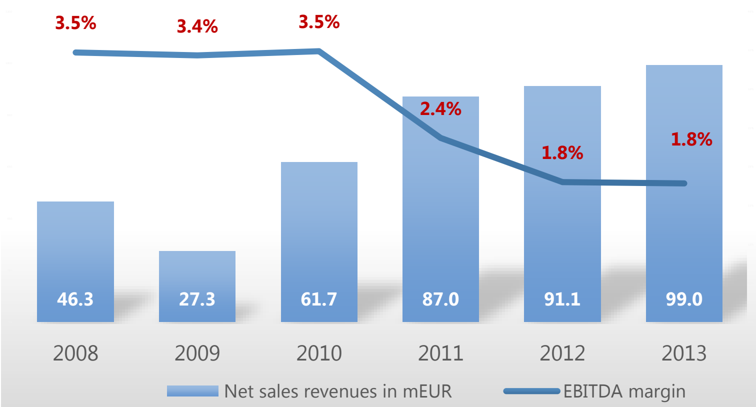
RAW MATERIALS



SIJ Group's strategy includes, among other things, scrap steel supply through its own network of collectors and processors of scrap steel. The purchase of high quality scrap steel was of key importance in times of economic boom, but it always represents the basis for directly affecting business economics. These companies carry out acquisition, collection, sorting, processing, cutting and baling of scrap steel.

Raw materials	2008	2009	2010	2011	2012	2013
Net sales revenues	46,320,386	27,262,488	61,698,938	87,023,261	91,058,495	98,996,439
EBITDA	1,607,672	935,441	2,149,622	2,059,475	1,636,423	1,766,529
EBITDA margin	3.5%	3.4%	3.5%	2.4%	1.8%	1.8%
EBIT	1,163,016	501,694	1,633,407	1,517,893	1,162,450	1,161,452
EBIT margin	2.5%	1.8%	2.6%	1.7%	1.3%	1.2%
Net profit	682,497	258,863	907,387	406,666	157,320	26,201
Average number of employees	21	23	40	46	59	88
Added value per employee	123,716	79,404	88,441	79,559	56,824	40,490
Net financial debt	3,491,735	8,142,307	11,049,074	12,557,943	15,101,706	15,244,190
NFD/EBITDA	2.17	8.70	5.14	6.10	9.23	8.63

Raw Materials – Scrap Steel Collection



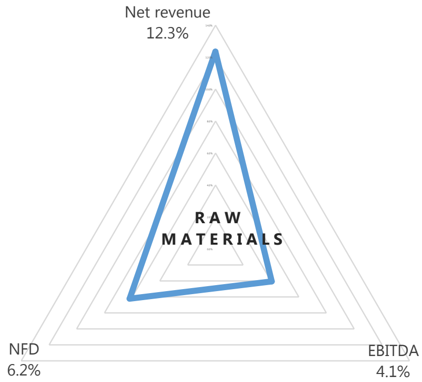
This area is managed by the Odpad company that owns the Dankor company from Osijek, Croatia, the Metal – Eko Sistem from Jagodina, Serbia and, since February 2013, also TOPMetal from Banja Luka, Bosnia and Hercegovina.

The companies of this area provide 32.0% of the purchase value of regular steel scrap for Acroni and 23.1% of the purchase of Metal Ravne.

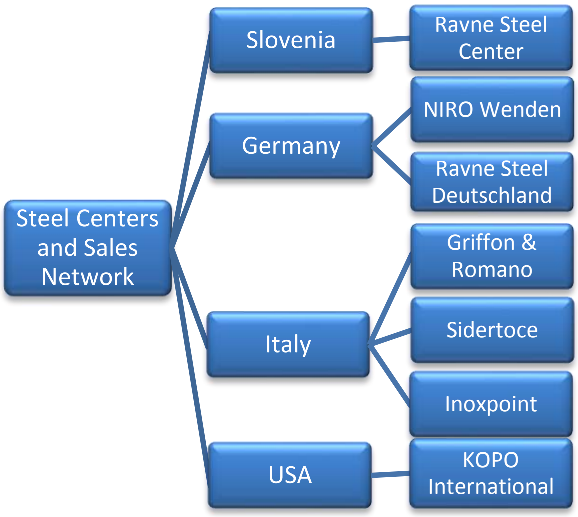
In the future we aim to be able to provide our own supplies in the area of collecting alloy scrap, whose market value is connected to the prices of most important alloys: nickel, chrome and molybdenum. This will protect us from the possible negative effects of speculative price changes of these materials.

Structure of the Group by Area

Raw materials was one of our least successful areas, reaching only 12.3% of income and 4.1% of EBITDA. The share of net financial debt is 6.2%.



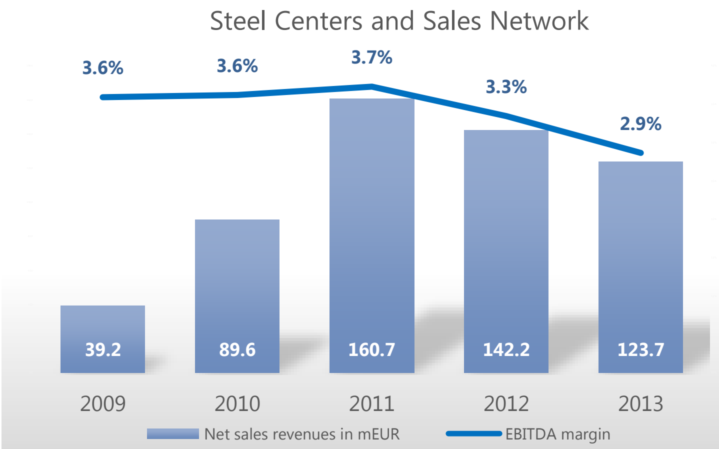
STEEL CENTERS AND SALES NETWORK



Steel centers and sales network	2009	2010	2011	2012	2013
Net sales revenues	39,226,034	89,602,890	160,724,921	142,170,817	123,698,938
EBITDA	1,407,275	3,241,353	5,992,194	4,754,641	3,539,255
EBITDA margin	3.6%	3.6%	3.7%	3.3%	2.9%
EBIT	1,101,594	1,446,200	3,093,871	2,455,296	1,417,201
EBIT margin	2.8%	1.6%	1.9%	1.7%	1.1%
Net profit	744,859	461,431	582,971	163,653	–792,061
Average number of employees	13	102	173	165	139
Added value per employee	203,710	87,503	93,808	85,689	78,427
Net financial debt	3,560,736	33,515,786	41,578,662	40,555,206	36,127,851
NFD/EBITDA	2.53	10.34	6.94	8.53	10.21

The data for 2012 excludes results of Iuenna Stahl, and the only results included for SMG are those for the first half of the year.

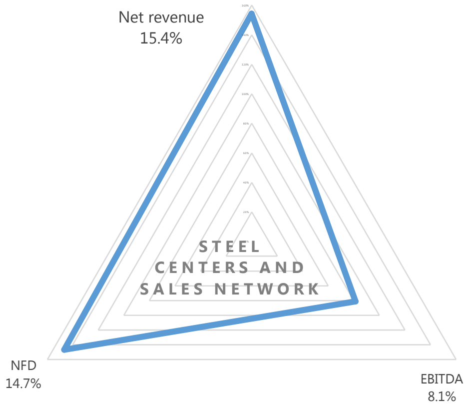
Through these groups of companies both steel companies sold more than 5.1% of their products (unconsolidated data). In other words: both companies realized 28.8% of the entire sales within the Group through service centers and the sales network.



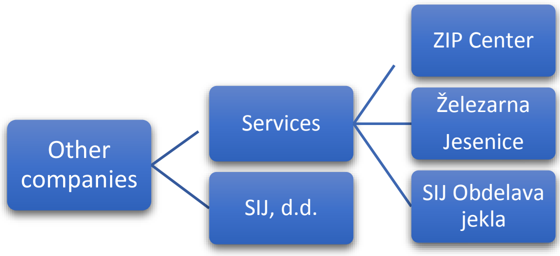
Structure of the Group by Area

Steel centers and the sales network recorded the biggest decrease in sales since 2013, mostly in Italy, which suffered from a huge economic and financial crisis in 2013. The demand for products of the flat steel program was low and did not significantly improve during the first quarter of 2014. The market situation was slightly better in the steel bar program.

Financial indebtedness in this area is relatively high and partly the consequence of the history of operations up to the point when they were taken over.



OTHER COMPANIES – SERVICES



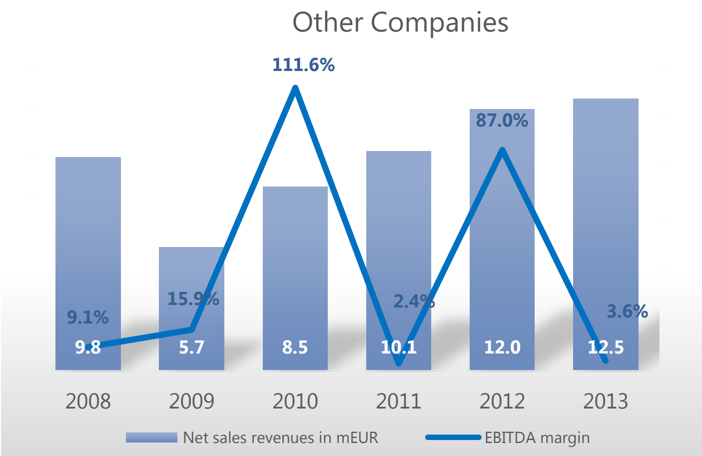
Other companies - services*	2008	2009	2010 [16]	2011	2012	2013
Net sales revenues	9,814,371	5,671,675	8,460,119	10,109,001	12,027,283	12,509,567
EBITDA	892,095	901,400	9,444,345	246,996	10,462,296	451,496
EBITDA margin	9.1%	15.9%	111.6%	2.4%	87.0%	3.6%
EBIT	597,847	603,095	9,165,442	5,036	10,244,392	146,999
EBIT margin	6.1%	10.6%	108.3%	0.0%	85.2%	1.2%
Net profit	736,081	3,178,665	10,251,745	432,582	11,297,163	1,788,788
Average number of employees	152	145	135	131	138	147
Added value per employee	43,993	44,733	112,714	55,983	141,596	66,224
Net financial debt	–32,305,585	–34,375,830	–22,255,600	–15,031,917	2,579,108	6,675,445
NFD/EBITDA	–36.21	–38.14	–2.36	–60.86	0.25	14.79

**the data in the table for SIJ, d. d.*

The SIJ Group includes two companies that employ the disabled, namely SUZ Jesenice and ZIP Center. The first is considered to be a processing company and the other a service company.

Železarna Jesenice still owns some properties that previously belonged to the unified company in Jesenice. Their main activity is marketing their own real-estate.

[16] *In 2010 and 2012 the income and business results are high due to the income of SIJ, d. d., based on received dividends*


Other Companies
111.6%
87.0%
9.1%
15.9%
2.4%
3.6%
9.8
5.7
8.5
10.1
12.0
12.5
2008
2009
2010
2011
2012
2013
Net sales revenues in mEUR
EBITDA margin

RISKS AND OPPORTUNITIES

In the area of operations and risk management our goal is to discover and respond to opportunities and risks stemming from the inner and outer environment in time, in order to reach short-term and long-term goals and ensure the Group's sustainable development as well as increase its value for the owners.

OPPORTUNITIES

Strategic Opportunities

SIJ as a Group and as individual companies has been thoroughly monitoring and processing information about the steel market situation and the situation on other relevant markets. In addition to that we have been monitoring the development of new materials and following the research of several scientific institutes in order to get a firm base for making strategic decisions.

The market need for special small-series products and the fast growing market for our strategic manufacturing programs are seen as a strategic opportunity. Through huge capital investments since 2007 we have expanded our potential product range, oriented toward large dimensions, producing pure steel and reaching higher levels of product machining. We expanded our sales focus to other European countries, which improved our brand name's reputation. Our main strategic opportunities are: entering new industries or new niche markets within the already established industries, for example the energy sector, the pharmaceutical, petrochemical, glass and aviation industries, steel manufacture for industrial rollers and so on.

Business Opportunities

In addition to huge capital investments in upgrading and modernizing production, we have also invested a great deal in strengthening the development of both employees and equipment. Every year we have developed a huge number of new products, mostly technologically advanced ones with small competition from other world producers and high added value. Most of the new products are developed together with buyers according to their needs or demands. We have been following competitions, announcements and all the media information both locally as well as globally in order to expand our sales activities or decrease the risk that comes from depending on a small number of customers.

RISK MANAGEMENT

Politics of Risk Management

Our risk management policy is integrated in both the process of strategic and operational planning and in the direct operational decision-making process. This is the only way to ensure the foundation of safe and profitable operation. Due to its broad, branched and complementary operations, and the very nature of the industries in which it operates, we as a group are quite exposed to risks. We therefore try to detect, assess and find an appropriate means of managing these risks as early as possible.

RISK FACTORS

Political and Legislative Risks

The continuation of the financial crisis and the consequent economic recession, together with the negative growth of GDP, based on lower demand, growing unemployment and all the other factors have had a huge impact on the operations of the SIJ Group in 2013. We are an export-oriented Group, which means that we depend largely on the situation on the global markets, especially the EU market. The insecure and unstable political situation affects the ability to respond and the economic ability of individual markets, which can lead to market and business losses.

The insecure and unstable political situation and inadequate response of existing policies on the effects of the economic crisis in Slovenia has reflected in the lack of financing and crediting resources in local banks.

The constant changes in legislation, especially environmental and energy legislation, demand operational adjustments and increase costs while at the same time increasing the possibility of legal voids and the risk of false interpretation of legislation.

Risks Associated with Future Development

The business activities of SIJ and its individual companies is based not only on the development of individual geographical areas, but also on the development of individual industries, consumers of steel products, industrial knives and welding materials that are extremely export oriented.

Market dispersion, being one of our long and short-term goals, program diversification and the development of new products is our measure for lowering the risk of future development. With this in mind we have been investing in technological, program and market modernization of the SIJ Group for years.

Increasing flexibility enabled by small companies, in connection with support for centralized strategic purchase functions, our own company for collecting steel scrap and the further development of our own sales network are measures that will additionally support our future development.

Financial Risks

Area of risk	Description of risk	Means of management	Exposure
Foreign exchange risk	Possibility of loss due to unfavorable changes in foreign currencies.	Coordinating US dollar sales and purchases.	Low
Interest rate risk	Risk of loss due to changes in interest rates.	Monitoring financial markets and changes in interest rates.	Low
Credit risk	Risks of customers not meeting their contractual obligations and not paying.	Active receivables management, monitoring of credit ratings, insuring operating receivables.	Moderate
Solvency risks	Lack of funds for the payment of financial and operating liabilities.	Excellent long-term planning of needs for liquidity funds.	Moderate

Situations on the global financial market are gradually improving, but economic activity remains fairly weak, influencing company operations. GDP is expected to suffer from another drop, which is expected to be higher in Slovenia than in the other countries of the European Union. Inflation in the Eurozone is indeed decreasing but the unemployment rate is rising. The European Central Bank is continuing its policy of lowering interest rates, but access to financing sources remains limited, partly due to the decreasing credit rating of Slovenia and its banks. Despite stringent conditions on the financial markets, a general decrease in financial power of our buyers, the decrease in production and sales and the still incomplete recovery of the steel market, we were able to successfully control financial risk in 2013.

Foreign Exchange Risk

SIJ Group carries out its purchases and sales on the global market, therefore we are exposed to the risk of unfavourable ratios between currencies, especially the EUR/USD exchange ratio where the fluctuation is relatively strong. We constantly monitor our exposure to the exchange rate and regulate the risk by coordinating US dollar sales and purchases.

Interest Rate Risk

The interest rate risk in the Group arises mostly from the fact that the interest rate for the greater part of current and non-current financial liabilities is comprised of a variable EURIBOR part and a fixed part, which represents the net interest margin. The EURIBOR interest rate was at its lowest point in history in 2013, which had a positive effect on financial operations. Due to the unfavourable fiscal and debtor positions of some members of the monetary union political pressure for changing the management of the monetary policy of the European central bank was created, which led to the decrease in the value of EURIBOR. The analysis of sensitivity shows a relatively high effect on business outcomes, but since EURIBOR is not expected to rise, we estimate the risk of this happening as low.

Credit Risk

The exposure to credit risk related to customers is limited by various activities: control of exposure to individual business partners; the continuous monitoring of wholesale customers; the sale of goods on condition of the receipt of appropriate collateral instruments (advance payments, warranty for payment of a bill of exchange, letters of credit, bank guarantees); the insurance of receivables with insurance companies; and the continual collection of receivables.

The risk due to compulsory compositions has been constantly increasing in the past few years. We monitor overdue receivables and carry out measures on a monthly basis, working together with representatives from the sales, finance and legal departments.

The risk is considered high. However, due to the adopted strategy and continuous business monitoring we estimate the credit risk as manageable.

Solvency Risks

The conditions on the financial and money markets impact the continuously worsening difficulty in acquiring funds, which consequently impacts the increase of solvency related risks, since most companies in Slovenia have limited access to additional funds. In 2013 the so-called stress tests were carried out in Slovenian banks. Two banks ended in controlled liquidation, which could influence the potential possibility of a running illiquidity of companies. We therefore practice a conservative financial policy, since we plan our cash flow for several months in advance; monitor the actual inflows and outflows on a daily basis, thus trying to maintain a positive cash flow; and at the same time use several instruments intended to safeguard both short-term liquidity and long-term solvency (dispersed resources, security deposits, short-term credits, bridging loans, approved overdrafts, etc.). We carefully monitor the movement of receivables and regularly adopt measures to deal with non-paying customers.

We regularly negotiate with local and foreign banks to extend existing current loans, and major investments are financed by non-current loans. In 2013 the banks granted EUR 62 million in new loans.

The biggest risks are for Slovenian companies, but we assess this risk as moderate due to our established system of planning and monitoring.

Commercial risks

Area of risk	Description of risk	Means of management	Exposure
Development and research	Risks related to the realization of our development strategy.	Careful planning of development projects, quality reporting and adequate control.	Moderate
Purchase risks	Purchasing quality and suitably affordable raw materials, the risk of timely supply, changes in purchasing prices.	Careful planning of the supply chain, negotiation and searching for suitable suppliers.	High
Sales risks	Decreased amount of orders and loss of customers due to the bad economic situation and a weaker purchasing power of companies.	Responding to changes in operating conditions, finding new markets, adjusting our sales activities to the markets, innovative market approaches.	High
Investment projects	Risk of making the wrong decision on investment in production and other capacities, and risk of the implementation process going astray.	A careful planning of project implementation, a systematic selection of contractors, and constant control of implementation.	Moderate
Quality assurance	Inappropriate quality of input materials for the production process, inappropriate implementation of development and production processes, and inappropriate quality of end products.	Upgrading certified management systems and following changes in the quality system, careful implementation of quality control in all development and production processes.	Moderate

Development and Research

Since our goal is to produce quality products, we are constantly investing in new demanding technologies, developing new kinds of steel and products, and strengthening our relationships with the end customers, whose requests set the direction of our development path. We pay special attention to research and development, constantly increase our technological capability, and make many investments in the improvement of the working processes; we have also introduced a common share-point portal which required staff enhancement in the development departments. Higher added value is achieved by optimizing costs, especially by new, cheaper technological processes in the production lines; increased productivity; and automation and computerization, as well as maximum efficiency of work processes.

Purchase Risks

The situation on the raw materials market is always unpredictable. The daily fluctuation on the raw material exchange can have a huge influence on current operations due to the time difference between purchasing the raw material and selling the product. Purchasing risks arise due to price changes in purchased raw materials and services. On the one hand there is the risk of too small or too large inventories due to speculations in raw material purchasing, while on the other hand there is the risk of not being able to have the end customer make up for the price difference. These risks are being reduced by coordinating production and purchasing plans on a weekly basis, by monitoring prices daily and by purchasing raw materials in time for set sales projects.

A purchasing risk is also inappropriate quality. We lower these risks by constantly controlling input materials, deepening long-term partnerships based on competitiveness, searching for alternative materials, testing new materials and suppliers, dispersing purchases of strategic materials across several suppliers, and by monitoring and predicting market changes.

Sales Risks

We have a wide and well branched network. We operate in different geopolitical and macroeconomic conditions, as well as in a legal and competitive environment, and therefore we are exposed to different and variably intensive sales risks. The economic and financial crisis and the consequent increase in bankruptcies, measurements taken by companies due to the economic crisis, a general decrease of purchasing power and increasing competition strongly affected our ability to get new orders. 2013 was marked by a decline in orders both on the local as well as on the foreign market.

The risks were lowered by constantly monitoring the situation on several markets, adjusting our offers to individual customers and projects, adjusting conditions of payment and by developing new products. We have been systematically monitoring the level of satisfaction of our direct and indirect customers and have worked on optimizing inventories throughout the Group.

We estimate our exposure to this type of risk as high, but expect it to reduce due to improved market conditions and the measures that we have taken.

Investment Risks

Our 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.

They are managed by thoroughly planning investments. We do this by preparing, processing and checking the necessary investment documentation in accordance with internal guidelines. While the project is being carried out we monitor the quality and time of the investment that is taking place, as well as the amount of resources used for the investment.

In 2013 we continued the implementation of strategic investments. We continually improve the quality of preparation and implementation of investment projects, by inspecting the legal compliance of the contractual documentation, and by checking the justification of any potential changes as well as their influence on costs and future plans.

Risks Associated with Quality

We manage the risks concerning improper quality of our products by the technical control of input raw materials and other materials, as well as by output control of the products, and also by certifying products with the relevant organizations in charge of such quality control.

Our customers can be sure that our products are appropriately certified. Using assessments we regularly and systematically check the performance of the quality system in all working processes, and at the same time we implement the required improvements by which we are continuously upgrading the quality system and thus effectively managing quality assurance related risks. The management of these risks is very important for long-term cooperation with customers who demand quality products at the right time and for the right price. Due to the established quality control system we assess this risk as moderate.

Other Risks

Area of risk	Description of risk	Means of management	Exposure
Environmental risk	Risk of incidents harmful to the environment. Risk of pollution due to the Group's activities.	Preventive practices and internal procedures in the event of an incident and cooperating with external agencies for environmental protection.	Moderate
Information technology	Risk of interference due to faults or out-of-date IT technology. Risk associated with data protection. Risk associated with information system implementation.	Regular maintenance, updating and upgrading of the IT system. Monitoring according to the contractor's project methodology.	Moderate Increased
Safety risks	The danger of property damage due to natural forces and other disasters.	Measures in accordance with fire safety, transaction of relevant insurances, physical protection of the property.	Low
Human resources risk	Risk related to the provision of qualified staff.	Systematic work with key staff, system of awards, continuous education. Motivation.	Low
Legal risks	Risk associated with changes in legislation or its interpretation.	Monitoring legislations and preparing measures.	Low

Environmental Risk

It is our duty to minimize negative effects on the environment and take appropriate measures should they occur. We minimize the occurrence of incidents by systematically monitoring the impacts of the companies' operations on the environment with the use of modern technologies, technical measures, preventive checks and regular maintenance of equipment.

We have also focused on risks connected to electricity. In order to keep these under control we have started to carry out analyses of the energy state and to optimize its usage.

To minimize the environmental risk, we already consider the effects on the environment in the planning phase, since most environmental effects caused by an individual production process can be foreseen as early as that. Minimizing environmental risks is part of the environmental management system according to ISO 14001.

Risks Associated with Information Technology and Safety of Internal Processes

The most important risks in the field of information technology are those of breakdown or malfunction in hardware, the local area network, the communications and system software, and risks associated with information system security. We are also dealing with risks associated with the implementation of the new business information system and those associated with the transfer of the system itself into production.

We ensure that these risks are well managed by constantly monitoring them and immediately responding to any problems. 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, and the duplication of communication paths). We estimate these risks as moderate.

Risks regarding the implementation of the new business information system are being monitored and managed in accordance with the contractor's project methodology. The risks are recorded according to individual business processes.

Human Resources Risk

The biggest risk for SIJ is losing its key personnel and not being able to employ the professional personnel required.

Human resources risks are managed by offering continuous additional education of employees, gaining new knowledge and competencies, sharing knowledge between employees, team work, personal initiative, creativity and innovative ideas. Key factors are strengthening good relationships between employees and building an excellent organizational culture. We are trying to limit fluctuation through good management and communication with and between employees, continuous professional growth and motivation and by ensuring a work environment that rewards initiative.

Legal Risks

The legal department is responsible for legal certainty and legality of operations, and is intensively involved in all our activities. The legal department cooperates in signing contracts with suppliers and customers, handling complaints, dealing with employment relationships and employees' rights and obligations, preparing internal acts and policies, in investment projects and in handling damages.

The legal department monitors legislation changes and cooperates in adapting processes, contracts, internal acts, policies and regulations to the new legislation. On the basis of activities carried out and involvement of the legal department in these activities we assess this risk as low.

PREDICTIONS FOR THE FOLLOWING YEAR

The 2014 plan supports our long-term goals, which focus on becoming the leading manufacturer of stainless steel quarto plates in Europe and improving our position as a manufacturer of special tool steels both in Europe and in the USA.

We will also continue to follow our investment policy, which will not only support the further development of our key programs, but will also focus on technologically modernizing the production processes in all programs. The goal of this investment policy is to become the best in Europe by 2020.

At the start of the year we introduced efficient measures for increasing our cost effectiveness and improving our business success in all areas of operation, from production to sales and after-sales services for the end customer.

The planned operating ratios were reviewed and new goals were set: 520,000 tonnes of cast steel, 430,000 tonnes of sold finished products (without sales of steel scrap) and consolidated income amounting to 741 million Euros, which is 12.5% more than in 2013.

We are planning a radical improvement of our business results in 2014.

Our business performance will be backed up by an improved use of the given production resources, investments that are at least as high as the given amortization and measures for lowering nominal costs and costs per production unit.

We will continue to actively market products with higher added value and win over new customers on the existing, as well as the perspective, markets.

Extra attention will be given to developing new products for known customers with a higher added value. The quality of products and the after-sales service will be maintained within the ranges required.

EVENTS FOLLOWING THE END OF THE FINANCIAL YEAR

- The SIJ Group changed its Board of Directors in January: Tibor Šimonka was replaced by the new President of the Board of Directors, Anton Chernykh, and Viacheslav Korchagin was replaced by Igor Malevanov as the Vice-President of the Board of Directors.

- Acroni also changed its Managing Director in January: Slavko Kanalec was replaced by Blaž Jasnič.

- Since 1 January 2014 our receivables are insured with a new insurance company.

- We started the year with a record production of steel quarto plates in Acroni.

- Frost and the rigorous weather caused substantial problems in some of the companies. The company Pivka was cut off by road for some time, while Acroni could not get its supply of raw materials.

3

FINANCIAL STATEMENT

Deloitte.

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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 31.12.2013, 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.

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 31.12.2013, 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, 17 March 2014

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

FOR TRANSLATION PURPOSES ONLY- ORIGINAL PREVAILS

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The Board of Directors is responsible for drawing up consolidated financial statements for each individual financial year according to the International Financial Reporting (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.

Anytime within 5 years after the end of the year in which the tax assessment should be made, the tax authorities can inspect the operations of individual Group's company. This can result in occurrence of additional tax liabilities, default interests and fines based on corporate income tax or other taxes and duties. No circumstance which could result in possible liability in this title is known to the Board Of Directors.

The Board Of Directors declares that the consolidated financial statements have been compiled in accordance with the IFRS adopted by the European Union, without reservations about their application.

The Board of Directors approved the consolidated financial statements, accounting policies and notes on 17 March 2014.

President of the Board of Directors
Anton Chernykh

Member of the Board of Directors
Igor Malevanov

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Comprehensive Income

	Note	2013	2012
Revenue	01	658,653,447	732,549,967
Cost of sales	02	(566,299,192)	(633,226,043)
Gross profit		**92,354,255**	**99,323,924**
Distribution costs	02	(39,910,174)	(45,299,521)
General and administrative expenses	02	(50,843,474)	(53,096,942)
Other operating income	03	3,643,735	8,359,307
Other operating expenses	04	(3,080,922)	(2,592,376)
Operating profit		**2,163,420**	**6,694,392**
Finance income	05	1,207,874	968,639
Finance expenses	06	(13,411,576)	(10,092,386)
Net finance costs		**(12,203,702)**	**(9,123,747)**
Share of profit of associates		317,378	329,575
Loss before tax		**(9,722,904)**	**(2,099,780)**
Income tax expense	07	(438,307)	(987,185)
Deferred income tax	07	5,238,414	3,826,414
Loss/profit for the year		**(4,922,797)**	**739,449**
Items that will not be reclassified subsequently to profit or loss			
Income tax related to components of comprehensive income		(8,238)	(32,736)
Items that may be reclassified subsequently to profit or loss			
Change in fair value reserves for available-for-sale financial assets		50,525	167,198
Exchange rate difference on translating foreign operations		(71,300)	48,085
Comprehensive income		**(4,951,810)**	**921,996**

	Note	2013	2012
Net profit or loss, attributed to:		**(4,922,797)**	**739,449**
Owners of the parent company		(4,895,447)	628,053
Non-controlling interest		(27,350)	111,396
Basic and diluted earnings per share	08	-	0.64
Comprehensive income, attributed to:		**(4,951,810)**	**921,996**
Owners of the parent company		(4,915,184)	776,437
Non-controlling interest		(36,626)	145,559

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

Consolidated Statement of Financial Position

	Note	31 Dec. 2013	31 Dec. 2012
ASSETS			
Non-current assets		**437,877,384**	**422,058,676**
Intangible assets	09	21,502,702	19,718,244
Property, plant and equipment	10	394,507,526	386,086,823
Investment property	11	222,193	79,997
Investments in associates	12	948,213	630,835
Available-for-sale financial assets	13	786,957	739,504
Financial receivables	14	102,961	114,961
Operating receivables	15	2,839,809	2,963,788
Other assets	16	475,426	379,846
Deferred tax assets	17	16,491,597	11,344,678
Current assets		**337,963,092**	**341,515,336**
Assets held for disposal	18	5,118,988	5,670,020
Inventories	19	155,757,033	155,184,341
Financial assets at fair value through profit or loss	20	411	430
Financial receivables	21	16,847,475	6,317,993
Operating receivables	22	133,866,711	145,484,935
Income tax assets		461,558	841,167
Cash and cash equivalents	23	24,909,911	26,922,115
Other assets	24	1,001,005	1,094,335
Total assets		**775,840,476**	**763,574,012**
EQUITY AND LIABILITIES			
Equity	25	**323,646,861**	**328,003,560**
Equity attributed to the owners of the parent company		***318,803,214***	***323,873,862***
Share capital		145,266,066	145,266,066
Capital surplus		11,461,177	11,461,177
Revenue reserves		(858,646)	(946,217)
Fair value reserves		71,177	28,890
Translation differences		(98,750)	(36,726)
Retained earnings		162,962,190	168,100,672
Non-controlling interest		**4,843,647**	**4,129,698**
Non-current liabilities		**172,578,269**	**155,507,759**
Employee benefits	26	10,587,208	10,500,510
Other provisions	27	1,862,801	1,866,188
Deferred revenues	28	777,512	682,590
Financial liabilities	29	159,003,499	142,161,199
Operating liabilities	30	294,459	167,665
Deferred tax liabilities	17	52,790	129,607
Current liabilities		**279,615,347**	**280,062,693**
Liabilities held for disposal	18	0	951,293
Financial liabilities	31	113,939,351	112,102,494
Operating liabilities	32	161,497,569	163,529,118
Income tax liabilities		44,568	96,452
Other liabilities	33	4,133,859	3,383,336
Total equity and liabilities		**775,840,476**	**763,574,012**

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

Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Equity in 2013

	Equity attributed to 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. 2012	**145,266,066**	**11,461,177**	**(946,217)**	**28,890**	**(36,726)**	**168,100,672**	**323,873,862**	**4,129,698**	**328,003,560**
Acquisition of company	0	0	0	0	0	(155,464)	**(155,464)**	750,575	**595,111**
Creation of legal reserves	0	0	87,571	0	0	(87,571)	**0**	0	**0**
Transactions with owners	**0**	**0**	**87,571**	**0**	**0**	**(243,035)**	**(155,464)**	**750,575**	**595,111**
Loss for the year	0	0	0	0	0	(4,895,447)	**(4,895,447)**	(27,350)	**(4,922,797)**
Other changes in comprehensive income	0	0	0	42,287	(62,024)	0	**(19,737)**	(9,276)	**(29,013)**
Total changes in comprehensive income	**0**	**0**	**0**	**42,287**	**(62,024)**	**(4,895,447)**	**(4,915,184)**	**(36,626)**	**(4,951,810)**
Balance on 31 Dec. 2013	**145,266,066**	**11,461,177**	**(858,646)**	**71,177**	**(98,750)**	**162,962,190**	**318,803,214**	**4,843,647**	**323,646,861**

Consolidated Statement of Changes in Equity in 2012

	Equity attributed to 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. 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**
Decrease in non-controlling interest	0	0	0	0	0	(4,352,886)	**(4,352,886)**	(947,114)	**(5,300,000)**
Acquisition of company	0	0	0	0	0	0	**0**	613,096	**613,096**
Disposal of company	0	0	0	0	0	0	**0**	471,266	**471,266**
Creation of legal reserves	0	0	547,139	0	0	(547,139)	**0**	0	**0**
Transactions with owners	**0**	**0**	**547,139**	**0**	**0**	**(4,900,025)**	**(4,352,886)**	**137,248**	**(4,215,638)**
Profit for the year	0	0	0	0	0	628,053	**628,053**	111,396	**739,449**
Other changes in comprehensive income	0	0	0	134,462	13,922	0	**148,384**	34,163	**182,547**
Total changes in comprehensive income	**0**	**0**	**0**	**134,462**	**13,922**	**628,053**	**776,437**	**145,559**	**921,996**
Balance on 31 Dec. 2012	**145,266,066**	**11,461,177**	**(946,217)**	**28,890**	**(36,726)**	**168,100,672**	**323,873,862**	**4,129,698**	**328,003,560**

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

Consolidated Cash Flow Statement

	Note	2013	2012
Cash flow from operating activities			
Loss before tax		**(9,722,904)**	**(2,099,780)**
Adjusted for:			
Depreciation and amortisation	09, 10	38,622,542	34,625,552
Share of profit/loss in associates	12	(317,378)	(329,575)
Interest income	05	(970,458)	(660,569)
Interest expenses	06	12,325,692	9,862,306
Exchange rate differences, net		(10,703)	11,899
Profit/loss in investment sales	13, 20	6,546	(178,229)
Impairment of assets	19	627,496	842,669
Creation/reversal of allowances and provisions		2,022,659	(35,761)
Other adjustments		(766,953)	(1,607,704)
Operating cash flow before changes in working capital		***41,816,539***	***40,430,808***
Changes in working capital			
Change in operating receivables		20,690,576	10,387,314
Change in inventories		(4,310,043)	4,937,823
Change in operating liabilities		(6,328,201)	10,295,207
Change in taxes other than income tax		474,073	(217,841)
Payments for disposal of provisions		(1,133,258)	(1,757,329)
Receipts from government grant		218,746	318,003
Income tax paid		(109,157)	(2,442,028)
Changes in working capital		***9,502,736***	***21,521,149***
Net cash generated from operating activities		**51,319,275**	**61,951,957**
Cash flow from investing activities			
Payments for investments in subsidiaries		(716,683)	(13,704,166)
Receipts from investments in subsidiaries		0	327,062
Payments for property, plant and equipment		(46,463,344)	(47,706,001)
Receipts from property, plant and equipment		147,142	192,460
Payments for intangible assets		(1,570,297)	(1,447,844)
Receipts from other assets		1,001	383,994
Payments for loans granted	14, 21	(11,715,369)	(14,400,052)
Receipts from loans granted	14, 21	1,897,097	19,549,520
Interests received		228,722	516,937
Dividends received	13	52,192	19,664
Net cash used in investing activities		**(58,139,539)**	**(56,268,426)**
Cash flow from financing activities			
Receipts from borrowings	29, 31	330,753,120	301,226,243
Payments for borrowings	29, 31	(309,281,061)	(289,282,133)
Payments for finance lease	29, 31	(4,627,412)	(3,916,158)
Interests paid		(12,039,421)	(11,621,645)
Net cash generated/used in financing activities		**4,805,226**	**(3,593,693)**
Cash and cash equivalents at 1. 1.		**26,922,115**	**24,844,734**
Translation differences		2,834	(12,457)
Decrease/increase		(2,015,038)	2,089,838
Cash and cash equivalents at 31. 12.		**24,909,911**	**26,922,115**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2013.

Consolidated financial statements for a selected group of subsidiaries are compiled by the company SIJ – Slovenian Steel Group, d. d. Consolidated financial statements for a wider group of subsidiaries are compiled by DILON Cooperatief U. A. The consolidated annual report for the Group DILON Cooperatief will be available at the registered office of DILON Cooperatief U.A., Luna Arena, Herikerbergweg 238, 1101 CM Amsterdam Zuidoost, Amsterdam, the Netherlands.

Basis of Preparation

The consolidated financial statements for 2013 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: consolidated 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:

- IFRS 13 "Fair Value Measurement", adopted by the EU on 11 December 2012 (applies to annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 1 "First-Time Adoption of the International Financial Reporting Standards" – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters adopted by the EU on 11 December 2012 (applies to annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 1 "First-Time Adoption of the International Financial Reporting Standards" – Government Loans, adopted by the EU on 4 March 2013 (apply to annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (applies to annual periods beginning on or after 1 January 2013),
- Amendments to IAS 1 "Presentation of Financial Statements" – Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (apply to annual periods beginning on or after 1 July 2012),
- Amendments to IAS 12 "Income Taxes" – Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (applies to annual periods beginning on or after 1 January 2013),

- Amendments to IAS 19 “Employee Benefits” – Improvements to the Accounting for Post-Employment Benefits, adopted by the EU on 5 June 2012 (applies to annual periods beginning on or after 1 January 2013),
- Amendments to various standards "Improvements to IFRSs (2009–2011)" based on Annual Improvements to IFRSs (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) with a purpose to eliminate the inconsistencies and interpret the text, adopted by the EU on 27 March 2013 (the amendments should be applied to annual periods beginning on or after 1 January 2013),
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”, adopted by the EU on 11 December 2012 (applies to annual periods beginning on or after 1 January 2013).

Adoption of these amendments to the existing standards had no effect on 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 approval of the financial statements following standards, amendments and interpretations adopted by the European Union were issued, but not yet effective:

- IFRS 10 “Consolidated Financial Statements”, adopted by the EU on 11 December 2012 (applies to annual periods beginning on or after 1 January 2014),
- IFRS 11 “Joint Arrangements”, adopted by the EU on 11 December 2012 (applies to annual periods beginning on or after 1 January 2014),
- IFRS 12 “Disclosure of Interests in Other Entities”, adopted by the EU on 11 December 2012 (applies to annual periods beginning on or after 1 January 2014),
- IAS 27 (as amended in 2011) “Separate Financial Statements”, adopted by the EU on 11 December 2012 (applies to annual periods beginning on or after 1 January 2014),
- IAS 28 (as amended in 2011) “Investments in Associates and Joint Ventures”, adopted by the EU on 11 December 2012 (applies to annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosure of Interests in Other Entities” – Transition Guidance, adopted by the EU on 4 April 2013 (applies to annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IFRS 27 (changed in 2011) “Separate Financial Statements” – Investment Entities, adopted by the EU on 20 November 2013 (applies to annual periods beginning on or after 1 January 2014),
- Amendments to IAS 32 “Financial Instruments: Presentation” – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (applies to annual periods beginning on or after 1 January 2014),
- Amendments to IAS 36 “Impairment of Assets” – Recoverable Amounts - Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (applies to annual periods beginning on or after 1 January 2014),
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (applies to annual periods beginning on or after 1 January 2014).

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 statements 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 EU, 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 17 March 2014:

- IFRS 9 »Financial Instruments« and Further Amendments (an effective date has not been stated yet),
- Amendments to IAS 19 “Employee Benefits” – Defined Benefit Plans: Employee Contributions (applies to annual periods beginning on or after 1 July 2014),

- Amendments to various standards "Improvements to IFRSs (2010–2012)" based on Annual Improvements to IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 13, IAS 16, IAS 24 and IAS 38) with a purpose to eliminate the inconsistencies and interpret the text (the amendments should be applied to annual periods beginning on or after 1 July 2014),
- Amendments to various standards "Improvements to IFRSs (2011–2013)" based on Annual Improvements to IFRSs (IFRS 1, IFRS 3, IFRS 13 and IAS 40) with a purpose to eliminate the inconsistencies and interpret the text (the amendments should be applied to annual periods beginning on or after 1 July 2014),
- IFRIC 21 "Levies" (applies to annual periods beginning on or after 1 January 2014).

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 EU 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.

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:

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

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.

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, the disclosed contingent assets and liabilities on the day of the preparation of the consolidated financial statements, as and the disclosed amounts of income and expenses during the reporting period.

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

- 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 net realizable value of inventories,
- estimate of the collectible amount of receivables,
- estimate of the created provisions,
- estimate of the possibility for realization of deferred tax assets.

Since estimates are subject to subjective judgments and a level of uncertainty, the subsequent actual results can differ from those estimated. Estimates are reviewed on an ongoing 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.

Composition of the Group of Related Parties

The consolidated financial statements of the SIJ Group include the financial statements of the parent company SIJ – Slovenska industrija jekla, d. d., and the 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. 2013	Value of equity 31 Dec. 2013	Net profit 2013
Parent company of the Group					
SIJ – Slovenska industrija jekla, d. d., Gerbičeva ulica 98, Ljubljana	Holding activity		218,629,183	180,441,159	1,751,428
SIJ – subsidiaries					
Acroni, d. o. o., Cesta Borisa Kidriča 44, Jesenice	Steel production	100	439,226,118	155,553,553	(4,335,319)
Metal Ravne, d. o. o., Koroška cesta 14, Ravne na Koroškem	Steel production	100	202,103,380	82,911,763	(481,394)
Ravne Knives, d. o. o., Koroška cesta 14, Ravne na Koroškem	Production of industrial knives	100	17,849,858	12,794,409	711,323
Elektrode Jesenice, d. o. o., Cesta železarjev 8, Jesenice	Production of welding materials	100	10,694,181	5,317,094	(143,588)
SUZ, d. o. o., Cesta Borisa Kidriča 44, Jesenice	Production of drawn wires	100	3,604,691	841,062	16,761
ZIP Center, d. o. o., Koroška cesta 14, Ravne na Koroškem	Education and training of disabled	100	1,408,064	102,456	9,897
Železarna Jesenice, d. o. o., Cesta železarjev 8, Jesenice	Trading with own real estate	100	10,147,658	9,388,258	(9,032)
Odpad, d. o. o., Pivka, Velika Pristava 23, Pivka	Recovery of secondary raw materials from scarp	74.90	23,957,710	6,570,021	159,593
NIRO Wenden GmbH, Glück-Auf-Weg 2, Wenden, Germany	Steel cutting, engineering and trade	85	6,175,973	2,601,285	135,949
Ravne Steel Center, d. o. o., Litostrojska cesta 60, Ljubljana	Trade	77.28	23,844,872	12,179,667	795,257
Griffon & Romano Group, Via Tacito 8/10, Corsico, Italy	Heat processing and special steel trade	100	22,773,250	584,590	(1,610,580)
SIJ Steel Processing, d. o. o., Gerbičeva ulica 98, Ljubljana	Sales network management	100	547,964	399,574	42,268
METAL RAVNE – subsidiaries					
KOPO International Inc., New Jersey, USA	Trade	100	16,249,720	1,208,358	42,114
Serpa, d. o. o., Koroška cesta 14, Ravne na Koroškem	Production of metallurgic machines	85.61	6,401,801	4,264,740	309,064
ODPAD – subsidiaries					
Dankor, d. o. o., Europske avenije 22, Osijek, Croatia	Recovery of secondary raw materials from scarp	51	1,946,152	641,922	3,836
Metal – Eko Sistem, d. o. o., Put Kneza Mihaila 107, Jagodina, Srbia	Recovery of secondary raw materials from scarp	70	3,901,086	2,040,487	18,029
Topmetal, d.o.o., Banja Luka, Bosnia and Herzegovina	Recovery of secondary raw materials from scarp	51	1,455,234	920,084	83,987
Ravne Steel Center – subsidiaries					
SIDERTOCE S. p. A., Via XX. Settembre 198, C. P. 34, Gravellona Toce, Italy	Trade	100	12,903,354	2,292,054	122,092
Ravne Steel Deutschland Gmbh, Celsiusstrasse 17, Germany	Trade	100	50,000	50,000	0

The takeover of Topmetal, d. o. o., was completed in February 2012. Its 51 percent owner became Odpad, d. o. o., and with this the Group acquired the controlling interest so it fully consolidates the company from the acquisition date.

At the beginning of 2013 the liquidation process of the subsidiaries ACRONI Deutschland, GmbH, and ACRONI Italia, S. r. l., began. These two companies operate as agents. All activities of both companies will be transferred to the controlling company Acroni, d. o. o. The Group has excluded the companies from the consolidated financial statements. This liquidation is not recognized as a discontinued operation because its effect on the consolidated financial statements is not significant. The liquidation resulted in expenses for the Group of EUR 146,912.

In June 2013 the liquidation process of Žična Celje, d. o. o., was completed. The liquidation resulted in expenses for the Group of EUR 5,773.

In December 2013 Ravne Steel Center, d. o. o., established a new subsidiary, Ravne Steel Deutschland, Gmbh.

The financial statements of the companies included in the consolidated financial statements are audited, except for the financial statements of those companies which are not obliged to be audited according to local legislation, or which had not begun to operate by the reporting date. These are Topmetal, d. o. o., Ravne Steel Deutschland, Gmbh, and SIJ Obdelava Jekla, d. o. o.

Significant Accounting Policies

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of a company so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the Group's consolidated financial statements from the date on which control commences until the date that control ceases. The accounting policies of the subsidiaries are aligned with the Group's accounting policies.

On loss of control, the Group de-recognizes the assets and liabilities of the subsidiary, any non-controlling interests, and any other components of the equity related to the subsidiary. Any surplus or deficit arising on loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, such interest is measured at fair value at the date on which control is lost. Subsequently, this interest is accounted for in equity as an investment in an associate (using the equity method) or as an available-for-sale financial asset, depending on the level of influence retained.

Intra-group balances and any gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates (accounted for using the equity method) are eliminated to the extent of the Group's interest in the entity. Unrealized losses are eliminated using the same method, provided there is no evidence of impairment.

Investments in Associates

Investments in associates are accounted on the basis of the equity method. Associates are those companies where the Group has a significant influence on their operations, but which it does not control.

Upon initial recognition, investment in associates are measured at cost, but are subsequently accounted for using the equity method. The Group's consolidated financial statements include the Group's share of the profit and loss of equity-accounted associates, after adjustments to align the accounting policies, from the date on which significant influence commences until the date that significant influence ceases. When the Group's share of losses of an associate exceeds its interest in such an entity, the carrying amount of the Group's interest is reduced to zero and recognition of further losses is discontinued.

Transactions with Non-Controlling Interests

The Group measures goodwill at the fair value of the consideration transferred, plus the recognised amount of any non-controlling interest in the acquisition, plus the fair value of any pre-existing equity in the acquisition (if the business combination is achieved in stages), less the net recognized amount of the assets acquired and liabilities assumed, all measured as at the acquisition date. When the excess is negative, the effect is recognized immediately in profit or loss.

Acquisition costs, other than those associated with the issue of equity or debt securities, incurred in connection with a business combination, are listed as incurred expenses.

The Group accounts for the acquisition of non-controlling interests that do not involve a change in control of a company as transactions with owners, and therefore no goodwill is recognized.

Adjustments to non-controlling interests are based on a proportionate amount of the assets of the subsidiary. Any surplus, or the difference between the costs of additional investments and the carrying amount of assets, are recognized in equity.

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 the 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.

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 the reporting date.

Foreign exchange differences are recognized in comprehensive income and presented under translation differences in equity. In the case of non-wholly-owned subsidiaries abroad, the relevant proportion of the foreign exchange differences is allocated to non-controlling interests. When a foreign operation is disposed of in such a way that control or significant influence is lost, the relevant cumulative amount in the translation reserve is reclassified to profit or loss or as gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

Revenues

Sales revenues are recognized at fair value of received repayments or receivables, 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.

Financial income comprises interest income, income from the disposal of available-for-sale financial assets and positive exchange rate differences resulting from financing and investing. Interest income is recognized upon its occurrence, using the effective interest rate method.

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 reliably measured. 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.

Financial 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, and losses from the value impairment of financial assets. Borrowing costs are recognized in the income statement using the effective interest rate method.

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 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 the 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 the tax values of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is calculated by using the 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.

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.

Intangible Assets

Intangible assets with a definite useful life are recognized at cost, less any accumulated amortisation and accumulated impairment losses. The purchase value includes costs that can be directly attributed to the acquisition of each individual item. Borrowing costs directly attributable to the purchase or production of a qualifying asset are recognized as part of the cost of such asset. The cost model is used for any subsequent measuring of intangible assets.

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

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

The estimated useful life of individual intangible assets for the current and past years is 2–10 years.

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

Further costs related to intangible assets are recognized in the carrying amount of each asset, if it is probable that the future economic benefits embodied within the asset will flow to the Group and the cost of the asset can be measured reliably. 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 acquired identifiable assets, liabilities and contingent liabilities of a subsidiary on the date of acquisition. Negative goodwill is immediately recognized in the consolidated 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 consolidated income statement and is not subsequently reversed. On the disposal of the subsidiary the relevant goodwill amount is included in the determination of profit or loss.

Property, Plant and Equipment

At the initial recognition, tangible assets (property, plant and equipment) are carried at cost, less any accumulated depreciation and accumulated impairment losses, except for land and other assets that are not depreciated; these 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, production or construction of a qualifying asset are recognized as part of the cost of each 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. Leased assets are depreciated over the estimated period of lease and useful life. Land and unfinished construction is not depreciated. Depreciation is accounted when an asset becomes available for use.

The estimated useful lives of individual property, plant and equipment types for current and past year are:

	Useful life
Real estate	10–60 years
Production equipment	1–25 years
Computer equipment	1–10 years
Motor vehicles	2–10 years
Other equipment	1-10 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 and further costs related to intangible assets are recognized in the carrying amount of each asset, if it is probable that the future economic benefits embodied within this asset will flow to the Group, and the cost of the asset can be measured reliably. All other costs (for example, maintenance costs) are recognized in the income statement as expenses as soon as they are incurred.

Investment Property

At its initial recognition, investment property is measured at cost, less accumulated depreciation and accumulated impairment losses. The cost model is used for any subsequent measuring of investment property.

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

Financial Instruments

Financial instruments include the following items:

- non-derivative financial assets ,
- non-derivative financial liabilities.

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 hierarchical 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 are 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.

Non-Derivative Financial Assets

Non-derivative financial assets include cash and cash equivalents, loans and receivables, and investments. Liabilities, borrowings and deposits are initially recognized when they are incurred. Other assets are initially recognized on the trade date on which the Group becomes a contracting party in a contract on the instrument. The recognition of a financial asset is eliminated when the contractual rights of the cash flows from the asset expire, or when the rights of the 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.

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.

Available-for-Sale Financial Assets

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

Receivables and Loans

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed on the active market. Depending on their maturity they are classified as current financial assets (maturities up to 12 months after the date of the statement of financial position) or non-current financial assets (maturities exceeding 12 months after the date of the statement of financial position). Borrowings and liabilities are initially recognized at fair value increased by costs directly attributable to the business transaction. Subsequent to their initial recognition, borrowings and liabilities are measured at amortised cost using the effective interest rate method less accumulated impairment loss.

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.

Non-Derivative Financial Liabilities

Non-derivative financial liabilities of the Group include operating, financial and other liabilities. Financial liabilities are initially recognized on the trade date on which the Group becomes a contracting party in relation to the instrument. The Group de-recognizes a financial liability when the contractual obligations are fulfilled, annulled or expired.

Non-derivative financial liabilities are initially disclosed at fair value, increased by costs directly attributable to the business transaction. Subsequent to their initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method. Depending on their maturity they are classified as current financial liabilities (maturities up to 12 months after the date of the statement of financial position) or non-current financial liabilities (maturities exceeding 12 months after the date of the statement of financial position).

Inventories

Inventories are measured at cost or net realizable value, whichever is the lower. The cost value consists of the purchase price, import duties and direct purchase costs. The purchase price is reduced by any discounts given. 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.

Assets Held for Disposal (Disposal Groups)

Assets or disposal groups which include assets and liabilities for which it can be expected that their value will be recovered through sale are classified as assets held for disposal. Assets or disposal groups are re-measured directly before their classification as assets held for disposal. Accordingly, non-current assets or disposal groups are recognized at their carrying amount or fair value less cost of sale, whichever is the lower. Impairment losses on the reclassification of assets as assets held for disposal, and subsequent losses and gains on re-measurement, are recognized in profit or loss. Gains are not recognized in the amount exceeding possible accumulated impairment losses.

Once classified as held for disposal, intangible assets and property, plant and equipment are no longer amortised or depreciated. When investments are classified as assets held for disposal, they are no longer equity accounted.

Impairment of Assets

Financial Assets

A financial asset is impaired if objective evidence indicates that one or more events occurred resulting in a decrease in the estimated future cash flows from this asset which can be reliably estimated.

Objective evidence of the impairment of financial assets can include: default or delinquency by a debtor; restructuring of the amount owed to the company, if the company agrees; indications that the debtor will declare bankruptcy; and disappearance of the active market for such an instrument.

Impairment of Receivables and Loans

The Group considers the evidence of impairment of receivables individually or collectively. All significant receivables are measured separately for specific impairment. If it is assessed that the carrying amount of the receivables exceeds the fair value, i.e. the collectible amount, receivables are impaired.

Receivables that are not individually significant are collectively assessed for impairment by grouping together those receivables with similar risk characteristics. The Group creates these groups on the basis of the maturity of receivables. In the evaluation of total impairment, the Group uses historical trends of the probability of default, the timing of recoveries, and the amount of incurred loss adjusted for management judgment as to whether the actual losses due to current economic and credit conditions could be higher or lower than the losses based on historical trends.

The Group evaluates the evidence of impairment for each significant 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 estimated future cash flows, discounted at an original effective interest rate. The loss is recognized in the profit or loss.

Impairment of Available-for-Sale Financial Assets

Impairment losses of available-for-sale financial assets are 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.

Non-Financial Assets

At each reporting date, the Group reviews 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 assets or cash-generating units is their value in use or fair value, less cost to sell, whichever is the greater. In assessing value in use, 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, 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 units).

The impairment of assets or cash-generating units is recognized if their carrying amount exceeds their recoverable value. The impairment is given 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 an 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.

Determination of Fair Value

Following the accounting policies of the Group, in many cases the determination of fair value of non-financial assets and financial assets is necessary, either to measure an individual asset (measurement method or business combination) or for additional fair value disclosure.

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.

Methods for the determination of fair value of individual groups of assets for measurements or reporting are given below.

Intangible Assets

The fair value of intangible assets is based on the method of discounted cash flows which are expected to arise from use and possible disposal of the assets.

Property, Plant and Equipment

The fair value of property , plant and equipment is their market value. The market value of property is equal to the estimated value at which the property could be sold on the date of valuation and after proper marketing. The market value of equipment is based on the approach using quoted market price for similar items.

Investment Property

The value of investment property is assessed by considering the aggregate value of estimated cash flows expected from renting out the property. A yield reflecting specific risks is included in the property valuation, based on discounted net annual cash flows.

Available-for-Sale Financial Assets and Financial Assets at Fair Value through Profit or Loss

The fair value of available-for-sale financial assets and financial assets at fair value through profit or loss is determined according to preliminarily-defined hierarchical levels of determining fair value of financial instruments. If the 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.

Receivables and Loans

The fair value of receivables and loans granted is calculated as the present value of future cash flows discounted at market interest rate at the end of the period. The assessment considers credit risk connected to these financial assets.

Non-Derivative Financial Liabilities

The fair value for reporting is calculated on the present value of future repayment and the principal value discounted at the market interest rate at the end of the period.

Equity

Share Capital

The share capital of the parent company takes the form of share capital, the amount of which is defined in the Company's article of association. It is registered with the Court and paid by the owners.

Capital Surplus

Capital surplus consists of the amounts from payments exceeding the lowest issue price per share that exceeds 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.

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.

Treasury Shares

If the 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, regranted or sold.

Dividends

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

Provisions

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

Employee Benefits

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 retirement 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 each 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.

Deferred Revenues

Deferred revenues are expected to cover the estimated expenses during a period exceeding one year.

On the basis of the status of a sheltered company, companies in the Group create deferred revenues in amount of calculated but not paid contributions from salary and compulsory contributions (assigned contributions). They are intended for covering expenses in accordance with Vocational Rehabilitation and the Employment of Disabled Persons Act. The expended deferred revenues are eliminated and credited to operating income for the current year.

Cash Flow Statement

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

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.

Notes to Individual Items in the Consolidated Financial Statements

01 Revenue

	2013	2012
In Slovenia	89,953,689	106,635,100
In other countries:	568,699,758	625,914,867
- Germany	145,969,091	158,886,298
- Italy	167,955,777	183,124,005
- Austria	24,933,805	24,600,026
- USA	39,156,501	44,013,356
- Other countries	190,684,584	215,291,182
Revenue	**658,653,447**	**732,549,967**

02 Operating Expenses

	2013	2012
Costs of goods, materials and services	532,544,541	593,689,915
Labour costs	88,960,782	93,586,341
- wages and salaries	65,695,765	67,936,333
- social security costs	12,011,507	13,845,733
- other labour costs	11,253,510	11,804,275
Depreciation and amortisation costs	38,622,542	34,625,552
Other costs	6,078,395	6,888,770
Change in the value of inventories	(9,153,420)	2,831,928
Operating expenses	**657,052,840**	**731,622,506**

Review of Costs by Type in 2013

	Cost of sales	Distribution costs	General and administrative expenses	Total
Costs of goods, materials and services	482,451,468	32,365,746	17,727,327	532,544,541
Labour costs	55,402,889	7,093,156	26,464,737	88,960,782
Depreciation and amortisation costs	34,592,888	397,114	3,632,540	38,622,542
Other costs	3,005,367	54,158	3,018,870	6,078,395
Change in the value of inventories	(9,153,420)	0	0	(9,153,420)
Operating expenses	**566,299,192**	**39,910,174**	**50,843,474**	**657,052,840**

Review of Costs by Type in 2012

	Cost of sales	Distribution costs	General and administrative expenses	Total
Costs of goods, materials and services	538,031,499	37,108,218	18,550,198	593,689,915
Labour costs	57,692,291	7,755,194	28,138,856	93,586,341
Depreciation and amortisation costs	30,790,052	375,488	3,460,012	34,625,552
Other costs	3,880,273	60,621	2,947,876	6,888,770
Change in the value of inventories	2,831,928	0	0	2,831,928
Operating expenses	**633,226,043**	**45,299,521**	**53,096,942**	**731,622,506**

The auditing costs for the 2013 Annual Report amounted to EUR 257,980.

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

	2013	2012
Primary school	542	612
2.5-year vocational school	374	404
3- or 4-year vocational school	920	939
Secondary vocational or general school	753	780
Higher education I. level	262	289
Higher education II. level	230	186
Master's Degree, Ph.D.	36	37
Total	**3,117**	**3,247**

03 Other Operating Income

	2013	2012
Revenues from application of received subsidies	1,620,777	1,586,463
Capitalized own products	889,235	3,915,785
Received compensations	819,965	1,275,039
Profit from selling emission coupons	2,682	136,362
Reversal of provisions	0	958,857
Profit from sale of assets held for disposal	0	51,737
Other income	311,076	435,064
Other operating income	**3,643,735**	**8,359,307**

04 Other Operating Expenses

	2013	2012
Allowances for receivables	1,425,042	1,062,340
Allowances for inventories	528,721	148,606
Impairment of inventories	627,496	842,669
Loss on investment sales	146,912	0
Expenses for donations and sponsorships	184,387	351,848
Other expenses	168,364	186,913
Other operating expenses	**3,080,922**	**2,592,376**

05 Finance Income

	2013	2012
Profit from sale and revaluation of available-for-sale financial assets	0	178,229
Exchange rate differences	101,403	105,559
Interest income	970,458	660,569
Other income	136,013	24,282
Finance income	**1,207,874**	**968,639**

06 Finance Expenses

	2013	2012
Loss from sale and revaluation of available-for-sale financial assets	6,546	0
Exchange rate differences	128,821	194,485
Interest expenses	12,325,692	9,862,306
Other expenses	950,517	35,595
Finance expenses	**13,411,576**	**10,092,386**

07 Taxes

	2013	2012
Income tax expense	(438,307)	(987,185)
Deferred income tax	5,238,414	3,826,414
Taxes	**4,800,107**	**2,839,229**

	2013	2012
Loss before tax	(9,722,904)	(2,099,780)
Tax at effective tax rate	(1,570,607)	(377,960)
Tax effects from:		
- non-taxable income	(11,043)	(140,941)
- tax non-deductible expenses	599,287	507,925
- tax relief	(2,649,050)	(3,656,649)
- change in tax rates	(1,168,694)	828,396
Taxes	**(4,800,107)**	**(2,839,229)**

The tax relief of the Group comprises tax relief realized from the charging of corporate tax, and unused tax relief for which deferred tax assets were recorded. The Group can realize unused tax relief in the following years in accordance with the legislation of the state where the Group has tax losses.

08 Net Earnings per Share

Net earnings per share are calculated by dividing the 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.

	2013	2012
Earnings of the owners of the controlling company	(4,895,447)	628,053
Weighted number of issued ordinary shares	986,699	986,699
Basic and diluted earnings per share	-	0.64

09 Intangible Assets

Table of Movement of Intangible Assets in 2013

	Non-current property rights	Goodwill	Assets under construction	Total
Cost on 31 Dec. 2012	**5,425,975**	**15,137,047**	**1,559,268**	**22,122,290**
Acquisition of company	0	61,683	0	61,683
New acquisitions	0	0	2,465,036	2,465,036
Transfer from assets under construction	926,059	0	(926,059)	0
Disposals	(16,373)	0	0	(16,373)
Translation differences	(686)	0	0	(686)
Disposal of company	0	(76,069)	0	(76,069)
Cost on 31 Dec. 2013	**6,334,975**	**15,122,661**	**3,098,245**	**24,555,881**
Allowance on 31 Dec. 2012	**(2,404,046)**	**-**	**-**	**(2,404,046)**
Amortization	(663,397)	-	-	(663,397)
Disposals	14,070	-	-	14,070
Translation differences	194	-	-	194
Allowance on 31 Dec. 2013	**(3,053,179)**	**-**	**-**	**(3,053,179)**
Present value on 31 Dec. 2012	**3,021,929**	**15,137,047**	**1,559,268**	**19,718,244**
Present value on 31 Dec. 2013	**3,281,796**	**15,122,661**	**3,098,245**	**21,502,702**

Intangible assets comprise computer software and licences. The largest activation in 2013 was programs for monitoring production. Major new additions include the purchase of software and licences in connection with a partial modernization of the information system, which is expected to be activated in 2014.

The useful life of intangible assets is final, except for goodwill, which has an indefinite useful life.

Goodwill is a result of the acquisition of a subsidiary 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 disclosure 35. Goodwill decreases at the termination of a subsidiary.

On 31 December 2013 goodwill was tested for potential impairment. The Group determined no signs of impairment. Based on the test performed, the Board of Directors assesses that on 31 December 2013 the recoverable value of investments in interests of the companies in which goodwill arose was higher than their purchase value at the time of the 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 the companies' operations and reasonable expectations of future operations.

On 31 December 2013 the Group's unsettled liabilities to suppliers for purchase of intangible assets amounted to EUR 2,238,463. Its contractual liabilities for the purchase of intangible assets amounted to EUR 1,532,914. The present value intangible assets under financial lease amounted to EUR 511,273. The Group capitalized EUR 59,652 of borrowing costs, for which the interest rates were between 3.13 and 4.50 percent. The intangible assets are not pledged as security for liabilities.

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

Table of Movement of Intangible Assets in 2012

	Non-current property rights	Goodwill	Assets under construction	Total
Cost on 31 Dec. 2011	**3,777,745**	**14,849,222**	**1,250,071**	**19,877,038**
Acquisition of company	0	1,003,036	0	1,003,036
New additions	0	0	2,223,083	2,223,083
Transfer from assets under construction	1,894,609	0	(1,894,609)	0
Transfer from property, plant and equipment	4,505	0	0	4,505
Transfer to assets held for disposal	(66,557)	0	0	(66,557)
Translation differences	(427)	0	0	(427)
Disposal of company	(183,900)	(715,211)	(19,277)	(918,388)
Cost on 31 Dec. 2012	**5,425,975**	**15,137,047**	**1,559,268**	**22,122,290**
Allowance on 31 Dec. 2011	**(2,119,581)**	**-**	**-**	**(2,119,581)**
Amortization	(501,365)	-	-	(501,365)
Transfer to assets held for disposal	65,095	-	-	65,095
Disposal of company	151,805	-	-	151,805
Allowance on 31 Dec. 2012	**(2,404,046)**	**-**	**-**	**(2,404,046)**
Present value on 31 Dec. 2011	**1,658,164**	**14,849,222**	**1,250,071**	**17,757,457**
Present value on 31 Dec. 2012	**3,021,929**	**15,137,047**	**1,559,268**	**19,718,244**

10 Property, Plant and Equipment

Table of Movement of Property, Plant and Equipment in 2013

	Land	Buildings	Equipment	Other	Assets under construction	Total
Cost on 31 Dec. 2012	**25,415,070**	**260,297,345**	**744,140,329**	**23,091,080**	**49,189,942**	**1,102,133,766**
Acquisition of company	0	0	248,027	3,112	40,903	292,042
New additions	0	0	0	0	47,312,741	47,312,741
Transfer from assets under construction	12,200	8,826,272	74,693,630	1,533,414	(85,065,516)	0
Write-offs and disposals	(162)	(19,363)	(11,064,885)	(476,774)	0	(11,561,184)
Translation differences	(14,438)	(4,434)	(18,289)	(3,380)	0	(40,541)
Transfer to assets held for disposal	0	0	(1,394,564)	0	0	(1,394,564)
Transfer to investment property	(92,523)	(394,664)	0	0	0	(487,187)
Cost on 31 Dec. 2013	**25,320,147**	**268,705,156**	**806,604,248**	**24,147,452**	**11,478,070**	**1,136,255,073**
Allowance on 31 Dec. 2012	**-**	**(171,212,591)**	**(527,115,678)**	**(17,718,674)**	**-**	**(716,046,943)**
Depreciation	-	(4,387,409)	(31,946,454)	(1,625,282)	-	(37,959,145)
Write-offs and disposals	-	19,361	11,019,764	381,970	-	11,421,095
Translation differences	-	1,163	4,549	1,594	-	7,306
Transfer to assets held for disposal	-	0	500,596	0	-	500,596
Transfer to investment property	-	329,544	0	0	-	329,544
Allowance on 31 Dec. 2013	**-**	**(175,249,932)**	**(547,537,223)**	**(18,960,392)**	**-**	**(741,747,547)**
Present value on 31 Dec. 2012	**25,415,070**	**89,084,754**	**217,024,651**	**5,372,406**	**49,189,942**	**386,086,823**
Present value on 31 Dec. 2013	**25,320,147**	**93,455,224**	**259,067,025**	**5,187,060**	**11,478,070**	**394,507,526**

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

- construction of a new rolling mill for plates,
- construction of equipment for the production of heavy plates and the construction of a platform for heavy plates storage,
- construction of a furnace for heat treatment of steel,
- construction of a vacuum ladle furnace,
- current upgrades (repairs),
- purchase of a batch hardening and tempering furnace,
- purchase of a stripping machine,
- renovation of buildings.

Write-offs and disposals of property, plant and equipment mostly refer to the sales and write-offs of equipment connected to the renovation of basic production capacities and write-offs of unusable and out-dated equipment.

Property, plant and equipment, whose present value on 31 December 2012 amounts to EUR 296,104,307, are pledged as security for liabilities. On 31 December 2013 the Group's unsettled liabilities to suppliers for the purchase of property, plant and equipment amounted to EUR 5,757,209. Its contractual liabilities for the purchase of property, plant and equipment amounted to EUR 13,806,456. The present value of property, plant and equipment under finance lease is EUR 16,049,578. The Group capitalized EUR 279,133 of borrowing costs, for which the interest rates were between 3.13 and 4.50 percent.

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

Table of Movement of Property, Plant and Equipment in 2012

	Land	Buildings	Equipment	Other	Assets under construction	Total
Cost on 31 Dec. 2011	**24,310,130**	**254,570,620**	**719,828,420**	**22,141,564**	**41,231,259**	**1,062,081,993**
Acquisition of company	1,089,886	0	828,304	87,537	2,409	2,008,136
New additions	0	0	0	0	47,394,892	47,394,892
Transfer from assets under construction	57,600	6,383,828	30,856,672	2,124,688	(39,422,788)	0
Write-offs and disposals	(36,506)	(136,273)	(6,022,363)	(742,041)	0	(6,937,183)
Translation differences	37,204	(1,333)	27,936	2,321	100	66,228
Other changes	0	0	(25,189)	(71,977)	(15,930)	(113,096)
Transfer to assets held for disposal	(43,244)	(401,355)	0	(158,971)	0	(603,570)
Disposal of company	0	(118,142)	(1,353,451)	(292,041)	0	(1,763,634)
Cost on 31 Dec. 2012	**25,415,070**	**260,297,345**	**744,140,329**	**23,091,080**	**49,189,942**	**1,102,133,766**
Allowance on 31 Dec. 2011	**-**	**(167,013,483)**	**(505,240,510)**	**(17,030,941)**	**-**	**(689,284,934)**
Depreciation	-	(4,566,905)	(27,992,168)	(1,565,114)	-	(34,124,187)
Write-offs and disposals	-	136,273	5,957,120	616,138	-	6,709,531
Translation differences	-	382	1,086	534	-	2,002
Transfer to assets held for disposal	-	195,328	0	142,719	-	338,047
Disposal of company	-	35,814	158,794	117,990	-	312,598
Allowance on 31 Dec. 2012	**-**	**(171,212,591)**	**(527,115,678)**	**(17,718,674)**	**-**	**(716,046,943)**
Present value on 31 Dec. 2011	**24,310,130**	**87,557,137**	**214,587,910**	**5,110,623**	**41,231,259**	**372,797,059**
Present value on 31 Dec. 2012	**25,415,070**	**89,084,754**	**217,024,651**	**5,372,406**	**49,189,942**	**386,086,823**

11 Investment Property

Table of Movement of Investment Property in 2013 and 2012

	2013	2012
Cost on 1. 1.	**346,976**	**346,976**
Transfer from property, plant and equipment	487,187	0
Cost on 31. 12.	**834,163**	**346,976**
Allowance on 1. 1.	**(266,979)**	**(263,348)**
Depreciation	(15,447)	(3,631)
Transfer from property, plant and equipment	(329,544)	0
Allowance on 31. 12.	**(611,970)**	**(266,979)**
Present value on 1. 1.	**79,997**	**83,628**
Present value on 31. 12.	**222,193**	**79,997**

In 2013 the Group generated EUR 16,629 of expenses and EUR 43,595 of income in investment properties.

Investment properties are:

- part of the production hall next to the drawing plant in Koroška Bela covering 831.65 m^2, and part of the land covering 6,120 m^2,
- the Lubricant Storage Facility, the Input Storage Facility and the Narrow-gauge Truck Workshop in Jesenice covering in total 1,844 m^2,
- an apartment at Milčinskega ulica 8 in Celje, covering 42.41 m^2,
- an apartment at Milčinskega ulica 8 in Celje, covering 44.80 m^2,
- an apartment at Zoisova ulica 3 in Celje, covering 48.15 m^2.

The investment property is not pledged as security for liabilities.

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

12 Investments in Associates

	31 Dec. 2013	31 Dec. 2012
Jesenice Development Centre, Cesta Franceta Prešerna 61, Jesenice	948,213	630,835
Investments in associates	**948,213**	**630,835**

	Activity	% of voting rights	Value of assets 31 Dec. 2013	Value of equity 31 Dec. 2013	Revenues 2013	Net profit 2013
Jesenice Development Centre	Development	24.95	8,788,843	3,802,448	2,599,982	1,272,058

The investment in associates is valued on the basis of the equity method. In 2013 the Group attributed a corresponding share of 2013 profit which amounted to EUR 317,378.

The Company's principal activity is the development of new materials and raw materials. The company does not need to be audited.

13 Available-for-Sale Financial Assets

	31 Dec. 2013	31 Dec. 2012
Available-for-sale financial assets at cost	290,746	288,253
Available-for-sale financial assets at fair value	496,211	451,251
Available-for-sale financial assets	**786,957**	**739,504**

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. They increased due to the purchase of shares in the amount of EUR 3,457, and decreased due to the cancellation of shares in the amount of EUR 964.

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. They increased due to the revaluation at fair value in the amount of EUR 50,525 credited to the comprehensive income, and decreased due to the cancellation of shares in the amount of EUR 5,565.

Received dividends in 2013 amounted to EUR 52,192.

14 Non-Current Financial Receivables

	31 Dec. 2013	31 Dec. 2012
Loans granted	102,961	114,961
Non-current financial receivables	**102,961**	**114,961**

The interest rate for loans granted is mainly fixed. The loans are not secured.

Table of Movement of Non-Current Loans Granted

	2013	2012
Balance on 1. 1.	**114,961**	**143,461**
Current portion of non-current loans granted	(12,000)	(53,675)
Loans granted	0	30,000
Received payments	0	(4,825)
Balance on 31. 12.	**102,961**	**114,961**

15 Non-Current Operating Receivables

	31 Dec. 2013	31 Dec. 2012
Other operating receivables	5,347,139	5,471,163
Allowances for other receivables	(2,507,330)	(2,507,375)
Long-term operating receivables	**2,839,809**	**2,963,788**

Operating receivables include a non-current portion of receivables from the disposal of assets, non-current portion of trade receivables, and scholarship receivables.

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

16 Other Non-Current Assets

	31 Dec. 2013	31 Dec. 2012
Other assets	475,426	379,846
Other non-current assets	**475,426**	**379,846**

Other assets include non-current divided costs of gaining loans, divided costs of finance lease, and cautions.

17 Deferred Tax Assets and Liabilities

	31 Dec. 2013	31 Dec. 2012
Deferred tax assets	16,491,597	11,344,678
Deferred tax liabilities	(52,790)	(129,607)
Deferred tax assets/liabilities, net	**16,438,807**	**11,215,071**

Table of Movement of Deferred Tax Assets/Liabilities in 2013

	31 Dec. 2012	Translation differences	Changes in the income statement	Changes in the comprehensive income	31 Dec. 2013
Inventories	(89,196)	0	12,125	0	(77,071)
Property, plant and equipment	(335,123)	302	32,426	0	(302,395)
Available-for-sale financial assets	696	(2)	(694)	0	0
Other	294,016	0	32,660	0	326,676
Deferred tax liabilities	**(129,607)**	**300**	**76,517**	**0**	**(52,790)**
Other provisions	29,739	0	(2,698)	0	27,041
Unused tax losses	6,318,971	0	1,375,934	0	7,694,905
Inventories	180,961	(5,891)	77,288	0	252,358
Operating receivables	815,121	(62)	125,040	0	940,099
Employee benefits	1,158,567	0	163,458	0	1,322,025
Property, plant and equipment	100,643	31	668,057	0	768,731
Available-for-sale financial assets	(6,341)	0	0	(8,238)	(14,579)
Unused tax reliefs	2,747,017	(818)	2,754,818	0	5,501,017
Deferred tax assets	**11,344,678**	**(6,740)**	**5,161,897**	**(8,238)**	**16,491,597**
Deferred tax assets/liabilities, net	**11,215,071**	**(6,440)**	**5,238,414**	**(8,238)**	**16,438,807**

In 2013 there was a change in the Corporate Income Tax Act. The amendment to the Act annulled the progressive decrease of the tax rate from 20 to 15 percent within 4 years, and set a rate at 17 percent Deferred tax assets do not include assets from unused tax losses of the Group's controlling company, which on 31 December 2013 amounted to EUR 69,745,157. Deferred tax assets from unused tax losses would amount to EUR 11,856,677. The parent company of the Group recognized EUR 1,000,000 of deferred tax assets, as it expects taxable profits in the future against which the deductible temporary differences, unused tax losses and tax credits can be utilized. Unrecognized deferred tax assets from unused tax losses amounted to EUR 10,856,677.

Table of Movement of Deferred Tax Assets/Liabilities in 2012

	31 Dec. 2011	Translation differences	Changes in the income statement	Changes in the comprehensive income	Disposal of company	31 Dec. 2012
Inventories	0	0	(89,196)	0	0	(89,196)
Property, plant and equipment	(33,448)	92	(301,767)	0	0	(335,123)
Available-for-sale financial assets	0	(3)	699	0	0	696
Other	0	0	294,016	0	0	294,016
Deferred tax liabilities	**(33,448)**	**89**	**(96,248)**	**0**	**0**	**(129,607)**
Other provisions	30,476	0	(737)	0	0	29,739
Unused tax losses	5,908,941	0	888,859	0	(478,829)	6,318,971
Inventories	187,695	(1,473)	(5,261)	0	0	180,961
Operating receivables	755,459	(27)	59,689	0	0	815,121
Employee benefits	1,489,947	0	(331,380)	0	0	1,158,567
Property, plant and equipment	(975,237)	10	768,134	0	307,736	100,643
Available-for-sale financial assets	26,393	0	0	(32,734)	0	(6,341)
Other	233,142	0	2,543,358	0	(29,483)	2,747,017
Deferred tax assets	**7,656,816**	**(1,490)**	**3,922,662**	**(32,734)**	**(200,576)**	**11,344,678**
Deferred tax assets/liabilities, net	**7,623,368**	**(1,401)**	**3,826,414**	**(32,734)**	**(200,576)**	**11,215,071**

18 Assets (Group) and Liabilities Held for Disposal

	31 Dec. 2013	31 Dec. 2012
Assets held for sale	5,118,988	4,235,906
Assets held for disposal	0	1,434,114
Assets (group) held for disposal	**5,118,988**	**5,670,020**

Under assets held for sale, the Group has lands and buildings (outbuildings and apartments) in Jesenice and Celje. Sales activities are constantly under way. 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.

Liabilities connected to assets held for sale arose at the termination of the consolidation of Acroni Italia, S.r.l,. and Acroni Deutschland, GmbH, on 31 December 2012 amounted to EUR 951,293. In 2013 the Group liquidated these companies, therefore no assets or liabilities arise from this assets.

19 Inventories

	31 Dec. 2013	31 Dec. 2012
Raw material	56,604,372	62,050,955
Work in progress	45,436,509	48,334,365
Finished products	41,055,752	30,494,327
Trade goods	12,660,400	14,304,694
Inventories	**155,757,033**	**155,184,341**

The value of inventories, pledged as security for liabilities, amounted to EUR 14,057,255 on 31 December 2013. On 31 December 2013 the Group checked the value of inventories, and discovered that the net realizable value of inventories of finished products is lower than their production value, so made an impairment of the inventories in the amount of EUR 627,496 in 2013.

Table of Movement of Allowances for Inventories

	2013	2012
Balance on 1. 1.	**4,416,637**	**4,448,569**
Allowance changes with influence on profit or loss	528,721	148,606
Allowance changes without influence on profit or loss	(90,156)	(177,409)
Translation differences	(5,631)	(3,129)
Balance on 31. 12.	**4,849,571**	**4,416,637**

20 Financial Assets at Fair Value through Profit or Loss

	31 Dec. 2013	31 Dec. 2012
Financial assets at fair value through profit or loss	411	430
Financial assets at fair value through profit or loss	**411**	**430**

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

Table of Movement of Financial Assets at Fair Value through Profit or Loss

	2013	2012
Balance on 1. 1.	**430**	**64,375**
Revaluation at fair value	(19)	49,913
Sales	0	(6,272,200)
Acquisitions	0	6,165,129
Disposal of company	0	(6,787)
Balance on 31. 12.	**411**	**430**

21 Current Financial Receivables

	31 Dec. 2013	31 Dec. 2012
Loans granted	15,969,431	6,139,106
Allowances for loans granted	(876)	(5,867)
Interest receivables	873,353	184,754
Other	5,567	0
Current financial receivables	**16,847,475**	**6,317,993**

The interest rate for loans granted is mainly fixed. Under loans given, group has loan granted to parent company Dilon, d. o. o. in amount of EUR 14,352,541. Loans granted are secured with bills.

To facilitate better presentation the Group reclassified non-current interest receivables to current financial receivables. In the previous period they were shown in current operating receivables.

To ensure accordance with the current year, the Group redistributed interests in the compared year, on 31 December 2012, in the amount of EUR 184,754, from non-current operating to non-current financial receivables.

Table of Movement of Current Loans Granted

	2013	2012
Balance on 1. 1.	**6,133,239**	**9,728,482**
Acquisition of company	5,931	1,702
Current portion of non-current loans granted	12,000	53,675
Loans granted	11,715,369	14,370,052
Repayments of loans granted	(1,897,097)	(19,544,695)
Translation differences	(2)	64
Transfer to assets held for disposal	0	(20,175)
Other	(885)	1,544,134
Balance on 31. 12.	**15,968,555**	**6,133,239**

22 Current Trade and Other Receivables

	31 Dec. 2013	31 Dec. 2012
Trade receivables	127,693,867	135,107,074
Allowances for trade receivables	(4,725,975)	(3,408,724)
VAT receivables	5,138,980	3,875,637
Issued advance payments and cautions	3,592,941	7,039,463
Other operating receivables	2,166,898	2,871,485
Current trade and other receivables	**133,866,711**	**145,484,935**

The majority of the Group’s trade receivables are insured against commercial risks with our insurance company. The value of receivables from customers, pledged as security for liabilities, amounted to EUR 57,519,165 on 31 December 2013.

To facilitate better presentation the Group reclassified non-current interest receivables to current financial receivables. In the previous period they were shown in current operating receivables.

To ensure accordance with the current year, the Group redistributed interests in the compared year, on 31 December 2012, in the amount of EUR 184,754, from non-current operating to non-current financial receivables.

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

23 Cash and Cash Equivalents

	31 Dec. 2013	31 Dec. 2012
Cash in national currency	22,160,661	22,931,609
Cash in foreign currency	2,561,912	3,767,600
Restricted cash	187,338	222,906
Cash and cash equivalents	**24,909,911**	**26,922,115**

Cash in national and foreign currency includes cash in hand and balances on bank accounts, amounting to EUR 20,356,697 on 31 December 2013. Deposits in the amount of EUR 4,365,876 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 on custody accounts intended for payments of liabilities for the acquisition of a subsidiary.

24 Other Current Assets

	31 Dec. 2013	31 Dec. 2012
Current deferred expenses	842,734	1,068,347
Accrued revenues	158,271	25,988
Other current assets	**1,001,005**	**1,094,335**

Current deferred expenses refer to advance payments of costs, which in 2014 will debit against profit or loss.

25 Equity

	31 Dec. 2013	31 Dec. 2012
Equity attributed to the owners of the parent company	***318,803,214***	***323,873,862***
Share capital	145,266,066	145,266,066
Capital surplus	11,461,177	11,461,177
Revenue reserves	(858,646)	(946,217)
Fair value reserves	71,177	28,890
Translation differences	(98,750)	(36,726)
Retained earnings	162,962,190	168,100,672
Non-controlling interest	***4,843,647***	***4,129,698***
Equity	**323,646,861**	**328,003,560**

The share capital of the parent company is recognized in the amount of EUR 145,266,066 and is distributed among 994,616 shares. The face value of each share is EUR 146,05. The number of shares did not change in 2013.

Ownership Structure of the Parent Company

Shareholder	Nr. of shares 31 Dec. 2013	Nr. of shares 31 Dec. 2012
DILON, d. o. o., Gerbičeva ulica 98, Ljubljana	718,351	550,589
Republic of Slovenia, Gregorčičeva ulica 20, Ljubljana	248,655	248,655
OAO KOKS, 1ST STAKHNOVSKAYA STR.6, Kemerovo, Russian Federation	-	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, d. d., Gerbičeva ulica 98, Ljubljana	7,917	7,917
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**

Ownership structure changed at the end of 2013. Dilon, d. o. o., became owner of 16,87 percent of shares previously owned by OAO KOKS, and increased its share to 72,22 percent. The transfer of shares to Dilon, d. o. o., will be legally and formally executed by the end of March 2014. The controlling interest was transfered to Dilon, d. o. o., before 31 December 2013.

Capital Surplus

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

Revenue Reserves

	31 Dec. 2013	31 Dec. 2012
Legal reserves	1,396,081	1,308,510
Treasury shares	(2,254,727)	(2,254,727)
Revenue reserves	**(858,646)**	**(946,217)**

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

The parent 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 parent 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.

Fair Value Reserves

	31 Dec. 2013	31 Dec. 2012
Fair value reserves due to available-for-sale financial assets	85,757	35,232
Deferred tax liabilities	(14,580)	(6,342)
Fair value reserves	**71,177**	**28,890**

Distributable Profit

	31 Dec. 2013	31 Dec. 2012
Balance on 1. 1.	**168,100,672**	**172,372,644**
Loss/profit for the year	(4,895,447)	628,053
Creation of legal reserves	(87,571)	(547,139)
Acquisition of company	(155,464)	0
Decrease in non-controlling interest	0	(4,352,886)
Balance on 31. 12.	**162,962,190**	**168,100,672**

The Group is not a legal entity nor does it hold 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.

26 Employee Benefits

	31 Dec. 2013	31 Dec. 2012
Provisions for severance pay	8,465,761	8,602,942
Provisions for loyalty bonuses	1,995,127	1,785,423
Provisions for post-employment benefits	126,320	112,145
Employee benefits	**10,587,208**	**10,500,510**

Table of Movement of Employee Benefits in 2013

	31 Dec. 2012	Formation	Reversal	Utilization	Translation differences	31 Dec. 2013
Provisions for severance pay	8,602,942	141,238	(278,360)	0	(59)	8,465,761
Provisions for loyalty bonuses	1,785,423	211,636	(1,889)	0	(43)	1,995,127
Provisions for post-employment benefits	112,145	18,657	0	(4,482)	0	126,320
Employee benefits	**10,500,510**	**371,531**	**(280,249)**	**(4,482)**	**(102)**	**10,587,208**

Provisions were formed for the estimated payments of loyalty bonuses, severance pay and post-employment benefits as a 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 the actuarial model and assumptions, derived from the tables of deaths, 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 0.1 do 3.2 percent, depending on the age structure of the employees or maturity.

Table of Movement of Employee Benefits in 2012

	31 Dec. 2011	Formation	Reversal	Utilization	Translation differences	Disposal of company	31 Dec. 2012
Provisions for severance pay	9,177,743	128,047	(453,605)	0	(9)	(249,234)	8,602,942
Provisions for loyalty bonuses	1,705,666	143,458	(32,801)	0	(9)	(30,891)	1,785,423
Provisions for post-employment benefits	431,304	71,941	0	(4,481)	0	(386,619)	112,145
Employee benefits	**11,314,713**	**343,446**	**(486,406)**	**(4,481)**	**(18)**	**(666,744)**	**10,500,510**

27 Other Provisions

	31 Dec. 2013	31 Dec. 2012
Provisions for environmental rehabilitation	500,000	500,000
Provisions for law suits	1,042,670	969,673
Provisions for complaints	320,131	396,515
Other provisions	**1,862,801**	**1,866,188**

Table of Movement of Other Provisions in 2013

	31 Dec. 2012	Formation	Reversal and utilization	31 Dec. 2013
Provisions for environmental rehabilitation	500,000	0	0	500,000
Provisions for law suits	969,673	81,928	(8,931)	1,042,670
Provisions for complaints	396,515	2,000	(78,384)	320,131
Other provisions	**1,866,188**	**83,928**	**(87,315)**	**1,862,801**

Table of Movement of Other Provisions in 2012

	31 Dec. 2011	Formation	Reversal and utilization	31 Dec. 2012
Provisions for environmental rehabilitation	1,171,680	28,093	(699,773)	500,000
Provisions for law suits	1,050,569	7,000	(87,896)	969,673
Provisions for other	314,712	91,757	(9,954)	396,515
Other provisions	**2,536,961**	**126,850**	**(797,623)**	**1,866,188**

28 Deferred Revenues

	31 Dec. 2013	31 Dec. 2012
Assigned contributions	775,845	682,590
Other deferred revenues	1,667	0
Deferred revenues	**777,512**	**682,590**

Table of Movement of Non-Current Deferred Revenues in 2013

	31 Dec. 2012	Formation	Reversal and utilization	31 Dec. 2013
Assigned contributions	682,590	1,277,459	(1,184,204)	775,845
Other deferred revenues	0	71,384	(69,717)	1,667
Non-current deferred revenues	**682,590**	**1,348,843**	**(1,253,921)**	**777,512**

Table of Movement of Non-Current Deferred Revenues in 2013

	31 Dec. 2011	Formation	Reversal and utilization	31 Dec. 2012
Assigned contributions	581,954	1,328,860	(1,228,224)	682,590
Other deferred revenues	40,235	318,003	(358,238)	0
Non-current deferred revenues	**622,189**	**1,646,863**	**(1,586,462)**	**682,590**

29 Non-Current Financial Liabilities

	31 Dec. 2013	31 Dec. 2012
Borrowings	155,402,664	135,873,076
Liabilities arising from finance lease	3,600,835	6,288,123
Non-current financial liabilities	**159,003,499**	**142,161,199**

Borrowings include loans from domestic and foreign banks. Borrowings in the amount of 151,442,664 are secured with properties, receivables and inventories. Other borrowings are not secured. The interest rate for the majority of borrowings and liabilities arising from finance lease is flexible and based on EURIBOR.

Table of Movement of Borrowings

	2013	2012
Balance on 1. 1.	**135,873,076**	**97,535,025**
Borrowings	76,407,952	62,117,710
Repayments for borrowings	(6,669,973)	0
Current portion of non-current borrowings	(50,208,925)	(23,739,217)
Exchange rate differences	3,884	645
Translation differences	(3,350)	(743)
Other	0	(40,344)
Balance on 31. 12.	**155,402,664**	**135,873,076**

Table of Movement of Liabilities Arising from Finance Lease

	2013	2012
Balance on 1. 1.	**6,288,123**	**8,655,026**
Liabilities arising from finance lease	1,501,416	1,894,629
Repayments of liabilities arising from finance lease	(5,845)	(15,506)
Current portion of non-current liabilities arising from finance lease	(4,182,875)	(4,163,531)
Exchange rate differences	163	319
Translation differences	(147)	47
Disposal of company	0	(82,861)
Balance on 31. 12.	**3,600,835**	**6,288,123**

Minimum Payments of Liabilities Arising from Finance Lease in 2013

	Due for payment in 1 year	Due for payment in 1-5 years	Due for payment after 5 years
Minimum lease payments	3,744,178	3,212,790	681,296
Future finance costs	(222,441)	(235,373)	(57,878)
Present value of minimum lease payments	**3,521,737**	**2,977,417**	**623,418**

Minimum Payments of Liabilities Arising from Finance Lease in 2012

	Due for payment in 1 year	Due for payment in 1-5 years	Due for payment after 5 years
Minimum lease payments	4,300,908	5,838,979	904,253
Future finance costs	(340,343)	(382,209)	(72,900)
Present value of minimum lease payments	**3,960,565**	**5,456,770**	**831,353**

30 Non-Current Operating Liabilities

	31 Dec. 2013	31 Dec. 2012
Other liabilities	294,459	167,665
Non-current operating liabilities	**294,459**	**167,665**

31 Current Financial Liabilities

	31 Dec. 2013	31 Dec. 2012
Borrowings	109,089,317	107,359,894
Interest liabilities	1,328,297	782,035
Liabilities arising from finance lease	3,521,737	3,960,565
Current financial liabilities	**113,939,351**	**112,102,494**

Current borrowings include loans from domestic and foreign banks. Real estate, movable property, receivables and inventories were pledged for borrowings and the current portion of non-current borrowings in the amount of EUR 96,275,693. Other borrowings are not secured. The interest rate for the majority of borrowings and liabilities arising from finance lease is flexible and based on EURIBOR.

Table of Movement of Current Borrowings

	2013	2012
Balance on 1. 1.	**107,359,894**	**134,257,451**
Acquisition of company	0	204,486
Current portion of non-current borrowings	50,208,925	23,739,217
Borrowings	254,345,168	239,108,533
Repayments for borrowings	(302,611,088)	(289,282,133)
Exchange rate differences	2,859	(498)
Translation differences	(222,598)	(38,481)
Disposal of company	0	(643,911)
Other	6,157	15,230
Balance on 31. 12.	**109,089,317**	**107,359,894**

Table of Movement of Current Liabilities Arising from Finance Lease

	2013	2012
Balance on 1. 1	**3,960,565**	**3,805,911**
Liabilities arising from finance lease	0	22,993
Repayments of liabilities arising from finance lease	(4,621,567)	(3,900,652)
Current portion of non-current liabilities arising from finance lease	4,182,875	4,163,531
Exchange rate differences	220	629
Translation differences	(356)	(266)
Disposal of company	0	(82,739)
Other	0	(48,842)
Balance on 31. 12.	**3,521,737**	**3,960,565**

The lowest sum of future leases, due for payment in the next financial year, amounts to EUR 3,744,178 on 31 December 2013, and the net present value of leases amount to EUR 3,521,737 on the same date.

32 Current Operating Liabilities

	31 Dec. 2013	31 Dec. 2012
Liabilities to suppliers	151,735,761	152,181,020
Liabilities to employees	3,669,921	4,107,176
Received advance payments	1,566,286	997,667
Tax liabilities	3,771,592	3,296,033
Other liabilities	754,009	2,947,222
Current operating liabilities	**161,497,569**	**163,529,118**

Liabilities to employees include liabilities for net salaries and compensations for December salaries paid in January 2014. Other operating liabilities include liabilities for contract work and work under authors' contracts, VAT liabilities, liabilities for taxes and employer's contributions arising from December salaries.

33 Other Current Liabilities

	31 Dec. 2013	31 Dec. 2012
Accrued customer fees	1,536,561	900,429
Accrued audit expenses	68,339	164,347
Accrued expenses for unused annual leave	1,026,490	1,054,511
Accrued expenses for law suits	32,269	24,753
Accrued expenses for loyalty bonuses	106,100	100,000
Other liabilities	1,295,548	1,078,802
Deferred revenue	68,552	60,494
Other current liabilities	**4,133,859**	**3,383,336**

34 Contingent Assets and Liabilities

Contingent assets amounted to EUR 4,739,991 on 31 December 2013 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 5,143,036 on 31 December 2013. They include issued guarantees in the value of EUR 1,286,231, and guarantees for good work performance in the value of EUR 3,856,805. The Group expects no outflows from the issued securities and guarantees.

35 Business Combinations

Topmetal, d. o. o.

On 28 February 2013 the takeover of Topmetal, d. o. o., Bosnia and Herzegovina, was completed. Its 51 percent owner became Odpad, d. o. o., Pivka. In 2013 the Group considered temporary fair values of acquired assets as fair for the initial accounting for the business combination of purchasing the company.

The statement of financial position of Topmetal, d. o. o., on the date when the Group acquired the controlling interest, is given below:

	Fair value	Temporary fair value
ASSETS		
Cash and cash equivalents	588,986	588,986
Property, plant and equipment, intangible assets	292,042	292,042
Inventories	82,347	82,347
Operating receivables	249,097	249,097
Financial receivables	5,931	5,931
EQUITY AND LIABILITIES		
Other liabilities	3,900	3,900
NET ASSETS	**1,214,503**	**1,214,503**
Non-controlling interest (49%)	595,106	-
ACQUIRED NET ASSETS	**619,397**	**-**
Acquisition price	681,080	-
Carrying amount of acquired net assets	619,397	-
GOODWILL	**61,683**	**-**

Metal – Eko Sistem, d. o. o.

When preparing the annual report the Group estimated that the considered temporary fair values of the acquired assets of Metal – Eko Sistem, d. o. o, did not change. Therefore the goodwill determined in 2012 in the amount of 1,003,036 EUR remains unchanged.

Related Parties

Related parties are the parent company (including its parent companies and companies in their groups), subsidiaries, associates, other related parties and the management of companies.

Related Party Transactions Excluded from Consolidated Financial Statements

	2013	2012
Revenues/expenses	143,204,938	156,119,779

	31 Dec. 2013	31 Dec. 2012
Operating receivables/liabilities	48,977,438	57,284,505
Financial receivables/liabilities	46,003,999	31,501,315
Investments in subsidiaries	170,170,376	169,498,115

Transactions with the Parent Company

	2013	2012
Revenues	600,652	133,086

	31 Dec. 2013	31 Dec. 2012
Receivables	15,037,881	4,592,229

Transactions with Other Related Parties

	2013	2012
Revenues	0	40,574

Transactions with Management

This is the 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 and other workers employed on contracts for which the tariff part of collective agreement does not apply, and members of the Supervisory Board.

	2013
Management and employees with service contract	13,346,438
Members of the Supervisory Board	267,544

The receipts include gross salaries, paid reimbursements related to work in accordance with the regulation (daily allowance, mileage, overnight accommodation 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 2013.

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

Financial Instruments and Risks

Credit Risk

The largest exposure on the reporting date arises from trade receivables, other operating receivables, financial receivables and deposits.

Age Structure of Financial Assets

31 Dec. 2013	Not-overdue	Overdue: Up to 3 months	Overdue: 3 months to 1 year	Overdue: From 1 year to 3 years	Overdue: Over 3 years	Total
Trade receivables	103,480,746	16,286,026	2,666,108	366,785	166,521	**122,966,186**
Other trade and other receivables	8,610,092	87,392	61,289	0	0	**8,758,773**
Financial receivables and deposits	4,613,377	193,409	2,033,203	123,782	0	**6,963,771**
Total	**116,704,214**	**16,566,827**	**4,760,600**	**490,567**	**166,521**	**138,688,729**

31 Dec. 2012	Not-overdue	Overdue: Up to 3 months	Overdue: 3 months to 1 year	Overdue: From 1 year to 3 years	Overdue: Over 3 years	Total
Trade receivables	112,316,505	16,653,566	2,288,610	429,609	10,060	**131,698,350**
Other operating receivables	13,210,284	16,018	0	0	0	**13,226,302**
Financial receivables and deposits	18,859,226	31,000	34,928	0	0	**18,925,154**
Total	**144,386,015**	**16,700,584**	**2,323,538**	**429,609**	**10,060**	**163,849,806**

Movement of Allowances for Financial Assets

	Allowance on 31 Dec. 2012	Formation of allowance for year	Repayment of assets subject to allowance	Other changes without influence on profit or loss	Allowance on 31 Dec. 2013
Trade receivables	3,408,724	1,553,595	(140,603)	(95,740)	**4,725,976**
Other operating receivables	2,566,358	11,165	0	(98)	**2,577,425**
Financial receivables and deposits	5,867	885	0	(5,876)	**876**
Total	**5,980,949**	**1,565,645**	**(140,603)**	**(101,714)**	**7,304,277**

	Allowance on 31 Dec. 2011	Disposal of company	Formation of allowance for year	Repayment of assets subject to allowance	Other changes without influence on profit or loss	Allowance on 31 Dec. 2012
Trade receivables	3,028,469	0	731,845	(131,310)	(220,280)	**3,408,724**
Other operating receivables	2,175,740	(64,863)	455,938	0	(457)	**2,566,358**
Financial receivables and deposits	471,455	0	5,867	0	(471,455)	**5,867**
Total	**5,675,664**	**(64,863)**	**1,193,650**	**(131,310)**	**(692,192)**	**5,980,949**

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

Liquidity Risk

The Group is managing liquidity risk with the 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. 2013	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years
Liabilities to suppliers	144,413,296	7,322,467	0	0
Liabilities for borrowings	48,262,450	73,844,211	160,886,365	19,003,778
Other operating and financial liabilities	863,372	8,240	174,742	0
Total	**193,539,118**	**81,174,918**	**161,061,107**	**19,003,778**

31 Dec. 2012	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years
Liabilities to suppliers	145,570,790	6,610,236	0	0
Liabilities for borrowings	50,341,603	68,085,582	148,209,329	10,222,809
Other operating and financial liabilities	3,018,599	42,752	53,535	0
Total	**198,930,992**	**74,738,570**	**148,262,864**	**10,222,809**

Exposure to banks, the Company estimates to be moderate. The Company fully complies with the covenant of the loan agreements in the district, which provides data transmission, the payment of interest and repayment of principal. For 2013, the company partially failed to comply with a long-term loan agreement in the amount of € 1,544,491. Infringement does not automatically mean early termination of the contract, the likelihood that the funds had been recovered early is assessed as very low

Foreign Exchange Risk

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

	Exchange rate
EUR/USD	1.3791
EUR/GBP	0.8337
EUR/CHF	1.2276
EUR/SEK	8.8591
EUR/HRK	7.6265
EUR/RSD	114.14

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

	Net exposure
USD	(16,158,594)
GBP	193,904
CHF	(4,892)
SEK	(259)
HRK	(19)
EUR	(638,143)

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 2012 was prepared in the same manner:

	2013	2012
Change in profit/loss if increased by 200 bp	(3,810,895)	(3,683,613)
Change in profit/loss if increased by 100 bp	(1,905,533)	(1,866,586)
Change in profit/loss if decreased by 100 bp	1,897,911	1,866,586
Change in profit/loss if decreased by 200 bp	3,744,164	3,683,613

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.

	2013	Debt increase by 10%	Debt decrease by 10 %
Level of debt on equity	84.33	92.77	75.90
Equity	323,646,861	323,646,861	323,646,861
Financial liabilities	272,942,850	300,237,135	245,648,565

Carrying Amounts and Fair Values of Financial Instruments

	31 Dec. 2013		31 Dec. 2012	
Type of financial instrument	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets at fair value through profit or loss	411	411	430	430
Available-for-sale financial assets	786,957	786,957	739,504	739,504
Financial receivables	16,950,436	16,950,436	6,432,954	6,432,954
Operating receivables	137,181,946	137,181,946	148,448,723	148,448,723
Cash and cash equivalents	24,909,911	24,909,911	26,922,115	26,922,115
Financial liabilities	(272,942,850)	(272,942,850)	(254,263,693)	(254,263,693)
Operating liabilities	(161,792,028)	(161,792,028)	(163,696,783)	(163,696,783)
Total	**(254,905,217)**	**(254,905,217)**	**(235,416,750)**	**(235,416,750)**

Group has determent the fair value of financial instruments for disclosure and assets that there is no significant difference between fair value and carrying amount.

Financial Assets Determined at Fair Value by Hierarchy

	31 Dec. 2013	31 Dec. 2012
Financial assets at fair value of first level	496,622	451,681
Financial assets at fair value	**496,622**	**451,681**

Events After the Reporting Date

There were no events after the reporting date that could influence the 2013 financial statements.