

The background of the cover is a photograph of an industrial setting. On the left, there is a large, bright orange and yellow glow from molten metal, likely in a ladle or furnace. On the right, there is a large, dark, metallic structure, possibly a crane or part of a machine, with some cables and pulleys visible. The overall scene is dimly lit, with the primary light source being the molten metal.

sij

forged for
the future

annual
report
2014

- • • Annual report
of SIJ Group and
company SIJ d.d.

2014

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The background of the slide is a dark industrial scene. In the center, there is a large, bright orange and yellow molten metal surface, likely in a furnace or ladle. To the right, there is a vertical stream of bright sparks falling. The overall lighting is dramatic, with the intense heat of the metal contrasting against the dark surroundings.

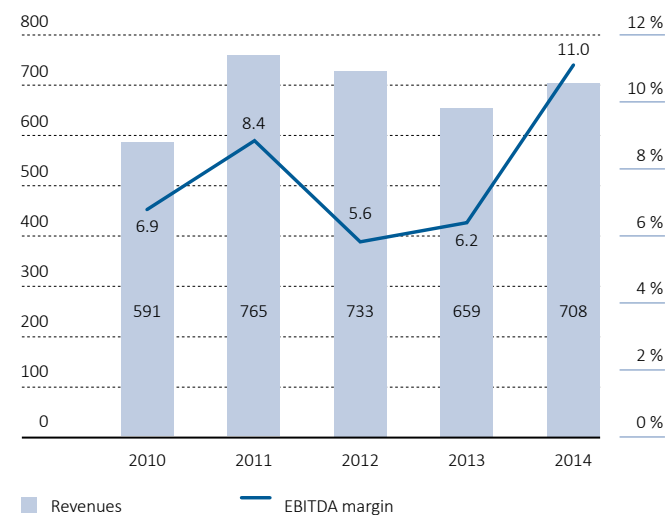
sij | introduction

Adoption of a new long-term strategy of development until 2020. Consolidation of the Group and realization of numerous synergies. Effective corporate management and cost optimization. These are the individual areas which we focused on in 2014; their effects will be most visible in the period ahead.

SIJ Group: Key operating figures

Quantitative data		2010	2011	2012	2013	2014
Crude steel production	t	462,619	488,440	494,123	468,761	466,835
Financial data						
Revenues ¹	EUR	590,916,742	764,977,836	732,549,967	658,653,447	707,857,833
Exports	%	82.7	85.3	85.4	86.3	86.2
EBITDA ²	EUR	40,519,225	64,193,568	41,319,944	40,785,962	77,832,035
EBITDA margin	%	6.86	8.39	5.64	6.19	11.00
Profit/loss for the period	EUR	3,665,277	17,127,530	739,449	-4,922,797	24,903,910
Capex	EUR	40,645,956	49,131,711	67,129,060	52,357,075	47,633,290
Statement of financial position on 31 December						
Total assets	EUR	739,754,186	761,932,114	763,574,012	775,778,793	789,260,826
Equity	EUR	314,276,543	331,297,201	328,003,560	323,585,177	348,135,458
Net financial debt ³	EUR	226,806,706	210,585,203	221,023,585	231,185,464	217,771,760
Net financial debt/EBITDA		5.60	3.28	5.35	5.67	2.80
Number of employees on 31 December		3,299	3,248	3,141	3,162	3,134

SIJ Group: Revenues (in million EUR) and EBITDA margin (in %)



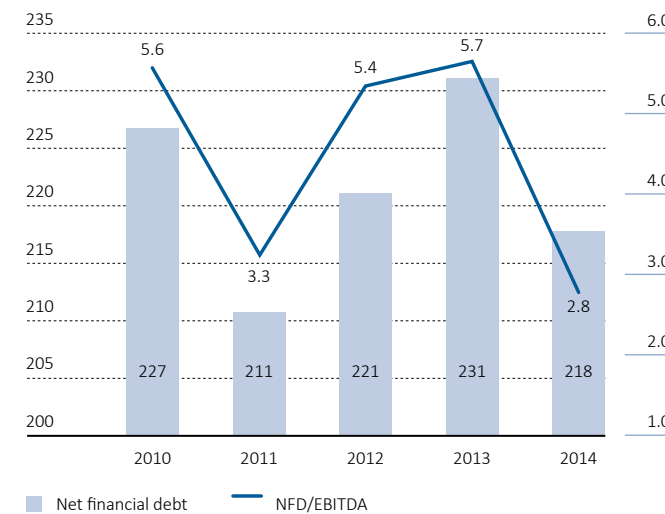
- ● ● We achieved 7.5% higher revenues by increasing the sales volume: of quarto plates by 16%, of cold rolled steel plates by 11%, and of bar tool and special steel by 7%.

In geographical terms the highest increase was noted in the American market (24%) and in some minor markets (Turkey, Russia, Hungary etc.). Within the EU we generated higher sales by 6.5%, separately in Germany by 12.9%.

An EBITDA of EUR 77.8 million (+ EUR 37 million) and an EBITDA margin of 11%, exceeds the value achieved in 2013 by 4.8 percentage points.

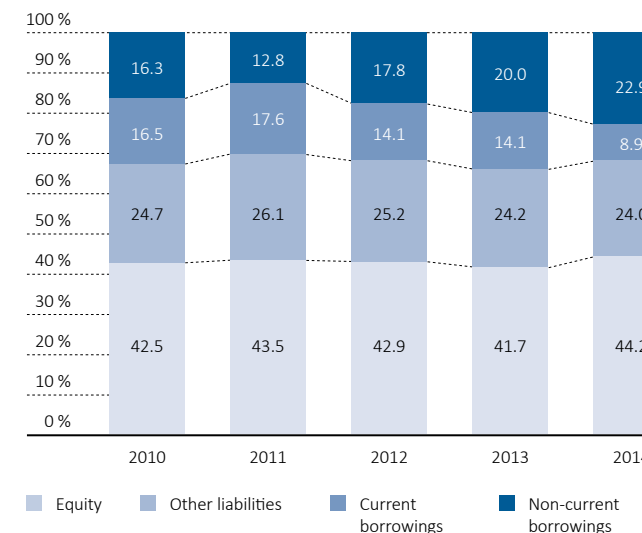
¹ Revenues = net sales
² EBITDA = operating profit + amortization
³ NFD = net financial debt = financial liabilities – cash – short-term financial receivables

SIJ Group: Net financial debt (in million EUR) and NFD/EBITDA



- ● ● SIJ Group net debt over this time period fluctuated in correlation with the intensity of the investment cycle. In the past five years we have spent EUR 256.9 million on investment payments. With less financial debt and a higher EBITDA we have reduced the NFD/EBITDA ratio to a level of 2.8.

SIJ Group: Structure of assets on 31 December (in %)



- ● ● The SIJ Group has a strong financial structure, since on 31 December 2014 67% of all assets were non-current assets. From 31 December 2010 to the end of 2014 share equity increased by 1.6 percentage points, while non-current borrowings increased by 6.6 percentage points. The proportion of current borrowings and other liabilities has been decreasing.

Foreword of the President of the Board of Directors



Dear Shareholders, Business Partners, and Associates of the SIJ Group,

The SIJ d.d. Board of Directors has concluded its first year of managing the largest steel group in Slovenia. On taking over the management we set ambitious business goals, which, with a practically unchanged production volume, predicted a significant increase in profitability and firm action to reduce the indebtedness of the Group. Looking back we can assess that we did more than simply achieve that - the key business performance indicators improved significantly, and in certain cases even exceeded those from 2007, which was the most successful year in the history of the Slovenian steel industry up to now.

Most importantly - we demonstrated and proved that the Group has extremely healthy foundations, which make it possible to continue to carry out our long-term strategy of sustainable development by 2025. This holds true for both the production and the financial and other business processes. Our main activities in 2014 were focused on the effective optimization of the production mix, lowering indebtedness and the diversification of financial resources, and the consolidation of the Group.

With regard to the optimization of the product structure, we significantly increased the production volume of the most profitable programs (stainless quarto plates, tool steel) with effective action, while reducing the less profitable programs and removing bottlenecks in the production processes. By carrying out some of the investments already in progress we will upgrade this policy even further in the years to come, and thus increase the proportion of products with high added value.

At the same time we will implement the principles of lean manufacturing even more actively into our production processes, and thus continue the trend to improve the efficiency and flexibility of the individual steps in the production processes.

The increase in profitability (growth in EBITDA by 91% compared to 2013, and achieving an EBITDA margin of 11%), combined with firm action regarding the costs reduction, had a significant positive effect on the assessment of financial stability of the operations of the Group, since the NFD/EBITDA leverage decreased from 5.7 at the end of 2013 to 2.8 at the end of last year. To diversify our financial resources and ensure the conditions for the further growth of the Group, SIJ d.d. issued five-year bonds with a value of EUR 43 million in November 2014, which represents the first, extremely important, step for the Group toward development as a successful and well-known public limited company. With a stable cash flow and the presence of our steel products in growing niche markets, good conditions for following our strategic direction are ensured.

We also continued to implement our extensive investment plans, allocating EUR 48 million for investments in 2014, which reflects the completion level of the extensive investment cycle which had already begun in the period of 2007 and 2008. In 2015 we will enter a new investment cycle, which provides for a further increase in the capacity of the most profitable production programs.

The business results of the Group clearly demonstrate that in the past year we have grown faster than the global market (the income of the SIJ Group increased by 7% to EUR 708 million, while the global steel market achieved 1.2% growth) and now rank among the top global steel groups with regard to profitability (our EBITDA margin). An important factor in achieving the appropriate level of sales income is the development of the vertical integration of the Group; we have therefore already strengthened the before- and after-sales service of our own centers and diversified our geographical presence in 2014. In addition to the strategic key markets of Europe (Germany, Italy), the most promising markets of the future for us are the USA (where our own sales company is already operating) and some of the rapidly growing markets in Asia and South America, which have an increasing demand for custom-made steel products. We will continue to expand our own service and sales network in all the key markets, while building increasingly more strategic partnerships with our end customers, in order to provide them with not only appropriate quality and a diverse range, but also with efficient service support.

A special challenge will be the appropriate, rapid, efficient adjustment to global macroeconomic movements, which have an important effect on the broader demand for steel products. One of these is definitely the instability of the financial and raw materials markets, such as the oil market since the second half of last year. Whereas sometimes these kinds of fluctuations can represent an opportunity for certain industries, they can also cause a (temporary) decrease in the investment activities of others. This is one of the reasons why the SIJ Group will continue to specialize in the production of more demanding steels and steel products with high added value, since the demand for them will grow

in numerous sectors, such as the energy sector, aerospace industry, and mechanical engineering. Our presence in various niche sectors will enable us to efficiently manage macroeconomic risks which could arise from an excessive dependency on only one or two markets.

Last but not least, the fulfillment of the numerous aforementioned changes, and our ambitious plans for the future, will not be possible without changing ourselves, our operations and our processes. For this reason last year a great deal of attention was paid to the internal reorganization and consolidation of the Group, and to establishing efficient communication channels with all our associates. We will continue to upgrade this, while paying much attention to increasing the competencies of all the employees of the Group in the period ahead.

Simply by having educated, appropriately qualified and highly motivated colleagues we will be able to efficiently follow our new investment cycle and technological progress, and to fulfill our ambitious, long-term strategy for the sustainable development of the SIJ Group. I would therefore like to take this opportunity to thank all my colleagues for your efforts in 2014 and for your active participation in achieving our strategic orientation.

President of the Board of Directors
Anton Chernykh

A handwritten signature in blue ink, appearing to read 'Anton Chernykh'.

Foreword of the President of the Supervisory Board

Dear Shareholders,

SIJ d.d. and the SIJ Group had a successful business year, undoubtedly assisted by effective corporate management and the intensive efforts of the Board of Directors. The Supervisory Board has been actively monitoring our ambitious business plans as well as the announced measures since the appointment of the new Board of Directors in January 2014.

The Members of the Supervisory Board were equipped with all the materials, information and data needed for their work, and it should be especially emphasized that the measures taken to enhance effective corporate management were also positively demonstrated in the quality of these materials. This holds true for standardized forms of regular reporting, as well as for additional reports required for important business events.

By issuing bonds on the Slovene market in November 2014, the company took an important step, not only for the diversification of the financial resources of the entire Group, but also for the development of a public limited company, with improved international recognition as one of the leading European manufacturers of more demanding steel products.

The Supervisory Board considers that the Board of Directors were able to achieve important synergies in the operations of the Group through effective corporate management. Despite the still relatively low global growth of the steel market, this has ensured that the SIJ Group has obtained a significant increase in operational earnings, and puts the company on an equal footing with the most successful international steel-making groups.

President of the Supervisory Board
Andrey Zubitskiy



Foreword of the Supervisory Board of SIJ d.d.

PRESENTATION OF THE SUPERVISORY BOARD

In accordance with the provisions of the statute of the Group, the Supervisory Board of SIJ d.d. (hereinafter: the Supervisory Board) consists of seven members. The members of the Supervisory Board are appointed by the General Assembly. Proposals for adopting the decisions on the election of members to the Supervisory Board, decided on by the General Assembly, are proposed by the Supervisory Board in the published agenda of the meeting of the General Assembly, except for those items on the agenda which are proposed by the shareholders, in accordance with the second paragraph of Article 296 of the Companies Act (hereinafter: CA-1).

Presented below are the members of the Supervisory Board of the Company who served in the business year 2014.

Andrey Zubitskiy, President of the Supervisory Board

In 2014 Andrey Zubitskiy continued his second mandate as the President of the Supervisory Board of the Company. Andrey Zubitskiy is also a member of the supervisory boards of OAO Polema, OAO Koks and OAO Tulachermet, and Senior Vice-President and a member of the Board of Directors of the OOO Management Company Industrial Metallurgical Holding (all these companies are based in the Russian Federation). In addition, he is the President of the Board of Directors of Dilon Coöperatief U.A. (the Netherlands).

Janko Jenko, Vice-President of the Supervisory Board

Janko Jenko was elected a member of the Supervisory Board at the 24th meeting of the General Assembly of shareholders on 30 August 2013, and he was elected Vice-President of the Supervisory Board by its members at the meeting of 17 January 2014. Janko Jenko is active in business in several private companies in the field of telecommunications and information technology.

Sergey Cherkaev, Member of the Supervisory Board

In 2014 Sergey Cherkaev continued his second mandate as a member of the Supervisory Board of SIJ d.d.. He is also a member of the Supervisory Board of OAO Tulachermet, and Vice-President of Financial Affairs and a member of the Board of Directors of the OOO Management Company Industrial Metallurgical Holding (both companies are based in the Russian Federation).

Sergey Frolov, Member of the Supervisory Board

In 2014 Sergey Frolov also continued his second mandate on the Supervisory Board. He is a member of the Supervisory Board of OAO Koks, and Vice-President of Strategy and Communications and a member of the Board of Directors of the OOO Management Company Industrial Metallurgical Holding (both companies are based in the Russian Federation).

Tomaž Stare, Member of the Supervisory Board

Tomaž Stare was elected a member of the Supervisory Board at the 24th meeting of the General Assembly of shareholders on 30 August 2013. He is the representative of Jesenice Municipality in the General Assembly of JEKO-IN, d.o.o., Jesenice.

Evgeny Zverev, Member of the Supervisory Board

Evgeny Zverev was elected a member of the Supervisory Board at the 24th meeting of the General Assembly of shareholders on 30 August 2013. Since 30 November 2012 he has been the Director of Dilon, d.o.o., which is the major shareholder of the Company.

Dr. Denis Mancevič, Member of the Supervisory Board

Dr. Denis Mancevič was elected a member of the Supervisory Board at the 26th meeting of the General Assembly of shareholders on 29 August 2014. He took his position in the Supervisory Board after Igor Malevanov resigned from serving on the Supervisory Board at the seventh regular meeting held on 17 January 2014, due to his appointment to the Board of Directors. He is the author of several of scientific, specialized and journalistic articles in the areas of Russian studies, international energy and economic relations.

THE SUPERVISORY BOARD'S WORK IN 2014

In 2014 the Supervisory Board carefully monitored and revised the operations of SIJ d.d. and the SIJ Group, and also made decisions in accordance with its powers as specified in the Companies Act, the Financial Operations of Companies Act, the statute of the Company, the Rules of Procedure of the Supervisory board, and other valid regulations.

The Supervisory Board's work in 2014 was marked by change, since the management of the company had already

been changed at the first meeting in 2014, i.e. at the seventh regular meeting on 17 January 2014. At this meeting the then President of the Board of Directors, Tibor Šimonka, and a member of the Board of Directors, Viacheslav Korchagin, both resigned and completed their multi-year management of the company. The Supervisory Board appointed Anton Chernykh as the new President of the Board of Directors of SIJ d.d. for a period of five years, and Igor Malevanov as a member of the Board of Directors (the latter resigned from this office as a member of the Supervisory Board just before taking up his appointment on the Board of Directors).

In evaluating the Board of Directors' work in 2014, the Supervisory Board paid much attention to the monitoring of operations and the implementation of improvements of the new leadership, who set ambitious plans for SIJ d.d. and the SIJ Group, and began successfully implementing them.

In 2014 the Supervisory Board of SIJ d.d. gathered at four meetings, three of them being regular meetings and one a correspondence meeting. The first meeting in 2014 was the seventh regular meeting, held on 17 January 2014. The second meeting, which was held by correspondence, took place from 28 April 2014 to 5 May, when members of the supervisory board submitted their votes on ballot papers via e-mail. This was followed by the eighth, held on 15 July 2014, and ninth regular meetings of the Supervisory Board, the latter taking place on 9 December 2014. The members of the Supervisory Board regularly attended the meetings, at which they exchanged opinions and asked questions based on the material received and notes provided in a timely manner by the Board of Directors, with the help of their specialist services. The Board of Directors regularly informed the Supervisory Board of important business events, comparative analyses with competitors, sales conditions in the markets, and price fluctuations. In addition, the members of the Supervisory Board also received appropriate explanations for their questions and proposals.

All the members were present at all the meetings held in 2014. All the meetings held at the registered office of the company, in Ljubljana, Gerbičeva ulica 98, were chaired by Andrey Zubitskiy. As the structure of the members of the Supervisory Board is international, the company organized a video-conference system, especially between Ljubljana and Moscow, and links via Skype, which, with the help of modern technical support and translation, enabled the effective participation of all the members of the Supervisory Board.

A summary of the content dealt with and decided on by the

Supervisory Board at the meetings in 2014 is presented below.

At the seventh regular meeting of the Supervisory Board on 17 January 2014, the members of the Supervisory Board adopted decisions on the appointment of a new Board of Directors. In addition, they elected Janko Jenko as Vice-President of the Supervisory Board, familiarized themselves with the objectives set in the business plan for SIJ d.d. and the SIJ Group, and heard the strategy of the Board of Directors for 2014.

At all the meetings, the members of the Supervisory Board also dealt with the intermediate operating results of the company and the other companies in the SIJ Group. The prepared material for the meetings included appropriate data on the operations of subsidiaries, comparative analyses of the fluctuations in operating performance ratios, and the competitiveness of the Group on international markets. It also provided segments on business performance ratios for steel-making, the raw materials base, processing, service centers and other activities in the individual areas of business of the SIJ Group.

The members of the Supervisory Board also monitored the company's work in dealing with relationships with shareholders. At the correspondence meeting in May 2015, the members of the Supervisory Board supported a proposal to the General Assembly to provide powers to the Board of Directors of SIJ d.d. for the purchase of 27,610 treasury shares from minority shareholders, with a sales price which must not be higher than EUR 190.73 and not lower than EUR 100.00, with the aim of simplifying the ownership structure. The shareholders confirmed the proposal by the Board of Directors and the Supervisory Board at the 25th meeting of the General Assembly in June 2014.

The Supervisory Board also monitored reports by the Board of Directors on settling the relationship with the shareholder D.P.R. družba pooblaščenka Ravne, d. d., which is in the process of liquidation. Through an out-of-court settlement made with this company, the Board of Directors successfully reversed judicial proceedings against SIJ d.d., which arose from privatization processes and had lasted for several years.

At the meetings the Board of Directors also reported to the Supervisory Board on investment activities and the progress of projects, especially investments in the modernization of production at Acroni and Metal Ravne, as well as activities connected with the upgrade of the IT system of the entire SIJ Group.

At the eighth regular meeting on 15 July 2014, the Supervisory Board reviewed the Annual Report of the company and the SIJ Group for 2013, together with the auditor's report. The auditing of the Annual Report was carried out by Deloitte Revizija, d.o.o. which also audited other companies in the Group. The Supervisory Board acknowledged that the Annual Reports of SIJ d.d. and the SIJ Group are fair representations of their operations, and that they provide complete information on their operations in 2013. Since there were no objections with regard to the auditor's work and the report, the Annual Reports of SIJ d.d. and the SIJ Group were unanimously approved by the Supervisory Board in accordance with the provisions of Article 282. The Supervisory Board also agreed with the Board of Directors' proposal to the General Assembly on the use of distributable profit, so that the entire distributable profit of EUR 24,501,386 remains undistributed, and along with the Board of Directors it proposed to the General Assembly to grant discharge to the Board of Directors and the Supervisory Board. The Supervisory Board formed a proposal to the Annual Meeting of the General Assembly of the shareholders that Deloitte Revizija, d.o.o. should also carry out the auditing of the Company and the SIJ Group in the financial year 2014. In order to complete the Supervisory Board, which should be comprised of seven members in accordance with the provisions of the statute, a proposal was made to elect Denis Mancevič as a member of the Supervisory Board for the term to 11 April 2015. The General Assembly of SIJ d.d. shareholders confirmed all the proposals from the Board of Directors and the Supervisory Board at the 26th regular Annual Meeting of the General Assembly on 29 August 2014.

The last meeting of the Supervisory Board in 2014 was **the ninth regular meeting** on 9 December 2014, where the members of the Supervisory Board were presented with the results for the nine-month period, were thoroughly briefed on all the conditions for the issuing of bonds for EUR 42.9 million, which the company successfully issued with the aim of dispersing financing resources, and supported the activities of the Board of Directors related to the renewal of the Corporate Identity. At the December meeting, the Supervisory Board formed a proposal of new members of the Supervisory Board for the next four-year mandate, to be approved by the General Assembly. The proposal for the elected members, to be decided by the General Assembly, was formed by the Supervisory Board based on the principle of representing the interests of the shareholders according to the ownership structure, knowledge and experience of the proposed members, and the concern for effective work of the Supervisory Board, based on the experience of the

members so far. In its proposition for the General Assembly, the Supervisory Board suggested that the following members of the Supervisory Board should be re-elected: Andrey Zubitskiy, Janko Jenko, Tomaž Stare, Evgeny Zverev, Sergey Cherkaev, Sergey Frolov, and Dr. Denis Mancevič. The members of the Supervisory Board supported a proposal by the Board of Directors to present to the General Assembly for adoption the changes and amendments to the company's statute; in particular to align the shorter name of the company and its logo with the renewed Corporate Identity, and adjust other provisions of the statute to the new rules on publications by the companies and legislation.

BASIC INFORMATION ON SIJ D.D.

Company name	SIJ – Slovenska industrija jekla, d.d. (short: SIJ d.d.)
Headquarters	Gerbičeva 98, 1000 Ljubljana, Slovenia
Main activity	70.100 Activities of Head Offices
Registry number	SRG 1/03550/00
Founding date	22 February 1995
Registered share capital	EUR 145,266,065.75
Number of shares	994,616 ordinary no par value shares
Ownership	72.22% DILON, d. o. o., Gerbičeva ulica 98, Ljubljana 25.00% Republic of Slovenia, Gregorčičeva ulica 20, Ljubljana 1.98% other shareholders 0.80% treasury shares
Registration number:	5046432
Tax number:	51018535

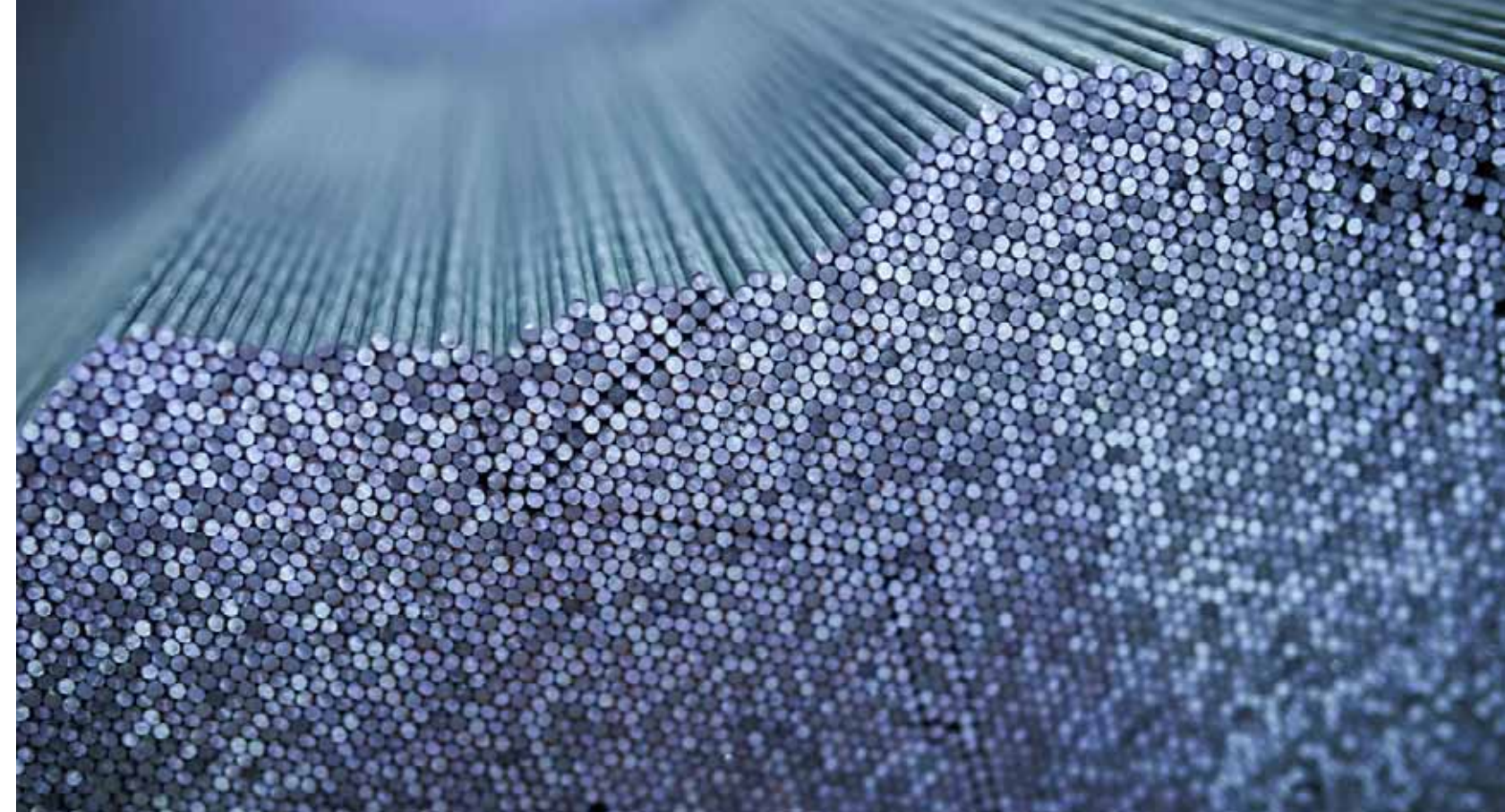
The company's main activity is "Activities of Head Offices"; among other registered activities the most important are:

- other financial services activities, except insurance and pension funding;
- accounting, bookkeeping and auditing activities, tax consultancy;
- public relations and communication activities.

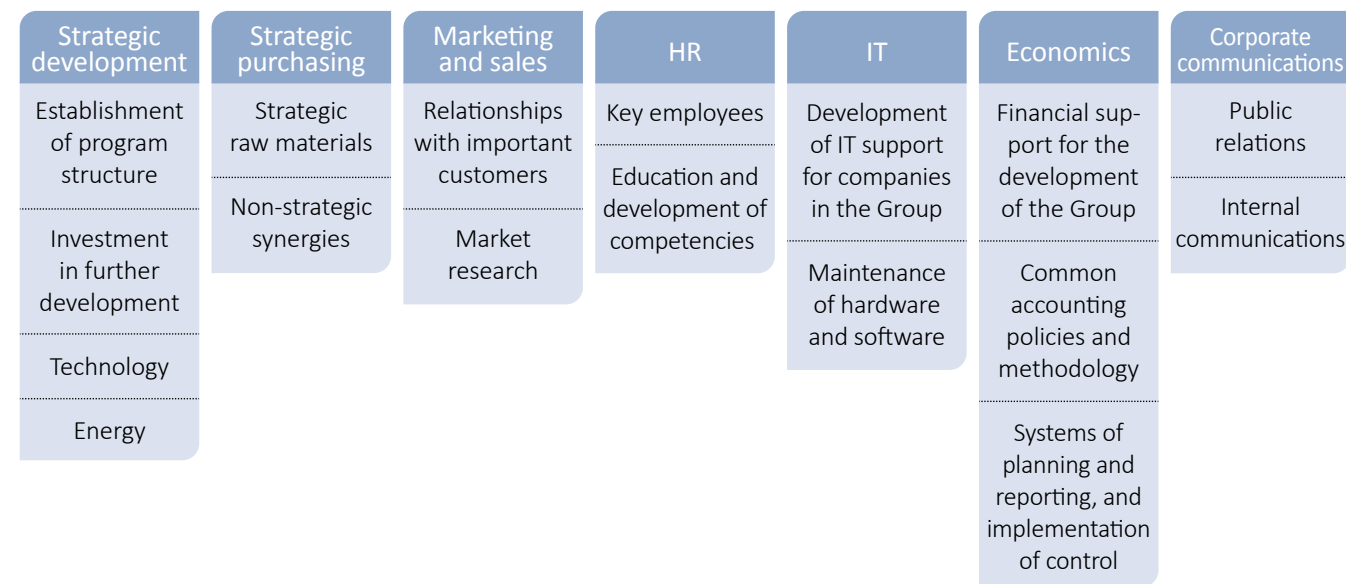
We carry out consulting services for the companies of the SIJ Group in making strategic and operational decisions. Certain tasks are executed centrally while others are carried out separately or in cooperation with the companies and also following through tasks which are directly connected to the business processes of our subsidiaries.

The following tasks are centralized:

1. strategic management and decision-making;
2. establishment of common grounds for the preparation of strategic plans:
 - a. strategic development plans,
 - b. annual plans,
 - c. monthly operational plans;
3. purchase of strategic raw materials;
4. planning and coordinating production and sales; marketing and promotion of product sales, management and coordination of price policies;
5. optimization of technological processes and improvement in energy efficiency;
6. executing legal services in negotiating and signing contracts;
7. IT and software maintenance;
8. financial planning and obtaining funding sources for debts;
9. corporate communications;
10. HR.



Strategic decision-making and the centralized management of the SIJ Group



OPERATING RESULTS OF THE COMPANY

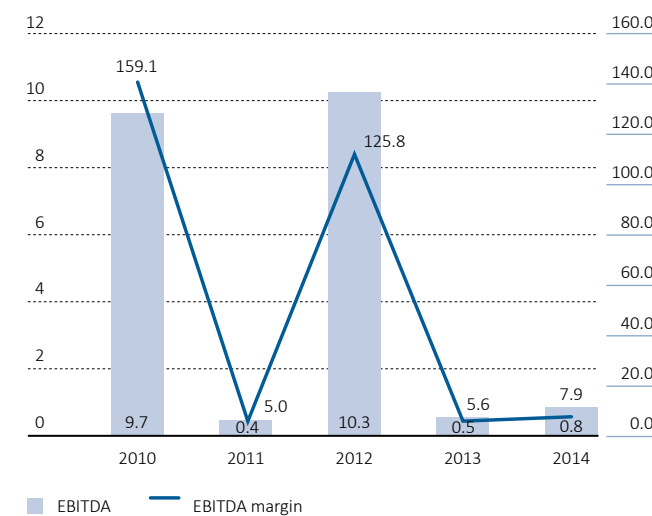
SIJ d.d.: Key data on the company's operations

		2010	2011	2012	2013	2014
Revenues	EUR	6,080,372	7,447,341	8,224,176	8,806,548	9,836,495
Operating profit (EBIT)	EUR	9,456,525	189,068	10,202,720	286,219	458,819
EBIT margin	%	155.5	2.5	124.1	3.3	4.7
EBITDA	EUR	9,675,774	374,838	10,348,055	495,937	781,168
EBITDA margin	%	159.1	5.0	125.8	5.6	7.9
Profit before taxation	EUR	10,032,522	220,175	9,869,010	1,765,091	1,348,262
Profit/loss for the period	EUR	10,032,522	220,175	10,942,910	1,751,428	1,210,535
Return on sales (ROS)	%	165.0	3.0	133.1	19.9	12.3
Total assets	EUR	201,559,551	206,827,768	204,985,874	218,629,183	240,827,722
Return on assets (ROA)	%	5.2	0.1	5.3	0.8	0.5
Equity	EUR	167,513,204	167,570,07	178,647,445	180,441,159	181,227,591
Return on equity (ROE)	%	6.2	0.1	6.3	1.0	0.7
Net profit per employee	EUR	295,074	6,672	321,850	40,731	24,705
Added value per employee	EUR	401,899	171,466	501,493	165,945	155,124
Average per employee	EUR	34	33	34	43	49

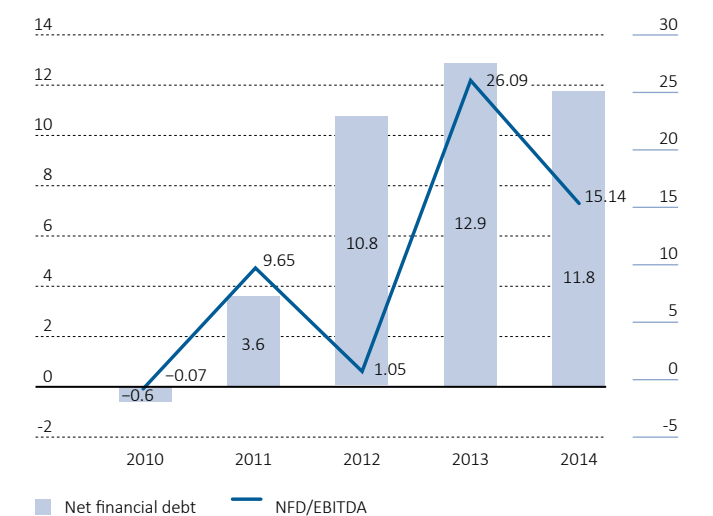
SIJ d.d. generates its income by providing consulting services for the companies in the SIJ Group: financial consulting in the area of planning, controlling, accounting and finance; legal and HR consulting; and consulting in the area of strategic development and IT services.

The majority of the costs are represented by labor costs, which are increasing together with the number of employees. Other costs are represented by the costs of materials and services, where consulting services (legal, financial, due diligence etc.) make up the largest part.

SIJ d.d.: EBITDA (in million EUR) and EBITDA margin (in %)



SIJ d.d.: Net financial debt (in million EUR) and NFD/EBITDA

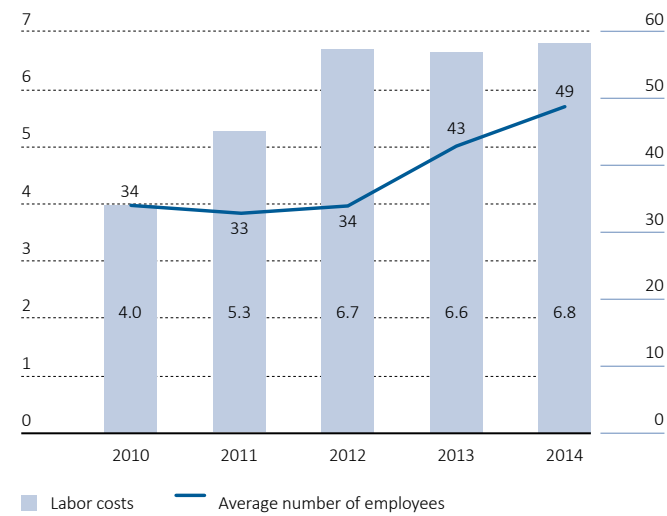


In 2010 and 2012, the level of generated EBITDA and profit stands out, which is connected to other operating income.

After four years increasing, the net financial debt was reduced in 2014. In addition, the NFD/EBITDA leverage in 2014 has fallen to 15.14, compared to 26.09 in 2013.

Presentation of the SIJ Group

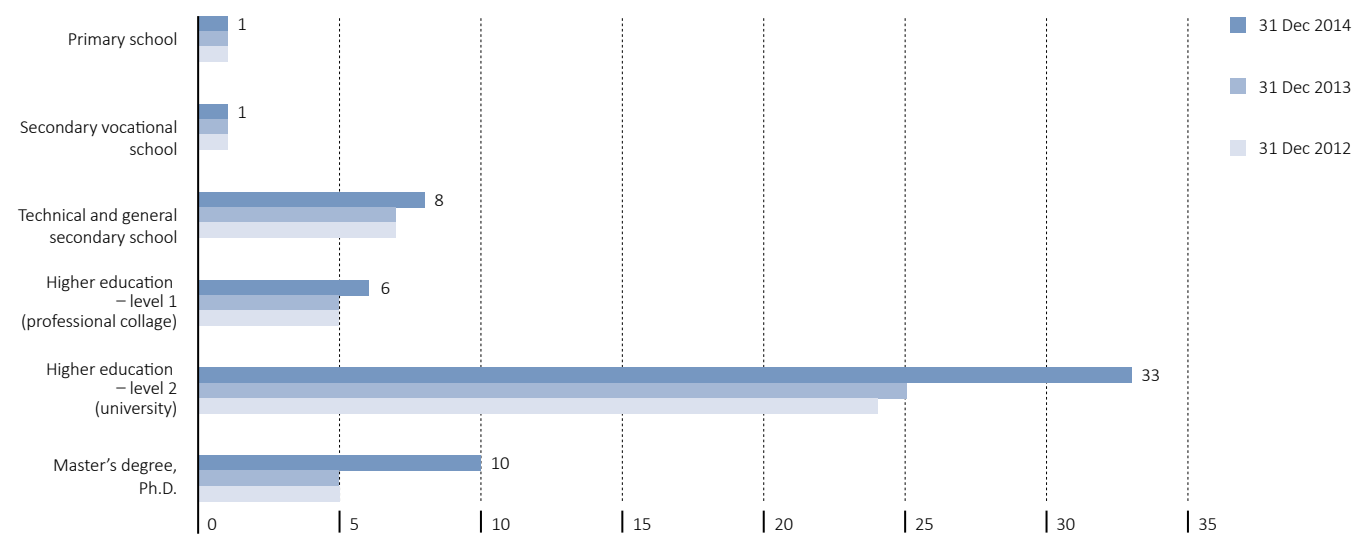
SIJ d.d.: Average number of employees and labor costs (in million EUR)



As a result of the centralization of the aforementioned functions and staff reinforcement, the number of employees has increased; in comparison with the same period last year, there were 15 more employees at the end of 2014. The success of the company largely depends on key employees and their skills, and this is why the company management provides an environment in which employees can use and develop their full potential.

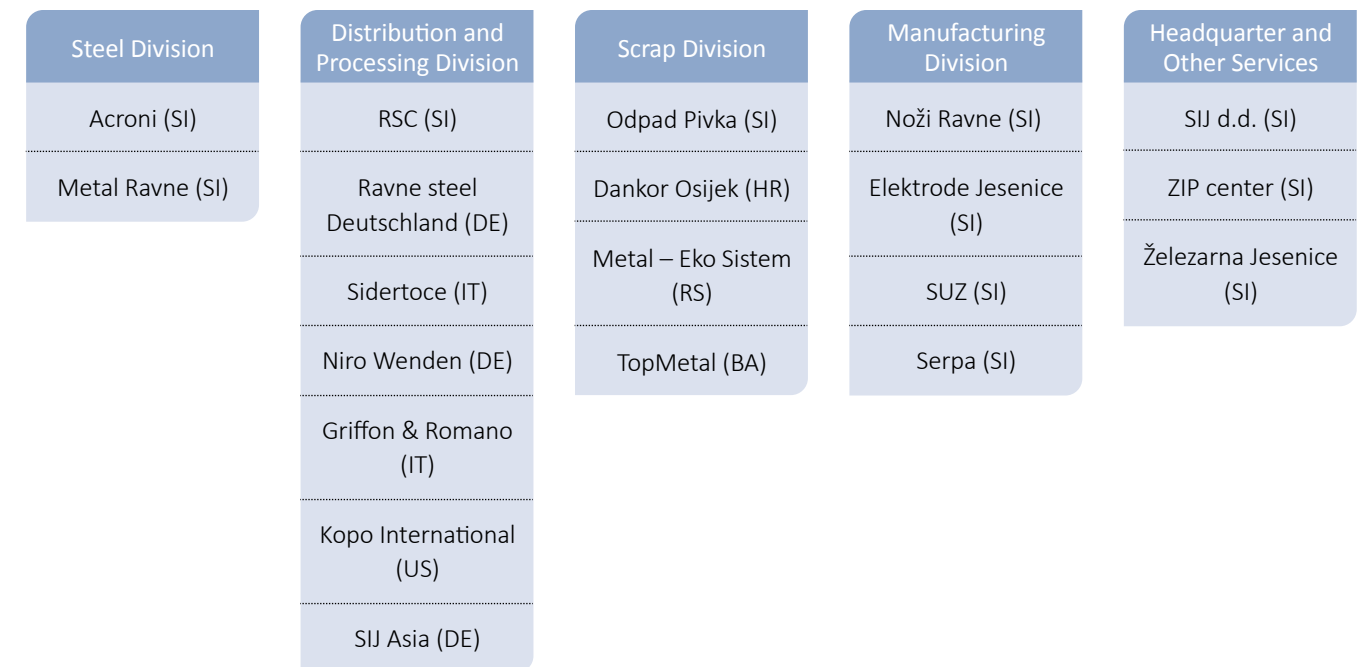
The educational structure of employees has remained more or less the same for the past several years; most employees have a university degree.

SIJ d.d.: Educational structure of employees



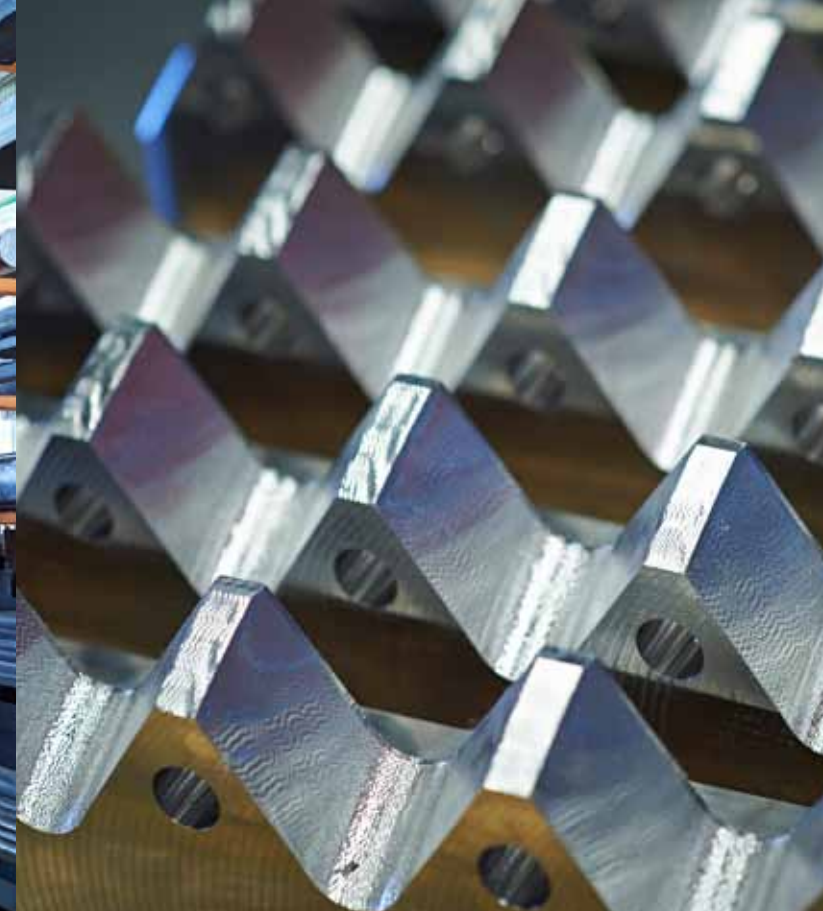
The role of management of SIJ d.d and the SIJ Group, and the professional teams of the respective departments, is to provide continuing professional development and training of key employees. All employees are included in education and training.

PROGRAM STRUCTURE



The SIJ Group is comprised of five Divisions, which structurally reflect the vertical integrity of the group; we will continue to strengthen and develop them in the years to come. The diversification of the Divisions brings numerous business opportunities with regard to sales (presence on various markets with different program groups), achieving increasingly greater added value and effective optimization

of the production processes within the Group, and decreasing certain business risks (access to key raw materials, direct contact with end markets and customers). With regard to program structure we also monitor the operations of the Group from strategic planning to realization and financial operations.



THE STEEL DIVISION

The Steel Division is the main production part of the SIJ Group, since it employs a good two-thirds of all the employees in the Group, and its contribution to the net sales of the whole Group is 70%. The key production programs of this Division are stainless quarto plates (used in the energy sector, in tube manufacture, in the production of oil and natural gas etc.), bar products made of tool, special and structural steels in forged, rolled, peeled and ground types (used in the machine processing and automotive industries, construction, the metal processing industry etc.). Within these programs the Group holds leading market positions in the European and global markets. We are also becoming more and more established in the field of special steel plates, especially wear-resistant and high-strength types of steel, high-alloyed tool steel, armour steel plates and other special steels.

THE DISTRIBUTION AND PROCESSING DIVISION

The development of our own Distribution and Processing Division in our key markets (Germany, Italy, USA, Slovenia) is the main element of upgrading the vertical integration of the Group "downward", since this does not only enable us to have direct contact with the customers, but it also helps us to effectively fulfil the rapid supply of steel in the required dimensions and quality, as well as to carry out other service and after-sales activities. The primary activities of this Division are storage and cutting, as well as additional thermal and mechanical treatment of steel, and the distribution of the steel products of the Group.



THE SCRAP DIVISION

The core activity of the Division is the collection, processing and sorting of scrap metal, and its preparation for transport and material processing in the steel industry. The technological processes are divided by types of metal and by the individual technological procedures used for processing scrap. The companies within the Division are active in Slovenia and other countries of former Yugoslavia.

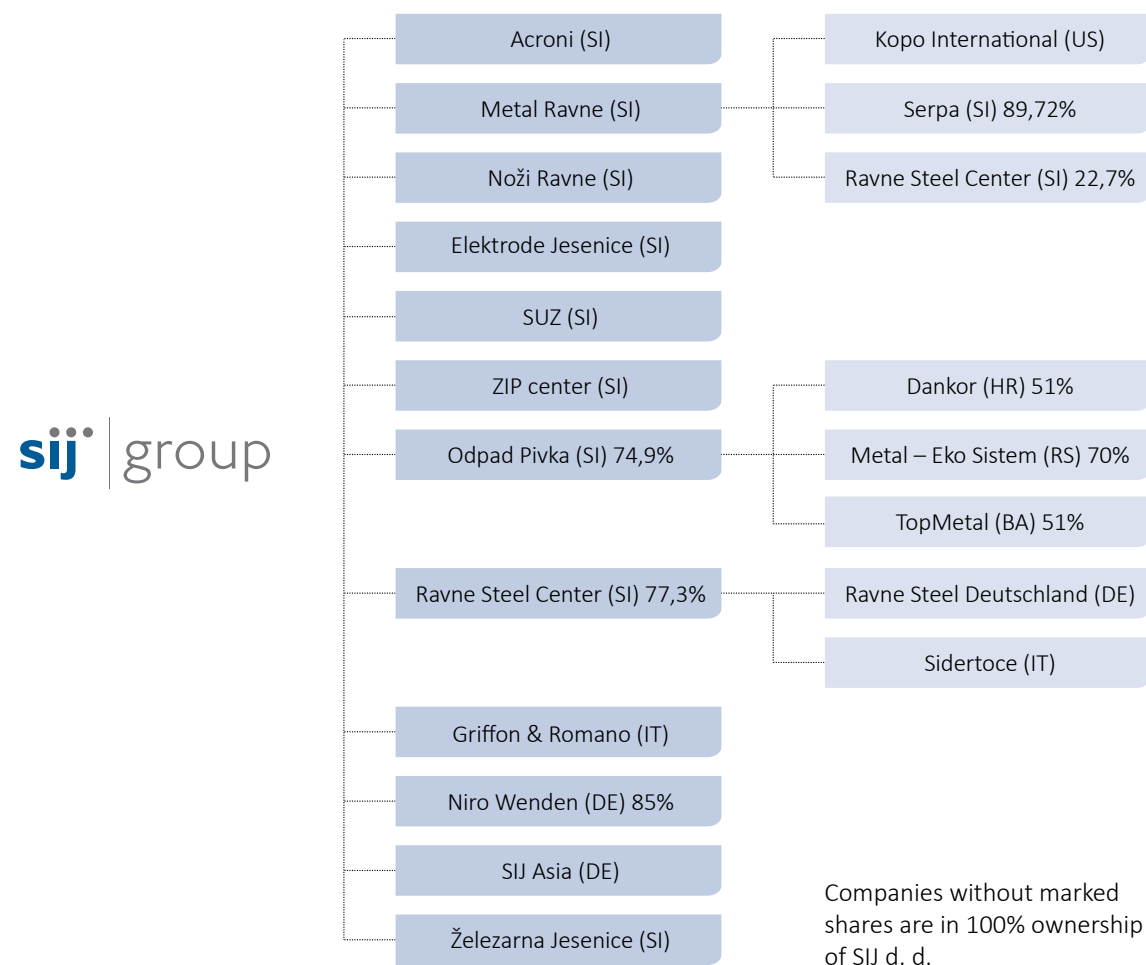
THE MANUFACTURING DIVISION

This Division consists of the companies manufacturing semi-finished and finished steel products, who make good use of the synergies of the production processes of the Steel Division (fast delivery, common development of new programs, quality monitoring etc.). Among the key production programs are industrial knives (for metal, paper, wood, plastics etc.), welding materials (coated electrodes, welding wires etc.), and drawn, polished and peeled steel bars. The production program is completed by the manufacturing of spare parts and providing maintenance services.

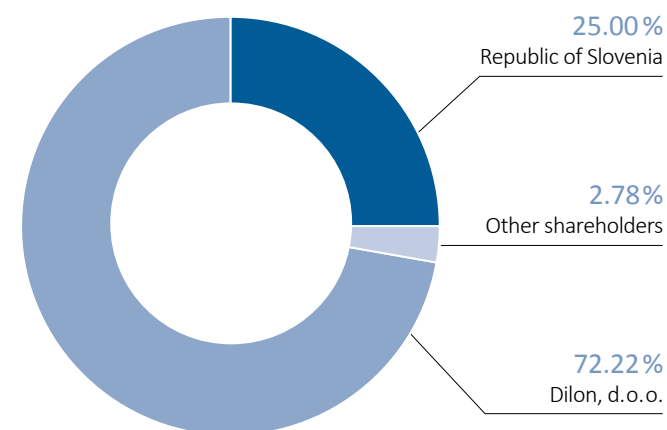
HEADQUARTER AND OTHER SERVICES

The main activities of this Division include business, financial and other consulting activities for the companies of the SIJ Group (the latter is carried out by SIJ d.d. as the controlling company), as well as activities in the area of social and concessional services related to the employment of disabled people. Within the framework of these activities the Group effectively carries out numerous programs of social responsibility, which are integrated into the broader policy of corporate management of the Group.

ORGANIZATIONAL STRUCTURE



OWNERSHIP STRUCTURE OF THE SIJ GROUP



On 31 December 2014, 2.78% of the shares in the ownership structure of the issuer SIJ d.d. Ljubljana are represented by:

- D.P.R. d.d. – in the process of liquidation, Ravne na Koroškem, with 11,468 shares;
- Stanovanjsko podjetje d.o.o., Ravne na Koroškem, with 8,205 shares;
- Unior d.d., Zreče, with 10 shares;
- the issuer, with 7,927 owned shares

BUSINESS MODEL

The advantages of the SIJ Group are defined in its business model, which is the foundation for creating added value. In the business model, we focused on strengthening and our advantages and opportunities, with the main goal of achieving the strategic guidelines of the Group development by 2025.

Development of Technologically Demanding Products

We will continue to develop stainless quarto plates and special steels, as well as tool and special requirements steel, in order to create higher added value.

Investments

We will support the development of products and the sales network, and expand vertical integration through investments to become an even more technologically highly-developed group.

Flexibility

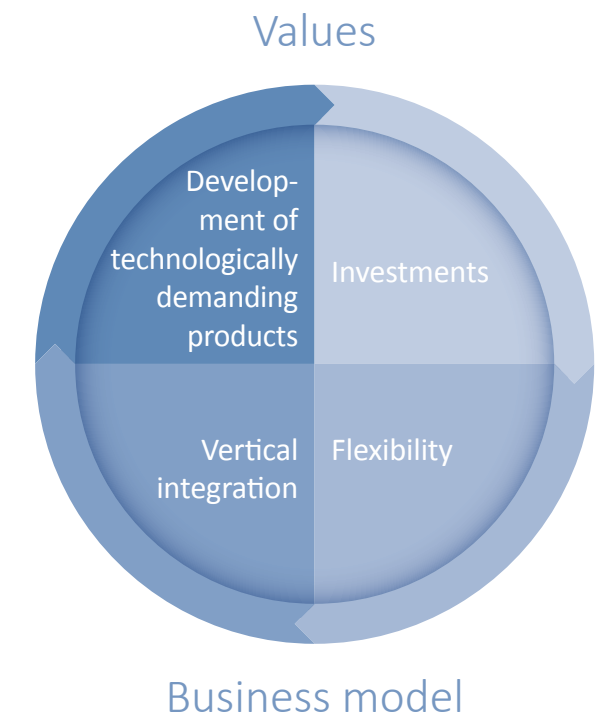
We will develop the advantages of being a tailor-made producer in both target production programs (stainless and special steels in the area of quarto plates, and tool and special requirements steel in the area of bar steel), and by introducing short delivery times and providing appropriate quality we will adapt ourselves to the end users' 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 the highest possible finalization and added value closer to the end user.

With our horizontal connections we want to provide added value to our steel.



Important Business Events and Achievements of the SIJ Group

sij | introduction

January

- Blaž Jasnič took up the post of Managing Director at Acroni.
- In the Steel Division we successfully completed the restoration of the 40/45 MN press and the 600/1500 WP manipulator. In the finishing department of the rolling mill the reassembly of the existing continuous electric furnace was carried out.

March

- At the Research and Development Department of the Steel Division, a new hardening dilatometer was set up, and a new system for collecting and archiving data on industrial furnaces was established, providing rapid insight into the current activities in individual facilities and efficient control over changes in operating parameters.
- The Managing Director of Metal Ravne, Andrej Gradišnik, was awarded the title of "Slovene Ambassador of Knowledge".

April

- Peter Čas took up the post of Director of Noži Ravne.
- In the SIJ Group we began to implement lean manufacturing.

May

- We received two Gold and one Silver Award for innovation at the Regional Level from the Chamber of Commerce and Industry of Slovenia.
- In the Steel Division we signed a contract to carry out an investment into the "line for heat processing of special quarto plates" and a contract to carry out the project "non-acidic cleaning on SSSP".
- In the Steel Division a new hardening yielding furnace was set up in the production line, which is designed for heat processing treatments to conquer the demanding energy sector, and a new container quantometer was purchased as part of the project "New LF-VD/VOD vacuum ladle furnace".
- In the Distribution and Processing Division we carried out the start-up of the new vacuum furnace for the heat processing of industrial knives.

July

- We signed a contract for the reconstruction of the Wellman-Drever furnace.

- At the Forge we performed a test start-up of the new portal-milling machine to increase the flow of mechanical processing of flat forgings.
- 20.7.2014 we celebrated the first Day of Metallurgists in Ravne na Koroškem, which is a celebration of SIJ steel workers and metallurgists. A very nice and important tradition, which connects the employees and their families, was brought back to life.

September

- We received new awards for superior research work and innovations:
 - Gold Award for innovation at the National Level from the Chamber of Commerce and Industry of Slovenia. In the Steel Division we were the first company in the world to produce the wear-resistant steel X120 Mg12 on a continuous machine.
 - Silver Award for the innovation "top-quality high-alloy cold-work tool steel" from the Chamber of Commerce and Industry of Slovenia.

November

- We issued bonds, code SIJ2, with the total nominal amount of EUR 42.9 million, which were listed on the regulated market of the Ljubljanska borza d.d. Stock Exchange on 29 December 2014.
- We attended one of the largest international industrial fairs, METAL EXPO in Moscow, at which we presented all the key programs of the SIJ Group.
- Project of unification of the Corporate Identity (CI) of the SIJ Group, which included redesigning the key elements (the logo) of SIJ d.d. and unifying the graphic images of all the companies in the Group was completed.

December

- The 1st Strategic Conference of the SIJ Group was organized in Bled, and it included all the leading managers of the SIJ Group from Slovenia and abroad.





sij | business report

The optimization of our product structure towards increasing the production volume in the programs with high added value was the key contributor to the significant growth in EBITDA of 91% in 2014.

All further investments will also be focused on programs with high added value; the production volumes of these will increase due to the reduction in the less profitable programs.

The goal is not to increase the quantities, but to achieve the highest possible added value, to maintain key market positions in Europe in the most profitable programs at the present time, and to enter new industries and new markets with key programs for the future.

Corporate governance

CORPORATE GOVERNANCE

SIJ d.d., is organized in a two-tier management system. The company is managed by the Board of Directors, which in turn is supervised by the Supervisory Board. The company's corporate governance is based on legal provisions, the Company statute, internal acts, and national and international good practice in corporate management.

The organization of the company:

- the General Assembly
- the Supervisory Board
- the Board of Directors

THE GENERAL ASSEMBLY

The shareholders of SIJ d.d. exercise their rights through the General Assembly of the company. The convention and arrangement of the meetings of the General Assembly are regulated in the statute of the company in accordance with the provisions of the Companies Act (CA-1).

In 2014 there were two meetings of the General Assembly of shareholders, held at the registered office of the company (Gerbičeva ulica 98, Ljubljana). Due to the small number of shareholders, they were summoned to both meetings of the General Assembly in 2014 by registered letter, in accordance with the provision of Article 39 of the statute of the Company.

The 25th meeting of the General Assembly of the SIJ d.d. shareholders was held on 9 June 2014. At this meeting the shareholders issued powers to the Board of Directors with the aim of simplifying the ownership structure, in accordance with the 8th indent of Article 247 of the Companies Act, valid for 36 months, to purchase 2.78% treasury shares or, together with the shares already owned by the company, a total of 27,610 shares of the company. The purchase price for obtaining treasury shares must not be higher than EUR 190.73 or lower than EUR 100.00. Based on Article 251 of CA-1, the shareholders also issued a permit for obtaining treasury shares to the companies of which SIJ d.d. is the majority owner, or to third parties from Article 251 of CA-1.

The 26th meeting of the General Assembly of shareholders was held on 29 August 2014. At this meeting the shareholders were presented with the Annual Report of SIJ d.d. and the Consolidated Annual Report of SIJ – Slovenian Steel Group (hereinafter: the SIJ Group) for the financial year 2013, including the opinion of the certified auditor and the report of the Supervisory Board on the results of reviewing the Annual Report. The General Assembly confirmed the proposal



Anton Chernykh
President of the Board
of Directors

Igor Malevanov
Member of the Board
of Directors



Slavko Kanalec
Director of Technology

Dušica Radjenovič MA
Sales Director

Evgeny Zverev
Director of Legal Affairs,
Mergers and Acquisitions

Dr. Denis Mancevič
Director of Corporate
Communications

Marjana Drolc Kaluža
Purchasing Director

of the Board of Directors and the Supervisory Board that the stated distributable profit for 2013, to the amount of EUR 24,501,386, should remain undistributed, and granted discharge to the Board of Directors and the Supervisory Board for the financial year 2013. On the basis of the Supervisory Board's proposal the General Assembly appointed Deloitte Revizija, d.o.o., Ljubljana to be the certified auditor of SIJ d.d. and SIJ Group for the financial year 2014. In addition, it made a decision on the basis of the Supervisory Board's proposal to elect Dr. Denis Mancevič as a member of the Supervisory Board for the term to 11 April 2015.

PRESENTATION OF THE MANAGEMENT OF SIJ D.D. AND THE SIJ GROUP

Since SIJ d.d. is the controlling company, and the direct or indirect owner of the affiliated companies of the SIJ Group both in Slovenia and abroad, the Board of Directors of SIJ d.d. and its broader management represent the management of the SIJ Group, which strategically manages, directs and controls the operations of all the companies within the Group.

In general, the affiliated companies in the SIJ Group are 100% owned by or under the controlling interest of SIJ d.d., and are organized as companies with limited liability, except in Italy. In June 2007, SIJ d.d. as the controlling company, and eight affiliated companies with limited liability in Slovenia (Acroni, Metal Ravne, Noži Ravne, Elektrode Jesenice, SUZ, ZIP Center and Železarna Jesenice, as well as Žična Celje, which was removed from the register of companies on 1 July 2013) signed a company agreement, in which the affiliated companies subjected their management to SIJ d.d. In order to achieve unified operations in all the companies within the SIJ Group, the Board of Directors of SIJ d.d., through the decisions of the Board of Directors of the parent company and through the General

Assembly of the affiliated companies or the company partner with the majority share of voting rights, regularly makes decisions and issues instructions to manage and strategically direct all the key business processes of the SIJ Group. The executive level of management of the SIJ Group, in cooperation with the affiliated companies, is responsible for achieving the set of operating goals in the individual strategic areas of business within the framework of the entire Group.

THE BOARD OF DIRECTORS

In accordance with the statute of SIJ d.d., the Board of Directors of the company consists of the President of the Board of Directors and one to three Members. The President and the members of the Board of Directors are appointed by the Supervisory Board for a maximum mandate of six years, with the possibility of being appointed again after the expiry of the previous term. The duration of the mandate is determined at each decision on the appointment.

The President of the Board of Directors represents the company without limit and individually; the Members of the Board of Directors represent the company jointly with the President.

In accordance with the decisions on the appointment made by the Supervisory Board, the Board of Directors of SIJ d.d. is currently represented by two Members.

Up to 17 January 2014, the company was represented by the President of the Board of Directors, Tibor Šimonka, and a Member of the Board of Directors, Viacheslav Korchagin. Since 17 January 2014, SIJ d.d. has been represented by the President of the Board of Directors, Anton Chernykh, and a Member of the Board of Directors, Igor Malevanov, both of whom were appointed for a period of five years.

Anton Chernykh, President of the Board of Directors

Anton Chernykh was born in 1978. He graduated from the Faculty of Law in Moscow and the Faculty of Economics in Tula. Later, he obtained an MBA from IEDC – Bled School of Management. His career started at Sberbank RF in the Russian region of Tula. Since 1998 he has managed the Finance Department at the state-owned company for the construction of roads, TulAvtodor. In 2004, he joined the Russian Koks Group, first as Head of the Property Management Department at Tulachermet, and then in 2006 he was appointed as Deputy Director-General at KMA Ruda. Since joining the SIJ Group in 2007, he has held various management positions (Proxy at Acroni and Metal Ravne, Director of Project Management).

Igor Malevanov, Member of the Board of Directors

Igor Malevanov was born in 1976. He graduated from the Faculty of Economics in Belarus in 1997. During his postgraduate studies, from 1997 to 2000, he worked at various Russian companies and specialized in insurance and finance. In 2001, he joined the Russian Koks Group in the role of Financial Manager of Koks subsidiaries. In 2004, he became Chief Finance Officer at IMH Holding, which was founded in 2002, and managed the companies Koks and Tulachermet, as well as numerous other steel plants, coke plants and mines in Russia. In 2007, he joined the SIJ Group as the Executive Director of Finance, Economics and IT.

The President of the Board of Directors represents the SIJ Group in the international associations Eurofer, the World Steel Association, and the International Stainless Steel Forum, of which SIJ is a member. Outside of the SIJ Group, Members of the Board of Directors do not perform any independent activities relevant to the position of the SIJ Group.

THE EXECUTIVE LEVEL OF MANAGEMENT OF THE SIJ GROUP

- Dušica Radjenovič MA, Sales Director
- Evgeny Zverev, Director of Legal Affairs, Mergers and Acquisitions
- Slavko Kanalec, Director of Technology
- Dr. Denis Mancevič, Director of Corporate Communications
- Marjana Drolc Kaluža, Purchasing Director

STATEMENT ON THE GOVERNANCE CODE

On 29 December 2014, SIJ d.d. successfully listed bonds, code SIJ2, on the market of the Ljubljanska borza d.d. Stock Exchange. These bonds are the first securities of the Company to be traded on the regulated market; therefore, in the next business periods, in accordance with the provisions of the fifth paragraph of Article 70 of CA-1, SIJ d.d. will include in the Annual Business Report accurate data and interpretations on complying with the Governance Codes which are relevant to the Company, or the Governance Codes which it could eventually decide to use, or on potential deviations from these.

For 2014, special explanations about complying with the Codes' recommendations are not yet obligatory for SIJ d.d., and in that financial year, from the view of corporate management, SIJ d.d. has not yet formed special assessments on the compliance of operations with their recommendations.

In 2014, the Company operated in compliance with the applicable legislation, and strove toward improving its international market position, as well as actively working toward responsible management and transparent communications with all relevant associates.

In 2015, the Board of Directors and the Supervisory Board will examine the recommendations in detail, and will maintain the compliance of operations with the provisions of the Slovenian Governance Codes. Since the company is listed on the Ljubljanska borza d.d. Stock Exchange, it will be required to comply with the provisions of their Corporate Governance Code, in force since 8 December 2009, and written and adopted by the Ljubljana Stock Exchange, the Slovenian Directors' Association and the Managers' Association. The Code is published on the Ljubljana Stock Exchange website. In 2014, the Board of Directors of Slovenian Sovereign Holding (Slovenski državni holding, d.d., hereinafter referred as SDH), together with the consent of the Supervisory Board of SDH, also accepted the Corporate Governance Code for Companies with Capital Assets of the State, which is published on the SDH website. Taking into account the ownership interest of the Republic of Slovenia in

SIJ d.d. in keeping with the principle of "comply or clarify", the extent of compliance with the provisions and individual recommendations of the SDH Code will also be included in the next Annual report.

INTERNAL CONTROL AND RISK MANAGEMENT IN FINANCIAL REPORTING

Successful and effective business decision-making requires timely, quality information. The risks that arise are reduced:

- by a common accounting policy and directions at the level of the SIJ Group;
- by a unified reporting system and comprehensive notes and explanations;
- by the timely preparation and structural design of financial statements and analyses, which are the basis for business decision-making;
- by preparing financial statements in accordance with the International Financial Reporting Standards;
- by the regular annual external audits of operations.

Preparing financial statements in accordance with the International Financial Reporting Standards ensures that the financial position, business performance and cash flows give a true and fair view of actual business events. At the same time, we carry out a number of internal controls. Internal accounting controls are aimed at managing risks, particularly concerning:

- the credibility of accounting data, based on the credibility of bookkeeping documents, and evidence of existing business events which clearly show all data relevant to their correct recording;
- the accuracy of accounting data, appropriately checked before they are published, with controls carried out at several levels by comparing data from subsidiary bookkeeping with data from bookkeeping documents and from business partners, or with the actual state of the assets, as well as by coordinating subsidiary bookkeepings and the general ledger;
- complete and timely accounting data, which is achieved by common accounting policies as well as procedures and deadlines for recording set in advance.

The information system plays an important role in ensuring the quality of the accounting information. With this in mind, we have initiated the process of implementing a unified information system with inbuilt internal controls, verified on an annual basis by external auditors.

THE MACROECONOMIC ENVIRONMENT

2014 was marked by an average global economic growth of 3.3%, which remained unchanged compared to 2013. Individual regions of the world achieved very different growth rates, because some countries still experienced low growth connected to the financial crisis, from which the economy has not yet fully recovered. Only the UK and the USA exceeded the growth rates of 2008, while the eurozone and Japan had a lower growth rate.

The average economic growth of developing countries (regions of Asia and Africa) in 2014 was higher than in developed countries, reaching 4.4%, which is 0.3 percentage point less than in 2013. The global economy is growing more slowly and is reaching lower levels of growth than before 2009.

In 2014, the main drivers of global economic growth were the developing countries and the USA. In the EU, where Italy, as our largest market, suffered negative growth (-0.1%), while Germany, as our second largest market, experienced a growth of 1.1%. China and India, which have recorded above-average growth rates in the past several years, experienced growth rates of 7.4% and 5.6% respectively in 2014, despite a lower macro-economic result in the first quarter.

There were significant differences in inflation rates between individual regions. According to estimates by the International Monetary Fund, the inflation rates in developed countries were too low, which does not exclude the possibility of deflation in the future. In the USA, where the predicted long-term inflation rate set by the Federal Reserve System is 2%, the average inflation rate in 2014 was 1.6%.

Forecasts and Expectations

The forecast growth of the global economy in 2015 and 2016 is 3.5% and 3.7% respectively. We expect that this forecast will have a positive effect on steel demand, because this is closely connected to general economic and financial conditions in specific industrial sectors. In 2015, the expected growth in developing countries is 0.1 percentage points lower, that is, 4.3%. The expected growth in developed countries is 2.4%, which is 0.6 percentage points more than in 2014.

The predicted average economic growth for 2015 among the 28 EU member states is 1.9%, in the USA 3%, in India 6.4%, and in China it will be 7.1% lower than in 2014. What is especially encouraging for the SIJ Group is the fact that after the negative growth of 2014, a 1.3% growth is predicted for Italy

in 2015, and the growth in the USA is expected to be above average. Both of these are becoming increasingly important markets for us.

Short-term risks, which could have a negative impact on the forecast global economic growth in the coming period, are mainly associated with the deterioration of the geopolitical situation and the increase in financial instability, while the medium-term risks are represented by the low economic growth in the developed countries and the reduction in the growth rate in the developing countries.

In line with the expected economic growth, the inflation rate is also expected to increase in the eurozone, that is, 0.9% in 2015 and 1.2 percent in 2016; however, this is still less than the goals set by the European Central Bank, which is expecting an inflation rate of around 2% for a stable growth of the economy. The inflation rate in the USA is expected to gradually increase to 2% in 2015 and 2016.

THE STEEL MARKET

Steel consumption largely depends on industries such as the automotive and construction industries, mechanical engineering, and vehicle manufacturing. Despite the influences of globalization and the consequent relocation of production facilities to other parts of the world, these industrial sectors are still in leading positions and are still developing in Europe. After a period of linear growth between 2004 and 2008, steel consumption significantly dropped when the economic crisis began in 2009. After two years of recovery, the crisis in the eurozone once again deepened in 2012, and despite the optimistic forecast a more noticeable recovery of the European economy was not evident until the end of 2013. The positive trend continued in 2014 when nearly all industries recorded growth compared to 2013, averaging 2.2%. The key macro global trends, such as the growth and urbanization of populations, modernization and increased mobility, show increased consumption of energy, food and water, which consequently increases the global demand for steel and its use.

The highest growth of all sectors was achieved by the automotive industry (5.0%), metal goods (2.5%), other vehicle manufacturing and tube manufacture (2.1%). Compared to 2013, the tube industry has seen the most significant recovery, achieving a growth of 2.0% in 2014 after it fell by 10% in 2013. The construction sector and the sector of mechanical engineering also achieved a positive growth of 1.3% and

1.2% respectively after the negative year of 2013. The entire sector experienced the most significant growth in the first half of the year, while growth slowed down in the second half of the year, falling even to a negative rate in construction, other vehicle manufacturing and tube manufacturing in the last quarter.

In 2015, a further 2.2% growth is expected in the industries

using steel compared to 2014. In contrast to 2014, the lowest growth is expected in the first quarter of 2015, but it should strengthen later this year. The highest growth rates are predicted in the sectors of the automotive industry (3.8%), other vehicle manufacturing (2.7%) and the manufacture of metal products (2.4%). The growth and development of these market segments results in the increased use, and consequently the production, of steel.

The growth of industries in the EU (in %)

	% of total consumption	2013	Q1 14	Q2 14	Q3 14	Q4 14	2014 EST	Q1 15	Q2 15	Q3 15	Q4 15	2015 forecast	2016 forecast
Construction	35 %	-2.9	7.6	0.6	-1.4	-0.1	1.3	-1.5	1.7	2.9	2.4	1.5	2.3
Mechanical engineering	14 %	-3.8	3.1	-0.3	1.7	0.5	1.2	1.7	2.5	1.8	2.3	2.1	3.1
Automotive industry	18 %	1.0	10.5	3.9	3.6	2.4	5.0	2.7	3.7	3.9	5.0	3.8	2.5
Household appliances	3 %	0.2	1.4	-1.7	-4.5	0.7	-1.0	0.5	1.2	4.0	2.6	2.1	2.1
Other vehicles	2 %	1.9	2.3	-0.3	-0.2	-0.6	0.3	2.1	3.0	2.2	3.3	2.7	3.9
Tubes	12 %	-10.0	5.4	5.1	2.8	-5.8	2.0	2.1	0.7	0.9	1.1	1.2	1.6
Metal goods	14 %	-0.3	5.1	2.3	1.5	1.0	2.5	0.6	1.9	2.7	4.2	2.4	2.8
Other	2 %	-0.6	3.8	1.7	1.7	1.5	2.2	0.8	1.7	1.9	2.8	1.8	2.7
Total	100 %	-2.5	6.5	1.7	0.8	0.1	2.2	0.8	2.2	2.6	3.1	2.2	2.5

Source: Eurofer

In terms of industries associated with steel consumption and thereby also the sales of the SIJ Group, the average 2.2% growth in 2014 had a positive impact on the increased sales volume of steel compared to 2013, because sales have grown by 6.4%, which is by 22,090 tonnes.

A further increase in steel consumption is expected in 2015 on the main markets⁴ of the SIJ Group: 4.1% in Italy and 2.5% in Germany. On average, a 3% increase in consumption is predicted for the EU, and 4.2% for the rest of Europe, while Asia and Oceania are predicted to experience a lower level of increase, which is 2.8%, indicating that the developed economies will start to contribute to the growth of steel consumption again.

The companies that operate within the automotive industry and the production of mass consumer goods are the most typical users of tool and high-speed steel (e.g. steels for reforming and steels for cutting tools). The key driving force of tool and high-speed steel consumption today are the rapid changes in the design of cars and other mass consumer products. In 2015, growth in the automotive industry⁵ is expected in the target markets of the SIJ Group: 4% in Italy, 1.1% in Germany, 5% in Poland, 7% in Sweden and 1.4% in France.

In the market segment of heavy mechanization and machinery, which is considered to be the main user of wear-resistant and high-strength steel, a growth of 5.6% at the global level and 4.9% within the EU is expected until 2017⁶.

The oil and petrochemical industry, the energy sector, the

paper industry, machine manufacture and the aviation industry are the typical users of stainless and special steel. In 2015⁷, a 4.6% increase in stainless steel consumption in the energy sector, a 5.5% increase in the petrochemical industry, and a 5.6% growth in the paper industry are expected within the EU.

World steel production (in million t)⁸

	2014	2013	Growth level
Europe	312.9	313.2	-0.1 %
EU 28	169.2	166.3	1.7 %
CIS ⁹	105.3	108.3	-2.8 %
North America	121.2	118.9	2.0 %
USA	88.3	86.9	1.7 %
South America	45.2	45.8	-1.4 %
Africa	15.9	16.1	-0.7 %
The Middle East	28.5	26.5	7.7 %
Asia	1,132.3	1,116.1	1.4 %
China	822.7	815.4	0.9 %
Japan	110.7	110.6	0.1 %
Australia and New Zealand	5.5	5.6	-1.8 %
World	1,661.5	1,642.2	1.2 %

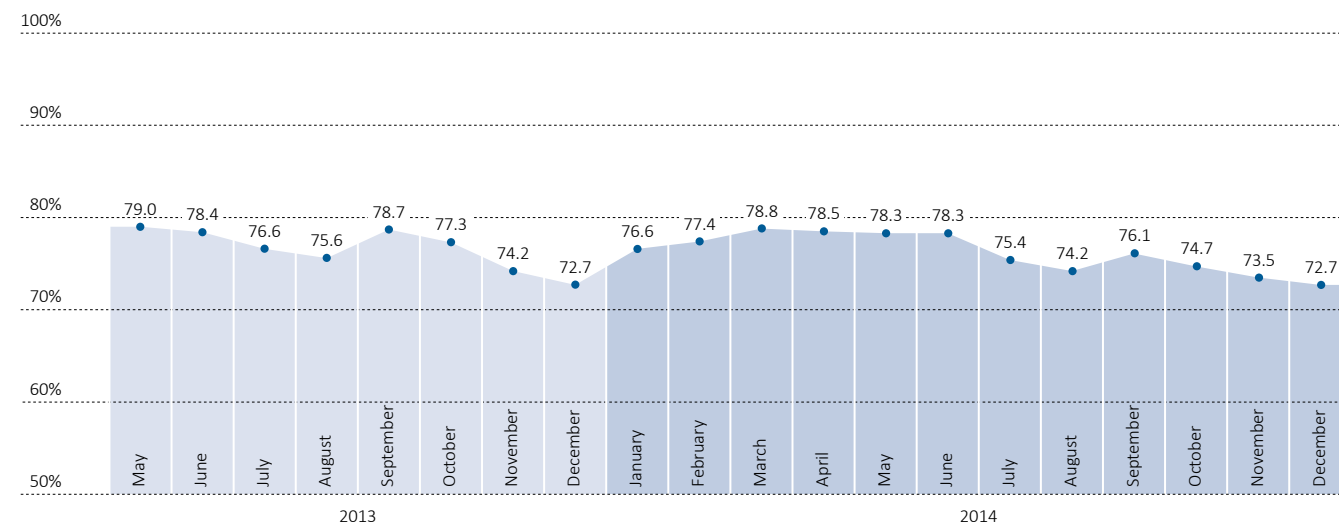
World steel production increased by 1.2% compared to 2013. The following regions recorded positive growth in 2014: the Middle East, North America, the EU and Asia. The CIS and

other regions produced less steel in 2014 than in 2013. In line with the predicted growth of industries in 2015, a 2% increase in steel production is also expected.

4 Source: World Steel Association.
5 Source: World Steel Association.

6 Source: Construction Intelligence Center.
7 Source: Steel and Metals Market Research.
8 Source: World Steel Association.
9 CIS – Commonwealth of Independent States.

World steel production capacity utilization (in %)¹⁰



Compared to 2013, the excess capacity of global steel production further increased in 2014, with the average yearly utilization falling from 77.3% to 76.2%.

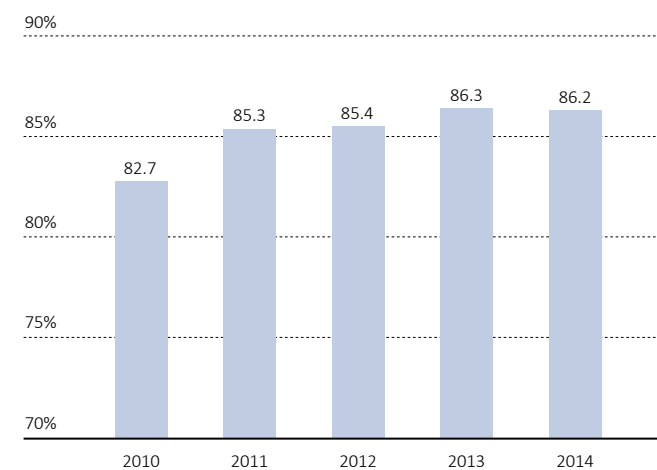
The influence of excess capacity in combination with increased steel imports from non-European countries placed additional pressure on the price level, especially in the segments of mass production steel.

SIJ GROUP MARKETS

The companies of the SIJ Group are spread mainly across Europe; 16 companies have registered offices within the European community, two companies in the countries of former Yugoslavia and one company in the USA.

The EU market is the most important and the biggest customer of the SIJ Group, representing 79.7% of total exports and 68.7% of total revenues. In 2014, 13.8% of our total revenues were generated on the domestic market. The sales share on the domestic market has been declining for some years now (it amounted to 17.3% in 2010 and only 13.7% in 2013).

SIJ Group: Export share in revenues (in %)

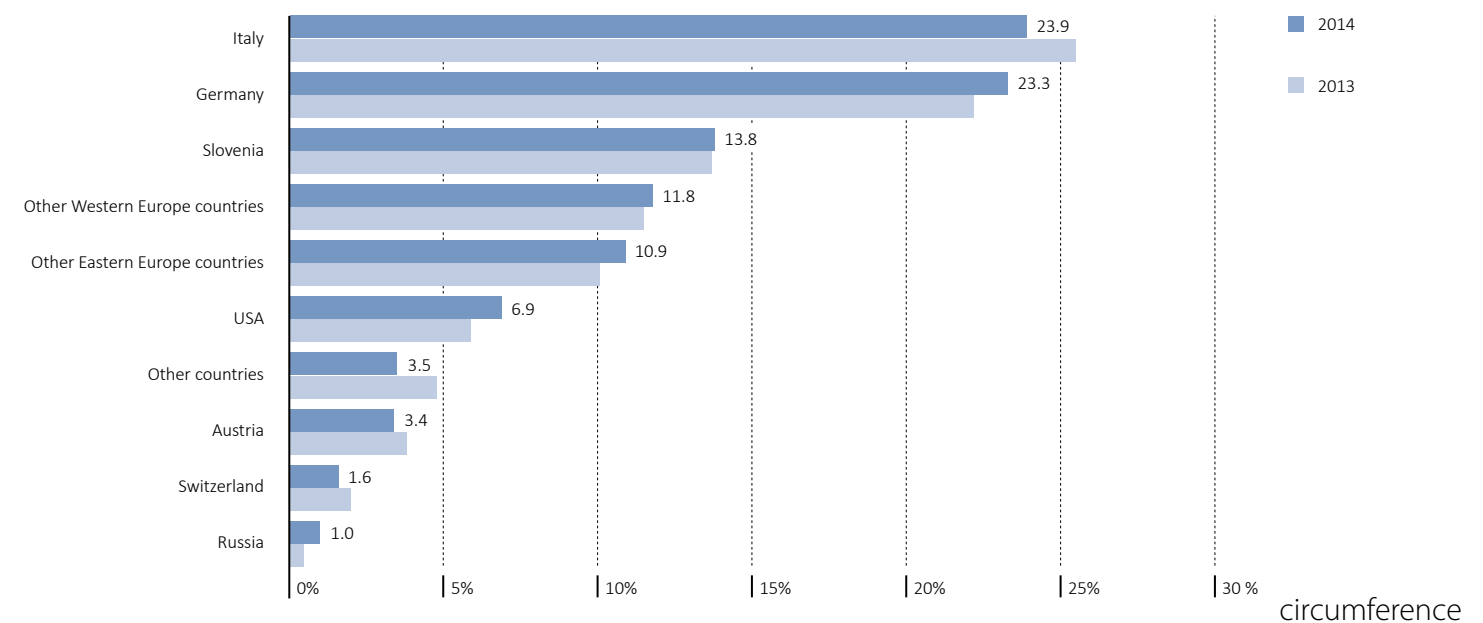


¹⁰ Source: World Steel Association.

Due to slower growth in the eurozone, we were further encouraged to find ways to increase sales in other markets and with more demanding products. Last year, the sales growth on the American market, after the considering the growing USD/EUR exchange rate, represented a compensation for

the weaker European market. Sales to the American market grew by 24.4%, and the share of this market in total exports increased by 1.1 percentage points. Sales also increased on other markets; in Turkey and Russia by more than 100%.

SIJ Group: Geographical structure of revenues (in %)



Despite the slower recovery of the European market as a whole, our most important markets remained those in Italy and Germany. Together they represent almost half of the revenues of the Group, which is 47.2% (47.7% in 2013). Service and sales centers play an important role in promoting sales in central Europe. Their main task is to bring the steel of the SIJ Group closer to the end buyers and their product requirements, processed by classical, plasma or laser cutting and, to a lesser extent, other types of mechanical processing.

production and processing of oil and natural gas (stainless steel quarto plates for tube manufacture, stainless steel for reactors, heat converters and cooling systems, special steels for pumps, valves, flanges and seals, and structural steels for pressurized containers and the construction of steel rigs). Our steel is also used in the production of construction machinery, in construction and in shipbuilding.

The SIJ Group's sales depend also on individual industries. Growth in individual industries¹¹ improved in 2014; EUROFER has assessed that all the industries (except household appliances) recorded growth, the highest being in the car industry. The SIJ Group is closely linked to the car industry, especially in sales of electrical steel (for electric engines) and ferrite fire-resistant and cold rolled steel plates (for catalytic converters), as well as indirectly in sales of tool steels for the manufacture of tools for the car industry. Another important industry for the sale of our steel is the

The companies in the SIJ Group are specializing in the production of more complex types of steel, in response to the special requirements of customers and in order to make steel products with higher added value. This, in combination with rapid adaptation to the ever-changing market environment, and flexibility of response to customer demand, enabled us to achieve an above-average 78.9% level of capacity usage (measured on average at the Steel Division level), consequently fulfilling our set production goals.

We are optimistic about our future because the forecasts for stainless steel quarto plates up to 2020¹² are favorable – a

¹¹ Link to table: The growth of industries in the EU
¹² Source: Steel and Metals Market Research.

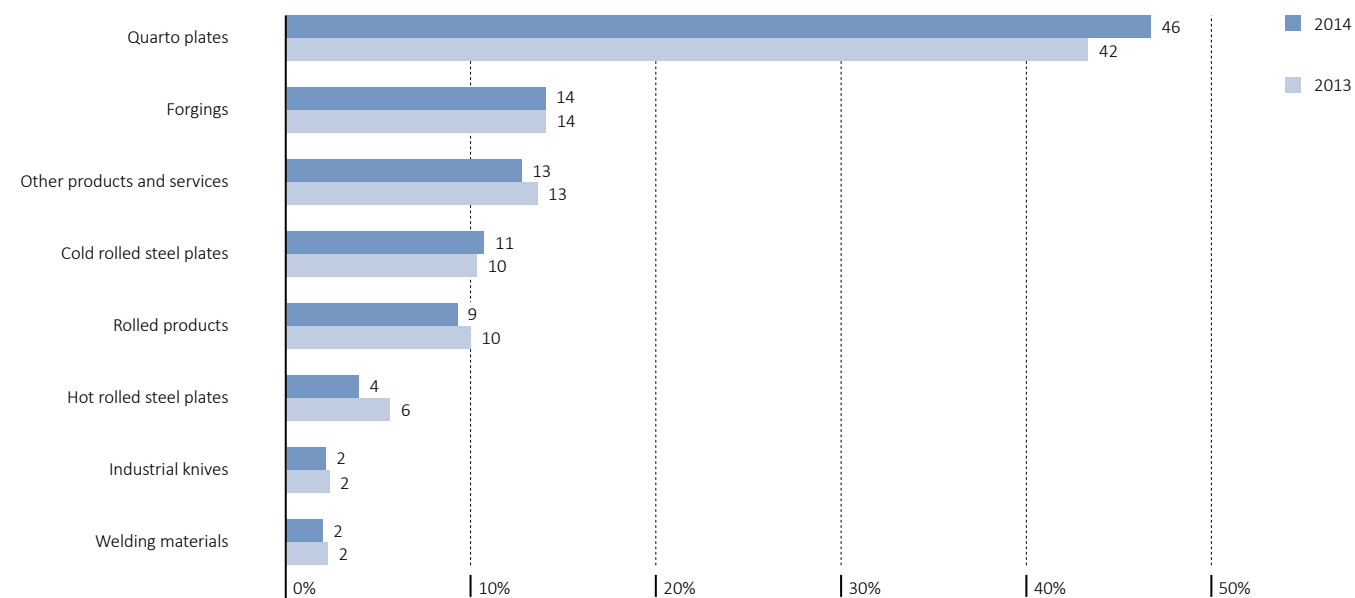
5% increase in consumption is expected at the global level. An average annual growth rate of 2.2% is expected within the EU, with Germany and Italy still representing our main consumers.

In terms of future growth, the segments of special steel and special tool steel are also attractive, with the average annual growth rates estimated between 3 and 5%¹³. For the segment of industrial knives, an increase in consumption for wood knives up to 2018 is expected, with an average annual growth

rate between 5 and 6%¹⁴, as well as an increase in consumption of recycling knives, with an average annual growth rate of about 6%, and an increase in consumption of knives for metal, with an average annual growth rate between 2 and 3%¹⁵.

Based on the type of steel, the most important production programs for the SIJ Group are: stainless quarto plates, the bar program of tool steel, the bar program of high-speed steel, and the bar and flat programs of special steel.

SIJ Group: Program structure of revenues (in %)



The program structure of revenues has been changing for the past several years, moving toward the sale of more demanding products, while we follow our orientation toward the increased manufacture and sale of stainless quarto plates. Other important programs are tool and special types of steel, both flat and bar; bar steel can also be found among the molded forgings. The above graph shows an increase in the share of quarto plates in particular, which increased by 3.4 percentage points in 2014.

In compliance with our development strategy and planned investments, we will continue to specialize in the production of steel based on the special demands of our customers, and by doing this will reduce the effects and pressures on prices which are caused by excessive capacities. At the same time, we will strengthen our position in the most important

market segments by centralizing commercial functions and optimizing sales and sales channels.

Within these segments, which are considered to be smaller than the segments of mass production steel, but which enable a higher added value because of the complexity of the steel and its final use, the SIJ Group holds the leading market position among European manufacturers.

The SIJ Group has been one of the top three suppliers of steel within the EU in sales of stainless steel quarto plates in the past five years, and market shares between 2010 and 2013 were 26-28%. In sales of high-alloy tool steel the sales shares of the SIJ Group on the EU market ranged between 8.6 and 9.3% over the same time period. The shares data are officially published with a one year delay, so we currently do not have data for 2014.

SIJ Group: Key operating data

Quantitative data		2010	2011	2012	2013	2014
Crude steel production	t	462,619	488,440	494,123	468,761	466,835

Financial data

Revenues	EUR	590,916,742	764,977,836	732,549,967	658,653,447	707,857,833
Export	%	82.71	85.27	85.44	86.34	86.22
EBITDA	EUR	40,519,225	64,193,568	41,319,944	40,785,962	77,832,035
EBITDA margin	%	6.86	8.39	5.64	6.19	11.00
Profit/loss for the period	EUR	3,665,277	17,127,530	739,449	-4,922,797	24,903,910
Operating cash flow	EUR	-6,865,405	79,852,400	61,951,957	51,319,275	82,797,702
Capex	EUR	40,645,956	49,131,711	67,129,060	52,357,075	47,633,290
Investments	EUR	46,724,072	56,570,168	57,072,243	47,282,233	49,373,628

Statement of financial position on 31 December

Total assets	EUR	739,754,186	761,932,114	763,574,012	775,778,793	789,260,826
Capital	EUR	314,276,543	331,297,201	328,003,560	323,585,177	348,135,458
Non-current and current liabilities	EUR	425,477,643	430,634,913	435,570,452	452,193,616	441,125,368

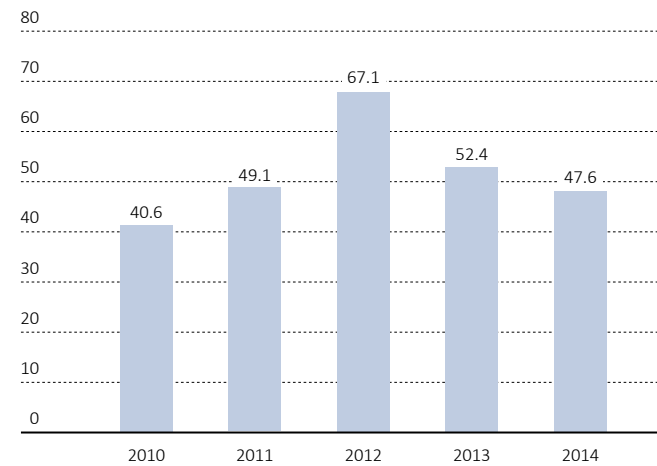
Net financial debt on 31 December

Non-current financial liabilities	EUR	132,589,829	106,190,051	142,161,199	159,003,499	183,382,044
Current financial liabilities	EUR	127,086,698	139,032,743	112,102,494	113,939,351	73,440,512
Cash and cash equivalents	EUR	22,227,460	24,844,734	26,922,115	24,909,911	38,993,236
Financial receivables	EUR	10,647,359	9,799,790	6,317,993	16,847,475	57,560
Net financial debt	EUR	226,806,706	210,585,203	221,023,585	231,185,464	217,771,760
Net financial debt/EBITDA		5.60	3.28	5.35	5.67	2.80

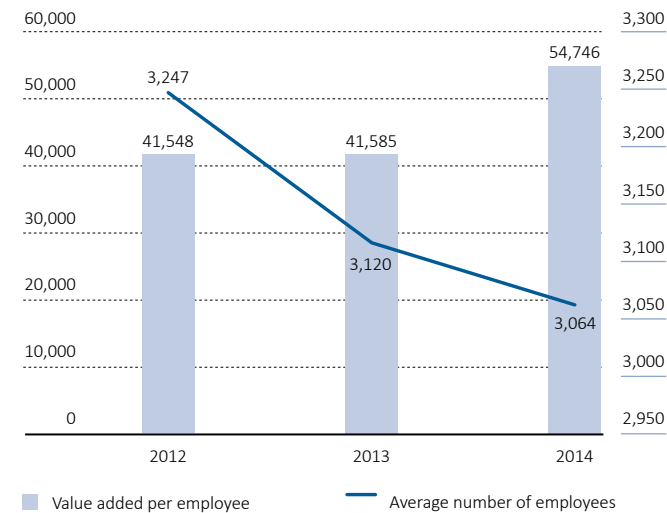
Number of employees on 31 December		3,299	3,248	3,141	3,162	3,134
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13 Source: Steel and Metals Market Research.
14 Source: Market study for Ravne Knives, October 2014.
15 Source: Market study for Ravne Knives, October 2014.

SIJ Group: Capex (in million EUR)



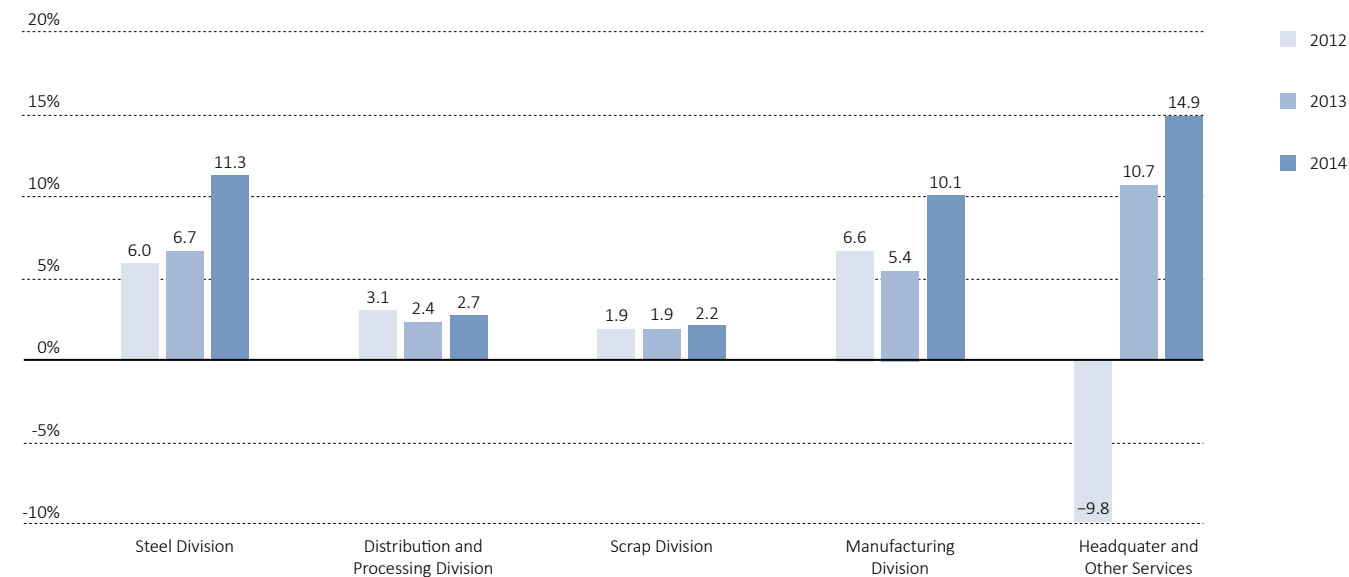
SIJ Group: Average number of employees and added value per employee (in EUR)



Investments in technology, equipment and the sales network are extremely important for the development and competitiveness of the SIJ Group. From 2010 to 2014 we invested EUR 30.9 million in the development of our own sales network and the set-up of a raw materials base, EUR 43.1 million in maintaining our existing production capacity, and EUR 181.4 million in development, the environment and smaller investments.

In the past three years we have achieved the highest added value per employee of EUR 54,746. The average number of employees decreased by 1.8%.

SIJ Group: EBITDA margin per divisions (in %)



The most significant improvements of the EBITDA margin were recorded in the Steel Division, where an EBITDA margin 4.6 percentage points higher was achieved by program restructuring, rationalizing costs and increasing sales. A similar or even bigger change was recorded in the Manufac-

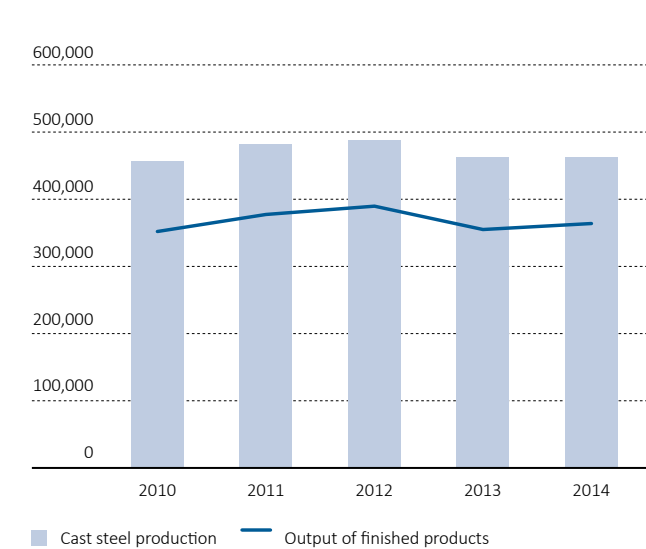
turing Division, where better results were achieved mostly by optimizing costs in the production part of our operations. Headquarter and Other Services recorded smaller positive changes (4.2 percentage points), but the influence of this Division on the business results of the Group is minimal.

PRODUCTION

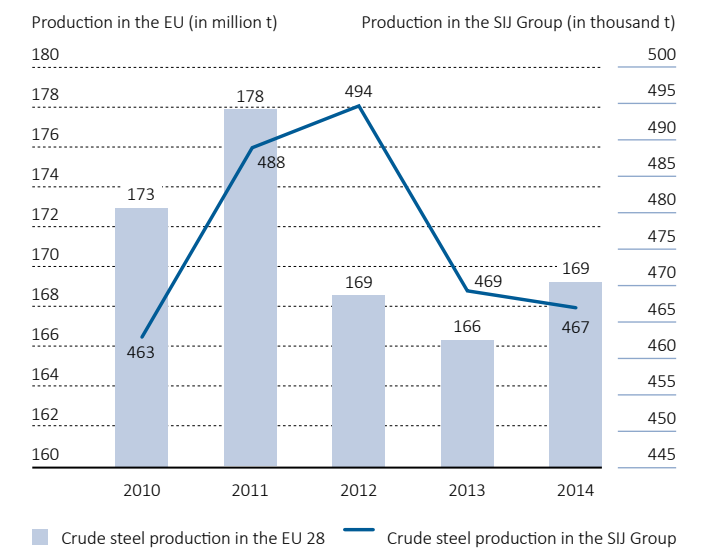
The production of cast steel in 2014 was 0.4% lower than in 2013, and 2.0% lower than the average production in the period shown. The average growth of steel production in the

EU28 in the years 2010 till 2014 was 4.4%, and within the SIJ Group growth was 1.8 percentage points higher, amounting to 6.2% on average.

SIJ Group: Cast steel production and output of finished products (in t)



SIJ Group: Changes in production of cast steel in EU 28 (in million t) and SIJ Group (in thousand t)



In this five year period, the manufacture of end products fluctuated the most in the flat steel program. In 2014 the Steel Division achieved a 2.3% higher production of end products than in 2013. Production of flat steel program end products increased by 0.4% and production of bar steel program end products by 9.8%. The production increase toward more demanding products was more significant in the flat than in the bar steel program.



The SIJ Group achieves, on average, 98.5% of its total income by selling products and services on local and foreign markets.

Most revenues are generated on foreign markets; in 2014 this accounted for as much as 86.2%. Revenues on local markets increased by 0.1 percentage points in 2014, but the local market recovery is slow and unreliable. For this reason focusing predominantly on foreign markets ensures sales growth.

The first half of 2014 showed the recovery of the steel market, but in the second half of the year the favorable trends did not continue with the same intensity.

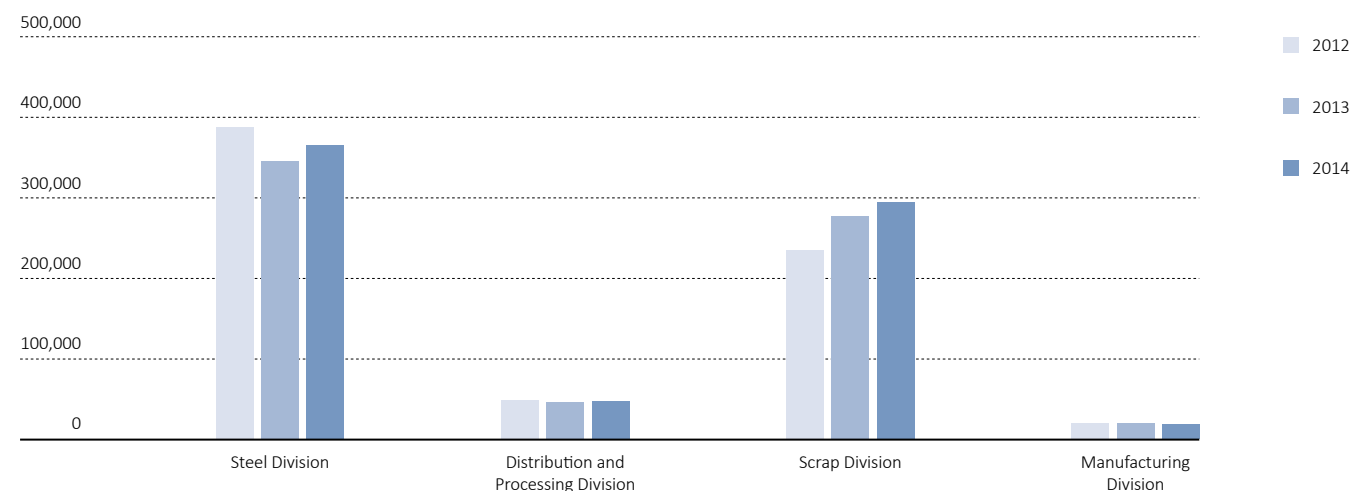
In 2014 we kept high market shares on our traditional EU markets as well as increased sales in other European countries and on the American market (more in SIJ Group Markets).

SALES AND REVENUES

The SIJ Group's sales in 2014 were focused on gaining new customers and winning new markets, with the aim of improving profitability and return on operations. The demand on the global steel market still had a relatively low growth (3.1%), but in EU countries the growth of demand in 2014 was positive (2.2%) after two years of negative growth. This partially influenced the growth of the sales quantity of the SIJ Group.

In 2014 the sales quantity in all Divisions increased in comparison to 2013; 6.4% in the Steel Division, 2.6% in the Distribution and Processing Division, 6.2% in the Scrap Division and 4.6% in the Manufacturing Division. All the Divisions together increased sales quantity in total for 6% (sales between Divisions are not excluded).

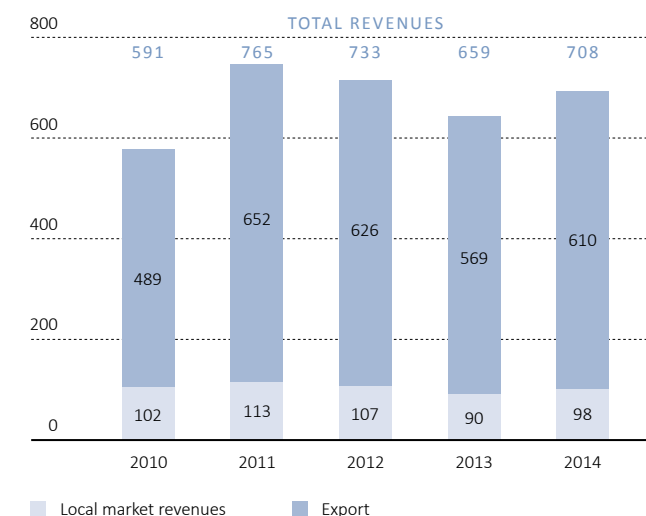
SIJ Group: Sales quantities by divisions (in t)



SIJ Group: Exports (in EUR) and export share in revenues (in %)

	2010	2011	2012	2013	2014
Exports	488,776,185	652,286,186	625,914,867	568,699,758	610,308,299
Exports (in %)	82.7	85.3	85.4	86.3	86.2

SIJ Group: Revenues on local markets and from exports (in million EUR)



The SIJ Group is gaining more and more recognition as a renowned supplier of high quality and very complex products, which fulfill the needs of the most demanding customers in different industries. We also sell more stainless steel and special steel quarto plates on the American market, where so far we have been known mostly for tool and special bar steels.

OPERATING EXPENSES

The structure of operating expenses has been changing, mostly with regard to amortization and costs of goods, materials and services. The proportion of the costs of goods, materials and services has increased by only 0.1 percentage points compared to 2013, and has been declining since 2011. The proportion of costs of input materials is particularly dependent on the fluctuations of the purchasing market, but only if deviations are not included in the sales price.

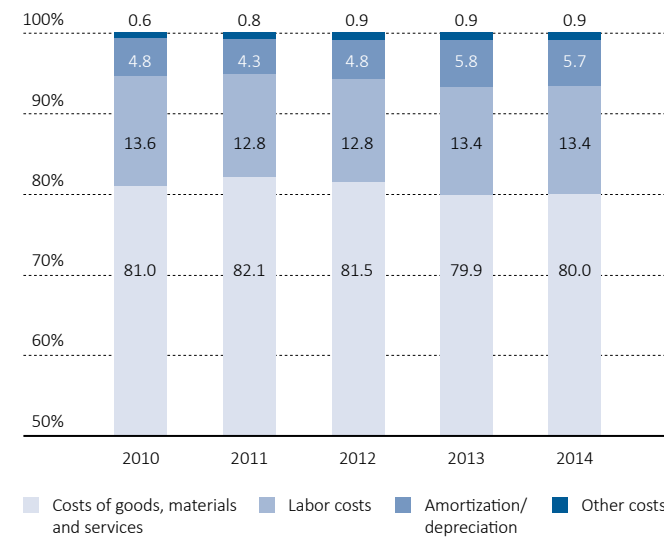
The proportion of labor costs has increased in the past two years: in 2013 due to an increase in other labor costs and in 2014 due to salary increases.

The inflation rate¹⁶ from the beginning of 2010 up to the end of 2014 was 7.5%, and the average rise in labor costs per average number of employees was 6.8%. The rise in salary costs per average employee was 5.1%.

The depreciation cost increased together with asset value, which increased faster than amortization due to investments.

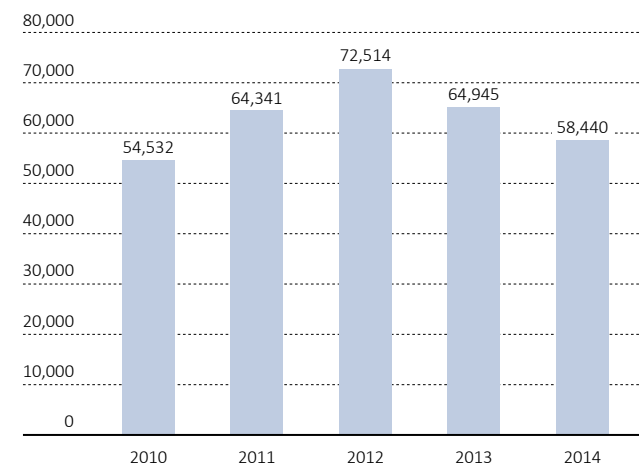
The share of investments covered by amortization was between 73.5% in 2010 and 80.4% in 2014. The amortization share in income was highest in 2013 (5.9%) and lowest in 2011 (4.2%). In 2014 it amounted to 5.4%.

SIJ Group: Structure of operating expenses (in %)



ENERGY COSTS

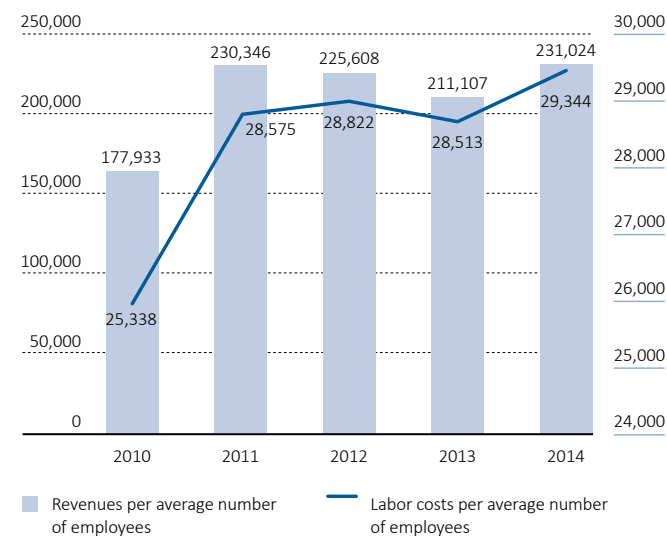
SIJ Group: Energy costs (in thousand EUR)



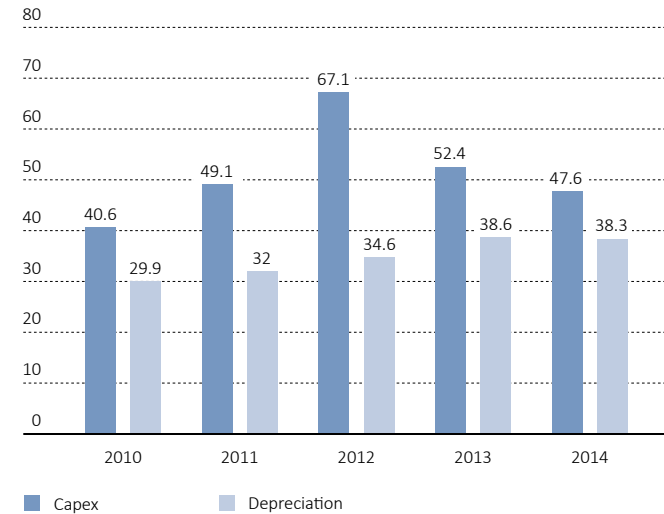
Energy costs represented 8.7% of total operating expenses in 2014, which is 1 percentage point less than in 2013. These costs were lower mostly due to the price of natural gas, which came close to meeting the market prices in 2014.

Additionally we began to implement various measures to decrease the specific midterm consumption in the Group, in order to increase energy efficiency and improve energy consumption yield in the production processes most demanding of energy.

SIJ Group: Labor costs and revenues per average number of employees (in EUR)

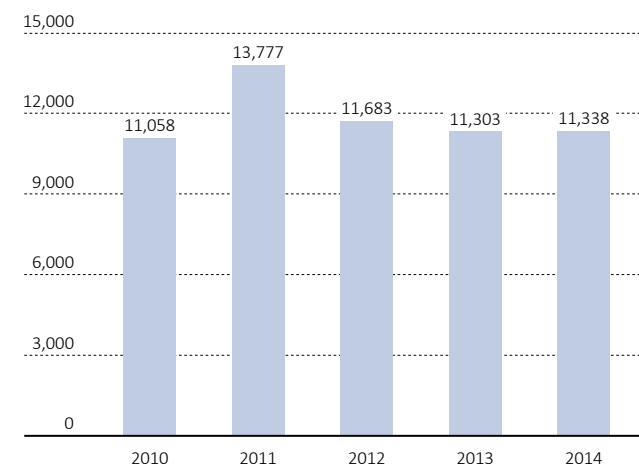


SIJ Group: Coverage of investments with depreciation (in million EUR)



MAINTENANCE COSTS

SIJ Group: Regular maintenance costs (in thousand EUR)



In 2014 maintenance costs amounted to EUR 11.3 million, of which 9.4 million was in the Steel Division and 1.1 million in the Distribution and Processing Division.

The cost of regular maintenance has represented on average 3.1% in the past five years; total maintenance costs, together with maintaining investment activities, represented 5.9% of the value of property, plant and equipment. In 2014 regular maintenance accounted for 2.8% and total maintenance 7.1% of the value of property, plant and equipment.

¹⁶ Source: SURS

BUSINESS RESULTS

With a 7.5% increase in revenues we achieved an over 18-times higher operating profit (EBIT) than in 2013.

Net profit in 2014 was higher than in 2013 by EUR 29.8 million. The achieved net profit is three times higher than the average achieved net profit in the relevant period.

Our key ratio, profit/loss before depreciation, interest and tax (EBITDA), was EUR 77.8 million, which was 90.8% higher than in the previous year.

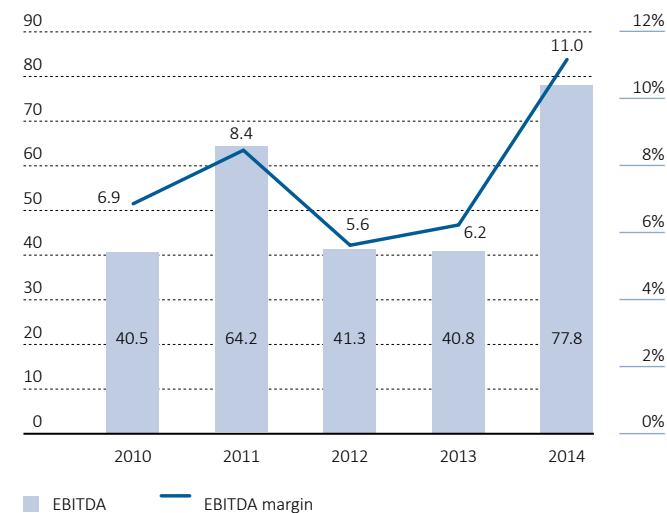
The EBITDA margin is an operating performance ratio that can be compared across the Group's companies as well as the competition. The SIJ Group exceeded the EBITDA margin of most of its competitors in 2014, on average by 3.3 percentage points.

There are many reasons for improved performance, but the most important are clearly defined goals, and the efforts of every employee, from production workers to management, to fulfill these goals.

SIJ Group: Business results of the period (in EUR)

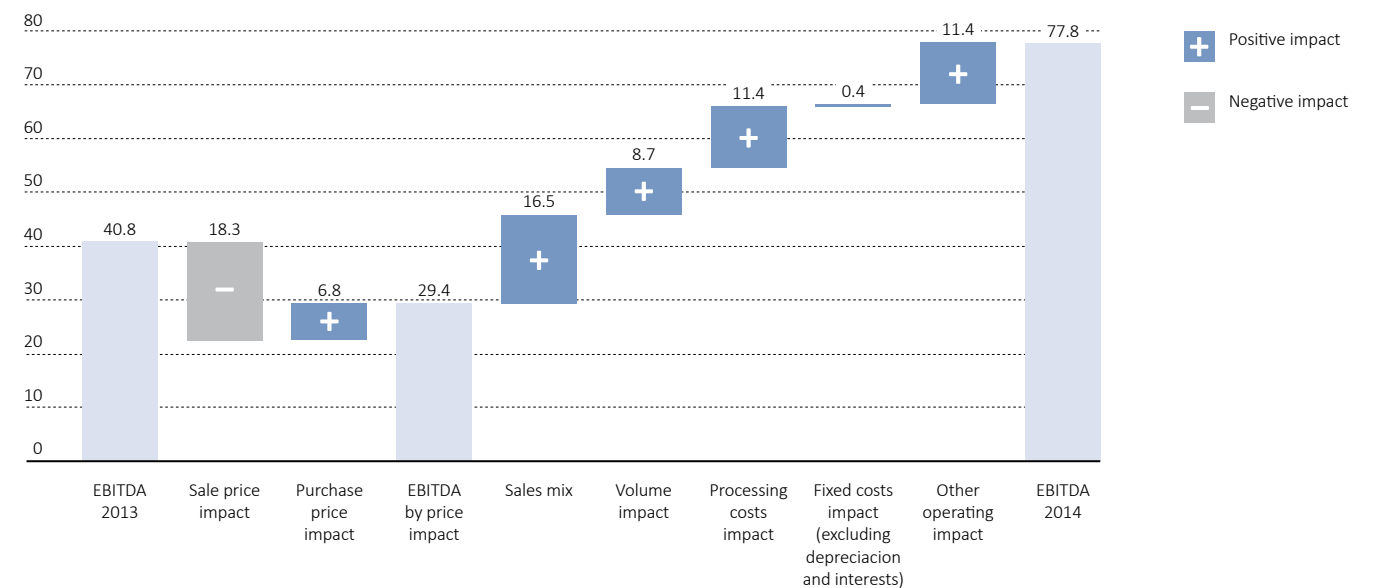
	2010	2011	2012	2013	2014
Revenues	590,916,742	764,977,836	732,549,967	658,653,447	707,857,833
EBITDA	40,519,225	64,193,568	41,319,944	40,785,962	77,832,035
EBITDA margin	6.9%	8.4%	5.6%	6.2%	11.0%
Profit/loss for the period	3,665,277	17,127,530	739,449	-4,922,797	24,903,910
Operating cash flow	-6,865,406	79,852,400	61,951,957	51,319,275	82,797,702

SIJ Group: EBITDA (in million EUR) and EBITDA margin (in %)



We continued to restructure our production-sales programs, trending away from products with low added value toward products with high added value. We also developed new qualities of steel and other products (from industrial knives to welding materials and drawn wires), improved the quality of our products, attracted new customers for our new or improved products, and conquered new markets. All of this contributed to our exceptional business results.

SIJ Group: EBITDA bridge chart from 2013 to 2014 (in million EUR)



Despite the still unfavorable price trends in the purchase and sales markets, with a negative impact of EUR 11.4 million, the Group achieved good results in production and sales; a better program structure (EUR 16.5 million) and increased volume of operations (EUR 8.7 million) positively influenced the EBITDA achieved, in the amount of EUR 13.8 million.

The optimization of costs also contributed to better business results: EUR 11.5 million in variable processing costs and EUR 0.4 million in fixed costs. The impact of these factors, in combination with other influences, helped increase the EBITDA by EUR 37.0 million compared to 2013.

FINANCIAL POSITION

SIJ Group: Data from the statement of financial position (in EUR)

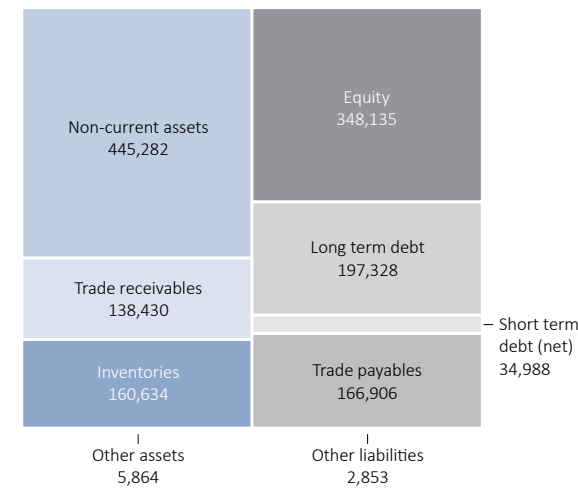
	2010	2011	2012	2013	2014
Total assets	739,754,186	761,932,114	763,574,012	775,778,799	789,260,826
Equity	314,276,543	331,297,201	328,003,560	323,585,177	348,135,458
Non-current financial liabilities	132,589,829	106,190,051	142,161,199	159,003,499	183,382,044
Current financial liabilities	127,086,698	139,032,743	112,102,494	113,939,351	73,440,512
Cash and cash equivalents	22,227,460	24,844,734	26,922,115	24,909,911	38,993,236
Financial receivables	10,647,359	9,799,790	6,317,993	16,847,475	57,560
Net financial debt (NFD)	226,806,706	210,585,203	221,023,585	231,185,464	217,771,760
NFD/EBITDA	5.60	3.28	5.35	5.67	2.80

Over the past five years the structure of the statement of financial position has not changed much. The share of property, plant and equipment rose due to the investments which were made. At the end of 2014 cash and cash equivalents increased as a result of good business results and the issue of bonds in November.

The structure of assets is mainly associated with the investment policy, which influenced a change in the proportion of current and non-current financial liabilities. Equity also changed due to the profit achieved.

- ● ● The quality of assets is appropriate, as all assets are covered by non-current sources, which also cover 72% of current trade receivables.

SIJ Group: Covering assets with sources on 31 December 2014 (in thousand EUR)



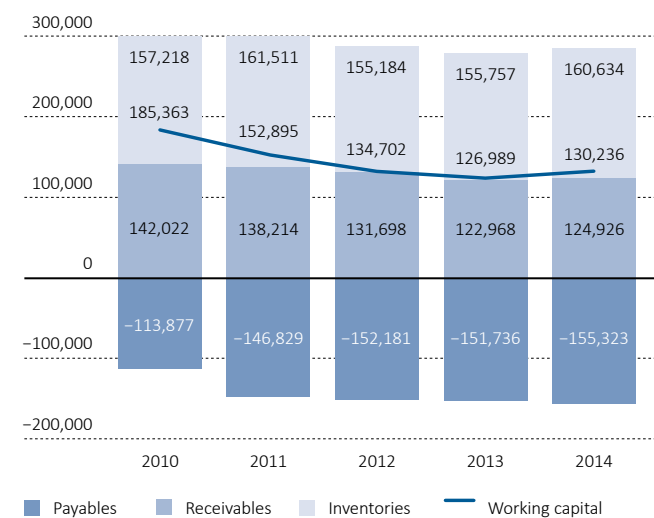
WORKING CAPITAL

We pay a lot of attention to the management of working capital¹⁷, because it creates favorable financial effects. Compared to 2013, it had increased by EUR 3.2 million or 2.6% on the last day of 2014. The proportion of working capital in income was 0.9 percentage points lower in 2014 than in 2013.

We closely monitored the working capital of the SIJ Group and implemented measures to reduce it, but the value of inventories at the end of 2014 was higher by EUR 4.9 million (in Odpad Pivka, which creates emergency inventories before winter in case of bad weather, and in Ravne Steel Center, which increased inventories due to high orders in January). Trade liabilities increased by EUR 3.6 million, and trade receivables increased by EUR 2 million.

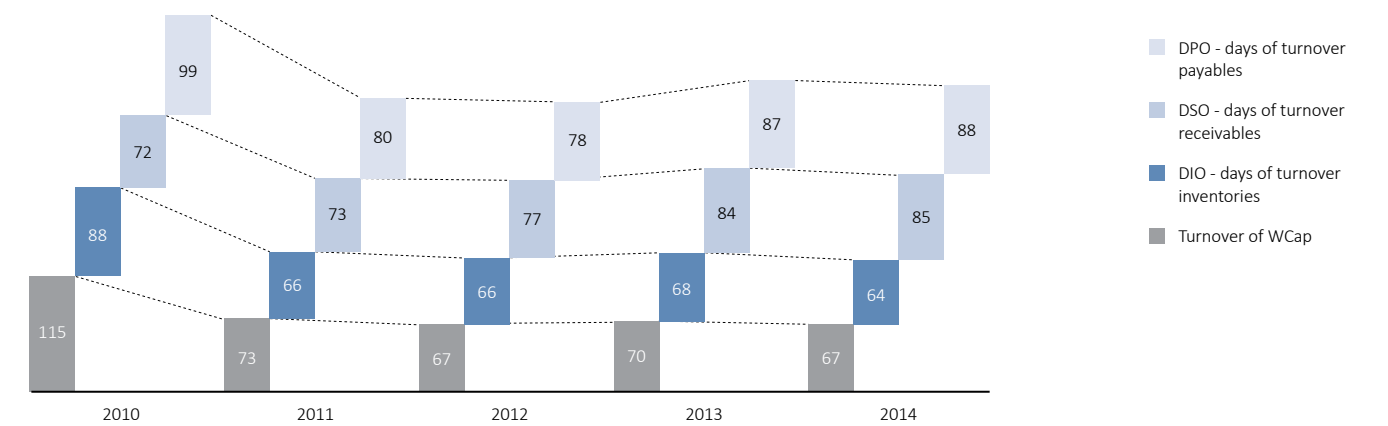
There were no major deviations in the collection period in 2014; the inventories turnover and collection of liabilities was increased by a day, whereas the collection of receivables was shortened by four days, which is a sign of a good management in collecting the receivables.

SIJ Group: Operating working capital on the last day of the year (in thousand EUR)



¹⁷ Operating working capital = inventories + trade receivables – trade liabilities

SIJ Group: Collection period of operating working capital items on the last day of the year

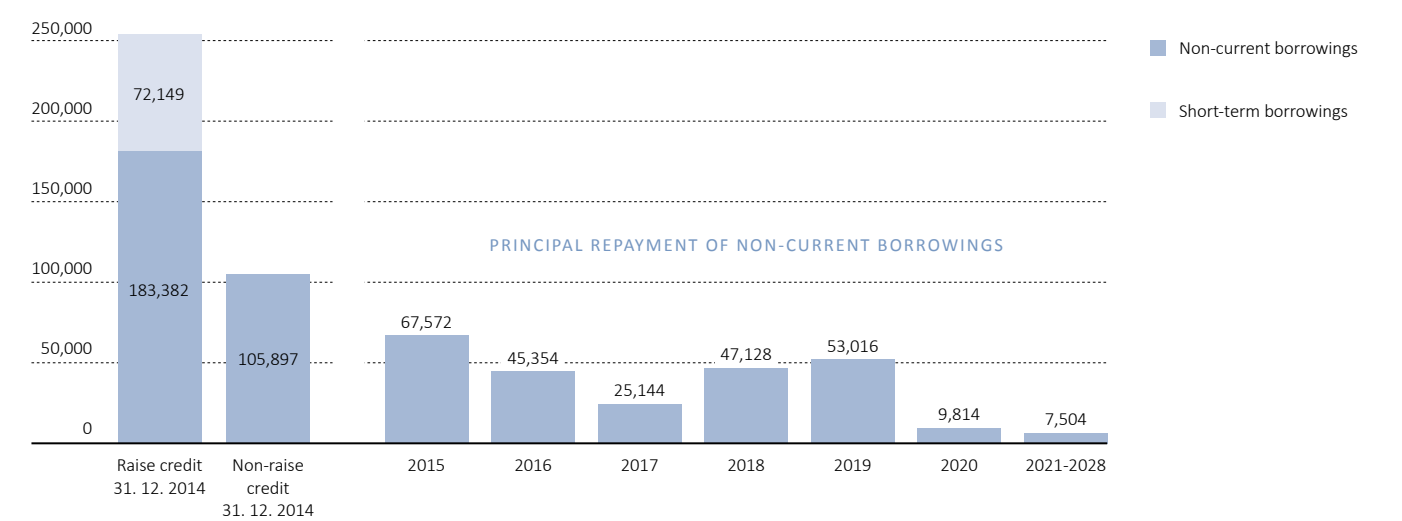


FINANCIAL INDEBTNESS

The amount of debt mainly depends on our investment policy, which has been extremely intense in the past few years. Between 2010 and 2014 we invested EUR 257 million. However, this did not result in an increase in debt in proportion to the investment volume. Investments over this time

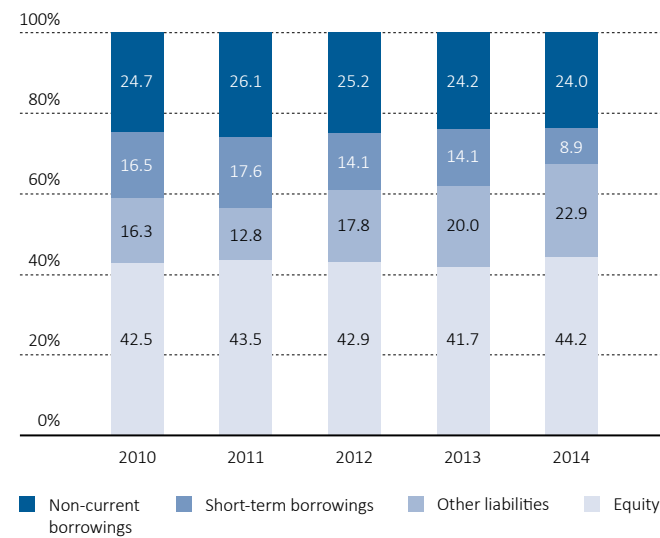
period were partly financed by amortization (almost EUR 174 million), and partly by operating profits and non-current credits for strategic investments. In 2014 EUR 47.6 million were used for investments.

SIJ Group: Non-current and current credits with maturity on the last day of the year (in thousand EUR)





SIJ Group: Equity and debt structure of the SIJ Group on the last day of the year (in %)



The structure of the Group's debt has been changing with time. During the past three years we have increased long-term sources to finance investments and operations.

Bonds

In accordance with the decision of the Board of Directors of 19 November 2014, SIJ – Slovenska industrija jekla, d.d., issued 42,897 bonds, labelled SIJ2, with a total par value of €42,897,000, which were paid on 24 November 2014 and will mature on 24 November 2019. The bonds were listed on the Ljubljana Stock Exchange on 29 December 2014.

In accordance with Item 7.1 (g) of the Bond Terms and Conditions (Annex 1 to the Prospectus for the Admission of the Bonds of SIJ, d.d., Ljubljana, Labelled SIJ2 to Trading on a Regulated Market, December 2014), the company is obligated to state in its annual report the total amount of "Existing Liabilities", which is equal to the total amount of Secured Liabilities (including undrawn loans under signed contracts) and amounted to €237,530,430 as at 31 December 2014.

LIQUIDITY

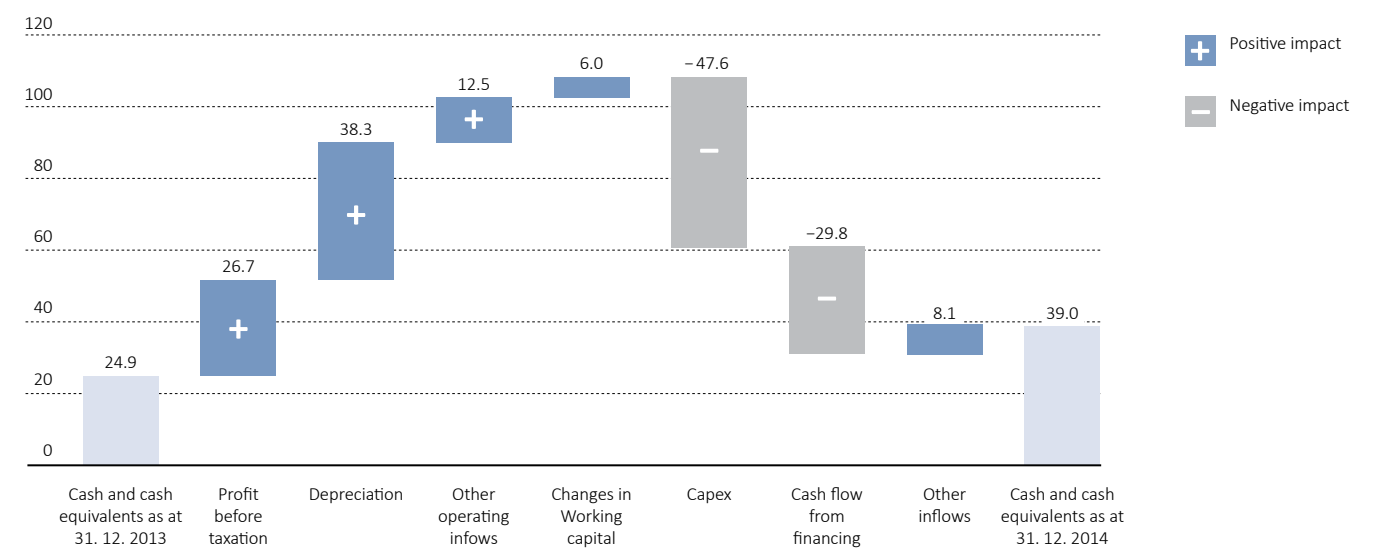
The liquidity of the SIJ Group has been stable for the past 20 years, including the crisis years of 2009 and 2010. The balance structure of the coverage of assets with long-term sources (equity and credits) was maintained appropriately throughout this whole period.

From 2010 to 2013 the available liquidity of the SIJ Group was always high, and it remained so in 2014.

SIJ Group: Available liquidity of the SIJ Group (in million EUR)

	2010	2011	2012	2013	2014
Available liquidity	46	59	60	58	110
Cash and cash equivalents	22	25	27	25	39
Approved overdrafts for working capital	24	34	33	33	71
Approved overdrafts for investment	52	33	16	4	35

SIJ Group: Cash flow bridge in 2014 (in million EUR)



Operations by Divisions

NET FINANCIAL DEBT

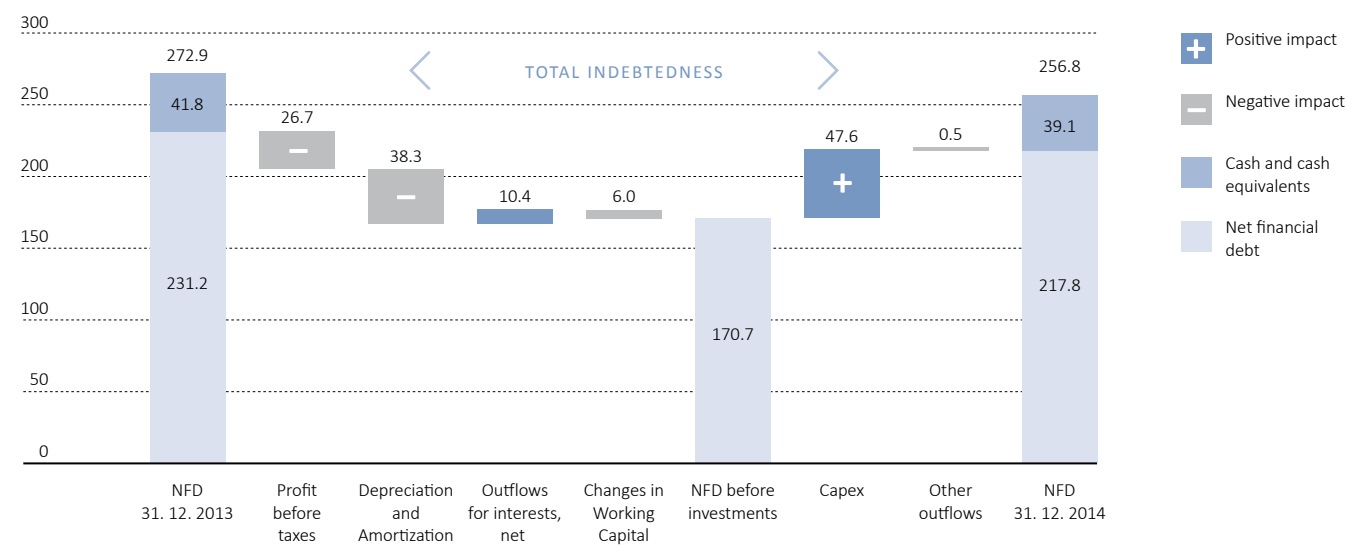
Net financial debt and EBITDA, together with the NFD/EBITDA ratio, are the main ratios for the SIJ Group and its management when it comes to evaluating operating performance and the stability of the financial position.

Investment activities and interest are the main reasons for net financial debt increase. The changes in working capital (calculated as the difference between the two periods)

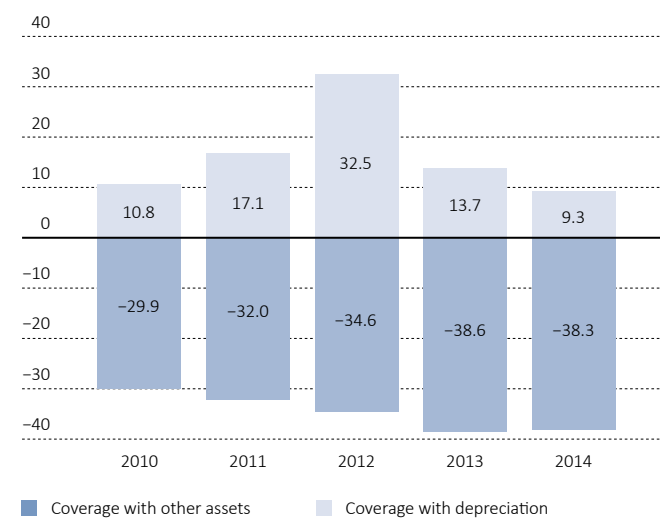
in total did not require significant additional funding. The achieved EBITDA lowered net debt, in total to the value of EUR 265 million over the past five years.

● ● ● Net financial debt decreased in the period from 31 December 2010 to 31 December 2014 from EUR 226.8 million to EUR 217.8 million, considering EUR 257 million spent on investments.

SIJ Group: Net financial debt (in million EUR)



SIJ Group: Coverage of investments with amortization (in million EUR)

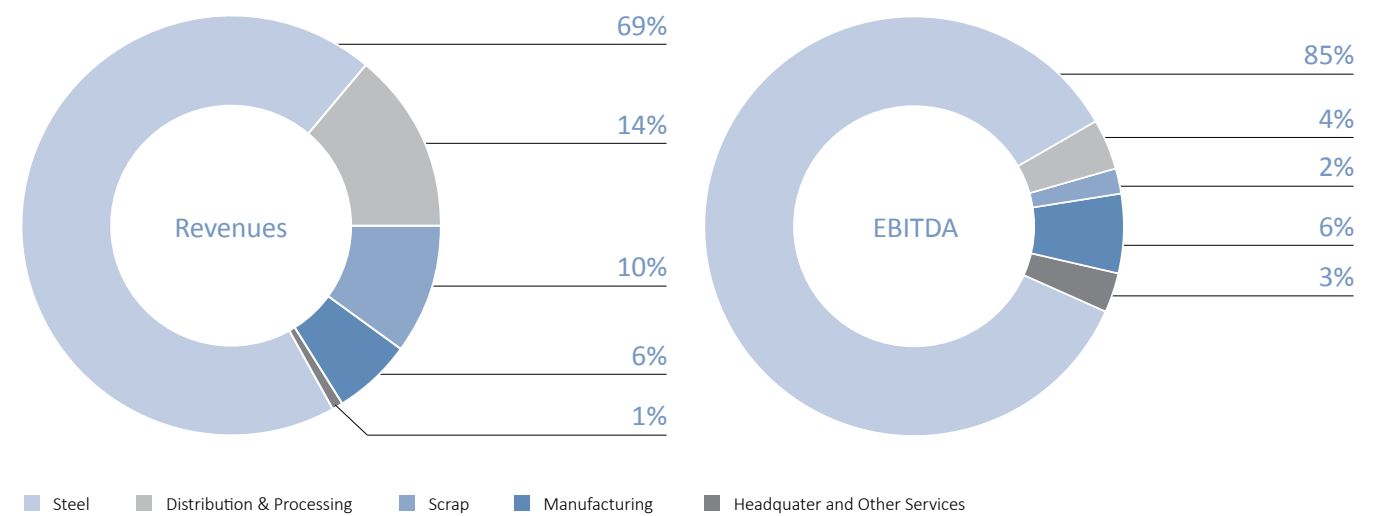


Most investments in this period were made in order to increase production capacity, which represents the basis of the initial restructuring of our production and sales programs. Part of the investment was used to develop sales channels by the purchasing service and processing centers, and some investment was used to set up a raw materials base for the steel program. The total value of the investment was EUR 257 million.

SIJ Group: Key data on operations by Divisions in 2014 (in EUR)

	Steel Division	Distribution and Processing Division	Scrap Division	Manufacturing Division	Headquarter and Other Services
Revenues	579,388,230	121,844,786	84,382,072	47,774,189	12,408,008
EBITDA	65,318,677	3,301,525	1,843,162	4,808,481	1,854,147
EBITDA margin	11.27%	2.71%	2.18%	10.07%	14.94%
NFD	171,299,658	35,862,250	16,357,019	-5,362,136	6,827,243
NFD/EBITDA	2.62	10.86	8.87	-1.12	3.68

SIJ Group: Shares** of individual Divisions in income and EBITDA in 2014



The Steel Division represents the main activity of the SIJ Group, comprised of the manufacture of steel plates and strips of various dimensions and qualities (stainless, structural, electrical and special steels) as well as steel profiles (alloyed, unalloyed, special and structural).

The Steel Division accounts for 69% of Revenue, 85% of EBITDA and 76% of net financial debt.

The second largest Revenue generator is the Distribution

and Processing Division with their sales network (14%) which represent 4% of EBITDA and 16% of net financial debt.

The Scrap Division generates 10% of income, 2% of EBITDA and 7% of net financial debt.

The Manufacturing Division contributes 6% to Revenue and EBITDA, and has a negative net financial debt, while 1% of Revenue comes from Headquarter and Other Services, which also has a 3% share in EBITDA and NFD.

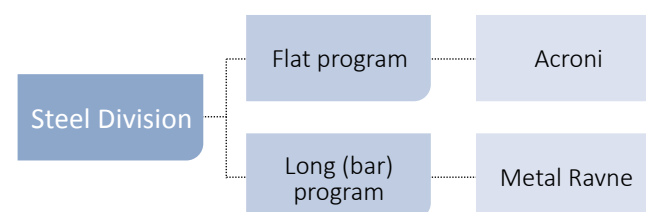
18 The share in income, EBITDA and NFD is calculated by the sum of all Divisions, with consolidation carried out within Divisions, but excluding mutual relations between Divisions.



THE STEEL DIVISION

The Steel Division increased its sales volume in 2014, by 5.5% in the flat steel program and 9.8% in the long steel program. There was an improvement in the program structure of production and sales, which is shown below.

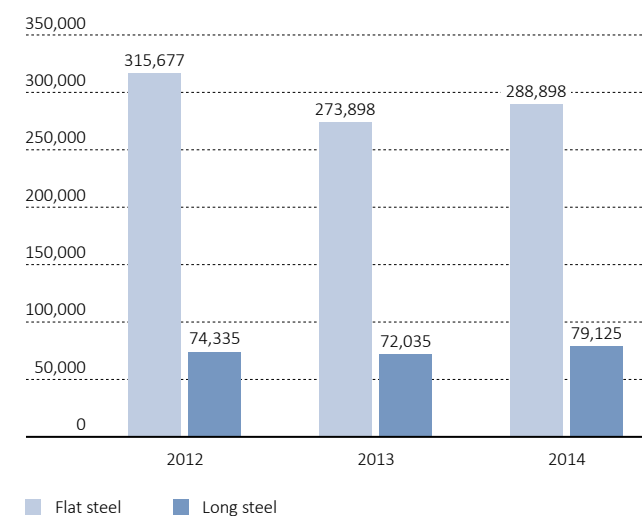
Organizational chart of the Steel Division



Steel Division: Key operating data

		2012	2013	2014	Index 14/13
Revenues	MEUR	587.7	517.0	579.4	112
EBITDA	MEUR	35.1	34.5	65.3	189
EBITDA margin	%	6.0	6.7	11.3	169
Profit/loss for the period	MEUR	1.6	-4.5	21.1	/
Net financial debt (NFD)	MEUR	171.8	193.5	171.3	89
NFD/EBITDA		4.90	5.61	2.62	47
Capex	MEUR	50.1	43.8	35.4	81
Investments	MEUR	45.4	38.9	38.0	98
Average number of employees		2,240	2,121	2,074	98

Steel Division: Sales quantity (in t)

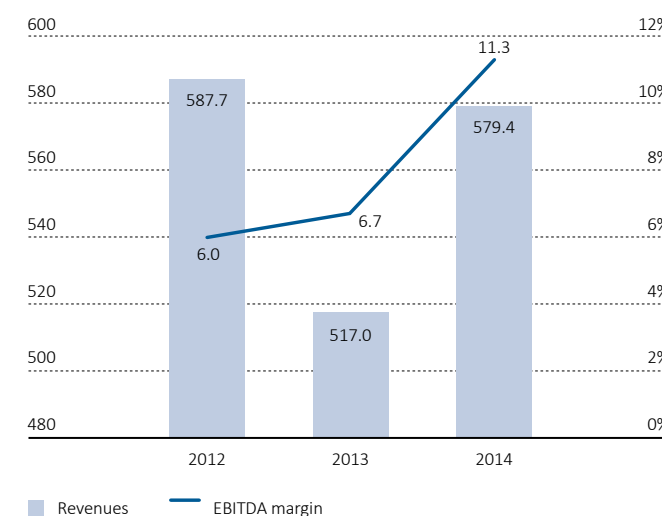


The Steel Division production and sales program comprises the flat program and the bar program. The two programs have different users and are sold on different markets. Each Steel Division program has a core range: in the flat program, the core range is stainless steel quarto plates, which will be joined by special steel plates in the future; in the bar program, the core range is tool steel and special steel.

The main steel products are presented in The Program Structure of the SIJ Group.

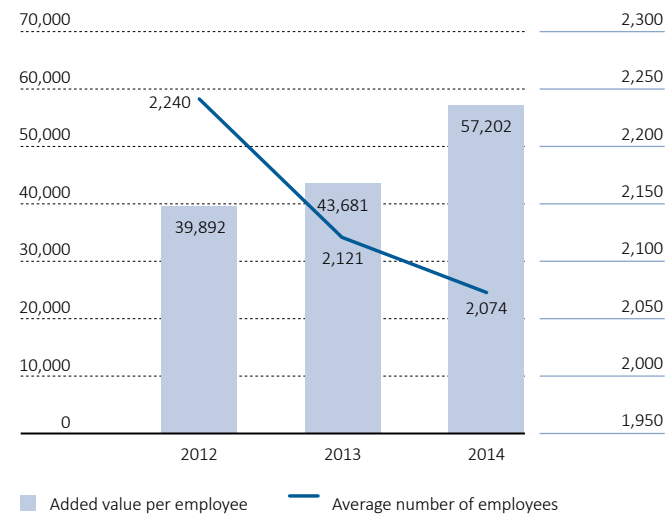
With the improvements to the programs we have been able to achieve better operating results in the steel program: sales were 12% higher than in 2013, EBITDA increased by 89% and net profit by EUR 25.6 million. Net financial debt on 31 December 2014 was EUR 22.2 million lower than on the equivalent day in 2013, and leverage fell to 2.62.

Steel Division: Revenues (in million EUR) and EBITDA margin (in %)



Compared to 2013, the Steel Division revenue rose by 12.1% in 2014, and its EBITDA improved by 89% compared to 2013 and by 86% compared to 2012. The EBITDA margin has almost doubled in the Steel Division from 2012 to 2014. This higher EBITDA is mostly the result of a better sales structure (EUR 16.4 million) and bigger sales volume (EUR 8.9 million), while the influence of the market or the gap between sales and purchasing prices was negative to the amount of EUR 11.7 million. By optimizing production costs we have been able to further improve the EBITDA by EUR 10.6 million.

Steel Division: Average number of employees and added value per employee (in EUR)



The average number of employees is lower year on year, while the added value per employee is increasing and was 43.4% higher than in 2012 and 31% higher than in 2013.

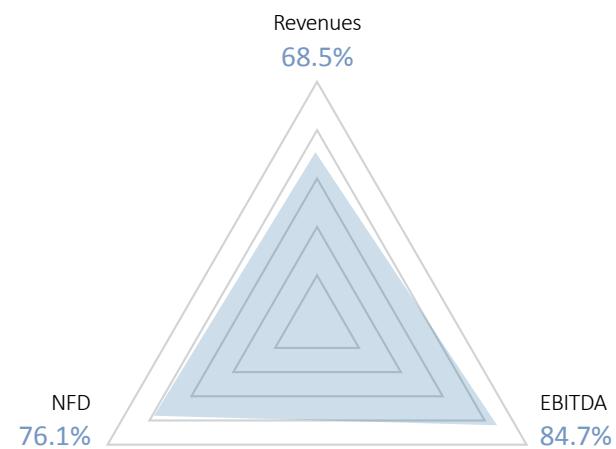
Investments

The Steel Division invested over EUR 35.4 million in 2014; mostly in production capacity, technology improvement and the modernization of existing aggregates.

- A new furnace for the heat processing of plates in the flat steel program (production increase of 1500 t/month)
- The reconstruction of pickling bath 1 at Acroni
- The reconstruction of the Wellman Drever furnace for heat processing at Acroni
- A system for the co-production of electricity and heat at Acroni
- The ladle furnace and VOD device at Metal Ravne
- A portal milling machine for the mechanical processing of forgings at Metal Ravne
- A double-chambered hardening yielding furnace with hardening pool
- A quantometer for the chemical analysis of steel



Steel Division: Results of the Division in the Group's structure



- The Steel Division contributes the most to the results of the Group. Compared to the previous year this Division strengthened its position within the Group as it achieved a 2.5 percentage point higher share in revenues, a 4.1 percentage point higher share in EBITDA and a 1.9 percentage point lower share in NFD.

THE DISTRIBUTION AND PROCESSING DIVISION

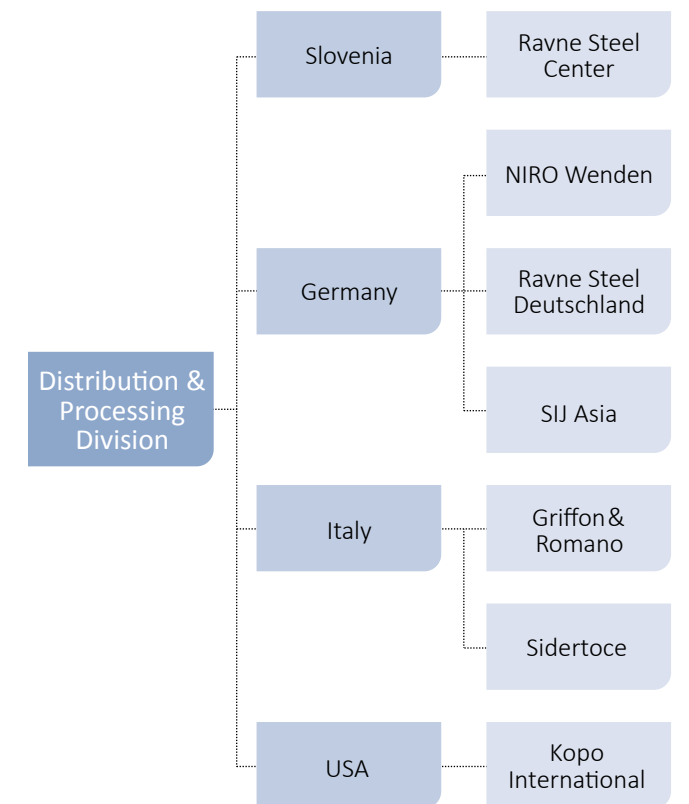
In 2014 two new companies joined the Distribution and Processing Division:

- Ravne Steel Deutschland, which will be responsible mainly for the sales of products from the long (bar) steel program (just as in Ravne Steel Center and Sidertoce).
- SIJ Asia, whose target markets are in eastern and south-eastern Asia, initially with the steel program and later with other programs of the SIJ Group.

Products from the flat steel program are sold by Niro Wenden and Griffon & Romano, whereas Kopo International sells products from the entire steel program.

Sales through the service centers provides added value to our steel products. In the service centers, steel products are processed and cut by different procedures: from laser cutting, water jet cutting, and sawing to plasma cutting, depending on the customers' needs. Uncut products represent a small share of sales.

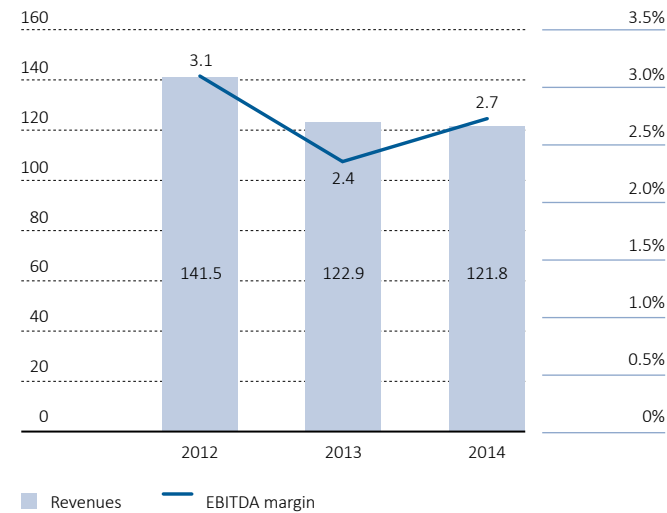
Organizational chart of the Distribution and Processing Division



Distribution and Processing Division: Key operating numbers

		2012	2013	2014	Index 14/13
Revenues	MEUR	141.5	122.9	121.8	99
EBITDA	MEUR	4.4	2.9	3.3	114
EBITDA margin	%	3.1	2.4	2.7	115
Profit/loss for the period	MEUR	0.2	-0.8	-0.3	33
Net financial debt (NFD)	MEUR	35.5	34.0	35.9	106
NFD/EBITDA		8.14	11.73	10.86	93
Capex	MEUR	1.6	1.0	5.5	543
Investments	MEUR	1.6	1.0	5.5	543
Average number of employees		168	139	135	97

Distribution and Processing Division Revenues (in million EUR) and EBITDA margin (in %)



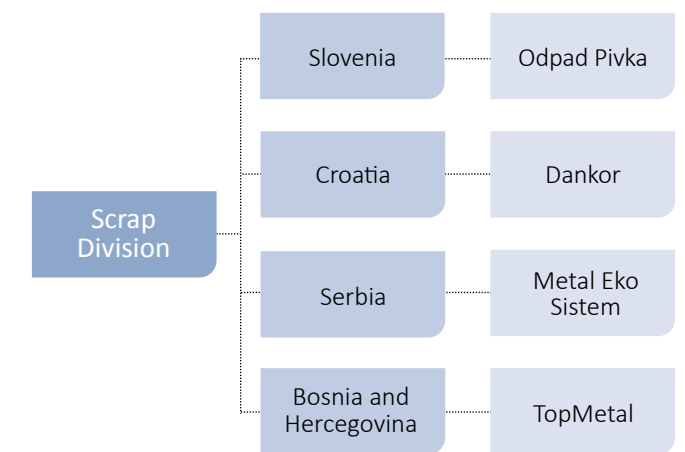
● ● ● In the past few years we have conducted several restructurings in the service centers, financial as well as program based. The EBITDA margin is higher by 0.3 percentage points compared to the previous year, taking into account that revenues were almost EUR 1 million lower as a result of reduced demand on individual European markets.



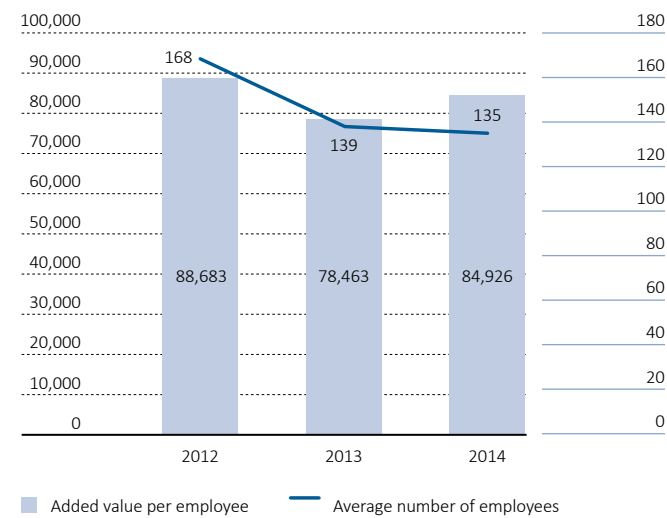
SCRAP DIVISION

The Scrap Division is comprised of companies involved in the collection and processing of scrap steel. The Scrap Division collects and processes enough regular scrap steel to fulfill the needs of the Steel Division.

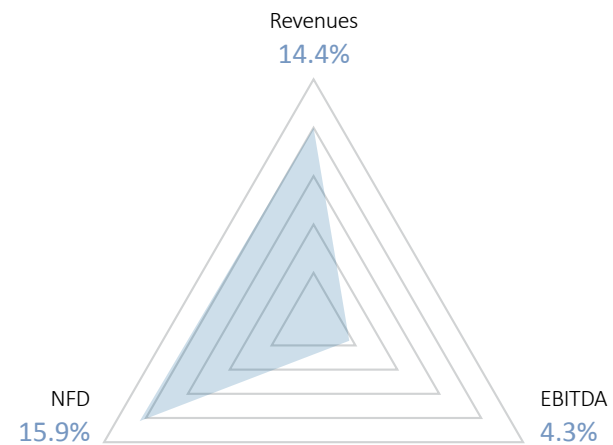
Organizational chart of the Scrap Division



Distribution and Processing Division: Average number of employees and added value per employee (in EUR)



Distribution and Processing Division: Results of the Division in the Group's structure



The number of employees is decreasing; we employed 135 people on average, and the added value per employee increased by 8.2% in 2014.

The companies in this Division improved their operations in comparison to 2013 and 2012, as they achieved 14% higher EBITDA despite a 1% lower income. The net financial debt rose by 6%.

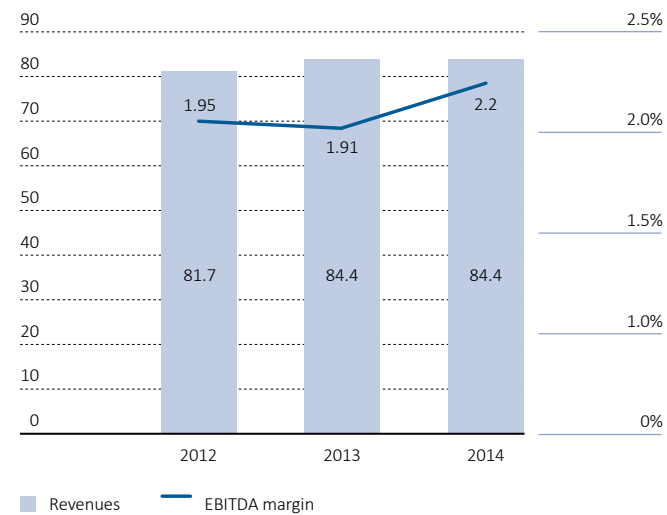
Investments

In 2014 the investment activities were more extensive than in the previous years; the total value of payments was EUR 5.5 million. The highest investments were carried out by Niro Wenden (EUR 1.3 million) for the establishment of a subsidiary in Nürnberg, and by Griffon & Romano (EUR 3.3 million) for the purchase of new production facilities, to which the company will move in the first quarter of 2015.

Scrap Division: Key operating data

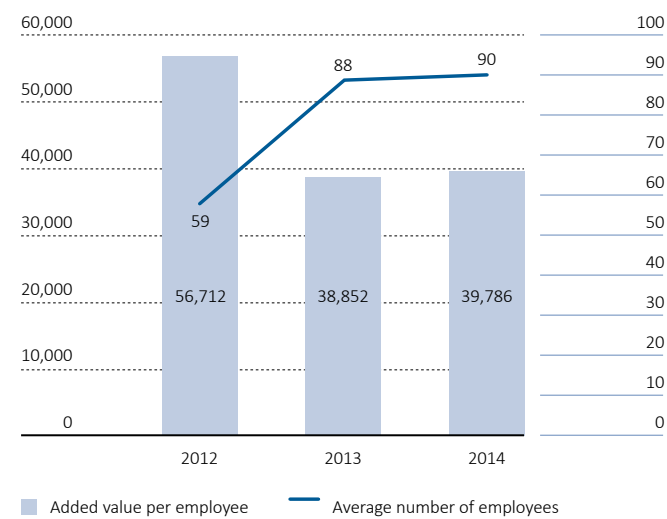
		2012	2013	2014	Index 14/13
Revenues	MEUR	81.7	84.4	84.4	100
EBITDA	MEUR	1.6	1.6	1.8	114
EBITDA margin	%	1.9	1.9	2.2	114
Profit/loss for the period	MEUR	0.2	0.03	0.3	1127
Net financial debt (NFD)	MEUR	15.3	15.8	16.4	104
NFD/EBITDA		9.61	9.80	8.87	91
Capex	MEUR	2.6	1.8	0.8	46
Investments	MEUR	2.8	2.0	0.7	34
Average number of employees		59	88	90	102

Scrap Division: Revenues (in million EUR) and EBITDA margin (in %)



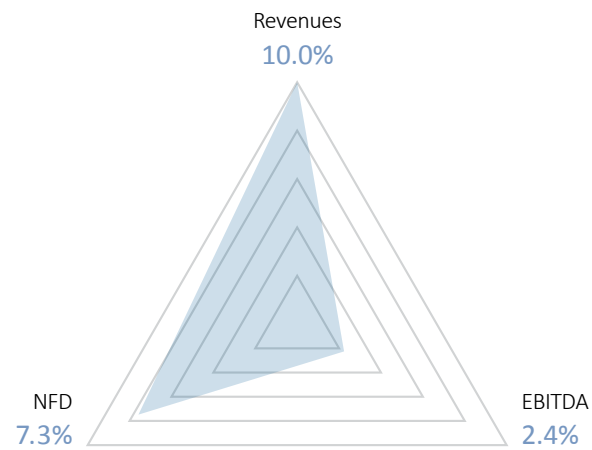
The operations of this Division improved in comparison to the previous years. Although income was the same as in 2013, it reached a 14% higher EBITDA, though it also increased its net financial debt by 4%.

Scrap Division: Average number of employees and added value per employee (in EUR)



The number of employees is increasing and rose from 59 to 90 employees on average in the past three years. This is the consequence of a takeover of two companies in 2012 and 2013. The added value per employee improved by 2.4% compared to the previous year.

Scrap Division: Results of the Division in the Group's structure



● ● ● The Scrap Division contributed less to the revenues and EBITDA of the SIJ Group due to a lower sales quantity. The NFD share increased by 0.9 percentage points, since the companies of the Group have financially recovered.

Investments

The Scrap Division invested in small projects in 2014; the total value of payments was EUR 0.8 million.

- A press for pressing and cutting scrap steel
- A backhoe loader for scrap steel
- A system for detecting radioactivity in scrap steel

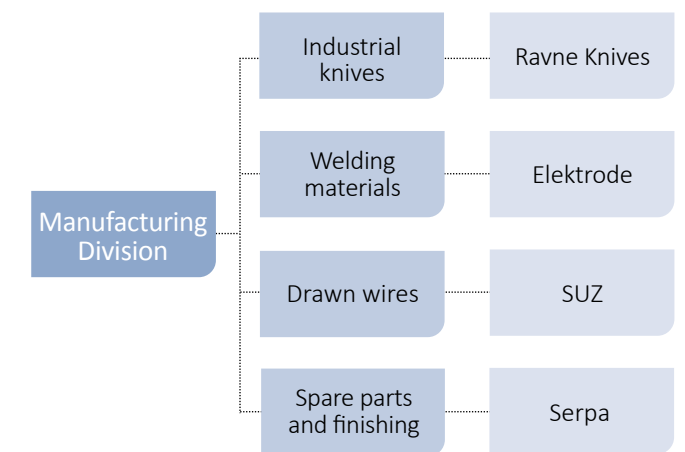
This equipment enables better and cheaper preparation of scrap steel, positively influencing cost effectiveness in handling scrap steel and thus improving competitiveness in comparison with other providers. Pre-processed scrap steel makes the melting procedure smoother for the customers.

The system for detecting radioactivity raises the level of safety at work for the employees in the steel mill, and guarantees a higher quality of the products, which in terms of environmental protection means higher value and awareness which is recognized by customers.



MANUFACTURING DIVISION

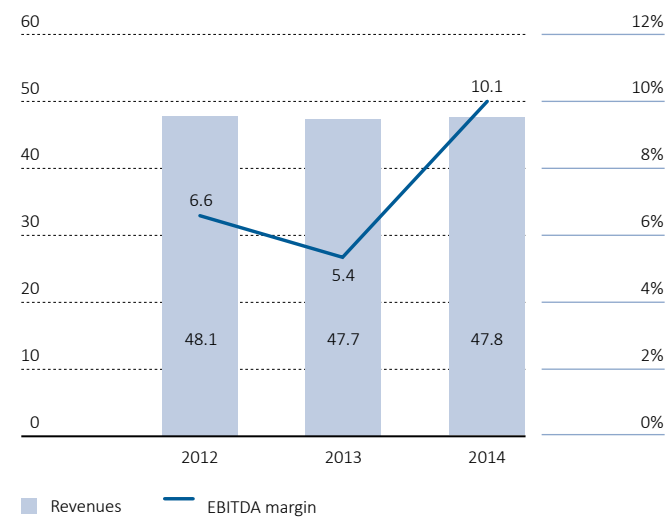
Organizational chart of the Manufacturing Division



Manufacturing Division: Key operating data

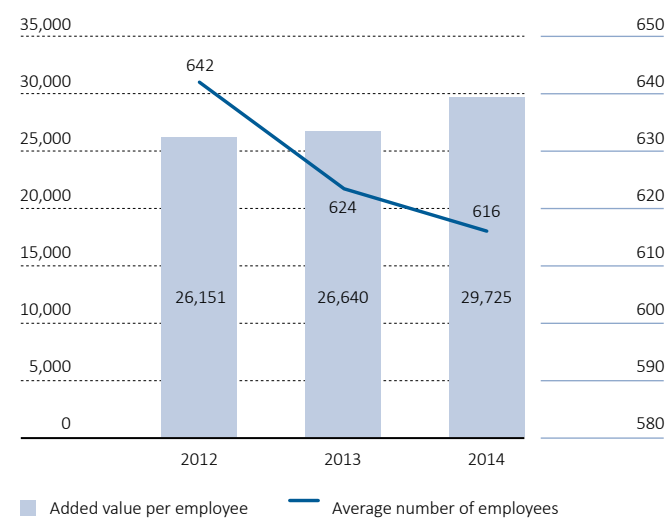
		2012	2013	2014	Index 14/13
Revenues	MEUR	48.1	47.7	47.8	100
EBITDA	MEUR	3.2	2.6	4.8	187
EBITDA margin	%	6.6	5.4	10.1	186
Profit/loss for the period	MEUR	1.2	0.9	2.8	310
Net financial debt (NFD)	MEUR	-1.7	-2.1	-5.4	259
NFD/EBITDA		-0.52	-0.81	-1.12	139
Capex	MEUR	1.0	2.2	1.6	72
Investments	MEUR	1.0	2.1	1.7	80
Average number of employees		642	624	616	99

Manufacturing Division: Revenues (in million EUR) and EBITDA margin (in %)



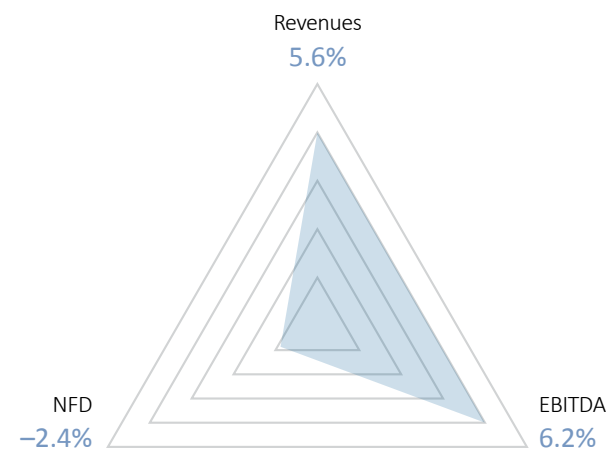
With income approximately the same as in the previous year this Division achieved an 87% higher EBITDA in 2014 and negative net financial debt, which decreased by EUR 3.3 million.

Manufacturing Division: Average number of employees and added value per employee (in EUR)



The average number of employees in the period concerned decreased by 4% due to the optimization of the operating processes. The added value per employee was 11.6% higher compared to the previous year, mostly due to better business results, though in part due to a lower number of employees.

Manufacturing Division: Results of the Division in the Group's structure



● ● ● The Manufacturing Division has had a negative net financial debt for several years, which in 2014 amounted to EUR -5.4 million.

The share in the SIJ Group's income fell by 0.4 percentage points in comparison to the previous year, and the share of EBITDA rose by 0.2 percentage points.

Investments

With regard to the Manufacturing Division companies, investments were mostly carried out to eliminate bottlenecks and increase capacities for the production of end products. The total value of payments was EUR 1.6 million.

Production of industrial knives:

- A vacuum oven for the heat processing of knives
- A tilt table for the mechanical processing of knives
- A CNC grinding machine
- A Kasto saw for cutting raw materials
- A TOS grinding machine

Production of welding materials:

- A PTA welding device

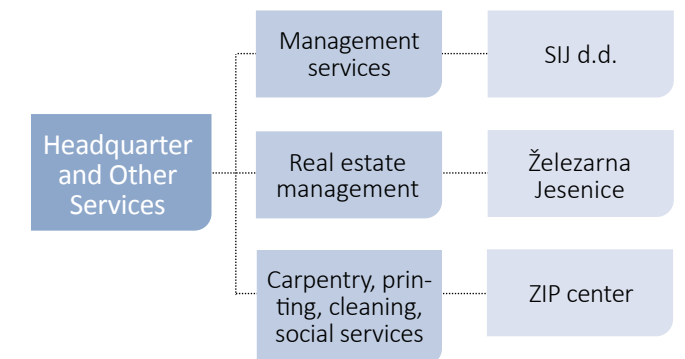
Production of drawn wires:

- A bridge crane
- Lighting



HEADQUARTER AND OTHER SERVICES

Organizational chart of Headquarter and Other Services:



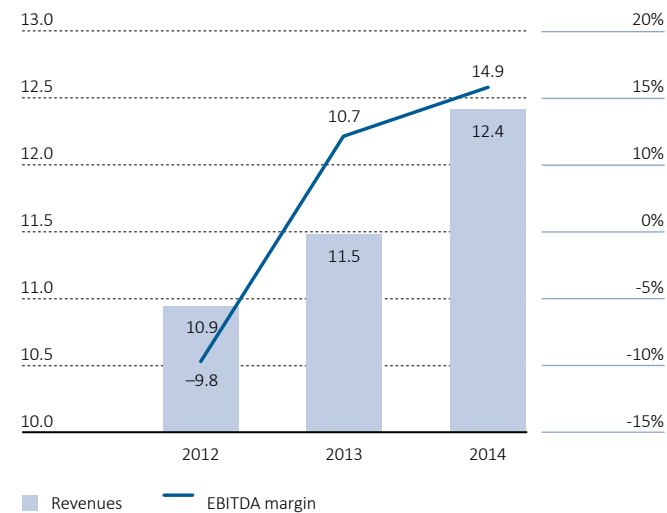
Headquarter and Other Services is comprised of companies predominately involved in performing services, except for the ZIP Center, which is also involved in production: carpentry, printing, creating brochures, as well as concessional services in the field of training and rehabilitating people with disabilities, and other services.

Headquarter and Other Services: Key operating data

		2012	2013	2014	Index 14/13
Revenues	MEUR	10.9	11.5	12.4	108
EBITDA	MEUR	-1.1	1.2	1.9	151
EBITDA margin	%	-9.8	10.7	14.9	140
Profit/loss for the period	MEUR	-0.7	1.5	1.3	85
Net financial debt (NFD)	MEUR	4.2	6.7	6.8	102
NFD/EBITDA		-3.91	5.43	3.68	68
Capex	MEUR	12.2	2.4	5.0	203
Investments	MEUR	6.7	3.5	3.5	98
Average number of employees		138	147	149	101

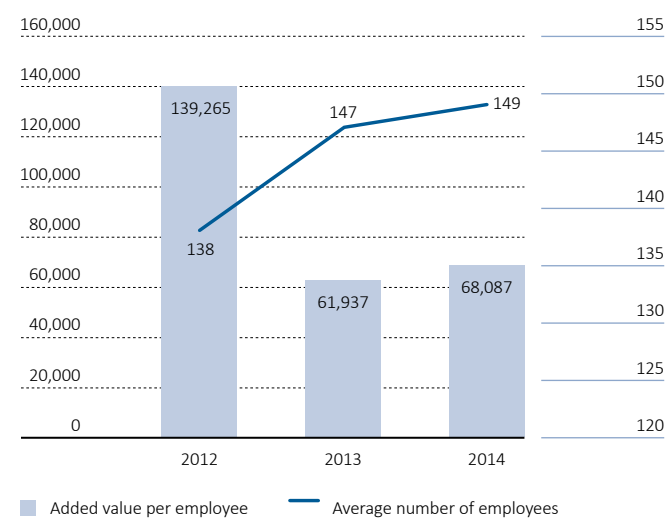
Opportunities and Risk Management

Headquarter and Other Services: Revenues (in million EUR) and EBITDA margin (in %)



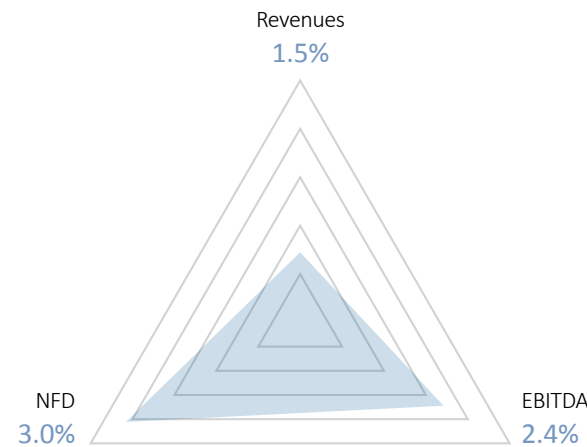
In 2014 revenues increased by 8.1%, which is mainly due to the increased volume of services of centralized business functions of SIJ d.d.

Headquarter and Other Services: Average number of employees and added value per employee (in EUR)



The average number of employees in this Division was slightly higher in the period 2012–2014, since we have employed 11 new people in the past three years. The added value per employee improved by 9.9% compared to the previous year.

Headquarter and Other Services: Results of the Division in the Group's structure



Compared to the previous year the results of this Division did not change very much; the EBITDA share fell by 0.5 percentage points and the NFD share increased by 0.3 percentage points.

Investments

In Headquarter and Other Services we carried out two investments in the total value of EUR 4.9 million:

- The purchase of a Heidelberg 4-color offset printing press to improve our product range and quality of printing
- Investments associated with takeovers and purchases of companies in the amount of EUR 4.4 million.

RISK MANAGEMENT

The main SIJ Group's goal within risk management is to recognize, assess and mitigate risks relating to shareholders, customers, suppliers, employees, creditors and other interested groups, all with the purpose of achieving the planned short-term and long-term goals, and guaranteeing the sustainable development of the Group and the increase in its value for its owners.

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

OPPORTUNITIES

The Group's opportunities are events or the development of events which strengthen our ability to achieve and exceed set goals.

We see opportunities for the SIJ Group and its companies in a wide range of products for various market needs, accompanied by great expertise and our own personnel in the development department. Important opportunities also lie in the diversity of the Divisions and their vertical interaction. By systematically integrating the processes of planning and reporting in the monitoring of the business process, the management of opportunities is an important part of the Group's development and value growth. All the companies in their Divisions include recognized opportunities and risks in their monthly plans and reports, which helps make the assessment of their business results and liquidity easier.



By constantly monitoring the changing global environment we are seeking opportunities for further development and benefits for the SIJ Group, taking into account the limita-

tions of individual geographic areas and our operations there. We constantly adjust our strategic plans and decisions according to this information.

RISKS

The management of the SIJ Group, according to its monitoring, assesses that risks were lowered in 2014.

MACROECONOMIC RISK

The continuation of low growth rates in the EU, economic recession in some EU member countries, and high unemployment are factors that have an important impact on our operations. The SIJ Group is export-oriented, which means that it largely depends on the situation on the global markets, especially the EU market. The insecure and unstable political situation affects both the ability to respond and the economic viability of individual markets, which can result in a limitation of business opportunities.

Better market dispersion, which is the Group's permanent focus, program diversification, and the development of new products are orientations that lower risks for future development. This is why the SIJ Group has been investing in technological, program and market modernization for several years.

Improving flexibility enables us to focus on market niches. Promoting a centralized strategic purchasing and sales function, our own companies for scrap steel collection, and further development of our sales network are measures that promote the further development of the Group.

The constant changes in legislation, especially tax, labor, environmental and energy legislation, demand operational adjustments and increase costs, which has a negative impact on the competitiveness of the Slovenian business environment in which we operate.

RESEARCH AND DEVELOPMENT

Risk area	Risk characterization	Management method	Exposure
Research and development	Risks associated with the realization of the development strategy.	Careful planning of development projects, proper reporting and adequate monitoring.	Moderate

The production programs of the SIJ Group excel in quality and are adjusted to the customers' demands. The Group is constantly investing in new and complex technologies, developing new kinds of steel and other products, and strengthening relationships with end customers. We lower risks by modernizing processes and implementing modern technology, which is why we pay special attention

to Research and Development, constantly increase our technological capability, and make many investments in the improvement of the working process. Higher added value is achieved by optimizing costs, especially by new and cheaper technological processes in the production lines; increased productivity; and the automation and computerization of work processes, as well as their maximum efficiency.

FINANCIAL RISKS

Risk area	Risk characterization	Management method	Exposure
Foreign exchange risk	Possible loss due to unfavorable changes in foreign exchange rates.	Balancing sales and purchases in foreign currencies.	Low
Interest rate risk	Risk of loss due to changes in interest rates.	Monitoring financial markets and changes in interest rates, negotiating with banks.	Low
Credit risk	Risk of business partners failing to meet their contractual obligations.	Actively managing receivables, monitoring credit ratings, securing operating receivables through an insurance company and with bank guarantees and letters of credit.	Moderate
Solvency risk	Lack of funds for the payment of financial and operating liabilities.	Monitoring cash flows on a daily basis, properly planning long-term needs for liquidity funds, and ensuring adequate lines of credit.	Moderate

The situation on the global financial markets has been relatively stable in recent times and has even partially improved, which is also evident from the growth of industrial production, which increased by 1.6% in 2014 (compared to 2013). Nevertheless, economic activity remains quite weak and influences the total steel market.

The European Commission has made a better economic forecast for Slovenia, and predicts a 1.8% growth in 2015 and 2.3% growth in 2016, mostly due to export and investments supported by European funds. The forecast for the 2015 general government deficit is 2.9% GDP. The European Central Bank continues its policy of providing better liquidity for the financial sector (a quantitative easing program) which will have a positive impact on the accessibility of financial resources.

FOREIGN EXCHANGE RISK

The SIJ Group is exposed to foreign exchange risk in sales and purchasing, specifically in transactions in foreign currencies that are not functional currencies of the Group's companies. Most transactions of the Group are in euros. We define currency comparisons with the geographical locations of our foreign companies and these are EUR/USD, EUR/GBP, EUR/CHF, EUR/HRK and EUR/RSD. The Group's exposure to the risk of unfavorable ratios between currencies is mostly linked to the EUR/USD exchange ratio where the fluctuation rate is relatively high.

We try to lower the exposure to foreign exchange risk by including the exchange rate in the difference in price; by natural protection, such as balancing sales and purchases; by optimal future covering of the exchange rate in inflows and outflows; and by getting loans in the local currency.

INTEREST RATE RISK

In the Group this risk mostly arises from the fact that the interest rate for the majority of current and non-current financial liabilities is comprised of a variable EURIBOR part and a fixed part, which represents the interest margin. The EURIBOR (Euro Interbank Offered Rate) is still at its lowest point in history, which has a positive effect on financial operations. Due to an unfavorable fiscal and debtor position in some members of the monetary union, political pressure to change the management of the monetary policy of the European Central Bank has developed, which has led to the



decrease in value of EURIBOR. The analysis of sensitivity shows a relatively high effect of the change in the reference interest rate on operating profit or loss, but since it is not expected to rise in the next three years, the Group estimates the risk as relatively 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; sales focus on reliable customers; the sales of goods only on condition of the receipt of appropriate collateral instruments (advance payments, warranty for payment of a bill of exchange, letters of credit, guarantees); the insurance of receivables with insurance companies, and the continual collection of receivables.

The risk due to compulsory compositions and bankruptcies has been constantly increasing over the past few years. The Group monitors overdue receivables and carries out appropriate measures on a monthly basis, working together with the Sales, Finance and Legal Departments.

This risk is considered important; however, due to the adopted strategy and continuous business monitoring we estimate the credit risk as manageable and moderate.

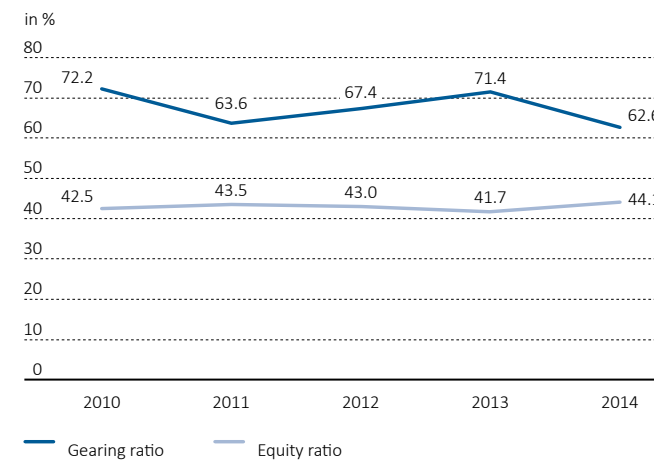
SOLVENCY RISKS

The tougher conditions on the financial markets impact the increasing difficulty in acquiring funds, which consequently impacts the increase of solvency related risks, since most companies in Slovenia have limited access to additional funds. This is why the SIJ Group's financial policy is conservative: we plan our cash flow for several months in advance; monitor and coordinate the actual inflows and outflows on a daily basis; 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, revolving loans, and approved overdrafts on current accounts, among others). The Group also closely monitors the changes in receivables and ensures regular collection.

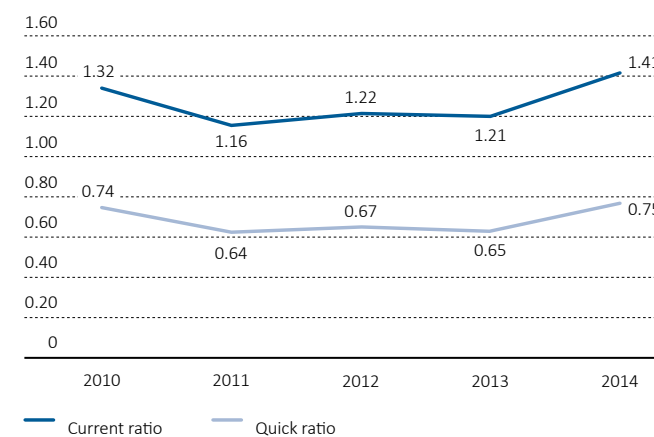
The Finance Department of SIJ d.d. coordinates activities in subsidiaries regarding the acquisition of current financial resources from local and foreign banks, whereas the Group finances larger investments with long term loans. In November 2014 SIJ d.d. also issued bonds in a total face value of EUR 42.9 million, which additionally strengthened the Group's financial strength and stability.

The Group assesses the solvency risk as moderate due to the established system of planning and monitoring, and the appropriate amount of free limits.

Financial ratios¹⁹



Solvency ratios²⁰



¹⁹ Debt level = net financial debt/equity.
Equity share in financing activities = equity/assets.

²⁰ Current ratio = current assets/current liabilities.
Quick ratio = (current assets - inventories)/current liabilities.

COMMERCIAL RISKS

Risk area	Risk characterization	Management method	Exposure
Supply chain risk	Purchasing high-quality and price affordable raw materials, the risk of supply delays and purchase price changes.	Carefully planning the supply chain, negotiating, finding suitable suppliers, and signing long-term framework contracts with suppliers.	Moderate
Sales risk	A decrease in the volume of orders and loss of customers due to the deterioration of the economic situation and the weaker purchasing power of companies.	Responding to changes in operating conditions, finding new markets, adapting our sales and marketing activities, taking innovative market approaches.	High
Investment risk	The risk of making incorrect decisions on investments in production and other facilities, and risks associated with the investment implementation process.	Carefully planning the implementation, selecting contractors systematically, and constantly supervising the implementation.	Moderate
Quality assurance	The inadequate quality of input materials for the production process, the improper performance of development and production processes, and the inadequate quality of finished products.	Upgrading our certified management systems and keeping up with changes in the area of quality systems, carefully implementing quality control measures in all development and production processes, and additionally safeguarding the quality of products with product liability insurance.	Moderate

SUPPLY CHAIN RISK

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. Supply chain risks arise mainly due to price changes in purchased raw materials and services. On the one hand there is the risk of lack of inventories or overstocking, while on the other hand there is the risk of not being able to have the end customer make up for the price difference in total. These risks are 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 supply chain risk is also inappropriate quality. We lower these risks by constantly controlling input materials, deepening long-term partnerships based exclusively 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 RISK

Our sales network is broad and diverse. We operate in different geopolitical and macroeconomic environments, under legal and competitive conditions, and therefore we are exposed to different sales risks which vary in intensity. The economic and financial crisis and the consequent increase in bankruptcies, in savings measures taken by companies due to the crisis, and in competition, as well as a general decrease in purchasing power, strongly affected our ability to find new orders. Since this economic crisis, there has been a decline in the number of orders in both the domestic and foreign markets.

These risks are reduced by constantly monitoring the situation in 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 both our direct and indirect customers, and have worked on optimizing inventories throughout the Group.

It is estimated that the exposure to such risk is significant, but will be reduced in the coming years due to improved market conditions, new program guidelines and the measures we have introduced.

INVESTMENT RISK

Investment risks are associated with achieving the planned investments, how the implementation of the investment performs in the development of new products, and with introducing new technologies.

We manage these risks using a preliminary market analysis and careful investment planning, for which all the necessary investment documentation is prepared, reviewed and approved according to internal instructions. While the project is being carried out, we monitor the quality and duration of the investment that is taking place, as well as the amount of resources required for the investment.

Due to the extensive 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 reason for any potential changes as well as their influence on costs and future plans.

OTHER RISKS

Risk area	Risk characterization	Management method	Exposure
Environmental risk	The risk of incidents harmful to the environment. The risk of pollution due to the Group's activities.	Carrying out preventive measures and internal procedures for emergencies and collaborating with external environmental protection institutions.	Moderate
Information technology risk	The risk of disruptions due to faults or outdated IT technology.	Ensuring the regular maintenance, updating and upgrading of information systems, regularly training employees on information technology.	Moderate
	Risks associated with data protection.		
	Risks associated with the implementation of a new information system.	Monitoring according to the contractor's methodology, regular monitoring of product implementation by the contractor and users.	Moderate
Safety risk	The risk of disruptions due to faults or failures of leased networks.	Circular network layout, ongoing maintenance.	Moderate
	The risk of damage to property due to natural forces and other disasters.	Taking measures on the basis of fire protection studies, taking out suitable insurance policies, ensuring the physical protection of property.	Low
Human resources risk	Risks associated with the availability of skilled human resources.	Systematically working with key staff, a bonus system, and continuing education. Assessing the personal potential of key staff and preparing development plans for them. Motivating staff.	Low
Legal risk	Risks associated with legislative changes and the interpretation of legislation.	Tracking legislative changes and preparing measures.	Low

RISK OF QUALITY

We manage risks concerned with inadequate 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. Our assessments regularly and systematically check the performance of the quality system in all our working processes, and at the same time we implement any required improvements, through 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 the 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.

ENVIRONMENTAL RISK

Our goal is to minimize negative environmental impacts and to take appropriate action in the event of the occurrence of a loss event. We minimize the occurrence of incidents by systematically monitoring the impacts of the companies' operations on the environment by the use of modern technologies, technical measures, preventive checks, and regular maintenance of equipment. Our two largest companies have acquired the ISO 14001 system certification.

We also pay special attention to risks regarding energy consumption. In order to control energy consumption, we have begun carrying out energy audits and optimizing energy consumption. Acroni is already operating in accordance with the EN16001 standard in this area.

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

RISK ASSOCIATED WITH INFORMATION TECHNOLOGY AND THE SAFETY OF INTERNAL PROCESSES

According to our assessment, the most important risks in the field of information technology are those of breakdown or malfunction in the hardware, the local area network, and 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 constant monitoring 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. 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).

Risks regarding the implementation of the new business information system are being monitored and managed in accordance with the contractor's methodology. The risk of transitioning to the new information system could affect the performance of all business processes from production

to shipping. Management measures are continuously being implemented; most employees are involved in the testing and management of the new information system, and training of all new users is being carried out. Due to the implementation of these activities, we assess this risk as moderate.

Risks within the leased networks are possible, but are minimized. The structural layout of the network, the doubling of the network with the secondary provider, and the maintenance contracts, as well as operational monitoring, affect the severity of the risk, which is assessed as moderate.

HUMAN RESOURCES RISK

The biggest human resources risk for SIJ Group is losing key staff and not being able to employ the professional personnel required.

Human resources risks are managed by offering our employees continuous further education, allowing them to gain new knowledge and competencies; sharing knowledge between employees; team work; and encouraging personal initiative, creativity and innovative ideas. The 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 stimulating work environment.

LEGAL RISK

The legal department is responsible for the legal certainty and legality of our operations, and is intensively involved in all our activities. The legal department participates in the planning of projects; the contracting processes with suppliers and customers; dealing with complaints; the regulation of employee relations, rights and obligations; the creation of and changes to the status of companies; the preparation of internal acts and corporate collective agreements; investment and financial projects; dealing with loss events; and representing the interests of the companies to government bodies and other holders of public powers.

We pay special attention to the regular and diversified education of lawyers within our group, and engage the best domestic and foreign experts in various fields as consultants or agents in cases that require in-depth specialist knowledge. The legal department monitors legislation and case law changes and cooperates in adapting processes, contracts, internal acts, policies and regulations to the new legislation. Due to the integration of legal services in these activities and the implemented measures, we assess this risk as low.



Supply of Raw Materials

Strategic purchasing, which includes all the raw materials required for our end products, is part of the centralized purchasing function of the SIJ Group. In centralized purchasing we follow a program of taking advantage of synergetic effects and harmonizing the purchasing activities of the companies of the SIJ Group. The key raw materials for steel companies are scrap, alloyed scrap and ferroalloys, while for companies with processing activities they are steel products and welding materials. Direct materials account for 34-62% of product costs (Metal Ravne and Acroni), and as such have an important effect on the profit or loss of the SIJ Group.

Our purchasing policy is based on the establishment and development of long-term strategic relationships with key suppliers. The management of our suppliers' portfolio is far more than just the simple price aspect. Other factors, such as accuracy of supplies, quality, and responsiveness, as well as environmental and ethical measures, present additional criteria in creating a base of suppliers. Therefore the most important purchasing categories are managed by purchasing specialists in the companies for the entire Group. In this way we ensure that our partners understand, follow and observe our adopted measures and business policies. Our suppliers are actively included in the process of improvements. The

source of basic strategic alloys is mainly outside Slovenia and Europe, which is why we cooperate with global strategic manufacturers or their representatives in Europe. The suppliers have common warehouses for the materials used by more than one company in the SIJ Group. This enables the optimal management of our own inventories in one location, and the fast response of production to marketing challenges.

In order to reduce transport costs, steel scrap is preferentially bought in the domestic market. Since scrap is a basic raw material for the steel industry, we also have a Division for collecting and processing scrap. The cooperation between companies is carried out in accordance with existing marketing principles on the scrap market. Vertical integration in particular reduces risks to supply, since the raw material base collects enough regular scrap to fulfill the needs of the Steel Division.

Research and Development

In the context of the SIJ Group, the function of Research and Development is organized in three locations, namely in Jesenice, Ravne na Koroškem and Ljubljana, where they operate in the following forms and connections:

- Jesenice Development Center, whose largest co-founder is Acroni
- the Development Center in Metal Ravne
- the Development Center in Elektrode Jesenice
- the Institute for Foundry and Heat Processing, whose co-founder is Ravne Steel Center and which operates within the Simit Development Center

The Development Departments employ 41 workers, who collaborate with engineers in the production line to implement development projects. The direct costs of development amounted to 0.53% of revenues in 2014.

The operation of the listed Development Centers and Departments is primarily directed toward rapid solutions to technological problems and fast responses to the demands of the market and our customers. Up to now basic research has been present to a lesser extent in collaboration with the Faculty of Natural Science and Technology and other scientific research institutes. In the future we are planning to

reorganize Research and Development activities within the SIJ Group, in order to make optimal use of the competencies of the employees in this field, and to find synergies inside and outside the SIJ Group.

The quick responses of the Development Departments, and direct contact with the market and customers, is reflected in a relatively high level of sales generated by newly-developed products. In 2014 newly-developed products generated 21,853 tonnes or 5.9% of sales volume, and EUR 49.6 million or 8.7% of sales value.

The priority areas of operation of the Development Departments are:

- the development of new materials
- the development of new technologies
- energy efficiency.

The basis of development is innovation, which we are encouraging at all levels. In 2014, 29% of all our employees entered the system in this way to collect useful suggestions and ideas. The total economic benefits and savings from internal innovation in 2014 amounted to EUR 4.27 million.



Sustainable Development

- ● ● The three pillars of sustainable development of the SIJ group, which we are implementing on a daily basis, are business excellence, social care and environmental responsibility.

Socially responsible behavior is the basis of a long-term strategy for sustainable development at the SIJ Group. We recognize the responsibility we carry as an economic entity employing over 3,100 people in Slovenia and abroad, and with an extremely extensive network of business partners and other stakeholders, with whom we cooperate on a daily basis. When making business decisions, in addition to the interests of the inner circle of stakeholders such as shareholders and employees, we always take into account the interests of a wider range of stakeholders - first and foremost our customers, suppliers and the local communities in which we operate. Our business operations are based on ethical action, sustainable development and a dedication to keeping the environment healthy.

Corporate social responsibility is expressed by supporting a number of projects and associations, and through the operation of our own business ZIP Center (Ravne na Koroškem) - a disability company that is fully integrated within the corporate-managed SIJ Group. The company employs dozens of people with disabilities and offers services such as carpentry, printing and manufacture of children's developmental toys.

We recognize our specific responsibilities to the local communities in which our manufacturing companies operate, and where the majority of our employees live. Therefore, we are constantly upgrading our sponsorship and donations projects, aimed at supporting various local humanitarian, cultural and sports organizations, clubs and events. In 2014, EUR 51,906 were spent on donations and EUR 233,302 on sponsorships.

SIJ Group: Key information for 2014

	2014
Number of employees on 31 December	3,134
Average age	44.8 years
Proportion of employees on a permanent contract	94.64%
Proportion of female employees	17.60%
Proportion of employees with secondary education or higher	43.10%
Sick leave	6%
Number of injuries	166

We actively support grassroots sports programs, which promote the participation of the employees of the SIJ Group or their family members, and play an important role in sports activities for children and young people. This includes a number of sports clubs in the municipalities of Ravne na Koroškem and Jesenice, as well as in many neighboring municipalities.

The SIJ Group remains loyal to professional Slovene sports, in particular by sponsoring OKS - the Slovenian Olympic Committee, and supporting the HDD SIJ Acroni Jesenice senior hockey club, with which we have signed a cooperation agreement for the season 2014/2015. This is expected to be renewed also for the 2015/2016 season.

In 2014, we actively supported numerous humanitarian and educational projects aimed at a wider awareness of metallurgy and the steel industry, and the development opportunities of the wider industry.

RESPONSIBILITY TO EMPLOYEES

We are aware of the fact that successful, creative and highly competent workers are the key to all business success. One of our key values is the expertise of our employees, which drives us to create an environment focused on constant improvement, and to motivate, encourage, develop, attract, retain and reward talented individuals. We encourage an environment of respect, continuous learning, accountability to both equipment and staff, and safe and efficient work.

We provide equal opportunities for all employees and build a partnership with the social environment in which we work. We consider all legal regulations in the countries in which we operate. We carefully select new employees, as they must comply with all internal standards.

Investments

The investment activities of 2014 were on average somewhat less intensive than previously. This is related to the conclusion of the investment cycle of 2008-2014, which was worth more than EUR 400 million. As far as increasing capacity is concerned, three investments are of importance: at Acroni, an investment was made into the second Belman furnace, which increased the heat processing capacity for quarto plates by 15,000 tonnes per year; at Metal Ravne a dual-chamber hardening yielding furnace with a hardening pool was set up, which, in addition to the extra capacity, also provides the possibility of heat processing at higher temperatures; and the new milling machine at the forge began operating, which enables us to follow our orientation toward the manufacture of mechanically processed forgings.

At Ravne Knives the third vacuum furnace for the heat processing of knives began operating.

With regard to the energy supply an investment was made into cogeneration at Acroni, which enabled the company to achieve a self-sustaining heat supply. At Elektrode and SUZ the lighting in workshops were renewed, which significantly improved the lighting conditions in the working environment and reduced the consumption of electricity by half.

Several strategically important investments are in progress at the moment. At Acroni an investment into a new line for the heat processing of plates is in progress, which will begin to operate in December 2015 and will enable an additional 100,000 tonnes of heat processed plates per year. At the

same time we are building a new line for the non-acidic cleaning of strips, which will represent a turning point for the more environmentally-friendly manufacture of cold-rolled strips. In January 2015, the renovated pickling bath for stainless plates began to operate, which now enables the pickling of plates of the largest dimensions, while still meeting all the latest environmental standards.

At Metal Ravne an investment into a new VD/VOD device is especially important; hot testing will begin in March 2015. It will enable an increase in production and a larger technological demand from the production program.

In addition to new equipment and new technologies we pay a great deal of attention to the cost-efficient and technologically optimal maintenance of our machinery. In 2014 the companies of the SIJ Group allocated EUR 11.3 million for maintenance of equipment, which amounts to slightly more than 4.6% of equipment value.

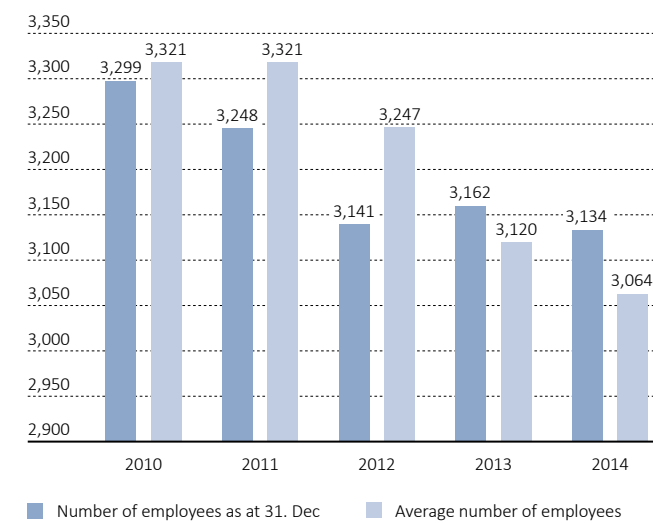
In 2014 we also invested in the expansion of our sales network: in Germany, Ravne Steel Center founded Ravne Steel Deutschland, and Niro Wenden opened a new Service and Sales Center in Nürnberg. SIJ Asia was also established in Germany; it will focus mainly on the promising and rapidly growing Asian markets. We have also spent EUR 2.4 million on strengthening and expanding our sales network. In 2014 the SIJ Group allocated in total EUR 47.6 million for investment in the sales network and investments.



At the end of 2014 the SIJ Group had 3,134 employees, which means that the number of employees compared to the previous year decreased by 28 or 3.4%.

The number of employees was reduced due to the work process optimization projects that were carried out, continuous small improvements that allow us greater flexibility in production, the introduction of modern technology, and retirements. In 2014, we also employed new staff, specifically in the production process, in order to strengthen our production and sales network abroad. The cumulative average number of employees is 3,064, which is 2% lower than the previous year.

SIJ Group: Number of employees at the end of the year



Employee Structure

In 2014, the SIJ Group had 551 female employees and 2,583 male employees. The number of female employees is lower due to the complex and difficult production processes, but the

number of women employed in the previous year increased by seven, or 2%, in the support functions, and the number of men decreased by 35 or 2%.

SIJ Group: Overview of employees by gender

Gender	31 Dec. 2010	31 Dec. 2011	31 Dec. 2012	31 Dec. 2013	31 Dec. 2014
Women	578	576	550	544	551
Men	2,721	2,672	2,591	2,618	2,583
Total	3,299	3,248	3,141	3,162	3,134

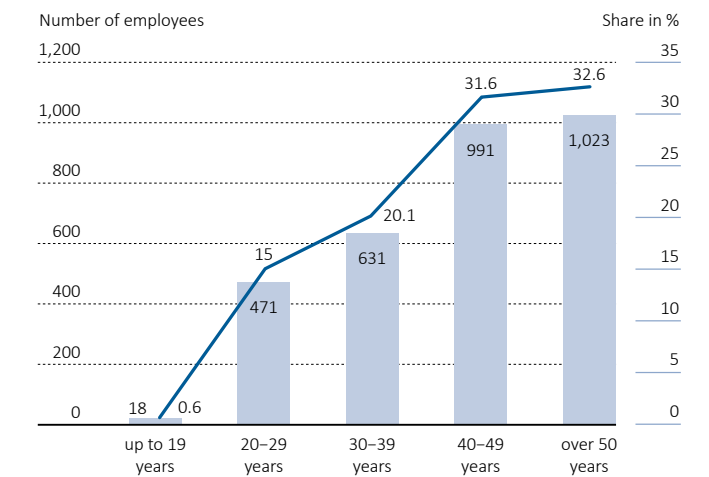
Age Structure

The average age of employees is 44.8 years. In previous years, the average age of employees declined; however, in 2014 the average age again increased by 1.8 years, mainly due to the raised retirement age or to later retirement.

SIJ Group: Average age overview

	2010	2011	2012	2013	2014
Average age	44.0	44.3	43.5	43.0	44.8

SIJ Group: Age structure of employees



SIJ Group: Educational structure

	31 Dec. 2010	31 Dec. 2011	31 Dec. 2012	31 Dec. 2013	31 Dec. 2014	%
Master's degree, Ph.D.	34	37	35	40	46	1.5
Higher education – level 2 (university)	204	232	228	195	210	6.7
Higher education – level 1 (professional college)	266	217	246	308	317	10.1
Technical and general secondary school	798	808	780	804	778	24.8
Upper secondary vocational school	928	912	899	891	881	28.1
Secondary vocational school	748	398	377	368	365	11.6
Primary school	321	644	576	556	537	17.1
Total	3,299	3,248	3,141	3,162	3,134	100.0

The educational structure of the SIJ group has changed over the years; the number of employees with elementary school (to age 14) education has decreased, and the number of employees who have more than high school education has in-

creased. The latter is due to the increasing demand for more specific skills and competencies that follow the development of the latest technological processes.

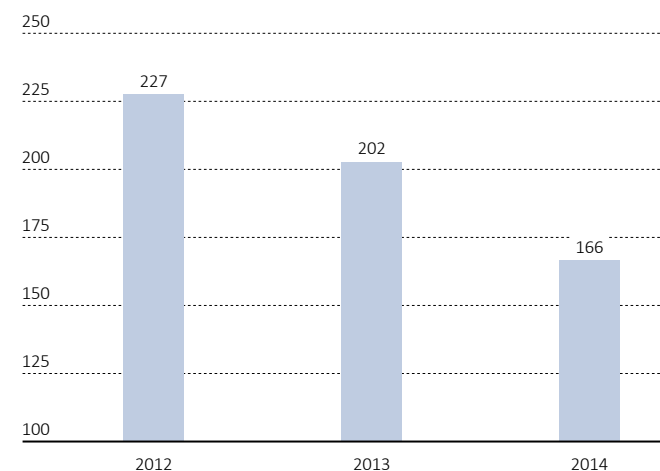


Occupational Health and Safety

In accordance with the law, our companies periodically carry out training and checking of qualifications for safe operations held by existing workers, as well as training for new workers. Training is also carried out when workers are reclassified to another job, and when introducing workers to new technologies.

The number of work-related accidents has been decreasing in recent years. In 2012, we recorded 227 work-related accidents, while in 2013 there were 202, and in 2014 we recorded only 166 work-related accidents, which is 17.8% less than in 2013.

SIJ Group: Number of work-related accidents



In 2014, we spent EUR 1.16 million for personal protective equipment, employee training, fire safety and first aid. In order to keep safety engineers focused on jobs and manufacturing, in 2014 we began introducing e-learning as a new form of training for health and safety at work.

In 2014 sick leave in the SIJ Group accounted for 6% of total working hours. Compared to the previous year, the proportion of sick leave increased by 1.2 percentage points.

SIJ Group: Sick leave

	2010	2011	2012	2013	2014
Sick leave in %	5.34	4.62	5.60	4.83	6.00

Responsibility to the Disabled

At the end of 2014, 313 employees of the SIJ Group had disabled status (one employee more than in the previous year), which represents 10% of all employees.

Retirement was the most common reason for employee departure (39.5%). In 2014, 19 employees obtained disabled status, which is the same number as in the previous year, and 21 people with disabilities were newly employed.

SIJ Group: Changes in the number of disabled employees

	2010	2011	2012	2013	2014
Number of employees as at 31 December	3,299	3,248	3,141	3,162	3,134
Number of disabled employees as at 31 December	385	340	313	312	313
Proportion of disabled employees in %	11.7	10.5	10.0	9.9	10.0

Awards and Motivation

The companies of SIJ Group are aware that an appropriate system of rewards leads to good business results, higher productivity and employee satisfaction, and that this is the only way to retain the key personnel who contribute most to the companies' success and organizational development.

The companies of SIJ have introduced systems:

- of variable compensation, as we recognize a job well done on the basis of measurable goals throughout the year;
- to reward all employees at the end of the year for achieving our business success;
- to promote the best;
- to honor our best employees with certificates and awards;
- to promote and reward loyalty, with certificates and awards given to the most loyal employees;
- where employees in the nine affiliated companies are offered supplementary pension insurance, allowing them to start saving money for their old age.

Employees have at their disposal free or subsidized use of sports equipment and activities, as well as cultural activities and holidays at different locations. In cooperation with the company's Union, Labor Day events are organized as part of the local area's events. To celebrate the end of the year the traditional New Year party takes place.

In 2014, we carried out a measurement of employee satisfaction in the SIJ Group and set ambitious goals based on the results.

Education and Development of Employees

We strive to have appropriately qualified, expert, creative, motivated, gifted employees who are prepared to take on new challenges, because this is the only way we can be successful on the most demanding global markets. A target-oriented, systematic process of training was introduced in 2014. We allocated EUR 429 thousand for education and training in 2014. Education and training consist of function-specific education, in-service training, part-time study and scholarships, as well as practice and mentoring.

In all the companies of SIJ Group, we provide continuous training and development of employees. More than EUR 212 thousand have been allocated to the companies' constant consideration for the lifelong education of its employees, in particular by internal training, formal education, seminars and conferences.

Function-specific education includes content to provide greater expertise to individuals, broader knowledge of changes to legislation, training of employees at their work place in line with legislation and improving skills in new, and technologically-advanced methods. The main purpose of in-service training is to transfer knowledge gained during the work process, and to share expert and practical knowledge in a sense of cooperation between employees.

In 2014 we began to build an e-learning portal to enable future further development of key content for our employees, increase work efficiency, health and safety and employee motivation, and to achieve the effective use of time and resources for training.

In 2014, 115 employees were studying part-time, mainly in the fields of mechanical engineering, metallurgy and electrical engineering, and to a lesser extent, the fields of economics, management, and information technology. In 2014, EUR 137 thousand was spent on part-time study in the form of tuition payments. Employees were also able to take study leave.

We are also trying to lower the risks associated with shortages of professional workers, especially in the fields of metallurgy, mechanical engineering and electrical engineering. For this reason, different measures have been introduced to motivate students at 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 2014, we joined the national economy presentation program, which promotes occupations which have a shortfall. We regularly work with secondary schools and universities in the local communities where we have our own companies. In 2014, EUR 69 thousand was earmarked for scholarships. There are 78 scholarship holders in the SIJ Group. The scholarship system focuses mainly on the study of metallurgy, mechanical engineering, mechatronics and electrical engineering.

Students who successfully complete their education or studies are additionally given employment opportunities in jobs that match their skills and abilities, while students with scholarships are also a source of professional personnel who are otherwise not available in the job market.

One way to present the activities of the SIJ Group to students, and thus to 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. Eighty-one students from secondary schools and universities were included in the internship system. Students from secondary schools and universities who completed their work experience with us were mostly involved in the formal study of metallurgy, mechanical engineering, mechatronics, computer science and chemistry.

ENVIRONMENTAL LIABILITY

The production of steel is based on a secondary raw material – scrap steel. The operation of production processes is based on integral environmental permissions and constant efforts to reduce emissions and impacts on the environment. All the secondary products of our processes are treated as a raw material in our own or in other processes.

Specific emissions of CO2 in 2014 decreased by 5 kg/t of product or 1.06% compared to 2013, and amounted to 463 kg CO2/t of finished product. Similarly, specific energy consumption was reduced by 0.01 MWh/t of product compared to 2013.

We are focused on manufacturing more complex products, and are therefore always monitoring total power consumption with regard to the completed sales. In 2014, 2173 MWh were used for each million euro of sales, which is 6.6% less than in 2013.

Certificates

In the past, the companies of the SIJ Group have put a lot of effort into the standardization of production and operating procedures, and have obtained several certificates to prove it. Certificates can be divided into four areas:

- the quality management system ISO 9001:2008
- the environmental management system ISO 14001:2004
- the occupational health and safety management system

- OHSAS 18001:2007
- the energy management systems EN16001:2009 and ISO 50001:2011

The following table demonstrates compliance with the standards of production and operations in the production companies of the SIJ Group:

SIJ Group: Certificates

	ISO 9001:2008	ISO 14001:2004	OHSAS 18001:2007	EN 16001:2009, ISO 50001:2011
Acroni	•	•	•	•
Metal Ravne	•	•	•	
Elektrode	•			
Noži Ravne	•			
SUZ	•			
ZIP center	•			

In addition to the aforementioned standards, Acroni and Metal in particular have received a number of other certificates and awards for their products from well-known certification bodies: ABS, DNV, TUV, the Lloyd's Register, BV, Germanischer Lloyd, Norsok, and the Russian Maritime Register.

Elektrode has been issued certificates for welding by numerous insurance associations and registers.

Acroni is the only company in the Group with accreditations for its chemical and mechanical laboratory in accordance with SIST EN ISO/IEC 17025, and its C type inspection body in accordance with SIST EN ISO/IEC 17020.

In the future, we are facing the challenge of transferring the coverage of the standards as evidenced at Acroni to all the companies in the SIJ Group.

Vision, Mission and Values

Sustainable development remains the key guideline of the long-term vision of development of the SIJ Group. This factor reaches far beyond social responsibility towards the environment and local communities, while also focusing on our employees, to increase their competence and occupational safety.

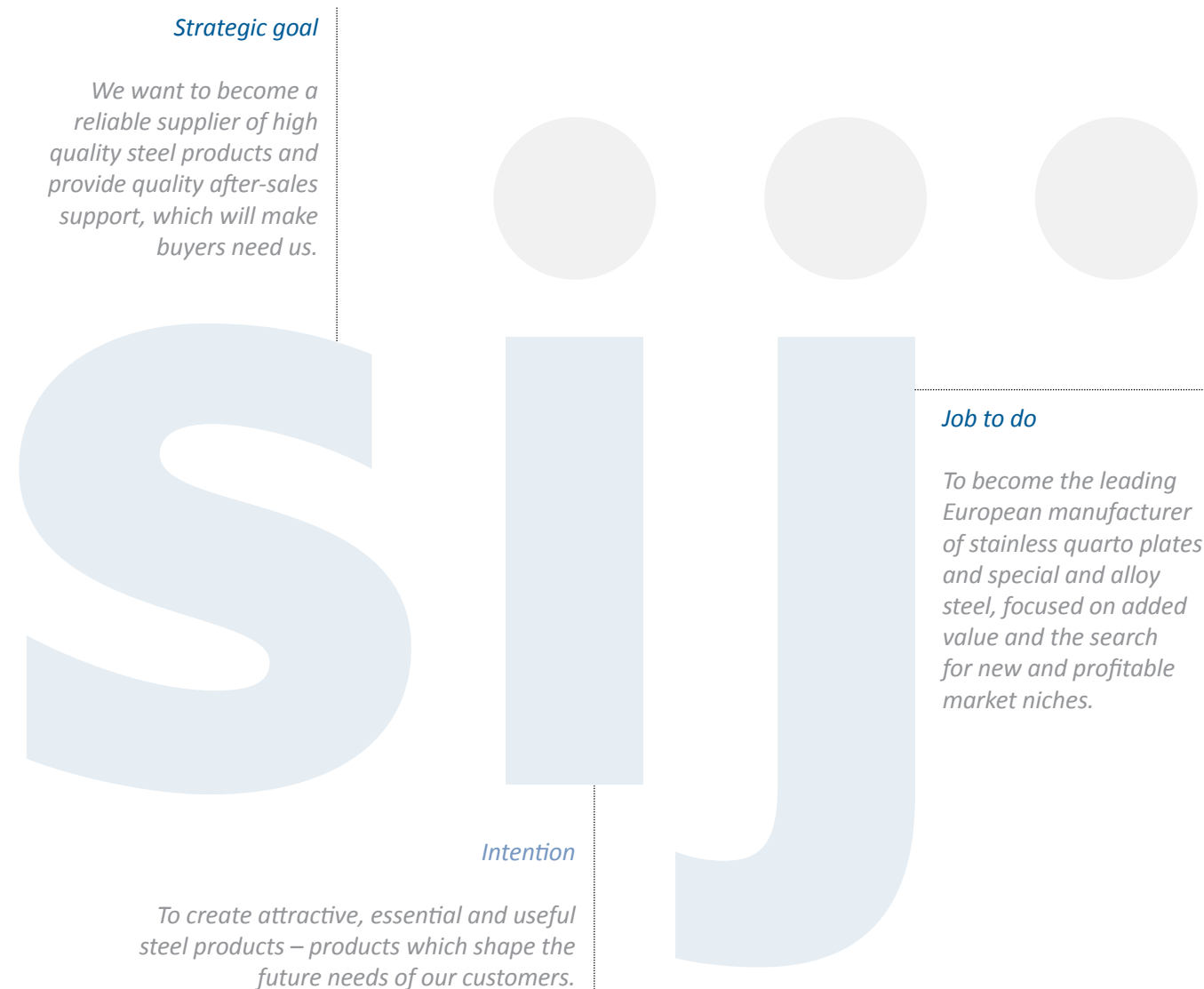
The SIJ Group, as one of the leading European manufacturers of high-quality steel products, is developing toward upgrading our vertical integration and strengthening our reputation as a reliable supplier, oriented toward development.

We realize this mission by creating attractive, essential and useful steel products – products which shape the future needs of our customers.

The SIJ Group is led by values of business excellence, such as:

- ethics
- expertise
- fairness
- credibility

We encourage and urge our business associates to act economically and work towards sustainable development.



Strategy

LONG-TERM STRATEGY AND GOALS

The long-term strategy of the SIJ Group ensures sustainable development up to 2025, and projects more significant changes in the production mix, as well as consolidation of the Group and centralization of the key business support processes. This will enable us to realize numerous synergies in the operations of the Group and to optimize production and other activities, and will significantly affect profitability. At the same time, an upgrading of the existing vertical integration will be in progress, through the development and expansion of our own service and sales network in key markets, such as the EU and the USA. Alongside the production of more and more demanding steel types we will be able to enter new market segments with higher added value. In addition to vertical integration, our business growth in the future will also be backed up by horizontal connections within the broader steel market.

Our strategy comprises these main orientations of the SIJ Group:

- Vertical integration of the Group: upgrading our raw material base and expanding our own service and sales network into rapidly growing markets with good potential;
- The production of custom-made technologically advanced steel products: investments in new equipment for expanding our range of products with strategic potential; the SIJ Group aims to become the most successful tailor-made producer of steel products in Europe;
- End users: we will come closer to the end users via our own sales network in the form of Sales and Processing Centers, which will provide direct feedback about the situation in the market and customer requirements;
- Employees: qualified and highly-motivated employees.

Key strategic goals for the period from 2015 to 2025:

- Optimization of the production mix and an increase in capacity for the manufacture of products with high added value (key investments for 2015 and 2016, which are already in progress from 2014), which will ensure the long-term growth of EBITDA.
- Long-term lowering of net financial debt and optimization of the NFD/EBITDA ratio (value under 3.0);
- Consolidation of the Group and centralization of the main business support processes.
- Intensive development of all employee competencies at all levels. Numerous goal-oriented programs for increasing the motivation of employees.

- Upgrade of Research and Development into new steel types and setting of market trends in premium (custom-made) segments (the development of our own trade-marked brands of steel);
- Optimization of costs and production, and transition to lean manufacturing;
- Entering new markets (fast developing markets), maintaining market shares in Europe (stainless quarto plates, tool steel) and increasing market shares in new custom-made segments (special quarto plates, steel with special requirements).

By 2025, SIJ Group will have achieved:

- the leading position in sales of products with a high added value (special steels from the plate and bar program) in the EU;
- a broad portfolio of products, which will service the end client with strong in-house development;
- a broad base of customers with solid long-term cooperation;
- a good technological base with strong competitive advantages supported by long-term strategic plans;
- a high financial soundness and flexibility of cash flows.

ACTIVITIES FOR ACHIEVING THE STRATEGIC GOALS

Optimization of the production mix and an increase in capacity for the manufacture of products with high added value

Based on a detailed analysis of the steel-making industry, numerous measures to change the production mix were implemented in 2014, with the aim of increasing profitability. In Acroni's production structure the proportion of the manufacture of stainless quarto plates, hot and cold rolled strips and special steel quarto plates increased significantly. It was similar in Metal Ravne, where the proportion of different types of tool steel and steels for special purposes increased, since these have the highest added value. At the same time, both steel companies marked a decrease in less profitable programs with low added value.

Activities related to the optimization of the production mix will continue in the next few years, which, in addition to moderate growth in what are currently the most extensive production programs (stainless quarto plates, tool steel), indicates a significant increase, primarily in the manufacture of special quarto plates and steel with special requirements. In order to achieve these goals, in 2014 the Group began to carry out investments which will enable an intensive increase in capacity in the production of these special steel types, and an increase in the market share from 2015 onward. However, it should be noted that the goal is not to increase the total production volume of steel products (in tonnes), since in addition to increasing the programs with high added value, we are at the same time planning to decrease and even eliminate programs with low coverage or low added value.

Increase in profitability

Due to the efficient corporate management of our operations, profitability in 2014 increased significantly. In addition to the aforementioned effect of optimization of the production mix, the factors which most contributed to this growth were quantity deviations and cost optimization at both the level of processes and at the level of fixed costs. The SIJ Group will also pay a lot of attention to this in the future, since there are numerous possibilities for achieving greater synergies, also originating from the vertical integration of the Group.

Consolidation of the SIJ Group

In the past few years the SIJ Group has been continuously expanding and building vertical integrity through acquisitions in key markets (Germany, Italy). During the same time period, the controlling company, SIJ d.d., faced more and more demanding challenges in effective corporate management, particularly in the centralization of the management of individual key business processes, and in the increase in the horizontal and vertical transfer of information within the Group.

Based on this, the management of the Group adopted a range of measures in 2014 and began to carry out activities to fulfill this goal. In the second quarter of 2014 we initiated a project to renew the Corporate Identity (CI) of the Group, which was completed with successful implementation in the last quarter of 2014. The new CI makes it possible for the Group to execute more effective corporate communication with all the key participants in internal and external communication, as well as to gradually form a strong SIJ trademark, comparable to the most successful domestic and foreign internationally-established production companies.

At the same time the Group strengthened its internal communications and expanded the existing ways of communicating in order to increase the flow of information (horizontally and vertically). In the first half of 2014 the Group upgraded the existing means of communication (internal magazines and newsletters, regular meetings with the management teams of subsidiaries) to new ones, such as the internal social network Yammer, and an annual meeting of all employees in the SIJ Group (the Day of Metallurgists) which will become a traditional event. Additionally, in the third and fourth quarter of 2014, activities were carried out to set up a unified corporate intranet portal which will be completed in the first few months of 2015.

In the third quarter of 2014 the Group began to update all the websites of the companies within the Group, which will unify external communication as the web pages will now fit the new CI of the Group. In 2015 the Group plans to upgrade the new websites with a comprehensive marketing and sales B2B-platform, which will enable even more effective communication with customers and further improve after-sales activities, especially for those companies that manufacture end products.

Competencies are key to the long-term successful human resources policy of the Group

The Group is aware of the fact that successful, creative and highly competent workers are the key to every business success. In the second half of 2014 the Group initiated activities in order to strengthen and develop our human resources policy. At first these will enable a more detailed insight into the key factors of employee motivation and satisfaction, and at a higher level they will also enable us to define the main competencies that need to be gained or developed further. The Group will continue to carry out regular assessments of our employees' motivation and satisfaction, while the management will implement micro-level measures to improve results and, along with that, to increase the satisfaction and loyalty of our employees.

At the same time the Group will be upgrading its scholarships policy in the next few years, which will be oriented toward establishing formal education at the vocational and technical levels, as well as at the university undergraduate and post-graduate levels. We are planning further adjustments to the changes in production and planned projects for modernization by 2020/2025.

At the same time, as the controlling company of the Group, SIJ d.d. has strengthened its human resources in 2014, which will allow a more comprehensive corporate governance.

Health and safety at work – a basic condition for achieving optimal working performance

With regard to health and safety at work, we will again strengthen our planned activities, such as the training of employees for health and safety at work and activities for reducing work injuries and the amount of sick leave. The goals of these activities are higher long-term satisfaction of our employees and improved working performance of both employees and companies.

Research and Development (R&D) – new products

Research and Development is what drives future growth in the steel industries, which particularly holds true for tailor-made manufacturers of steel products, such as the SIJ Group. The companies in the Group are already regarded as extremely innovative, as evidenced by awards received annually for the best innovations in the Slovene economic area. In the Research and Development departments our experts are developing new types of steel, while at the same time utilizing the resources and knowledge of the Group to achieve a distinctive advantage over world competition.

This adopted strategy does not only consider further development and increased investments in R&D, but is also a qualitative leap in the operational principles of our Research and Development Departments, for example, expanding their activities to design and technical engineering, and seeking synergies within the Group.

New products – new markets – new approaches

Today, the SIJ Group and the majority of its products are already present in growing niche markets with high added value. This holds true for key sales groups at the present time (stainless quarto plates and tool steel), but even more so for the main orientations of the future – special and (high) alloy tool steels. Expectations are moving toward continuous growth in these markets (4.5% in special quarto plates and 2.4% in alloy tool steels), regardless of the relatively slowed world economic growth. The demand for these more complex types of steel has been strengthening in complex industries, such as the energy and aerospace industries, as well as in emerging markets.

We will pay special attention to the development of direct contacts with buyers, who are also increasingly becoming our end customers, as well as commercialization through spin-off projects, in which case we will be intensively developing our own service-sales network and our own brands of steel. Combined with the even more flexible (lean) manufacturing of the key production companies in the Group, this will facilitate better adaptability and support marketing activities.



Companies of the SIJ Group

sij | acroni

Company	Acroni, d. o. o.
Address	Cesta Borisa Kidriča 44, Jesenice
Director	Blaž Jasnič
Ownership	100% owned by SIJ d.d.

		2013	2014	Index
Revenues	KEUR	368,700	419,287	114
Equity	KEUR	155,554	166,875	107
Average number of employees		1,160	1,127	97

sij | metal ravne

Company	Metal Ravne, d. o. o.
Address	Koroška cesta 14, Ravne na Koroškem
Director	Andrej Gradišnik
Ownership	100% owned by SIJ d.d.

		2013	2014	Index
Revenues	KEUR	149,947	164,776	110
Equity	KEUR	82,912	92,144	111
Average number of employees		961	947	99

sij | noži ravne

Company	Noži Ravne, d. o. o.
Address	Koroška cesta 14, Ravne na Koroškem
Director	Peter Čas
Ownership	100% owned by SIJ d.d.

		2013	2014	Index
Revenues	KEUR	18,115	18,333	101
Equity	KEUR	12,794	14,537	114
Average number of employees		195	193	99

sij | elektrode

Company	Elektrode, d. o. o.
Address	Cesta železarjev 8, Jesenice
Director	Jakob Borštnar
Ownership	100% owned by SIJ d.d.

		2013	2014	Index
Revenues	KEUR	15,798	15,105	96
Equity	KEUR	5,317	5,740	108
Average number of employees		168	160	95

sij | SUZ

Company	SUZ Jesenice, d. o. o.
Address	Cesta Borisa Kidriča 44, Jesenice
Director	Andrej Pogačnik
Ownership	100% owned by SIJ d.d.

		2013	2014	Index
Revenues	KEUR	7,196	8,048	112
Equity	KEUR	841	1,169	139
Average number of employees		116	115	99

sij | serpa

Company	Serpa, d. o. o.
Address	Koroška cesta 14, Ravne na Koroškem
Director	Andrej Gradišnik
Ownership	89.72% owned by Metal Ravne d.o.o.

		2013	2014	Index
Revenues	KEUR	6,897	6,606	96
Equity	KEUR	4,265	4,537	106
Average number of employees		145	148	102

sij | odpad pivka

Company	Odpad Pivka, d. o. o.
Address	Velika Pristava 23, Pivka
Director	Andrej Dolenc
Ownership	74.9% owned by SIJ d.d.

		2013	2014	Index
Revenues	KEUR	78,325	71,612	91
Equity	KEUR	6,570	6,820	104
Average number of employees		28	24	86

sij | dankor

Company	Dankor Osijek, d. o. o.
Address	Vukovarska 436, Osijek, Croatia
Director	Danko Ordanić
Ownership	51% owned by Odpad Pivka d.o.o.

		2013	2014	Index
Revenues	KEUR	6,573	5,794	88
Equity	KEUR	642	585	91
Average number of employees		18	17	94

sij | metal eko sistem

Company	Metal Eko-sistem, d. o. o.
Address	Kupusara BB, Jagodina, Serbia
Director	Saša Milojević
Ownership	70% owned by Odpad Pivka d.o.o.

		2013	2014	Index
Revenues	KEUR	12,822	18,073	141
Equity	KEUR	2,040	2,034	100
Average number of employees		35	39	111

sij | top metal

Company	Top Metal, d. o. o.
Address	Karađorđeva 69, Laktaši, BIH
Director	Ranko Filipić
Ownership	51% owned by Odpad Pivka d.o.o.

		2013	2014	Index
Revenues	KEUR	1,277	3,064	240
Equity	KEUR	1,059	947	89
Average number of employees		7	10	143

sij | ravne steel

Company	Ravne Steel Center, d. o. o.
Address	Litostrojska cesta 60, Ljubljana
Director	dr. Boštjan Taljat
Ownership	77.3 % SIJ d.d., 22.7 % Metal Ravne d.o.o.

		2013	2014	Index
Revenues	KEUR	20,589	22,109	107
Equity	KEUR	12,180	13,395	110
Average number of employees		24	27	113

sij | ravne steel

Company	Ravne Steel Deutschland, GmbH
Address	Landsberg am Lech, Germany
Director	Igor Rabin
Ownership	100% owned by Ravne Steel Center d.o.o.

		2013	2014	Index
Revenues	KEUR	0	1,074	-
Equity	KEUR	50	99	197
Average number of employees		0	0.4	-

sij | sidertoce

Company	Sidertoce, Spa
Address	Gravellona Toce, Italy
Director	Robert Vuga
Ownership	100% owned by Ravne Steel Center d.o.o.

		2013	2014	Index
Revenues	KEUR	12,572	12,187	97
Equity	KEUR	2,187	2,507	115
Average number of employees		23	23	99

sij | niro wenden

Company	Niro Wenden, GmbH
Address	Glück-Auf-Weg 2, Wenden, Germany
Director	Manfred Salg
Ownership	85% owned by SIJ d.d.

		2013	2014	Index
Revenues	KEUR	19,905	21,358	107
Equity	KEUR	3,723	3,314	89
Average number of employees		48	46	96

sij | griffon & romano

Company	Griffon & Romano, Spa
Address	Via Tacito 8/10, Corsico, Italy
Director	Gregor Adler
Ownership	100% owned by SIJ d.d.

		2013	2014	Index
Revenues	KEUR	32,240	18,854	58
Equity	KEUR	585	1,051	180
Average number of employees		42	36	86

sij | kopo international

Company	Kopo International, Inc
Address	New Jersey, USA
Director	Steven Cucich
Ownership	100% owned by Metal Ravne d.o.o.

		2013	2014	Index
Revenues	KEUR	38,393	47,734	124
Equity	KEUR	1,182	1,660	140
Average number of employees		2	3	150

sij | zip center

Company	Zip center, d. o. o.
Address	Koroška cesta 14, Ravne na Koroškem
Director	Alenka Stres
Ownership	100% owned by SIJ d.d.

		2013	2014	Index
Revenues	KEUR	2,765	2,674	97
Equity	KEUR	102	268	261
Average number of employees		101	98	97

sij | železarna jesenice

Company	Železarna Jesenice, d. o. o.
Address	Cesta železarjev 8, Jesenice
Director	Bojan Falež
Ownership	100% owned by SIJ d.d.

		2013	2014	Index
Revenues	KEUR	3	1	38
Equity	KEUR	9,388	9,417	100
Average number of employees		1	1	100



Company	SIJ d.d.
Address	Gerbičeva ulica 98, Ljubljana
Director	Anton Chernykh
Ownership	72% Dilon, d.o.o., 25% Republic of Slovenia

		2013	2014	Index
Revenues	KEUR	8,807	9,836	112
Equity	KEUR	180,441	181,228	100
Average number of employees		43	49	114

Events Following the End of the Financial Year

As of 1 January 2015, the SIJ Group began to use a new information system (ERP).

In February, we commenced the procedures for the issuance of commercial papers.

In February, the controlling company completed the purchase of 11,468 of its own shares from D.P.R. d.d., thus increasing the treasury shares from 0.80 to 1.95 percent.



sij

financial
statement of
the SIJ Group

A great deal of attention has been devoted to the appropriate coverage of resources, a stable cash flow, and adapting to the global market. Consequently, we were able to realize new investments with high quality sources of funding. All of this is reflected in the statements of the group for the 2014 financial year.

**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 31.12.2014, 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

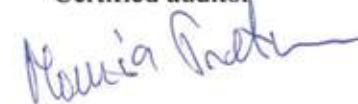
In our opinion, the consolidated financial statements give a true and fair view of the financial position of the SIJ-Slovenska industrija jekla group as of 31.12.2014, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards 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 annual report regarding receipts of the members of management and supervisory bodies as required under Article 294 of the Companies Act (ZGD-1).

DELOITTE REVIZIJA d.o.o.

Maruša Tratnjek
Certified auditor

Ljubljana, 6 March 2015

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3Yuri Sidorovich
President of the Board**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;
- Assurance that the consolidated financial statements have been compiled in accordance with the IFRS adopted by the European Union, and any significant deviations are disclosed and explained in the report.

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

The tax authorities can inspect the operations of the individual Group's company at any time within 5 years after the end of the year in which the tax assessment should be made. This can result in the 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 any 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 6 March 2015.

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	2014	2013
Revenue	1	707,857,833	658,653,447
Cost of sales	2	(584,971,260)	(566,299,192)
Gross profit		122,886,573	92,354,255
Distribution costs	2	(40,154,869)	(39,910,174)
General and administrative expenses	2	(50,167,770)	(50,843,474)
Other operating income	3	8,941,938	3,643,735
Other operating expenses	4	(1,962,897)	(3,080,922)
Operating profit		39,542,975	2,163,420
Finance income	5	1,636,334	1,207,874
Finance expenses	6	(15,093,226)	(13,411,576)
Net finance costs		(13,456,892)	(12,203,702)
Share of profit in associates	12	599,981	317,378
Profit/loss before taxation		26,686,064	(9,722,904)
Income tax expense	7	(988,469)	(438,307)
Deferred income tax	7	(793,685)	5,238,414
Profit (loss) for the year		24,903,910	(4,922,797)
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Income tax related to components of comprehensive income		(20,408)	(8,238)
<i>Items that may be reclassified subsequently to profit or loss</i>			
Change in fair value reserves for available-for-sale financial assets		120,048	50,525
Exchange rate difference on translating foreign operations		68,192	(71,300)
Comprehensive income		25,071,742	(4,951,810)
Profit (loss), attributable to:		24,903,910	(4,922,797)
Owners of the parent company		24,858,197	(4,895,447)
Non-controlling interest		45,713	(27,350)
Basic and diluted earnings per share	8	25.19	-
Comprehensive income, attributable to:		25,071,742	(4,951,810)
Owners of the parent company		25,089,274	(4,915,184)
Non-controlling interest		(17,532)	(36,626)

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. 2014	31 Dec. 2013
ASSETS			
Non-current assets		445,282,363	437,815,701
Intangible assets	9	24,806,217	21,441,019
Property, plant and equipment	10	398,081,532	394,507,526
Investment property	11	206,776	222,193
Investments in associates	12	1,548,194	948,213
Available-for-sale financial assets	13	906,282	786,957
Financial receivables	14	102,961	102,961
Operating receivables	15	1,891,519	2,839,809
Other assets	16	2,042,624	475,426
Deferred tax assets	17	15,696,258	16,491,597
Current assets		343,978,463	337,963,092
Assets held for disposal	18	4,146,393	5,118,988
Inventories	19	160,633,584	155,757,033
Financial assets at fair value through profit or loss	20	467	411
Financial receivables	21	57,560	16,847,475
Operating receivables	22	138,430,076	133,866,711
Income tax assets		585,163	461,558
Cash and cash equivalents	23	38,993,236	24,909,911
Other assets	24	1,131,984	1,001,005
Total assets		789,260,826	775,778,793
EQUITY AND LIABILITIES			
Equity	25	348,135,458	323,585,177
Equity attributed to owners of the parent company		343,549,510	318,808,697
Share capital		145,266,066	145,266,066
Capital surplus		11,461,177	11,461,177
Revenue reserves		(858,646)	(858,646)
Fair value reserves		170,817	71,177
Translation differences		32,687	(98,751)
Retained earnings		187,477,409	162,967,674
Non-controlling interest		4,585,948	4,776,480
Non-current liabilities		197,327,882	172,578,269
Employee benefits	26	10,438,433	10,587,208
Other provisions	27	1,677,279	1,862,801
Deferred revenue	28	865,983	777,512
Financial liabilities	29	183,382,044	159,003,499
Operating liabilities	30	913,667	294,459
Deferred tax liabilities	17	50,476	52,790
Current liabilities		243,797,486	279,615,347
Financial liabilities	31	73,440,512	113,939,351
Operating liabilities	32	166,905,565	161,497,569
Income tax liabilities		598,449	44,568
Other liabilities	33	2,852,960	4,133,859
Total equity and liabilities		789,260,826	775,778,793

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 2014

	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			
Balance as at 31 Dec. 2013	145,266,066	11,461,177	(858,646)	71,177	(98,751)	162,967,674	318,808,698	4,776,480	323,585,178
Covering the loss	0	0	0	0	0	0	0	2,281	2,281
Purchase of treasury shares	0	0	(1,907)	0	0	0	(1,907)	0	(1,907)
Transaction with owners	0	0	0	0	0	(521,836)	(521,836)	0	(521,836)
Decrease of non-controlling interest	0	0	0	0	0	175,281	175,281	(175,281)	0
Total transactions with owners	0	0	(1,907)	0	0	(346,555)	(348,462)	(173,000)	(521,462)
Profit for the year	0	0	0	0	0	24,858,197	24,858,197	45,713	24,903,910
Other changes in comprehensive income	0	0	0	99,640	131,438	0	231,077	(63,245)	167,832
Total changes in comprehensive income	0	0	0	99,640	131,438	24,858,197	25,089,274	(17,532)	25,071,742
Creation of reserves for treasury shares	0	0	1,907	0	0	(1,907)	0	0	0
Total changes in equity	0	0	1,907	0	0	(1,907)	0	0	0
Balance as at 31 Dec. 2014	145,266,066	11,461,177	(858,646)	170,817	32,687	187,477,409	343,549,510	4,585,948	348,135,458

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			
Balance as at 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	(149,981)	(149,981)	683,408	533,427
Creation of legal reserves	0	0	87,571	0	0	(87,571)	0	0	0
Total transaction with owners	0	0	87,571	0	0	(237,552)	(149,981)	683,408	533,427
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	(62,025)	0	(19,738)	(9,276)	(29,014)
Total changes in comprehensive income	0	0	0	42,287	(62,025)	(4,895,447)	(4,915,185)	(36,626)	(4,951,811)
Balance as at 31 Dec. 2013	145,266,066	11,461,177	(858,646)	71,177	(98,751)	162,967,674	318,808,697	4,776,480	323,585,177

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

	Note	2014	2013
Cash flow from operating activities			
Profit (loss) before tax		26,686,064	(9,722,904)
Adjusted for:			
Depreciation and amortisation	9, 10	38,289,061	38,622,542
Share of profit in associates	12	(599,981)	(317,378)
Interest income	5	(1,318,691)	(970,458)
Interest expenses	6	12,092,250	12,325,692
Exchange rate differences, net		(13,088)	(10,703)
Loss on investment sales		667	6,546
Impairment of assets	19	582,951	627,496
Creation of allowances and provisions		481,340	2,022,659
Other adjustments		630,560	(766,953)
Operating cash flows before changes in working capital		76,831,133	41,816,539
Changes in working capital			
Change in operating receivables		(5,903,005)	20,690,576
Change in inventories		(7,540,814)	(4,310,043)
Change in operating payables		20,316,094	(6,328,201)
Change in taxes other than income tax		613,790	474,073
Payments for disposal of provisions		(923,749)	(1,133,258)
Receipts from government grant		480,501	218,746
Income tax paid		(554,786)	(109,157)
Other direct payments		(521,462)	0
Changes in working capital		5,966,569	9,502,736
Net cash generated from operating activities		82,797,702	51,319,275
Cash flow from investing activities			
Payments for investments in subsidiaries		(82,228)	(716,683)
Payments for property, plant and equipment		(54,043,109)	(46,463,344)
Receipts from property, plant and equipment		302,086	147,142
Payments for intangible assets		(3,628,459)	(1,570,297)
Receipts from other assets		1,191,475	1,001
Payments for loans issued	14, 21	(8,431,229)	(11,715,369)
Receipts from loans issued	14, 21	23,771,790	1,897,097
Interests received		1,982,814	228,722
Dividends received	13	56,025	52,192
Net cash used in investing activities		(38,880,835)	(58,139,539)
Cash flow from financing activities			
Receipts from borrowings	29, 31	313,472,177	330,753,120
Payments for borrowings	29, 31	(327,205,046)	(309,281,061)
Payments for financial lease	29, 31	(3,665,081)	(4,627,412)
Interest paid		(12,423,830)	(12,039,421)
Net cash (used) generated in financing activities		(29,821,780)	4,805,226
Cash and cash equivalents as at 1 Jan.			
Translation differences		(11,762)	2,834
Increase (decrease)		14,095,087	(2,015,038)
Cash and cash equivalents as at 31 Dec.		38,993,236	24,909,911

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 its registered office in Slovenia. The controlling company of the Group has its registered address at Gerbičeva ulica 98, 1000 Ljubljana. Given below are the consolidated financial statements for the year ending on 31 December 2014.

The consolidated financial statements for a selected group of subsidiaries are compiled by the SIJ d.d. The consolidated financial statements for the 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 2014 have been prepared in accordance with the IFRS as adopted by the European Union. The standards have been applied directly in disclosures and the valuation of items. The exception is 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: the consolidated financial statements are comprehensible, if users can understand them without difficulty; the information is adequate, if it helps 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, as given below:

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 10 “Consolidated Financial Statements”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 11 “Joint Arrangements”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 12 “Disclosures of Interests in Other Entities”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 27 (revised in 2011) “Separate Financial Statements”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosures of Interests in Other Entities” – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 27 (revised in 2011) “Separate Financial Statements” – Investment Entities, adopted by the EU on 20 November 2013 (effective for 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 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 36 “Impairment of assets” - Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for 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 (effective for annual periods beginning on or after 1 January 2014).

The 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 the approval of the financial statements the following standards, amendments and interpretations adopted by the European Union were issued, but not yet effective:

- Amendments to various standards “Improvements to IFRSs (cycle 2010-2012)” resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- Amendments to various standards “Improvements to IFRSs (cycle 2011-2013)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 18 December 2014 (amendments are to be applied for annual periods beginning on or after 1 January 2015),
- Amendments to IAS 19 “Employee Benefits” - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- IFRIC 21 “Levies” adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 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 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 the IASB, with the exception of the following standards, amendments to the existing standards, and interpretations, which had not yet been approved for use on 6 March 2015:

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2018),
- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016),

- IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures” - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 11 “Joint Arrangements” – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 “Presentation of Financial Statements” - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 27 “Separate Financial Statements” - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),
- Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)” resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The Group projects that the adoption of these standards, amendments to the existing standards, and interpretations will not have any significant effect on the consolidated financial statements at their first application. At the same time the accounting of the 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 the accounting of the hedging instrument in connection with the financial assets and liabilities in accordance with the requirements of

IAS 39: “Financial Instruments: Recognition and Measurement” would not have 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 the 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, 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 of the 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 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:

Activity	% of voting rights	Value of assets as at 31 Dec. 2014	Value of equity as at 31 Dec. 2014	Profit (loss) for 2014
Parent company of the Group				
SIJ – Slovenska industrija jekla, d. d., Gerbičeva ulica 98, Ljubljana	Holding activity	240,827,722	181,227,591	1,210,535
SIJ - subsidiaries				
ACRONI, d.o.o., Cesta Borisa Kidriča 44, Jesenice	Steel production	419,601,726	166,875,131	11,321,579
METAL RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem	Steel production	209,360,314	92,143,821	9,219,067
NOŽI RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem	Industrial knives production	19,061,181	14,537,177	1,742,769
ELEKTRODE JESENICE, d.o.o., Cesta železarjev 8, Jesenice	Welding materials production	10,551,363	5,739,664	422,570
SUZ, d.o.o., Cesta Borisa Kidriča 44, Jesenice	Drawn wires production	3,788,342	1,169,278	328,216
ZIP CENTER d.o.o., Koroška cesta 14, Ravne na Koroškem	Education and training of the disabled	1,659,193	267,915	165,459
ŽELEZARNA JESENICE, d.o.o., Cesta železarjev 8, Jesenice	Trading with own real estate	10,173,704	9,416,577	28,319
ODPAD d.o.o., Pivka, Velika Pristava 23, Pivka	Recovery of secondary raw materials from scrap	26,262,434	6,819,773	249,752
NIRO Wenden GmbH, Glück-Auf-Weg 2, Wenden, Germany	Steel cutting, engineering and trade	13,834,466	3,314,221	(347,536)
RAVNE STEEL CENTER d.o.o., Litostrojska cesta 60, Ljubljana	Trade	25,225,128	13,393,625	1,213,958
GRIFFON & ROMANO S.P.A., Via Tacito 8/10, Corsico, Italy	Heat processing and special steel trade	20,147,864	1,054,480	(1,785,837)
SIJ Asia GmbH, Schwannstrasse 6, Dusseldorf, Germany	Trade	25,000	25,000	-
METAL RAVNE - subsidiaries				
KOPO International Inc., New Jersey, USA	Trade	23,545,235	1,659,703	290,023
SERPA d.o.o., Koroška cesta 14, Ravne na Koroškem	Metallurgic machines production	6,094,625	4,536,921	272,181
ODPAD - subsidiaries				
DANKOR, d.o.o., Europske avenije 22, Osijek, Croatia	Recovery of secondary raw materials from scrap	2,127,979	584,622	(54,825)
METAL-EKO SISTEM DOO JAGODINA, Put Kneza Mihaila 107, Jagodina, Serbia	Recovery of secondary raw materials from scrap	4,610,604	2,033,719	103,727
“TOPMETAL” d.o.o. Laktaši, Laktaši, Bosnia and Herzegovina	Recovery of secondary raw materials from scrap	1,825,750	885,813	(34,272)
Ravne Steel Center - subsidiaries				
SIDERTOCE S.p.A., Via XX. Settembre 198, C. P. 34, Gravelona Toce, Italy	Trade	14,174,173	2,506,528	319,585
Ravne Steel Deutschland GmbH, Celsiusstrasse 17, Germany	Trade	1,170,749	98,661	48,660

In December 2014 the liquidation process of SIJ Steel Processing, d. o. o., was completed. Liquidation is not recognized as a discontinued operation because its effect on the consolidated financial statements is not significant.

In November 2014 parent company established a new subsidiary, SIJ Asia GmbH, Germany. In 2014 the Company had not yet started operation.

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 Ravne Steel Deutschland GmbH, and SIJ Asia GmbH, Germany.

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.

When control ceases, 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 ceased. 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, investments 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 recognized 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 incurred in connection with a business combination, other than those associated with the issue of equity or debt securities, 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 the 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.

The income statements and cash flow statements of individual companies of the Group abroad, where the company's functional currency is not the 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 the fair value of the 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 that 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 capitalized), 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 it 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, as 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 consolidated 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 recogni-

tion, 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 the 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 the 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 assets. The cost model is used for any subsequent measuring of intangible assets.

Intangible assets with an 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 previous 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 in the acquired identifiable assets, liabilities and contingent liabilities of a subsidiary on the date of acquisition. Negative goodwill is immediately recognized in the consolidated income statements 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 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 measurement 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 the current and previous year are:

	Useful life
Real estate	10 - 60 years
Production equipment	1 - 25 years
Computer equipment	2 - 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 if 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. Loans, receivables 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. Subse-

quent 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 of 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, labor 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 whose value is expected to 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 rec-

ognized 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 has been recognized for the asset in previous years.

At least once a year, namely on the date of the drawing up of the consolidated 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 the 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 the valuation, after appropriate marketing. The market value of equipment is based on the quoted market price for similar items.

Investment Property

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

Inventories

The fair value of inventories is determined on the basis of their expected selling price in the ordinary course of business, less estimated costs to sell.

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 Com-

pany'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 the reversal of the 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. The provisions are reviewed periodically or when the assumptions used to determine the amount of provisions change significantly.

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 the 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

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses that relate to transactions with any of the Group's other segment. Segments are different in terms of risks and returns. The Group's segment reporting is based on the Group's internal reporting system applied by the management in the decision-making process.

Segments are presented in detail in business report.

The Group uses the following segments in the preparation and presentation of the consolidated financial statements:

- Steel Division,
- Distribution & Processing Division,
- Scrap Division,
- Manufacturing Division and
- Headquarter and other services.

NOTES TO INDIVIDUAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1. REVENUE

	2014	2013
In Slovenia	97,549,534	89,953,689
In other countries:	610,308,298	568,699,758
- Germany	164,860,308	145,969,091
- Italy	169,340,122	167,955,777
- the USA	48,717,783	39,156,501
- Austria	23,746,198	24,933,805
- Other countries	203,643,888	190,684,584
Revenue	707,857,833	658,653,447

2. OPERATING EXPENSES

	2014	2013
Costs of goods, materials and services	535,663,367	532,544,541
Labor costs	89,908,724	88,960,782
- wages and salaries	67,820,497	65,695,765
- social security costs	12,333,835	12,011,507
- other labor costs	9,754,392	11,253,510
Depreciation and amortisation costs	38,289,060	38,622,542
Other costs	6,084,302	6,078,395
Changes in the value of inventories	5,348,446	(9,153,420)
Operating expenses	675,293,899	657,052,840

Review of Costs by Type in 2014

	Cost of sales	Distribution costs	General and administrative expenses	Total
Costs of goods, materials and services	485,992,366	32,907,381	16,763,620	535,663,367
Labor costs	56,802,023	6,803,197	26,303,504	89,908,724
Depreciation and amortisation costs	34,071,127	387,415	3,830,518	38,289,060
Other costs	2,757,298	56,876	3,270,128	6,084,302
Changes in the value of inventories	5,348,446	0	0	5,348,446
Operating expenses	584,971,260	40,154,869	50,167,770	675,293,899

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
Labor 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
Changes 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

The auditing costs for the 2014 Annual Report amounted to EUR 256,445 (2013: EUR 257,980).

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

	2014	2013
Primary school	516	542
2.5-year vocational school	365	374
3-or 4-year vocational school	874	920
Secondary vocational or general school	772	756
Higher education I. level	267	262
Higher education II. level	231	230
Master's Degree, Ph.D.	39	36
Total	3,064	3,120

3. OTHER OPERATING INCOME

	2014	2013
Capitalized own products	3,991,856	889,235
Revenues from received subsidies	1,768,842	1,620,777
Received compensations	1,758,180	819,965
Write-off of liabilities	736,195	17,563
Profit from sale of assets held for disposal	275,089	0
Profit from selling emission coupons	137,561	2,682
Reversal of provisions	115,883	0
Profit arising from sale of tangible assets	18,928	7,053
Penalties	0	146,192
Other income	139,404	140,268
Other operating income	8,941,938	3,643,735

4. OTHER OPERATING EXPENSES

	2014	2013
Allowances for receivables	847,147	1,425,042
Impairment of inventories	582,951	627,496
Expenses for donations and sponsorships	292,259	184,387
Allowances for inventories	0	528,721
Other expenses	240,540	315,276
Other operating expenses	1,962,897	3,080,922

5. FINANCE INCOME

	2014	2013
Interest income	1,318,691	970,458
Exchange rate differences	197,225	101,403
Other income	120,418	136,013
Finance income	1,636,334	1,207,874

6. FINANCE EXPENSES

	2014	2013
Interest expenses	12,092,250	12,325,692
Exchange rate differences	145,864	128,821
Other expenses	2,855,112	957,063
Finance expenses	15,093,226	13,411,576

7. TAXES

	2014	2013
Income tax expenses	(988,469)	(438,307)
Deferred income tax	(793,685)	5,238,414
Taxes	(1,782,154)	4,800,107

	2014	2013
Profit or Loss before tax	26,686,064	(9,722,904)
Tax at applicable tax rate	4,304,179	(1,570,607)
Tax effects from:		
- non-taxable income	(21,447)	(11,043)
- tax non-deductible expenses	473,784	599,287
- tax relief	(2,666,300)	(2,649,050)
- tax losses for which no deferred tax assets were recognized	(308,062)	0
- change in tax rates	0	(1,168,694)
Taxes	1,782,154	(4,800,107)
Effective tax rate	6.68%	-

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 subsequent years in accordance with the legislation of the state where the Group has tax losses.

8. NET EARNINGS PER SHARE

	2014	2013
Profit (loss), attributable to owners of the parent company	24,858,197	(4,895,447)
Weighted number of issued ordinary shares	986,693	986,699
Basic and diluted earnings per share	25.19	-

Net earnings per share are calculated by dividing the net profit or loss for the year, allocated to shareholders, by the

weighted average number of shares, traded during the year, net of the number of treasury shares.

9. INTANGIBLE ASSETS

Movement of Intangible Assets in 2014

	Non-current property rights	Goodwill	Assets under construction	Total
Cost as at 31 Dec. 2013	6,334,975	15,060,978	3,098,245	24,494,198
New additions	0	0	4,054,717	4,054,717
Transfer from assets under construction	1,025,570	0	(1,025,570)	0
Write-offs and disposals	(459,348)	0	0	(459,348)
Translation differences	2,311	0	0	2,311
Transfer from property, plant and equipment	5,236	0	2,971	8,207
Cost as at 31 Dec. 2014	6,908,744	15,060,978	6,130,363	28,100,085
Accumulated amortisation as at 31 Dec. 2013	(3,053,179)	-	-	(3,053,179)
Amortisation	(695,720)	-	-	(695,720)
Write-offs and disposals	459,348	-	-	459,348
Translation differences	(1,236)	-	-	(1,236)
Transfer from property, plant and equipment	(3,081)	-	-	(3,081)
Accumulated amortisation as at 31 Dec. 2014	(3,293,868)	-	-	(3,293,868)
Present value as at 31 Dec. 2013	3,281,796	15,060,978	3,098,245	21,441,019
Present value as at 31 Dec. 2014	3,614,876	15,060,978	6,130,363	24,806,217

Intangible assets comprise computer software and licenses. The largest activation in 2014 was programs of monitoring production. Major new additions include the purchase of software and licenses in connection with a partial modernization of the information system, which is expected to be activated in 2015.

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. On 31 December 2014 goodwill was tested for potential impairment. The Group determined no signs of impairment. Based on the test performed, the Board of Directors assesses that as at 31 December 2014 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 the 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.

As at 31 December 2014 the Group's unsettled liabilities to suppliers for the purchase of intangible assets amounted to EUR 381,279. Its contractual liabilities for the purchase of intangible assets amounted to EUR 2,213,943. The present value intangible assets under financial lease amounted to EUR 351,771. The Group capitalized EUR 7,173 of borrowing costs, for which the interest rates were 4.00 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.

Movement of Intangible Assets in 2013

	Non-current property rights	Goodwill	Assets under construction	Total
Cost as at 31 Dec. 2012	5,425,975	15,137,047	1,559,268	22,122,290
New additions	0	0	2,465,036	2,465,036
Transfer from assets under construction	926,059	0	(926,059)	0
Write-offs and disposals	(16,373)	0	0	(16,373)
Translation differences	(686)	0	0	(686)
Disposal of company	0	(76,069)	0	(76,069)
Cost as at 31 Dec. 2013	6,334,975	15,060,978	3,098,245	24,494,198
Accumulated amortisation as at 31 Dec. 2012	(2,404,046)	-	-	(2,404,046)
Amortisation	(663,397)	-	-	(663,397)
Write-offs and disposals	14,070	-	-	14,070
Translation differences	194	-	-	194
Accumulated amortisation as at 31 Dec. 2013	(3,053,179)	-	-	(3,053,179)
Present value as at 31 Dec. 2012	3,021,929	15,137,047	1,559,268	19,718,244
Present value as at 31 Dec. 2013	3,281,796	15,060,978	3,098,245	21,441,019

10. PROPERTY, PLANT AND EQUIPMENT

Movement of Property, Plant and Equipment in 2014

	Land	Buildings	Equipment	Other	Assets under construction	Total
Cost as at 31 Dec. 2013	25,320,147	268,705,156	806,604,248	24,147,452	11,478,070	1,136,255,073
New additions	0	0	0	0	41,493,042	41,493,042
Transfer from assets under construction	242,205	2,461,866	20,791,183	1,875,327	(25,370,581)	0
Write-offs and disposals	(8,610)	0	(18,647,499)	(917,953)	0	(19,574,062)
Translation differences	(63,250)	(2,456)	(66,809)	2,806	0	(129,709)
Redistribution	0	2,871,196	(1,641,736)	(1,229,460)	0	0
Other changes	0	152,819	0	0	0	152,819
Transfer to intangible assets	0	0	0	(5,236)	(2,971)	(8,207)
Cost as at 31 Dec. 2014	25,490,492	274,188,581	807,039,387	23,872,936	27,597,560	1,158,188,956
Accumulated depreciation as at 31 Dec. 2013	-	(175,249,932)	(547,537,223)	(18,960,392)	-	(741,747,547)
Depreciation	-	(4,802,332)	(31,227,810)	(1,563,198)	-	(37,593,340)
Write-offs and disposals	-	0	18,557,043	737,530	-	19,294,573
Translation differences	-	630	14,279	(2,701)	-	12,208
Redistribution	-	(771,345)	(354,080)	1,125,425	-	0
Other changes	-	(76,399)	0	0	-	(76,399)
Transfer to intangible assets	-	0	0	3,081	-	3,081
Accumulated depreciation as at 31 Dec. 2014	-	(180,899,378)	(560,547,791)	(18,660,255)	-	(760,107,424)
Present value as at 31 Dec. 2013	25,320,147	93,455,224	259,067,025	5,187,060	11,478,070	394,507,526
Present value as at 31 Dec. 2014	25,490,492	93,289,203	246,491,596	5,212,681	27,597,560	398,081,532

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

- construction of a heat treatment line,
- construction of vacuum oxygen decarburization (VOD),
- construction of a double chamber furnace,
- current upgrades (repairs),
- 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.

Redistribution refers to transfer between categories without effect on revenues or expenses.

Property, plant and equipment, whose present value as at 31 December 2014 amounts to EUR 274,624,338, are pledged as security for liabilities. As at 31 December 2014 the Group's unsettled liabilities to suppliers for the purchase of property, plant and equipment amounted to EUR 8,584,731. Its contractual liabilities for the purchase of property, plant and equipment amounted to EUR 43,095,597. The present value of property, plant and equipment under finance lease is EUR 13,346,082. The Group capitalized EUR 302,523 of borrowing costs, for which the interest rates were between 2.89 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.

Movement of Property, Plant and Equipment in 2013

	Land	Buildings	Equipment	Other	Assets under construction	Total
Cost as at 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 as at 31 Dec. 2013	25,320,147	268,705,156	806,604,248	24,147,452	11,478,070	1,136,255,073
Accumulated depreciation as at 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
Accumulated depreciation as at 31 Dec. 2013	-	(175,249,932)	(547,537,223)	(18,960,392)	-	(741,747,547)
Present value as at 31 Dec. 2012	25,415,070	89,084,754	217,024,651	5,372,406	49,189,942	386,086,823
Present value as at 31 Dec. 2013	25,320,147	93,455,224	259,067,025	5,187,060	11,478,070	394,507,526

11. INVESTMENT PROPERTY

Movement of Investment Property in 2014 and 2013

	2014	2013
Cost as at 1 Jan.	834,163	346,976
Transfer from property, plant and equipment	0	487,187
Cost as at 31 Dec.	834,163	834,163
Accumulated depreciation as at 1 Jan.	(611,970)	(266,979)
Depreciation	(15,417)	(15,447)
Transfer from property, plant and equipment	0	(329,544)
Accumulated depreciation as at 31 Dec.	(627,387)	(611,970)
Present value as at 1 Jan.	222,193	79,997
Present value as at 31 Dec.	206,776	222,193

In 2014 the Group generated EUR 15,521 of expenses and EUR 41,563 of income from investment properties.

The investment properties are:

- part of the production hall next to the drawing plant in Koroška Bela covering 831.65 m², and part of the land covering 6,120 m²,
- the Lubricant Storage Facility, the Input Storage Facility and the Narrow-gauge Truck Workshop in Jesenice covering in total 1,844 m²,

- an apartment at Milčinskega ulica 8 in Celje, covering 42.41 m²,
- an apartment at Milčinskega ulica 8 in Celje, covering 44.80 m²,
- an apartment at Zoisova ulica 3 in Celje, covering 48.15 m².

The investment property are not pledged as security for liabilities.

The disclosed value of the investment property does not exceed its realizable value.

12. INVESTMENTS IN ASSOCIATES

	31 Dec. 2014	31 Dec. 2013
RAZVOJNI CENTER JESENICE, družba za razvoj novih materialov in tehnologij, d.o.o.	1,548,194	948,213
Investments in Associates	1,548,194	948,213

	Activity	% of voting rights	Value of assets as at 31 Dec. 2014	Value of equity as at 31 Dec. 2014	Revenues 2014	Net profit 2014
RCJ d.o.o.	Development	24.95	11,545,852	6,227,525	3,707,726	2,404,735

The investment in associates is valued on the basis of the equity method. In 2014 the Group attributed a corresponding share of 2014 profit which amounted to EUR 599,981.

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. 2014	31 Dec. 2013
Available-for-sale financial assets at cost	290,023	290,746
Available-for-sale financial assets at fair value	616,259	496,211
Available-for-sale financial assets	906,282	786,957

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 reliably measured. They decreased due to the cancellation of shares in the amount of EUR 723.

to shares and interests in companies that are traded on the regulated market and whose fair value can be reliably measured. They increased due to the revaluation at fair value in the amount of EUR 120,048 credited to the comprehensive income.

Available-for-sale financial assets, carried at fair value, refer

Received dividends in 2014 amounted to EUR 56,192.

14. NON-CURRENT FINANCIAL RECEIVABLES

	31 Dec. 2014	31 Dec. 2013
Loans issued	102,961	102,961
Non-current financial receivables	102,961	102,961

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

15. NON-CURRENT OPERATING RECEIVABLES

	31 Dec. 2014	31 Dec. 2013
Operating receivables	5,056,700	5,347,139
Allowances for operating receivables	(3,165,181)	(2,507,330)
Non-current operating receivables	1,891,519	2,839,809

Operating receivables include a non-current portion of receivables and scholarship receivables. The disclosed value of the operating receivables does not exceed their realizable value.

16. OTHER NON-CURRENT ASSETS

	31 Dec. 2014	31 Dec. 2013
Other assets	2,042,624	475,426
Other non-current assets	2,042,624	475,426

Other assets and their increase is mainly related to emission coupons.

17. DEFERRED TAX ASSETS AND LIABILITIES

	31 Dec. 2014	31 Dec. 2013
Deferred tax assets	15,696,258	16,491,597
Deferred tax liabilities	(50,476)	(52,790)
Deferred tax assets (liabilities), net	15,645,782	16,438,807

Movement of Deferred Tax Assets (Liabilities) in 2014

	31 Dec. 2013	Translation differences	Changes in the income statement	Changes in the comprehensive income	31 Dec. 2014
Inventories	(77,071)	0	77,071	0	0
Property, plant and equipment	(302,395)	136	154,713	0	(147,546)
Other	326,676	(40)	(229,566)	0	97,070
Deferred tax liabilities	(52,790)	96	2,218	0	(50,476)
Other provisions	27,041	0	28,903	0	55,944
Unused tax losses	7,694,905	0	(554,374)	0	7,140,531
Inventories	252,358	11,359	(281,452)	0	(17,735)
Operating receivables	940,099	184	28,918	0	969,201
Employee benefits	1,322,025	0	(27,213)	0	1,294,812
Property, plant and equipment	768,731	(88)	(652,923)	0	115,720
Available-for-sale financial assets	(14,579)	0	0	(20,409)	(34,988)
Unused tax relief	5,501,017	9,518	662,238	0	6,172,773
Deferred tax assets	16,491,597	20,973	(795,903)	(20,409)	15,696,258
Deferred tax assets (liabilities), net	16,438,807	21,069	(793,685)	(20,409)	15,645,782

Unrecognized deferred tax assets from unused tax losses amounted to EUR 11,691,490.

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 relief	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

18. ASSETS (GROUP) HELD FOR DISPOSAL

	31 Dec. 2014	31 Dec. 2013
Assets held for sale	4,146,393	5,118,988
Assets (group) held for disposal	4,146,393	5,118,988

Under assets held for sale, the Group has lands and buildings (outbuildings and apartments) in Jesenice and Celje. Sales activities are constantly under way. In 2014 the Group generated EUR 275,089 of income from sold assets. The assets are not pledged as security for liabilities.

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

19. INVENTORIES

	31 Dec. 2014	31 Dec. 2013
Raw material	63,224,829	56,604,372
Work in progress	40,581,633	45,436,509
Finished products	41,533,609	41,055,752
Trade goods	15,293,513	12,660,400
Inventories	160,633,584	155,757,033

The value of inventories, pledged as security for liabilities, amounted to EUR 12,600,000 on 31 December 2014. On 31 December 2014 the Group checked the value of inventories and found that the net realizable value of the inventories

of finished products is lower than their production value, so made an impairment of the inventories in the amount of EUR 582,951 in 2014.

Movement of Allowances for Inventories

	2014	2013
Balance as at 1 Jan.	4,849,571	4,416,637
Allowance changes with influence on profit or loss	(17,318)	528,721
Allowance changes without influence on profit or loss	(60,735)	(90,156)
Translation differences	15,840	(5,631)
Balance as at 31 Dec.	4,787,358	4,849,571

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 Dec. 2014	31 Dec. 2013
Financial assets at fair value through profit or loss	467	411
Financial assets at fair value through profit or loss	467	411

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

21. CURRENT FINANCIAL RECEIVABLES

	31 Dec. 2014	31 Dec. 2013
Loans issued	46,806	15,968,555
Interest receivables	10,063	873,353
Other	691	5,567
Current financial receivables	57,560	16,847,475

Under loans issued, the Group had granted a loan to the parent company in the amount of EUR 14,352,541. The loan was paid in full in 2014. The interest rate for loans issued is mainly fixed.

Movement of Current Loans Issued

	2014	2013
Balance as at 1 Jan.	15,968,555	6,133,239
Acquisition of company	0	5,931
Loans issued	8,431,229	11,715,369
Repayments of loans issued	(23,771,790)	(1,897,097)
Reclassification from non-current loans issued	0	12,000
Write-off of loans issued	(581,165)	0
Translation differences	(23)	(2)
Other	0	(885)
Balance as at 31 Dec.	46,806	15,968,555

22. OPERATING RECEIVABLES

	31 Dec. 2014	31 Dec. 2013
Trade receivables	129,060,197	127,693,867
Allowances for trade receivables	(4,134,529)	(4,725,975)
VAT receivables	5,172,540	5,138,980
Issued advance payments and cautions	5,770,021	3,592,941
Other operating receivables	2,561,847	2,166,898
Operating receivables	138,430,076	133,866,711

The majority of the Group's trade receivables are insured against commercial risks with an insurance company. The value of receivables from customers, pledged as security for liabilities, amounted to EUR 61,169,868 as

at 31 December 2014.

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

23. CASH AND CASH EQUIVALENTS

	31 Dec. 2014	31 Dec. 2013
Cash in national currency	34,917,198	22,160,661
Cash in foreign currency	3,883,244	2,561,912
Restricted cash	192,794	187,338
Cash and cash equivalents	38,993,236	24,909,911

Cash in national and foreign currency includes cash in hand and balances on bank accounts, amounting to EUR 22,633,721 as at 31 December 2014. Cash in national currency includes deposits with maturity of up to three months in the amount of EUR 16,166,721. 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. 2014	31 Dec. 2013
Current deferred expenses	1,036,504	842,734
Accrued revenues	95,480	158,271
Other current assets	1,131,984	1,001,005

Current deferred expenses refer to advance payments of costs, which in 2015 will debit against profit or loss.

25. EQUITY

	31 Dec. 2014	31 Dec. 2013
Equity attributed to the owners of the parent company	343,549,510	318,808,697
Share capital	145,266,066	145,266,066
Capital surplus	11,461,177	11,461,177
Revenue reserves	(858,646)	(858,646)
Fair value reserves	170,817	71,177
Translation differences	32,687	(98,751)
Retained earnings	187,477,409	162,967,674
Non-controlling interest	4,585,948	4,776,480
Equity	348,135,458	323,585,177

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 2014.

Other changes in retained earnings relate to the court settlement by which the companies D.P.R. družba pooblaščenka Ravne d. d. and SIJ d.d. resolved mutual litigation and potential litigation with the owners of parent company.

Ownership Structure of the Parent Company

Shareholder	Number of shares 31 Dec. 2014	Number of shares 31 Dec. 2013
DILON, d. o. o., Gerbičeva ulica 98, Ljubljana	718,351	718,351
Republic of Slovenia, Gregorčičeva ulica 20, Ljubljana	248,655	248,655
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	7,927	7,917
HIDRIA ROTOMATIKA, d. o. o., Spodnja Kanomlja 23, Spodnja Idrija	0	10
UNIOR, d. d., Kovaška cesta 10, Zreče	10	10
Total	994,616	994,616

The ownership structure changed in 2014. Parent Company became the owner of 10 shares previously owned by HIDRIA ROTOMATIKA, d. d., and increased its share to 0.80 percent.

Capital Surplus

A 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. 2014	31 Dec. 2013
Legal reserves	1,396,081	1,396,081
Treasury shares	(2,256,634)	(2,254,727)
Reserves for treasury shares	1,907	0
Revenue reserves	(858,646)	(858,646)

The parent company acquired treasury shares in the amount of EUR 2,254,727 on the basis of the Act Regulating the Incurrence and Settlement of Liabilities of Slovenske železarne as regards the Restructuring Program (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). The 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. The shares are recognized at cost.

In 2014 the parent company acquired 10 treasury shares on the basis of decisions taken at the 25th General Assembly of 9 June 2014, and established reserves in the amount of EUR 1,907 for treasury shares. The shares are recognized at cost.

Fair Value Reserves

	31 Dec. 2014	31 Dec. 2013
Fair value reserves due to available-for-sale financial assets	205,805	85,757
Deferred tax liabilities	(34,988)	(14,580)
Fair value reserves	170,817	71,177

Distributable Profit

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

26. EMPLOYEE BENEFITS

	31 Dec. 2014	31 Dec. 2013
Provisions for severance pay	8,318,786	8,465,761
Provisions for loyalty bonuses	1,994,700	1,995,127
Provisions for post-employment benefits	124,947	126,320
Employee benefits	10,438,433	10,587,208

The Group did not carry out an actuarial calculation, because in 2014 the assumptions used to determine the amount of provisions did not change significantly.

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 the market yields of government bonds in the euro area and the time remaining to maturity of liabilities, discounted at an interest rate between 0.1 and 3.2 percent, depending on the age structure of the employees or maturity.

In 2013 an actuarial calculation was made on the basis of the actuarial model and assumptions, derived from the tables of deaths, staff turnover, growth of salaries in

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

27. OTHER PROVISIONS

	31 Dec. 2014	31 Dec. 2013
Provisions for environmental rehabilitation	200,000	500,000
Provisions for law suits	901,891	1,042,670
Provisions for complaints	575,388	320,131
Other provisions	1,677,279	1,862,801

Movement of Other Provisions in 2014

	31 Dec. 2013	Formation	Reversal and utilization	31 Dec. 2014
Provisions for environmental rehabilitation	500,000	0	(300,000)	200,000
Provisions for law suits	1,042,670	0	(140,779)	901,891
Other provisions	320,131	257,257	(2,000)	575,388
Other provisions	1,862,801	257,257	(442,779)	1,677,279

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
Other provisions	396,515	2,000	(78,384)	320,131
Other provisions	1,866,188	83,928	(87,315)	1,862,801

28. DEFERRED REVENUES

	31 Dec. 2014	31 Dec. 2013
Assigned contributions	865,983	775,845
Other deferred revenues	0	1,667
Deferred revenues	865,983	777,512

Movement of Deferred Revenues in 2014

	31 Dec. 2013	Formation	Reversal and utilization	31 Dec. 2014
Assigned contributions	775,845	1,376,760	(1,286,622)	865,983
Other deferred revenues	1,667	56,898	(58,565)	0
Deferred revenues	777,512	1,433,658	(1,345,187)	865,983

Movement of 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
Deferred revenues	682,590	1,348,843	(1,253,921)	777,512

29. NON-CURRENT FINANCIAL LIABILITIES

	31 Dec. 2014	31 Dec. 2013
Borrowings	138,071,979	155,402,664
Liabilities for bonds issued	42,897,000	0
Liabilities arising from finance lease	2,413,065	3,600,835
Non-current financial liabilities	183,382,044	159,003,499

Borrowings include loans from domestic and foreign banks. Borrowings in the amount of EUR 126,936,913 are secured with properties, receivables and inventories. Other borrow-

ings are not secured. The interest rate for the majority of borrowings and liabilities arising from finance lease is flexible and based on EURIBOR.

Movement of Non-Current Borrowings

	2014	2013
Balance as at 1 Jan.	155,402,664	135,873,076
Borrowings	32,882,873	76,407,952
Repayments for borrowings	(25,175,000)	(6,669,973)
Reclassification from non-current borrowings	(25,038,264)	(50,208,925)
Exchange rate differences	1,729	3,884
Translation differences	(2,023)	(3,350)
Balance as at 31 Dec.	138,071,979	155,402,664

Liabilities for bonds issued

Liabilities for bonds issued refer to the bonds issued parent company with the official designation of SIJ2. The bonds were issued with the total nominal value of EUR 42,897,000. The entire bond issue contains 42,897 denominations of EUR 1,000.00. The bond maturity date is 24 November

2019. The interest rate on the bonds is fixed, i.e. 4.50 percent per annum. Interest is accrued annually in arrears. The nominal value of the principal falls due, in full and in a single amount, on the maturity of the bond. The bonds have been traded on the Ljubljana Stock Exchange since 29 December 2014. The SIJ2 bond liabilities stood at EUR 42,897,000 on 31 December 2014.

Movement of Non-Current Liabilities Arising from Finance Lease

	2014	2013
Balance as at 1 Jan.	3,600,835	6,288,123
Liabilities arising from finance lease	692,251	1,501,416
Repayments of liabilities arising from finance lease	0	(5,845)
Reclassification from non-current liabilities arising from finance lease	(1,880,011)	(4,182,875)
Exchange rate differences	13	163
Translation differences	(23)	(147)
Balance as at 31 Dec.	2,413,065	3,600,835

The lowest sum of future leases due for payment amounts in the next financial year EUR 1,868,529 in 1 to 5 years EUR 2,009,143 and after 5 years EUR 609,757.

The net present value of leases due for payment amounts in the next financial year EUR 1,736,513 in 1 to 5 years EUR 1,850,529 and after 5 years EUR 562,536.

30. NON-CURRENT OPERATING LIABILITIES

	31 Dec. 2014	31 Dec. 2013
Emission coupons	761,842	0
Other liabilities	151,825	294,459
Non-current operating liabilities	913,667	294,459

31. CURRENT FINANCIAL LIABILITIES

	31 Dec. 2014	31 Dec. 2013
Borrowings	70,412,408	109,089,317
Interest liabilities	1,291,591	1,328,297
Liabilities arising from finance lease	1,736,513	3,521,737
Current financial liabilities	73,440,512	113,939,351

Borrowings include loans from domestic and foreign banks. Borrowings in the amount of EUR 49,000,601 are secured with properties, receivables and inventories. Other borrow-

ings are not secured. The interest rate for the majority of borrowings and liabilities arising from finance lease is flexible and based on EURIBOR.

Movement of Current Borrowings

	2014	2013
Balance as at 1 Jan.	109,089,317	107,359,894
Borrowings	237,677,882	254,345,168
Repayments for borrowings	(302,030,045)	(302,611,088)
Reclassification from non-current borrowings	25,038,264	50,208,925
Exchange rate differences	11,472	2,859
Translation differences	625,518	(222,598)
Other	0	6,157
Balance as at 31 Dec.	70,412,408	109,089,317

Movement of Current Liabilities Arising from Finance Lease

	2014	2013
Balance as at 1 Jan.	3,521,737	3,960,565
Repayments of liabilities arising from finance lease	(3,665,081)	(4,621,567)
Reclassification from non-current liabilities arising from finance lease	1,880,011	4,182,875
Exchange rate differences	(126)	220
Translation differences	(28)	(356)
Balance as at 31 Dec.	1,736,513	3,521,737

The lowest sum of future leases, due for payment in the next financial year, amounts to EUR 1,868,529 as at 31 December 2014, and the net present value of leases amounts to EUR 1,736,513 on the same date.

32. CURRENT OPERATING LIABILITIES

	31 Dec. 2014	31 Dec. 2013
Liabilities to suppliers	155,323,040	151,735,761
Liabilities to employees	3,945,616	3,669,921
Received advance payments	1,515,267	1,566,286
Tax liabilities	4,395,229	3,771,592
Other liabilities	1,726,413	754,009
Current operating liabilities	166,905,565	161,497,569

33. OTHER CURRENT LIABILITIES

	31 Dec. 2014	31 Dec. 2013
Accrued customer fees	1,121,085	1,536,561
Accrued expenses for unused annual leave	933,341	1,026,490
Accrued expenses for law suits	67,594	32,269
Accrued audit expenses	35,946	68,339
Other liabilities	635,630	1,401,648
Deferred revenue	59,364	68,552
Other current liabilities	2,852,960	4,133,859

34. SEGMENT REPORTING

Segment reporting for 2014

	Steel Division	Distribution & Processing Division	Scrap Division	Manufacturing Division	Headquarter and other Services	Transaction between segments	Total	Consolidated financial statements
Revenues on the segments	584,062,754	123,317,158	98,542,010	48,091,740	12,927,997	-	866,941,658	-
Eliminations	(4,674,524)	(1,472,372)	(14,159,938)	(317,551)	(519,989)	(137,939,451)	(159,083,825)	-
Revenues	579,388,230	121,844,786	84,382,072	47,774,189	12,408,008	(137,939,451)	707,857,833	707,857,833
Costs on the segments	557,128,642	121,666,008	97,266,417	46,127,944	12,404,613	-	834,593,624	-
Eliminations	(4,674,524)	(1,472,372)	(14,159,938)	(317,551)	(519,990)	(138,155,350)	(159,299,725)	-
Expenses	552,454,118	120,193,636	83,106,479	45,810,393	11,884,623	(138,155,350)	675,293,899	675,293,899
Other operating income (expenses)	(5,028,334)	130,283	11,244	(1,133,876)	(901,330)	(57,028)	(6,979,041)	(6,979,041)
Profit (loss) from operation	31,962,446	1,520,867	1,264,348	3,097,672	1,424,715	272,924	39,542,972	39,542,972
Net finance income (costs)	(10,332,469)	(1,546,227)	(947,069)	(42,463)	3,592	(592,256)	(13,456,892)	(13,456,892)
Share of profit in associates	599,981	0	0	0	0	0	599,981	599,981
Taxes	(1,089,331)	(235,789)	(22,018)	(289,473)	(145,543)	0	(1,782,154)	(1,782,154)
Profit (loss) for the year	21,140,627	(261,149)	295,261	2,765,736	1,282,764	(319,329)	24,903,910	24,903,910
Assets on segments	628,872,206	93,775,553	29,607,932	39,445,068	238,737,895	(241,177,828)	789,260,826	789,260,826
Liabilities on segments	368,606,320	75,034,735	21,454,197	13,462,027	55,801,064	(93,232,975)	441,125,368	441,125,368

Segment reporting for 2013

	Steel Division	Distribution & Processing Division	Scrap Division	Manufacturing Division	Headquarter and other Services	Transaction between segments	Total	Consolidated financial statements
Revenues on the segments	518,647,467	123,698,938	98,996,439	48,005,974	12,509,567	-	801,858,385	-
Eliminations	(1,690,884)	(815,792)	(14,600,657)	(347,661)	(1,027,794)	(124,722,150)	(143,204,938)	-
Revenues	516,956,583	122,883,146	84,395,782	47,658,313	11,481,773	(124,722,150)	658,653,447	658,653,447
Costs on the segments	517,997,037	122,640,773	97,952,637	47,662,680	12,979,603	-	799,232,731	-
Eliminations	(1,690,884)	(815,792)	(14,600,657)	(347,661)	(1,027,794)	(123,697,103)	(142,179,891)	-
Expenses	516,306,153	121,824,981	83,351,980	47,315,019	11,951,809	(123,697,103)	657,052,840	657,052,840
Other operating income (expenses)	71,130	281,113	12,983	(564,834)	(1,393,914)	1,030,709	(562,813)	(562,813)
Profit (loss) from operation	579,300	777,052	1,030,819	908,128	923,877	(2,055,756)	2,163,420	2,163,420
Net finance income (costs)	(9,997,493)	(1,788,579)	(967,412)	(54,446)	604,228	0	(12,203,702)	(12,203,702)
Share of profit in associates	317,378	0	0	0	0	0	317,378	317,378
Taxes	4,601,480	219,466	(37,207)	39,878	(23,510)	0	4,800,107	4,800,107
Profit (loss) for the year	(4,499,335)	(792,061)	26,200	893,560	1,504,596	(2,055,756)	(4,922,797)	(4,922,797)
Assets on segments	641,381,905	82,683,191	27,592,289	38,489,378	215,944,882	(230,312,852)	775,778,793	775,778,793
Liabilities on segments	402,269,636	65,095,811	19,620,844	15,272,074	33,866,711	(83,931,459)	452,193,615	452,193,615

35. CONTINGENT ASSETS AND LIABILITIES

Contingent assets amounted to EUR 3,646,171 as at 31 December 2014 and refer to received guarantees for the elimination of errors during the warranty period. The Group expects no inflows from received guarantees.

Contingent liabilities amounted to EUR 5,187,393 as at 31 December 2014. They include issued guarantees in the value of EUR 1,114,803, and guarantees for good work performance in the value of EUR 4,072,590. The Group expects no outflows from the issued securities and guarantees.

36. BUSINESS COMBINATIONS

On 28 February 2013 the takeover of "TOPMETAL" d.o.o. Laktaši, 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 of the business combination of purchasing the company.

When preparing the Annual Report the Group estimated

that the considered temporary fair values of the acquired assets of "TOPMETAL" d.o.o. Laktaši had changed. Therefore the goodwill determined in 2013, in the amount of EUR 61,683 has changed.

The statements of financial position of "TOPMETAL" d.o.o. Laktaši, on the date when the Group acquired the controlling interest and on the date of preparing the Annual Report is given below:

	Temporary fair value as at 31 Dec. 2013	Fair value as at 31 Dec. 2013 determined in 2014	Difference
Assets			
Cash and cash equivalents	588,986	588,986	0
Property, plant and equipment, intangible assets	292,042	292,042	0
Inventories	82,347	82,347	0
Operating receivables	249,097	140,415	108,682
Financial receivables	5,931	5,931	0
Equity and liabilities			
Other liabilities	3,900	3,900	0
Net assets	1,214,503	1,105,821	108,682
Non-controlling interest (49%)	595,106	541,852	
Acquired net assets	619,397	563,969	
Acquisition price	681,080	572,398	
Carrying amount of acquired net assets	619,397	563,969	
Goodwill	61,683	8,429	

The Group established a new fair value for account receivables. The change is reflected in the lower acquisition price and consequently in the decrease in the estimated goodwill.

Since the goodwill disclosed in the Annual Report for 2013 changed, the Group considered the change as if it had been done on 31 Dec. 2013. The change was made on the retained earnings and intangible assets.

RELATED PARTIES

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

Related Party Transactions Excluded from the Consolidated Financial Statements

	2014	2013
Revenues/expenses	159,083,825	143,204,938

	31 Dec. 2014	31 Dec. 2013
Operating receivables/liabilities	55,101,368	48,977,438
Financial receivables/liabilities	49,003,392	46,003,999
Investments in subsidiaries	171,214,421	170,170,376

Transactions with the Parent Company

	2014	2013
Revenues	1,029,655	600,652

	31 Dec. 2014	31 Dec. 2013
Receivables	1,597	15,037,881

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

	2014
Management and employees with service contracts	11,656,825
Members of the Supervisory Board	166,913

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

Group or the Members of the Supervisory Board in 2014.

The Group did not grant any loans, issue any guarantees or make any advance payments to the management of the

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. 2014	Overdue					Total
	Not - overdue	Up to 3 months	From 3 months to 1 year	From 1 year to 3 years	Over 3 years	
Trade receivables	108,482,148	13,544,110	1,365,454	1,358,641	175,314	124,925,667
Financial receivables and deposits	16,319,556	7,271	0	415	0	16,327,242
Total	124,801,703	13,551,381	1,365,454	1,359,056	175,314	141,252,909

31 Dec. 2013	Overdue					Total
	Not - overdue	Up to 3 months	From 3 months to 1 year	From 1 year to 3 years	Over 3 years	
Trade receivables	103,481,599	16,286,026	2,666,108	366,785	166,521	122,967,039
Financial receivables and deposits	4,613,377	193,409	2,033,203	123,782	0	6,963,771
Total	108,094,975	16,479,435	4,699,311	490,567	166,521	129,930,809

Movement of Allowance for Financial Assets

	Allowance on 31 Dec. 2013	Formation of allowance for the year	Repayment of assets subject to allowance	Other changes without influence on profit or loss	Allowance on 31 Dec. 2014
Trade receivables	4,725,975	1,104,057	(267,646)	(1,427,855)	4,134,531
Financial receivables and deposits	876	0	0	(47)	829
Total	4,726,851	1,104,057	(267,646)	(1,427,902)	4,135,360

	Allowance on 31 Dec. 2012	Formation of allowance for the 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
Financial receivables and deposits	5,867	885	0	(5,876)	876
Total	3,414,591	1,554,480	(140,603)	(101,616)	4,726,852

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. 2014	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
Liabilities to suppliers	150,936,919	4,386,121	0	0	155,323,040
Liabilities for borrowings	30,755,678	46,820,536	189,897,161	21,484,385	288,957,760
Other operating and financial liabilities	1,718,171	145,236	913,668	0	2,777,075
Total	183,410,768	51,351,893	190,810,829	21,484,385	447,057,875

31 Dec. 2013	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
Liabilities to suppliers	144,413,296	7,322,467	0	0	151,735,763
Liabilities for borrowings	48,262,450	73,844,211	160,886,365	19,003,778	301,996,804
Other operating and financial liabilities	863,372	8,240	174,742	0	1,046,354
Total	193,539,118	81,174,918	161,061,107	19,003,778	454,778,921

The Group estimates the risk of exposure to banks to be moderate. The Group fully complies with the covenant of the loan agreements in the district, which provides data transmission, the payment of interest and the repayment of the principal.

FOREIGN EXCHANGE RISK

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

	Exchange rate as at 31 Dec. 2014
EUR/USD	1.21
EUR/GBP	0.78
EUR/CHF	1.20
EUR/HRK	7.66
EUR/RSD	120.60

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

	Net exposure
USD	(25,703,584)
GBP	181,904
CHF	75,497
HRK	(70)
EUR	(452,250)

INTEREST RATE RISK

A change in interest rates 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 2013 was prepared in the same manner.

	2014	2013
Change in profit (loss) if increased by 200 bp	(3,704,826)	(3,351,080)
Change in profit (loss) if increased by 100 bp	(1,852,413)	(1,675,540)
Change in profit (loss) if decreased by 100 bp	1,852,413	1,675,540
Change in profit (loss) if decreased by 200 bp	3,704,826	3,351,080

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 liabilities.

	2014	Debt increase by 10%	Debt decrease by 10%
Level of debt on equity	100.62	110.68	90.56
Equity	348,135,458	348,135,458	348,135,458
Financial liabilities	350,287,609	385,316,370	315,258,848

CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Type of financial instrument	31 Dec. 2014		31 Dec. 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets at fair value through profit or loss	467	467	411	411
Available-for-sale financial assets	906,282	906,282	786,957	786,957
Financial receivables	160,521	160,521	16,950,436	16,950,436
Operating receivables	142,364,219	142,364,219	137,181,946	137,181,946
Cash and cash equivalents	38,993,236	38,993,236	24,909,911	24,909,911
Financial liabilities	(256,822,556)	(256,822,556)	(272,942,850)	(272,942,850)
Operating liabilities	(167,819,232)	(167,819,232)	(161,792,028)	(161,792,028)
Total	(242,217,063)	(242,217,063)	(254,905,217)	(254,905,217)

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

FAIR VALUE MEASUREMENTS

To determine fair value, the Group, where possible, take into account the market value of financial instruments. The Group begins measuring the financial assets in the valuation model when it is estimated that the market is inactive. In accordance with the IFRS and accounting policies, the Group divides financial instruments into three levels:

- Level 1 includes financial instruments whose fair value is fully determined on the basis of prices quoted in an active market.

- Level 2 includes financial instruments whose fair value is determined on the basis of valuation models which take into account variables that are derived on the basis of publicly available market data (such as market interest rates).

- Level 3 includes financial instruments whose fair value is determined on the basis of valuation models which take into account subjective variables, which are not publicly available on the market.

	31 Dec. 2014	31 Dec. 2013
Financial assets at fair value of the first level	616.726	496.622
Financial assets at fair value of the third level	450.544	17.241.182
Financial liabilities at fair value of the third level	(256.822.556)	(272.942.850)

EVENTS AFTER THE REPORTING DATE

In February 2015 parent company bought 11,468 shares from D.P.R. at a price of EUR 190.73 per share. Total of own shares now represents 1.9499 % of the total issued shares.



sij | financial
statement of
the company
SIJ d.d.

In 2014, the SIJ d.d. controlling company intensified its activities for effective corporate governance, process centralization, and the promotion of employee satisfaction and motivation.

**INDEPENDENT AUDITORS REPORT TO THE
OWNERS OF SIJ – Slovenska industrija jekla, d.d.****Report on the Financial Statements**

We have audited the accompanying unconsolidated financial statements of SIJ-Slovenska industrija jekla, d.d., which comprise the statement of financial position as at 31.12.2014, 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 unconsolidated financial statements give a true and fair view of the financial position of SIJ-Slovenska industrija jekla, d.d. as of 31.12.2014, 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.

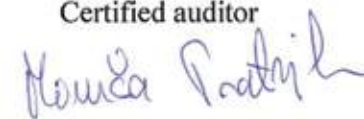
The company SIJ – Slovenska industrija jekla, d.d. is the controlling company in the SIJ – Slovenska industrija jekla Group. The consolidated financial statements of the SIJ – Slovenska industrija jekla Group, prepared in accordance with International Financial Reporting Standards as adopted by the EU, are presented separately. We have audited the consolidated financial statements of the SIJ – Slovenska industrija jekla Group and issued an unqualified opinion on 6 March 2015.

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

DELOITTE REVIZIJA d.o.o.

Maruša Tratnjek
Certified auditor**Deloitte.**
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3Yuri Sidorovich
President of the Board

Ljubljana, 6 March 2015

Statement of management's responsibility

The Board of Directors is responsible for drawing up 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 Company operations.

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

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

- Properly selected and consistently applied accounting policies;
- Reasonable and rational assessments and estimates;
- Assurance that the financial statements have been compiled in accordance with the IFRS adopted by the European Union, and 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 Company's financial position at any given time, and for making sure that the financial statements of the Company are in accordance with the IFRS, adopted by the European Union. The Board of Directors is also responsible for protecting the Company's assets, as well as discovering and preventing abuses and other irregularities.

The tax authorities can inspect the operations of the Company at any time within 5 years after the end of the year in which the tax assessment should be made. This can result in the 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 any possible liability in this title is known to the Board of Directors.

The Board of Directors declares that the 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 financial statements, accounting policies and notes on 6 March 2015.

President of the Board of Directors
Anton Chernykh



Member of the Board of Directors
Igor Malevanov



Financial statements

STATEMENT OF COMPREHENSIVE INCOME

	Note	2014	2013
Revenue	1	9,836,495	8,806,548
Gross profit		9,836,495	8,806,548
General and administrative expenses	2	(9,653,064)	(10,204,992)
Other operating income	3	481,407	1,771,331
Other operating expenses	4	(206,019)	(86,668)
Operating profit		458,819	286,219
Finance income	5	3,318,748	2,584,387
Finance expenses	6	(2,429,305)	(1,105,515)
Net finance costs		889,443	1,478,872
Profit before taxation		1,348,262	1,765,091
Income tax expense	7	(137,827)	(2,432)
Deferred income tax	7	100	(11,231)
Profit for the year		1,210,535	1,751,428
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Income tax related to components of comprehensive income		(20,408)	(8,238)
<i>Items that may be reclassified subsequently to profit or loss</i>			
Change in fair value reserves for available-for-sale financial assets		120,048	50,525
Comprehensive income		1,310,175	1,793,715
Profit for the year		1,210,535	1,751,428
Basic and diluted earnings per share	8	1.23	1.78

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

STATEMENT OF FINANCIAL POSITION

	Note	31 Dec. 2014	31 Dec. 2013
ASSETS			
Non-current assets		177,941,586	178,579,546
Intangible assets	9	633,138	389,781
Property, plant and equipment	10	5,763,602	5,345,550
Investment property	11	1,157	2,700
Investments in subsidiaries	12	163,507,031	161,539,532
Available-for-sale financial assets	13	884,628	764,580
Financial receivables	14	5,992,414	9,348,578
Operating receivables	15	29,494	135,839
Other assets	16	102,341	4,896
Deferred tax assets	17	1,027,781	1,048,090
Current assets		62,886,136	40,049,637
Assets (group) held for disposal	18	34,560	34,560
Financial assets at fair value through profit or loss	19	467	411
Financial receivables	20	25,990,297	20,389,412
Operating receivables	21	19,265,869	19,216,988
Cash and cash equivalents	22	17,517,260	380,415
Other assets	23	77,683	27,851
Total assets		240,827,722	218,629,183
EQUITY AND LIABILITIES			
Equity	24	181,227,591	180,441,159
Share capital		145,266,066	145,266,066
Capital surplus		11,461,177	11,461,177
Revenue reserves		(858,646)	(858,646)
Fair value reserves		170,817	71,177
Retained earnings		25,188,177	24,501,385
Non-current liabilities		43,562,751	6,080,889
Employee benefits	25	462,424	462,424
Deferred revenue		0	2,106
Financial liabilities	26	43,097,591	5,498,748
Operating liabilities	27	2,736	117,611
Current liabilities		16,037,380	32,107,135
Financial liabilities	28	12,240,489	28,208,272
Operating liabilities	29	3,534,815	3,743,966
Income tax liabilities		125,624	2,432
Other liabilities	30	136,452	152,465
Total equity and liabilities		240,827,722	218,629,183

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

STATEMENT OF CHANGES IN EQUITY

Statement of Changes in Equity in 2014

	Share capital	Capital surplus	Revenue reserves	Fair value reserves	Retained earnings	Total
Balance as at 31 Dec. 2013	145,266,066	11,461,177	(858,646)	71,177	24,501,385	180,441,159
Purchase of treasury shares	0	0	(1,907)	0	0	(1,907)
Transaction with owners	0	0	0	0	(521,836)	(521,836)
Total transactions with owners	0	0	(1,907)	0	(521,836)	(523,743)
Profit for the year	0	0	0	0	1,210,535	1,210,535
Other changes in comprehensive income	0	0	0	99,640	0	99,640
Total changes in comprehensive income	0	0	0	99,640	1,210,535	1,310,175
Creation of reserves for treasury shares	0	0	1,907	0	(1,907)	0
Total changes in equity	0	0	1,907	0	(1,907)	0
Balance as at 31 Dec. 2014	145,266,066	11,461,177	(858,646)	170,817	25,188,177	181,227,591

Statement of Changes in Equity in 2013

	Share capital	Capital surplus	Revenue reserves	Fair value reserves	Retained earnings	Total
Balance as at 31 Dec. 2012	145,266,066	11,461,177	(946,217)	28,890	22,837,529	178,647,445
Creation of legal reserves	0	0	87,571	0	(87,571)	0
Total transactions with owners	0	0	87,571	0	(87,571)	0
Profit for the year	0	0	0	0	1,751,428	1,751,428
Other changes in comprehensive income	0	0	0	42,287	0	42,287
Total changes in comprehensive income	0	0	0	42,287	1,751,428	1,793,715
Balance as at 31 Dec. 2013	145,266,066	11,461,177	(858,646)	71,177	24,501,385	180,441,159

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

	Note	2014	2013
Cash flow from operating activities			
Profit before tax		1,348,262	1,765,091
Adjusted for:			
Depreciation and amortisation	9, 10	322,349	209,718
Interest income	5	(1,818,138)	(1,145,740)
Interest expenses	6	1,622,856	773,722
Loss in investment sales	12	29,463	327,546
Creation of allowances and provisions		115	33,242
Other adjustments		(847,872)	(3,178,132)
Operating cash flows before changes in working capital		657,035	(1,214,553)
Changes in working capital			
Change in operating receivables		199,336	3,917,930
Change operating payables		(541,432)	979,100
Change in taxes other than income tax		738,548	145,670
Income tax paid		(4,661)	0
Other direct payments		(521,836)	0
Changes in working capital		(130,045)	5,042,700
Net cash generated from operating activities		526,990	3,828,147
Cash flow from investing activities			
Payments for investments in subsidiaries		(2,275,000)	(600,000)
Payments for property, plant and equipment		(1,050,371)	(2,699,926)
Receipts from property, plant and equipment		48,810	1,979
Payments for intangible assets		(345,136)	(88,415)
Receipts from other assets		0	(3,457)
Payments for loans issued	14, 20	(37,130,000)	(16,578,592)
Receipts from loans issued	14, 20	32,576,376	1,942,100
Interests received		2,477,778	325,781
Dividends received	13	56,025	52,192
Net cash used in investing activities		(5,641,518)	(17,648,338)
Cash flow from financing activities			
Receipts from borrowings	26, 28	83,802,000	24,720,000
Payments for borrowings	28	(62,025,000)	(11,860,000)
Receipts for financial lease	20	468,799	415,407
Payments for financial lease	28	(583,156)	(473,675)
Receipts from finance services		2,101,725	0
Interests paid		(1,512,995)	(683,141)
Net cash generated in financing activities		22,251,373	12,118,591
Cash and cash equivalents as at 1 Jan.		380,415	2,082,015
Increase (decrease)		17,136,845	(1,701,600)
Cash and cash equivalents as at 31 Dec.		17,517,260	380,415

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

Notes to the financial statements

REPORTING ENTITY

SIJ – Slovenska industrija jekla, d. d. (hereinafter: company SIJ or the Company) is the Company with its registered office in Slovenia. Its registered address is at Gerbičeva ulica 98, 1000 Ljubljana. Given below are the financial statements for the year ending as at 31 December 2014.

The consolidated financial statements for a selected group of subsidiaries are compiled by the company SIJ. The consolidated financial statements for the SIJ Group is available at the registered office of the Company at Gerbičeva ulica 98, 1000 Ljubljana. The consolidated financial statements for the 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 financial statements for 2014 have been prepared in accordance with the IFRS as adopted by the European Union. The standards have been applied directly in disclosures and the valuation of items. The exception is the valuation of items for which the standards allow several methods of valuation.

The 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 financial statements, the Board of Directors considered the following three requirements: the financial statements are comprehensible, if users can understand them without difficulty; the information is adequate, if it helps users make economic decisions; and the information is fundamental, if its exclusion or false presentation could influence users' economic decisions.

The 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, as given below:

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 10 “Consolidated Financial Statements”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 11 “Joint Arrangements”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 12 “Disclosures of Interests in Other Entities”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 27 (revised in 2011) “Separate Financial Statements”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosures of Interests in Other Entities” – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 27 (revised in 2011) “Separate Financial Statements” – Investment Entities, adopted by the EU on 20 November 2013 (effective for 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 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 36 “Impairment of assets” - Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for 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 (effective for annual periods beginning on or after 1 January 2014).

The adoption of these amendments to the existing standards had no effect on the accounting policies of the Company.

REPORTING ENTITY

SIJ – Slovenska industrija jekla, d. d. (hereinafter: company SIJ or the Company) is the Company with its registered office in Slovenia. Its registered address is at Gerbičeva ulica 98, 1000 Ljubljana. Given below are the financial statements for the year ending as at 31 December 2014.

The consolidated financial statements for a selected group of subsidiaries are compiled by the company SIJ. The consolidated financial statements for the SIJ Group is available at the registered office of the Company at Gerbičeva ulica 98, 1000 Ljubljana. The consolidated financial statements for the 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 financial statements for 2014 have been prepared in accordance with the IFRS as adopted by the European Union. The standards have been applied directly in disclosures and the valuation of items. The exception is the valuation of items for which the standards allow several methods of valuation.

The 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 financial statements, the Board of Directors considered the following three requirements: the financial statements are comprehensible, if users can understand them without difficulty; the information is adequate, if it helps users make economic decisions; and the information is fundamental, if its exclusion or false presentation could influence users' economic decisions.

The 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, as given below:

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 10 "Consolidated Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 11 "Joint Arrangements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 12 "Disclosures of Interests in Other Entities", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 27 (revised in 2011) "Separate Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities" – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 (revised in 2011) "Separate Financial Statements" – Investment Entities, adopted by the EU on 20 November 2013 (effective for 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 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 36 "Impairment of assets" - Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for 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 (effective for annual periods beginning on or after 1 January 2014).

The adoption of these amendments to the existing standards had no effect on the accounting policies of the Company.

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

On the date of the approval of the financial statements the following standards, amendments and interpretations adopted by the European Union were issued, but not yet effective:

- Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 18 December 2014 (amendments are to be applied for annual periods beginning on or after 1 January 2015),
- Amendments to IAS 19 "Employee Benefits" - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- IFRIC 21 "Levies" adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

The Company decided not to apply these standards, amendments and interpretations before their entry into force. The Company projects that the adoption of these standards, amendments and interpretations will not have significant effect on the 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 the IASB, with the exception of the following standards, amendments to the existing standards, and interpretations, which had not yet been approved for use on 6 March 2015:

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018),
- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016),
- IFRS 15 "Revenue from Contracts with Customers"

(effective for annual periods beginning on or after 1 January 2017),

- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),
- Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The Company projects that the adoption of these standards, amendments to the existing standards, and interpretations will not have any significant effect on the financial statements at their first application. At the same time the accounting of the 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 Company assesses that the use of the accounting of the hedging instrument in connection with the financial assets and liabilities in accordance with the requirements of IAS 39: "Financial Instruments: Recognition and Measurement" would not have significant influence on the financial state

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 it 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, as 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 Company'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.

Net Earnings per Share

The Company recognizes basic and diluted earnings per share for ordinary shares. Basic earnings per share are calculated by dividing the 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 the 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 assets. The cost model is used for any subsequent measuring of intangible assets.

Intangible assets with an 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 previous years is 2–10 years.

Amortisation methods, useful life, and other 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 Company 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.

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 measurement 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 the current and previous year are:

	Useful life
Real estate	20 - 60 years
Computer equipment	2 - 3 years
Motor vehicles	3 - 8 years
Other equipment	1 - 10 years

Depreciation methods, useful life and other 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 Company, and if 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.

Investments in Subsidiaries

Investments in subsidiaries are accounted for at cost. The Company recognizes income from an investment only to the extent that it originates from a distribution of accumulated profits of the investee arising after the date of acquisition.

Investments in Associates

Investments in associates are accounted for at cost. Associates are those companies where the Company has a significant influence on their operations, but which it does not control.

Financial Instruments

Financial instruments include the following items:

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

Non-Derivative Financial Assets

Non-derivative financial assets include cash and cash equivalents, loans and receivables, and investments. Loans, receivables and deposits are initially recognized when they are incurred. Other assets are initially recognized on the trade date on which the Company 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 of 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 Company include operating, financial and other liabilities. Financial liabilities are initially recognized on the trade date on which the Company becomes a contracting party in relation to the instrument. The Company 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).

Assets (Group) held for Disposal

Assets or disposal groups which include assets and liabilities whose value is expected to 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. Impair-

ment 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 Company 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 Company creates these groups on the basis of the maturity of receivables. In the evaluation of total impairment, the Company 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 Company 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 Company 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 Company 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 has been recognized for the asset in previous years.

Determination of Fair Value

Following the accounting policies of the Company, 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 the 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 the valuation, after appropriate marketing. The market value of equipment is based on the quoted market price for similar items.

Investment Property

The fair 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 previously-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 Company measures the financial asset at cost.

Receivables and Loans

The fair value of receivables and loans issued is calculated as

the present value of future cash flows discounted at the 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 equity of the company is its liability to its owners, which falls due if the company discontinues its operations, in which the equity volume is adjusted according to the currently attainable price of total assets. It is defined by the amounts invested by the owners, and the amounts that appeared during operation and belong to the owners. It is decreased by the loss from operations and payments to owners, and increased by the profit generated in the period.

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 the reversal of the 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 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 Company, 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 Company 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. The provisions are reviewed periodically or when the assumptions used to determine the amount of provisions change significantly.

Deferred Revenues

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

Cash Flow Statement

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

Segment Reporting

The company's activity is an activity holding company, the business management of the company itself is not accompanied by segment, as a part of the section holding services in the group. Therefore, the company does not report by business segments, segments of the group are presented in business and financial report of the SIJ Group.

NOTES TO INDIVIDUAL ITEMS IN THE FINANCIAL STATEMENTS

1. REVENUE

	2014	2013
In Slovenia	9,825,870	8,802,937
Abroad	10,625	3,611
Revenue	9,836,495	8,806,548

2. OPERATING EXPENSES

	2014	2013
Costs of goods, materials and services	2,397,205	3,217,395
Labor costs	6,819,884	6,639,714
- wages and salaries	5,664,857	5,448,202
- social security costs	519,595	499,389
- other labor costs	635,432	692,123
Depreciation and amortisation costs	322,349	209,718
Other costs	113,626	138,165
Operating expenses	9,653,064	10,204,992

The auditing costs for the 2014 Annual Report amounted to EUR 14,000 EUR (2013: EUR 10,000).

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

	2014	2013
Primary school	1.00	1.00
2.5-year vocational school	1.00	1.00
3-or 4-year vocational school	7.05	7.00
Secondary vocational or general school	2.94	2.83
Higher education I. level	2.00	1.86
Higher education II. level	27.47	23.97
Master's Degree, Ph.D.	7.93	4.97
Total	49.39	42.63

3. OTHER OPERATING INCOME

	2014	2013
Dividend income	56,025	621,642
Other income	425,382	1,149,689
Other operating income	481,407	1,771,331

4. OTHER OPERATING EXPENSES

	2014	2013
Expenses for donations and sponsorships	155,207	11,208
Creation of allowances for receivables	115	215
Other expenses	50,697	75,245
Other operating expenses	206,019	86,668

5. FINANCE INCOME

	2014	2013
Interest income	1,818,139	1,145,740
Fees for guarantees issued	1,498,943	1,438,217
Exchange rate differences	1,666	430
Finance income	3,318,748	2,584,387

6. FINANCE EXPENSES

	2014	2013
Interest expenses	1,622,856	773,722
Loss from sale and revaluation of available-for-sale financial assets	29,477	327,546
Exchange rate differences	81	2,181
Other expenses	776,891	2,066
Finance expenses	2,429,305	1,105,515

7. TAXES

	2014	2013
Income tax expenses	137,827	2,432
Deferred income tax	(100)	11,231
Taxes	137,727	13,663

	2014	2013
Profit (loss) before tax	1,348,262	1,765,091
Tax at applicable tax rate	229,205	300,065
Tax effects from:		
- non-taxable income	(9,524)	(298,725)
- tax non-deductible expenses	33,085	71,672
- utilisation of previously unrecognised tax losses	0	14,936
- income tax relief	(192,547)	(74,285)
- other	77,508	0
Taxes	137,727	13,663
Effective tax rate	10.22 %	0.8 %

8. NET EARNINGS PER SHARE

	2014	2013
Profit for the year	1,210,535	1,751,428
Weighted number of issued ordinary shares	986,693	986,699
Basic and diluted earnings per share	1.23	1.78

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

9. INTANGIBLE ASSETS

Movement of Intangible Assets in 2014

	Non-current property rights	Assets under construction	Total
Cost as at 31 Dec. 2013	385,656	173,887	559,543
New additions	0	303,031	303,031
Transfer from assets under construction	11,376	(11,376)	0
Cost as at 31 Dec. 2014	397,032	465,542	862,574
Accumulated amortisation as at 31 Dec. 2013	(169,762)	-	(169,762)
Amortisation	(59,674)	-	(59,674)
Accumulated amortisation as at 31 Dec. 2014	(229,436)	-	(229,436)
Present value as at 31 Dec. 2013	215,894	173,887	389,781
Present value as at 31 Dec. 2014	167,596	465,542	633,138

In 2014 the renovation of the information system continued, completion is scheduled for 2015.

intangible assets amounted to EUR 2,177,343. The intangible assets are not pledged as security for liabilities.

As at 31 December 2014 the Company's unsettled liabilities to suppliers for the purchase of intangible assets amounted to EUR 310,964. Its contractual liabilities for the purchase of

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

Movement of Intangible Assets in 2013

	Non-current property rights	Assets under construction	Total
Cost as at 31 Dec. 2012	315,263	118,804	434,067
New additions	0	125,476	125,476
Transfer from assets under construction	70,393	(70,393)	0
Cost as at 31 Dec. 2013	385,656	173,887	559,543
Accumulated amortisation as at 31 Dec. 2012	(112,170)	-	(112,170)
Amortisation	(57,592)	-	(57,592)
Accumulated amortisation as at 31 Dec. 2013	(169,762)	-	(169,762)
Present value as at 31 Dec. 2012	203,093	118,804	321,897
Present value as at 31 Dec. 2013	215,894	173,887	389,781

10. PROPERTY, PLANT AND EQUIPMENT

Movement of Property, Plant and Equipment in 2014

	Land	Buildings	Equipment	Assets under construction	Total
Cost as at 31 Dec. 2013	716,707	4,210,292	1,114,076	621,275	6,662,350
New additions	0	0	0	738,729	738,729
Transfer from assets under construction	0	909,623	363,273	(1,272,896)	0
Write-offs and disposals	0	0	(172,701)	0	(172,701)
Cost as at 31 Dec. 2014	716,707	5,119,915	1,304,648	87,108	7,228,378
Accumulated depreciation as at 31 Dec. 2013	-	(561,070)	(755,730)	-	(1,316,800)
Depreciation	-	(132,056)	(130,619)	-	(262,675)
Write-offs and disposals	-	0	114,699	-	114,699
Accumulated depreciation as at 31 Dec. 2014	-	(693,126)	(771,650)	-	(1,464,776)
Present value as at 31 Dec. 2013	716,707	3,649,222	358,346	621,275	5,345,550
Present value as at 31 Dec. 2014	716,707	4,426,789	532,998	87,108	5,763,602

Mayor new additions and finished investments in the amount of EUR 909,623 include in 2013 started renovation of the old part of the building, which was completed in 2014.

The remaining increase in property, plant and equipment represent the purchase of computer equipment, office furniture and purchase of vehicles. Write – offs and disposals include sales of vehicles, computer equipment and office furniture.

Property, plant and equipment are not pledged as security

for liabilities. As at 31 December 2014 the Company's unsettled liabilities to suppliers for the purchase of property, plant and equipment amounted to EUR 21,374. The present value of property, plant and equipment under finance lease is EUR 163,582. The Company capitalized EUR 1,966 of borrowing costs, for which the interest rates were between 4.17 and 5.06 percent.

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

Movement of Property, Plant and Equipment in 2013

	Land	Buildings	Equipment	Assets under construction	Total
Cost as at 31 Dec. 2012	716,707	1,470,502	982,859	796,521	3,966,589
New additions	0	0	0	2,737,491	2,737,491
Transfer from assets under construction	0	2,749,738	162,999	(2,912,737)	0
Write-offs and disposals	0	(9,948)	(31,782)	0	(41,730)
Cost as at 31 Dec. 2013	716,707	4,210,292	1,114,076	621,275	6,662,350
Accumulated depreciation as at 31 Dec. 2012	-	(530,840)	(674,179)	-	(1,205,019)
Depreciation	-	(40,178)	(111,948)	-	(152,126)
Write-offs and disposals	-	9,948	30,397	-	40,345
Accumulated depreciation as at 31 Dec. 2013	-	(561,070)	(755,730)	-	(1,316,800)
Present value as at 31 Dec. 2012	716,707	939,662	308,680	796,521	2,761,570
Present value as at 31 Dec. 2013	716,707	3,649,222	358,346	621,275	5,345,550

11. INVESTMENT PROPERTY

	31 Dec. 2014	31 Dec. 2013
Investment property	1,157	2,700
Present value of Investment property	1,157	2,700

In 2014 the Company generated EUR 1,648 of expenses and EUR 1,663 of income from investment properties. The investment property are not pledged as security for liabilities.

The present value of the investment property does not exceed its realizable value.

12. INVESTMENTS IN SUBSIDIARIES

	31 Dec. 2014	31 Dec. 2013
ACRONI, d.o.o., Cesta Borisa Kidriča 44, Jesenice	83,458,521	83,458,521
METAL RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem	31,714,238	31,714,238
GRIFFON & ROMANO S.P.A., Via Tacito 8/10, Corsico, Italy	15,850,000	13,600,000
ŽELEZARNA JESENICE, d.o.o., Cesta železarjev 8, Jesenice	7,878,228	7,878,228
RAVNE STEEL CENTER d.o.o., Litostrojska cesta 60, Ljubljana	6,815,000	6,815,000
NIRO Wenden GmbH, Glück-Auf-Weg 2, Wenden, Germany	5,737,500	5,737,500
NOŽI RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem	5,108,400	5,108,400
ODPAD d.o.o., Pivka, Velika Pristava 23, Pivka	4,980,850	4,980,850
ELEKTRODE JESENICE, d.o.o., Cesta železarjev 8, Jesenice	1,256,051	1,256,051
SUZ, d.o.o., Cesta Borisa Kidriča 44, Jesenice	615,697	615,697
ZIP CENTER d.o.o., Koroška cesta 14, Ravne na Koroškem	67,547	67,547
SIJ Asia GmbH, Schwannstrasse 6, Düsseldorf, Germany	25,000	0
SIJ Obdelava Jekla d.o.o., Gerbičeva 98, Ljubljana	0	307,500
Investments in subsidiaries	163,507,031	161,539,532

In year 2014 the Company increase capital of Griffon & Romano S. p. A.

ary, SIJ Asia GmbH, Germany. In 2014 the Company had not yet started operation.

In December 2014 the liquidation process of SIJ Steel Processing, d. o. o. was completed. The liquidation has the effect on finance expenses in amount of EUR 29,532. In November 2014 the Company established a new subsidi-

All subsidiaries are audited except SIJ Asia GmbH which it is not subject to audit yet.

Subsidiary	Activity	% of voting rights	Value of equity as at 31 Dec. 2014	Profit (loss) for 2014
ACRONI, d.o.o., Cesta Borisa Kidriča 44, Jesenice	Steel production	100	166,875,131	11,321,579
METAL RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem	Steel production	100	92,143,821	9,219,067
NOŽI RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem	Industrial knives production	100	14,537,177	1,742,769
ELEKTRODE JESENICE, d.o.o., Cesta železarjev 8, Jesenice	Welding materials production	100	5,739,664	422,570
SUZ, d.o.o., Cesta Borisa Kidriča 44, Jesenice	Drawn wires production	100	1,169,278	328,216
ZIP CENTER d.o.o., Koroška cesta 14, Ravne na Koroškem	Education and training of the disabled	100	267,915	165,459
ŽELEZARNA JESENICE, d.o.o., Cesta železarjev 8, Jesenice	Trading with own real estate	100	9,416,577	28,319
ODPAD d.o.o., Pivka, Velika Pristava 23, Pivka	Recovery of secondary raw materials from scrap	74.90	6,819,773	249,752
NIRO Wenden GmbH, Glück-Auf-Weg 2, Wenden, Germany	Steel cutting, engineering and trade	85	3,314,221	(347,536)
RAVNE STEEL CENTER d.o.o., Litostrojska cesta 60, Ljubljana	Trade	77.28	13,393,625	1,213,958
GRIFFON & ROMANO S.P.A., Via Tacito 8/10, Corsico, Italy	Heat processing and special steel trade	100	1,054,480	(1,785,837)
SIJ Asia GmbH, Schwannstrasse 6, Düsseldorf, Germany	Trade	100	25,000	-

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 Dec. 2014	31 Dec. 2013
Available-for-sale financial assets at cost	268,369	268,369
Available-for-sale financial assets at fair value	616,259	496,211
Available-for-sale financial assets	884,628	764,580

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 reliably measured. There was no change in year 2014.

regulated market and whose fair value can be reliably measured. They increased due to the revaluation at fair value in the amount of EUR 120,048 credited to the comprehensive income.

Available-for-sale financial assets, carried at fair value, refer to shares and interests in companies that are traded on the

Received dividends in 2014 amounted to EUR 56,025.

14. NON-CURRENT FINANCIAL RECEIVABLES

	31 Dec. 2014	31 Dec. 2013
Loans issued	5,850,000	8,933,592
Receivables arising from financial lease	142,414	414,986
Non-current financial receivables	5,992,414	9,348,578

Movement of Non-Current Loans issued

	2014	2013
Balance as at 1 Jan.	8,933,592	2,200,000
Loans issued	2,100,000	6,733,592
Payment of loans issued	(2,250,000)	0
Reclassification to current loans issued	(2,933,592)	0
Balance as at 31 Dec.	5,850,000	8,933,592

The interest rate for receivables arising from finance lease is fixed. The carrying value of the receivables arising from finance lease does not exceed their realizable value.

The receivables arising from finance lease fall due in 2020. The receivables arising from financial lease are not pledged as security for liabilities.

Movement of Non-Current Receivables Arising from Finance Lease

	2014	2013
Balance as at 1 Jan.	414,986	768,204
Receivables arising from finance lease	231,477	119,260
Reclassification to current receivables arising from finance lease	(504,049)	(472,478)
Balance as at 31 Dec.	142,414	414,986

The interest rate for receivables arising from finance lease is fixed. The carrying value of the receivables arising from finance lease does not exceed their realizable value. The

receivables arising from finance lease fall due in 2017. The receivables arising from financial lease are not pledged as security for liabilities.

15. NON-CURRENT OPERATING RECEIVABLES

	31 Dec. 2014	31 Dec. 2013
Operating receivables	67,638	173,983
Allowances for operating receivables	(38,144)	(38,144)
Non-current operating receivables	29,494	135,839

16. OTHER NON-CURRENT ASSETS

	31 Dec. 2014	31 Dec. 2013
Other assets	102,341	4,896
Other non-current assets	102,341	4,896

17. DEFERRED TAX ASSETS AND LIABILITIES

	31 Dec. 2014	31 Dec. 2013
Deferred tax assets	1,062,769	1,062,669
Deferred tax liabilities	(34,988)	(14,579)
Deferred tax assets (liabilities), net	1,027,781	1,048,090

Movement of Deferred Tax Assets (Liabilities) in 2014

	31 Dec. 2013	Changes in the income statement	Changes in the comprehensive income	31 Dec. 2014
Available-for-sale financial assets	(14,579)	0	(20,409)	(34,988)
Deferred tax liabilities	(14,579)	0	(20,409)	(34,988)
Unused tax losses	1,000,000	0	0	1,000,000
Employee benefits	62,424	0	0	62,424
Property, plant and equipment	245	100	0	345
Deferred tax assets	1,062,669	100	0	1,062,769
Deferred tax assets (liabilities), net	1,048,090	100	(20,409)	1,027,781

The value of unused tax losses as at 31 December 2014 amounts to EUR 68,773,469. Unrecognized deferred tax

assets from unused tax losses as at 31 December 2014 amounts to EUR 11,691,490.

Movement of Deferred Tax Assets (Liabilities) in 2013

	31 Dec. 2012	Changes in the income statement	Changes in the comprehensive income	31 Dec. 2013
Available-for-sale financial assets	(6,341)	0	(8,238)	(14,579)
Deferred tax liabilities	(6,341)	0	(8,238)	(14,579)
Unused tax losses	1,000,000	0	0	1,000,000
Employee benefits	52,603	9,821	0	62,424
Property, plant and equipment	21,297	(21,052)	0	245
Deferred tax assets	1,073,900	(11,231)	0	1,062,669
Deferred tax assets (liabilities), net	1,067,559	(11,231)	(8,238)	1,048,090

18. ASSETS (GROUP) HELD FOR DISPOSAL

	31 Dec. 2014	31 Dec. 2013
Assets held for sale	34,560	34,560
Assets (group) held for disposal	34,560	34,560

Sales activities are constantly under way. The disclosed value of assets classified as held for sale does not exceed their realizable value.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 Dec. 2014	31 Dec. 2013
Financial assets at fair value through profit or loss	467	411
Financial assets at fair value through profit or loss	467	411

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

20. CURRENT FINANCIAL RECEIVABLES

	31 Dec. 2014	31 Dec. 2013
Loans issued	24,541,092	17,485,041
Receivables arising from finance lease	479,585	444,334
Interest receivables	176,089	1,021,820
Other	793,531	1,438,217
Current financial receivables	25,990,297	20,389,412

Movement of Current Loans Issued

	2014	2013
Balance as at 1 Jan.	17,485,041	9,582,141
Loans issued	35,030,000	9,845,000
Repayments of loans issued	(30,326,376)	(1,942,100)
Reclassification from non-current loans issued	3,933,592	0
Write-off of loans issued	(581,165)	0
Balance as at 31 Dec.	25,541,092	17,485,041

The interest rate for loans issued is mainly fixed. The carrying value of the loans issued does not exceed their realizable value. The loans issued are not pledged as security for liabilities. The loans issued are secured with bills.

Movement of Current Receivables Arising from Finance Lease

	2014	2013
Balance as at 1 Jan.	444,334	387,263
Repayments arising from finance lease	(468,798)	(415,407)
Reclassification from non-current receivables arising from finance lease	504,049	472,478
Balance as at 31 Dec.	479,585	444,334

The interest rate for receivables arising from finance lease is fixed. The carrying value of the receivables arising from finance lease does not exceed their realizable value. The receivables arising from financial lease are not pledged as security for liabilities.

21. OPERATING RECEIVABLES

	31 Dec. 2014	31 Dec. 2013
Trade receivables	8,279,482	9,115,386
Allowances for trade receivables	(339)	(339)
VAT receivables	3,214	3,962
Issued advance payments and cautions	63,763	93,227
Other operating receivables	10,919,749	10,004,752
Operating receivables	19,265,869	19,216,988

Operating receivables are not insured and not pledged as security for liabilities. The disclosed value of operating receivables does not exceed their realizable value.

22. CASH AND CASH EQUIVALENTS

	31 Dec. 2014	31 Dec. 2013
Cash in national currency	17,247,418	117,284
Cash in foreign currency	77,048	75,793
Restricted cash	192,794	187,338
Cash and cash equivalents	17,517,260	380,415

Deposits in the amount of EUR 17,183,125 are in the national currency and have a maturity of up to three months. The interest rate for deposits is fixed.

Restricted cash represents assets on custody accounts intended for payments of liabilities for the acquisition of a subsidiary.

23. OTHER CURRENT ASSETS

	31 Dec. 2014	31 Dec. 2013
Current deferred expenses	77,683	27,851
Other current assets	77,683	27,851

Current deferred expenses refer to advance payments of costs, which in 2015 will debit against profit or loss.

24. EQUITY

	31 Dec. 2014	31 Dec. 2013
Share capital	145,266,066	145,266,066
Capital surplus	11,461,177	11,461,177
Revenue reserves	(858,646)	(858,646)
Fair value reserves	170,817	71,177
Retained earnings	25,188,177	24,501,385
Equity	181,227,591	180,441,159

The share capital 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 2014.

Other changes in retained earnings relate to the court settlement by which the companies D.P.R. družba pooblaščenka Ravne d. d. and SIJ d.d. resolved mutual litigation and potential litigation with the owners of the Company.

Ownership Structure

Shareholder	Number of shares as at 31 Dec. 2014	Number of shares as at 31 Dec. 2013
DILON, d. o. o., Gerbičeva ulica 98, Ljubljana	718,351	718,351
Republic of Slovenia, Gregorčičeva ulica 20, Ljubljana	248,655	248,655
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	7,927	7,917
HIDRIA ROTOMATIKA, d. o. o., Spodnja Kanomlja 23, Spodnja Idrija	0	10
UNIOR, d. d., Kovaška cesta 10, Zreče	10	10
Total	994,616	994,616

The ownership structure changed in 2014. SIJ d.d., became the owner of 10 shares previously owned by HIDRIA ROTOMATIKA, d. d., and increased its share to 0.80 percent.

Capital Surplus

A 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. 2014	31 Dec. 2013
Legal reserves	1,396,081	1,396,081
Treasury shares	(2,256,634)	(2,254,727)
Reserves for treasury shares	1,907	0
Revenue reserves	(858,646)	(858,646)

The Company acquired treasury shares in the amount of EUR 2,254,727 on the basis of the Act Regulating the Incurrence and Settlement of Liabilities of Slovenske železarne as regards the Restructuring Program (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). The treasury shares were acquired by exchanging interests in subsidiaries for shares of the Company, owned by authorized companies. The shares were acquired ex lege and not

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

In 2014 the Company acquired 10 treasury shares on the basis of decisions taken at the 25th General Assembly of 9 June 2014, and established reserves in the amount of EUR 1,907 for treasury shares. The shares are recognized at cost.

Fair Value Reserves

	31 Dec. 2014	31 Dec. 2013
Fair value reserves due to available-for-sale financial assets	205,805	85,757
Deferred tax liabilities	(34,988)	(14,580)
Fair value reserves	170,817	71,177

Distributable Profit

	31 Dec. 2014	31 Dec. 2013
Retained earnings	23,979,549	22,837,529
Profit for the year	1,208,628	1,751,428
Creation of legal reserves	0	(87,571)
Distributable Profit	25,188,177	24,501,386

25. EMPLOYEE BENEFITS

	31 Dec. 2014	31 Dec. 2013
Provisions for severance pay	444,916	444,916
Provisions for loyalty bonuses	17,508	17,508
Employee benefits	462,424	462,424

The Company did not carry out an actuarial calculation, because in 2014 the assumptions used to determine the amount of provisions did not change significantly.

In 2013 an actuarial calculation was made on the basis of the actuarial model and assumptions, derived from the tables of deaths, staff turnover, growth of salaries in Slovenia

and in the Company, and on the basis of a yield curve, which represents the relationship between the market yields of government bonds in the euro area and the time remaining to maturity of liabilities, discounted at an interest rate between 0.1 and 3.2 percent, depending on the age structure of the employees or maturity.

Movement of Employee Benefits in 2013

	31 Dec. 2012	Formation	31 Dec. 2013
Provisions for severance pay	417,496	27,420	444,916
Provisions for loyalty bonuses	11,901	5,607	17,508
Employee benefits	429,397	33,027	462,424

26. NON-CURRENT FINANCIAL LIABILITIES

	31 Dec. 2014	31 Dec. 2013
Borrowings	0	5,000,000
Liabilities for bonds issued	42,897,000	0
Liabilities arising from finance lease	200,591	498,748
Non-current financial liabilities	43,097,591	5,498,748

Liabilities for bonds issued

Liabilities for bonds issued refer to the bonds issued with the official designation of SIJ2. The bonds were issued by the Company with the total nominal value of EUR 42,897,000. The entire bond issue contains 42,897 denominations of EUR 1,000.00. The bond maturity date is 24 November 2019.

The interest rate on the bonds is fixed, i.e. 4.50 percent per annum. Interest is accrued annually in arrears. The nominal value of the principal falls due, in full and in a single amount, on the maturity of the bond. The bonds have been traded on the Ljubljana Stock Exchange since 29 December 2014. The SIJ2 bond liabilities stood at EUR 42,897,000 as at 31 December 2014.

Movement of Non-Current Liabilities Arising from Finance Lease

	2014	2013
Balance as at 1 Jan.	498,748	904,416
Liabilities arising from finance lease	325,391	131,851
Reclassification from non-current liabilities arising from finance lease	(623,549)	(537,519)
Balance as at 31 Dec.	200,590	498,748

The lowest sum of future leases due for payment amounts in the next financial year EUR 567,721 and in 1 to 5 years EUR 209,323.

The net present value of leases due for payment amounts in the next financial year EUR 546,797 and in 1 to 5 years EUR 200,590.

27. NON-CURRENT OPERATING LIABILITIES

	31 Dec. 2014	31 Dec. 2013
Liabilities for licenses	0	111,613
Liabilities arising from collateral	2,736	5,998
Non-current operating liabilities	2,736	117,611

28. CURRENT FINANCIAL LIABILITIES

	31 Dec. 2014	31 Dec. 2013
Borrowings	11,400,809	27,520,809
Interest liabilities	292,884	181,060
Liabilities arising from finance lease	546,796	506,403
Current financial liabilities	12,240,489	28,208,272

Borrowings include loans from companies in the Group. Loans are secured by bills. The interest rate for the borrowings is fixed.

Movement of Current Borrowings

	2014	2013
Balance as at 1 Jan.	27,520,809	21,660,000
Borrowings	40,905,000	19,720,000
Payments for borrowings	(58,275,000)	(13,859,191)
Reclassification from non-current borrowings	1,250,000	0
Balance as at 31 Dec.	11,400,809	27,520,809

Movement of Current Liabilities Arising from Finance Lease

	2014	2013
Balance as at 1 Jan.	506,403	442,559
Payments of liabilities arising from finance lease	(583,156)	(473,675)
Reclassification from non-current liabilities arising from finance lease	623,549	537,519
Balance as at 31 Dec.	546,796	506,403

The lowest sum of future leases, due for payment in the next financial year, amounts to EUR 567,721 as at 31 December 2014, and the net present value of leases amounts to EUR 546,797 on the same date.

29. CURRENT OPERATING LIABILITIES

	31 Dec. 2014	31 Dec. 2013
Liabilities to suppliers	1,399,522	2,765,695
Liabilities to employees	402,535	168,946
Received advance payments	4,575	111,638
Tax liabilities	1,148,838	410,290
Other liabilities	579,345	287,397
Current operating liabilities	3,534,815	3,743,966

30. OTHER CURRENT LIABILITIES

	31 Dec. 2014	31 Dec. 2013
Accrued expenses for unused annual leave	136,452	136,452
Other liabilities	0	16,013
Other current liabilities	136,452	152,465

31. CONTINGENT ASSETS AND LIABILITIES

Contingent liabilities amounted to EUR 128,522,678 as at 31 December 2014 and include issued guarantees. The Company expects no outflows from the issued guarantees.

The Company has no contingent assets as at 31 December 2014.

RELATED PARTIES

The related parties are the parent company (including its parent companies and the companies in their groups), sub-

sidiaries, associates, other related parties and the management of companies.

Transactions with the Parent Company

	2014	2013
Revenues	1,029,655	600,652
	31 Dec. 2014	31 Dec. 2013
Receivables	1,597	15,037,881

Transactions with Subsidiaries

	2014	2013
Revenues	12,144,571	12,321,899
Expenses	1,785,842	1,631,699
	31 Dec. 2014	31 Dec. 2013
Receivables	52,411,718	32,171,899
Liabilities	11,532,235	31,166,874

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

	2014
Management and employees with service contract	4,011,783
Members of the Supervisory Board	166,913

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

The Company did not grant any loans, issue any guarantees or make any advance payments to the management of the Company or the Members of the Supervisory Board in 2014.

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. 2014	Not-overdue	Overdue		Total
		Up to 3 months	From 3 months to 1 year	
Trade receivables	4,536,306	2,991,308	751,529	8,279,143
Financial receivables and deposits	48,608,215	78,036	0	48,686,251
Total	53,144,521	3,069,344	751,529	56,965,394

31 Dec. 2013	Not-overdue	Zapadle			Total
		Up to 3 months	From 3 months to 1 year	From 1 year to 3 years	
Trade receivables	3,165,882	3,656,095	2,293,070	0	9,115,047
Financial receivables and deposits	26,945,169	191,635	2,033,203	123,782	29,293,789
Total	30,111,051	3,847,730	4,326,273	123,782	38,408,836

LIQUIDITY RISK

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

31 Dec. 2014	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Total
Liabilities to suppliers	1,394,828	4,694	0	1,399,522
Liabilities for borrowings	6,719,411	5,679,733	43,097,591	55,496,735
Other operating and financial liabilities	579,345	0	2,736	582,081
Total	8,693,584	5,684,427	43,100,327	57,478,338

31 Dec. 2013	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Total
Liabilities to suppliers	2,315,974	332,110	117,611	2,765,695
Liabilities for borrowings	16,545,366	12,088,871	6,512,105	35,146,342
Other operating and financial liabilities	405,008	0	0	405,008
Total	19,266,348	12,420,981	6,629,716	38,317,045

The Company estimates the risk of exposure to banks 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 the repayment of the principal.

FOREIGN EXCHANGE RISK

The Company operates mainly in the domestic and the euro area so the Company estimates the exposure to foreign exchange risks to be moderate.

INTEREST RATE RISK

Interest rates on financial liabilities are fixed, so the company estimates the exposure to interest rate risk to be moderate.

EQUITY MANAGEMENT

The Company 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 liabilities.

	2014	Debt increase by 10 %	Debt decrease by 10 %
Level of debt on equity	30.54	33.59	27.48
Equity	181,227,591	181,227,591	181,227,591
Financial liabilities	55,338,080	60,871,888	49,804,272

CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Type of financial instrument	31 Dec. 2014		31 Dec. 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets at fair value through profit or loss	467	467	411	411
Available-for-sale financial assets	884,628	884,628	764,580	764,580
Financial receivables	31,982,711	31,982,711	29,737,990	29,737,990
Operating receivables	19,295,363	19,295,363	19,352,827	19,352,827
Cash and cash equivalents	17,517,260	17,517,260	380,415	380,415
Financial liabilities	(55,338,080)	(55,338,080)	(33,707,020)	(33,707,020)
Operating liabilities	(3,537,551)	(3,537,551)	(3,861,577)	(3,861,577)
Total	10,804,798	10,804,798	12,667,626	12,667,626

The Company has determined the fair value of financial instruments for disclosure and assets so that there is no significant difference between the fair value and the carrying amount.

FAIR VALUE MEASUREMENTS

To determine fair value, the Company, where possible, take into account the market value of financial instruments. The Company begins measuring the financial assets in the valuation model when it is estimated that the market is inactive. In accordance with the IFRS and accounting policies, the Company divides financial instruments into three levels:

- Level 1 includes financial instruments whose fair value is fully determined on the basis of prices quoted in an active market.
- Level 2 includes financial instruments whose fair value is determined on the basis of valuation models which take into account variables that are derived on the basis of publicly available market data (such as market interest rates).
- Level 3 includes financial instruments whose fair value is determined on the basis of valuation models which take into account subjective variables, which are not publicly available on the market.

	31 Dec. 2014	31 Dec. 2013
Financial assets at fair value of the first level	616,726	496,622
Financial assets at fair value of the third level	32,251,080	30,006,359
Financial liabilities at fair value of the third level	(55,338,080)	(33,707,020)

EVENTS AFTER THE REPORTING DATE

In February 2015 the Company bought 11,468 shares from D.P.R. at a price of EUR 190.73 per share. Total of own shares now represents 1.9499 percent of the total issued shares.

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