STABILITY

Flexibility. Sustainability. Transparency.

Annual Report
of SIJ Group
and SIJ d.d.
2019

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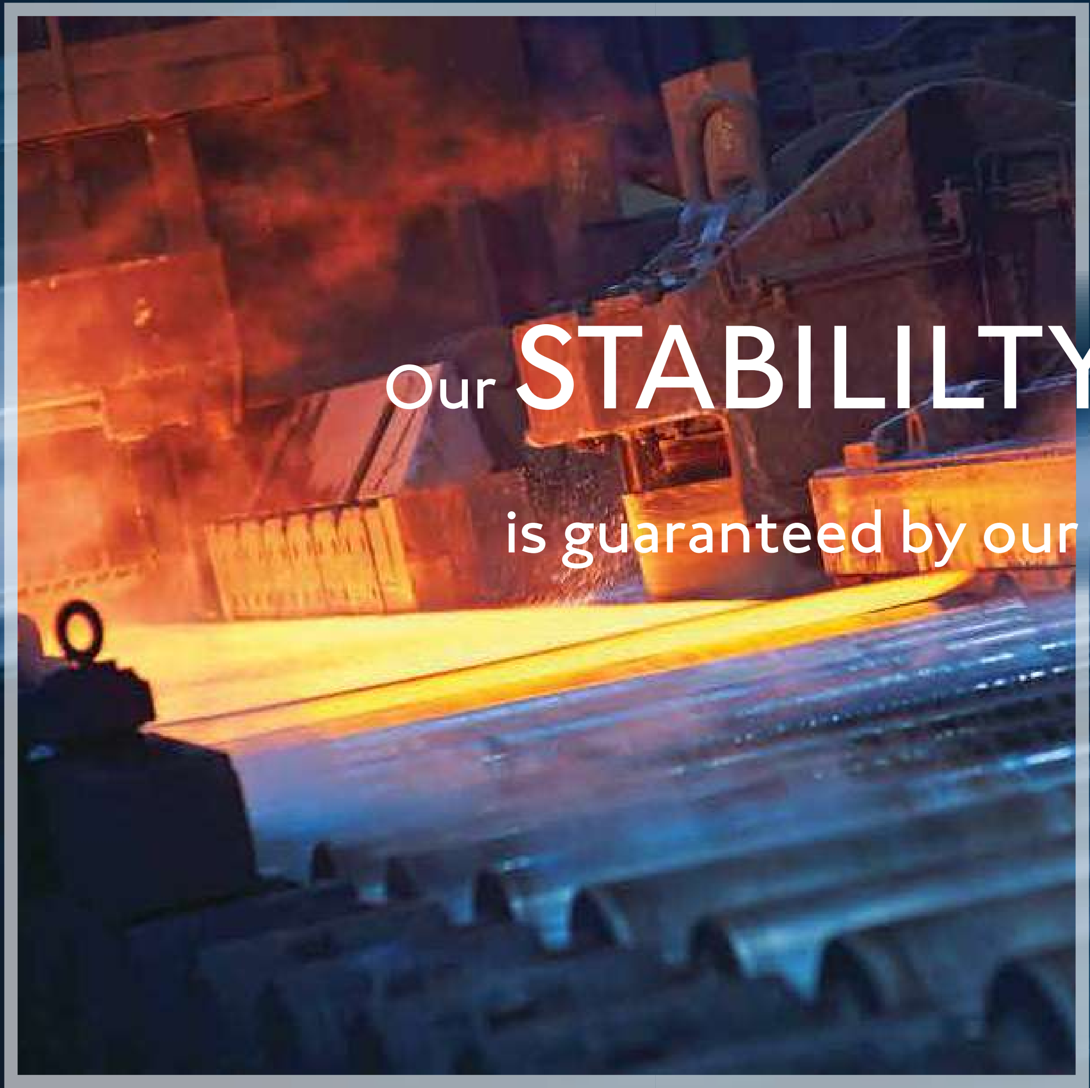


Our STABILILTY is guaranteed by our FLEXIBILITY

SIJ GROUP 2019 AT A GLANCE AND OUR PERSPECTIVE 2025

STABILITY THROUGH FORETHOUGHT.

We are steelworkers. We believe in endurance and resilience. The 400-year history of steelworking in the Mežica valley and the 150-year history of steelworking in Jesenice connects us to the global trends of producing increasingly durable steels and creating solutions designed for a variety of modern uses.

We preserve our traditional steel core with respect, increasing our flexibility by understanding the needs of the contemporary world, as well as those of the future.

LEADING MARKET SHARES

No. 1 producer of stainless-steel quarto plates in the European Union

No. 3 producer of tool steels in the European Union

Top 10 producer of industrial knives in the world

Perspective 2025:
Our advantage lies in the niche markets. We will grow our niche steel market positions leading up to the year 2025.

SIJ GROUP IN NUMBERS*

767.4 Revenues (EUR mio.)	58.8 EBITDA (EUR mio.)
37.6 Investments (EUR mio.)	477.6 Cast steel (thousand t)
84.6 % Share of export	3,859 Employees

Perspective 2025:
Our financial position will be solid, profitability above the industry average.

** SIJ Group's business plans for the year 2019 envisaged the sale of the SIJ Group Poultry Division. The process was finalised on 21 February 2019. Therefore, the key operating figures present the operations of SIJ Group, excluding the Poultry Division.*

VISION

With customer orientation, higher value added products and engaged employees we will achieve sustainable growth and efficiency.

MISSION

To produce a wide range of steel and steel products by meeting the needs of all involved stakeholders.

VALUES

We work in accordance with the values of business excellence: ethics, professionalism, fairness and credibility.

Perspective 2025:
Our value lies in human capital. SIJ Group will be considered as one of the most desired employers in Slovenia, giving it the ability to attract the right talent.

THE FUTURE IS BUILT ON OUR FIRM FOUNDATIONS FROM THE PAST

14th–20th century
Development of ironworks and ironworking plants on the territory of today's Slovenia

1969
Merged company - Slovenian Steelworks (Jesenice, Ravne, Štore)

1986
Shutdown of the last blast furnaces; since then, steel in Slovenia has been produced exclusively from steel scrap

1991
Slovenian declaration of independence and restructuring of the Slovenian steel industry

1992
The largest steel companies of the SIJ Group established: SIJ Acroni and SIJ Metal Ravne

1993
Privatisation of Slovenian Steel Group finalised

2005
Slovenian Steelworks renamed SIJ – Slovenian Steel Industry

2007
The Russian group KOKS, with its subsidiary Dilon, becomes the new majority owner

2007–2017
A period of intensive investment in modernising production, increasing production capacities and shifting the focus towards programmes with higher added value products for niche steel markets

2015–2019
Strengthening of the market position – including through introduction of steel brands and the development, implementation, and strengthening of sustainable operating principles

2019
SIJ Group's Strategy 2025 confirmed. Historical milestone: celebrating the 150-year anniversary of the introduction of the industrial production of steel in Slovenia.

2020
Historical milestone: celebrating 400 years of ironworking in the Mežica valley

The pillars of our present-day STABILITY are founded on our PAST experience

400 YEARS OF STEELWORKING 1620–2020

1620
the Mežica valley first ironworks, Črna na Koroškem; Melchior Putz

1774
industrial steel production in the Mežica Valley

Today
SIJ Metal Ravne

WE ARE THE PROUD INHERITORS OF THE IRONWORKING AND STEELWORKING TRADITION AT THE HEART OF EUROPE.

SIJ Group connects companies which developed in locations with an exceptional iron- and steelworking history. Even in the early stages of development, this was a place of globally renowned innovation, and even in those times, quality products were made here, then transported to many far-away lands.

By constantly maintaining and expanding our technical experience, we enhance the stability of the companies and SIJ Group as a whole, as well as strengthen the broader economic environment of the communities in which we operate.

150 YEARS OF INDUSTRIAL STEELWORKING 1869–2019

1856
patent filed for the process of mass production of steel, Henry Bessemer

1864
Siemens-Martin furnace constructed and patented

Today
SIJ Acroni

1873
Gold medal awarded at the Vienna World Exhibition for the ferromanganese production process at the blast furnace in Jesenice, given to the Technical Director of the Carniolan Industrial Company, Lambert von Pantz

1869
establishment of the Carniolan Industrial Company (Kranjska industrijska družba)

100 YEARS OF METALLURGY STUDIES 1919–2019

1766
Faculty of Mechanical Studies established as part of the Ljubljana Jesuit College

1919
establishment of the University of Ljubljana with a technical faculty; metallurgy lectures at the Department of Mining and Ironworking

1810 – 1813
higher technical educational courses offered at the Écoles centrales in Ljubljana; The first engineers educated in Slovenia

Today
SIJ Group operates its own training centre and many projects aimed at improving employee competencies, which are integrated with secondary technical school courses for metallurgy students, and engages in academic research collaboration projects with higher education institutions and other research and educational organisations

STABILITY paves the way to our LEADING POSITION

2019 PERFORMANCE SUMMARY

WE UNDERSTAND THE NEEDS OF ADVANCED TECHNOLOGICAL INDUSTRIES. WE PROVIDE THEM WITH RESPONSIBILITY FOR THE FUTURE.

We have always strived for excellence. We maintain our position as a market leader with our stainless steel quarto plates and tool steels. We are among the leading producers of special and high-alloy tool steels. With our stable business performance, we create the conditions for developing new products and solutions for use in technologically demanding industries.

We maintain our position through knowledge, and plan our future with the responsibility to develop steels for new applications.

The 2019 key performance measures are proof that SIJ Group, now fully focused on metallurgy, has a solid financial position. In line with the business plans and strategies, in 2019 we successfully completed the sale of our SIJ Group Poultry Division. As the errors for 2018 have been addressed on the entire SIJ Group level, the summary shows the corrected data for that year.[1]

SIJ Group Key Performance Figures

	unit of measure	2017	2018	2019
Physical ratios				
Cast steel production	t	468,596	479,805	477,561
Production of finished products	t	367,721	382,551	383,858
Financial figures				
Revenues	000 EUR	754,870	793,277	767,351
Share of exports	%	86.1	84.4	84.6
EBITDA[a]	000 EUR	77,273	61,681	58,818
EBITDA margin	%	10.2	7.8	7.7
Net profit	000 EUR	14,406	6,501	44,908
Net financial debt as at 31 Dec				
Net financial debt[b]	000 EUR	330,537	317,318	180,545
Business combinations[c]	*000 EUR*	*82,035*	*82,036*	*0*
NFD/EBITDA[d]		3.2	3.6	3.1

a EBITDA: operating profit or loss before depreciation and amortisation + impairments and write-offs of value + elimination of impairments and write-offs of value, see disclosure 4 for the calculation
b Net financial debt (NFD): non-current and current financial liabilities – cash and cash equivalents
c Business combinations refer to purchases of shares of PP Group and Holding PMP until 31 December
d NFD/EBITDA: NFD does not include business combinations

1 As a result of corrections, the key performing figures for 2018 shown in the table differ from those reported in the 2018 annual report. An explanation for this is provided in the financial report – the disclosure Error Correction.

FOCUS ON EXPORTS

In 2019, SIJ Group generated an income of EUR 767.4 million, of which 84.6 percent was realized on foreign markets. Although the exports were nominally lower than the preceding year, the additional 0.2 percentage points increase in exports in 2019 is further evidence of SIJ Group's long-term focus on exports.

STABLE SCALE OF PRODUCTION

In 2019, sales volume of finished steel products grew two percent compared to the preceding year. Although due to unanticipated one-off extraordinary events the production of cast steel decreased by one-half percent, we kept the total quantities on par with the year 2018 through the production of finished products.

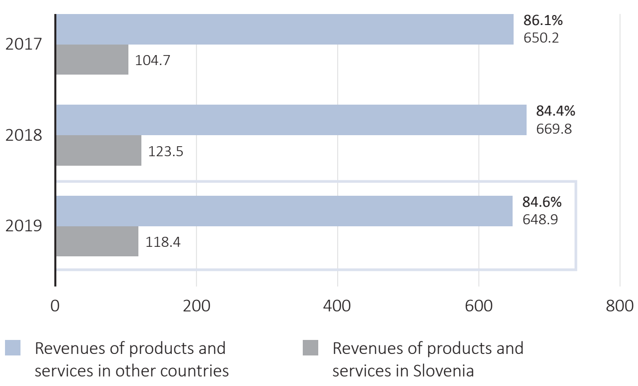
IMPACT ON PROFITABILITY

The 2019 profitability ratios were mostly affected by the prices of raw materials. Compared with the previous year, the EBITDA result decreased by EUR 2.9 million, while the EBITDA margin decreased by 0.1 percentage points.

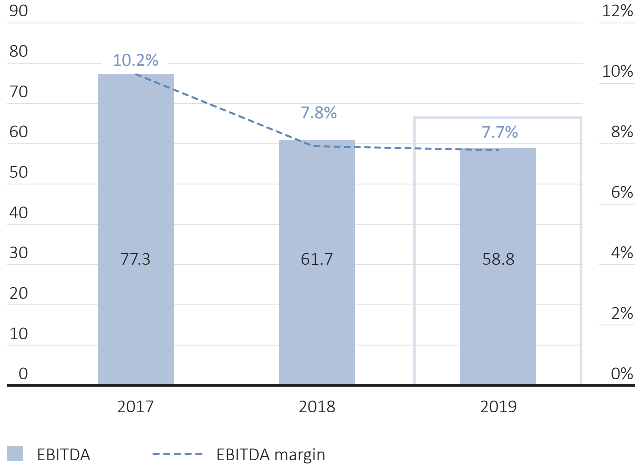
DELEVERAGING

SIJ Group's debt level decreased by almost one-half in 2019, in which the successful sale of the SIJ Group Poultry Division had a significant impact. The net financial debt level as at the end of 2019 was EUR 136.8 million lower compared to the previous period. As at the end of 2019, the debt ratio was 3.1.

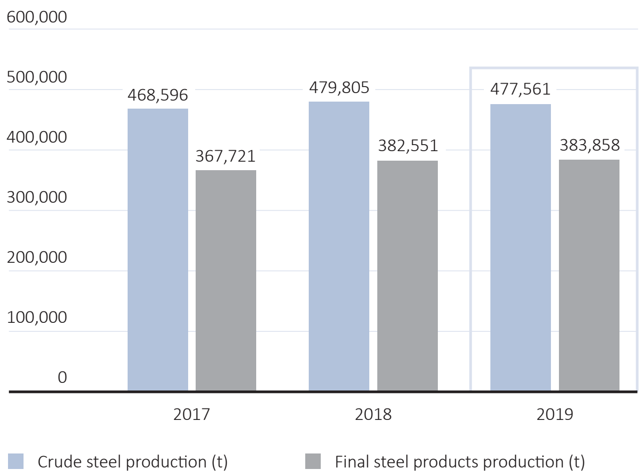
Revenues (in EUR million) and Share of Exports (in Percent)



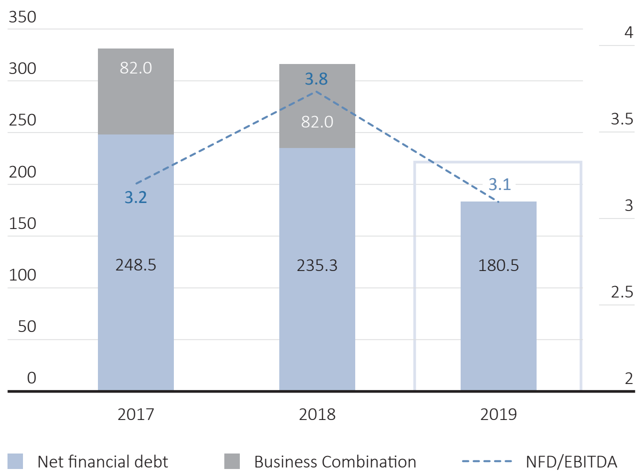
EBITDA (in EUR million) and EBITDA Margin (in Percent)



Cast Steel and Final Steel Products Production (in tonnes)



Net Financial Debt as at 31 December (in EUR million) and NFD/EBITDA



SIGNIFICANT BUSINESS EVENTS AND ACHIEVEMENTS OF SIJ GROUP IN 2019

February

SIJ Group's first e-commerce platform is introduced, allowing customers to buy industrial knives online. A new digital sales channel was launched, offering solutions tailored to B2B customers. shop.ravneknives.com is a pilot project, which we will continue to develop by also adding modern, online sales channels for our other products.

Perutnina Ptuj is no longer part of SIJ Group. On 21 February, Ukraine's MHP Group, one of the leading companies in the international agricultural and food processing industry, acquired a slightly over 90-percent share in Perutnina Ptuj, after the Slovenian Competition Protection Agency issued a decision confirming that the acquisition of Perutnina Ptuj by the firm complied with competition regulations. SIJ Group and MHP were thus able to implement the procedures to finalise the transaction, which began in 2018.

April

Štefan Belingar and Richard Pochon appointed as the new Supervisory Board Members with a four-year term of office. Their appointment was confirmed on 9 April, at the 34th meeting of the General Meeting of Shareholders of SIJ d.d. The change in membership on the Supervisory Board was necessary because Janko Jenko's term of office as a Member of the Supervisory Board expired on 11 April, while Polona Marinko resigned. There were no changes in the terms of office of the other Members of the Supervisory Board.

On 12 April, the Supervisory Board of SIJ d.d. appointed Štefan Belingar as the new Deputy President of the Supervisory Board and as the new Member and President of the Audit Committee.

May

SIJ Group's innovations receive two gold and three silver awards. The innovations were awarded by the Slovenian Chamber of Commerce for the Gorenjska and Koroška regions, as part of a call for proposals for the best innovations. The Gold Innovation award, given for the advanced tool steel SIHARD S671 - DURAWEAR, was also nominated for state recognition and for a special innovation certificate, which emerged as a result of partnership between the real sector and a research organisation.

June

The next investment plans are discussed at the annual meetings of the EBRD and SIJ Group. Representatives of the European Bank for Reconstruction and Development (EBRD), led by First Vice President Jürgen Rigterink, and SIJ Group, headed by President of the Management Board Andrey Zubitskiy, met in Ljubljana on 5 June to discuss the EBRD's support for future privatisation activities within the ownership structure of SIJ Group.

An international patent application for the advanced steel SITHERM S140R, intended for use in innovative next-generation tools with an extended lifecycle, is currently pending. The innovation was showcased on 6 June during the closing public presentation of the R&D programme Materials and Technologies for New Applications (MARTINA).

June

The electronic application *A Minute for Safety* received the Slovenian Chamber of Commerce and Industry's Bronze Best Innovations Award in the Central Slovenia Region. The application, which received the award on 20 June, helps improve workplace safety. It was designed in the context of our *Working Safely, Staying Healthy campaign*, part of our endeavours to decrease the number of workplace accidents.

July

The Supervisory Board unanimously adopts the 2018 Annual Report of SIJ d.d. and SIJ Group. The annual report was discussed on the agenda of the 8th Supervisory Board session, which took place on 10 July.

August

At the SIJ d.d. 35th General Meeting of Shareholders, a discharge letter is granted to the Management Board, and a resolution on the allocation of distributable profit for 2018 is adopted. At the General Meeting of Shareholders session which took place on the 29 of August, shareholders took note of the 2018 Annual Report of SIJ Group and SIJ d.d., with a certified auditor's opinion, of the supervisory board's report on the annual report audit observations, as well as of the declaration of the earnings of the Management Board and Supervisory Board. The General Meeting of Shareholders concurred with the Management Board and Supervisory Board's proposal according to which the reported distributable profit for 2018 in the amount of EUR 43,976,225.16 would remain undistributed. The shareholders also granted a discharge letter to the Management Board and the Supervisory Board.

September

The Strategic Council for Metallurgy, of which SIJ Group is a member, points out the urgent need for change in Slovenian legislation governing the preservation of the environment and research activities. On 13 September, the Council presented its proposals to mag. Vojmir Urlep, State Secretary at the Cabinet of the Prime Minister of the Republic of Slovenia.

The 150th anniversary of industrial steel production in Slovenia is marked by the Attuned Tradition of Steel celebration. Pivotal milestones in steelworking history were commemorated at the anniversary celebration event, which took place on 24 September at the national cultural landmark Stara Sava in Jesenice, with the Minister of Economic Development and Technology Zdravko Počivalšek and Minister of Culture mag. Zoran Poznič in attendance. Slovenia's history of industrial steel began in Jesenice, with the merging of the ironworks of the time and the establishment of the Carniolan Industrial Company.

September

SIJ Group wins the national silver commendation at the Innovation Day event. The commendation, awarded on 25 September by the Slovenian Chamber of Commerce and Industry, was in recognition of the advanced cold work tool steel SIHARD S671 – DURAWEAR, which represents an innovation on the global scale.

October

A decision is made that SIJ d.d. statements for the next three-year period will be audited by Deloitte revizija d.o.o., Ljubljana. This audit firm was selected as the auditor of the financial statements of SIJ d.d. and the consolidated financial statements of SIJ Group for the financial periods 2019, 2020, and 2021 by the 36th General Meeting of Shareholders of SIJ d.d., which convened on 14 October. At the same session, the shareholders also adopted changes to the Articles of Association.

106 key customers and sales agents from 24 countries attend the 5th international conference SIJ Partners Summit. The working sessions and presentations that took place on 23-25 October gave us an even better understanding of our customers' needs and opened new opportunities for cooperation.

November

EUR 10 million is allocated to the payout of dividends, while the rest of the distributable profit 2018 remains unallocated. This was the resolution of the 37th General Meeting of Shareholders of SIJ d.d., which took place on 20 November. At the General Meeting session, shareholders deliberated on the allocation of distributable profit and adopted the resolution to allocate EUR 10 million out of the total reported distributable profit of EUR 43,976,225.16. Dividends in the amount of EUR 10.34 per share (truncated) were paid out to shareholders on 22 November 2019. The remaining distributable profit in the amount of EUR 33,976,225.16 remained unallocated.

SIJ Group issues five-year bonds in the amount of EUR 40 million, and a 2.8 percent annual coupon. The funds acquired through the issue of the bonds on 25 November will be used to diversify long-term sources of financing, supporting long-term investments in production technology, including measures for protecting the environment and energy efficiency technology, and improving the maturity structure of existing loan obligations.

December

The SIJ Group Strategy for the period ending in 2025 is the central topic of discussion at the traditional strategic conference. The conference, which took place on 3 and 4 December, was attended by 150 key employees of SIJ Group, and was the last in a series of workshops from which the strategy emerged.

SIJ Group successfully completed the sixth consecutive issue of commercial papers in the amount of EUR 28 million. The commercial papers were issued to optimise the cost of financing and diversify short-term sources of financing, which means that the gathered funds will allow SIJ Group to ensure the required liquidity to balance seasonal needs for working capital.

NOTABLE EVENTS AFTER THE END OF THE REPORTING PERIOD

February

The controlling company SIJ d.d has received for the first time the certificates ISO 9001: 2015 and ISO 14001: 2015. After the established of a centralized sector for quality and corporate governance systems, and an internal audit team for SIJ Group, the first corporate governance audit of the SIJ Group was conducted. With the aim of continuous improvement of the performance of SIJ d.d. and SIJ Group, the controlling company SIJ d.d has received certificates ISO 9001: 2015 and ISO 14001: 2015.

March

In line with the spread of coronavirus in Slovenia, SIJ Group has taken preventive measures to protect the health of its employees and ensure undisrupted business operations. Since the end of February, the Group has implemented all the preventive measures adopted by the SIJ Group crisis team, as well as many additional ones. We have been monitoring the situation daily in all key business areas (sales, purchasing, logistics, human resources), managing all identified risks and complying with all the measures taken by the Republic of Slovenia, the European Union, the European Steel Association Eurofer and other competent institutions.

At the time of issuing the Annual Report, we had not yet recorded any significant impact on business, however, in line with the outlook and development of the epidemic in the Republic of Slovenia and its key European markets, it is expected that the risks and thus disruptions in business will increase.

There are currently no legal restrictions on the operations of most of the companies in SIJ Group, and we do not expect any major shutdowns of steel companies. Supply chains operate without major restrictions, only occasional supply delays are being detected, which is managed by a slight increase in inventories of raw materials. By the time the Annual Report was issued, SIJ Group had also fulfilled all contractual quantitative conditions and liabilities for the supply of electricity and natural gas.

Currently, in mid-April, we do not feel any major negative impact on the sale of our products, which is largely related to the geographical and industry diversification of our markets and customers. Despite restrictions on transportation and the closure of some of our customers' manufacturing facilities, we are able, by implementing active sales policy, to supply all our key markets effectively, including Italy and Germany. We face minimal cancellations of deliveries of our products, this having no significant impact on our operations.

Particular attention is paid to working capital management. We monitor daily compliance with customer payment deadlines and regulate the low level of inventories of products and work in progress goods, focusing even more on order based production and optimization of production processes. As a result, the liquidity of SIJ Group is strong and stable.

Possible adjustments to the carrying amounts of assets and determination of the fair values related to the constantly changing operating conditions due to the coronavirus, were not taken into account in the financial statements of SIJ Group, as it is an irreversible event after the reporting date. Due to many uncertainties posed by the epidemic, the potential impact on the operations of SIJ Group cannot be estimated reliably at this time.

The SIJ Group and a partner have concluded a Term Sheet agreement on establishing a joint venture to be active in the distribution of steels, the production and distribution of standard and non-standard tool steel plates, parts of tools and tools for mass production, technical heat treatment services, surface treatment of tool steels, and the production of high-performance products for improving the productivity of series production by using innovative technologies. The project, which is expected to be completed by the end of 2020, is a part of the implementation of the SIJ Group's vertical integration strategy aimed to diversify range of products and services.

BUSINESS YEAR FROM THE MANAGEMENT BOARD'S PERSPECTIVE

Andrey Zubitskiy,
President of the Management Board

Dear Shareholders, Business Partners, and Employees of SIJ Group,

we are the proud inheritors of the ironworking and steelworking tradition at the heart of Europe. At the intersection of two important milestones of the Slovenian steelworking tradition, namely the 150th anniversary of industrial steel manufacturing in Slovenia and the 400th anniversary of the steelworking tradition in the Mežica Valley, SIJ Group set a new course: we successfully closed the sale of the SIJ Group Poultry Division and formed the strategy for 2025, thus entering our new development phase which will allow us to remain a stable steelworking group in an increasingly changing world.

The company's audited financial results show that SIJ Group generated sales revenues of EUR 767.4 million in 2019, with 84.6 percent of that amount generated in foreign markets. This ranks SIJ among Slovenia's top exporters. We generated an EBITDA of EUR 58.8 million, a 7.7 percent EBITDA margin. SIJ Group's debt level decreased by almost one-half in 2019, which is proof of successful management and successful sale of the SIJ Group Poultry Division. The net financial debt level as at the end of 2019 was EUR 136.8 million (or 43 percent) lower compared to the previous period. We will use the proceeds from the sale towards further development of our Group's core business – manufacturing high-technology steel products and finished products for niche steel markets, where we have always had our eyes set on reaching the top.

ENTRY INTO NEW INDUSTRIES AND WORKING TOWARDS DIGITALISATION

In 2019, SIJ Group's Steel Division was successful in maintaining leading market shares. We hold the largest market share among the producers of stainless-steel quarto plates in the European Union. In 2019, SIJ Acroni, which produces these plates, further improved our customer service by introducing a globally-recognised planning tool, which generates production plans three months in advance based on a diverse range of parameters, allowing us to further improve timely deliveries.

In the tool steels segment, we kept our position as the holder of the third largest market share on the EU market in 2019. We are particularly proud of our development of the advanced steel SITHERM S140R, intended for use in innovative next-generation tools with an extended lifecycle, and an international patent is currently pending. We also concluded the process of obtaining the certificate required to enter the aircraft industry market. Our second-largest company in the Steel Division, SIJ Metal Ravne, thus became the third Slovenian company to hold the certificate, and the second company with a valid certificate for the entire production programme, which meets the strict requirements of the aircraft industry.

SIJ Group has maintained its position among the top ten manufacturers of industrial knives on the global scale. In 2019, we also launched SIJ Group's first online shopping platform for industrial knives.

2019 INVESTMENT ACHIEVEMENTS AND THE NEW INVESTMENT CYCLE

The main focus of SIJ Group's investment activities in 2019 was on improving the efficiency of our production capabilities, which we greatly expanded and modernised at the start of our investment cycle, which began in 2015 and ended last year: we improved the conditions for the production of electrical steel, used for building electrical motors of the future; we made it possible to increase roll production and the production capacities of our company, a leading tooling industry supplier and producer of standard and non-standard tool plates for use in all types of tools.

Approximately EUR 300 million will be dedicated to increasing efficiency by 2025 (through modernisation of production lines and process optimisation), expanding the more profitable production programmes and reducing environmental impacts. Our strategy is outlined in more detail below.

PROVIDING FUNDING TO ENSURE STABLE OPERATIONS

In 2019 we ensured the funding required to implement our investment strategy and financial policy. SIJ Group issued five-year bonds in the amount of EUR 40 million, and a 2.8 percent annual coupon. The funds will be used to diversify long-term sources of financing, support long-term investments in production technology, including measures for protecting the environment and energy efficiency technology, and improve the maturity structure of existing loan obligations.

SIJ Group also successfully completed the sixth issue of commercial papers in the amount of EUR 28 million. The commercial papers were issued to optimise the cost of financing and diversify short-term sources of financing, which means that the gathered funds will allow SIJ Group to ensure the required liquidity to balance seasonal needs for working capital.

A DEEP CONNECTION WITH OUR COMMUNITIES

Besides financial performance, SIJ Group also realises the importance of the non-financial aspects of its operations, which we consider a vital component of stability and development in the steelworking business. All our financial and non-financial achievements are thus based on building and maintaining responsible relationships with all our key stakeholders.

In 2019 and 2020 we place special attention on maintaining the cultural and technological heritage of steel-working. In Jesenice, the home of some of our most recognised companies' production facilities, we commemorated the 150th anniversary of the industrial manufacturing of steel in Slovenia and the 50th anniversary of the incorporation of Slovenske železarne, SIJ Group's predecessor, with a celebration called Attuned Tradition of Steel in 2019, where visitors were given a unique opportunity to experience the Steel Percussion Orchestra, playing music on SIJ Steel instruments for the first time. Ravne na Koroškem, which is home to the second group of our most important production facilities, will be celebrating the 400th anniversary of ironworking in the Mežica Valley in 2020. With the bar set so high, at SIJ Group we realise that our work is never truly finished, as our steelworking tradition, the central pillar of an industry spanning several thousand years in Slovenia, positions us as part of a continuous development cycle.

PERSPECTIVE 2025

In 2019, we set our business focus and our SIJ Group Strategy until 2025 based on realistic market, production and financial premises. The year-long project involved participation by over 150 key employees, working together to set our goals and redefine our vision and mission statement.

Our mission is to produce a wide range of steel and steel products by meeting the needs of all involved stakeholders. With customer orientation, higher value added products and engaged employees we will achieve sustainable growth and efficiency. This is our vision.

By 2025, SIJ Group will:

maintain its position above the industry average as a solid and profitable entity, by further increasing our efficiency and taking advantage of our capacities, through modernisation, automation and digitalisation of production, allowing us to further improve our product quality.

maintain a leading position in steel niche markets, we will focus even more on developing our proprietary steel quality grades. This will allow us to deliver additional advantages to our customers, such as lower costs, increased efficiency and improved ability for the post-processing of materials. We are also planning to further expand our product brands.

be a reputable employer with motivated employees, making employee development one of SIJ Group's top short-term priorities. We are currently one of Slovenia's most significant employers, and our goal is to become a desired employer.

SIJ Group believes that besides the above three pillars of our strategy for 2025, a key objective on the way to achieving long-term stability will be sustainability. Although SIJ Group's CO_2 emissions in 2019 rank us among the top steelworking companies on the global scale, we will continue developing our production processes and products to reduce our environmental impact as we approach 2025. We will continue focusing on the principles of sustainable development and the circular economy. This is our perspective for 2025.

Andrey Zubitskiy,
President of the Management Board

REPORT OF THE PRESIDENT OF THE SUPERVISORY BOARD

Evgeny Zverev,
President of the Supervisory Board

Dear shareholders and stakeholders,

in accordance with its powers granted under the law, the company's Articles of Association and other relevant regulations, the Supervisory Board monitored and performed oversight over the activities of SIJ d.d. and SIJ Group in 2019, and adopted its decisions based on the Management Board's reports and clarifications and on its consultations with the Audit Committee.

Measures taken in 2019 to strengthen SIJ Group long-term stability were driven by a number of business events. The decline in cast steel production quantities in the European Union over the first six months, were driven by aggressive steel imports from non-European states, causing difficulties in SIJ Group companies and reducing operating results at the beginning of the year. In addition, there was uncertainty around closing the accounts for the previous accounting period of 2018 due to audit delays. These factors did nothing to boost investor confidence. On the other hand, SIJ d.d. also celebrated a number of successes in 2019: its successful sale of Perutnina Ptuj d.d. shares significantly reduced the Group's net debt, and at the end of the year additional sources of financing were secured through the sixth issue of five-year bonds and the sixth issue of commercial papers, which will facilitate the implementation of SIJ Group's investment strategy and financial policy.

In a tight competitive environment, the Supervisory Board plans to make efforts to ensure SIJ Group maintains and further strengthens its position and recognition as a market leader.

OPERATIONS OF THE SUPERVISORY BOARD IN 2019

The Supervisory Board had the following composition in 2019:

- Evgeny Zverev, President (from 22 February 2018)
- Štefan Belingar, Deputy President (from 12 April 2019)
- Mitja Križaj
- Boštjan Napast
- Dmitry Davydov
- Helena Ploj Lajovic
- Richard Pochon (from 9 April 2019)

Štefan Belingar and Richard Pochon were appointed as Supervisory Board Members at the 34th General Meeting of SIJ d.d. on 9 April 2019, as Janko Jenko's term of office expired and Polona Marinko resigned.

On 12 April 2019, new Audit Committee Members were also appointed as a result of the changes in the Supervisory Board:

- Štefan Belingar (President)
- Boštjan Napast
- mag. Alan Maher

COOPERATION WITH THE COMPANY'S MANAGEMENT

Supervisory Board Members monitored the activities of SIJ d.d. Management Board in all relevant aspects of the company's operations. Members of the Supervisory Board come from different professional backgrounds, mainly finance, taxes, and corporate law, with a detailed understanding of the processes required to manage large corporations. With our comments, questions or opinions, the Supervisory Board Members regularly voiced our opinions and thus contributed to the Management Boards' prudent business decisions, allowing SIJ Group to maintain stability and enhancing the credibility of its management in 2019.

The Management Board regularly reported to the Supervisory Board on key activities of SIJ d.d. and SIJ Group. Despite the geographic displacement of Supervisory Board Members, the Management Board of SIJ Group successfully maintained active collaboration by preparing clear and transparent discussion materials. The Supervisory Board Members convened at six regular sessions and one per capsulam session, and proactively liaised with the Audit Committee.

KEY ACTIVITIES

The Supervisory Board is pleased to report that the proactive role of the Audit Committee has significantly contributed to achieving greater clarity with respect to the audit of 2018 financial statements, which caused a delay in the publication of the audited 2018 Annual Report of SIJ Group and SIJ d.d. In the context of resolving open issues with the certified auditor KPMG Slovenija d.o.o., and that the Supervisory Board's guidance played a key role in the Management Board's consistent endeavours to ensure transparency and statutory compliance, as well as in ensuring open communication across all corporate governance bodies.

We find that in 2019 the Management successfully followed the fundamental operating and development guidelines of SIJ d.d. and SIJ Group. This is further evidenced by the successful sale of shares of Perutnina Ptuj d.d. and the financial market's reaction to this, where in the second half of the year investors purchased the newly-issued bonds, as well as a new series of commercial papers. Considering the projections and some of the already-reported indicators signalling an economic downturn, despite some difficulties along the way, we consider that SIJ Group has been able to maintain stable investor confidence and remains a strong group, fit to achieve the goals set out in its strategy.

As indicated above, besides verification of financial and non-financial reports on the activities and operations of SIJ Group companies, the Supervisory Board main focus was the careful review of the annual report of SIJ Group and SIJ d.d. and the certified auditor's report, and before that its focus was on ensuring the audit was completed. At the eighth Supervisory Board session, which took place on 10 July 2019, having noted the observations contained in the Audit Committee's report, the Supervisory Board adopted the audited annual reports for the business year 2018 and approved the Management Board's proposal on distribution of profit. At the annual General Meeting, shareholders confirmed the proposal for EUR 43,976,225.16 of the distributable profit for 2018 to remain unallocated, and later the shareholders repeated the vote on the allocation of distributable profit. While adopting the annual report, the Supervisory Board also took note of the audited report on relations with related companies.

In 2019, the Supervisory Board also played an important role in presenting a proposal for the appointment of a new certified auditor to the General Meeting, in the context of which the Supervisory Board had active support from the Audit Committee. During the session of 24 September 2019, the Supervisory Board, assisted by the Audit Committee, reviewed the bids, which needed to satisfy the quality and qualifications criteria for auditing such a large group, given the scale and complexity of the SIJ Group structure. The Supervisory Board presented a proposal to the General Meeting, whereunder the audit services in the 2019-2021 period were to be performed by Deloitte Revizija d.o.o. of

Ljubljana. The latter was then formally appointed to the task during the 36th session of the General Meeting of Shareholders, which took place on 14 October 2019.

STARTING POINTS FOR OPERATIONS IN 2020

In September 2019, the Supervisory Board was notified that Dilon d.o.o. and the Republic of Slovenia had updated the 2007 Shareholders' Agreement, whereunder the ratios of representatives in the supervisory body between the two largest shareholders will remain the same. The October General Meeting of Shareholders also confirmed the amendments to the Articles of Association, which will strengthen the role of the Supervisory Board. The latter will dedicate even more attention to providing the Management Board with guidance in terms of improving business models, managing risks, and corporate governance.

WORK OF THE SUPERVISORY BOARD'S AUDIT COMMITTEE

Besides reviewing other information about the operations of SIJ Group, the Audit Committee's work was focused predominantly on monitoring the activities involved in the statutory audit of the 2018 annual accounts of SIJ d.d. and SIJ Group. The Audit Committee convened at eight regular and eight extraordinary sessions, since the Audit Committee actively participated in a number of clearance meetings in the process of auditing the 2018 annual accounts.

The audited annual reports of SIJ Group and SIJ d.d. were published on 14 June 2019, and the Audit Committee prepared a report for the Supervisory Board, noting its observations on the audit process, which the Supervisory Board discussed and adopted during its session on 10 July 2019.

The Audit Committee also took an active approach in assessing bids and presentations, in addition to performing a detailed review of comparative expert analyses referring to auditing activities for the coming three-year period (2019-2021), providing a significant contribution in the process of adopting decisions falling within the purview of the Supervisory Board.

In light of the complex circumstances which surrounded the management of SIJ d.d. and SIJ Group in 2019, the Supervisory Board is of the view that by taking a proactive approach to addressing these conditions the Management Board was able to take advantage of the positive results achieved in the segment of niche products sales and on financial markets. The Supervisory Board is therefore confident that SIJ d.d. and SIJ Group will maintain credibility and stability in the coming years and fulfil the demands of a wider range of stakeholders.

Evgeny Zverev,
President of the Supervisory Board

Maintaining STABILITY through increased EFFICIENCY

ABOUT SIJ D.D.

SIJ GROUP'S CORPORATE GOVERNANCE IS BUILT ON SOLID, YET FLEXIBLE ORGANISATION.

We adjust SIJ Group's organisational structure to optimally achieve our strategic goals in various fields, with transparency and efficiency in mind. By adhering to corporate governance principles, we reduce the risk and create opportunities for further development of both SIJ Group as a whole and its individual companies.

SIJ d.d. is the controlling company, founder and either the direct or indirect owner of the subsidiaries of SIJ Group, which operates in pursuance of the contractual concern principles.

The Management Board of SIJ d.d. and its executive management team thus represent the management of the entire SIJ Group, which strategically manages, guides and supervises the operations of all Group companies, both in Slovenia and abroad. SIJ d.d. has no registered branches.

CENTRALISED SERVICES FOR SIJ GROUP COMPANIES

SIJ d.d. directly acts as the asset manager of its investments in SIJ Group companies, pursuant to the Management Agreement, which also regulates the terms of providing centralised services for SIJ Group companies and the decision-making process through the controlling company's majority holdings, allowing the company to effectively manage the affairs of SIJ Group. It is through these services that key business functions are managed and strategic decisions taken on the level of individual Group companies, as well as SIJ Group as a whole.

In accordance with the long-term development strategy, SIJ Group will continue building and developing a vertically-integrated structure. At the same time, SIJ Group will continue enacting its policy of distributed divisions, thereby reducing some operating risks.

Key Information

Company name:	SIJ – Slovenska industrija jekla, d.d.
Abbreviated company name:	SIJ d.d.
Registered address:	Gerbičeva ulica 98, 1000 Ljubljana, Slovenia
Entry no.:	SRG 1/03550/00
Date of entry:	22 February 1990
Registered share capital:	EUR 145,266,065.75
No. of shares:	994,616 ordinary no par value shares
	2.775 percent treasury shares
Registration number:	5046432000
Tax number:	SI 51018535
Core business:	70.100 Activities of head offices

SHARES AND SHAREHOLDERS' RIGHTS

The Company's share capital is divided into 994,616 ordinary no par value shares of a single class, which are issued in non-materialised form with the SIJR ticker symbol and are not traded on the regulated market. With the exception of treasury shares, all shares give their holders unrestricted voting rights.

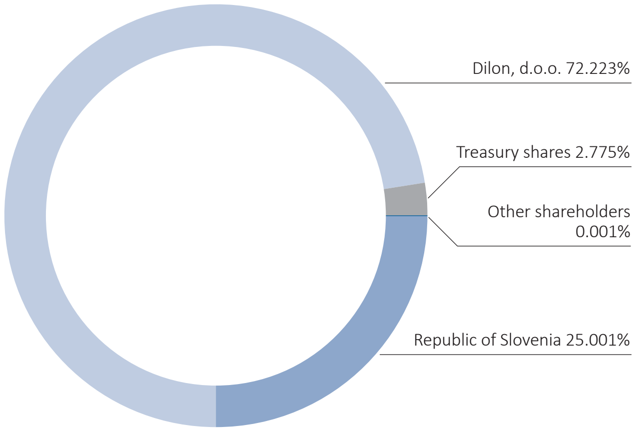
The Company is not aware of any agreements between shareholders which could result in restrictions on the transfer of shares or voting rights.

In addition to voting rights, shareholders are also entitled to a share of the profit (dividends), the right to participation in the management of the Company and the right to a pro-rata share of the assets remaining after the winding-up or bankruptcy of the Company.

All Company shares are freely transferrable. The Company has not issued any securities which provide special control rights, nor does it have any employee stock option schemes or contractually foresee any specific positions in the case of acquisitions.[2]

The authorisation conferred at the 32nd SIJ General Meeting of Shareholders of 21 June 2018, allowing the purchase a total of 27,610 treasury shares, remains in force until mid-2021. The Management Board does not have any other powers in regard to the issuance of shares.[3]

Ownership Structure as at 31 December 2019



2 SIJ d.d. is subject to the provisions of the law governing mergers and acquisitions, and as at 31 December 2017, no specific positions referred to in item 11 of the sixth paragraph of Article 70 of the Companies Act apply.

3 SIJ d.d. is obligated to observe the law governing acquisitions, and we therefore provide other information and clarifications pursuant to the sixth paragraph of Article 70 of the Companies Act (ZGD-1) as at the last day of the accounting period, unless said information is already provided in other sections of the Annual Report. In regard to the provision of Article 70.b of the ZGD-1, the company hereby declares that it does not fall under the reporting obligation stipulated in the aforementioned Article.

As SIJ d.d. and the SIJ Group companies neither registered to perform activities of, nor do their business activities involve, the exploration, prospecting, discovery, development and exploitation of minerals, oil and natural gas deposits, or other materials stipulated in the law, and they also do not involve activities in the sector of old-growth forest exploitation, we are not obligated to submit reports pursuant to Article 70.b of the Companies Act (ZGD-1).

OPERATING RESULTS OF SIJ D.D.

Key Operating Figures of SIJ d.d.

Financial figures	Unit of measure	2017	2018	2019
Sales revenue	000 EUR	16,306	13,001	12,983
Other operating revenues	000 EUR	22,908	10,821	126,511
EBIT	000 EUR	14,422	-10,483	116,231
EBITDA[a]	000 EUR	14,978	-9,923	116,958
Financial result	000 EUR	-3,031	-448	-18,962
Profit or loss before taxes	000 EUR	11,392	-10,931	97,269
Net profit or loss	000 EUR	11,392	-4,634	84,882
Capex	000 EUR	865	573	781
Statement of financial position as at 31 Dec				
Total assets	000 EUR	363,438	378,400	407,465
Non-current assets	000 EUR	195,532	199,067	278,542
Equity	000 EUR	207,089	196,723	271,655
Non-current liabilities and current liabilities	000 EUR	156,349	181,677	135,810
Net financial debt as at 31 Dec.				
Non-current financial liabilities	000 EUR	94,398	71,499	40,334
Current financial liabilities	000 EUR	55,159	83,944	83,522
Cash and cash equivalents	000 EUR	312	28,672	37,656
Net financial debt	000 EUR	149,245	126,771	86,200
Employees				
Labour costs	000 EUR	9,979	11,200	10,119
Average number of employees		95.7	101.8	99.9
Financial ratios				
Return on assets (ROA)	%	3.0	-1.2	21.6
Return on equity (ROE)	%	5.5	-2.3	36.2
Equity financing rate		0.6	0.5	0.7
Long-term liabilities-to-assets ratio		1.5	1.3	1.1
Long-term debt-to-assets ratio		0.3	0.2	0.1
Net profit or loss per employee	000 EUR	119	-46	850

a EBITDA is the operating profit or loss before depreciation and amortisation

SIJ d.d. is the controlling company, founder and either the direct or indirect owner of the subsidiaries of SIJ Group. It generates revenues by providing services to SIJ Group companies, and the second revenue stram being dividends received based on equity holdings in corporate entities.

The company SIJ d.d. provides its Group companies with strategic development, technological research and development, strategic procurement, marketing and sales, human resources, as well as legal and IT services, financing services, financial assets acquisition and management, planning and business analytics services and corporate communications services.

SHARE CAPITAL INCREASE

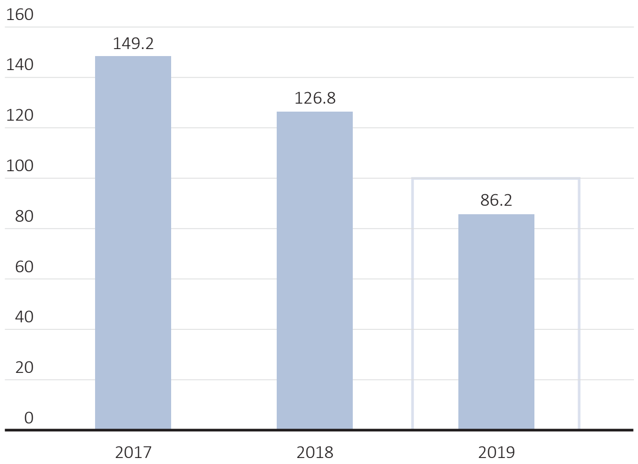
In 2019, the company realised a record profit of EUR 84.9 million, paid out EUR 10 million in dividends, and increased its share capital by EUR 74.9 million. The increased profit, which amounted to EUR 97.3 million before taxes, is attributable to the sale of the SIJ Group Poultry Division. The effect of this transaction on the profit before taxes amounted to EUR 125.8 million.

Profit reserves were set aside in accordance with the Companies Act.

IMPROVED FINANCIAL POSITION

The divestment of the SIJ Group Poultry Division significantly reduced the net financial debt. At the end of 2019, it amounted to EUR 86.2 million, down by EUR 40.6 million compared to the preceding year. Financial liabilities also decreased by EUR 31.6 million. Cash and cash equivalents increased by EUR 9 million.

Net Financial Debt as at 31 December (in EUR million)



SIJ, d.d. reports its operating performance according to the performance measures defined by the ESMA (European Securities and Markets Authority).

Notes to the Performance Measures

Indicator	Explanation of calculation	Use
Return on assets (ROA)	Net profit or loss / Average assets Average assets are calculated as an average of the current and previous period.	This indicator shows the efficiency with which the company's assets are used, i.e. how efficiently the company's assets are used to generate profit. It also shows the company's effectiveness in generating returns on invested assets. The higher the indicator, the higher the returns on a smaller investment.
Return on equity (ROE)	Net profit or loss / Average equity Average equity is calculated as an average of the current and previous period.	The indicator shows the profitability of equity, or the company's effectiveness in generating net profits per unit of equity. The higher the ratio, the more efficient the company is in generating net profit.
Equity financing rate	Equity / Liabilities	A higher value indicates that the company uses more equity financing to fund its assets, which increases the confidence of stakeholders, mainly creditors. A higher equity financing rate translates to lower financing costs, and as a result it increases the effective tax rate. It is important to keep the equity financing rate at a level which supports long-term, sustainable financing and long-term solvency.
Long-term liabilities-to-long-term-assets ratio	(Equity + Non-current financial liabilities) / Non-current assets	This ratio shows the quality of financing assets. The higher the amount of the indicator, the greater the share of current assets that is financed through non-current sources, which increases security for creditors and decreases the company's liquidity risk.
Long-term debt-to-assets ratio	Long-term financial liabilities / Assets	This indicator shows what percentage of assets the company could use to repay long-term debt in the event of the disposal of assets. The lower the value of the indicator, the higher the security of creditors.

CORPORATE GOVERNANCE AND SUPERVISION OF SIJ D.D.

INTERNAL CONTROLS AND RISK MANAGEMENT IN FINANCIAL REPORTING

Internal controls are procedures that ensure the achievement of our established objectives, the effectiveness and success of financial reporting, and compliance with laws, regulations and rules. In the broadest sense, the term internal controls includes all activities implemented with the aim of controlling risks within the Group.

Successful internal controls provide management reasonable assurance regarding the achievement of the Group's objectives and play an important role in detecting and preventing fraud, and in protecting the Group assets, both physical and intangible assets, such as its reputation and intellectual property (trademarks, etc.).

The SIJ Group therefore carries out numerous internal accounting controls that are aimed at risk management, primarily with regard to the following:

- the accuracy and reliability of accounting data that are based on credible bookkeeping documents and evidence regarding the existence of business events that clearly show all data required for the correct recording of those events;
- the accuracy of accounting data that are appropriately checked before they are published, which is ensured through controls carried out at several levels: the comparison of data from analytical bookkeeping records with data from bookkeeping documents, with data regarding business partners and with the actual physical state of assets, and the reconciliation of analytical bookkeeping records and the general ledger;
- compliance with legislation and other regulations; and
- true and fair financial reporting that is ensured through standard accounting policies, and predefined procedures and deadlines for entries.

Internal control guidelines and procedures have been defined at all levels, such that risks associated with financial reporting are managed through the following:

- a standard reporting system with extensive disclosures and explanations;
- the timely compilation and structural design of financial statements and analyses that serve as the basis for business decisions; and
- regular annual external audits of operations.

We believe that the current system of internal controls within the SIJ Group ensures the effective and successful achievement of business objectives, operations that are compliant with legal provisions, and fair and transparent reporting in all material aspects.

TWO-TIER CORPORATE GOVERNANCE

SIJ d.d. has a two-tier corporate governance system. The Company is managed by its Management Board, while the latter's work is supervised by the Supervisory Board. Corporate governance regulated under the law, the Company's Articles of Association, internal guidelines, as well as international best business practices.

The company's governing bodies are:

- the General General Meeting of Shareholders;
- the Supervisory Board;
- the Management Board.

While there were some changes in the Supervisory Board in 2019, the shareholder structure remains unchanged. As of 31 December 2019, the following are defined as the Company's executive and supervisory bodies.

GENERAL MEETING OF SHAREHOLDERS

SIJ d.d.'s shareholders exercise their rights through the General Meeting. In accordance with the provisions of the Companies Act, the convening and activities of the General Meeting are regulated in the Company's Articles of Association.

The General Meeting convened four times in 2019: on 9 April, 29 August, 14 October and 20 November.

The General Meeting was convened by way of sending direct invitations to shareholders. The April and November General Meeting sessions were universal, and the adopted resolutions and information were publicised on the SEOnet portal and under the Notices to Investors section of the SIJ d.d. website, whereas key topics for the 2019 accounting period are also presented in the Significant Business Events in 2019 section.

SUPERVISORY BOARD

In accordance with the Company's Articles of Association, SIJ d.d.'s Supervisory Board comprises seven members, appointed by the General Meeting. Proposals for the adoption of resolutions on the election of Supervisory Board

Members, which are decided on by the General Meeting, must be made exclusively by the Supervisory Board in the published agenda of the General Meeting, except for those items that are proposed by shareholders in accordance with the second paragraph of Article 296 of the Companies Act. The Supervisory Board monitors operations in accordance with the powers set out in the Companies Act, the Financial Operations of Companies Act, the Company's Articles of Association and other valid regulations.

SUPERVISORY BOARD'S AUDIT COMMITTEE

The work of the Audit Committee aims to achieve better and more efficient control of the Company's operations, with a particular focus on risk management. The Committee's powers are set out in Article 280 of the Companies Act. The Audit Committee is composed of the President of the Audit Committee Štefan Belingar, Audit Committee Member Boštjan Napast, and independent expert mag. Alan Maher.

Members of the Supervisory Board and the Audit Committee of SIJ d.d. in 2019

Continuation of the table →

Name and surname	**Evgeny Zverev**	**Štefan Belingar**	**Mitja Križaj**	**Boštjan Napast**
Function	President of the Supervisory Board, representing the majority shareholder	Deputy President of the Supervisory Board and President of the Audit Committee, representing the Republic of Slovenia	Supervisory Board Member, representing the Republic of Slovenia	Supervisory Board Member and Member of the Audit Committee, representing the majority shareholder
Gender	M	M	M	M
Date of first appointment to the function	30 Aug 2013	11 Apr 2019	9 June 2017	19 Feb 2018
Current mandate	19 Feb 2018 – 19 Feb 2022	11 Apr 2019 – 11 Apr 2023	9 Jun 2017 – 9 Jun 2021	19 Feb 2018 – 19 Feb 2022
Professional background	law, mergers and acquisitions	economics, finance and banking	economics, banking, investments	mechanical engineering, energy sector
References/ Membership of supervisory bodies of other companies	management functions in SIJ Group and Supervisory Board Member of Perutnina Ptuj d.d. prior to its sale	management functions in finance with a focus on banking	management and supervisory Functions in various corporations, Member of the Board of Directors of DUTB d.d.	management and supervisory functions in various energy industry corporations, President of the Management Board of Geoplin d.o.o. Ljubljana

Members of the Supervisory Board and the Audit Committee of SIJ d.d. in 2019

Continuation of the table

Name and surname	**Dmitry Davydov**	**Helena Ploj Lajovic**	**Richard Pochon**	**Alan Maher**
Function	Supervisory Board Member, representing the majority shareholder	Supervisory Board Member, representing the majority shareholder	Supervisory Board Member, representing the majority shareholder	Audit Committee Member, independent expert
Gender	M	F	M	M
Date of first appointment to the function	9 June 2017	19 Feb 2018	11 Apr 2019	18 Apr 2016
Current mandate	19 Feb 2018 – 19 Feb 2022	19 Feb 2018 – 19 Feb 2022	11 Apr 2019 – 11 Apr 2023	9 Apr 2016 – 19 Feb 2022
Professional background	book-keeping, logistics	civil and corporate law	economics, finance and taxes	economics, taxes
References/ Membership of supervisory bodies of other companies	management functions at IMH Group, Russian Federation	management functions in SIJ Group and Supervisory Board Member of Perutnina Ptuj d.d. prior to its sale	management functions in international finance and tax, Director and Partner at Léman Cabinet Fiscal SA, Pully, Switzerland	background in management and major international corporate restructuring projects

SIJ D.D. AND SIJ GROUP CORPORATE GOVERNANCE SYSTEM

As the majority shareholder, SIJ Group manages its companies. The Management Board of SIJ d.d. and its executive management team strategically manage, coordinate and supervise the operations of all Group companies, both in Slovenia and abroad. The Management Board of SIJ d.d. manages and strategically governs the entire SIJ Group by adopting resolutions, instructions and other acts it issues in accordance with its powers. As the Company's management and the management of SIJ Group or as the owner of subsidiaries, it actively governs and coordinates all key business processes of the Group. Achievement of business goals in specific strategic segments also falls under the purview of the executive management of SIJ d.d.

MANAGEMENT BOARD

In accordance with SIJ d.d. Articles of Association, the Company's Management Board consists of one to four Members. The President and the Members are appointed by the Supervisory Board. They may be appointed for a term of office of no more than six years with the possibility of reappointment. The duration of a term of office is set out in each resolution on appointment. The President of the Management Board represents the Company without limitation and individually, while Members of the Management Board represent the Company jointly with the President of the Management Board. Pursuant to the Articles of Association, the Supervisory Board performs oversight over part of the Management Board.

Management Board in 2019




Name and surname	**Andrey Zubitskiy**	**Tibor Šimonka**	**Viacheslav Korchagin**	**Igor Malevanov**
Function	President of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board
Representing	independent representation	joint power of representation in conjunction with the President of the Management Board	joint power of representation in conjunction with the President of the Management Board	joint power of representation in conjunction with the President of the Management Board
Mandate	18 Jul 2023 – 18 Jul 2017	22 Feb 2018 – 22 Feb 2024	9 Apr 2018 – 9 Apr 2024	22 Feb 2018 – 22 Feb 2024
Professional background	technology, metallurgy, economics	finance and economics	mechanical engineering, metallurgy, sales, economics	finance, insurance and economics
References	management functions at IMH Russia and Dilon Cooperatief, Honorary Consul of the Russian Federation in the Republic of Slovenia	management functions in various companies, President of the Management Board of SIJ d.d. between 2002 and 2014, and President of the Management Board of Perutnina Ptuj d.d. from 2016 until February 2019.	management functions in various companies in the Russian Federation, President of the Management Board of SIJ d.d. between 2007 and 2014, and Member of the Management Board of Perutnina Ptuj d.d. from 2016 until February 2019.	management functions in various companies in the Russian Federation, CFO at SIJ d.d. between 2007 and 2017, and Member of the Management Board of SIJ d.d.

EXECUTIVE MANAGEMENT

The executive management of SIJ d.d. is responsible for ensuring that established objectives are achieved in individual strategic areas across the entire Group, and that established mechanisms of consolidated areas of operations are implemented consistently. In 2019, the executive management team consisted of the following members:

- Marjana Drolc Kaluža, Purchasing Director,
- Dušica Radjenovič, Sales Director,
- Liudmyla Maslii, HR Director,
- Tadeja Primožič Merkač, Director for Quality Systems and Corporate Governance,
- Evgeny Zverev, Director of Legal Affairs and Corporate Governance,
- Slavko Kanalec, Director for Technology,
- Vladimir Arshinov, Chief Information Officer.

The extended management also consists of SIJ Group's other heads of centralised business functions.

NEW STANDARDS OF GOOD GOVERNANCE

The Sector for Quality Systems and Corporate Governance, which was introduced at SIJ d.d. in 2019, systematically coordinates efforts for transition to a modern understanding of quality, with emphasis on employee competencies, risk management, identifying opportunities and establishing good governance practices.

OBSERVANCE OF THE DIVERSITY POLICY

In 2019, SIJ d.d. did not adopt a diversity policy with respect to its Management Board and Supervisory Board. In the course of its activities, the Management Board and the Supervisory Board observe the notion that understanding the needs of the present and future world, which is committed to adhering to principles of democracy and diversity, is key to ensuring the executive and supervisory bodies can perform their work effectively, and believe that diversity is ensured through interdisciplinary competencies held by the Management Board and Supervisory Board Members. Integration of diversity, regardless of gender, age, educational degree or other circumstances, is achieved across all levels of SIJ Group's activities, since our planned efforts focusing on integration, developing competencies and investing in community projects, increase the quality of life for our employees and the communities in which SIJ Group has a presence, which in turn helps build a stable foundation, supporting the work of the company's executive and supervisory bodies.

THE MANAGEMENT BOARD'S PARTICIPATION IN INTERNATIONAL ASSOCIATIONS

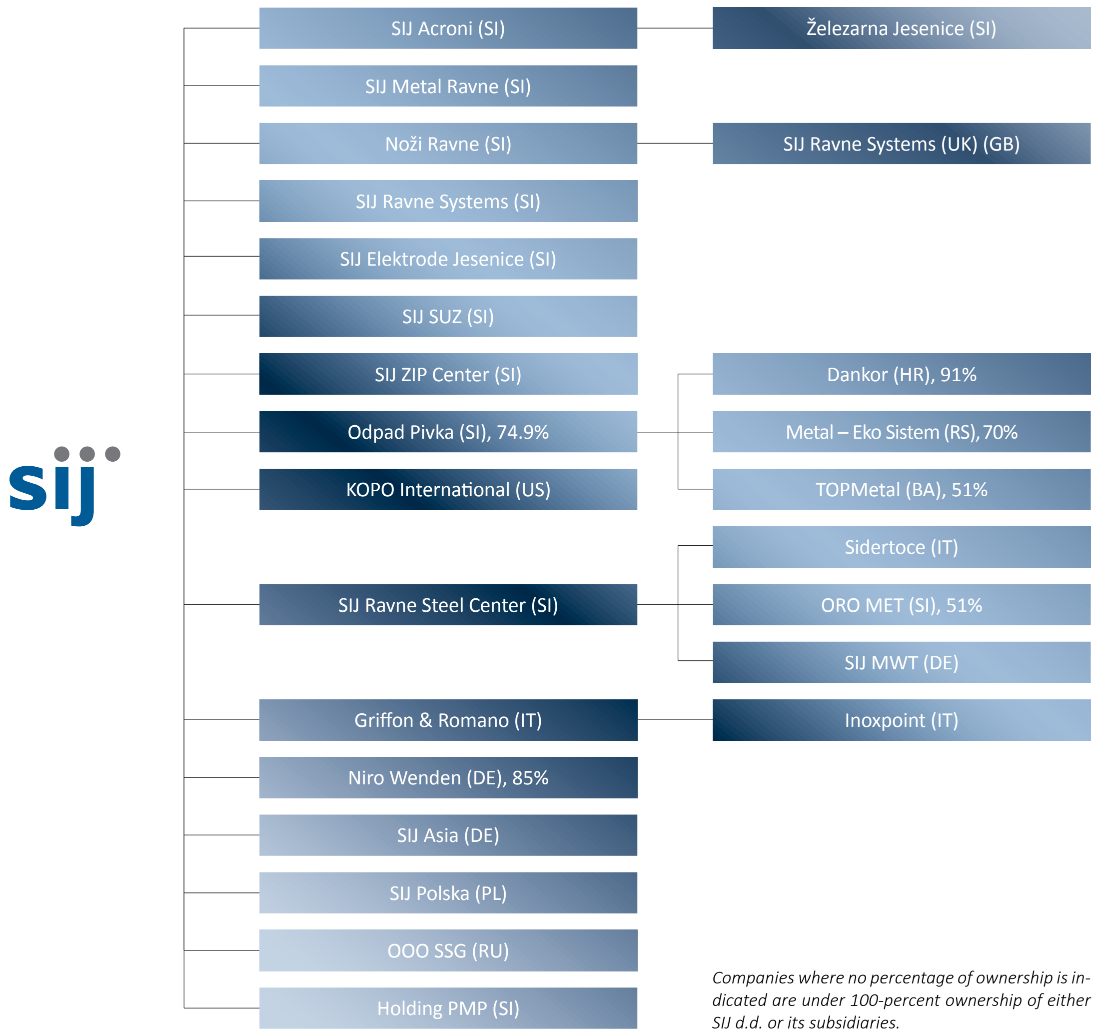
In 2019, the Management Board continued to actively participate in the work of international steel associations, while outside of SIJ Group, Members of the Management Board did not conduct any activities which could be considered significant in relation to their positions within SIJ Group.

ORGANISATION OF THE COMPANIES OF THE SIJ GROUP

SIJ Group is comprised of 25 companies. In accordance with the Management Agreement concluded between SIJ d.d. as the controlling company and six direct Metallurgy Division limited liability companies in Slovenia (SIJ Acroni, SIJ Metal Ravne, Noži Ravne, SIJ Elektrode Jesenice, SIJ SUZ and SIJ ZIP Centre), the subsidiaries are managed by the controlling company. In 2007, Železarna Jesenice also executed the agreement, and remains indirectly subject to central management.

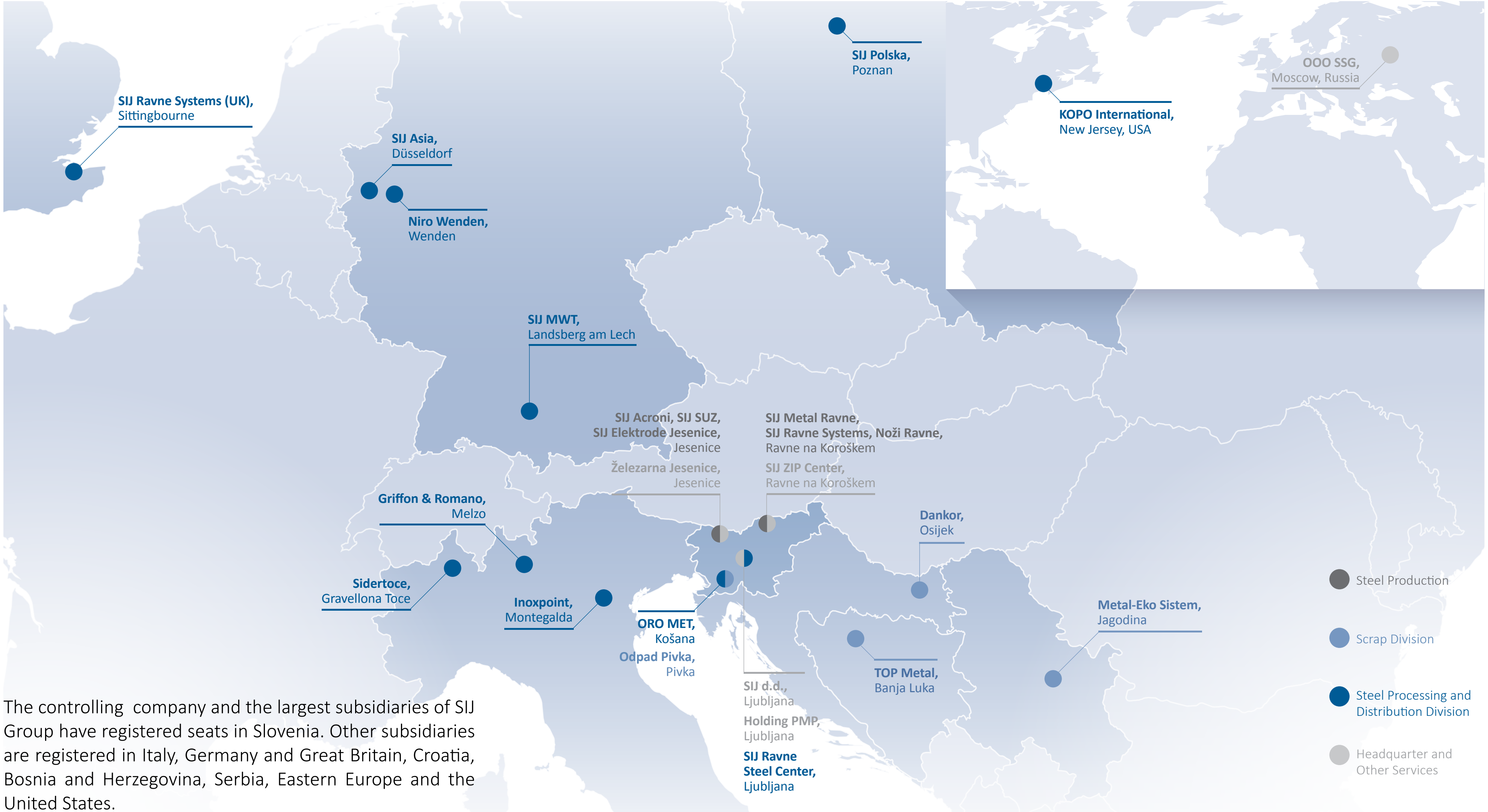
As a rule, other subsidiary companies are either 100-percent owned or under the predominant influence of the controlling company SIJ d.d. For the most part they are organised as limited liability companies.

ORGANISATIONAL STRUCTURE



Companies where no percentage of ownership is indicated are under 100-percent ownership of either SIJ d.d. or its subsidiaries.

GEOGRAPHIC DISTRIBUTION OF COMPANIES IN SIJ GROUP



The controlling company and the largest subsidiaries of SIJ Group have registered seats in Slovenia. Other subsidiaries are registered in Italy, Germany and Great Britain, Croatia, Bosnia and Herzegovina, Serbia, Eastern Europe and the United States.

PROGRAMME SCHEME: VERTICALLY INTEGRATED BUSINESS MODEL

SCRAP	PRODUCTION		DISTRIBUTION		SERVICES
SCRAP DIVISION	STEEL DIVISION	MANUFACTURING	STEEL PROCESSING AND DISTRIBUTION DIVISION		HEADQUARTERS AND OTHER SERVICES
Odpad Pivka, Pivka (SI)	SIJ Acroni, Jesenice (SI)	SIJ Ravne Systems, Ravne na Koroškem (SI)	SIJ Ravne Steel Center, Ljubljana (SI)	ORO MET, Košana (SI)	SIJ d.d., Ljubljana (SI)
Dankor, Osijek (HR)	SIJ Metal Ravne, Ravne na Koroškem (SI)	Noži Ravne, Ravne na Koroškem (SI)	Sidertoce, Gravellona Toce (IT)	SIJ MWT, Landsberg am Lech (DE)	SIJ ZIP Center, Ravne na Koroškem (SI)
Metal-Eko Sistem, Jagodina (RS)		SIJ Elektrode Jesenice, Jesenice (SI)	Niro Wenden, Wenden (DE)	SIJ Polska, Poznan (PL)	Železarna Jesenice, Jesenice (SI)
TOPMetal, Banja Luka (BA)		SIJ SUZ, Jesenice (SI)	Griffon & Romano, Melzo (IT)	SIJ Asia, Düsseldorf (DE)	OOO SSG, Moscow (RU)
			Inoxpoint, Montegalda (IT)	SIJ Ravne Systems (UK), Sittingbourne (GB)	Holding PMP, Ljubljana (SI)
			KOPO International, New Jersey (US)		

SIJ Group generates the majority of its revenues through the production of steel, which is meaningfully connected to other business divisions – from the collection and sale of steel scrap to steel distribution and processing, leading to finished products. The semi-finished steel products programme is supplemented by the production of high-added value finished metal products.

SIJ Group companies operate across five business divisions:

- Scrap Division
The companies within this division collect, process, and sort metal scrap and prepare it for transport and basic processing in the Steel Division.

- Steel Division
Steel companies produce steel for further processing of the flat and long programme and develop new types of steel tailor-made for customers.

- Manufacturing Division
Utilising the synergy with the Steel Division production processes, companies produce finished products and semi-finished products such as industrial knives, rolls, welding materials and drawn, ground and peeled steel bars.

- Steel Processing and Distribution Division
In key markets, companies use distribution and other services to develop and strengthen direct contact with end customers.

- Headquarters and Other Services
SIJ d.d. as the controlling company provides governance. Other companies implement various concession services and social assistance services linked to the employment of persons with disabilities.

STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE CODES

In accordance with the provision of the fifth paragraph of Article 70 of the Companies Act, SIJ d.d. hereby submits a Statement of Compliance with the Corporate Governance Code relating to the period between 1 January 2019 and 31 December 2019. The notes on corporate governance and performance of management bodies are disclosed in chapter Corporate governance and supervision of SIJ d.d.

As in previous years, SIJ d.d. continued to implicitly follow the provisions of the Slovenian Corporate Governance Code with regard to the management of SIJ d.d. and SIJ Group in 2018. The Corporate Governance Code for Companies with Capital Assets of the State were followed mutatis mutandis, in parts where the provisions of the two Codes comply with the law and professional customs. The Company did not adopt its own Corporate Governance Code in 2019, nor did it fully adopt the Slovenian Corporate Governance Code and Corporate Governance Code for Companies with Capital Assets of the State.[4]

Some key deviations from the Slovenian Corporate Governance Code are explained below:

CORPORATE GOVERNANCE FRAMEWORK

The Company has not adopted a specific document as its Corporate Governance Policy (or Communication Strategies as a part of such policy) or Diversity Policy. The basis for the actual management of SIJ Group companies is provided by the management agreement, the Articles of Association or other acts of SIJ Group companies. In the appointment of the management and supervisory bodies, the Company upholds the principles of diversity – seeking complementarity between the Members based on their expertise, experience, skills and mutual respect.

RELATIONSHIP BETWEEN THE COMPANY AND THE SHAREHOLDERS

The ownership of SIJ d.d. is divided between the two largest shareholders, who renewed the shareholders' agreement in September 2019. In relationships between the Company and its shareholders, our primary concern is compliance with the provisions of the Companies Act, taking into account the specific considerations of the relationship existing between the shareholders.

SUPERVISORY BOARD

In this respect, the Company primarily complies with the provisions of the Companies Act and the structure of candidates in the Supervisory Board, based on the voting proposals submitted by the company's two largest shareholders. The Supervisory Board does not have a special nominations committee of other work committees created for this purpose, nor does the Company collect statements on the members' independence. Since the Supervisory Board Members act as a unified body with mutually complementing professional backgrounds and competencies, the Supervisory Board does not evaluate individual members' performance, instead the entire body's performance is evaluated in the context of preparing the Supervisory Board's report for each financial year. Because the Company provides administrative, technical, and organisational support, no secretary of the Supervisory Board is appointed.

EXTERNAL AUDITOR

In 2019 the General Meeting tasked the company Deloitte revizija d.o.o. with performing the mandatory audits for the financial years 2019-2021. Beyond the auditor rotation recommendations the Codes provide, the Company is of the view that compliance with Regulation (EU) no. 537/2014 is of particular relevance when it comes to the auditing restrictions for public interest entities.

The above statements also apply mutatis mutandis to the Corporate Governance Code for Companies with Capital Assets of the State, where the provisions overlap in content.

Andrey Zubitskiy,
President of the Management Board

Evgeny Zverev,
President of the Supervisory Board

4 In 2018, SIJ was subject to the provisions of the Slovenian Corporate Governance Code of 27 October 2016, which has been in force since 1 January 2017 and was most recently co-authored in its revised form by the Ljubljana Stock Exchange and the Slovenian Director's Association. It is published on the Ljubljana Stock Exchange website [www.ljse.si.](http://www.ljse.si) Given the Slovenian government's ownership stake in SIJ d.d., the Corporate Governance Code for Companies with Capital Assets of the State has applied to the Company since March 2016, which the Management Board of SDH adopted with approval from the Supervisory Board and which is published on the SDH website [www.sdh.si.](http://www.sdh.si)

Evidence of today's STABILITY creates tomorrow's OPPORTUNITIES

BUSINESS STRATEGY

OUR STRATEGY IS TO WORK TOGETHER WITH OUR CUSTOMERS, FROM IDENTIFYING PRESENT NEEDS TO IMPLEMENTING EFFECTIVE SOLUTIONS.

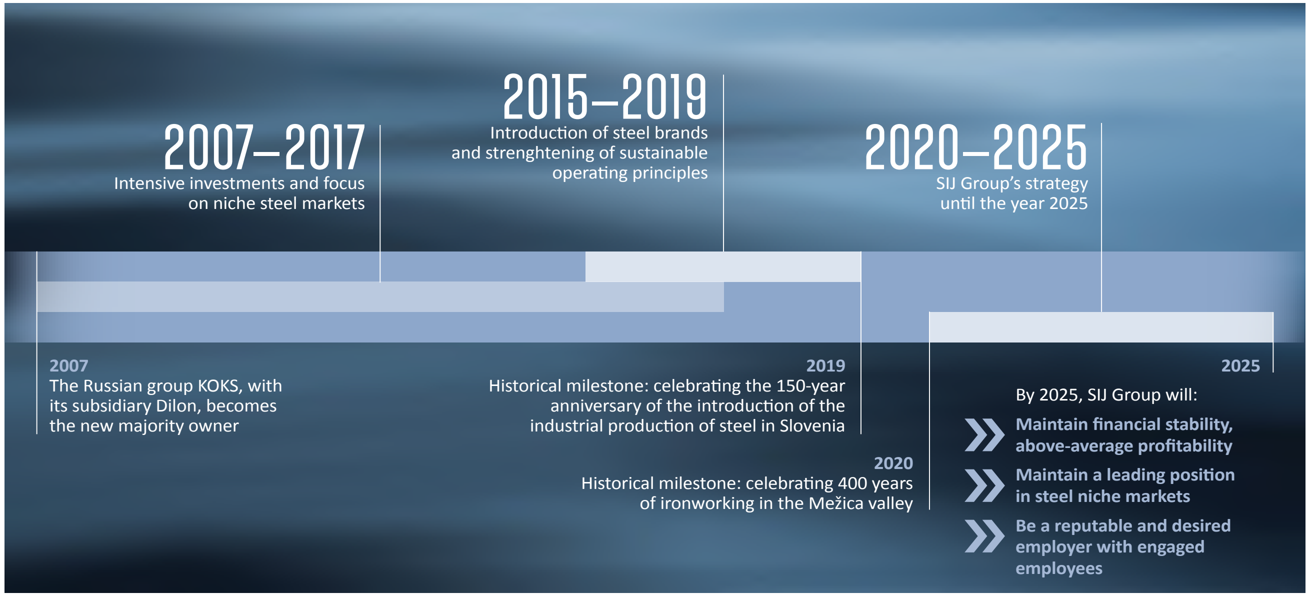
We achieve stable operations through developing innovative solutions tailored to our customers' needs. We work in accordance with the core values of business excellence: ethics, professionalism, fairness and credibility. In collaboration with our partners, who can rely on our knowledge and experience, innovations and business excellence, we create opportunities for us and our customers to respond to changes in the business environment in a timely and cost-effective fashion.

In line with our outlined strategic objectives until the year 2025, we will continue strengthening our position in key niche markets with an eye on the industries of the future.

In 2025, we will have a solid financial performance, maintaining our leading position in niche steel markets and able to attract talent. By improving efficiency, implementing improved processes, investment activities and strengthening our employee commitment levels, we will retain our leading position in the global niche markets, while keeping our leading position in Europe in the stainless and special steels segments. Our profitability levels will remain above the industry average.

We formed our strategy for 2025 in 2019. The year-long project involved participation from over 150 key employees, who set the company's strategic direction leading up to 2025 after two historic milestones for Slovenian steelworking and the SIJ Group itself were reached. They set the company on the path to reaching the milestones ahead. Our work is never truly finished, since we are integrated in an endless innovation process of a thousand-year steel tradition. This is symbolised by the three dots in our corporate logo, representing the three pillars in our new development phase which will lead us towards achieving three key goals set for the year 2025. In the process, we will maintain SIJ Group's solid foundations and the competitive advantages achieved in previous development stages.

Perspective 2025: A New Development Phase of SIJ Group



THREE DOTS, THREE KEY PILLARS OF SUCCESS

Our goals are based on realistic market, production and financial premises. We will achieve them through careful and well-designed strategic practices, involving particularly employee development, increased efficiency and taking advantage of our capacities through even more intensive development, not only of our high added-value products, but also solutions tailored to our customers' needs.

Niche positioning

niche markets and development of brands

Efficiency

Increased efficiency through harnessing capacities and resources

Employees

development of employees and organisational culture

LEADING NICHE MARKET POSITION THANKS TO QUALITY AND FLEXIBILITY

At SIJ Group, we will continue building our **competitive advantages and market leader position in our niche higher added value steel markets.** In the European Union, we are ranked at the very top among producers of stainless steel quarto plates, and hold third place among tool steel producers. On the global scale, we rank among the world's top ten producers of industrial knives.

In the future, we will focus even more on **developing our proprietary steel quality grades,** which outperform standard quality grades. This will allow us to deliver additional benefits to our customers, such as lower costs, increased efficiency and improved ability for the further processing of materials. In the international area we will **strengthen the SIJ Group's corporate brand recognition** and we are also planning to further expand our product brands.

We will upgrade our steel products by introducing complete solutions for our customers' needs. We will continue building our flexibility and introducing improvements across all levels of our business through structured cooperation with our customers and analysing feedback.

EFFICIENCY THROUGH HARNESSING CAPACITIES AND RESOURCES

Taking advantage of the synergies within SIJ Group, which establishes vertical links from raw materials to finished products, we will **further increase the share of steel we process into finished products within the Group.** Besides cost efficiency, our Scrap Division and supply chain management allows us to maintain **better control over the quality of raw materials, as well as the quality of steel and finished products for our customers' benefit.**

In the medium-term, we will continue investing in technological improvements to production, **further developing our production capacities and improving utilisation rates.** Eliminating bottlenecks will **free up our capacities for producing higher value-added niche product programmes** and expanding our offering with improved quality and expanded dimensioning of our products. Over the long term, we will **improve, automate and digitise** segments of our production, paving the way to even higher-quality products.

Through integration of **circular economy principles** in our business activities and introducing further improvements **we ensure a low carbon footprint, which already today ranks us among the most efficient steel producers in the world.** We will continue efforts to integrate water reuse in manufacturing processes, reducing noise, waste and dust emissions, and increasing energy use efficiency. We will increase our efficiency by investing in further improvements in these areas.

A REPUTABLE AND DESIRED EMPLOYER WITH ENGAGED EMPLOYEES

Employee development is one of SIJ Group's most important short-term priorities. Targeted training of our management teams, performance bonuses, introducing internal recruitment and career planning for all employees are part of our **systematic efforts to improve the organisational climate and our employees' satisfaction and engagement.** Our goal is to further improve SIJ Group's reputation as an employer. We are currently one of Slovenia's desired employers, and our **goal is to become a desired employer.**

THREE ATTAINABLE GOALS FOR 2025

Redefined in 2019, our vision is to achieve sustainable growth and efficiency through focusing our efforts on our customers and producing high added-value and quality products, with the help of our engaged employees.

Our mission is to produce a broad selection of steels and steel products, while keeping in mind the needs of all key stakeholders.

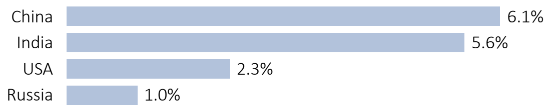
Our goals, our focus. SIJ Group will:

- **Maintain financial stability, above-average profitability**
- **Maintain a leading position in steel niche markets**
- **Be a reputable and desired employer with engaged employees**

IMPACTS OF THE EXTERNAL ENVIRONMENT AND OPPORTUNITIES FOR SIJ GROUP

GLOBAL ECONOMIC OUTLOOK

Economic Growth 2019



Economic Growth Forecast 2019

Observations and Trends

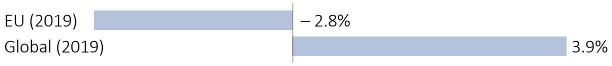
2.9% global growth (GDP) in 2019, forecast to grow at a steady rate in2020

Impacts and Opportunities

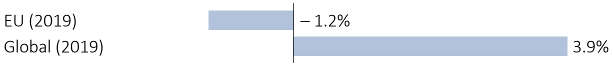
- Stronger economic growth in 2020.
- Despite import tariffs, the USA remains a profitable market for SIJ Group.

NEW STEEL DEMAND TRENDS

Growth in Steel Consumption



Growth in Steel Demand



Observations and Trends

2.8% decline in steel production growth in the European Union in 2019

3.9% increase in global steel production growth in 2019

Impacts and Opportunities

- Increasing the level of sales in non-EU markets with higher growth rates.
- Maintaining our presence in niche steel markets with more stable demand.

GLOBAL PROTECTIONISM

Scale of Retaliatory Measures of the Top U.S. Trading Partners

Observations and Trends

EUR 14 bn is the amount of the half-year global loss attributable to trade wars.

EUR 4 bn in duties will be saved as a result of signing the European Union–Mercosur* free trade agreement (28 June 2019)

Impacts and Opportunities

- Extension of existing exemptions.
- Encouraging U.S. buyers to endorse requested exemptions for SIJ Group.
- Door to South America opens with the signing of the Mercosur Free Trade Agreement.

Sources:

1. *European Commission. November 2019. Autumn 2019 European Economic Forecast. Available at: link (28 November 2019).*
2. *United Nations Conference on Trade and Development - UNCTAD. September 2019. Trade and Trade Diversion Effects of United States Tariffs on China. Available at: link (28 November 2019).*
3. *World Steel Association. October 2019. World Steel Short Range Outlook. Available at: link (28 November 2019).*
4. *European Commission. July 2019. In focus EU-MERCOSUR. Available at: link (28 November 2019).*
5. *The World Economic Forum. 1 November 2019. Why trade wars have no winners. Available at: link (28 November 2019).*

**Argentina, Brazil, Paraguay, Uruguay, Venezuela.*

ANALYSIS OF BUSINESS ACTIVITIES

The 2019 key performance measures are proof that SIJ Group, now fully focused on metallurgy, has a solid financial position. In line with our business plans and strategies, we successfully completed the sale of our SIJ Group Poultry Division in 2019.

Key Operating Figures[5] of SIJ Group

Financial figures	unit of measure	2017	2018	2019
Revenues	000 EUR	754,870	793,277	767,351
EBIT[a]	000 EUR	24,652	-3,891	-5,154
EBIT margin	%	3.3	-0.5	-0.7
Depreciation and amortisation	000 EUR	50,097	48,333	49,780
EBITDA[b]	000 EUR	77,273	61,681	58,818
EBITDA margin	%	10.2	7.8	7.7
EBITDA per employee	EUR	21,554	16,944	15,443
Profit or loss before taxes	000 EUR	6,462	-19,572	-17,004
Net profit	000 EUR	14,406	6,501	44,908
Capex	000 EUR	53,027	36,959	37,555
Statement of financial position as at 31 Dec				
Total assets	000 EUR	1,139,736	1,143,831	950,205
Equity	000 EUR	402,937	399,256	418,928
Working capital as at 31.12.				
Inventories	*000 EUR*	*194,720*	*207,135*	*212,398*
Trade receivables	*000 EUR*	*84,361*	*74,089*	*69,138*
Trade payables[c]	*000 EUR*	*197,595*	*183,994*	*180,076*
Working capital	000 EUR	81,486	97,230	101,460
Net financial debt as at 31 Dec				
Non-current financial liabilities	*000 EUR*	*268,115*	*231,095*	*162,840*
Current financial liabilities	*000 EUR*	*97,330*	*150,303*	*137,954*
Cash and cash equivalents	*000 EUR*	*34,909*	*64,080*	*120,250*
Net financial debt[d]	000 EUR	330,537	317,318	180,545
Business combinations[e]	*000 EUR*	*82,035*	*82,036*	*0*
NFD/EBITDA[f]		3.2	3.6	3.1
Employees				
Average number of employees		3,585	3,824	3,800

a EBIT: operating profit or loss.
b EBITDA LMA: operating profit or loss before depreciation and amortisation + impairments and write-offs of value, calculation provided in Disclosure 4.
c Trade payables for operating assets.
d Net financial debt (NFD): non-current and current financial liabilities – cash and cash equivalents.
e Business combinations refer to purchases of shares of PP Group and Holding PMP until 31 December.
f NFD/EBITDA: NFD does not include business combinations.

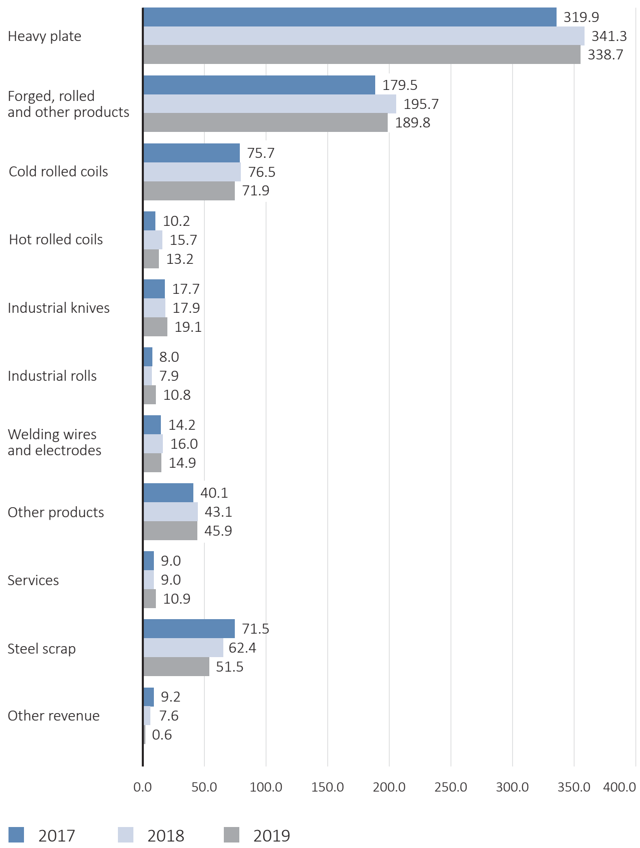
5 As a result of corrections, the key performing indicators for 2018 shown in the table differ from those reported in the 2018 annual report. An explanation for this is provided in the financial report – the disclosure Error Correction.

CHANGES IN SALES STRUCTURE

In 2019 SIJ Group generated EUR 767.4 million in sales revenue. Compared to 2018, there was a significant increase in demand for industrial knives and forged rolls in 2019. Industrial rolls sales increased by as much as 36 percent compared to the preceding year. Due to the large orders, production capacities for these products were fully occupied for an extended period of time. Sales of industrial knives increased by six percent, and SIJ Group is still ranked among the top ten manufacturers of industrial knives on the global scale. Sales of welding wires and electrodes decreased slightly.

Compared to 2018, mostly on account of lower quantities sold, sales revenue in the segment of cold rolled coils also decreased by six percent, and revenues in the segment of forged, rolled and other products decreased by three percent.

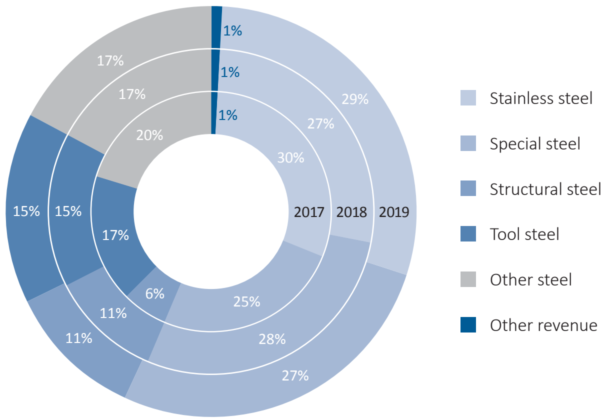
Sales by Product Groups (in EUR million)



GREATER SHARE OF HIGHER VALUE-ADDED PRODUCTS

The core of our manufacturing operations consists of stainless steels, tool steels and special steels. Our quality products focus mainly on niche steel markets, while maintaining our leading market positions in specific segments. In 2019, we thus increased sales of stainless steels, our most profitable production segment, by two percentage points. We also increased sales of special steels by one percentage point. SIJ Group's competitiveness is further strengthened through in-house research and development, which we develop in collaboration with our customers.

Share of Sales Volume of Certain Types of Steel (in percent)



STABLE POSITION IN KEY MARKETS

With 84.6 percent of exports, the SIJ Group remained one of the largest Slovenian exporters in 2019. Germany, Italy, and other European countries continued to be our main export markets. The share of sales on the domestic market was 15.4 percent.

Exports to Germany, our most important export market, increased by one percentage point in 2019. Our exports to this market exceeded last year's by EUR 1.8 million. We also increased sales to other European markets by 0.6 percent, although this does not hold true for Italy.

Due to decreased demand, our sales on the Italian market decreased by 0.9 percentage points. Sales revenues on this market were EUR 12.2 million lower.

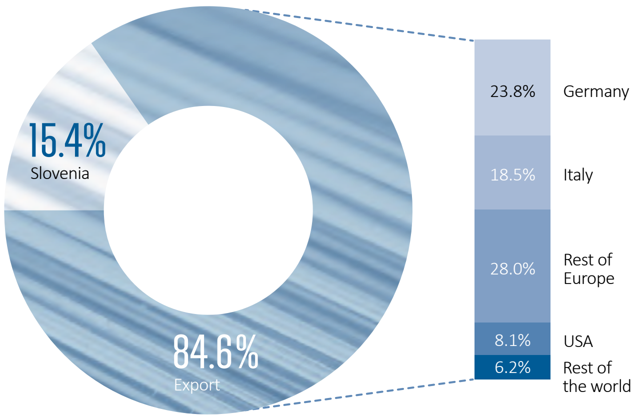
Due to the uncertain trade situation, mainly as a result of US protectionism and its still-in-force 25 percent import duty on steel products introduced in June 2018, SIJ Group took various steps to maintain exports to the US market. The introduction of steel tariffs resulted in a 0.7 percentage decrease in US market sales volume, but the shortfall would have been even higher without the numerous efforts made by SIJ Group.

THE IMPACTS OF DIFFERENT BUSINESS AREAS ON EBITDA

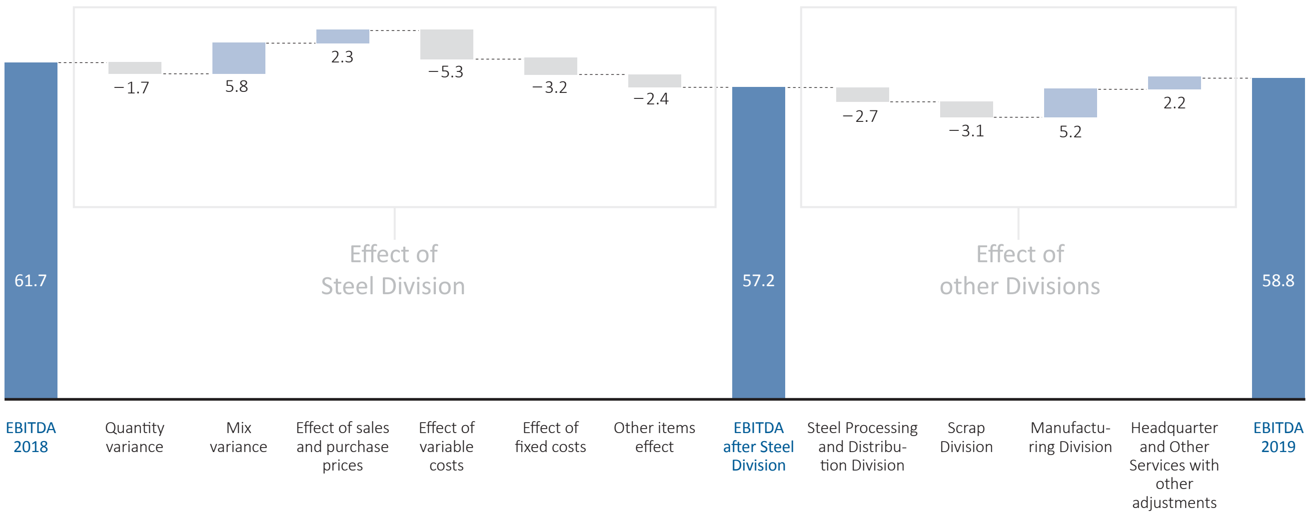
In 2019, the SIJ Group generated an EBITDA of EUR 58.8 million.

In 2019, the Steel Division generated an EBITDA which was EUR 4.5 million lower compared to 2018. The Steel Division has a marked effect on the EBITDA of the entire SIJ Group. The profitability indicator of the Steel Division was particularly driven by a sales mix products and the relation between the sales and purchase prices .

Share of Revenues by Market (in percent)



EBITDA Bridge (in EUR million)



Steel Division's Effect on EBITDA

With an improved and adjusted sales mix, the Steel Division had a positive effect of EUR 5.8 million. Successfully balancing the sales and purchase prices improved SIJ Group's results by a further EUR 2.3 million. This has generated a total sales effect of EUR 8.1 million, which almost entirely covered the EUR 8.5 million negative impact of higher process costs.

The EUR 5.3 million negative effect was driven by variable costs, mainly energy costs, the costs of fireproof materials and graphite electrodes and production services. Further negative effects came from increased fixed costs in the amount of EUR 3.2 million, attributable to the cost of labour. Other effects with a negative impact on the operating result of the Steel Division, amounting to EUR 2.4 million, as a result of one-off events.

Effect of the Steel Processing and Distribution Division

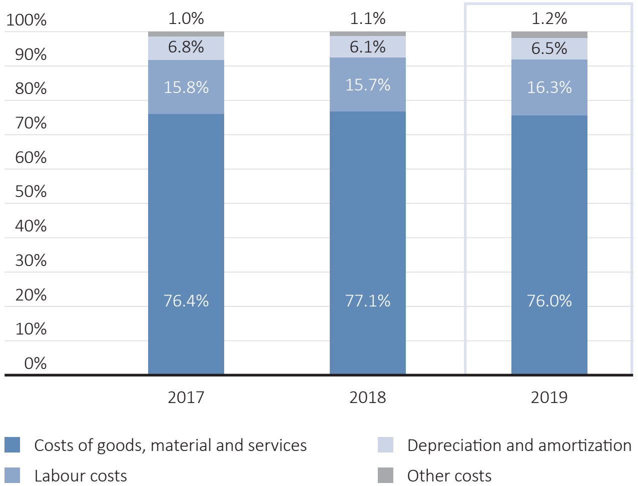
Other business divisions in SIJ Group are closely related to the operations of the Steel Division. The Steel Processing and Distribution Division provides the first signals of changes in sales prices and demand volumes, as they are one tier higher in the supply chain. This division faced lower sales volumes in 2019.

Effect of the Manufacturing Division

The Manufacturing Division improved its performance in 2019 and reached a level which surpassed the previous year's result by EUR 5.2 million. This is mostly attributable to optimisation of manufacturing and managing processing costs.

COST MANAGEMENT

Structure of Operating Costs (in percent)

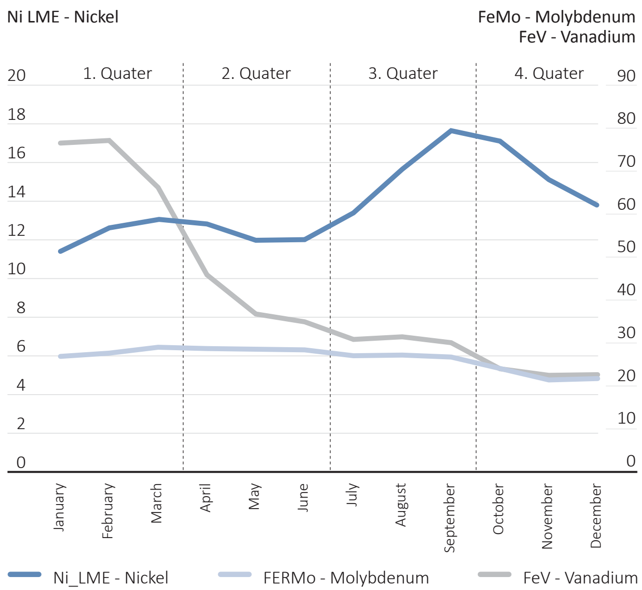


Most of SIJ Group's operating costs consists of strategic raw materials. Although prices are subject to fluctuation, we decreased the costs of goods, materials and services by EUR 35.8 million in 2019, bringing the cost of raw materials down by 1.2 percentage points.

Prices of Raw Materials

In addition to secondary raw materials (stainless and non-alloy steel scrap), the key raw materials for the production of stainless and special steels are nickel, chromium, molybdenum, vanadium, silicone, and manganese. Compared to year-end 2018, these raw materials mostly followed a negative trend in 2019. Molybdenum was the most stable raw material, as it is less dependent on consumption in the steel industry. Vanadium had a record loss of value, its prices falling below the levels prior to the wild growth experienced in 2018. We also noted a specific volatility in nickel prices. Due to the unexpected early ban on nickel imports from Indonesia to China, speculations regarding its availability in 2020 sparked a sudden price upswing on the London Metal Exchange (LME). The situation subsided towards the end of the year, as the unfavourable macroeconomic outlook reduced demand.

Movement of Key Raw Material Prices for the Production of Stainless and Tool Steels (in USD per kilogram)



Energy-generating Product Costs

In SIJ Group, the Steel and Manufacturing companies are the largest consumers of energy. In 2019 these companies used a total of 524,300 thousand megawatt hours of electricity, and over 832,107 thousand megawatt hours of natural gas.

In the structure of the costs of goods, materials and services in 2019, the costs of energy accounted for 11.5 percent, a 0.9 percentage increase compared to 2018. The costs of energy, which amounted to EUR 66.6 million, were up by three percent (EUR 1.7 million) compared to the preceding year. This is mainly due to the higher price of electricity, which was, on average, eight percent higher for both steel companies.

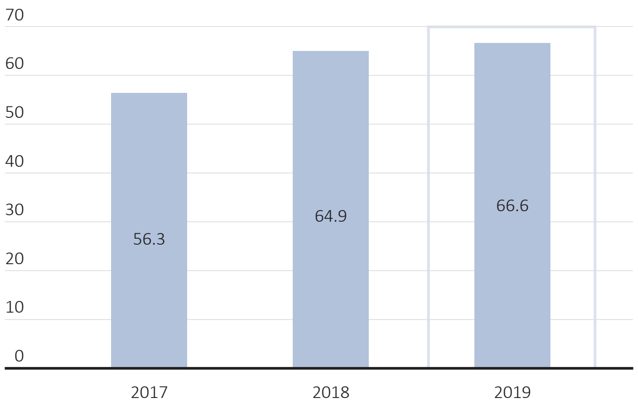
MODERATE INVESTMENT COSTS

CAPEX in 2019 amounted to EUR 37.6 million, a two percent increase compared to the preceding year. Over the last two years, following the conclusion of two large-scale investment projects, the balance between CAPEX and amortisation and depreciation has been leaning towards amortisation and depreciation. In 2019, it exceeded the value of investments by EUR 12.2 million. A moderate scale of investments is in line with SIJ Group's strategy.

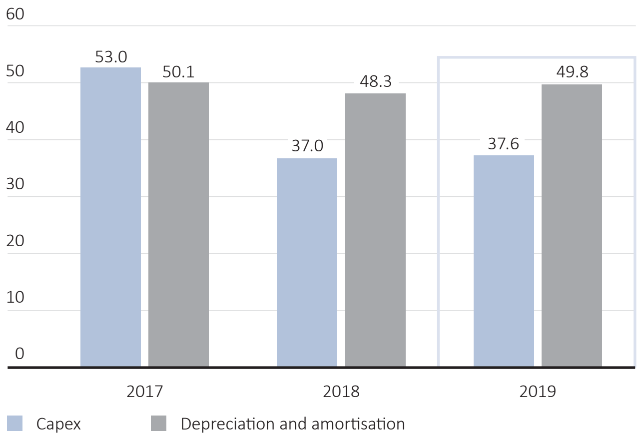
DELEVERAGING

The level of SIJ Group's net financial debt, which amounted to EUR 180.5 million at the end of 2019, decreased significantly compared to 2018, a development in which the sale of the SIJ Group Poultry Division played a significant role. Investments and other activities from regular operations were financed from EBITDA in 2019.

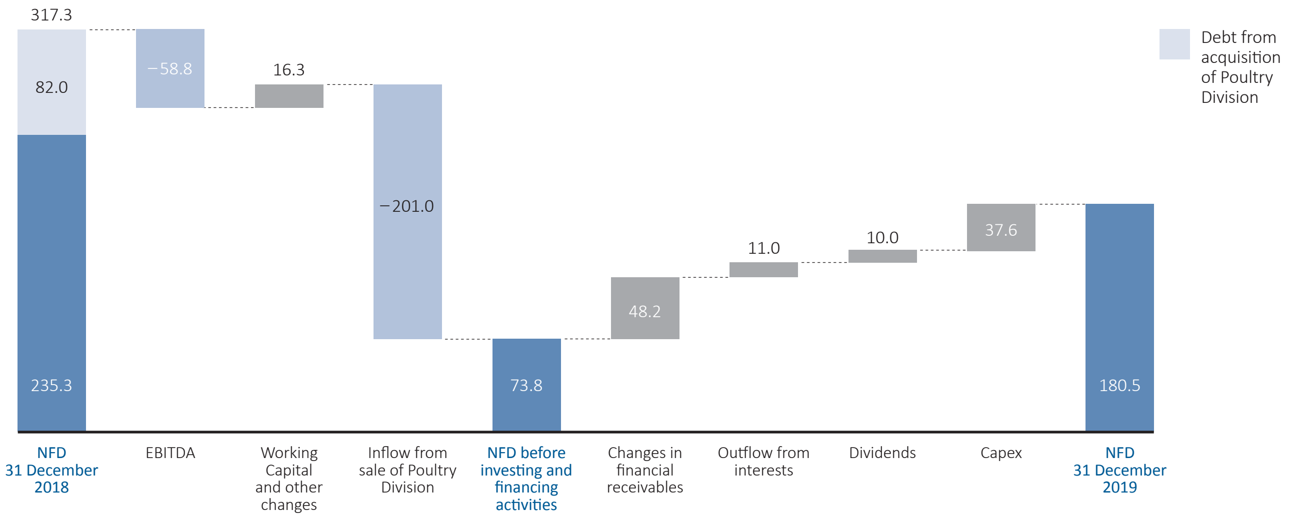
Energy Costs (in EUR million)



Depreciation and Amortisation and CAPEX (in EUR million)

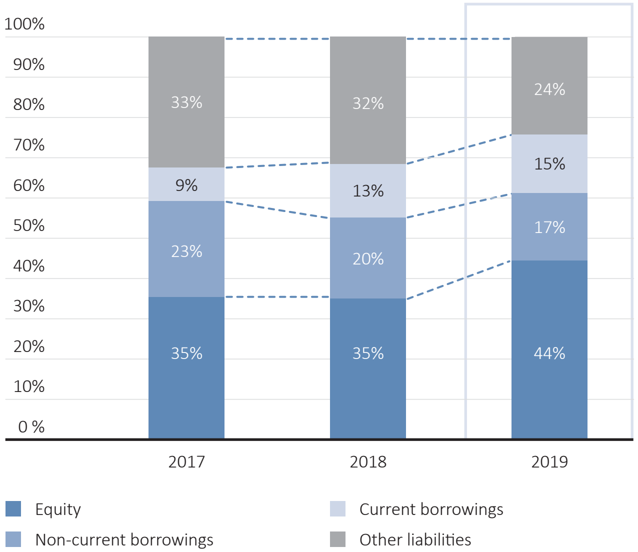


Net Financial Debt as at 31 December (in EUR million)



FINANCIAL STABILITY AND LONG-TERM SOURCES OF FINANCING

Debt Structure as at 31 December (in percent)



After the successful sale of the SIJ Group Poultry Division, we further increased the share of shareholders' equity in the debt structure. Compared to the preceding year, the share of current financial liabilities is somewhat higher due to the transfer of bonds from non-current to current financial liabilities, which is associated with the bonds due in July 2020. As a result, the share of non-current financial liabilities is somewhat lower. The share of other liabilities is down eight percentage points.

LOW INTEREST RATE COMMERCIAL PAPERS

In December 2019, for the sixth time, the SIJ Group issued one-year commercial papers (ticker symbol: SIK06) with a total nominal value of EUR 28 million. With them, we replaced the existing commercial papers in the amount of EUR 30 million, which fell due in December 2019.

The interest rate of the new commercial notes is 0.9 p.a., which is the lowest interest rate for commercial papers issued on the Slovenian capital market in recent years, significantly contributing to lower financing costs.

INVESTOR TRUST IN SIJ6 BONDS

In addition to the commercial papers, SIJ Group issued five-year bonds in November 2019 under the ticker symbol SIJ6, in the nominal amount of EUR 40 million, and a 2.8 percent annual coupon. Our newly-issued bonds replaced the SIJ4 bonds, which fell due for payment in November 2019.

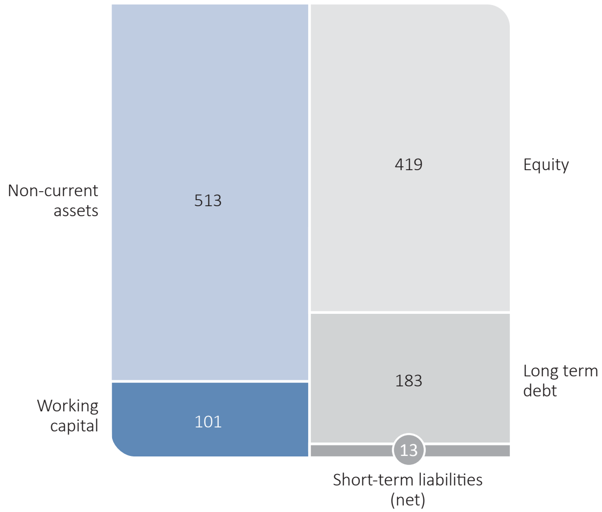
The reaction to these commercial papers indicates a high degree of institutional and private investors' trust in the stability of SIJ Group and its commitment to implementing its development strategy.

AMOUNT OF EXISTING LIABILITIES

In line with the terms of the SIJ5 and SIJ6 bonds, SIJ Group is required to disclose the total amount of existing liabilities in its annual report. This amount is equal to the amount of secured liabilities (including unencumbered, undrawn loans under previously concluded agreements). Together with the published permissible exceptions under the terms of the bond issue, the level of secured liabilities as at 31 December 2019 amounted to EUR 27 million. Compared to 2018, this amount was lower due to the exclusion of secured liabilities from the SIJ Group Poultry Division and due to the repayment of the loan principals.

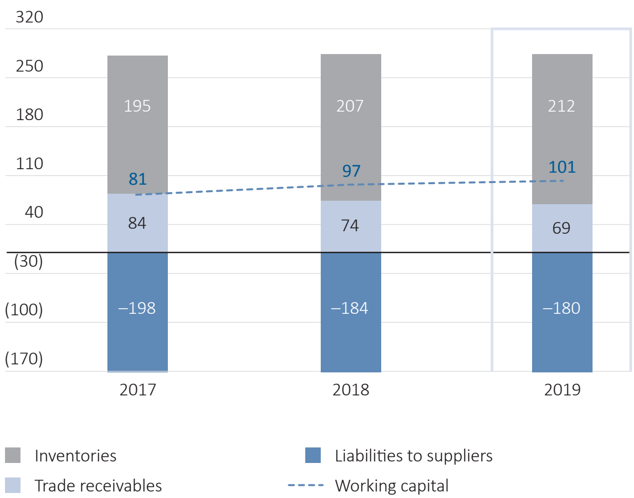
STABLE FINANCIAL STRUCTURE

Structure of Financial Position: Asset-to-debt Ratio as at 31 December (in EUR million)

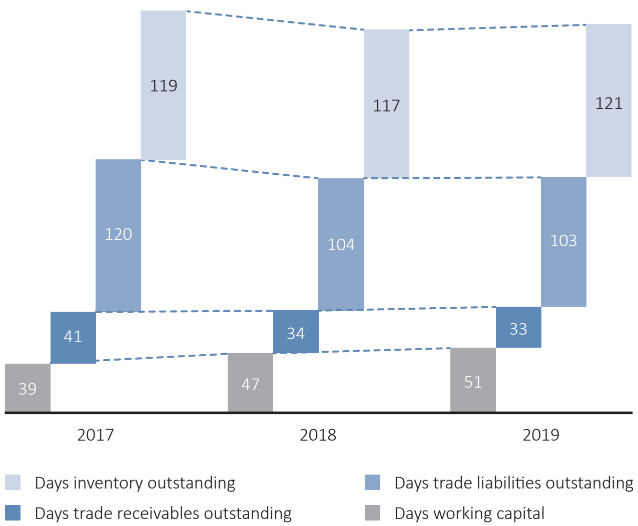


WORKING CAPITAL MANAGEMENT

Working Capital from Operations as at 31 December (in EUR million)



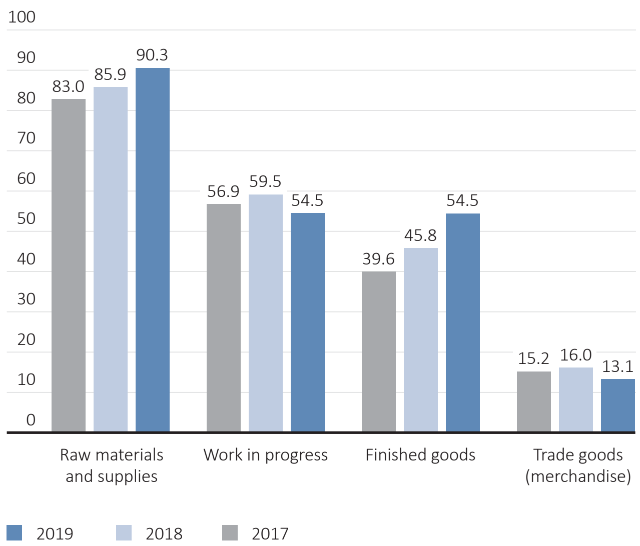
Days Working Capital from Operations as at 31 December



SIJ Group manages its working capital properly. Yearly changes in working capital are managed with approved credit lines, while receivables and liabilities are actively and effectively monitored on a daily basis. Effective management of receivables is also carried out via the special programme Securitisation of trade receivables. Through such activities and the consistent recovery of receivables, we further improved the turnover of receivables. We also put a special focus on managing our trade payables.

EFFECTIVE INVENTORY MANAGEMENT

Inventories by Type as at 31 December (in EUR million)



The performance of the Steel Division and Manufacturing Division depends on inventory management, especially management of inventories of intermediate products and strategic raw materials. Good inventory management is key for ensuring a smooth production process.

The value of inventories as at 2019 year-end was up 2.5 percent compared to the preceding year. Inventories of materials and raw materials were up by 5.2 percent – mostly due to the higher prices of raw materials.

SIJ d.d. also reports its operating performance according to alternative performance measures defined by the ESMA (European Securities and Markets Authority).

Notes to the Performance Measures

Indicator	Explanation of calculation	Use
Revenues	Net sales revenues in the statement of comprehensive income (Disclosure 1).	Net sales revenues are part of the EBITDA margin and share of exports indicators.
Share of exports	Non-domestic net sales revenues compared to overall net sales revenues in the statement of comprehensive income (Disclosure 1).	Shows the level of integration in international exchanges and measures the share of exports of goods.
EBIT	Operating profit or loss in the statement of comprehensive income.	Shows the operating result and is part of the EBITDA indicator.
EBITDA	Operating profit or loss in the statement of comprehensive income before depreciation and amortisation and other non-cash line items (Disclosure 4).	EBITDA is one of the indicators of the Group's performance, representing an estimation of cash flow from its core business operations. A higher value means a higher operating cash flow, which translates to a lower risk for investors.
EBITDA margin	Share of EBITDA in net sales revenue in the statement of comprehensive income.	As a relative indicator, this is used for comparative analyses with similar companies in the industry.
Net profit or loss	Net profit or loss for the period in the statement of comprehensive income.	The mathematical difference of the total profit or loss, levied income tax and deferred taxes, and represents the profit available for use.
Net financial debt	The sum total of non-current and current financial liabilities minus cash and cash equivalents in the balance sheet.	Net financial debt is part of the NFD/EBITDA indicator.
NFD/EBITDA	NFD / EBITDA.	A financial indicator which compares the net financial debt and EBITDA. The indicator shows the company's ability to repay its financial debts. For half-year data, the EBITDA for the past 12 months is used. A lower value of this indicator means that the Group is able to repay its debts to a greater extent and faster, with a lower risk of default.

INVESTMENTS

Over the past two years, SIJ Group's investment activities have mainly been geared towards improving the efficiency of our production capabilities, which we have greatly expanded and modernised over the course of our intensive 2015-2017 investment cycle.

Through our investments in 2019, our newly-introduced technologies and capabilities were upgraded, by:

- improving product finalisation by introducing cutting centres, processing capacities, etc.;
- eliminating bottlenecks and increasing production efficiency;
- reducing noise emissions into the environment;
- reducing our energy consumption and carbon footprint.

Capex (in EUR million)

Company	2019
SIJ Acroni	17.1
SIJ Metal Ravne	10.5
SIJ Ravne Systems	4.8
ORO MET	1.5
Other investments	3.7
Total	37.6

Top 5 Investment Highlights of 2019

EUR 1.5 million	Modernisation of the ZRM rolling stand **SIJ Acroni**	increased efficiency of the electrical steel rolling stand for the electric motors of the future
EUR 1.2 million	New production hall **ORO MET**	further development and growth of the leading supplier of tool plates for use in a variety of products in the tooling industry
EUR 0.8 million	Digitalisation of production planning **SIJ Acroni**	increasing the production realization and the customer supply accuracy
EUR 0.7 million	Correa milling cutter **SIJ Ravne Systems**	increased roll production
EUR 0.55 million	Steckel plate mill **SIJ Acroni**	improved conditions for production of electrical steel for use in the production of electric motors for cars

2019 INVESTMENT ACHIEVEMENTS

Ready for the Most Demanding Buyers and Electric Motors for the Future

SIJ Acroni has modernised the electrical power regulation equipment on the ZRM rolling stand, allowing us to increase the rolling stand capacity and narrow down the width tolerance range in the segment of cold-rolled electrical steel strips. In the process of modernising the Steckel plate mill, which will continue in 2020, we are creating better conditions for production of electrical steels for use in the electric motors of the future.

Furthermore, we introduced a new information system in this, the largest steel-producing subsidiary of SIJ Group – a globally-recognised planning tool, which generates production plans for three months in advance, based on a diverse range of parameters. The production process can be re-planned (e.g. in the event of production delays), increasing efficiency and control of the material flows even in extreme conditions. The customer service is thus significantly improved, which also has financial effects.

Modernised for Increased Roll Production

At the end of 2018, SIJ Ravne Systems, a producer of steel products, experienced increased demand for rolls for use in the steel and aluminium industry. An identified bottleneck was addressed by the introduction of a new milling cutter. This investment already enabled us to increase roll production in 2019.

Striving for Growth

At the company ORO MET, part of the Manufacturing Division and leading supplier of standard and non-standard tool plates for use in a variety of products in the tooling industry, we addressed the issue of the lack of space for installing new machinery by opening a new industrial hall. Better conditions for further development and growth of the company also translate into opportunities for increased sale of SIJ Metal Ravne tool steels, in line with SIJ Group's vertical integration model.

PLANNED INVESTMENTS BY 2025

In line with SIJ Group's stated strategy, we will dedicate approximately EUR 300 million for investment activities by the year 2025. We will evaluate investment effectiveness mainly through achievement of production goals and cutting costs.

By the year 2025, we intend to use carefully planned, excellently implemented and constantly monitored investments in order to:

- increase efficiency across all existing production programmes of SIJ Acroni;
- modernise the hot rolling mill and expand the special metallurgy segment in SIJ Metal Ravne;
- cut the production costs of welding materials in SIJ Elektrode Jesenice;
- develop new products through investments in SIJ Ravne Systems;
- modernise equipment at SIJ SUZ and other facilities;
- development of Steel processing and Distribution Division.

Already in 2020 we will increase heat treatment capabilities at the SIJ Metal Ravne metalworks, and with the addition of a dedusting device we will decrease dispersed sources of emissions into the environment.

Approx. EUR 300 million

of SIJ Group's investments will be dedicated to increasing efficiency by 2025 (modernisation of production lines and process optimisation), expanding the more profitable production programmes and reducing environmental impacts.

Four Percent of the Investments will be Dedicated Directly to Reducing Environmental Impacts

By signing the World Steel Association's sustainable development document, SIJ Group is committed to gearing its production process and its products towards reducing environmental impacts. Over the next five-year period, EUR 10.5 million will be directly set aside for investments in reducing environmental impacts, in line with the seven focus areas which steel companies and the key stakeholders identified as the key areas of sustainability to be addressed by steel firms.

Due to planning its investments with the BAT (best available technology) principle in mind, SIJ Group will indirectly reduce its environmental impacts in all of its planned investments.

The World Steel Association's Seven Areas of Sustainability and Investment and SIJ Group's Operations

Climate Change

SIJ Group
Today:
Functioning according to circular economy principles, and lower carbon footprint compared to integrated steelworking companies.

Perspective 2025:
Direct investments into reducing electricity consumption.

Water

SIJ Group
Perspective 2025:
Direct investments into lowering the consumption of drinking water.

Recycling

SIJ Group
Today:
Observing the circular economy principles and producing steel exclusively using continuously-recycled secondary raw materials.

Supply Chain

SIJ Group
Today:
Suppliers' commitment to the environment through adherence to all statutory requirements and international standards, as well as own activities aimed at reducing environmental impacts.

Air Quality

SIJ Group
Perspective 2025:
Direct investments into cutting emissions into the environment.

Product Applications

SIJ Group
Today:
Research & development of new steels with a longer life-cycle.

By-products

SIJ Group
Today:
Own facility for processing by-products (slag) into new products.

Waste heat from steel production processes used for heating towns in which SIJ Group has a presence.

RESEARCH, DEVELOPMENT AND INNOVATION

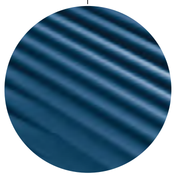
SIJ Group Research and Development division focuses mainly on materials and technologies for the production of new steels and reducing environmental impacts. The systematic innovation activities in SIJ Group companies generates savings in various fields of operation through a range of improvements.

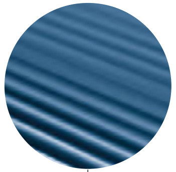
NOTABLE RESEARCH & DEVELOPMENT PROJECTS

In 2019 we successfully completed the project of developing advanced tool steels for use in the innovative next-generation tools (MARTINA) and launched a number of new projects involving steel microalloying, immeasurable process variable calculation accuracy, and building a secondary raw materials registry. We implement the more demanding projects in collaboration with various partner organisations from the academic, educational, economic and other fields. We are involved in technologically demanding projects with EU co-funding.

Key Research and Development Projects

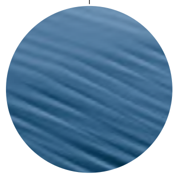
2016–2019
MARTINA
SITHERM S140R
new tool steel for innovative next-generation tools and extended tool life

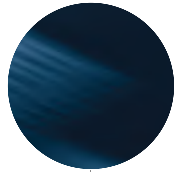




2018–2020
ČMRLJ
Ultra-high-strength steel will be used in segments calling for extreme reduction in the number of moving parts

2019–2022
RIS ALiCE
Introduction of a secondary raw materials registry





2018–2020
INEVITABLE
Development of a mathematical model for dynamic monitoring of the melting process in the electric arc furnace

New Tool Steel for Innovative Next-Generation Tools

After two and a half years, we successfully completed the Research & Development programme MARTINA (Materials and Technologies for Innovative Applications) in January 2019, co-funded by the Ministry of Education, Science and Sport of the Republic of Slovenia. By developing the new steel SITHERM S140R, we addressed the tooling market's need for increased productivity and longer life cycles of our tools. The developed alloying technique involved in the production of the new steel SITHERM S140R introduces different combinations of the properties of this steel, which achieves significantly higher heat conduction while keeping a similar toughness and through-hardenability of standard hot-work tool steels. These properties provide users of this new steel with improved tool heat elimination, reduced production times and increased productivity. We are convinced that this newly developed steel will allow us to further consolidate our position in the tool steels market.

ČMRLJ, Achieving Desired Purity and Properties through Microalloying Steels

In 2019, as part of the project ČMRLJ, Achieving Purity and Desired Properties through Microalloying Steels, we produced the first laboratory batches of steel using 15 different combinations of alloying elements. The project's objective is to identify suitable microalloying elements and study their ultimate impact on the properties of both existing and new steels. The project will enable the development of fine-grained and welding micro alloy steel in an improved condition. Ultra-high strength steel will be used in segments calling for extreme reductions in the number of moving parts (e.g. cranes, lifts etc.). Reducing weight is one of the ways steel providers reduce fuel consumption in machine manipulation, resulting in reduced emissions.

The project for which, in cooperation with our partners, we received a grant from the Ministry of Education, Science and Sports of the Republic of Slovenia and the European Fund for Regional Development, began in 2019 and is projected to finish in December 2020.

Mathematical Model Furnace in the INEVITABLE Project

As part of a consortium[6] bringing together our industry partners, institutes specialising in metallurgy and related control technologies, and research institutions and consultancy firms in the field of process automation control, we are working as an industry partner in the development of a mathematical model for an electric arc furnace (EAF). The model will ensure improved accuracy of immeasurable process variables and real-time data processing, parallel to the melting process in the electric arc furnace. Further along the project timeline, we will develop a diagnostics and status monitoring algorithm on the cold steel rolling mill. A project development team was assembled to oversee the project's successful execution, consisting of representatives from R&D, Steel Mill, Cold Rolling Mill, IT and Investments. The project, coordinated by the Jožef Štefan Institute, was awarded a Horizon 2020 grant.

Building a Secondary Raw Materials Registry through the RIS ALiCE Project

In collaboration with the Slovenian National Building and Civil Engineering Institute as the lead partner of the RIS-ALiCE[7] project and other partners from South East Europe[8], we are building a network of producers or carriers of various secondary raw materials and their consumers, cement factories in particular. Secondary raw materials from steel mills, thermoelectric plants and aluminium industries can be used by cement manufacturers in the production of various alternative binders, where they can partly or entirely substitute the Portland cement clinker with other, more environmentally-friendly materials. In the context of the three-year project funded with a grant from the European Institute of Innovations and Technology (EIT) and the Horizon 2020 programme, we will establish a user-friendly and easily upgradeable registry of secondary raw materials.

SYSTEMATIC INCENTIVES FOR EMPLOYEE INNOVATIONS

Innovation initiative is an important part of SIJ Group organisational culture. In 2019, we generated economic benefits of EUR 1.5 million and saved EUR 5.5 million by putting our employees' proposals into practice. The authors of the ideas received awards amounting to EUR 79 thousand.

In 2019 we encouraged our employees to design and submit useful proposals through a new electronic application which simplifies the process from identification to the purchase of ideas, and increases transparency of the innovation processes.

Digital Management of Innovative Potential

Under the umbrella name *I have an Idea!*, employees can take advantage of a number of different channels to submit their ideas – advice, useful suggestions and technical improvements. The new system allows employees to submit their ideas at any time and from anywhere – even using a mobile phone. The system, which supports immediate reaction and traceability of the proposals, allows evaluators and heads of the relevant fields to more easily process the ideas and run analytics. Introduced in June 2019, the project also received the Bronze Innovation Award of the Slovenian Chamber of Commerce and Industry for the Central Slovenia region.

355 ideas,
167 useful proposals,
30 technical improvements

submitted by SIJ Group employees in 2019.

6 The consortium consists of industry partners SIJ Acroni, Voestalpine Stahl, Sidenor Aceros Especiales and Eibar Precision Casting; institutes BFI, K1-MET and Fundacion Azterlan; research institutions and consultancy firms SIEMENS, University of Ljubljana - Faculty of Electrical Engineering, Jožef Štefan Institute - Department of Systems and Control and COMPUREG.

7 Eng.: Alrich industrial residues for mineral binders in ESEE region.

8 Besides the Slovenian National Building and Civil Engineering Institute and SIJ Acroni, the project also has participation from the Geological Survey of Slovenia, Salonit Anhovo, Šoštanj Thermoelectric Plant and Lucis. Other partners come from Hungary (BZN and Agrego), Bosnia Herzegovina (IKK), Northern Macedonia (UKIM-FTM, ESM, Cementarnica USJE), Serbia (VINS), France (CEA) and Austria (TU-Wien). Avstrije (TU-Wien).

MARKETING AND BRAND MANAGEMENT

SIJ Group has a strategic commitment to generating solutions tailored to our buyers' needs. These integrated solutions include the development of materials, semi-products and products, optimisation of production technologies for existing products, flexibility and fast delivery times, as well as the relevant support services. We engage in numerous activities focused on building direct customer relations, including a sales conference and product development workshops. We develop high-quality finished products in cooperation with customers and according to their requirements. We further strengthen customer relations through planned digitisation of our marketing, which also plays an important role in strategic brand management. We present our innovations at trade shows and other promotions, which allow us to maintain our edge and grow our niche market position.

CERTIFIED SUPPLIER TO ADVANCED INDUSTRIES

SIJ Group products are used in a variety of industries, particularly mechanical engineering and the automotive industry, the oil, gas and petrochemical industry, the power generation industry through production of turbines, and the construction industry through heavy-duty soil-moving machinery. Certification procedures conducted by various customers prove that we meet the highest demands. In 2019 we became the certified supplier for the nuclear industry, and we are in the process of obtaining the certificate required in order to access the aircraft industry market.

NEW PRODUCTS OF 2019

SIJ Group's 12 new steel product brands of different types and quality grades are constantly upgraded with innova-

Top 10 Innovations in the Own Steel Brands Segment in 2019

Type of steel	Innovation
Tool steels	**SIHARD S671** Ledeburitic cold-work tool steel with a 120% higher relative anti-chipping resistance of the cutting edge compared to the standard steel (SIHARD 2379), as well as 70% higher resistance to adhesion of soft materials, and 30% higher abrasion resistance; received the Slovenian Chamber of Commerce and Industry Innovation Award.
SIHARD	**SIHARD R247** Steel alloy with 3% chromium; used in the production of aluminium rolling rolls and aluminium alloys. Optimal value for money.
	SIHARD K241 Coldwork steel, air-temperable, suitable for the production of industrial knives.
SIMOLD	**SIMOLD S985** High hardness, polishability, durability. Also suitable for use in the pharmaceutical industry.
Special	**SIQUAL 6948** Hardening and tempering structural steel - reforging.
SIQUAL	**SIQUAL 7218** Hardening and tempering structural steel - for use at low temperatures (-10 to +350 C) in the oil industry (high-pressure pipes, flanges, high-pressure valve blocks).
	SIQUAL 8963 Structural steel for use in the oil industry, with up to 280 mm diameter.
Stainless	**SINOXX S341** Improved durability at room temperature and at sub-freezing temperatures and improved machineability.
SINOXX	**SINOXX 4481** VOD steel with martensite-austenite microstructures with high durability; for use in the energy industry (water turbines, chains).
	SINOXX E88 VOD steel with extremely high mechanical properties for propellent parts in nuclear reactors.

tions developed by the in-house team. With the steels we developed in 2019, we exceed our customers' standards and expectations. The innovative products strengthen our brand reputation and brand recognition, which have been growing steadily since the brands' introduction in 2016.

In addition to the Top 10 innovations attracting attention from the juries at innovation competitions, we have also optimised the steel production technologies used in the manufacturing of various steels, made additional improvements to their mechanical properties, optimised the surface areas of pre-forged products, etc. Moreover, we developed products for our customers with specific requirements on individual markets.

IT SUPPORT TO FURTHER IMPROVE OUR FOCUS ON THE CUSTOMER

SIJ Group utilises information and communications technology systems to manage its customer relations. Thus far, SIJ Group companies have used the systems in various ways, and in 2019 we introduced the Salesforce integrated platform to further improve our focus on the customer. The IT-supported integrated business processes provide us with better insight into and understanding of our customers' needs, as well as help us to identify new sales leads and track our marketing and sales activity. Use of standardised business processes is essential to further improve our customer relations.

DEVELOPMENT OF DIGITAL SALES CHANNELS

An improved customer experience for advanced buyers is also made possible by our new online sales channels, which are becoming increasingly recognised in B2B markets. In 2019 we launched an online pilot sales channel for industrial knives (shop.ravneknives.com), and we are planning to expand it in the future and include other SIJ Group products.

PREDICTABLE DELIVERIES FOR IMPROVED CUSTOMER SATISFACTION

Reliable delivery times are an important part of meeting our customers' expectations. In 2019, we implemented an advanced planning system at our largest steelworking company, which manages the entire supply chain, without affecting existing operating procedures. In the case of unexpected production stalling, a new production plan can promptly be made thanks to a well-designed global planning information system, which generates production plans three months ahead, accounting for the availability of the raw materials and equipment, as well as order priority levels. This allows us to control the flow of raw materials, ensure adequate stock and delivery of expected efficiency levels and customer service.

OPERATING ACCORDING TO THE PRINCIPLES OF SUSTAINABLE DEVELOPMENT

SUSTAINABILITY leads to long-term STABILITY

STATEMENT ON NON-FINANCIAL OPERATIONS OF SIJ D.D. AND SIJ GROUP

CAREFUL USE OF MATERIALS, ENERGY AND OTHER RESOURCES HELPS US INCREASE OUR FINANCIAL PERFORMANCE.

We are building our an internal material cycle cycles and optimising our energy consumption and other resources through increasing integration among SIJ Group companies. By fulfilling the requirements set by our environmentally responsible partners and choosing to work with socially-responsible suppliers who observe strict standards, we are also enabling and promoting the use of sustainable practices in other industries.

The use of sustainable practices helps us achieve significant savings and, in addition, at least partial self-sourcing of raw materials allows us to lower the procurement risks associated with the supply of certain raw materials.

Since the very start of our operations, we at SIJ d.d. and SIJ Group have been aware of the significance of non-financial risks. We consider addressing these risks to be of critical importance for the stability and development of the steelworking industry. All our financial and non-financial achievements are based on building and maintaining our employees' motivation; and on maintaining professional relationships with our key stakeholders.

In today's international environment, we focus, in particular, on justifying our investor's long-term trust. Our work is done democratically, based on mutual respect and transparent business practices, and on fair business practices.

Our operations follow the principles of sustainable development, which includes responsible human resources management, protecting the environment and seeking ways to work and liaise with the broader community.

Our activities presented in the sustainability report below are based on our corporate values and established stakeholder relations policies, which form part of SIJ Group business model. Just as we consider the principles of sustainability in planning our growth, we also believe in maintaining connections. Our vertical integration business model thus connects all stakeholders. We carefully plan and manage our stakeholder relations.

We manage the non-financial aspects of operations through careful reviews, planning, reporting, risk management and supervision. The achieved targets, identified in area-specific non-financial operations policies, show non-financial key performance indicators, which are relevant to achieving results in specific areas.

Caring for socially responsible conduct and for the non-financial aspects of our operations is consistently linked to business performance and creating synergies among SIJ Group companies and the local, national and global environments.

Andrey Zubitskiy,
President of the Management Board

SUSTAINABLE DEVELOPMENT STRATEGY AND POLICIES

The key objective of SIJ Group's long-term vision is to work according to the principles of sustainable development and the circular economy. We motivate and guide all stakeholders with whom we cooperate to conduct their operations efficiently and sustainably.

Our operations are based on social responsibility and we are signatories to the Sustainable Development Charter of the World Steel Association. We respect the seven commitments with which the world's leading steel producers contribute to the realisation of the UN's 17 Sustainable Development Goals.

Commitments of Global Steel Producers and the SIJ Group

1. Improving health and safety at work.
2. Respecting and cooperating with local communities.
3. Conducting our business according to high ethical standards.
4. Strengthening the cooperation with the most important stakeholders and creating value for them.
5. Developing our production and products by reducing impacts on the environment.
6. Transparent operations.
7. Expanding the sustainability of operations in sales and procurement.

Sustainable Development Stakeholders with regard to SIJ Group

Employees
With knowledge and competences, we develop the SIJ Group and ensure safety at work.

Shareholders
We develop sustainable policies, upgrade and ensure the transparency of reporting.

Customers
We guarantee and develop sustainable solutions for our customers.

Suppliers
We promote circular economy across the entire purchase chain.

Social and natural environment
We support the development of the local and wider community and reduce environmental impact.

CARE FOR THE ENVIRONMENT AND NATURAL RESOURCES

CIRCULAR ECONOMY

SIJ Group focuses on sustainability across all levels of its operations. Our production companies are modern steelworks, using secondary raw materials and by-products in the production process.

Through collaboration between SIJ Group companies and other firms, we round-off the material, semi-finished products and finished product cycle loops. We manage our energy and carbon footprints by using closed-loop material cycles, reducing the consumption of water and energy per tonne of steel produced, reducing the volume of communal waste per employee, and systematically managing environmental impacts.

Circular Economy among Group companies

Vertical integration of SIJ Group companies allows us to meet our customers' needs comprehensively. From the perspective of steel processes, such vertical integration can be understood as a closed-loop circular economy existing between companies dealing with raw materials, steel production, processing, and distribution, as well as reintroduction of scrap into the production process.

The raw material, i.e. steel scrap, is collected in our own collecting scrapyards in Serbia, Croatia, Bosnia and Herzegovina, and Slovenia. We use these secondary raw materials for production in Slovenia. We also have distribution and cutting centres at selected locations in Europe, where we trim, cut and additionally heat-treat the steel or adapt it for our customers. Cuttings, i.e. our own scrap, are re-

An Example of the Circular Economy in the SIJ Group

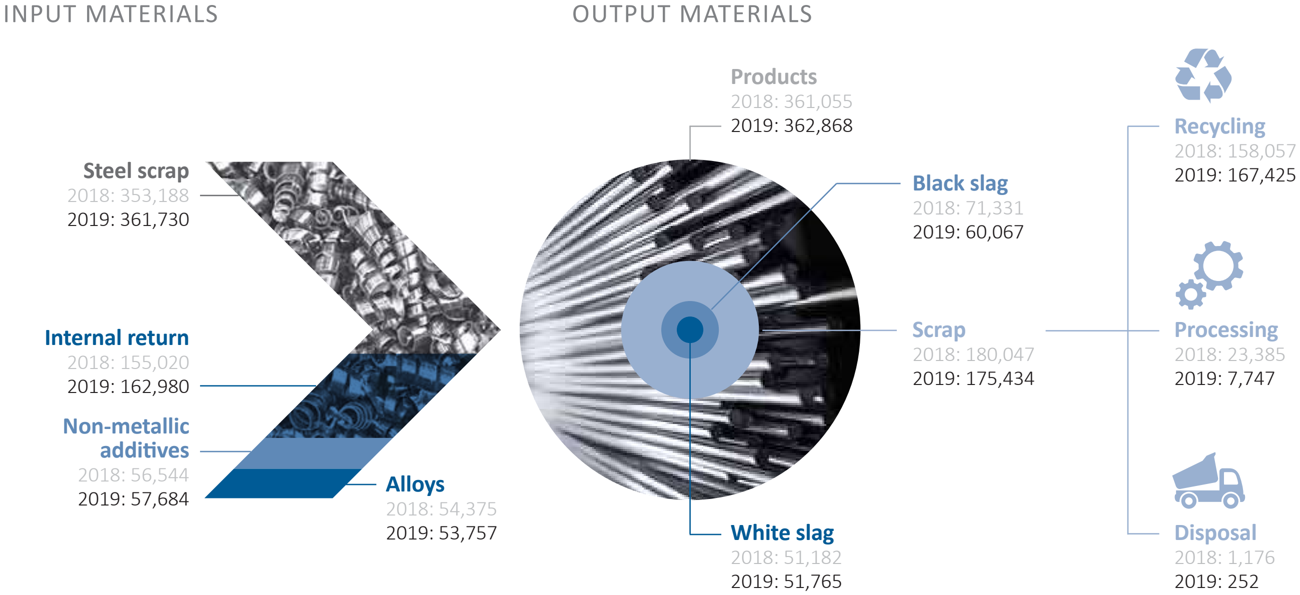
turned directly to the steel plant, which helps us efficiently utilise the alloy elements (nickel, chromium, vanadium, etc.). This also applies to all metal scrap.

CLOSED-CYCLE LOOPS IN STEELWORKING

Unlike in the past, SIJ Group Steel Division no longer produces wastes as it once did. Instead, it produces by-products, which we then either use in our own processes, integrate into our end-products, or find other end users for them. New methods for using by-products are studied in the context of various developmental and research projects, which we either undertake on our own or in partnership with others.

In recent years, we have closed all material loops associated with steel production. Out of the 175,434 tonnes of the residue remaining from the input materials, only 0.07 percent now remain after production, recycling and processing. A total of 31 percent of the residue is made up of secondary products: white and black slag. Other than regular communal waste, we do not deposit any waste materials in landfills.

Raw Material Cycle in Steel Companies of the SIJ Group



SUSTAINABLE USE OF BY-PRODUCTS

Slag

By using slag, one of the most interesting and reusable by-products, we can lower the consumption of melting energy and cut the cost of raw materials. We have been processing slag using our own processing production line since 2018. Part of it is used in our own production process, while the rest is used by other companies for building roads and the construction of buildings. Our efforts to explore new possibilities for its use are ongoing. In 2018, SIJ Group and our partners studied the possibilities of using slag in the production of slag insulation wool,and acquired the funding for a research project focusing on producing an environmentally-friendly binder - slag wool. After successfully testing its properties, we are currently in search of an industrial partner to market the product.

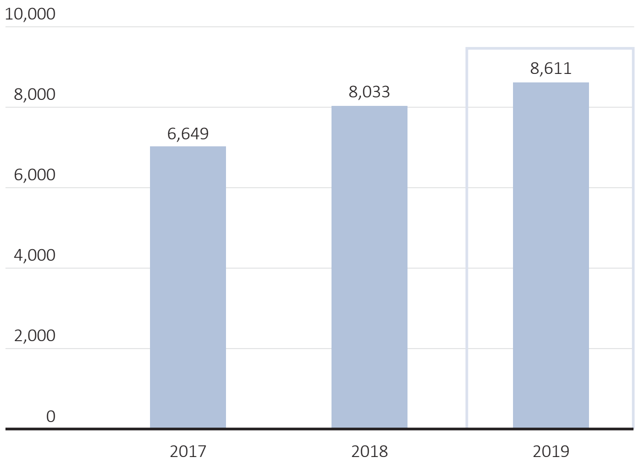
Blasting Dust

In the sheet blasting process, up to 115 tonnes of waste blasting dust is generated each month. The dust, which is composed of iron metal or oxide and significant chromium and nickel content, has been used in our own production processes since 2018, while the rest of the blasting dust with a suitable level of iron oxide content is used to dilute melt. Using the dust allows us to reduce the cost of alloys and the cost of dust disposal.

USING EXCESS HEAT AS A SOURCE OF HEATING FOR TOWNS AND OUR OWN COMPANIES

Excess heat is generated in the steel production process, which we are already using for heating the community in which we operate. Its importance as a heating source in the communities in which we operate is increasing.

Use of Excess Heat (MWh) at Ravne na Koroškem



Heating the Local Community in Ravne na Koroškem

In the town of Ravne na Koroškem, the excess heat produced in the electric arc furnace process is leased to the local remote heating provider in the town of Ravne na Koroškem, which now uses it to cover as much as 41 percent of the town's heating requirements. SIJ Group donates part of the excess heat to heat the winter and covered swimming pool of the Ravne na Koroškem Sports Centre. Considering the increasing share of excess heat, we are expecting that in 2020, when we are projecting to lease 9.000 megawatt hours of thermal energy, this excess heat will be enough to cover half of Ravne na Koroškem's heating needs, and is on the way to becoming its main heating source.

Innovative Use of Excess Heat

In 2020, we will be installing heat exchange technologies in Ravne na Koroškem, as heat pipes are installed on one of the large furnaces. The ETEKINA demo project, which was awarded a Horizon 2020[9] EU programme grant for research and innovations in 2017, in cooperation with our international partners, will continue and its results will be monitored.

We expect to be able to use the new technology to achieve over 40-percent utilisation of excess heat from smoke emissions, generating over 3,500 megawatt hours of thermal energy per year. We will use it to provide supplementary heating of fresh air introduced into the furnaces, and for heating our own premises. In 2019 we also performed the system dimensioning and preparatory works, in accordance with the project timeline.

9 Horizon 2020, Grant Agreement no. 768772

We intend to achieve

40% utilisation of excess heat

using new technologies implemented as part of the ETEKINA project.

Heat Cogeneration in Jesenice

We are also looking to introduce this type of excess heat utilisation in Jesenice, where we have implemented the cogeneration of heat and electrical power. In 2019 we generated 2,851 megawatt hours of electricity and 4,121 megawatt hours of thermal energy. Energy efficiency and cogeneration contributes to the reduction of greenhouse gas emissions while allowing for internal use of thermal energy.

Shortening Transport Routes

With the introduction of new waste processing technologies, which we already tested in 2019, we intend to process our own waste on the premises of our own steelworks, further shortening our transport routes.

We set up a new steel scrap warehouse in Jesenice, which we now supply directly to our Jesenice steel mill, rather than through Pivka, which allowed us to shorten the transport routes and lower our environmental impacts. In Jesenice we are also preparing for direct charging of the electric arc furnace, thus improving the yield in the steel mill.

REDUCING THE CARBON FOOTPRINT

SIJ Group is among the actors whose responsible practices have made it possible to meet the principles of the circular economy and consistently reduce their environmental footprint. Compared to global ironworks and steel factories which, according to World Steel Association data, emitted an average of 690 kilograms of carbon dioxide per tonne of produced steel in 2019, our emissions amounted to 457 kilograms per tonne, which is one third less than industries average.

According to the World Steel Association CO_2 emissions data, our measurement ranks us among the best steelmaking companies in the world. Unlike the so-called integral ironworks, where the basic starting raw material is ore and the energy product is coke, the basic raw material used in steel plants – including the steelmaking companies of the SIJ Group – is steel scrap, and the energy products are more environmentally-friendly.

SIJ Group and its steelmaking companies are taking part in emissions trading. As the current emissions trading period expires in 2020, we are preparing a strategy for the next emissions trading period of 2020-2030. The strategy will be aligned with the SIJ Group Strategy 2025 and with the Republic of Slovenia's National Energy and Climate Plan (NECP).

We are also combining our efforts to reduce the carbon footprint with various project applications for calls dealing with the EU's climate policy and the Innovation Fund as one of the world's largest funding facilities for demonstrating innovative low-carbon technologies.[10]

Supplier Selection Management

Starting from 2019, all SIJ Group production companies' procurement of raw materials has followed the updated and standardised General Terms and Conditions of Purchase, which contributes to more stable purchasing processes. Our assessment and selection of suppliers is done according to the principles set out in the Code of Conduct, which we adopted and presented to our suppliers in 2019 and which introduces a zero-tolerance policy towards unlawful practices or violations of established norms and ethical standards.

Audits of the suppliers of selected raw materials are performed by SIJ Group audit team with qualifications in the fields of quality assurance, production processes and procurement in metallurgy companies. Five detailed audits of suppliers were performed in 2019.

ICT Support for Procurement Processes

Strategic purchasing decisions are supported by ICT solutions. In 2019, SIJ Group implemented an e-tendering system with portal access for suppliers, and automated the generation of purchasing orders issued to the selected supplier. The system contributes to increasing efficiency in the purchasing cycle, allowing for analysis of consumption and providing support in taking decisions, as well as collecting consumption data for each supplier. Through strict supervision we are able to optimise costs, while the transparent selection procedures strengthen our suppliers' trust.

Code of Conduct: Suppliers' Commitments in 7 Areas of Interest

1. Compliance with legal regulations
2. Anti-corruption and anti-bribery policy
3. Respect for employees' basic rights
4. Prohibition of child labour
5. Employees health and safety
6. Environmental protection
7. Compliance with the ethical code throughout the supply chain

8 European Commission. March 2019. Innovation Fund. Available at: link (3 December 2019).

Sustainability-Oriented Global Suppliers

Long-term strategic relations with key suppliers form the basis of the SIJ Group's procurement policy, which increases the reliability of supply even during periods of extreme price fluctuations on the market. Global suppliers of nickel, chromium, molybdenum, vanadium and other raw materials, which, besides steel scrap, are essential to the production of steel, implement the relevant sustainability policies in their business activities.

When it comes to the supply of raw materials, we are constantly staying up to date with progress and innovations. We are introducing quality, cost-effective and environmentally friendly substitutes in our production process. In the interest of cost effectiveness and the quality optimisation of the key materials, we tested, or began testing, as many as 143 new materials and suppliers in 2019.

Certified Responsible Suppliers

When purchasing environmentally and socially sensitive materials which cannot be substituted, we apply the required supply chain due diligence, as required by the Regulation (EU) 2017/821 laying down supply chain due diligence obligations for European Union importers of natural minerals originating from conflict-affected areas. Such raw materials are purchased exclusively from providers that have obtained appropriate certification and the RMI_CMRT report. Ferrotungsten, for example, is indispensable in the production of SIRAPID high-speed steels. SIJ Group worked with four suppliers of tungsten and ferrotungsten in 2019. The certificate qualifies them as suitable suppliers.

Self-Sourced Recycled Raw Materials

SIJ Group uses steel scrap as the main raw material in steel production. In addition to the stainless and non-alloy steel scrap that we purchase, we also use own steel production scrap as a resource, which is returned to the production process after appropriate separation and preparation. This method of using raw materials is environmentally friendly and reduces the need for primary natural resources.

Our proprietary material recycling technologies allow us to constantly increase the use of secondary raw materials. The use of secondary raw materials is already over 83 percent in stainless steel production.

In the vertically integrated SIJ Group we partially insource our steel scrap, and we are increasing the share of sourcing this raw material locally, from Slovenia. At the end of 2018, an additional steel scrap warehouse was introduced in Jesenice. This allows us to shorten transport routes and reduce the risk of malfunctions in the manipulation and preparation of our own scrap.

83% of secondary raw materials

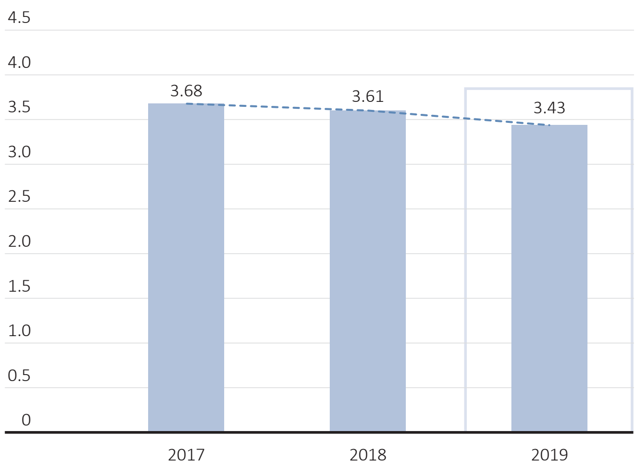
used in SIJ Group's production of stainless steel, one of its most profitable programmes.

Share of Steel Scrap from Slovenia and Other Countries (in percent)

ENERGY MANAGEMENT THROUGH PARTNERSHIPS

With our integrated energy management system operating in the largest metallurgic companies, through partnerships with selected suppliers of electricity and natural gas, and with numerous projects, SIJ Group companies manage their energy consumption both to optimise our own costs and to show responsibility to the local communities in which we operate. Although we rank among Slovenia's major consumers of energy products due to the nature of our business, we are decreasing our specific energy consumption by implementing numerous modernisations and energy efficiency measures.

Reduction of Specific Energy Consumption (MWh/t)



New Electricity Storage Facility for the Stability of the Power Supply System

The 12 MW electricity storage facility operating in the Jesenice steelworks area since 2019 is among the largest in this part of Europe. By providing system services support, it contributes to the stability of the electrical system of the entire country. With its connection to the electricity storage facility, SIJ Group provides system services support, helps reduce peak power levels and provides a reserve power supply, while supporting more accurate planning of available electrical energy. Through these effects, SIJ Group contributes to the potentially lower final price of electricity. In collaboration with investors, SIJ Group is making efforts for particularly large energy consumers to take an active role in regulating the electricity market.

Pilot Demonstration of Adjustable Energy Consumption Project

In 2020 we are expecting to complete the activities in the Demonstration of Comprehensive Energy Management (DEUP)[11] project, where we are working with our partners to achieve the Smart Specialisation Strategy of the Republic of Slovenia's strategic objectives associated with energy conversion, distribution and management. As a major industrial energy consumer, we are partners in projects dealing with the active inclusion of consumption, advanced management of consumption response, and energy management. The part of the project which refers to the Adjustable Consumption Management Platform and the Steelflex application that targets the steel industry are of particular importance to SIJ Group.

11 The Demonstration of Integrated Energy Management Project (DEUP) was chosen at a tender of the Ministry of Economic Development and Technology and the Public Agency SPIRIT Slovenia entitled "Pilot/Demonstration Projects – Part I: converting, distribution and energy management", thus the "Demonstration of Integrated Energy Management will be co-financed, as evident from the decision no. 303-7-4/2016/7, that is partly financed by the European Union from the European Regional Development Fund (ERDF) and the Ministry of Economic Development and Technology.

Energy-Efficient Lighting

SIJ Group is systematically introducing energy-efficient LED lighting in its companies. In 2019, we continued the process of replacing less energy-efficient lighting at the Ravne na Koroškem steelworks, and in 2020 we will continue replacing the lighting in other companies, as well. The transition to a new lighting system, which brings energy savings as well as improved working conditions, is supported by subsidies made possible under the Decree on Energy Savings Requirements.

Individual and team ENGAGEMENT is key to achieving STABILITY in any company

AMBITIOUS EMPLOYEE POLICY

WE HAVE A RESPONSIBILITY TO OUR EMPLOYEES AND TO THE COMMUNITIES IN WHICH WE LIVE AND WORK.

SIJ Group is not just one of the most significant and reliable employers in Slovenia. Through its educational programmes, development of its employees' competencies, projects and investments improving the lives of our employees, their families and communities, it is also one of the major investors in socially significant and beneficial innovations.

With carefully planned employment policies and efforts to improve peoples' qualifications, their health and safety, we are motivating our employees and building their commitment, responsibility and efficiency.

One of SIJ Group key strategic goals in the Perspective 2025 is to be considered one of the most sought-after employers in Slovenia, giving it the ability to attract the right talent. Highly qualified and engaged employees, as one of the most important development objectives highlighted in SIJ Group's strategy, are essential for achieving strategic objectives.

By investing in building competencies and improving working conditions, implementing competitive employment terms and options for career advancement, incentivising creativity and innovation and enabling various types of engagements outside the working environment, we will build work commitment, responsibility, fairness and motivation to ensure quality across all levels of our business operations.

RANKED AMONG THE TOP EMPLOYERS

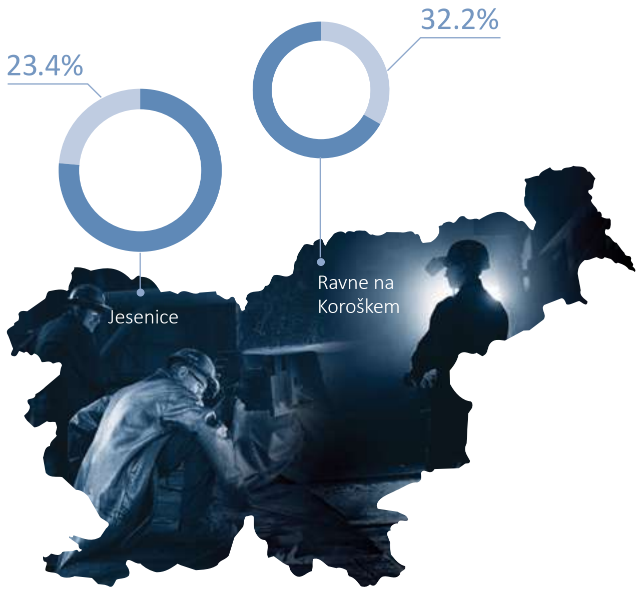
Combined, our companies employ over 3,800 people, ranking us among the most significant employers in Slovenia, which has a total working population of 902 thousand. SIJ Group's significance as an employer is particularly notable in the Gorenjska and Koroška regions, where two of SIJ Group's largest companies operate. We employ one-fifth of the municipality's total active workforce in the Gorenjska municipality of Jesenice, and as much as one-third in Ravne na Koroškem. Being a key regional employer also increases our responsibility for the community in which we operate.

Working Population in the Municipality and Employees in SIJ Group Companies

	Number of employees in the municipality	Number of employees in SIJ Group	%
Ravne na Koroškem	5,078	1,684	32,2
Jesenice	7,225	1,693	23,4

Source: Republika Slovenija, Statistični urad. 2019

Share of Employees in SIJ Group Companies in Key Municipalities



EMPLOYEE STRUCTURE

The implementation of ambitious strategic and annual business plans, including increased production volume, is guaranteed with a help of highly-qualified employees able to work in diverse fields. Due to modernized production and business processes and developmental guidelines of the companies and SIJ Group, the share of employees with higher education is slowly increasing. While the average age of employees is decreasing, long-term absence due to sick-leaves is increasing, as a result of the fact that over one-third of our employees are aged over 50. In order to address the need for workplace substitutions, we are purposefully preparing successors and expanding our employees' qualifications.

In the future, we plan to manage the need for new employees less by increasing our headcount and more by increasing the productivity per employee, which will be achieved with the help of additional professional training and process optimisations.

Due to the specific nature of work in the metallurgy industry, the structure of employees is predominantly male. The share of women remains relatively small.

Key Data on Employees as at 31 December

	2017	2018	2019
Number of employees	3,770	3,922	3,859
Average age (in years)	44.5	42.4	40.5
Share of women (percent)	16.9	16.3	16.6
Number of persons with disabilities	325	335	336
Sick leave (%)	6.1	6.5	7.8
Number of accidents	193	143	148
Accident frequency (F2)	31.8	26.04	27.3

HEALTH AND SAFETY AT WORK

Due to the labour intensity in the industry in which we operate, high average age of employees, and the management of sick leave and work-related accidents, particular attention is paid to measures to ensure workplace safety and health.

"A Minute for Safety" – an Innovative Project

The "Working Safely, Staying Healthy" campaign, through which we support systematic measures for ensuring workplace safety and which has been active since 2016, was upgraded with in 2018 with the addition of a uniform electronic application. Across our six production companies, each shift always begins with the "A Minute for Safety" protocol, which, since 2019, is supported by an electronic application which received the Bronze Innovation Award of the Chamber of Commerce and Industry of Slovenia – Chamber of Commerce for the Central Slovenian region.

Safety at Work, Safety at Home

We educate both our employees and their families about our role in ensuring workplace health and safety. In 2019, we revived an almost a hundred-year-old slogan from the Jesenice steel company: *Daddy, come home healthy!* Through a variety of communication channels and activities, such as the family creative competition and workplace safety training course at the SIJ Day, we brought the workplace health and safety initiatives into the home environment, as well.

2.000 of our employees' children

were able to put their skills to the test at the SIJ Day workplace safety training course.

Awarding Facilities with the Best Safety Record

We regularly monitor and assess the achievement of workplace health and safety targets based on well thought-out criteria. We strive to achieve the set objective to have zero work accidents and we award our production facilities with the least accidents. Based on the results, we announced the two safest production facilities at the beginning of 2020.

Maintaining a Healthy Lifestyle Away from Work, Too

Our concern for the health and well-being of our employees and their families goes beyond working hours. Among other benefits, our employees may use our sports and holiday facilities at various locations free of charge or at subsidised rates, including spa resorts.

KNOWLEDGE AND COMPETENCES

Investments in Education and Training

The planned development, identification and advancement of the knowledge, qualifications and competencies of employees are understood as one of the key areas to ensure the performance and sustainable development of SIJ Group. In 2019, we invested EUR 535,575 in the education and training of employees.

We encourage employees to attend part-time studies, which we co-finance through our annual internal calls for applications. In 2019, 85 SIJ Group employees attended part-time secondary school and university programmes.

Mentoring Programmes

Through our planned management of mentorship programmes, we provide for the transfer of specific knowledge to new employees, mentors with appropriate pedagogical and andragogical qualifications transfer their knowledge to secondary school and university students, who are able to receive practical training classes as part of their school curriculum. We regularly analyse the work of the mentors and provide them with supplementary training.

Educational Structure of Employees as at 31 December (in percent)

	2017	2018	2019
Doctoral degree	1.5	1.5	1.5
Master's degree	8.1	7.8	8.5
Bachelor's degree	11.3	11.2	10.3
Secondary general school	25.7	25.8	26.4
Secondary vocational school	27.6	28.2	28.7
Lower secondary vocational school	10.4	10.0	9.7
Primary school	15.4	15.5	15.0

Focus on Technical Professions

Technical professions are of essential importance for the operations of SIJ Group, and they are also important for meeting the needs of the changing and emergent industries of the future. For several years now we have been systematically presenting metallurgical technical professions in primary and secondary schools and cooperating with higher vocational colleges on the preparation and implementation of specialised classes, practical education, projects, and final papers.

We attend information days, open door events, tradeshows and other events which allow the younger generation to make more informed choices when it comes to choosing their vocations and educational programmes.

In recent years, we have worked with the Ravne Secondary School to launch a curriculum for metallurgical technicians. We are also involved with the Jesenice Secondary School curriculum for mechanical technicians.

478 mentors
with professional qualifications and experience

155 mentors
with pedagogical and andragogical education backgrounds

140 high school and university students

were awarded SIJ Group scholarships

Scholarships and Practical Training

We provide scholarships and practical training for promising secondary school and higher school students as part of their school studies. In 2019, we granted scholarships to 140 young people enrolled in the secondary vocational and professional education programmes and higher and university study programmes. In 2019, 129 secondary school and higher education students attended practical training in the metallurgy companies under the mentorship of professionally qualified employees.

SALARIES, BONUSES AND SOCIAL DIALOGUE

New Salary and Career Advancement System

As of the start of 2020, SIJ Group introduced a new salary system with a smaller number of job positions and a reconceptualised job valuation and pay grade distribution, which gives employees with a wide range of qualifications new career advancement options, while providing their respective companies with the ability to pursue a lean organisational structure.

The new salary system, which we designed in 2019 in collaboration with a professional partner using a globally established methodology for assigning value to individual positions within the organisation, guarantees employees a higher base salary, which includes all non-compulsory salary supplements. All employees are guaranteed to keep their annual gross salary level, while many will receive higher salaries as a result of career advancement. We set aside EUR 2.5 million annually for higher salaries to employees.

With the introduction of a new, simple, flexible and transparent salary system, we worked together with the management of our companies and representatives of trade unions and ensured the appropriate updates to the Corporate Collective Agreements. These changes also addressed the changes introduced by the amended Minimum Wage Act.

Best Employees, Employees Celebrating Work Anniversaries and Innovators

SIJ Group employees may also be rewarded for their work achievements with special recognition and Best Employees awards, chosen by their colleagues, or as employees celebrating work anniversaries for their years-long service as employees of SIJ Group companies. Special awards for process improvement proposals provide additional incentives for our best innovators to seek innovative solutions.

244 employees celebrating work anniversaries

received awards in 2019 recognising 10, 20, 30 years of service as employees of SIJ Group companies.

Long-Term Social Security

We improve the social security of SIJ Group employees by paying into their supplementary pension insurance schemes. In 2019, we paid into the supplementary pension insurance schemes of 2,574 employees. The average paid-in premium amounted to EUR 725.70, while paid-in premiums totalled EUR 1,867,954.

Respecting the Social Dialogue

SIJ Group respects the principles of social dialogue among trade unions, employees and employers, and fully complies with the adopted level of industry-specific collective agreements and corporate collective agreements.

We employ different forms of formal and personal communication. We also communicate with our employees via other communication channels, including the SIJ company newsletter, individual companies' internal newsletters, the intranet, the corporate social network, info boards, internal television, all-hands meetings and other forms of formal and personal communication.

We hold regular monthly formal meetings with trade union representatives and continually communicate with them through informal communication channels. In 2019 we also actively included the trade unions in all phases of modernising the salary system in SIJ Group largest companies.

ENSURING EQUAL OPPORTUNITIES

Employee Rights

SIJ Group is committed to respecting the rights of our employees. We are an equal opportunity employer, regardless of gender or other circumstances. Moreover, out of respect for our employees' private lives and the lives of their families and the communities in which they live, we build partnerships with the local social environment. We select new employees carefully and comply with the legal regulations in all jurisdictions in which we operate. We preserve our reputation as a good employer by providing many additional benefits to our employees and their family members.

Professional Treatment of Vulnerable Groups

We dedicate special attention to creating opportunities for persons with disabilities and special needs individuals, in line with our ethical treatment policies and sustainable development principles. In the event of our employees' reduced work ability, suitable re-employment options are provided in all SIJ Group companies.

We provide stable employment for people with disabilities in our SIJ ZIP Centre subsidiary, which is fully integrated into the corporate governance of SIJ Group. We preserve and create new jobs for such individuals in joinery, printing and services programmes at the SIJ ZIP Centre subsidiary. In the event of our employees' reduced work ability, suitable re-employment options are also provided in other SIJ Group companies.

Opportunities for Disabled Persons in the Koroška Region

As a concessionary of the Ministry of Labour, Family and Social Affairs and Equal Opportunities, the SIJ ZIP Centre operates an employment and workplace rehabilitation programme, as well as social inclusion programme. Part of the company forms the Rehabilitation Centre for the Disabled in Koroška. Fifty-one people are currently taking part in the concession programmes it offers.

Inclusion of Special Needs Youth

As part of the national project partnership entitled Transition into the Labour Market for Young People with Disabilities, 17 young people with special needs are involved in the work activities of the SIJ ZIP Centre. This project, in which our company is a partner, addresses the issue of the high unemployability of this socially vulnerable group.

LIFE IN SIJ GROUP

Opening Doors

SIJ Group employees strengthen their bonds both in the working environment and during leisure activities. We like to show our work to those close to us and to our local communities. In the spring of 2019 we held an open-door day at SIJ Acroni in Jesenice, and in the autumn we opened the doors to SIJ Ravne Systems. We showed our production facilities to our families, neighbours and schoolchildren.

We Respect and Inspire Each Other

SIJ Group's employees are predominantly male. On 8 March, International Women's Day, we surprised all our female employees with a small token of our appreciation in order to spark a conversation about equality, which we are committed to across our business operations as part of our corporate policy.

The SIJ Book Club is another way for us to encourage each other to seek growth and mutual connections. In 2019, we read and debated some world bestsellers in the business category, which SIJ Group also helped publish in Slovenian.

Enabling Sporting Experiences and Achievements

We sponsor sporting activities with our employees in mind. We provide our employees with free or subsidised tickets

4 athlete scholarships

for children of SIJ Group employees, in collaboration with the Slovenian Olympic Committee

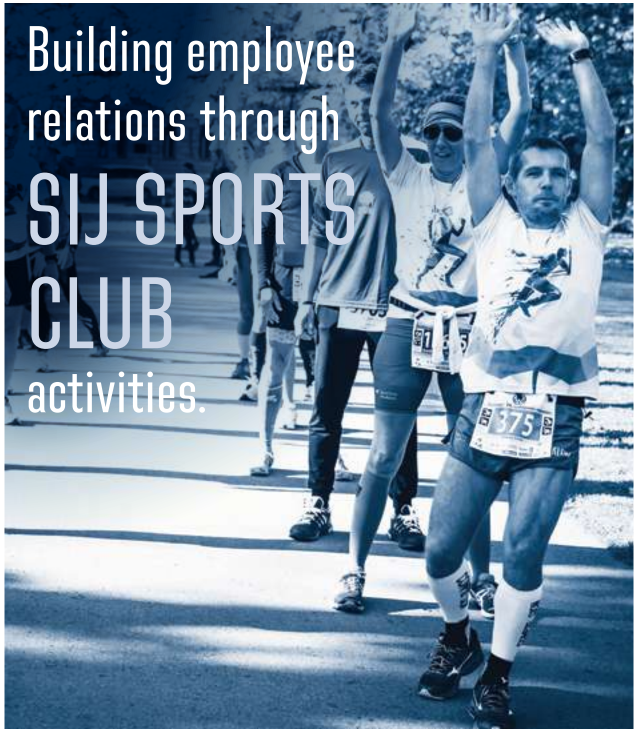
for sporting activities, games and events. In collaboration with the Slovenian Olympic Committee, which we have been proudly sponsoring for a number of years, we awarded scholarships to four gifted athletes in 2019 – children of our employees. In addition to these scholarships, we also provided them with mentorship by Olympian Petra Majdič, ambassador of the Mind of Steel project.

Overcoming Kilometres and Walking the Steps

Options for our employees and their families to spend quality time together are also encouraged through our SIJ Sports Club, which boasts 250 members. In 2019, its members took part in numerous cycling and running events. At the Ljubljana Marathon, they held a fundraising campaign under the name Steps for Little Heroes. We converted each kilometre they ran into euro amounts, and SIJ Group donated double the result as a donation for kindergartens and schools in Jesenice, Ravne na Koroškem and Ljubljana.

Celebrating SIJ Day

In June, our employees bring their families to the traditional SIJ Day. At the sixth edition of this event, which took place on 16 June 2019, as many as 4,500 people took part



in sporting and entertainment events, celebrating various achievements and congratulating the best employees, employees celebrating anniversaries of service at SIJ Group companies, and innovators.

We, the Employees, Love Volunteering

In the context of our sponsorship and donation activities, we organised the 2nd Community Partnership Day in September. 147 employees from SIJ Group companies and ath-

letes from various sports associations and clubs sponsored by the SIJ Group contributed more than 300 hours of volunteer work in local communities, and more than 600 over the last two years.

Bringing Joy to Children and Adults Alike

To mark the closing of the year 2019, all our employees received practical gifts, while Grandfather Frost visited more than a thousand children and brought them presents.

SOCIALLY RELEVANT COOPERATION WITH COMMUNITIES

We designed uniform guidelines for sponsorships and donations, which apply to the entire SIJ Group and associated companies. Sponsorship and donation projects are integrated under the umbrella brand name Mind of Steel. Key areas of our involvement include sports, culture, education and humanitarian projects. Our activities mainly focus around the local communities in which we operate.

Cooperation Guidelines for Socially Important Projects

Strengthening the SIJ brand

Social responsibility

Understanding steel as a multipurpose material in all areas of human activity

A DEEP CONNECTION TO SPORTS

We sponsor superior athletic achievements at the national level, while at the local level we support sports programmes which also include employees and their family members. We are also building a steel outdoor gym infrastructure to provide quality outdoor leisure time activities in our local communities.

An Olympic Original

We have concluded a cooperation agreement with the Olympic Committee of Slovenia for a new Olympic cycle lasting until 2022. In collaboration with the Slovenian Olympic Committee, we are also setting up steel outdoor gyms, developed and manufactured by SIJ Group. By the end of 2019 we had donated a total of 11 outdoor gyms to local communities, providing free outdoor training options for more than 22 percent of Slovenians. Based on our latest commitment to the Committee, we will be giving nine more outdoor gyms to communities by the year 2022. In 2020, local residents' minds of steel will be tested in the towns of Pivka, Slovenj Gradec and Tržič.

In 2019, we manufactured a new steel Slovenian torch, which will spread the Mind of Steel values across Slovenia and to the postponed Tokyo 2021 Summer Olympics.

22 %

Slovenian Sportspersons of the Year have been receiving steel sculptures to mark the award for the past 4 years.

The Slovenian Sportspersons Awards of the Year, given by the Sport Journalists Association of Slovenia, are also made of steel. In 2019, Slovenia's best sportspersons received as awards sculptures crafted out of steel for the fourth year in a row.

With such activities, SIJ Group is joining the World Steel Association's initiative to promote steel as a material with a wide variety of uses, including in sports and sports infrastructure.

320 young people from local communities took part in the workshops hosted by Mind of Steel ambassador Petra Majdič.

Working Closely with the Communities Our Roots Stem From

SIJ Group maintains tightly knit connections with the local communities of the towns of Jesenice and Ravne na Koroškem, which is where most of the SIJ Group companies are located and where most of our employees live with their families. As a socially responsible corporation, we support numerous sporting clubs. The steelworking tradition in Jesenice has maintained a connection with the HDD SIJ Acroni Jesenice hockey club for over 70 years. We also support the local football club. In the Koroška region, on the other hand, we have partnered with the Fužinar volleyball, football, swimming and ski clubs.

Petra Majdič's Ambassadorship

In partnership with Petra Majdič, the legendary Olympian and formerly a professional cross-country skier, we are spreading the Mind of Steel spirit and positive experiences with the SIJ brand around the sports clubs and among the youth of our communities. In 2019, we worked with Petra Majdič and organised a number of activities to rouse the Mind of Steel spirit in young athletes, including motivational workshops for secondary school students and workshops on SIJ Day for our employees and their families, giving us the opportunity to work with our key stakeholders closely and directly.

150th

anniversary of the industrial manufacturing of steel in Slovenia was celebrated to highlight the Slovenian steelworking tradition

HIGHLIGHTING THE STEEL-WORKING TRADITION

In a more cultural context, we place special attention on building partnerships to highlight the cultural and technologic heritage of steel-working. In 2019, we commemorated the 150th anniversary of the industrial manufacturing of steel in Slovenia and the 50th anniversary of the incorporation of Slovenske železarne, SIJ Group's predecessor, with the celebration Attuned Tradition of Steel. Visitors were given a unique opportunity to experience the Steel Percussion Orchestra, whose music was played on SIJ Steel instruments for the first time. In 2020, Koroška will be celebrating 400 years of ironworking in the Mežica valley.

100 Years of Metallurgy in Slovenia

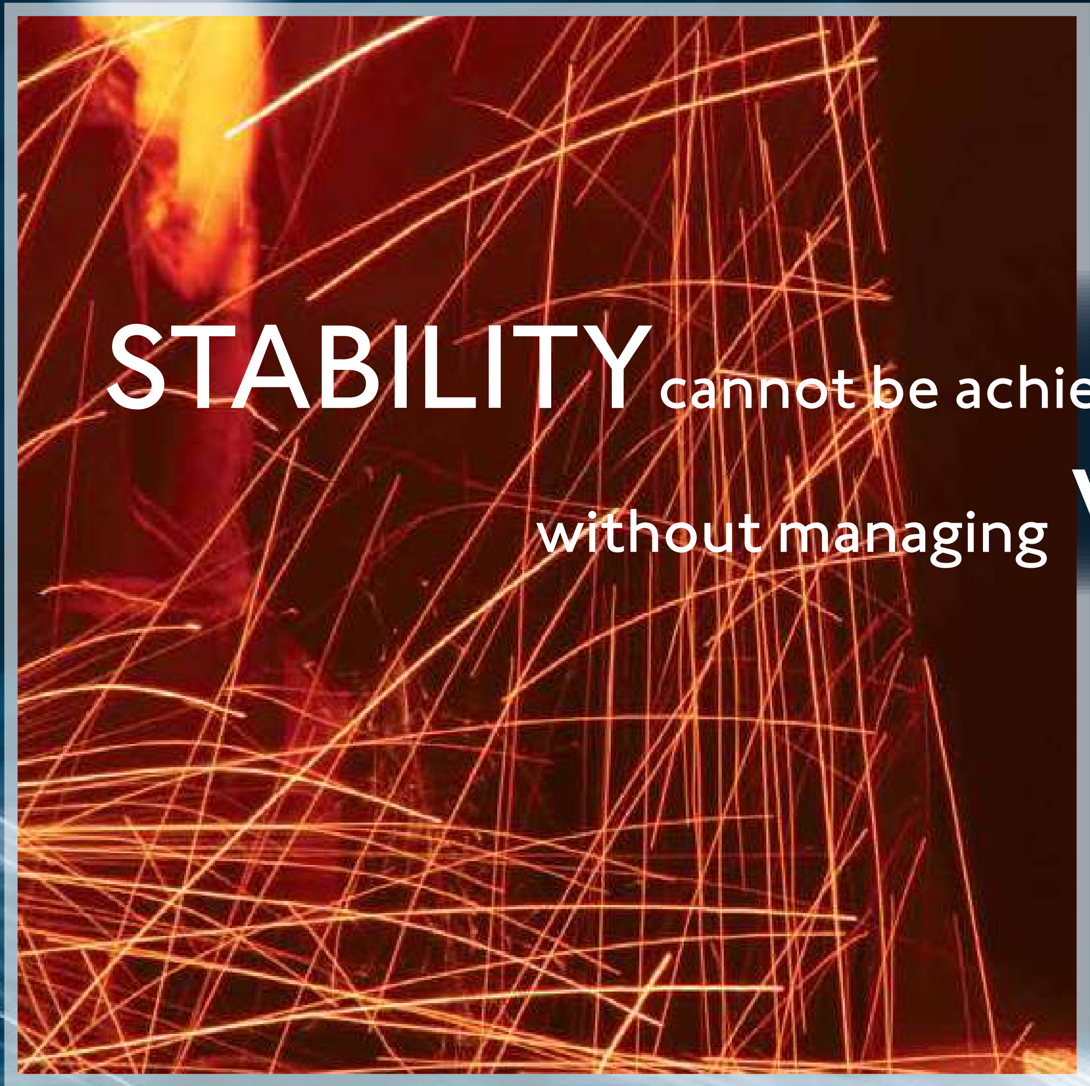
In 2019, we sponsored and actively participated in the exhibition The Song of Metal – Millennia of Metallurgy in Slovenia. The exhibition, which also commemorates the first centenary of the University of Ljubljana and metallurgy studies in Slovenia, was created in cooperation with the University of Ljubljana, Faculty of Natural Sciences and Engineering and the National Museum of Slovenia.

World-Renowned Literature in the Slovenian Language

The SIJ Group in cooperation with the UMco publisher has since 2015 supported the publication of world-renowned books on business and personal growth. This literary publishing project complements the activities of the SIJ Book Club for employees.

FOCUS ON EDUCATION

By supporting professional conferences, with sponsorships, and donations to educational establishments in technical professions, as well as with various competitions for young people, we are promoting the development of metallurgy and steelworking and expanding opportunities for the development of the industry on a broader scale. Through innovative collaborations, we also offer access to other, mainly business-oriented skills.



STABILITY cannot be achieved without managing VARIABILITY

A SYSTEM FOR ASSESSING RISK AND IDENTIFYING OPPORTUNITIES

AT SIJ GROUP, WE UNDERSTAND RISK MANAGEMENT AS THE MANAGEMENT OF OPPORTUNITIES FOR ACHIEVING AND SURPASSING SET GOALS.

In an ever-changing global environment, and in times when some markets are facing an economic downturn, we are constantly looking for opportunities for further development and identifying those which would benefit SIJ Group, taking into consideration the limitations of individual geographic areas and our activities there. Our strategic plans and decisions are made with this in mind.

Operational risks affect the Group's ability to implement its established strategy and the sustainable development of all SIJ Group companies. Therefore, risk exposure is regularly monitored throughout the Group. A risk management process is in place at all levels of business management and decision-making.

We perform daily, weekly, monthly and yearly planning, implementing and tracking measures focused on systematically managing opportunities and risks across the entire SIJ Group, based on the KPI evaluation for a given business year. The system is based on a cycle of planning, coordination, monitoring and reporting. It includes the identification and implementation of risk mitigation measures and monitoring the performance of risk management activities.

The companies of individual Divisions build these identified opportunities and risk mitigation measures into their monthly plans and analyses of deviations, which helps more easily assess their operating results and financial positions.

Long-term

The long-term strategy is used as a basis in annual planning, identifying risks, enacting the company's defined vision and values.

Annual

Annual plans serve as a basis for the implementation of risk mitigation measures and monitoring the performance of risk management activities.

Monthly

We plan the necessary measures based on our achievement of monthly performance targets; we follow-up on these to assess the effectiveness of the implemented measures on a monthly basis.

Weekly

We assess our operational performance weekly, identifying operational risks and following-up on the implementation of risks.

Daily

We monitor energy consumption, production in aggregate figures, sale and cash flows, allowing for short reaction times and ongoing process control.

OVERVIEW OF TYPICAL RISKS AND METHODS OF RISK MANAGEMENT

ASSESSMENTS OF OPPORTUNITIES, ORGANISED BY PRODUCTS AND MARKETS

Risk assessment is associated with the identification and evaluation of opportunities - events and developments that enhance our ability to meet and exceed our goals. Risks and opportunities are assessed from the perspective of a broad portfolio of products destined for different markets, from the perspective of the diversification of business divisions and their vertical integration. In an ever-changing global environment, we are constantly looking for opportunities for further development and growth of SIJ Group, taking into consideration the limitations of individual geographic areas and our activities in them. Our strategic plans and decisions are made with this in mind. The priorities in the field of risk management are determined according to the assessment of the likelihood of the realisation of certain risks and the impact of the risk on the assessed process.

PRIORITY AREA: FINANCIAL AND COMMERCIAL RISKS

The priorities in the field of risk management are determined according to the assessment of the likelihood of the realisation of certain risks and the impact of the risk on the assessed process. Due to the importance and probability of rapid changes in metallurgy, we place a particular focus on financial and commercial risks.

Financial Risks

Risk area	Risk description	Method of management	Risk exposure 2019
Foreign exchange risk	Risks associated with the use of foreign currencies, due to fluctuations in foreign exchange rates.	Price policy method of integrating the foreign currency exchange rate changes into the price adjustment, matching or balancing sales and purchasing, and balancing the outflows and inflows, classified by currency.	●○○
Credit risk	The risk of failing to fulfil contractual obligations to the counterparty – risk of default.	Active and systematic monitoring of receivables, based on the customers' credit ratings, daily checking of receivables falling due, and a large proportion of receivables insured by prime collateral.	●●○
Liquidity risk	The risk of insolvency due to a lack of liquidity.	Daily cash-flow monitoring, long-term liquidity planning, adequate liquidity reserves, and Group-level liquidity monitoring.	●○○
Interest rate risk	The risk of potential changes in cash flows resulting from changes in interest rates.	Monitoring financial markets and interest rate movements, maintaining an adequate share of fixed interest rate loans, and active market monitoring.	●○○

Human Resources Risks

Risk area	Risk description	Method of management	Risk exposure 2019
Human resources risks	Risk related to the provision of qualified employees and employees availability and to the preservation of social dialogue due to the positive economic climate.	Systematic management of key employees, system of awards, mentorship programmes, continuous education, promotion of technical professions through close collaboration with educational institutions.	●●●

●○○ Low exposure

●●○ Moderate exposure

●●● High exposure

Commercial Risks

●○○ Low exposure

●●○ Moderate exposure

●●● High exposure

Risk area	Risk description	Method of management	Risk exposure 2019
Procurement risks	Purchasing quality and suitably priced raw materials, the risk of late supply, changes in purchasing prices.	Careful supply chain planning, negotiations and identification of suitable suppliers, long-term framework agreements with suppliers.	●●●
Sales risks	Decreased order volume and loss of customers due to the poor economic environment, lower purchasing power, and introduction of import restrictions in specific countries.	Aligning the purchasing terms and conditions with the terms and conditions of sale to our customers, tailored to the end users across various industries, caring for a quality portfolio of buyers, adapting our marketing models to various user consumer industries and further restructuring our production programme with a focus on increasing the share of more complex niche products.	●●●
Investment risks	The risk of incorrect decisions to invest in manufacturing and other facilities, risks associated with the investment implementation process.	Systematic planning of investment implementation, careful selection and choice of potential contractors; constant monitoring of the expertise, performance, quality, cost and agreed schedule within the unified IT project management system. Assessment of investment proposals at multidisciplinary investment committee meetings. We have introduced a system of monthly control over the progression and achievement of desired investment outcomes.	●●○
Quality-related risks	Inadequate quality of input materials for the production process, inadequate implementation of development and production processes; inadequate quality of end products.	Upgrading certified management systems and monitoring changes in the quality system, careful implementation of quality control measures in all development and production processes, additional product quality assurance through product liability insurance. Established a system with daily monitoring of the quantity of non-compliant products and daily analysis and preparation of measures. Quality is one of the criteria used in the assessment of the monthly variable pay bonus.	●●○

Research and Development Risks

Risk area	Risk description	Method of management	Risk exposure 2019
Research and Development	Risks, connected with the achievement and guaranteeing of safety and technical standards, and risks, connected with the process of new products development.	Constant investments in new technological, software, and market improvements. Careful planning of development projects, quality reporting, adequate control.	●●○

●○○ Low exposure

●●○ Moderate exposure

●●● High exposure

Environmental Risks

Risk area	Risk description	Method of management	Risk exposure 2019
Emissions to air	The reduction of CO_2 emissions, ensuring the minimisation of dust and other emissions into the air, and their compliance with the related legislation.	Monitoring, careful planning of investment projects focusing on technologies allowing lower energy consumption and consequently lower CO_2 emissions, quality real-time reporting, monitoring the CO_2 coupons market.	●●○
Emissions into water	Ensuring compliance with the related legislation.	Monitoring done by our own laboratory using accredited methods, careful planning of investment projects, raising the awareness of employees, supervision of the implementation of technological processes, high-quality reporting.	●●○
Noise emissions	Ensuring compliance with legislation about noise in the workplace and about noise pollution in the surroundings of industrial facilities.	Diligent planning of investment projects, supervision over the implementation of technological processes, high-quality reporting.	●●○
Emissions into the ground	The quantity of deposited waste, the quantity of dumped municipal waste.	Diligent planning of investment projects, raising the awareness of employees, supervision of the implementation of technological processes, innovation in technological procedures, high-quality reporting.	●○○
Use of input materials	Ensuring high yields of finished products compared to input materials, ensuring low specific consumption of auxiliary materials, reducing the consumption of drinking water.	Diligent planning of investment projects, raising the awareness of employees, supervision of the implementation of technological processes, innovation in technological procedures, monitoring the secondary raw materials consumption rate, high-quality reporting.	●○○

Continuation of the table →

nadaljevanje tabele

●○○ Low exposure
●●○ Moderate exposure
●●● High exposure

Risk area	Risk description	Method of management	Risk exposure 2019
Energy consumption	Risks related to increasing the specific consumption of electricity and technical gases.	Diligent planning of investment projects, raising the awareness of employees, supervision of the implementation of technological processes, innovation in technological procedures, high-quality reporting.	●○○
Operational risks with a potentially adverse impact on the environment	Risks associated with mechanical damage, technological disturbances, pollution, fire, radioactivity, and other hazardous events.	Preventive exercises and internal procedures in relation to emergencies, collaboration with external environmental protection institutions, raising the awareness of employees for reporting emergencies, supervision of the implementation of technological processes, indicator monitoring (number of emergencies/million working hours performed), high-quality reporting.	●●○
Risks associated with the circular economy	Risks associated with the use of hazardous materials, reusing waste materials and thermal energy, risks associated with the implementation of the sustainable development strategy.	Reducing the use of hazardous materials, 100-percent performance of radioactivity control, diligent planning of investment projects, raising the awareness of employees, innovation in technological procedures, high-quality reporting.	●○○

Other Risks

Risk area	Risk description	Method of management	Risk exposure 2019
Legal risks	Risk associated with changes in legislation or the interpretation thereof.	Monitoring legislation and case law and preparing related measures.	●●○
	Risks associated with the execution of commercial agreements.	Review of all agreements executed with suppliers and customers through preliminary credit rating checks.	
	Risks associated with corporate acquisitions and operational restructurings.	Active investment portfolio management. Participation in all phases of projects and processes.	
Reputational risk	Risk associated with the quality of services and products, unethical business practices, etc.	Active implementation of corporate governance, analysing market responses, and monitoring our brand management.	●●○

Continuation of the table →

Continuation of the table

Risk area	Risk description	Method of management	Risk exposure 2019
IT risks	Risk of failing to achieve the planned benefits after project implementation.	Implementation and constant improvements to the standardised approaches and processes involved in planning the scale and budget of the project, with clearly-defined objectives, implementation of project performance evaluation criteria and focusing project management on the project's broader impact on company operations and risk management.	●●○
	Risk of adopting poor decisions due to a lack of qualified employees.	Activities associated with improving project management quality and maturity. Collaboration with other companies in internally recruiting individuals to act as project managers, identifying knowledge outside the company, organising educational programmes for existing employees, continuing the development of mentoring programmes for project managers.	●●○
	Risk of a breach of the IT system, in particular the risk of unauthorised access to sensitive Group information and the employees' personal data.	Use of complex information security software, which includes upgrading hardware and data centres, software protection methods and tools, and the introduction of new data protection procedures and policies.	●●○

●○○ Low exposure

●●○ Moderate exposure

●●● High exposure

KEY RISKS IN 2019

PROCUREMENT RISKS

In Steel Division, purchasing risks are mainly related to the provision of high-quality raw materials for steel production and to price risks due to the time lag between the purchase of raw materials and the sale of products. Procedures for granting and introducing suppliers and raw materials have been defined for each raw material, while regular supplies are subject to quality monitoring procedures with a certain periodicity of sampling and supplier evaluation. This process includes development and entry control, technology and procurement.

Measures: Alloys Surcharge and Timely Purchases

Price risks in procurement involve the time delay between the purchase of raw materials and the sale of the product, because higher or lower prices of raw materials are passed-through to the prices of products. These risks are mitigated by harmonising procurement and sales, and by harmonising production plans with procurement plans on a weekly basis.

The prices of the main raw materials in 2019 followed a prevalently negative trend, however in the face of unstable macroeconomic developments, they reacted to both positive and negative news in the short-term. The pass-through to sales prices was managed with a business model involving alloy surcharge, and for fixed price sales transactions it was managed through setting appropriate raw material prices. The key activity is focused on timely purchases and the correct choice of purchasing models, based on harmonised sales plans. Even though the risk is assessed as high, we are properly managing it.

SALES RISKS

The Group is exposed to different sales risks of varying intensity due to its operations in different geopolitical and macroeconomic conditions, and legal and competitive environments.

At SIJ Group, we regularly monitor exposure to various types of commercial risks and adopt suitable measures to keep them in check. In the sales department, we are constantly upgrading and flexibly adjusting our sales risk management system. The quantity and price risks are mitigated as much as possible through aligning purchasing terms with our terms of sale.

Measure: Customer Due Diligence

In 2019 we introduced the SIJ Group General Rules for Customer Due Diligence to verify the restrictions which provide SIJ Group employees with appropriate guidance and recommendations for checking the status of our business partners before we enter into a relationship with them. By performing preliminary checks of our business partners' good standing, we increase the level of diligence to ensure that SIJ Group's operations comply with the law, other regulations, applicable recommendations and internal company regulations, as well as international regulations. As an international market player, SIJ Group's orderly and transparent approach to its operations is an important part of the general corporate integrity policy.

The Challenge: Adapting Marketing Models

Sales risks are mitigated by reducing the concentration of sales to large consumers and increasing the share of sales to smaller end users, ensuring a continuous local presence in certain key markets, by expanding our own sales network, by employing new agents in promising market segments, marketing activities for the seeking and acquisition of new customers, and through the systematic monitoring of market trends and competitors' activities.

We systematically monitor developments in the consumer industry and on the market, and proactively adjust our marketing models with the purpose of achieving stable long-term sales growth in identified key market segments.

We mitigate the risk of late supplies to end users due to production delays by maintaining inventory safety stock of end products.

Specifically: Links to the EU Protection Measures

We continue close cooperation with the European steel organisation Eurofer, the Government of the Republic of Slovenia, and the European Commission for the introduction of European Union trade defence instruments actions against third-country imports into the EU markets.

The risk of a reduced sales volume related to the 25 percent tariff on steel imports, which the USA adopted in 2018, was mitigated by lodging additional requests with the U.S. Department of Commerce to exempt our products from protective measures, and by successfully transferring price increases to buyers.

HUMAN RESOURCES RISKS

Risk of Decreased Productivity

In Slovenia, the metallurgy and foundry industries are facing a lack of technically qualified employees. Enrolment in technical education programmes for metallurgical technicians, metallurgy engineers and mechanical engineers, is decreasing each year. Over the past twenty years, there was no development of relevant school curriculums for educating qualified expert employees to work in the production programmes of steel melting, rolling, forging and metal processing, and many curriculums were discontinued. This means that we are dependent on the transfer of knowledge from older metallurgy experts to young people through practical education classes – through mentoring programmes. The resulting longer induction periods and more complex training courses pose a risk of lower productivity levels with the same number of employees.

The risks are increasing as the workforce ages. At SIJ Group, more than 30 percent of our employees are over 50 years of age, creating a risk of long-term or short-term absence, the risk of losing key skills and competences due to absences asociated with retirement or long-term sick leave, as well as the risk of lower productivity due to employees' refusal to work night shifts or their general rejection of the four-shift system.

Measure: Redesigning the Working Environment

Young people are increasingly choosing to pursue occupations which allow them to work in a less physically demanding and increasingly automated working environment. For SIJ Group companies this poses a new challenge, as well as a risk, considering the growing need to invest in automation and robotization of the working environment, and the need for a faster investment cycle towards the automation and redesigning of the working environment in order to bring it to a level comparable to other high-tech production companies in Slovenia. In accordance with our Strategy 2025, we will make numerous investments in production automation.

Measure: Introduction of a New Salary System

Both in response to industry developments and to the amendments to the Minimum Wage Act[12], in 2019 we assessed the economic and social risks which take effect for SIJ Group as of 1 January 2020. We prepared and implemented a new salary system, which allows a uniform pay raise across all job profiles, accounting for the labour market situation and the increase of the national minimum wage in the Republic of Slovenia, while at the same time retaining the wage proportions between the more and less demanding positions. We managed this risk through taking a determined and proactive approach in managing the social dialogue - by engaging in negotiations with the trade unions and signing new corporate collective agreements which support the new salary system.

MANAGING OTHER RISKS

In 2019, we systematically monitored the key financial, commercial (sales and purchasing) and human resources risks on an annual, monthly, weekly and daily level, and we also managed research and development risks, which are key for strategically meeting our buyers' needs and requirements, environmental risks, which are inextricably tied to the company's social responsibility and workplace health and safety policies, as well as other risks, such as informational, legal and reputational risks.

12 The Minimum Wage Act (Official Gazette of the Republic of Slovenia, no. 13/10, 92/15 and 83/18) lays down the right to minimum wage and sets the level (as a gross amount), and defines the methodology for its calculation and publication method. As of 1 January 2020, the gross minimum salary level will be raised to 940.58 euros.

STABILITY on all levels relies on financial TRANSPARENCY

FINANCIAL REPORT OF THE SIJ GROUP

BALANCE SHEETS, FINANCIAL STATEMENTS AND ADDITIONAL DISCLOSURES FORM THE FOUNDATION OF TRUST OF ALL OUR STAKEHOLDERS.

Just as we co-shape stability in many aspects of life and the economy, so, too, do we ensure stable operations of the entire SIJ Group by diligently managing our funds and other resources. The numbers are proof of our achievements. We plan the future on our operating figures.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
to the shareholders of SIJ – Slovenska industrija jekla, d.d.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the company SIJ – Slovenska industrija jekla, d.d. and its subsidiaries (hereinafter 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinon

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules are further described in *the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

We draw your attention to the Note 31 *Correction of Prior Periods error* of the financial statements, which describes the correction of prior period error in relation to impairment of goodwill, property, plant and equipment and other intangible assets. Accordingly, our opinion expressed in the Opinion paragraph does not contain modification with respect of this matter contained in prior audit report on the consolidated financial statements as of December 31, 2018.

We draw your attention to the *Events after the Reporting Date* of the financial statements, which describes the possible impact of coronavirus pandemic and resulting expected economic downturn on the Group and carrying value of its assets subsequent measurement.

Our opinion is not modified in respect of these matters.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the year ended 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Sale of significant segment of business	
During the 2019 year The Group disposed its shares in Perutnina Ptuj d.d. and its subsidiaries (hereinafter 'Perutnina Ptuj Group'), representing together poultry business segment of the Group, as disclosed in Note 15 – *Assets held for Disposal.* In accordance with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* requirements to presentation and disclosure of discontinued operations, the Group presents the post-tax profit from discontinued operations as a single amount in the statement of comprehensive income. Accordingly, the key audit matter in this regard pertains to • the appropriate application of IFRS 5, in particular whether Perutnina Ptuj Group operations represent a separate major line of business or geographical area of operations resulting in the presentation of a discontinued operation; • to the appropriate recognition of transaction resulting in loss of control over subsidiary in accordance with IFRS 10 *Consolidated Financial Statements;* • to the appropriate recognition and measurement of the relevant gain attributable the Group.	We evaluated whether management had appropriately applied the requirements of IFRS 5 and IFRS 10 by • Assessing whether the operations of Perutnina Ptuj Group represent separate major line of business for the Group and meet the criteria of classification as discontinued operations; • Ensuring the results presented as discontinued operations fairly present the financial performance of Perutnina Ptuj Group; • Ensuring that the date of loss of control is appropriately determined; • Ensuring that the carrying value of net assets of Perutnina Ptuj Group and relevant non-controlling interest as of date of loss of control is appropriately determined; • Ensuring that the fair value of consideration received is appropriately determined; • Ensuring that information disclosed in the notes to consolidated financial statements is complete and accurate.
Valuation of Goodwill	
As of 31 December 2019, the Group had a goodwill of EUR 7.8 mln (31 December 2018 restated: EUR 8.7 mln) in the consolidated financial statements, as disclosed in the Note 8 – *Intangible assets.* As required by IAS 36 *Impairment of assets,* management conducts annual impairment tests to assess the recoverability of the carrying value of goodwill. The recoverable amount is assessed on the basis of discounted cash flow models.	Our audit procedures included the assessment whether management judgement is appropriate and whether the IAS 36 requirements are met, including: • Assessment of whether the CGUs are determined appropriately in compliance with IAS 36 requirements; • Assessment of competence, capabilities and objectivity of management's independent expert, and verification of the qualifications of the expert. In

Considering the significant portion of Management judgement in determination of cash generating unit (further on "CGU"), design of projections of future cash flows and calculation of net present value of relative CGUs, the impairment test of goodwill is considered as key audit matter. Management has provided further information about the impairment accounting policy in note D) and note N); the goodwill is disclosed in details in note 8 – *Intangible assets*.	addition, we discussed the scope of his work with management. • We made use of our internal experts to evaluate whether the methodology used by the management expert is appropriate and whether the significant assumptions used are adequate for given purposes. • Evaluation of whether the models used by management to calculate the value in use of the individual CGUs comply with the requirements of IAS 36 and assessment of future projected cash flows used in the models to determine whether they are reasonable and supportable given the current macroeconomic climate; • Validation of assumptions used to calculate the discount rates and review of methodological appropriateness and mathematical accuracy of calculations of discounts rates; • Analysis of the sensitivity of impairment test outcomes to the changes of the key parameters; • Assessment of accuracy of historic management projections, including analysis of projected cash flows and review of historical achievements; • assessment of the restatement related to impairments in goodwill; • assessment whether information disclosed in the notes to the financial statements is complete and accurate and meets the requirements of applicable financial reporting standards.

Other Matter

The financial statements of the Group for the year ended December 31, 2018, were audited by another auditor who expressed a qualified opinion on those statements on 14 June 2019 due to inability to obtain sufficient audit evidence to support the projected future cash flows used by the Group in goodwill, property, plant and equipment and other intangible assets impairment tests performed in accordance with IAS 36 *Impairment of assets*.

Other information

Management is responsible for the other information. The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we express no assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the consolidated financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.

In relation to this and based on our procedures performed, we report that:

- other information are, in all material respects, consistent with the consolidated financial statements;
- other information are prepared in compliance with applicable law or regulation; and
- based on our knowledge and understanding of the Group and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

Responsibilities of Management, Supervisory Board and Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements of the Group, management is responsible for assessing its ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Supervisory board and Audit Committee are responsible for overseeing the Group's financial reporting process and for approving audited annual report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing rules will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing rules, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence concerning the financial information of the entities or business activities within the Group in order to express an opinion on the consolidated financial statements. We are responsible for conducting, overseeing and performing the audit of the Group. We have sole responsibility for the audit opinion expressed.

With those charged with governance we communicate the planned scope and timing of the audit and significant findings from the audit, including deficiencies in internal control we have identified during our audit.

We also provide those charged with governance with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on Other Legal and Regulatory Requirements

Appointment of the Auditor and the Period of Engagement
Deloitte revizija d.o.o. was appointed as the statutory auditor of the Group on General Shareholders' Meeting held on 14 October 2019. Our total uninterrupted engagement has lasted 1 year.

Confirmation to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 20 April 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings, and which have not been disclosed in the Annual Report.

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Katarina Kadunc, certified auditor.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc
Certified auditor

For signature please refer to the original Slovenian version.

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

Ljubljana, 20 April 2020

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

STATEMENT OF THE MANAGEMENT'S RESPONSIBILITY

The Management Board is responsible for the preparation of the consolidated financial statements, together with accounting policies and notes, for the year 2019, which give to the best of its knowledge and belief, a fair view of the development and results of the Group's operations and its financial position, including the description of material risks that the Group is exposed to.

The Management Board confirms that appropriate accounting policies have been applied consistently in the preparation of the consolidated financial statements, that accounting estimates were prepared based on the principles of fair value, prudence and sound management and that the consolidated financial statements give a true and fair view of the Group's financial position and the results of its operations in the year 2019.

The Management Board is also responsible for appropriate accounting and for taking adequate measures to protect the Group's property and other assets, and confirms that the consolidated financial statements, together with the notes thereto, have been prepared based on the assumption of continuing operation and in accordance with applicable legislation and International Financial Reporting Standards as adopted by the European Union.

Anytime within 5 years after the end of the year in which the tax assessment should be made, the tax authorities can inspect the operations of the Group. 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 possible liability of this type is known to the Management Board.

Ljubljana, 20th April 2020

Andrey Zubitskiy
President of the Management Board

Tibor Šimonka
Member of the Management Board

Igor Malevanov
Member of the Management Board

Viacheslav Korchagin
Member of the Management Board

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in EUR thousand	Note	2019	2018 Restated
Revenue	1	767,351	793,277
Cost of sales	2	(640,119)	(643,697)
Gross profit		**127,232**	**149,580**
Distribution costs	2	(35,003)	(44,519)
General and administrative expenses	2	(87,253)	(92,513)
Other operating income	3	7,336	6,347
Other operating expenses	4	(17,678)	(23,242)
Impairments of trade receivables (gains/losses)	18	212	456
Operating loss		**(5,154)**	**(3,891)**
Finance income	5	3,095	1,861
Finance expenses	6	(14,976)	(17,641)
Net finance costs		**(11,881)**	**(15,780)**
Share of profit in associates	10	31	99
Loss before tax		**(17,004)**	**(19,572)**
Income tax	7	(6,984)	5,942
Operating loss for the year from continuing operations		**(23,988)**	**(13,630)**
Profit from discontinued operations	15	68,896	20,131
Profit for the period		**44,908**	**6,501**

Continuation of the table →

Continuation of the table

in EUR thousand	Note	2019	2018 Restated
Items that will not be reclassified subsequently to profit or loss			
Income tax related to components of comprehensive income		(15)	(9)
Net actuarial gains (losses) on pension programs		(872)	39
Items that may be reclassified subsequently to profit or loss			
Change in other reserves due to changes of financial assets at fair value	11	78	48
Exchange rate difference on translating foreign operations		(20)	147
Other comprehensive income from discontinued operations	15	19	264
Total other comprehensive income		**(810)**	**489**
Comprehensive income		**44,098**	**6,990**
Profit for the period, attributed to:		**44,908**	**6,501**
Owners of the controlling company		44,218	3,693
Non-controlling interest		690	2,808
Comprehensive income attributed to:		**44,098**	**6,990**
Owners of the controlling company		43,414	4,038
Non-controlling interest		684	2,952
Comprehensive income attributed to the owners of the controlling company:		**43,414**	**4,038**
Continuing operations		(25,482)	(14,531)
Discontinued operations		68,896	18,569

The notes to the consolidated financial statements are an integral part of the consolidated financial statements and should be read in conjunction with them. More detailed explanation of the error correction is disclosed in Note 31.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in EUR thousand	Note	31 Dec. 2019	31 Dec. 2018 Restated	1 Jan. 2018
ASSETS				
Non-current assets		512,715	504,390	521,086
Intangible assets	8	21,947	24,491	35,069
Property, plant and equipment	9	407,194	439,045	452,508
Investment property		63	65	166
Investments in associates	10	1,846	1,815	1,716
Financial assets at fair value through other comprehensive income	11	1,351	1,273	1,215
Financial receivables	12	54,067	30	30
Trade receivables		141	75	198
Other assets	13	1,005	330	503
Deferred tax assets	14	25,101	37,266	29,681
Current assets		437,490	639,441	614,783
Assets (groups) held for sale	15	4,993	259,972	267,392
Inventories	16	212,397	207,135	194,720
Financial receivables	17	18,942	24,767	25,848
Trade receivables	18	75,479	79,877	88,899
Income tax assets		659	976	1,023
Cash and cash equivalents	19	120,250	64,080	34,909
Contract assets		337	0	0
Other assets	20	4,433	2,634	1,992
Total assets		950,205	1,143,831	1,135,869
EQUITY AND LIABILITIES				
Equity	21	418,928	399,256	399,070
Equity attributed to the owners of the controlling company		*412,817*	*379,280*	*381,017*
Share capital		145,266	145,266	145,266
Capital surplus		11,461	11,461	11,461
Reserves from profit		5,940	1,696	1,696
Fair value reserves		(2,310)	(2,285)	(2,366)
Translation reserves		205	857	593
Retained earnings		252,255	222,285	224,367

Continuation of the table →

Continuation of the table

in EUR thousand	Note	31 Dec. 2019	31 Dec. 2018 Restated	1 Jan. 2018
Non-controlling interest		6,111	19,976	18,053
Non-current liabilities		182,668	252,013	285,766
Employee benefits	22	15,552	14,120	14,160
Other provisions	23	770	3,824	1,148
Deferred income	24	1,732	1,838	1,925
Financial liabilities	25	162,840	231,095	268,115
Trade payables		937	633	403
Contract liabilities		837	486	0
Deferred tax liabilities	14	0	17	15
Current liabilities		348,609	492,562	451,033
Liabilities included in disposal groups	15	889	113,582	133,145
Financial liabilities	26	137,954	150,303	97,330
Trade payables	27	198,891	222,656	217,985
Income tax liabilities		6,369	273	393
Contract liabilities		200	342	0
Other liabilities	28	4,306	5,406	2,180
Total equity and liabilities		950,205	1,143,831	1,135,869

The notes to the consolidated financial statements are an integral part of the consolidated financial statements and should be read in conjunction with them. A more detailed explanation of the error correction is disclosed in Note 31.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated Statement of Changes in Equity in 2019

	Equity attributed to the owners of the controlling company									
in EUR thousand	Share capital	Capital surplus	Reserves from profit	Fair value reserves	Actuarial gains (losses)	Translation differences	Retained earnings	Total	Non-controlling interest	Total
Balance as at 31 Dec. 2018	145,266	11,461	1,696	317	(2,602)	857	222,285	379,280	19,976	399,256
Dividends paid	0	0	0	0	0	0	(10,000)	(10,000)	0	(10,000)
Sale of non-controlling interest	0	0	0	0	769	(642)	0	127	(14,549)	(14,422)
Total transactions with owners	0	0	0	0	769	(642)	(10,000)	(9,877)	(14,549)	(24,426)
Profit for the period	0	0	0	0	0	0	44,218	44,218	690	44,908
Other changes in comprehensive income	0	0	0	64	(858)	(10)	0	(804)	(6)	(810)
Total changes in comprehensive income	0	0	0	64	(858)	(10)	44,218	43,414	684	44,098
Creation of legal reserves	0	0	4,244	0	0	0	(4,244)	0	0	0
Total changes in equity	0	0	4,244	0	0	0	(4,244)	0	0	0
Balance as at 31 Dec. 2019	145,266	11,461	5,940	381	(2,691)	205	252,255	412,817	6,111	418,928

Consolidated Statement of Changes in Equity in 2018 – Restated

	Equity attributed to the owners of the controlling company									
in EUR thousand	Share capital	Capital surplus	Reserves from profit	Fair value reserves	Actuarial gains (losses)	Translation differences	Retained earnings	Total	Non-controlling interest	Total
Balance as at 31 Dec. 2017	145,266	11,461	1,696	278	(2,644)	593	227,911	384,561	18,376	402,937
Changes from first application of IFRS 9	0	0	0	0	0	0	(3,544)	(3,544)	(323)	(3,867)
Balance as at 1 Jan. 2018	145,266	11,461	1,696	278	(2,644)	593	224,367	381,017	18,053	399,070
Dividends paid	0	0	0	0	0	0	(5,696)	(5,696)	(1,061)	(6,757)
Purchase of non-controlling interest	0	0	0	0	0	0	(78)	(78)	30	(48)
Total transactions with owners	0	0	0	0	0	0	(5,774)	(5,774)	(1,031)	(6,805)
Profit for the period	0	0	0	0	0	0	3,693	3,693	2,808	6,501
Other changes in comprehensive income	0	0	0	39	42	264	0	345	144	489
Total changes in comprehensive income	0	0	0	39	42	264	3,693	4,038	2,952	6,990
Balance as at 31 Dec. 2018	145,266	11,461	1,696	317	(2,602)	857	222,285	379,280	19,976	399,256

The notes to the consolidated financial statements are an integral part of the consolidated financial statements and should be read in conjunction with them. A more detailed explanation of the error correction is disclosed in Note 31.

CONSOLIDATED CASH FLOW STATEMENT*

in EUR thousand	2019	2018 Adjusted
Cash flow from operating activities		
Profit (loss) before tax	64,821	4,225
Adjusted for:		
Depreciation and amortisation	49,896	48,465
Share of profit in associates	(31)	(99)
Interest income	(2,954)	(1,680)
Interest expenses	12,614	17,142
Profit on investment sales	(84,461)	0
Impairment of assets	15,740	19,255
Release (creation) of allowances and provisions	(1,816)	5,181
Net other (income) expenses	(2,189)	297
Operating cash flow before changes in working capital	51,620	92,786
Changes in working capital		
Change in trade receivables	130	(3,433)
Change in inventories	(9,351)	(19,364)
Change in trade payables	(22,207)	9,361
Change in taxes other than income tax	(1,448)	(226)
Changes in working capital	*(32,876)*	*(13,662)*
Payments for disposal of provisions	(2,821)	(50)
Receipts from government grant	500	4,219
Payments for retirement benefits	(1,261)	(1,511)
Income tax paid	(1,140)	(2,558)
Net cash generated from operating activities	14,022	79,224
Cash flow from investing activities		
Payments for investments in subsidiaries	(699)	(48)
Receipts for investments in subsidiaries	202,617	0
Payments for property, plant and equipment	(26,209)	(40,535)
Receipts from property, plant and equipment	2,503	1,196
Payments for intangible assets	(1,562)	(1,716)
Payments for loans issued	(47,056)	(15,268)
Receipts from loans issued	158	18,211
Interests received	1,990	88
Dividends received	96	103
Receipts from other assets	53	(26)
Net cash generated (used) in investing activities	131,891	(37,995)
Cash flow from financing activities		
Receipts from borrowings	364,234	677,144
Payments for borrowings	(449,308)	(679,679)
Payments for lease	(3,037)	(2,392)
Interests paid	(11,375)	(15,247)
Dividends paid	(10,000)	(6,757)
Net cash used in financing activities	(109,486)	(26,931)
Cash and cash equivalents as at 1 Jan.	83,828	69,534
Translation differences	34	(4)
Net change in cash and cash equivalents	36,427	14,298
Cash and cash equivalents as at 31 Dec.	120,289	83,828

Continuation of the table →

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The notes to the consolidated financial statements are an integral part of the consolidated financial statements and should be read in conjunction with them. A more detailed explanation of the adjustment is disclosed in Note 31.

** The Cash Flow Statement is presented together for continuing and discontinued operations.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

REPORTING ENTITY

SIJ – Slovenska industrija jekla, d.d. (hereinafter: SIJ d.d. or controlling company) is a company with its registered office in Slovenia. The address of its registered office is Gerbičeva ulica 98, 1000 Ljubljana. Given below are the consolidated financial statements for the year ending on 31 December 2019.

Those consolidated financial statements are compiled by the controlling company SIJ d.d. and cover all its subsidiaries (hereinafter: the Group). Consolidated financial statements for a broader group of subsidiaries are compiled by DILON Cooperatief U.A., the ultimate parent of SIJ d.d. The consolidated annual report for Group DILON Cooperatief is 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 are expressed in thousands of euros. Due to the rounding of the 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 Management considered the following three requirements: consolidated financial statements are comprehensible if users can understand them without difficulty; the information is adequate if they help users make economic decisions; and the information is fundamental if its exclusion or false presentation could influence users' economic decisions.

The Board of Directors approved the consolidated financial statements on 20 April 2020.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) with associated notes, which are being adopted by International Accounting Standards Board (IASB), and the interpretations of the IFRS Interpretations Committee (IFRIC), adopted by the EU and in accordance with the Companies Act (ZGD).

A. tatement of Compliance

Standards and Amendments to the Existing Standards Issued by IASB and Adopted by the European Union effective from 1 January 2019

- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IFRS 9 "Financial Instruments"** – Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 19 "Employee Benefits"** – Plan Amendment, Curtailment or Settlement – adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** – Long-term Interests in Associates and Joint Ventures – adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015–2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019;
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

Transition to IFRS 16 "Leases"

IFRS 16 scope of application includes leases of all assets, with some exceptions. Lessees must, in accordance with the standard, account all leases using a harmonised model within the statement of financial position, similarly to how financial leases are accounted for under IAS 17. The Group applied IFRS 16 for annual periods beginning on or after 1 January 2019.

The Group applied IFRS 16 using modified retrospective approach. Comparative information presented for 2018 is not restated. The group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered or changed on or after 1 January 2019.

For leases previously classified as operating leases, the Group measures the lease liability at the date of initial application as the present value of the remaining lease payments. The discount rate is the Group's incremental borrowing rate at that date. For leases previously classified as operating leases, the Group measures right-of-use assets at an amount equal to the lease liability.

Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most of these leases.

On transition to IFRS 16, the Group elected to apply the practical expedients. For short-term leases with a lease term not exceeding 12 months and with no option to purchase, and for leases of low-value assets where the Group has considered new assets which do not individually exceed EUR 5 thousand. For these leases the Group recognises the lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within item Costs of goods, material and services in profit or loss.

The Group depreciates the right to use assets, and attributes interests to the lease liabilities.

Accounting for leases will not undergo any significant changes for lessors. The lessor defines the lease, based on its nature, either as operating or financial. A lease is classified as financial if it includes the transfer of all significant risks and rewards incidental to ownership. Otherwise, the lease is considered as operating.

IFRS 16 replaces the existing lease management instructions included in IAS 17 Leases", IFRICI 4 Determining Whether an Agreement Contains a Lease", SIC-15 Operating Leases" – Incentives, SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

A more detailed information about the Group's policies as a lessee or a lessor is presented in the section 'Significant Accounting Policies, "Property, plant and equipment", subsection "Leases"'.

Effect of Applying IFRS 16

Effect of Applying IFRS 16 on the Group's Statement of Financial Position as at 1 January 2019

in EUR thousand	1 Jan. 2019	Effect of applying IFRS 16	31 Dec. 2018
Right-of-use asset	6,905	1,365	5,540
Current lease liabilities	1,703	215	1,488
Non-current lease liabilities	3,996	1,150	2,846
Total lease liabilities	5,699	1,365	4,334

The right-of-use asset and lease liabilities are not stated as a separate item in the statement of financial position, but are disclosed separately in notes to the consolidated financial statements, as provided in IFRS 16.

Effect of applying IFRS 16 on the Group's Income Statement in the Period from 1 January until 31 December

in EUR thousand	2019
Increase in depreciation of the right-of-use assets	560
Increase in finance costs	26
Decrease in other expenses	(577)
Increase in profit for the period	9

Lease liabilities reconciliation at date of initial application, 1 January 2019

in EUR thousand	
Operating lease commitments at 31 Dec. 2018	1,700
Short term leases and leases of low-value assets	(284)
The effect of discounting the above amounts using the incremental borrowing rate (1.89%)	(51)
Finance lease liabilities recognised under IAS 17 as at 31 Dec. 2018	4,334
Lease liabilities as at 1 Jan. 2019	5,699

The Group assesses that the adoption of the amendments to other existing standards will not have any significant effect on the consolidated financial statements at their first application.

Standards and Amendments to the Existing Standards Issued by IASB and Adopted by the European Union, But Not Yet Effective

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** – Interest Rate Benchmark Reform - adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to References to the Conceptual Framework in IFRS Standards** adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

The Group assesses that the adoption of these new standards and amendments will not have any significant effect on the consolidated financial statement at their first application.

Standards and Amendments Issued by IASB, but not yet Adopted by the EU

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to IFRS 3 "Business Combinations"** – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period);
- **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 and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

The Group assesses that the adoption of these new standards, and the amendments of existing standards will not have any significant effect on the consolidated financial statement at their first application. 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 accounting of hedging instrument in connection with financial assets and liabilities in accordance with the requirements of IAS 39 – "Financial Instruments: Recognition and Measurement" would not have a significant influence on the consolidated financial statements if it was used on the date of the Statement of financial position.

B. Basis of Measurement

The consolidated financial statements have been prepared based on historical cost, except for the financial instruments which are measured at their fair value or amortised cost.

C. Functional and Presentation Currency

The consolidated financial statements in this report are presented in euros; the euro is also the functional currency of the controlling company.

D. Application of Estimates and Judgments

The preparation of consolidated financial statements requires the Management 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.

Since estimates are subject to subjective judgments and a certain degree of uncertainty, the subsequent actual results can differ from those estimated. Estimates are reviewed on an on-going basis. Amendments to the accounting estimates are recognised 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.

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

Estimate of the Useful Life of Assets Subject to Amortisation or Depreciation (Notes 8 and 9, and Policies I and J)

When estimating the useful life of assets, the Group takes into account the expected physical wear and tear, the technical and economic obsolescence as well as expected legal restrictions and other restrictions of use. In addition, the Group checks the useful life of significant assets in case the circumstances change and the useful life needs to be changed and amortisation and depreciation charges revalued.

Impairment of Assets

Information on significant uncertainty estimates and critical judgments that were prepared by the management in the process of accounting policy implementation and which affect the amounts in the consolidated financial statements the most was used in the estimation of the value of:

- property, plant and equipment (Note 9);
- investments in associates (Note 10);
- goodwill (Note 8);
- financial assets at fair value through other comprehensive income (Note 11);
- financial assets measured at amortised cost (including trade receivables) (Policy L);
- financial receivables (Notes 12 and 17).

Estimation of the Fair Value of Assets (Note 12 and Policies L and P)

Fair value is used for financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss. All other items in the consolidated financial statements represent the cost or the amortised cost.

In measuring the fair value of a non-financial asset, the Group must take into account a market participant's ability to generate economic benefits using the asset in its best use or by selling it to another market participant that would use the asset to the fullest and best possible extent. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, especially by applying appropriate market inputs and minimum non-market inputs.

All assets and liabilities measured and disclosed in the consolidated financial statements at fair value are classified within the fair value hierarchy based on the lowest level of input data that is significant to the fair value measurement as a whole:

Level 1 – quoted (unadjusted) prices in active markets for similar assets and liabilities;
Level 2 – valuation techniques that are based directly or indirectly on market data;
Level 3 – valuation techniques that are not based on market data.

For assets and liabilities disclosed in the consolidated financial statements in previous periods, the Group determines at the end of each reporting period whether transfers have occurred between levels by re-assessing the classification of assets based on the lowest level input that is significant to the fair value measurement as a whole.

The fair value hierarchy of assets and liabilities of the Group is presented in note Financial Instruments and Risks.

Estimate of the Created Provisions (Note 23 and Policy R)

A provision is recognised when the Group, due to a past event, has a legal or constructive obligation which can be reliably measured, and if it is probable that settling the obligation will require an outflow of resources embodying economic benefits. Possible obligations are not recognised in the consolidated financial statements as liabilities, as it has yet to be confirmed whether the Group has a present obligation that could lead to outflows of economic benefits. The Management is regularly checking whether it is probable that the settling of the contingent obligation will require an outflow of resources enabling economic benefits. If such outflow becomes probable, the possible obligation is reclassified when a degree of probability has changed by creating in the consolidated financial statements a provision for it.

Estimate of Provisions for Employee Post-Employment and Other Long-Term Benefits (Note 22 and Policy S)

Defined post-employment and other benefit obligations include the present value of post-employment benefits on retirement and jubilee benefits. They are recognised based on an actuarial calculation which is prepared by an authorised actuary and approved by the management. An actuarial calculation is based on the assumptions and estimates applicable at the time of the calculation, and these may differ from the actual assumptions due to future changes. This mainly refers to determining the discount rate, the estimate of staff turnover, the mortality estimate, and the salary increase estimate. Due to the complexity of the actuarial calculation and the item's long-term nature defined benefit obligations are sensitive to changes in the said estimates.

Assessing the Possibility of Using Deferred Tax Assets (Note 14 and Policy H)

The Group recognises deferred tax assets in connection with provisions for jubilee benefits and postemployment benefits on retirement, impairment of financial assets, impairment of receivables, unused tax reliefs, tax losses.

On the day the consolidated financial statements are completed, the Group verifies the amount of recogised deferred tax assets and liabilities. Deferred tax assets are recognised if it is probable that future taxable net profit, against which deferred tax assets can be utilised in the future, will be available. Deferred taxes are derecognised by the amount for which it is unlikely to enforce the tax relief associated with the asset.

E. Prior Periods Errors

The Group corrects prior period errors retrospectively in the first set of consolidated financial statements authorised for issue after their discovery. The Group corrects errors by restating the comparative amounts for the prior period(s) presented in which the error occurred; and if the error occurred before the earliest prior period presented, by restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

A more detailed explanation of the error correction is disclosed in Note 31.

COMPOSITION OF THE CONSOLIDATED GROUP OF COMPANIES

The consolidated financial statements of the SIJ Group include the financial statements of the controlling company and the financial statements of the companies of the SIJ Group.

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

in EUR thousand	Activity	% of voting rights 2019 & 2018	Value of assets as at 31 Dec. 2019	Value of equity as at 31 Dec. 2019	Net profit (loss) for 2019
Controlling company of the Group					
SIJ – Slovenska industrija jekla, d. d., Gerbičeva ulica 98, Ljubljana, Slovenia	Activities of head offices		428,449	292,639	105,866
SIJ – subsidiaries					
SIJ ACRONI d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	Steel production	100	416,003	177,033	(4,364)
SIJ METAL RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Steel production	100	205,956	77,483	(10,695)
NOŽI RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Industrial knives production	100	1,090	554	(102)
SIJ ELEKTRODE JESENICE d.o.o., Cesta železarjev 8, Jesenice, Slovenia	Welding materials production	100	9,052	1,284	(1,255)
SIJ SUZ d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	Drawn wires production	100	6,219	2,815	152
SIJ ZIP CENTER d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Education and training of the disabled	100	2,437	769	88
ODPAD d.o.o. Pivka, Velika Pristava 23, Pivka, Slovenia	Recovery of secondary raw materials from scrap	74.90	28,574	7,973	210
NIRO Wenden GmbH, Glück-Auf-Weg 2, Wenden, Germany	Steel cutting, engineering and trade	85	15,897	(3,427)	(1,239)
SIJ RAVNE STEEL CENTER d.o.o., Litostrojska cesta 60, Ljubljana, Slovenia	Trade	100/77,28*	33,273	18,189	876

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Continuation of the table

in EUR thousand	Activity	% of voting rights 2019 & 2018	Value of assets as at 31 Dec. 2019	Value of equity as at 31 Dec. 2019	Net profit (loss) for 2019
GRIFFON & ROMANO S.P.A., Via Dossetti 11, Loc. Casinello de Dosso, Italy	Heat processing and special steel trade	100	22,523	363	(3,681)
SIJ Asia GmbH, Berger Str. 2, 40213 Düsseldorf, Germany	Trade	100	134	99	(62)
SIJ RAVNE SYSTEMS d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Metallurgic machines production	100	43,402	11,830	(870)
SIJ POLSKA Sp. Z.o.o., ul. Zamkowa 7 lok.11, Poznan, Poland	Trade	100	1	1	0
HOLDING PMP d. d., Vinarski trg 1, Ptuj, Slovenia	Financial service activities	100	19,461	16,581	8,449
KOPO International Inc., 100 Village Court, Suite # 202, Hazlet, New Jersey 07730, USA	Trade	100*	29,144	2,276	224
OOO SSG, 119019, Moskva, Novy Arbat, d. 21, pom. I, et. 21, kom. -29, Russia	Renting and managing of own and leased real estate	100	504	503	(204)
SIJ ACRONI – subsidiaries					
ŽELEZARNA JESENICE, d.o.o., Cesta železarjev 8, Jesenice, Slovenia	Trading with own real estate	100	10,740	10,185	398
ODPAD – subsidiaries					
DANKOR, d.o.o., Vukovarska 436, Osijek, Croatia	Recovery of secondary raw materials from scrap	91	1,344	553	44
METAL-EKO SISTEM DOO JAGODINA, Put Kneza Mihaila 107, Jagodina, Serbia	Recovery of secondary raw materials from scrap	70	3,959	1,586	20
"TOPMETAL" d.o.o. Karađorđeva 69, Laktaši, Bosnia and Herzegovina	Recovery of secondary raw materials from scrap	51	886	0	(463)

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Continuation of the table

in EUR thousand	Activity	% of voting rights 2019 & 2018	Value of assets as at 31 Dec. 2019	Value of equity as at 31 Dec. 2019	Net profit (loss) for 2019
SIJ Ravne Steel Center – subsidiaries					
SIDERTOCE S. p. A., Via XX. Settembre 198, C. P. 34, Gravellona Toce, Italy	Trade	100	13,005	5,271	696
SIJ MWT GmbH, Celsiusstrasse 17, Germany	Trade	100	4,119	(289)	(424)
ORO MET d.o.o., Neverke 56, Košana, Slovenia	Manufacture of other tools	51	13,710	7,536	1,173
NOŽI RAVNE – subsidiaries					
SIJ Ravne Systems (UK) Limited, 12 Conqueror Court, Sittingbourne, Kent, ME10 5BN, Great Britain	Trade	100	813	74	8

** In 2019, the controlling company SIJ d.d. acquired from its subsidiary SIJ METAL RAVNE d.o.o. a 100% share of KOPO INTERNATIONAL and a 22.72% share of SIJ RAVNE STEEL CENTER, and became their 100% owner. The transaction did not change the composition of the Group.*

At the end of February 2019, the Group reclassified investment in PMP Holding from assets (group) held for sale back to investments in subsidiaries. In April 2019, the Group established a company OOO SSG, Russia.

The minority shares in equity are not material, representing only 1.5 percent of total equity. The table bellow discloses shares attributed to minority shareholders based on net profit or loss for 2018 and 2019.

Net Profit or Loss Attributed to Minority Shareholders

in EUR thousand	2019	2018
NIRO Wenden	(113)	(219)
ORO MET	575	654
ODPAD	53	221
DANKOR	14	51
TOPMETAL	(286)	(63)
Discontinued operations	447	2,164
Net profit or loss attributed to minority shareholders	690	2,808

SIGNIFICANT ACCOUNTING POLICIES

A. Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when: i) an investor is exposed or has fights to variable returns from its involvement with the investee; ii) it has the ability to affect those returns through its power over that investee; iii) there is a link between power and returns. The financial statements of the subsidiaries are included in the Group's consolidated financial statements from the date on which control commences until the date that control ceases. The accounting policies of the subsidiaries are aligned with the Group's accounting policies.

On loss of control, the Group derecognises 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 recognised in profit or loss. If the Group retains any interest in the previous subsidiary, such interest is measured at fair value from the date on which control is lost. Subsequently, this interest is accounted for in equity as an investment in an associate (using the equity method) or as an investment in equity instruments in accordance with IFRS 9.

Intra-group balances and any gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised 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. Unrealised losses are eliminated using the same method, provided there is no evidence of impairment.

B. Investments in Associates

Associates are those companies where the Group has a significant influence on their operations, but which it does not control.

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

C. Business Combinations

Business combinations are accounted for using the acquistion method as at the date of the combination, which is the same as the acquisition date or the date on which control is transfer to the Group. In the consolidated financial statements, acquired assets and liabilities are recognized at fair value as at acquisition date. The excess to rhe consideration over the net fair value of the acquired assets is presented as goodwill as part of intangible assets.

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

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

D. Transactions with Non-Controlling Interests

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 recognised. 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 recognised in equity.

E. Foreign Currency Conversion

Transactions in foreign currencies are translated into the adequate functional currency at the ECB (European Central Bank) exchange rate on the trade date. Cash assets and liabilities denominated in a foreign currency at the end of the period are translated into the functional currency at the exchange rate applicable at that time. Positive or negative exchange rate differences are the differences between the amortised cost in functional currency at the beginning of the period and the payments during the period, and the amortised cost in a 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 into the functional currency at the exchange rate on the date when the fair value is set. Non-cash assets and liabilities, denominated in foreign currency and measured at cost, are translated into the functional currency at the exchange rate on the date of the transaction. Exchange rate differences are recognised in profit or loss.

Income statements and cash flow statements of individual companies of the Group abroad, where the company's functional currency is not euro, are translated to the controlling company's reporting currency at the average exchange rate, whereas the statements of financial position are translated to the reporting currency at the exchange rate on the reporting date.

Foreign exchange differences are recognised 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.

F. Revenues

Revenue from contracts with customers

The Group accounts for contracts with customers if all the following criteria according to IFRS 15 are met: (i) contracting parties have approved a contract (in writing, orally, or in accordance with other standard business practices) and are obliged to fulfill their obligations, (ii) the Group can identify the rights of each contracting party to the goods or services to be transferred, (iii) the Group can identify payment terms and conditions for goods and services to be transferred, (iv) the contract has commercial substance, (v) it is probable that the Group will be entitled to a consideration in exchange for the goods or services which will be transferred to a customer. At the beginning of a contract the Group defines for each performance obligation whether it shall be satisfied over time or in time. If a performance obligation is not being satisfied over time, it is satisfied at a point in time.

Revenue from contracts with customers is recognised at the moment of transfer of control over goods or services to a customer in the amount of consideration that the Group expects to be entitled to in exchange for transferring the goods or services. Revenue from contracts with customers is recognised at the fair value of received payments decreased by repayments, discounts, rebates for further sales, and quantity discounts.

Sale of Goods and Services

Revenue and other operating income are recognised when the service is performed, and the customer obtains control of that goods or services according to IFRS 15 as presented in the table below through major revenue stream.

Revenue stream	Characteristics and timely fulfillment of performance obligations, significant payment terms	Clarification of the accounting policy
Sale of finished goods*	Control over products is transferred to a customer, when products are delivered to have been accepted based on Incoterms rules agreed by sale contract (order confirmation). Revenue is recognized at point in time. In case discounts are agreed, revenue is reduced for amounts of discount. Customers do not have right to return unless discrepancy from sale contract is identified. Discrepancies have to be confirmed and have to be in line with general sale terms. Payment term is agreed in sale contract.	Revenue is recognised when products are delivered to and have been accepted at customer premises or when customer collects products at seller`s premises at a point in time.
Sale of steel scrap	Control over raw steel scrap materials is transferred to a customer, when materials are delivered to and have been quantitatively and qualitatively examined and accepted by the customer at their premises or when customer collects materials at seller`s premises. Revenue is recognised when control over materials is transferred to customer at a point in time. In case discounts are agreed, revenue is reduced for amounts of discount. Customers do not have right to return raw materials. Payment term is agreed in sale contract.	Revenue is recognised when raw steel scrap materials are delivered to and have been accepted at customer premises or when customer collects raw materials at seller`s premises as a point in time.
Services (remelting, rolling, forging) and other revenues	Control over service is transferred to a customer, when services are delivered in accordance to sale contract. Revenue is recognized as point in time, since services are not received simultaneously, and customer consumes the benefits provided by the entity's performance after the entity performs. In case discounts are agreed, revenue is reduced for amounts of discount. Customers do not have right to reject rendered services unless discrepancy from sale contract is identified. Discrepancies have to be confirmed and have to be in line with general sale terms. Payment term is agreed in sale contract.	Revenue is recognised as a point in time after services are delivered to and have been accepted by customer at seller`s premises.
Other products	Control over other products such as machine building is transferred to a customer, when products are delivered to have been accepted based on Incoterms rules agreed by sale contract (order confirmation). Revenue is recognized at point in time. In case discounts are agreed, revenue is reduced for amounts of discount. Customers do not have right to reject or return unless discrepancy from sale contract is identified. Discrepancies have to be confirmed and have to be in line with general sale terms. Payment term is agreed in sale contract.	Revenue is recognised when products are delivered to and have been accepted at customer premises or when customer collects products at seller`s premises as a point in time.

** Finished goods include products such as: quarto plates, cold and hot rolled strips or sheets, forged and rolled products, industrial knives, industrial rolls, welding wires and electrodes.*

Contract Assets

Contract asset is the right to consideration in exchange for goods or services that have been transferred to a customer, but not yet invoiced. Under contract assets the Group states deferred incomes for goods and services, supplied to customers.

Contract Liabilities

Contract liability is a liability to transfer goods or services to a customer in exchange for consideration that the Group has received from the customer. Under contract liabilities the Group states liabilities for received cautions, and liabilities from discounts granted and linked to volume thresholds. Contract liabilities are recognised as revenue when the Group satisfies its performance obligation under contract.

Finance Income

Revenues from dividends are recognised when the shareholder's right to payment is established. Finance income comprises interest income and positive exchange rate differences resulting from financing and investing. Interest income is recognised during the term/life of financial instrument using the effective interest rate method.

G. Expenses

Expenses are recognised 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 recognised when the costs are no longer held in inventories, finished and unfinished products, or when goods are sold. Costs that cannot be held in inventories of finished and unfinished products are recognised as operating expenses when they are incurred.

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 recognised in the income statement using the effective interest rate method.

H. Taxation

Taxes comprise calculated income tax liabilities and deferred tax. Current income tax is recognised in the income statement, except to the extent that refers to business combinations or items recognised directly in the other comprehensive income.

Current income tax liabilities are based on the taxable profit for the financial year. Taxable profit differs from net profit, reported in the income statement, because it excludes items of income or expenses that are taxable or deductible in other years, and 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 recognised in total by applying the liability method on temporary differences, which arise 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 realised or the deferred tax liability is recovered.

A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available and against which the deferred tax asset can be utilised. If in the future the available taxable profit is insufficient to create the deferred tax assets for the full amount of unused tax relief, they are created based on maturity of tax relief utilisation possibilities in accordance with the legislation. A deferred tax liability is recognised for all taxable temporary differences, unless they come from initial goodwill recognition, or the initial recognition of an asset or liability in a business transaction other than a business combination and affects neither the accounting profit nor taxable profits (tax loss) during the transaction.

The group does not compile consolidated income taxes. The companies in the Group are independently liable to compile and file the tax return in accordance with the regulations in the tax law of the country in which they are established. Income tax is calculated at the currently applicable tax rates on the tax bases established for each company in the Group.

I. Intangible Assets

Intangible assets with a definite useful life are recognised 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 recognised as part of the cost of such an asset. The cost model is used for any subsequent measuring of intangible assets.

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

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

The estimated useful life of individual intangible assets for the current and past year is 2–10 years. Depreciation 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 asset are recognised 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 recognised in the income statement as expenses as soon as they are incurred.

Goodwill is recognised as an asset and is tested at least once a year for impairment. Each impairment is immediately recognised in the consolidated income statement and is not subsequently derecognised. On the disposal of the subsidiary the relevant goodwill amount is included in the determination of profit or loss.

J. Property, Plant and Equipment

Tangible assets (property, plant and equipment) are carried at its cost less any accumulated depreciation and accumulated impairment losses, except for land and other assets that are not depreciated, which are recognised 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 recognised as part of the cost of each such asset. The cost model is used for any subsequent measuring of property, plant and equipment.

Depreciation is calculated on a straight-line basis over the estimated useful life of each individual part (component) of the tangible asset. Leased assets (in 2018) and right to use assets (in 2019) are depreciated over the estimated period of lease and useful life, depending on which is shorter. Land and unfinished construction is not depreciated. Depreciation is accounted when an asset becomes available for use.

The Estimated Useful Lives of Individual Property, Plant and Equipment Types for Current and Past Year

	Useful life
Real estate	10-60 years
Production equipment	5-25 years
Computer equipment	2-10 years
Motor vehicles	2-10 years
Other equipment	2-10 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 these assets are recognised in the carrying amount of each asset if it is probable that the future economic benefits embodied within this asset will flow to the Group, and the cost of the asset can be measured reliably. All other costs are recognised in the income statement as expenses as soon as they are incurred.

Carrying amount recognition of an item of property, plant and equipment is derecognised when disposed or when no future economic benefits are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. Disposal effects are recognised in other operating income or expenses.

Leases

Accounting Policy Being Used after 1 January 2019

Leases are determined in accordance with new IFRS 16 with effect from 1 January 2019. According to the new standard, the Group is using single model for majority of lease items in the Statement of Financial Position. Effect of the new standard is summarised in the section 'Basis of Preparation'.

i. Group as a Lessee

When signing a contract, the Group assesses whether the contract is or contains lease. The Group recognises a lease liability and the right-of-use asset if it deems that the leased asset is identified, and when it controls the use ot the asset. The Group depreciates the right-of-use assets, and attributes interests to the lease liabilities.

The Group follows exceptions allowed by the standard, namely for short-term leases with a lease term not exceeding 12 months and with no option to purchase, and for lower-valued leases, where the Group has taken into account new assets which do not individually exceed EUR 5 thousand. For these leases the Group recognises the lease payments as operating expenses on a straight-line basis, unless another systematic basis is more representative

Variable lease payments which do not depend on an index or a rate are not included in the measurement of lease liabilities and the right-of-use assets. The related payments are recognised in the period to which they relate as operating expense.

On the date of the commencement of the lease term, the lease liability is measured at present value of future leases and discounted at interest rate implicit in the lease. If this rate cannot be readily determined, , an incremental borrowing rate is used. The Group remeasures lease liability by discounting modified lease payments using modified discount rates if a lease term or assessment of the exercise of option to buy the leased asset had been changed. When doing so, the lessee determines the modified discount rate as an interest rate implicit in the lease for the remaining lease term.

On the date of the commencement of the lease term, an asset representing the right-of-use is measured at cost. Value of assets representing the right-of-use includes the value of initial measurement of lease liability, and lease payments paid on or before the commencement of the lease term decreased by lease incentives and increased by initial directly attributable costs. After the date of commencement of the lease term, an asset representing the right-of-use is measured at cost decreased by accumulated depreciation and amortization and accumulated impairment losses, and corrected by remeasured lease liability if an index or a rate has changed.

Right-of-use asset is depreciated from the date of the commencement of lease until the end of useful life or end of lease term, if it is shorter from useful life. If the lease transfers ownership of the asset or the value of asset representing the right-of-use reflects expectation that the Group will use the possibility to buy, the asset representing the right-of-use is depreciated from the date of the commencement of lease until the end of useful life of leased asset.

For determining whether the right-of-use asset is impaired and for other impairment related matters, the Group uses IAS 36.

ii. Group as a Lessor

The Group classifies each of its leases as operating or financila lease. A lease is classified as financial lease if it includes the transfer of substantially all significant risks and rewards incidental to ownership of the leased asset to the lesee. All other leases are classified as operating leases. The Group is only in a position of a lessor in operating leases.

Lease rental income from operating lease is recognised on a straight-line basis. Initial directly attributable costs incurred from acquisition of a lease are added to carrying amount of the leased asset. These costs are recognised as an expense during a lease term on the same basis as lease rental income.

Accounting Policy Being Used before 1 January 2019

i. Group as a Lessee

Finance lease: when assessing whether it is a finance lease, the Management follows a lease contract content assessment, i.e. whether substantially all risks and rewards incidental to ownership of the leased asset are transferred to the lessee. Following factors are taken into account: lease term with regard to useful life of an asset, present value of minimum lease payments with regard of fair value of an asset, and whether there is an ownership transfer to the lessee at the end of the lease. For leases of land and buildings, firstly the minimum lease payments for components based on relative fair values of appropriate shares of lease are attributed. Later, each component is estimated separately for possible classification as finance lease, taking into consideration that the usual economic lifetime of land is indefinite. Interest element of lease payments is disclosed in profit or loss as finance cost during the lease contract validity.

Operating lease: all other leases are classified as operating leases. Lease payments are recognised on a straight-line basis over the lease term.

ii. Group as a Lessor

Lease rental income from operating leases is recognised on a straight-line basis during the period of lease.

K. 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.

L. Financial Instruments

Financial instruments include non-derivative financial assets and non-derivative financial liabilities. Financial instruments are carried at fair value and at amortised cost. Fair value is a price that would be achieved by selling an asset or paid by transferring a liability in an orderly transaction between market participants at the date of measurement.

Non-Derivative Financial Assets

At initial recognition a financial asset is classified into one of the following groups: financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income, or cash and cash equivalents.

The Group recognises liabilities, borrowings and deposits when they are incurred. Other assets are initially recognised on the trade date on which the Group becomes a contracting party in a contract on the instrument. The financial asset is derecognised when the contractual rights of the cash flows from the financial asset expire, or when the rights of the contractual cash flows are transferred from a financial asset based on a business transaction in which all risks and benefits of ownership of the financial asset are transferred.

A more detailed explanation of the impairment of financial assets is disclosed in Note O.

i. Financial Assets at Fair Value through Other Comprehensive Income

Financial assets at fair value through other comprehensive income that have the nature of a debt instrument are the financial assets held by the Group that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. For debt instruments at fair value through other comprehensive income, interest income, foreign exchange differences and impairment losses or reversals are recognised in the statement of profit or loss and accounted for in the same manner as financial assets at amortised cost. The remaining fair value changes are recognised in the statement of other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is reclassified to profit or loss.

Financial assets at fair value through other comprehensive income that have the nature of an equity instrument are the financial assets that meet the definition of equity under IAS 32 “Financial Instruments” for which the Group elected to classify them irrevocably as equity instruments designated at fair value through other comprehensive income and which are not held for trading. The classification is determined on an instrument-by-instrument basis. Gains and losses on these financial assets are never reclassified to profit or loss.

Dividends are recognised as other revenue in the statement of profit or loss when the Company's right of payment has been established.

ii. Financial Assets at Amortised Cost

The Group's financial assets at amortised cost include financial assets held by the Group that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Group's financial assets at amortised cost include loans given, trade and other receivables. Depending on their maturity, they are classified as current (maturity of up to 12 months from the date of the statement of financial position) or non-current financial assets (maturity of more than 12 months from the date of the statement of financial position). Financial assets measured at amortised cost are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less any expected credit losses. Gains and losses are recognised in profit or loss when reversed, modified or impaired.

Trade receivables insurance is not considered as a specific financial instrument, but as an integral part of receivables. Insurance policies are concluded periodically and are related to specific receivables and/or business partners. The concluded insurance policy is flexible. Business partners can be included or excluded from the insurance during the duration of the insurance policy. Insurance policies are related to trade receivables insurance exclusively.

iii. Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, bank deposits up to three months, and other current and easily realisable investments with original maturity of three months or less. They are recognised at cost.

Non-Derivative Financial Liabilities

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

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

M. Assets (groups) Held for Sale

Assets or disposal groups which include assets and liabilities for which it can be expected that their value will be recovered through sale, and the sale is very probable, 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 a disposal group are recognised at their carrying amount or fair value less cost of sale, whichever is lower. Impairment losses on the reclassification of assets as assets held for disposal, and subsequent losses and gains on re-measurement, are recognised in profit or loss. Gains are not recognised 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.

Discontinued operation is a component of entity in the Group that either has been or will be disposed in accordance with coordinated plan to dispose. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of comprehensive income. Upon sale, the Group derecognizes an asset (group) for disposal and recognizes the effect of the disposal among other operating income or expenses less costs directly attributable to the sale.

N. Inventories

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

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

The net realisable value is estimated based on 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.

O. Impairment of Assets

Financial Assets

According to IFRS 9, the Group uses the expected credit loss model. According to this model, the Group recognises not only incurred losses, but also losses which are expected to be incurred in the future. The Group assesses indications of impairment of financial instruments. Impairment estimates are based on the expected credit losses associated with the probability of defaults of financial instrument over the next 12 months, if the credit risk has not increased significantly since initial recognition. For financial assets such as trade receivables that do not contain a significant component of financing, a simplified approach is used to calculate value adjustment as an amount equal to the expected credit losses over the life of the asset. The Group creates groups of receivables based on collateral, maturity of receivables and similar risk characteristics and repayments in previous years, corrected for the management's assessment of whether actual losses due to current economic and credit conditions may be greater or less than the losses foreseen in the past development.

In case the credit risk has increased significantly since initial recognition, but there are no objective indications for assets impairment, the impairment estimates are based on the probability of default over the life of the financial asset. Expected credit losses represent the difference between the contractual cash flows that are due and all the cash flows that the Group expects to receive. For financial assets that show objective signs of impairment at the reporting date, an allowance for impairment losses due to expected credit losses is made in its entirety.

The Group recognizes a write-off of a financial asset when it reasonably expects that the contractual cash flows will fail to recover. Objective evidence of the impairment of financial assets can include: default or delinquency by a debtor; restructuring of the amount owed to the Group, if the Group agrees; indications that the debtor will declare bankruptcy; and disappearance of the active market for such an instrument. The Group evaluates evidence of loan impairment on a loan-by-loan basis.

Financial assets measured at fair value through other comprehensive income include investments in equity securities or shares of other companies for which an irrevocable non-trading decision was made upon initial recognition. The fair value of quoted securities is measured at the stock exchange rate at the reporting date. Gains or losses on changes in fair value are recognized in other comprehensive income and are recognized directly in equity as the fair value reserve of financial instruments in net amount. The amounts presented in other comprehensive income may not be subsequently transferred to profit or loss. Accumulated profit or loss is transferred within equity.

Non-Financial Assets

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

The recoverable value of assets or cash-generating units (CGU) is their value in use or fair value, less cost to sell, whichever is 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. For the purpose of the impairment test, assets which cannot be tested individually are classified as the smallest possible group of assets that generate cash inflows from further use and which are largely independent of the inflow of other assets or groups of assets (CGU). Each subsidiary represents a CGU. When goodwill is allocated to a CGU it is tested for impairment each year and impairment loss is first allocated to goodwill the rest is allocated proportionalelly to other assets of the CGU on the basis of the carrying amounts of each asset in the CGU. When allocating an impairment loss to individual assets within a CGU, the carrying amount of an individual asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero.

CGU to witch no goodwill is allocated are tested only when there is indication of impairments, identified impairment loss (if any) is allocated to individual assets of the CGUs proportionately. The impairment of an asset or CGU is recognised if their carrying amount exceeds their recoverable value. The impairment is recognised 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 amortisation and depreciation write-off, if no impairment loss had been recognised for the asset in previous years.

Goodwill impairment loss is not reversed.

A goodwill that forms part of the investment in an associate is not recognised separately and therefore is not separately tested for impairment. Instead, the full amount of the investment in an associate is tested for impairment as a single asset when there is an evidence that an investment in an associate can be impaired.

P. 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 value achieved by selling the asset or paid by transferring the liability between two well-informed and willing parties in a regulated business transaction. The Group determines the fair value of financial instruments by taking into account the following fair value hierarchy:

- Level 1 comprises market prices in active markets for identical assets or liabilities;
- Level 2 comprises values other than market prices included within Level 1 that are observable either directly (prices for identical or similar assets or liabilities in markets that are less active or inactive) or indirectly (e.g. values derived from quoted prices in an active market, based on interest rates and yield curves, implied volatilities, and credit spreads);
- Level 3 comprises inputs for the asset or liability that are not based on observable market data. Unobservable inputs need to reflect the assumptions that market participants would use when determining a price for the asset or liability, including risk assumptions.

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

Intangible Assets

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

Property, Plant and Equipment

The fair value of property, plant and equipment is their market value. The market value of property is equal to the estimated value at which the property could be sold on the date of valuation and after proper marketing. The market value of equipment is based on the approach using quoted market price for similar items. If there is no quoted market price, the method of discounted cash flows which are expected to arise from use and possible disposal of the assets is used.

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.

Financial Assets at Fair Value through Profit or Loss and Financial Assets at Fair Value through Other Comprehensive Income

The fair value of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income is determined by reference to the above fair value hierarchy for financial instruments.

Receivables and Loans Issued

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

Inventories

The fair value of inventories is determined based on expected trade value in the ordinary course of business, less the estimated distribution costs.

Non-Derivative Financial Liabilities

For reporting purposes, the fair value is calculated based on the present value of future principal payments and interest discounted at the market interest rate at the end of the reporting period.

Q. Equity

Share Capital

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

Capital Surplus

Capital surplus consists of the amounts received by the controlling company or its subsidiaries from payments exceeding the lowest issue price per share that exceeds the carrying amount upon the disposal of previously-acquired own shares, the amounts based on simplified decrease of share capital, and the amounts based on reversal of general revaluation adjustment.

Reserves

Reserves include: legal reserves, reserves from profit, fair value reserves, actuarial gains and losses.

Treasury Shares

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

Dividends

Until approved at the General Meeting of Shareholders, the planned dividends are treated as retained earnings.

R. Provisions

Provisions are recognised if the Group, due to a past event, has a legal or constructive obligation which can be reliably measured, and if it is probabile that settling the obligation will require an outflow of resources enabling economic benefits.

S. Employee Benefits

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

The provisions are formed in the amount of estimated future payments for loyalty bonuses and severance pay, discounted at the end of the financial year. The calculation is made for 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 based on a projected unit by an actuary, who is selected at the Group level. The provisions are reviewed periodically or when the assumptions used to determine the amount of provision change significantly.

T. Deferred Incomes

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

State and other subsidies received for covering of expenses are consistently recognised as revenues in periods in which the respective expenses, which the subsidies should cover, are incurred.

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

U. Cash Flow Statement

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

V. Segment Reporting (Note 29)

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

The Group does not have major customers on which they rely as the portfolio of customers is very wide and dispersed.

The Group have identified the following reportable segments in the preparation and presentation of the consolidated financial statements:

- Steel Division: the Group's activity that consists form production of steel plates and strips of different dimensions and grades from stainless, structural, electrical and special steels, and production of steel profiles from alloyed, non-alloyed, special, tool and structural steels.

- Steel Processing and Distribution Division is a division, representing a downstream vertical integration of the Group. It allows the Group to have direct contact with end-customers, provide them with fast delivery of steels of required dimensions and quality, as well as with other services and after-sales support.
- Scrap Division: collection, processing and sorting scrap metal, and its preparation for transportation and basic processing by the Steel Division.
- Manufacturing Division: production of finished and semi-finished products from steel, exploiting the synergy with Steel Division production processes.
- Headquarters and Other Services: business, financial and other consulting for companies the Group, as well as various concessionary services and social assistance services linked to the employment of disabled persons.
- Poultry Division – discontinued operations: poultry rearing, feed production, poultry meat and products.

Each subsidiary reports for the purposes of resource allocation and assessment of its performance to the board of directors that holds weekly management meetings. Operating segments have been aggregated to a single reportable segment taking into account the following factors: these operating segments have similar nature of the products and production processes and the methods used to distribute the products to the customers are also similar.

Details description of reporting segments please see also in chapter Organisation of the companies of the SIJ Group.

NOTES TO INDIVIDUAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1. REVENUE

in EUR thousand	2019	2018
In Slovenia	118,443	123,483
In other countries:	648,908	669,794
- Germany	*182,593*	*180,821*
- Italy	*142,210*	*154,371*
- USA	*62,369*	*69,804*
- Croatia	*10,261*	*11,440*
- Austria	*21,758*	*21,628*
- other countries	*229,717*	*231,730*
Revenue	767,351	793,277

Revenue by Products and Segments for 2019

in EUR thousand	Steel Division	Distribution & Processing Division	Scrap Division	Manufacturing Division	Poultry Division (discontinued operations)	Total segments	Headquarters and Other Services	Total	Elimination of discontinued operations	Revenue
Quarto plates	292,204	46,518	0	0	0	338,722	0	338,722	0	338,722
Cold Rolled Strip and Sheets	69,432	2,441	0	0	0	71,873	0	71,873	0	71,873
Hot Rolled Strip and Sheets	9,489	3,728	0	0	0	13,217	0	13,217	0	13,217
Forged, rolled and other products	125,459	56,767	0	7,587	0	189,813	0	189,813	0	189,813
Industrial knives	0	2,845	0	16,206	0	19,051	0	19,051	0	19,051
Industrial rolls	0	0	0	10,782	0	10,782	0	10,782	0	10,782
Welding wires and electrodes	0	0	0	14,901	0	14,901	0	14,901	0	14,901
Steel scrap	0	776	68,807	45	0	69,628	0	69,628	(18,119)	51,509
Services and other revenues	5,437	38,399	200	11,654	41,459	97,149	1,804	98,953	(41,470)	57,483
Revenue	502,021	151,474	69,007	61,175	41,459	825,136	1,804	826,940	(59,589)	767,351

Revenue by Products and Segments for 2018

in EUR thousand	Steel Division	Distribution & Processing Division	Scrap Division	Manufacturing Division	Poultry Division (discontinued operations)	Total segments	Headquarters and Other Services	Total	Elimination of discontinued operations	Revenue
Quarto plates	283,730	57,613	0	0	0	341,343	0	341,343	0	341,343
Cold Rolled Strip and Sheets	73,838	2,617	0	0	0	76,455	0	76,455	0	76,455
Hot Rolled Strip and Sheets	11,537	4,191	0	0	0	15,728	0	15,728	0	15,728
Forged, rolled and other products	127,006	60,229	0	8,511	0	195,746	0	195,746	0	195,746
Industrial knives	0	2,280	0	15,664	0	17,944	0	17,944	0	17,944
Industrial rolls	0	0	0	7,937	0	7,937	0	7,937	0	7,937
Welding wires and electrodes	0	0	0	15,981	0	15,981	0	15,981	0	15,981
Steel scrap	0	1,001	70,892	30	0	71,923	0	71,923	(9,473)	62,450
Services and other revenues	6,817	38,110	99	13,007	269,985	328,018	1,676	329,694	(270,001)	59,693
Revenue	502,928	166,041	70,991	61,130	269,985	1,071,075	1,676	1,072,751	(279,474)	793,277

2. OPERATING EXPENSES

in EUR thousand	2019	2018
Cost of goods, materials and services	578,429	614,236
Labour costs	124,326	124,940
- wages and salaries	*90,573*	*93,606*
- social security costs	*17,056*	*16,726*
- other labour costs	*16,697*	*14,608*
Depreciation and amortisation costs	49,780	48,333
Other costs	9,439	8,567
Changes in the value of inventories	401	(15,347)
Operating expenses	762,375	780,729

Review of Costs by Type in 2019

in EUR thousand	Cost of sales	Distribution costs	General and administrative expenses	Total
Cost of goods, materials and services	528,569	28,699	21,161	578,429
Labour costs	65,320	5,832	53,174	124,326
Depreciation and amortisation costs	42,000	384	7,396	49,780
Other costs	3,829	88	5,522	9,439
Changes in the value of inventories	401	0	0	401
Discontinued operations	41,898	10,289	2,389	54,576
Operating expenses	682,017	45,292	89,643	816,951
Elimination of discontinued operations	(41,898)	(10,289)	(2,389)	(54,576)
Operating expenses	640,119	35,003	87,253	762,375

Review of Costs by Type in 2018

in EUR thousand	Cost of sales	Distribution costs	General and administrative expenses	Total
Cost of goods, materials and services	547,513	37,718	29,005	614,236
Labour costs	65,945	6,330	52,665	124,940
Depreciation and amortisation costs	41,388	396	6,549	48,333
Other costs	4,198	75	4,294	8,567
Changes in the value of inventories	(15,347)	0	0	(15,347)
Discontinued operations	191,815	46,744	17,310	255,869
Operating expenses	835,512	91,263	109,823	1,036,598
Elimination of discontinued operations	(191,815)	(46,744)	(17,310)	(255,869)
Operating expenses	643,697	44,519	92,513	780,729

In 2018, the costs of annual reports auditing amounted to EUR 305 thousand. The cost for other authorised services amounted to EUR 34 thousand.

Average Number of Employees by Level of Education

	2019	2018
Primary school	596	582
2.5-year vocational school	372	382
Secondary vocational school	1,095	1,081
Secondary general school	989	1,002
1st cycle degree – Bachelor's degree	445	423
2nd cycle degree – Master's degree	302	300
3rd cycle degree – Doctoral degree	60	55
Total	3,859	3,825

3. OTHER OPERATING INCOME

in EUR thousand	2019	2018
Reversal of allowances for inventories (Note 16)	1,311	0
Revenues from received subsidies (Note 24)	2,433	1,970
Received compensations	1,524	3,019
Profit from sale of property, plant and equipment	1,084	0
Reveresal of provisions for arbitral procedure (Note 23)	311	0
Other income	673	1,358
Other operating income	7,336	6,347

4. OTHER OPERATING EXPENSES

in EUR thousand	2019	2018 Restated
Impairment of goodwill (Note 8)	0	9,436
Expenses for donations and sponsorships	718	471
Impairment of inventories (Note 16)	593	6,723
Impairments of intangible assets and property, plant and equipment (Notes 8 and 9)	15,122	1,536
Loss from sale of property, plant and equipment	0	335
Creation of provisions for arbitral procedure (Note 23)	0	3,115
Other expenses	1,245	1,626
Other operating expenses	17,678	23,242

A more detailed explanation of the error correction is disclosed in Notes 8, 9 and 29.

EBITDA Calculation

in EUR thousand	2019	2018 Restated
Operating loss	(5,154)	(3,891)
Amortisation and depreciation	49,780	48,333
Impairment (gains/losses) of trade receivables	(212)	(456)
Impairment of goodwill	0	9,436
Impairments of intangible assets and property, plant and equipment	15,122	1,536
Impairment of inventories	593	6,723
Reversal of allowances for inventories	(1,311)	0
EBITDA	58,818	61,681

5. FINANCE INCOME

in EUR thousand	2019	2018
Interest income	2,945	1,588
Exchange rate differences	145	189
Other income	5	84
Finance income	3,095	1,861

6. FINANCE EXPENSES

in EUR thousand	2019	2018
Interest expenses	12,352	15,217
Exchange rate differences	176	82
Other expenses	2,448	2,342
Finance expenses	14,976	17,641

7. INCOME TAXES

in EUR thousand	2019	2018
Current income tax expense	(1,179)	(1,036)
Deferred income tax	(5,805)	6,978
Income tax (expense)/income	(6,984)	5,942

in EUR thousand	2019	2018 Restated
Loss before tax	(17,004)	(19,572)
Tax at effective tax rate 19%	(3,231)	(3,719)
Tax effects from:		
- non-taxable income	*(146)*	*(92)*
- tax non-deductible expenses	*939*	*1,980*
- tax relief	*(998)*	*(3,517)*
- tax losses for which no deferred tax assets were recognised	*3,021*	*(727)*
- tax losses for which deferred tax assets were derecognised	*7,109*	*0*
- change in tax rates	*290*	*133*
Taxes	6,984	(5,942)
Effective tax rate	0%	0%

The tax relief of the Group comprises tax relief realised from the charging of corporate tax, and unused tax reliefs for which deferred tax assets were recorded. The companies of the Group can realise unused tax relief in the following years in accordance with the legislation of the state where they operate.

8. INTANGIBLE ASSETS

Movement of Intangible Assets in 2019

in EUR thousand	Software	Goodwill	Assets under construction	Total
Cost as at 31 Dec. 2018	24,636	20,599	1,111	46,346
New additions	0	0	1,327	1,327
Transfer from assets under construction	1,294	0	(1,294)	0
Disposals	(15)	0	0	(15)
Transfer from property, plant and equipment	0	0	89	89
Translation differences	(1)	0	0	(1)
Transfer to assets (groups) held for sale	0	(1,003)	0	(1,003)
Cost as at 31 Dec. 2019	25,914	19,596	1,233	46,743
Accumulated amortisation as at 31 Dec. 2018	(10,106)	(11,749)	0	(21,855)
Amortisation	(2,489)	0	0	(2,489)
Disposal	15	0	0	15
Translation differences	(20)	0	0	(20)
Impairment	(447)	0	0	(447)
Accumulated amortisation as at 31 Dec. 2019	(13,047)	(11,749)	0	(24,796)
Carrying amount as at 31 Dec. 2018	14,530	8,850	1,111	24,491
Carrying amount as at 31 Dec. 2019	12,867	7,847	1,233	21,947

On 31 December 2019, the Group's unsettled liabilities to suppliers for the purchase of intangible assets amounted to EUR 154 thousand (2018: EUR 234 thousand). In 2019, already known contractual obligations amounted to EUR 1,201 thousand (2018: EUR 15 thousand). As at 31 December 2019, any items of intangible assets are pledged as security for liabilities.

Impairment Test for Goodwill

in EUR thousand	31 Dec. 2019	31 Dec. 2018 Restated
ODPAD d.o.o. Pivka	1,397	1,397
RAVNE STEEL CENTER d.o.o.	758	758
DANKOR, d.o.o.	154	154
NIRO Wenden GmbH	0	0
SIDERTOCE S. p. A.	0	0
GRIFFON & ROMANO S.P.A.	0	0
METAL-EKO SISTEM DOO	0	1,003
ORO MET d.o.o.	5,538	5,538
Carrying amount of goodwill	7,847	8,850

The Group received for 2018 a qualified opinion stating that there were signs of impairment for certain cash-generating units (hereinafter referred to as CGU) to which goodwill accrued from past business combinations is attributed, as actual operating results were below the originally planned. The Group's management prepared (without involvement of an external certified appraiser) an estimate of the recoverable amount of individual CGUs and recognized impairment loss of EUR 2,819 thousand. For subsidiary Sidertoce in the amount of EUR 1,054 thousand and subsidiary Griffon & Romano in the amount of EUR 1,765 thousand.

Therefore, the estimated recoverable amount of investments in subsidiaries for 2019 was made by an external appraiser certified by Slovenian Institute of Auditors. Since the appraiser used other sources for calculation of weighted average cost of capital (WACC) for valuation as those used in 2018, the Group reviewed also the estimations for 2018. Despite using the same projections and rates of residual cash flows, some value assessments for 2018 were different. The determined additional impairments were restated for 2018 to ensure the comparability of information. A more detailed explanation of the error correction effect is disclosed in Note 31 as well as below.

Goodwill was tested for impairment on December 31, 2019. Recoverable amounts represent the estimate of fair values less costs of sale determined using the present value method of estimated free cash flows. When determining the recoverable amount, the method of present value of the estimated free cash flows is applied. This method attempts to project, based on the analysis of past operations and the estimate of future business possibilities, the future returns of owners in cash, which are subsequently translated to the carrying amount by using the correspondent discount rate. The so-calculated value based on the free cash flows represents the return requested by the risk embedded in the investment. This is theoretically and practically the most appropriate and useful method to valuate a company, as it concentrates on what is the most important to investors, i.e. return in the form of cash flow.

Projections for all CGUs were prepared from the perspective of the majority owner. According to the subject of the valuation, a five percent marketability discount (including sales costs) is taken into account. The discount rate used is defined as the weighted average cost of total capital (WACC) and reflects current market assessments of the time value of money and the risks specific to the valuated asset. The projections took into account all the facts known up to the drawing up the annual report. Possible adjustments to the carrying amounts of assets due to the rapid spread of the coronavirus have not yet been assessed and considered in the projections, as management cannot reliably assess the impact at this stage and possible consequences are non-adjusting post balance sheet event.

As a control method the method of comparable companies listed on stock exchange was applied. Due to a limited number of comparable companies listed on stock exchange and since there are not many comparable companies engaged in a similar business and with the same characteristics, this method was used only as a control method for the results, obtained with the method of present value of the estimated free cash flows.

Based on the corrected recoverable amount estimate, the management identified the need for additional impairment of goodwill in 2018 and restated peviously reported amounts accordingly, namely: Sidertoce in the amount of EUR 2,503 thousand, NIRO Wenden in the amount of EUR 872 thousand and Griffon & Romano in the amount of EUR 3,242 thousand. No need for impairment was identified in 2019. In 2019, goodwill of Metal-Eko Sistemi in the amount of EUR 1,003 thousand was transferred to assets (groups) for disposal.

Review of the Determination of the Recoverable Amount of CGUs to which Goodwill is Allocated for 2019

	Material assumptions used							Sensitivity analysis					
Goodwill	Valuation date	Projection of operations	Financial year	Discount rate (WACC)	Long-term growth rate	Target EBITDA margin	Revenue growth	Recoverable amount (in EUR thousand)	Upper bound of the range (in EUR thousand)	Change in discount rate (WACC) +/–0,5% (in EUR thousand)	Change in long-term growth rate +/–0,5% (in EUR thousand)	Impairment loss (in EUR thousand)	Goodwill after impairment test (in EUR thousand)
ODPAD (Scrap Division)	31 Dec. 2019	2020–2025	2019	9.39%	2.0%	3.0% – achieved in the last few years	in the first year –6.8%, following with 2% per year	5,308	5,612	+595/–535	+32/–32	0	1,397
SIJ RAVNE STEEL CENTER (Steel Processing and Distribution Division)	31 Dec. 2019	2020–2025	2019	9.85%	1.7%	10.6% – achieved in the last few years	in the first year –1,7%, following with 2.2%, 2.2%, 1.1%, 1.7%, and 1.7%	24,178	24,688	+940/–849	+125/–124	0	758
DANKOR (Scrap Division)	31 Dec. 2019	2020–2025	2019	9.38%	1.5%	9.2% – achieved in the last few years	in the first year –4.1%, following with 1.9% per year	924	964	+80/–72	+4/–4	0	154
ORO MET (Steel Processing and Distribution Division)	31 Dec. 2019	2020–2025	2019	9.10%	1.0%	12% – achieved in the last few years	in the first year 4.3%, following with 10.7%, following with 7.5%, 5%, and 1.5%	7,870	8,146	+525/–469	+28/–28	0	5,538

Review of the Determination of the Recoverable Amount of CGUs to which Goodwill is Allocated for 2018

Goodwill	Material assumptions used							Sensitivity analysis					
	Valuation date	Projection of operations	Financial year	Discount rate (WACC)	Long-term growth rate	Target EBITDA margin	Revenue growth	Recoverable amount (in EUR thousand)	Upper bound of the range (in EUR thousand)	Change in discount rate (WACC) +/–0,5% (in EUR thousand)	Change in long-term growth rate +/–0,5% (in EUR thousand)	Impairment loss (in EUR thousand)	Goodwill after impairment test (in EUR thousand)
ODPAD (Scrap Division)	31 Dec. 2018	2019-2023	2018	8.92%	1.5%	2.8% – achieved in the last few years	in the first year 10%, following with 6%, and then following with 2% per year	8,168	8,905	+1,329/–1,163	+425/–371	0	1,397
SIJ RAVNE STEEL CENTER (Steel Processing and Distribution Division)	31 Dec. 2018	2019–2023	2018	8.85%	1.7%	14,3% – higher than the rate achieved in the last few years; comparable with companies with similar activities in Europe	in the first year 6%, following with 4% per year	14,920	16,219	+1,988/–1,726	+543/–474	0	758
DANKOR (Scrap Division)	31 Dec. 2018	2019–2023	2018	9.04%	1.5%	12.5% – lower than achieved in the previous year	in the first year 8%, following with 2% per year	2,570	2,710	+219/–191	+160/–140	0	154
NIRO Wenden (Steel Processing and Distribution Division)	31 Dec. 2018	2019–2023	2018	7.76%	1.5%	5.2% – higher than the rate achieved in the last few years; comparable with companies with similar activities in Europe	in the first year 10%, following with 8%, 6%, 6% and 4%	1,594	1,758	+375/–352	+204/–191	0	872
NIRO Wenden (Steel Processing and Distribution Division)		2019–2023	2018 Restated	7.74%	1.5%	5.2% – higher than the rate achieved in the last few years; comparable with companies with similar activities in Europe	in the first year 10%, following with 8%, 6%, 6% and 4%	0	/	/	/	872	0
SIDERTOCE (Steel Processing and Distribution Division)	31 Dec. 2018	2019–2023	2018	9.19%	1.5%	11.9% – higher than the rate achieved in the last few years; comparable with companies with similar activities in Europe	in the first year 4%, following with 2% per year	7,370	7,815	+792/–695	+163/–143	1,054	2,503

Continuation of the table →

Continuation of the table

Goodwill	Material assumptions used							Sensitivity analysis					
	Valuation date	Projection of operations	Financial year	Discount rate (WACC)	Long-term growth rate	Target EBITDA margin	Revenue growth	Recoverable amount (in EUR thousand)	Upper bound of the range (in EUR thousand)	Change in discount rate (WACC) +/–0,5% (in EUR thousand)	Change in long-term growth rate +/–0,5% (in EUR thousand)	Impairment loss (in EUR thousand)	Goodwill after impairment test (in EUR thousand)
SIDERTOCE (Steel Processing and Distribution Division)		2019–2023	2018 Restated	9.44%	1.5%	11.9% – higher than the rate achieved in the last few years; comparable with companies with similar activities in Europe	in the first year 4%, following with 2% per year	6,999	7,418	+739/–652	+138/–122	2,503	0
GRIFFON & ROMANO (Steel Processing and Distribution Division)	31 Dec. 2018	2019–2023	2018	9.02%	1.5%	6.7% – higher than the rate achieved in the last few years; comparable with companies with similar activities in Europe	in the first year 23%, following with 10%, 8%, 6% and 4%	3,665	4,017	+1,218/–1,070	+143/–133	1,765	3,242
GRIFFON & ROMANO (Steel Processing and Distribution Division)		2019–2023	2018 Restated	9.44%	1.5%	6.7% – higher than the rate achieved in the last few years; comparable with companies with similar activities in Europe	in the first year 23%, following with 10%, 8%, 6% and 4%	0	/	/	/	3,242	0
METAL-EKO SISTEM (Scrap Division)	31 Dec. 2018	2019–2023	2018	9.24%	1.5%	4% – higher than the rate achieved in the last few years; comparable with companies with similar activities in Europe	in the first year –11.8%, following with 2%, and then following with 4% per year	1,900	2,011	+187/–165	+118/–104	0	1,003
ORO MET (Steel Processing and Distribution Division)	31 Dec. 2018	2019–2023	2018	8.92%	1.5%	15.7% – achieved in the last few years	in the first year 14%, following with 12%, and then following with 10% per year	13,659	14,496	+1,190/–1,038	+627/–548	0	5,538

Impairment Test for Software

The Group received for 2018 a qualified opinion stating that there were signs of impairment for certain CGU as actual operating results were below the originally planned.

On the basis of the performance valuation of individual CGUs, in 2019 the Group verified the signs of impairment and proceeded to a value assessment where such signs existed. Impairment identifired on CGUs are allocated to assets of the CGUs if there is no goodwill to be impaired, allocation to the individual assets is done proportionally to the carrying value of the individual assets in the CGUs. The recoverable amount estimates of CGUs were made by an appraiser certified by Slovenian Institute of Auditors. The projections and estimates were prepared from the perspective of the majority owner. The projections and estimates took into account all the facts known up to the time of drawing up the annual report. Possible adjustments to the carrying amounts of assets due to the rapid spread of the coronavirus have not yet been assessed and considered in the projections, as management cannot reliably assess the impact at this stage and possible consequences are non-adjusting post balance sheet event.

In determining the recoverable amount of a CGU the present value method of estimated free cash flows was used, which attempts to predict future returns of owners in the form of cash, based on an analysis of past operations and future business prospects, and at an appropriate discount rate translated to the present value. The calculated value of Group's CGUs based on free cash flows represents the return required for the risks posed by those CGUs. It is theoretically and also practically the most applicable method of estimating the value of CGUs, since it focuses on what is most crucial for investors, namely cash flow return. The projections were prepared from the perspective of the majority owner of the company (CGU). The projections took into account all the facts known up to drawing up the annual report. The discount rate used is defined as the weighted average cost of total capital (WACC) and reflects current market assessments of the time value of money and the risks specific to the CGU (subsidiary) being valued. As a control method the method of comparable companies listed on stock exchange was applied. Due to a limited number of comparable companies listed on stock exchange and since there are not many comparable companies engaged in a similar business and with the same characteristics, this method was used only as a control method for the results, obtained with the method of the present value of the estimated free cash flows.

The most frequent assumptions used are: a discount rate (WACC) of 9.24 percent, a long-term growth rate rate of 1.1 percent, a target EBITDA margin of 12.7 percent, comparable to previous years, and growth net revenues, falling 4.6 percent in the first year, followed by a gradual increase of 1.1 percent to 4.4 percent.

The impairment loss identified at the tested CGUs have been allocated to the individual assets of the CGUs (Intangible Assets – specifically software and Property, Plant and Equipment) based on their carrying amounts. As at 31 December 2019 the amount of the impairment loss on the CGU allocated to software amounted was EUR 474 thousand. It was identified that part of that impairment loss should have been recognized already in 2018, as such EUR 27 thousand was recognized as a correction of previous year error and the remaining amount of EUR 447 thousand was recognized as impairment loss in 2019.

Movement of Intangible Assets in 2018 – Restated

in EUR thousand	Software	Goodwill	Assets under construction	Total
Cost as at 31 Dec. 2017	22,555	20,599	1,779	44,933
New additions	0	0	1,412	1,412
Transfer from assets under construction	2,080	0	(2,080)	0
Translation differences	1	0	0	1
Cost as at 31 Dec. 2018	24,636	20,599	1,111	46,346
Accumulated amortisation as at 31 Dec. 2017	(7,551)	(2,313)	0	(9,864)
Amortisation	(2,527)	0	0	(2,527)
Translation differences	(1)	0	0	(1)
Impairment	(27)	(9,436)	0	(9,463)
Accumulated amortisation as at 31 Dec. 2018	(10,106)	(11,749)	0	(21,855)
Carrying amount as at 31 Dec. 2017	15,004	18,286	1,779	35,069
Carrying amount as at 31 Dec. 2018	14,530	8,850	1,111	24,491

9. PROPERTY, PLANT AND EQUIPMENT

Movement of Property, Plant and Equipment in 2019

in EUR thousand	Land	Buildings	Equipment	Other	Assets under construction	Total
Cost as at 31 Dec. 2018	35,365	292,991	907,155	45,743	8,127	1,289,381
Effect of applying IFRS 16	76	511	246	533	0	1,365
Cost as at 1 Jan. 2019	35,442	293,502	907,401	46,274	8,127	1,290,745
New additions	0	0	0	0	32,303	32,303
Transfer from assets under construction	0	3,168	27,088	3,525	(33,782)	0
Disposals	(928)	(680)	(18,100)	(1,580)	0	(21,288)
Translation differences	7	(2)	16	2	0	23
Transfer to intangible assets	0	0	0	0	(89)	(89)
Transfer to assets (groups) held for disposal	(1,132)	(96)	(1,445)	(93)	0	(2,765)
Cost as at 31 Dec. 2019	33,390	295,892	914,960	48,129	6,559	1,298,930
Accumulated depreciation as at 31 Dec. 2018	(163)	(190,806)	(622,409)	(36,956)	0	(850,335)
Amortisation and depreciation	(14)	(5,061)	(39,195)	(3,135)	0	(47,405)
Disposals	0	649	17,706	1,444	0	19,798
Translation differences	0	1	(6)	(1)	0	(6)
Transfer to assets (groups) held for disposal	7	10	794	77	0	888
Impairment	(417)	(3,789)	(10,126)	(344)	0	(14,676)
Accumulated depreciation as at 31 Dec. 2019	(587)	(198,997)	(653,236)	(38,916)	0	(891,736)
Carrying amount as at 31 Dec. 2018	35,203	102,185	284,745	8,785	8,127	439,045
Carrying amount as at 31 Dec. 2019	32,803	96,895	261,724	9,213	6,559	407,194

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

- additional investments in the metal sheet grinding machine in the steel plant;
- engine repair in a hot rolling mill;
- ongoing overhauls;
- purchase of additional vehicles for the purposes of internal road transport;
- renovation of the blacksmith machine and welding manipulator;
- pallets for transporting material between divisions;
- ongoing updates and overhauls of existing production capacity components.

Disposals of property, plant and equipment mainly relate to the sale and write-off of equipment due to the renovation of basic production units and to the write-off of obsolete equipment. Property, plant, equipment, whose present value as at December 31, 2019 is EUR 6,460 thousand (2018: EUR 6,236 thousand), are pledged as security for liabilities. As at 31 December 2019, the Group has EUR 2,988 thousand (2018: EUR 8,352 thousand) of outstanding liabilities to purchase property, plant and equipment and EUR 13,100 thousand (2018: EUR 5,105 thousand) of contractual commitments for purchase known in advance.

The Group received for 2018 a qualified opinion stating that there were signs of impairment for certain cash-generating units (hereinafter referred to as CGU) as actual operating results were below the originally planned. The Group's management prepared an estimate of the recoverable amount of individual CGUs and concluded that no impairment was required.

On the basis of the performance valuation of individual CGUs, in 2019 the Group verified the signs of impairment and proceeded to a value assessment where such signs existed. The recoverable amount estimates of CGUs were made by an appraiser certified by Slovenian Institute of Auditors. The projections and estimates were prepared from the perspective of the majority owner. The projections and estimates took into account all the facts known up to the time of drawing up the annual report.

Possible adjustments to the carrying amounts of assets due to the rapid spread of the coronavirus have not yet been assessed and considered in the projections, as management cannot reliably assess the impact at this stage and possible consequences are non-adjusting post balance sheet event.

In determining the recoverable amount of a CGU the present value method of estimated free cash flows was used, which attempts to predict future returns of owners in the form of cash, based on an analysis of past operations and future business prospects, and at an appropriate discount rate translated to the present value. The calculated value of Group's CGUs based on free cash flows represents the return required for the risks posed by those

CGUs. It is theoretically and also practically the most applicable method of estimating the value of CGUs, since it focuses on what is most crucial for investors, namely cash flow return. The projections were prepared from the perspective of the majority owner of the company (CGU). The projections took into account all the facts known up to drawing up the annual report. The discount rate used is defined as the weighted average cost of total capital (WACC) and reflects current market assessments of the time value of money and the risks specific to the CGU (subsidiary) being valued. As a control method the method of comparable companies listed on stock exchange was applied. Due to a limited number of comparable companies listed on stock exchange and since there are not many comparable companies engaged in a similar business and with the same characteristics, this method was used only as a control method for the results, obtained with the method of the present value of the estimated free cash flows.

The most frequent assumptions used are: a discount rate (WACC) of 9.24 percent, a long-term growth rate rate of 1.1 percent, a target EBITDA margin of 12.7 percent, comparable to previous years, and growth net revenues, falling 4.6 percent in the first year, followed by a gradual increase of 1.1 percent to 4.4 percent. The subsidiaries represent a cash-generating unit because cash flows cannot be identified for individual processes or assets. The assets in question are at the location where they are used and on the valuation day they are in working order and regularly serviced.

The impairment loss identified at the tested CGUs were allocated to individual assets within each CGU based on the carrying amount of an individual asset. For some assets fair value less costs of disposal (FVLCD) was measurable, in those cases the value of the assets was not reduced below FVLCD.

The following table indicates for which assets the FVLCD were measurable.

in EUR thousand	Base for FVLCD amount	Impairments in 2019	Impairment in 2018
Land and buildings	Income capitalizaction method	209	220
Equipment and other assets	Cost method	731	1,289
Land, building, equipment and other assets	FVLDC not measurable	13,736	0
Total		14,676	1,509

The valuation of land and buildings, namely industrial plants and production halls, has been determined using the method of capitalization of leases (Income cpitalization method). The use of the above method is dictated, in particular, by the fact that companies are less likely to buy comparable properties as they prefer to lease them. The data on the basis of which potential market leases and stabilized revenues have been estimated are obtained by analyzing the supply of rental business for the rental of comparable premises. The estimate used a capitalization rate of 6.25 to 8.81 percent for industrial plants and production halls, lease for industrial premises of EUR 2.5 to EUR 5.5 per square meter per month, lease for office space of EUR 5.2 to EUR 7.2 per square meter per month and a long-term real growth rate of zero percent. The industrial plants and production halls are located in Jesenice, Ravne na Koroškem, Italy and Germany. They are functional, serve their purpose, and the premises are predominantly intended for production and storage activities.

The impairment loss identified at the tested CGUs have been allocated to the individual assets of the CGUs based on their carrying amounts. As at 31 December 2019 the amount of the impairment loss on the CGU allocated to land and buildings amounted was EUR 429 thousand. It was identified that part of that impairment loss should have been recognized already in 2018, as such EUR 220 thousand was recognized as a correction of previous year error and the remaining amount of EUR 209 thousand was recognized as impairment loss in 2019.

The cost method was used to estimate the market value of the equipment and other assets. The use of this method is appropriate because it is based on the application of the economic principle that the buyer will not pay more for the asset than the price for acquiring the asset of equal utility with purchase, construction or manufacture. The equipment consists of machines and equipment for the production of welding additives, as well as machines for metal cuttinng and processing. On the valuation day, they are in working order, well maintained, regularly serviced and located in the CGU area used. The valuation took into account the physical, functional and economic wear and tear and the cost of sales of three percent, which also included the cost of dismantling and canning.

The impairment loss identified at the tested CGUs have been allocated to the individual assets of the CGUs based on their carrying amounts. As at 31 December 2019 the amount of the impairment loss on the CGU allocated to equipment and other assets amounted was EUR 1,939 thousand. It was identified that part of that impairment loss should have been recognized already in 2018, as such EUR 1,209 thousand was recognized as a correction of previous year error and the remaining amount of EUR 731 thousand was recognized as impairment loss in 2019.

The upper limit of the recoverable amount of non-current assets in the amount of EUR 96,493 thousand was compared with the carrying amount of land, building, equipment and other assets of EUR 110,229 thousand. Due to the finding that the estimated recoverable amount of assets is lower than their carrying amount, the Group impaired them in 2019 by EUR 13,736 thousand.

Movement of Property, Plant and Equipment in 2018 – Restated

in EUR thousand	Land	Buildings	Equipment	Other	Assets under construction	Total
Cost as at 31 Dec. 2017	34,038	290,495	896,085	44,432	9,721	1,274,771
Acquisition of business	0	239	1,710	89	0	2,038
New additions	0	0	0	0	32,704	32,704
Transfer from assets under construction	1,571	4,432	25,617	2,424	(34,044)	0
Disposals	(178)	(2,572)	(16,262)	(1,207)	(254)	(20,472)
Translation differences	5	2	5	5	0	17
Transfer from investment property	93	395	0	0	0	488
Other changes in purchase value	(164)	0	0	0	0	(164)
Cost as at 31 Dec. 2018	35,365	292,991	907,155	45,743	8,127	1,289,381
Accumulated depreciation as at 31 Dec. 2017	0	(188,043)	(599,002)	(35,218)	0	(822,263)
Depreciation	0	(4,880)	(38,210)	(2,841)	0	(45,931)
Disposals	0	2,572	16,086	1,113	0	19,771
Translation differences	0	(1)	(3)	(4)	0	(8)
Transfer from investment property	0	(395)	0	0	0	(395)
Impairment	(163)	(57)	(1,282)	(7)	0	(1,509)
Accumulated depreciation as at 31 Dec. 2018	(163)	(190,806)	(622,409)	(36,956)	0	(850,335)
Carrying amount as at 31 Dec. 2017	34,038	102,452	297,083	9,214	9,721	452,508
Carrying amount as at 31 Dec. 2018	35,203	102,185	284,745	8,785	8,127	439,045

The right-of-use asset is not stated as a separate item in the statement of financial position. It is included in property, plant and equipment. Movement of the right-of-use assets is disclosed in the table below.

Movement of the Right-Of-Use Assets in 2019

in EUR thousand	Land	Buildings	Equipment	Other	Total
Cost as at 31 Dec. 2018	0	523	6,321	1,386	8,230
Effect of applying IFRS 16	76	511	246	533	1,365
Cost as at 1 Jan. 2019	76	1,034	6,567	1,919	9,596
New additions	0	335	2,092	1,104	3,530
Reversal of the right-of-use assets	0	0	(530)	(123)	(653)
Translation differences	0	(1)	0	0	(1)
Transfer to assets (groups) held for disposal	(41)	(34)	0	0	(75)
Cost as at 31 Dec. 2019	35	1,334	8,129	2,899	12,397
Accumulated depreciation as at 31 Dec. 2018	0	(151)	(2,063)	(477)	(2,691)
Depreciation	(13)	(197)	(760)	(547)	(1,518)
Reversal of the right-of-use assets	0	0	493	50	543
Transfer to assets (groups) held for disposal	7	5	0	0	12
Impairment	0	0	(113)	0	(113)
Accumulated depreciation as at 31 Dec. 2019	(7)	(343)	(2,442)	(973)	(3,766)
Carrying amount as at 31 Dec. 2018	0	372	4,258	910	5,540
Carrying amount as at 31 Dec. 2019	28	991	5,687	1,926	8,632

On 31 December 2019, the Group leases assets which include buildings, equipment and cars. In 2019, the interest expenses for lease liabilities amounted to EUR 155 thousand.

Analysis of the maturity of lease liabilities and the lowest sum of future lease payments are described in Notes 24 and 25. The Group follows exceptions allowed by the standard, namely for short-term and for leases of low-value assetss. In 2019, the total expenses related toof these leases amounted to EUR 680 thousand.

10. INVESTMENTS IN ASSOCIATES

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Razvojni center Jesenice, Cesta Franceta Prešerna 61, Jesenice, Slovenia	1,846	1,815
Investments in associates	1,846	1,815

in EUR thousand	Activity	% of voting rights	Value of assets as at 31 Dec. 2019	Value of equity as at 31 Dec. 2019	Revenues 2019	Net profit for 2019	Profit or loss for 2019, attributed to the Group
Razvojni center Jesenice	Development	24.95	8,902	7,032	3,167	123	31

in EUR thousand	Activity	% of voting rights	Value of assets as at 31 Dec. 2018	Value of equity as at 31 Dec. 2018	Revenues 2018	Net profit for 2018	Profit or loss for 2018, attributed to the Group
Razvojni center Jesenice	Development	24.95	9,413	7,145	3,274	398	99

The investment in associate is valued on the basis of equity method. In 2019, the Group attributed a corresponding share of 2018 profit which amounted to EUR 31 thousand (2018 EUR 99 thousand).

The company's principal activity is development of new materials and raw materials. The company has no obligation to be audited.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Investments and shares in companies	1,351	1,273
Financial assets at fair value through other comprehensive income	1,351	1,273

Finance assets measured at fair value through other comprehensive income represent shares of Slovenian insurance company with intends to receive cash flows from dividends and from sale of shares. Financial assets at fair value through other comprehensive income are measured at fair value. They increased due to revaluation at fair value in the amount of EUR 78 thousand (2018: EUR 48 thousand) charged to the comprehensive income. Received dividends in 2019 amounted to EUR 96 thousand (2018: EUR 96 thousand).

12. NON-CURRENT FINANCIAL RECEIVABLES

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Loans issued	54,067	30
Non-current financial receivables	54,067	30

Loans issued include a loan issued to the controlling company in the amount of EUR 54,037 thousand (2018: EUR 0 thousand). The interest rate for the loan issued is fixed and amounts to 5 percent.

Movement of Non-Current Loans Issued

in EUR thousand	2019	2018
Balance as at 1 Jan.	30	30
Impairment	(13)	0
Transfer from current loans issued	54,050	0
Balance as at 31 Dec.	54,067	30

13. OTHER NON-CURRENT ASSETS

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Other assets	1,005	330
Other non-current assets	1,005	330

Other assets include emission coupons, cautions and other non-current assets.

14. DEFERRED TAX ASSETS AND LIABILITIES

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Deferred tax assets	25,101	37,266
Deferred tax liabilities	0	(17)
Deferred tax assets (liabilities), net	25,101	37,249

Movement of Deferred Tax Assets and Liabilities in 2019

in EUR thousand	31 Dec. 2018	Translation differences	Changes in profit and loss	Changes in the comprehensive income	Other changes (note 15)	31 Dec. 2019
Property, plant and equipment	(61)	0	61	0	0	0
Other	44	0	(44)	0	0	0
Deferred tax liabilities	(17)	0	17	0	0	0
Other provisions	111	0	(2)	0	0	109
Unused tax losses	21,852	0	54	0	(6,330)	15,576
Inventories	191	0	(37)	0	0	154
Trade receivables	945	0	(332)	0	0	613
Employee benefits	1,834	0	147	0	0	1,981
Property, plant and equipment	434	0	(130)	0	0	304
Financial assets at fair value through other comprehensive income	(74)	0	0	(15)	0	(89)
Unused tax reliefs	11,973	2	(5,522)	0	0	6,453
Deferred tax assets	37,266	2	(5,822)	(15)	(6,330)	25,101
Deferred tax assets (liabilities), net	37,249	2	(5,805)	(15)	(6,330)	25,101

The value of unused tax losses for which deferred tax assets are recognised amounted to EUR 65.084 thousand on 31 December 2019 (2018: EUR 95,147 thousand). The value of unused tax losses for which deferred tax assets are not recognised amounts to EUR 52.054 thousand (2018: EUR 33,671 thousand), while unrecognised deferred tax assets amount to EUR 10.219 thousand (2018: EUR 6,397 thousand).

Other changes in the calculated deferred tax assets for unused tax losses refer to their calculation in determining profit at sale of discontinued operations of assets (group) held for disposal.

Movement of Deferred Tax Assets and Liabilities in 2018

in EUR thousand	31 Dec. 2017	Changes from implement-ta-tion of IFRS 9	1 Jan. 2018	Translation differences	Changes in profit and loss	Changes in comprehen-sive income	31 Dec. 2018
Property, plant and equipment	(63)	0	(63)	0	2	0	(61)
Other	48	0	48	0	(4)	0	44
Deferred tax liabilities	(15)	0	(15)	0	(2)	0	(17)
Other provisions	37	0	37	0	74	0	111
Unused tax losses	11,151	0	11,151	0	10,701	0	21,852
Inventories	2,235	0	2,235	(2)	(2,042)	0	191
Trade receivables	858	583	1,441	0	(496)	0	945
Employee benefits	1,837	0	1,837	0	(3)	0	1,834
Property, plant and equipment	921	0	921	32	(519)	0	434
Financial assets at fair value through other comprehensive income	(65)	0	(65)	0	0	(9)	(74)
Unused tax reliefs	12,707	0	12,707	1	(735)	0	11,973
Deferred tax assets	29,681	583	30,264	31	6,980	(9)	37,266
Deferred tax assets (liabilities), net	29,666	583	30,249	31	6,978	(9)	37,249

15. ASSETS (GROUPS) HELD FOR SALE

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Assets held for sale	31	31
Assets of Perutnina Ptuj Group – discontinued operations	0	259,941
Assets of company Metal-Eko Sistem – discontinued operations	4,962	0
Assets (Groups) held for sale	4,993	259,972
Liabilities of Perutnina Ptuj Group and Holding PMP – discontinued operations	0	(113,582)
Liabilities of company Metal-Eko Sistem – discontinued operations	(889)	0
Liabilities included in disposal groups	(889)	(113,582)

Discontinued operation – sale of investment in Perutnina Ptuj

In the second half of 2018, the controlling company announced its intention to dispose Perutnina Ptuj d.d. shares and concluded a contract to sell totally 9,896,842 shares, i.e. 90.69 percent of Perutnina Ptuj d.d. in its direct or indirect ownership. At the beginning of 2019, the Slovenian Competition Protection Agency adopted a decision that MHP's enter into Perutnina Ptuj complies with competition rules. Based on the issued decision, the procedures for the completion of the transaction were made possible.

On 25 April 2019, MHP Group announced that it will increase the takeover price per share to acquire 90.69 percent of Perutnina Ptuj. It follows that, according to the acquisition agreement concluded by MHP and SIJ d.d. in November 2018, the final acquisition price is EUR 22.34 per share.

At the end of February 2019, the Ukranian group MHP, one of the leaders in the international agricultural and food processing industry, acquired slightly more than a 90 percent share of Perutnina Ptuj. This means that as of that day, Perutnina Ptuj is no longer part of the SIJ Group.

Results of Discontinued Operation

in EUR thousand	2m 2019	2018
Revenue	41,459	269,985
Operating expenses	(36,297)	(243,893)
Other operating income (expenses), net	196	2,579
Operating profit	5,358	28,671
Net finance costs	(257)	(2,388)
Income tax	(413)	(3,666)
Profit for the period	4,688	22,617
Gain on sale of discontinued operations	84,461	
Transaction cost at sale of diccontinued operations	(7,539)	
Income tax on gain on sale of discontinued operations	(6,200)	
Utilization of deferred tax on gain on sale of discontinued operations	(6,330)	
Profit from discontinued operations, net of tax	64,392	

Statement of Financial Position of Discontinued Operations

in EUR thousand	28 Feb. 2019	31 Dec. 2018
Non-current assets	181,308	166,961
Intangible assets	11,412	11,375
Property, plant and equipment	163,466	149,220
Other assets	6,430	6,366
Current assets	93,320	92,980
Inventories	29,543	31,196
Trade receivables	33,960	31,671
Cash and cash equivalents	18,431	19,748
Other assets	11,386	10,365
TOTAL ASSETS	274,628	259,941

Continuation of the table →

Continuation of the table

in EUR thousand	28 Feb. 2019	31 Dec. 2018
Non-current liabilities	72,537	59,526
Financial liabilities	57,318	44,717
Other liabilities	15,219	14,809
Current liabilities	51,030	54,056
Financial liabilities	9,317	10,495
Other liabilities	41,713	43,561
TOTAL LIABILITIES	123,567	113,582
NET ASSETS	151,061	146,359

Cash Flow from Discontinued Operations

in EUR thousand	2019	2018
Net cash generated from operating activities	1,497	18,406
Net cash generated (used) in investing activities	11	(5,753)
Net cash used in financing activities	(2,810)	(27,555)
Translation differences	6	16
Cash and cash equivalents net decrease	(1,296)	(14,902)

Discontinued operation – investment in Metal-Eko Sistem

In 2020, sale activities of the investments in Metal-Eko Sistem are under way. The Management Board estimates that the sale will be concluded in 2020, therefore it presents their assets and liabilities as assets and liabilities held for disposal, and their profit as discontinued operations.

The statement of comprehensive income, the statement of financial position, and the cash flow statement are presented below.

The Statement of Comprehensive Income

in EUR thousand	2019	2018
Revenue	18,130	9,489
Operating expenses	(18,279)	(11,976)
Other operating income (expenses), net	(33)	(3)
Operating loss	(182)	(2,490)
Net finance costs	1	4
Income tax	(3)	0
Loss for the period	(184)	(2,486)

Statement of Financial Position

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Non-current assets	2,881	2,779
Intangible assets	1,003	1,003
Property, plant and equipment	1,878	1,776
Current assets	2,081	1,410
Inventories	805	289
Trade receivables	1,010	781
Cash and cash equivalents	39	31
Other assets	227	309
TOTAL ASSETS	4,962	4,189
Non-current liabilities	57	7
Financial liabilities	50	0
Other liabilities	7	7
Current liabilities	832	409
Financial liabilities	231	216
Other liabilities	601	193
TOTAL LIABILITIES	889	416
NET ASSETS	4,073	3,773

Cash Flow from Discontinued Operations

in EUR thousand	2019	2018
Net cash generated from operating activities	197	93
Net cash used in investing activities	(30)	(141)
Net cash used in financing activities	(167)	(168)
Translation differences	8	2
Cash and cash equivalents net decrease	8	(214)

16. INVENTORIES

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Raw material	90,317	85,864
Work in progress	54,488	59,482
Finished products	54,462	45,832
Trade goods	13,130	15,957
Inventories	212,397	207,135

On 31 December 2019, any items of inventories are pledged as security for liabilities (2018: EUR 0 thousand). On 31 December 2019, the Group reviewed the value of inventories. It found that the net realizable value of finished products is lower that their production value, and impaired the inventories by EUR 593 thousand (2018: EUR 6,723 thousand). In 2019 the Group revers allowances for obsolete inventories in amount of EUR 1,311 thousand.

17. CURRENT FINANCIAL RECEIVABLES

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Loans issued	18,145	24,437
Other	797	330
Current financial receivables	18,942	24,767

Loans issued include a loan issued to the controlling company in the amount of EUR 13,000 thousand (2018: EUR 20,990 thousand), The interest rate for the loan issued is fixed and amounts to 5 percent. The loan will be repaid according to contractual provisions.

Movement of Current Loans Issued

in EUR thousand	2019	2018
Balance as at 1 Jan.	24,437	25,762
Loans issued	47,038	15,268
Allowances for loans issued	1	(5)
Repayment of loans issued	(146)	(18,143)
Changes in interests	1,002	1,555
Translation differences	2	0
Transfer to non-current loans issued	(54,050)	0
Transfer to assets (groups) held for sale	(139)	0
Balance as at 31 Dec.	18,145	24,437

18. CURRENT TRADE RECEIVABLES

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Trade receivables	73,400	80,524
Allowances for trade receivables	(4,262)	(6,444)
Receivables from government and other institutions	4,013	3,240
Issued advance payments and cautions	1,639	1,741
Allowances for advance payments	(199)	(204)
Other receivables	1,148	1,281
Allowances for other receivables	(260)	(261)
Current trade receivables	75,479	79,877

The majority of the Group's trade receivables are insured against commercial risks with an insurance company. Trade receivables whose present value on 31 December 2019 amounts to EUR 7,179 thousand (2018: EUR 10,600 thousand) are pledged as security for liabilities.

Movement of Allowance of Trade Receivables

in EUR thousand	2019	2018
Balance as at 1 Jan.	6,444	4,651
Effect of applying IFRS 9	0	3,001
Changes with impact on profit or loss	(205)	(501)
Changes without impact on profit or loss	(1,966)	(707)
Transfer to assets (groups) held for sale	(11)	0
Balance as at 31 Dec.	4,262	6,444

19. CASH AND CASH EQUIVALENTS

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Cash in national currency	112,346	57,265
Cash in foreign currency	7,903	6,204
Restricted cash	1	611
Cash and cash equivalents	120,250	64,080

Deposits in the amount of EUR 71,596 thousand are in the national currency and have a maturity of up to three months (2018: EUR 73 thousand). The interest rate for deposits is fixed.

20. OTHER CURRENT ASSETS

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Current deferred expenses	4,433	2,634
Other current assets	4,433	2,634

Current deferred expenses refer to advance payments of costs, which will debit against profit or loss in 2020.

21. EQUITY

in EUR thousand	31 Dec. 2019	31 Dec. 2018 Restated
Equity attributed to the owners of the controlling company	*412,817*	*379,280*
Share capital	145,266	145,266
Capital surplus	11,461	11,461
Reserves	3,835	268
Retained earnings	252,255	222,285
Non-controlling interest	*6,111*	*19,976*
Equity	418,928	399,256

The share capital of the controlling company is recognised in the amount of EUR 145,266 thousand 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 2019.

Ownership Structure of the Controlling Company

Shareholder	Number of shares 31 Dec. 2019	Number of shares 31 Dec. 2018
DILON, d. o. o., Gerbičeva ulica 98, Ljubljana, Slovenia	718,351	718,351
Republic of Slovenia, Gregorčičeva ulica 20, Ljubljana, Slovenia	248,655	248,655
SIJ d.d., Gerbičeva ulica 98, Ljubljana, Slovenia	27,600	27,600
UNIOR, d. d., Kovaška cesta 10, Zreče, Slovenia	10	10
Total	994,616	994,616

The ownership structure of the controlling company did not change in 2019.

Capital Surplus

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

Reserves

in EUR thousand	31 Dec. 2019	31 Dec. 2018 Restated
Legal reserves	*8,195*	*3,951*
Treasury shares	*(6,009)*	*(6,009)*
Reserves for treasury shares	*3,754*	*3,754*
Reserves from profit	5,940	1,696
Fair value reserve due to financial assets at fair value through other comprehensive income	*470*	*392*
Deferred tax liabilities	*(89)*	*(75)*
Fair value reserves	381	317
Net actuarial losses on pension programs	(2,691)	(2,602)
Translation differences	205	857
Reserves	3,835	268

The controlling company acquired treasury shares in the amount of EUR 2,255 thousand on the basis of the Act Regulating the Incurrence and Settlement of Liabilities of Slovenske železarne as regards the Restructuring Programme (Official Gazette of the RS, nr. 111/2001) and in line with the Privatization of Slovenske železarne Act (Official Gazette of the RS, nr. 13/1998). Treasury shares were acquired by exchanging interests in subsidiaries for shares of the controlling company, owned by authorised companies. The shares were acquired ex lege and not in line with the Companies Act, which is why the controlling company did not establish a treasury shares fund. Shares are recognised at cost.

In 2019, the controlling company created legal reserves from net profit in the amount of EUR 4,244 thousand (2018: EUR 72 thousand). The controlling company corrected a prior period error by impairing additionally goodwill, other intangible assets and property, plant and equipment, which releate to some of its investments in subsidiaries. Due to the error correction, in 2018 the controlling company stated loss and, subsequently, reversed the created legal reserves in the amount of EUR 72 thousand. A more detailed explanation of the error correction is disclosed in Note 31.

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 subsidiaries, included in the consolidated financial statements, are divided on the level of respective subsidiaries.

22. EMPLOYEE BENEFITS

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Provisions for severance pay	13,303	11,818
Provisions for loyalty bonuses	2,034	2,115
Provisions for post-employment benefits	215	187
Employee benefits	15,552	14,120

The actuarial calculation in 2019 was made on the basis of the actuarial model and assumptions, derived from the life expectancy tables in Slovenia from 2007, separately for men and women, decreased by 10 percent (active population), growth of wages in the Republic of Slovenia and in the Company, and the yield curve, which represents the relationship between market yields on government bonds in the Eurozone and the time remaining to maturity. The average discount rate considered in the calculations was 0.4 percent.

Employee benefits are calculated by an authorized actuary. The change in employee benefits has a direct effect on the income statement, except for an actuarial profit which effects comprehensive income.

The Group did not carry out an actuarial calculation in 2018, because the assumptions used to determine the amount of provisions for the year 2017 did not change significantly.

Movement of Employee Benefits in 2019

in EUR thousand	31 Dec. 2018	Creation	Reversal and utilization	Transfer to assets (groups) held for sale	31 Dec. 2019
Provisions for severance pay	11,818	1,511	(19)	(7)	13,303
Provisions for loyalty bonuses	2,115	33	(114)	0	2,034
Provisions for post-employment benefits	187	43	(15)	0	215
Employee benefits	14,120	1,587	(148)	(7)	15,552

Movement of Employee Benefits in 2018

in EUR thousand	31 Dec. 2017	Creation	Reversal	Utilization	31 Dec. 2018
Provisions for severance pay	11,837	193	(14)	(198)	11,818
Provisions for loyalty bonuses	2,115	0	0	0	2,115
Provisions for post-employment benefits	208	0	(6)	(15)	187
Employee benefits	14,160	193	(20)	(213)	14,120

Sensitivity Analysis of Actuarial Assumptions for 2018

in EUR thousand	31 Dec. 2018		
Actuarial assumption	Change in assumption (p. p.)	Post employment benefits on retirement	Jubilee benefits
Yield	+0,5	(514)	(72)
	–0,5	291	31
Salary growth	+0,5	555	75
	–0,5	(526)	(72)
Fluctuation	+0,5	(529)	(75)
	–0,5	502	75

23. OTHER PROVISIONS

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Provisions for arbitral procedure	0	3,115
Provisions for lawsuits	739	678
Provisions for complaints	31	31
Other provisions	770	3,824

The arbitral procedure against SIJ subsidiary Noži Ravne d.o.o. initiated by a claimant ASKO B.V. has been completed by issauing an arbitral award NAI 4202 on 4 April 2016, when the claim was partially granted. The subsidiary filed a motion against the proposal in the Court in Amsterdam due to material and procedural breaches in the course of arbitration proceedings, aiming to annul the arbitral award. The motion against the proposal was rejected by the court of first instance. The subsidiary filed a complaint at the Supreme Court in Amsterdam. In 2018 the claimant ASKO B.V. initiated the procedure for recognizing a foreign arbitral award at the Ljubljana District Court. On 17 October 2018, the District Court of First Instance in Ljubljana, based only on written statements of the parties, issued a resolution, that the arbitral award was recognised. The subsidiary appealed against the decision and in 2018, based on all the facts and court decisions about the matter initiated by the claimant against the subsidiary, decided to create a provision for arbitral procedure. The subsidiary reached an out-of-court settlement with the claimant, whereby all litigation between the parties is closed and withdrawn against payment of EUR 2,800 thousand, and based on the letter of intent, concluded contract and arbitral award the parties have no further claims against each other.

Movement of Other Provisions in 2019

in EUR thousand	31 Dec. 2018	Creation (reversal)	Utilization	31 Dec. 2019
Provisions for arbitral procedure	3,115	(311)	(2,804)	0
Provisions for lawsuits	678	70	(9)	739
Provisions for complaints	31	9	(9)	31
Other provisions	3,824	(232)	(2,822)	770

Movement of Other Provisions in 2018

in EUR thousand	31 Dec. 2017	Creation (reversal)	Utilization	Transfer to contract liabilities	31 Dec. 2018
Provisions for arbitral procedure	0	3,115	0	0	3,115
Provisions for lawsuits	836	(152)	(6)	0	678
Provisions for complaints	312	205	0	(486)	31
Other provisions	1,148	3,168	(6)	(486)	3,824

24. NON-CURRENT DEFERRED INCOMES

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Assigned contributions	1,046	1,077
Subsidies for property, plant and equipment	681	761
Other deferred incomes	5	0
Non-current deferred incomes	1,732	1,838

Movement of Non-Current Deferred Incomes in 2019

in EUR thousand	31 Dec. 2018	Creation	Reversal and utilization	31 Dec. 2019
Assigned contributions	1,077	1,454	(1,485)	1,046
Subsidies for property, plant and equipment	761	29	(109)	681
Other deferred incomes	0	844	(839)	5
Non-current deferred incomes	1,838	2,327	(2,433)	1,732

Movement of Non-Current Deferred Incomes in 2018

in EUR thousand	31 Dec. 2017	Creation	Reversal and utilization	31 Dec. 2018
Assigned contributions	1,052	1,425	(1,400)	1,077
Subsidies for property, plant and equipment	873	0	(112)	761
Other deferred incomes	0	458	(458)	0
Non-current deferred incomes	1,925	1,883	(1,970)	1,838

25. NON-CURRENT FINANCIAL LIABILITIES

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Borrowings	118,305	177,172
Liabilities for bonds issued	39,729	51,076
Liabilities from lease	4,806	2,847
Non-current financial liabilities	162.840	231,095

Borrowings include loans from domestic and foreign banks. Borrowings in the amount of EUR 1,975 thousand (2018: EUR 13,588 thousand) are secured with real estate, movable property and receivables. Other borrowings are not secured. The interest rate for majority of borrowings and liabilities arising from finance lease is flexible and based on EURIBOR.

Movement of Non-Current Borrowings

in EUR thousand	2019	2018
Balance as at 1 Jan.	177,172	172,184
New borrowings	0	73,541
Transfer to current borrowings	(58,867)	(69,552)
Exchange rate differences	0	(1)
Balance as at 31 Dec.	118,305	177,172

Liabilities for Bonds Issued

Liabilities for bonds issued refer to the bonds issued with the ticker symbol SIJ6. The controlling company issued bonds with the total nominal value of EUR 40,000 thousand in November 2019. The entire bond issue contains 400 denominations of EUR 100 thousand. The bond maturity date is 25 November 2024. The interest rate for the bonds is fixed, i.e. 2.8 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 are traded on the Ljubljana Stock Exchange. Liabilities for bonds issued with the ticker symbol of SIJ5 in the amount of EUR 51,218 thousand fall due on 21 July 2020 and were therefore transferred to current financial liabilities.

Movement of Non-Current Liabilities Arising from Lease

in EUR thousand	2018	2017
Balance as at 1 Jan.	2,846	2,129
Effect of applying IFRS 16	1,150	0
New leases	3,251	2,493
Transfer to current liabilities from lease	(2,391)	(1,776)
Transfer to liabilities included in disposal groups	(50)	0
Balance as at 31 Dec.	4,806	2,846

The lowest sum of future leases due for payment in the next 1 to 5 years amounts to EUR 4,691 thousand (2018: EUR 2,642 thousand). After 5 years it amounts to EUR 285 thousand (2018: EUR 340 thousand).

The net present value of future leases due for payment in the next 1 to 5 years, amounts to EUR 4,531 thousand (2018: EUR 2,521 thousand). After 5 years it amounts to EUR 275 thousand (2018: EUR 325 thousand).

26. CURRENT FINANCIAL LIABILITIES

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Borrowings	54,890	74,359
Liabilities for bonds issued	51,096	42,859
Liabilities for commercial papers issued	28,072	29,723
Liabilities from lease	2,057	1,487
Other financial liabilities	1,839	1,875
Current financial liabilities	**137.954**	**150,303**

Borrowings include loans from domestic and foreign banks. Borrowings in the amount of EUR 7,427 thousand (2018: EUR 15,074 thousand) are secured with real estate, movable property and receivables. Other borrowings are not secured. The interest rate for majority of borrowings and liabilities arising from finance lease is flexible and based on EURIBOR.

Movement of Current Borrowings

in EUR thousand	2019	2018
Balance as at 1 Jan.	74,359	67,347
New borrowings	295,344	563,160
Repayments for borrowings	(373,807)	(624,998)
Transfer from non-current borrowings	58,867	69,552
Exchange rate differences	0	(1)
Translation differences	127	299
Balance as at 31 Dec.	54,890	74,359

Liabilities for Bonds Issued

Liabilities for bonds issued refer to the bonds issued with the ticker symbol of SIJ5. The controlling company issued bonds with the total nominal value of EUR 51,218 thousand in July 2015. The entire bond issue contains 51,218 denominations of EUR 1 thousand. The bond maturity date is 21 July 2020. The interest rate for the bonds is fixed, i.e. 4.0 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 are traded on the Ljubljana Stock Exchange. Ljubljana Stock Exchange closing quotation as at 31 December 2019 was 100.00 and was used for fair value calculation on the same date.

Liabilities for Commercial Papers Issued

Liabilities for commercial papers amounting to EUR 28,100 thousand refer to 12-month commercial papers with the ticker symbol SIK06, issued by the controlling company on 13 December 2019 as a sixth consecutive issue. The total nominal value of the commercial papers is EUR 28,100 thousand and covers 281 denominations of EUR 100 thousand. The interest rate for a commercial paper is 0.9 percent per annum. Commercial papers are a discounted security. Interest is charged in advance and deducted on payment of a commercial paper in the form of a discount from the nominal value of the commercial paper. Liabilities from commercial papers are payable on 11 December 2020. Commercial papers are traded on Ljubljana Stock Exchange Ljubljana Stock Exchange closing quotation as at 31 December 2019 was 100.00 and was used for fair value calculation on the same date. The Company repaid the forth issue of commercial papers with the ticker symbol SIK05 in the amount of EUR 30,000 thousand on the maturity day.

Movement of Current Liabilities Arising from Finance Lease

in EUR thousand	2019	2018
Balance as at 1 Jan.	1,487	1,307
Effect of applying IFRS 16	216	0
New leases	365	5
Repayments of liabilities arising from lease	(2,389)	(1,601)
Transfer from non-current liabilities arising from lease	2,391	1,776
Transfer to liabilities included in disposal groups	(13)	0
Balance as at 31 Dec.	2,057	1,487

The lowest sum of future leases due for payment in the next financial year amounts to EUR 2.187 thousand on 31 December 2019 (2018: EUR 1,576 thousand), and the net present value of future leases amounts to EUR 2,057 thousand on the same date (2018: EUR 1,488 thousand).

27. CURRENT TRADE PAYABLES

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Payables to suppliers	182,909	187,478
Liabilities to employees	7,371	5,969
Received advance payments and cautions	2,962	22,927
Tax liabilities	4,688	5,066
Other liabilities	961	1,216
Current trade payables	198,891	222,656

28. OTHER CURRENT LIABILITIES

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Accrued expenses for unused annual leave	1,275	1,149
Accrued expenses for lawsuits	1,560	281
Accrued expenses for emission coupons	743	770
Other liabilities	499	2,996
Deferred revenue	229	210
Other current liabilities	4,306	5,406

29. SEGMENT REPORTING

Segment Reporting for 2019

in EUR thousand	Steel Division	Steel Processing and Distribution Division	Scrap Division	Manufacturing Division	Poultry Division (discontinued operations)	Total segments	Headquarters and Other Services	Total	Eliminations	Elimination of discontinued operations	Consolidated financial statements
Operating income (external)	502,021	151,474	69,007	61,175	41,459	825,136	1,804	826,940	0	(59,589)	767,351
Operating income (between segments)	118,714	3,202	16,771	10,166	2	148,855	14,514	163,369	(163,369)	0	0
Revenues	620,735	154,676	85,778	71,341	41,461	973,991	16,318	990,309	(163,369)	(59,589)	767,351
Profit (loss) before tax	(10,025)	(316)	(112)	(2,346)	5,101	(7,698)	(4,181)	(11,879)	0	(5,125)	(17,004)
Interest income	50	14	111	13	2	190	5,288	5,478	(2,525)	(8)	2,945
Interest expenses	7,676	1,229	492	887	260	10,544	4,630	15,174	(2,507)	(315)	12,352
Amortisation and depreciation	42,346	3,073	656	3,100	0	49,175	977	50,152	(256)	(116)	49,780
Impairments	12,974	189	279	675	0	14,117	(34)	14,083	109	0	14,192
Property, plant and equipment and intangible assets	14,182	0	321	619	0	15,122	0	15,122	0	0	15,122
Inventories	(757)	0	0	39	0	(718)	0	(718)	0	0	(718)
Impairments of trade receivables (gains/losses)	(451)	189	(42)	17	0	(287)	(34)	(321)	109	0	(212)
Share of profit in associates	31	0	0	0	0	31	0	31	0	0	31
Assets	613,767	113,560	31,500	59,541	0	818,368	131,837	950,205	0	0	950,205
Liabilities	330,680	60,004	10,417	24,820	0	425,921	105,356	531,277	0	0	531,277

Segment Reporting for 2018

in EUR thousand	Steel Division	Steel Processing and Distribution Division	Scrap Division	Manufacturing Division	Poultry Division (discontinued operations)	Total segments	Headquarters and Other Services	Total	Eliminations	Elimination of discontinued operations	Consolidated financial statements
Operating income (external)	502,928	166,041	70,991	61,130	269,985	1,071,075	1,676	1,072,751	0	(279,474)	793,277
Operating income (between segments)	117,279	2,546	26,264	8,467	0	154,556	14,598	169,154	(169,154)	0	0
Revenues	620,207	168,587	97,255	69,597	269,985	1,225,631	16,274	1,241,905	(169,154)	(279,474)	793,277
Profit (loss) before tax	(5,939)	(2,624)	1,128	(7,610)	18,951	3,906	(4,502)	(596)	0	(18,976)	(19,572)
Interest income	184	17	122	22	86	431	3,525	3,956	(2,276)	(92)	1,588
Interest expenses	9,761	1,375	612	739	1,868	14,355	5,243	19,598	(2,513)	(1,868)	15,217
Amortisation and depreciation	41,220	3,023	628	2,875	0	47,746	720	48,466	0	(133)	48,333
Impairments	6,163	798	15	819	0	7,794	118	7,912	(100)	(9)	7,803
Property, plant and equipment and intangible assets	0	811	0	716	0	1,536	0	1,536	0	0	1,536
Inventories	6,343	118	0	262	0	6,723	0	6,723	0	0	6,723
Impairments of trade receivables (gains/losses)	(180)	(131)	15	(169)	0	(465)	118	(347)	(100)	(9)	(456)
Share of profit in associates	99	0	0	0	0	0	0	99	0	0	99
Assets	622,244	100,491	29,487	58,141	259,941	1,070,304	73,527	1,143,831			1,143,831
Liabilities	397,745	93,662	22,330	46,658	113,582	673,977	70,598	744,575			744,575

30. CONTINGENT LIABILITIES

On 31 December 2019, the contingent liabilities amount to EUR 4,108 thousand (2018: EUR 4,390 thousand) and refer to guarantees for the good work performance, lawsuits and issued guarantees. The Group expects no outflows from the lawsuits, issued securities and guarantees.

31. CORRECTION OF MATERIAL PRIOR PERIODS ERRORS

During the preparation of the consolidated financial statements for the year 2019, the Group established that in the previous years some errors occurred in the preparation of consolidated financial statements; in the year 2018 the Group did not recognize sufficient imparment loss on goodwill, other intangible assets and property, plant and equipment (note 8 and 9) and did not present discontinued operations, despite the fact that one of the reportable segments met the criteria (note 15). Consequently, the Group restated the consolidated financial statements as shown in the tables below and restated statement of financial position as at 31 December 2018, and statement of comprehensive income for 2018.

Note Regarding Balance Adjustments in the Statement of Financial Position as at 31 December 2018

in EUR thousand	Note	31 Dec. 2018 Reported	Adjustment	31 Dec. 2018 Restated
ASSETS				
Non-current assets		512,544	(8,154)	504,390
Intangible assets	8	31,135	(6,644)	24,491
Property, plant and equipment	9	440,555	(1,510)	439,045
Other assets		40,854	0	40,85
Current assets		639,441	0	639,441
Total assets		1,151,985	(8,154)	1,143,831
EQUITY AND LIABILITIES				
Equity	21	407,410	(8,154)	399,256
Equity attributed to the owners of the controlling company		387,468	(8,188)	379,280
Non-controlling interest		19,942	34	19,976
Non-current liabilities		252,013	0	252,013
Current liabilities		492,562	0	492,562
Total equity and liabilities		1,151,985	(8,154)	1,143,831

Note Regarding Movement Adjustments in Comprehensive Income for 2018

in EUR thousand	2018 Reported	Adjustment for impairment (note 8 and 9)	Adjustment for discontinued operation (note 15)	2018 Restated
Revenue	802,766	0	(9,489)	793,277
Cost of sales	(655,082)	0	11,385	(643,697)
Gross profit	147,684	0	1,896	149,580
Distribution costs	(44,828)	0	310	(44,519)
General and administrative expenses	(92,794)	0	281	(92,513)
Other operating income	6,348	0	(1)	6,347
Other operating expenses	(15,101)	(8,154)	13	(23,242)
Impairment of trade receivables (gains/losses)	465	0	(9)	456
Operating profit (loss)	1,774	(8,154)	2,490	(3,891)
Finance income	1,868	0	(7)	1,861
Finance expenses	(17,645)	0	4	(17,641)
Net finance income (costs)	(15,777)	0	(4)	(15,780)
Share of profit in associates	99	0	0	99
Loss before tax	(13,904)	(8,154)	2,486	(19,572)
Income Tax	5,942	0	0	5,942
Operating loss for the year from continuing operations	(7,962)	(8,154)	2,486	(13,630)
Profit from discontinued operations	22,617	0	(2,486)	20,131
Profit for the period	14,655	(8,154)	0	6,501
Items that will not be reclassified subsequently to profit or loss				
Income tax related to components of comprehensive income	(9)	0	0	(9)
Net actuarial gains (losses) on pension programs	39	0	0	39
Items that may be reclassified subsequently to profit or loss				
Change in other reserves due to changes of financial assets at fair value	48	0	0	48
Exchange rate difference on translating foreign operations	150	0	(3)	147
Other comprehensive income from discontinued operations	262	0	3	264
Total other comprehensive income	489	0	0	489
Comprehensive income	15,145	(8,154)	0	6,990

Continuation of the table →

Continuation of the table

RELATED PARTIES

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

Transactions with the Controlling Company

in EUR thousand	2019	2018
Revenues	2,902	1,560
Expenses	12	0

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Financial receivables	71,266	24,207
Liabilities	0	95

Transactions with Management

The total amount of the receipts of the Supervisory Board members and the receipts of the Group's key management personnel for the performance of functions or tasks based on the business management contracts.

in EUR thousand	2019	2018
Key management personnel	13,057	13,879
Members of the Supervisory Board	120	50

The receipts include gross salaries and payment for annual leave. Travel expenses, accommodation costs and daily allowances are not shown, since they do not represent a payment to key management personnel by their nature.

The Group did not grant any loans, issue any guarantees nor make any advance payments to the key management personnel or members of the Supervisory Board in 2019. On 31 December 2019 the Company has no receivables or liabilities towards the key management personnel, except for liabilities for December salaries paid in January 2020.

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

FINANCIAL INSTRUMENTS AND RISKS

Credit Risk

The credit risk is assessed as accordingly managed. Exposure to credit risks is assessed based on receivables insurability, data and information predicting a risk of losses (financial information on customers and their financial statements, media available information, earlier business relations with customers and forward-looking information).

Major portion of trade receivables are receivables from sale of products in domestic and foreign countries. The trade receivables are diversified and secured with first class insurances, such as credit insurance by an insurance company and bank guarantees. On the reporting date, 70 percent of all trade receivables are secured with first class insurances. The control system is also managed by the protocol on assigning internal limits. The effects of expected future losses of trade receivables are measured by using allowances matrix, where the loss allowance is measured by using the simplified model at an amount equal to 12-month expected credit losses.

Financial receivables and deposits represent deposits at banks and loans issued to the controlling company. For loans issued, where on the reporting date has not been a significant increase in credit risk since initial recognition, the impairment assessment is based on expected credit losses linked to a default on loans that is possible within next 12 months (stage 1). For those loans issued for which there has been a significant increase in credit risk since initial recognition, the company recognises a loss allowance on a case by case basis (stage 3). All loans granted by the Group are categorized in stage 1. There was no movement between groups in 2019.

Deposits are held in the form of short-term deposits with commercial banks, where the principle of asset diversification is pursued for the purpose of reducing credit risk.

Age Structure of Financial Assets

in EUR thousand 31 Dec. 2019	Not-overdue	Overdue Up to 3 months	3 months to 1 year	1 year to 3 years	Over 3 years	Total
Trade receivables	58,983	8,830	1,986	1,245	2,894	73,938
Financial receivables and deposits	144,615	0	0	0	0	144,615
Total	203,598	8,830	1,986	1,245	2,893	218,553

in EUR thousand 31 Dec. 2018	Not-overdue	Overdue Up to 3 months	3 months to 1 year	1 year to 3 years	Over 3 years	Total
Trade receivables	59,269	14,678	3,768	2,097	1,216	81,028
Financial receivables and deposits	24,874	0	2	19	0	24,895
Total	84,143	14,678	3,770	2,116	1,216	105,923

Movement of Allowances for Financial Assets

in EUR thousand	Allowance as at 31 Dec. 2018	Changes with impact on profit or loss	Changes without impact on profit or loss	Transfer to assets (groups) held for disposal	Allowance as at 31 Dec. 2019
Trade receivables	6,873	(205)	(1,997)	(11)	4,660
Financial receivables and deposits	25	0	12	0	37
Other trade receivables	465	(7)	0	0	459
Total	7,363	(212)	(1,985)	(11)	5,156

in EUR thousand	Allowance as at 31 Dec. 2017	Changes with impact on profit or loss	Changes without impact on profit or loss	Transfer to assets (groups) held for disposal	Allowance as at 31 Dec. 2018
Trade receivables	5,004	3,001	(425)	(707)	6,873
Financial receivables and deposits	18	7	0	(1)	25
Other trade receivables	464	0	(31)	32	465
Total	5,486	3,008	(456)	(675)	7,364

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. The majority of financial liabilities relate to long-term syndicaedet loan in the amount of EUR 124,4 milion principal outstanding and to issued bonds and commercial papers in total amount of EUR 118,896 thousand. The total liquidity reserves in form of unused short and long term credit lines amounted to EUR 98 milion as at 31 December 2019, which significantly reduces the liquidity risk. Liquidity risk is additionally managed by the receivables securitisation program.

in EUR thousand 31 Dec. 2019	Present value as at	Expected cash flows Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Cash and cash equivalent	120,250	120,250	0	0	0	120,250
Trade receivables	69,279	63,519	5,705	55	0	69,279
Other trade receivables	888	888	0	23	0	911
Financial receivables and deposits	73,009	1,743	17,540	55,912	8,097	83,292
Non-financial assets	673,135	0	0	0	0	673,135
Toral assets	936,561	186,400	23,245	55,990	8,097	946,867
Payables to suppliers	182,909	177,908	4,924	76	0	182,908
Financial liabilities	300,794	15,978	130,217	173,620	1,688	321,503
Other liabilities	1,898	944	82	872	0	1,898
Non-financial liabilities	14,012	0	0	0	0	14,012
Total liabilities	499,613	194,830	135,223	174,568	1,668	520,321

The Group regularly monitors and analyses the liquidity gap on time-to-pocket basis, measures the maturity structure of assets and liabilities. The liquidity gap cannot be avoided but can be managed effectively by the Group. A positive gap means a surplus of resources and a negative means a shortage of resources to be provided.

in EUR thousand		Expected cash flows				
31 Dec. 2018	Present value as at	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Payables to suppliers	187,478	174,374	12,973	129	2	187,478
Financial liabilities	381,398	31,306	130,637	202,481	26,570	390,994
Other liabilities	1,849	1,215	1	633	0	1,849
Total	570,725	206,895	143,611	203,243	26,572	580,321

The Group assesses its exposure to financial markets and banks as moderate. The Group fully complies with the liabilities and conditions stated in loan contracts.

Foreign Exchange Risk

The Group assesses its foreign exchange risk as moderate and accordingly managed. The Group is exposed to changes in exchange rates especially due to volatility of US dollar, and due to currency fluctuations on some local markets with lower exposure. Amounts in tables are shown in EUR thousand.

31 Dec. 2019	EUR	USD	GBP
Cash and cash equivalents	49	8.044	0
Trade receivables	0	2.852	0
Trade payables	0	(23,678)	(110)
Financial liabilities	(32)	0	0
Exposure	17	(12,782)	(110)

31 Dec. 2018	EUR	USD	GBP	CHF	CZK	CZK
Cash and cash equivalents	42	8,747	0	0	0	0
Trade receivables	128	9,592	0	0	0	0
Financial receivables	0	702	0	0	0	0
Trade payables	(22)	(32,847)	(1)	(2)	(4)	(4)
Financial liabilities	(104)	0	0	0	0	0
Exposure	44	(13,806)	(1)	(2)	(4)	(4)

The euro is the functional currency and does not represent exposure to exchange rate change risk.

The Group manages the risk with internal methods of exchange rate risk management, notably through the price policy method by integrating the exchange rate into a price difference, and by balancing sales and purchasing. In balancing, it seeks to neutralize foreign exchange risk by using natural protection or seeking a balance between inflows and outflows by currency. It is not using derivative financial instruments to protect exchange rates. On 31 December 2019, the value of US dollar expressed in euro increased by 1.9 percent compared to 31 December 2018. The average value of US dollar was 5.2 percent higher than in 2018. Sensitivity analysis is prepared for US dollar.

Sensitivity analysis and presentation of US dollar exchange rate impact on profit before tax

in EUR thousand	2019		2018	
Change of exchange rate by	10%	–10%	10%	–10%
US dollar (USD)	(1,138)	1,138	(1,206)	1,206

The change in the value of US dollar by 10 percent compared to euro on 31 December 2019 or 31 December 2018 would result in a change of profit or loss before tax by the amounts stated below. In the calculation of the change of US dollar exchange rate impact, the Group included balance of cash and cash equivalents, receivables, liabilities and loans nominated in local currencies. Exposure to other currencies is low and does not represent material risk.

In 2019 and 2018, the following exchange rates were material for the Group:

Currency	31 Dec. 2019	31 Dec. 2018	Average exchange rate in 2019	Average exchange rate in 2018
EUR/USD	1.1234	1.1450	1.1195	1.1810
EUR/GBP	0.85080	0.89453	0.87777	0.88471
EUR/CHF	1.0854	1.1269	1.1124	1.1550
EUR/HRK	7.4395	7.4125	7.4180	7.4182
EUR/RUB	69.9563	79.7153	72.4553	74.0416
EUR/CZK	25.4080	25.724	25.6700	25.647

Exchange rates used to translate the balance items as at 31 December correspond to the European Central Bank exchange rates on that day.

Interest Rate Risk

The Group assesses its interest rate risk as low and accordingly managed. The Group regularly monitors its exposure to interest rate risk by monitoring developments in money markets, changes to the interest rates and changes to the prices of derivative financial instruments, and by proposing in due time measures of interest rate hedging.

A portion of fixed rate loans represents 48 percent of all Group's financial loans. Variable interest rates consist of variable interest rate EURIBOR and interest margin. In majority of loan contracts the interest rate floor by EURIBOR cannot be lower than zero, so there can be no positive effect on profit or loss.

A change in interest rate by 100 or 50 basis points on the reporting date would result in a decrease of profit or loss by the amounts stated below. The analysis assumes that all other variables remain unchanged.

The analysis for 2018 was prepared in the same manner.

in EUR thousand	2019	2018
Change in profit/loss if increased by 100 bp	(1,549)	(2,225)
Change in profit/loss if increased by 50 bp	(775)	(1,113)
Change in profit/loss if decreased by 50 bp	38	36
Change in profit/loss if decreased by 100 bp	76	73

Equity Management

The Group's main purpose of equity management is to achieve an adequate volume of capital to ensure confidence of its creditors to financial stability, long-term solvency, as well as proper payment of dividends to its owners. On 31 December 2019, the controlling company owns 27,600 treasury shares.

In the structure of total indebtedness, the share of equity value remains at a high level, as the Group continues to implement the current financial policy to ensure long-term development through long-term sources.

The level of debt on equity represents the ratio between equity and financial liabilities.

in EUR thousand	2019	Debt increase by 10%	Debt decrease by 10%
Level of debt on equity	71.80	78.98	64.62
Equity	418,928	418,928	418,928
Financial liabilities	300,794	330,874	270,715

Carrying Amounts and Fair Values of Financial Instruments

The table shows carrying amounts and fair values of financial assets and financial liabilities. Fair values of financial and trade receivables, cash and cash equivalents and trade payables are not presented, since their carrying amount is adequate approximation of their fair value.

in EUR thousand	31 Dec. 2019		31 Dec. 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets at fair value through other comprehensive income	1,351	1,351	1,273	1,273
Financial receivables	73,009	73,009	24,797	24,797
Trade receivables	75,620	75,620	79,952	79,952
Cash and cash equivalents	120,250	120,250	64,080	64,080
Financial liabilities	(300,794)	(302,227)	(381,398)	(385,269)
Trade payables	(199,828)	(199,828)	(223,289)	(223,289)

Presentation of Financial Assets and Liabilities, Disclosed at Fair Value According to Fair Value Determination Hierarchy

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Financial assets at fair value through other comprehensive income	869	791
Financial assets at fair value of first level	**869**	**791**
Financial assets at fair value through other comprehensive income	482	482
Financial assets at fair value of third level	**482**	**482**
Bonds and commercial papers	(120,330)	(127,529)
Financial liabilities at fair value of first level	**(120,330)**	**(127,529)**
Borrowings	(173,195)	(251,531)
Finance lease	(6,863)	(4,334)
Other liabilities	(1,839)	(1,875)
Financial liabilities at fair value of second level	**(181,897)**	**(257,740)**

Second level of liabilities at fair value include secured loans granted, finance leases and interest liabilities, representing, according to the valuation model, carrying amounts of discounted expected future payments with adjusted risk level.

In 2019, there were no transfers of financial instruments between different levels.

EVENTS AFTER THE REPORTING DATE

SIJ Group has concluded a Term Sheet agreement with a business partner on establishing a joint venture that will be active in the distribution of steels, the production and distribution of standard and non-standard tool steel plates, parts of tools and tools for mass production, technical heat treatment services, surface treatment of tool steels, and the production of high-performance products for improving the production by using innovative technologies. The project, which is expected to be completed by the end of 2020, is part of the implementation of SIJ Group's vertical integration strategy aimed at diversifying the range of products and services.

In line with the spread of coronavirus in Slovenia, SIJ Group has taken preventive measures to protect the health of its employees and ensure undisrupted business operations. Since the end of march, the Group has implemented all the preventive measures adopted by the SIJ Group crisis team. The situation in all key business areas (sales, purchasing, logistics, human resources) has been monitored daily, thus managing all identified risks and complying with all the measures taken by the Republic of Slovenia, the European Union, the European Steel Association Eurofer and other competent institutions.

At the time of issuing the Annual Report, SIJ Group had not yet recorded any significant impact on business, however, in line with the outlook and development of the epidemic in the Republic of Slovenia and its key European markets, it is expected that the risks and thus disruptions in business will increase. SIJ Group will strive to curb all identified risks by taking new measures accordingly.

There are currently no legal restrictions on the operations of most of the companies in SIJ Group, and we do not expect any major shutdowns of steel companies. Supply chains operate without major restrictions, only occasional supply delays being detected, which is managed by a slight increase in inventories of raw materials. By the time the Annual Report was issued, SIJ Group had also fulfilled all contractual quantitative conditions and liabilities for the supply of electricity and natural gas.

Currently, in mid-April, we do not feel any major negative impact on the sale of our products, which is largely related to the geographical and industry diversification of our markets and customers. Despite restrictions on transportation and the closure of some of our customers' manufacturing facilities, we are able, by implementing active sales policy, to supply all our key markets effectively, including Italy and Germany. We face minimal cancellations of deliveries of our products, without having any significant impact on our operations.

Particular attention is paid to working capital management. We monitor daily compliance with customer payment deadlines and regulate the low level of inventories of products and work in progress goods, focusing even more on production for our familiar customers' orders and on optimization of production processes. As a result, the liquidity of SIJ Group is strong and stable.

Possible adjustments to the carrying amounts of assets and determination of the fair values related to the constantly changing operating conditions due to the coronavirus, were not taken into account in the financial statements of SIJ Group, as it is an non-adjusting event after the reporting date. Due to many uncertainties posed by the epidemic, the potential impact on the operations of SIJ Group cannot be estimated reliably at this time.

There were no other significant events after the reporting date that would have a material effect on the financial statements presented.

FINANCIAL REPORT OF SIJ D.D.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
to the shareholders of SIJ – Slovenska industrija jekla, d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the company SIJ – Slovenska industrija jekla d.d. (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinon

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules are further described in *the Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

We draw your attention to the *Note 25 Correction of Prior Periods Error* of the financial statements, which describes the correction of prior period error in relation to impairment of investments in subsidiaries. Accordingly, our opinion expressed in the Opinion paragraph does not contain modification with respect of this matter contained in prior audit report on the financial statements as of December 31, 2018.

We draw your attention to the Note *Events after the Reporting Date* of the financial statements, which describes the possible impact of coronavirus pandemic and resulting expected economic downturn on the Company and carrying value of its assets subsequent measurement.

Our opinion is not modified in respect of these matters.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the year ended 31 December 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of investments in subsidiaries and loans given to subsidiaries	
Investments in subsidiaries amount to EUR 197 mln as of 31 December 2019 in the Company's separate financial statements. Loans given to subsidiaries and to parent amount to EUR 146 mln as of 31 December 2019 in the Company's separate financial statements. As required by the applicable accounting standards – IAS 36 *Impairment of assets*, Management conducts annual impairment tests to assess the recoverability of the carrying value of investments. The recoverable amount of investments is determined in accordance with IAS 36 as value in use and is assessed as present value of expected future cash flows to be generated by the subsidiary. Similarly the Company assess the expected credit losses from loans given based on expected future cash flows to be generated by the subsidiary. Significant management judgment is involved in determination of critical assumptions and design of expected cash flows, accordingly, the impairment test of these assets is considered to be a key audit matter. Management has provided further information about the impairments related to subsidiaries in note 10 – *Investments in subsidiaries* to the separate financial statements. Management has provided further information about the impairments of loans related to subsidiaries in note 16 – *Short term financial assets* to the separate financial statements.	Our audit procedures comprised of: • evaluation whether the model used by management to calculate the value in use of individual investments comply with the requirements of IAS 36 *Impairment of assets* and IFRS 13 *Fair value* and whether assumptions used are reasonable and supportable given the current macroeconomic climate and expected future performance; • assessment of competence, capabilities and objectivity of management's independent expert, and verification of the qualifications of the expert. In addition, we discussed the scope of his work with management. • we made use of our internal experts to evaluate whether the methodology used by the management expert is appropriate and whether the significant assumptions used are adequate for given purposes; • assessment whether recoverable amount is appropriately determined as value in use in accordance with IAS 36 requirements, including the assessment of historic accuracy of management estimates, assessment of appropriateness of methodologies and assumptions used for discount rate determination and calculation, review of relative data produced by the Company used in the calculations, analysis of the sensitivity of impairment test outcomes to the changes of the key parameters; • assessment of the expected credit losses on loans given to subsidiary depends significantly on the value in use calculations prepared for the impairment test purposes of investment in subsidiaries; • assessment of the restatement related to impairments in subsidiaries; • assessment whether information disclosed in the notes to the financial statements is complete and accurate and meets the

	requirements of applicable financial reporting standards.

Other Matter

The financial statements of the Company for the year ended December 31, 2018, were audited by another auditor who expressed a qualified opinion on those statements on 14 June 2019 due to inability to obtain sufficient audit evidence to support the projected future cash flows used by Company for investments in subsidiaries impairment test performed in accordance with IAS 36 *Impairment of assets*.

Other information

Management is responsible for the other information. The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we express no assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.

In relation to this and based on our procedures performed, we report that:

- other information are, in all material respects, consistent with the financial statements;
- other information are prepared in compliance with applicable law or regulation; and
- based on our knowledge and understanding of the Company and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

Responsibilities of Management, Supervisory board and Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements of the Company, management is responsible for assessing its ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Supervisory board and Audit Committee are responsible for overseeing the Company's financial reporting process and for approving audited annual report.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing rules will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing rules, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

With those charged with governance we communicate the planned scope and timing of the audit and significant findings from the audit, including deficiencies in internal control we have identified during our audit.

We also provide those charged with governance with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on Other Legal and Regulatory Requirements

<u>Appointment of the Auditor and the Period of Engagement</u>
Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 14 October 2019. Our total uninterrupted engagement has lasted 1 year.

<u>Confirmation to the Audit Committee</u>
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 20 April 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings, and which have not been disclosed in the Annual Report.

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Katarina Kadunc, certified auditor.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc
Certified auditor

For signature please refer to the original Slovenian version.

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

Ljubljana, 20 April 2020

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

STATEMENT OF THE MANAGEMENT'S RESPONSIBILITY

The Company's Management Board is responsible for the preparation of the financial statements, together with accounting policies and notes, for the year 2019, which give to the best of its knowledge and belief, a fair view of the development and results of the Company's operations and its financial position, including the description of material risks the Company is exposed to.

The Management Board confirms that appropriate accounting policies have been applied consistently in the preparation of the financial statements, that accounting estimates were prepared based on the principles of fair value, prudence and sound management, and that the financial statements give a true and fair view of the Company's financial position and the results of its operations in the year 2019.

The Management Board is also responsible for appropriate accounting and for taking adequate measures to protect the Company's property and other assets, and confirms that the financial statements, together with the notes thereto, have been prepared based on the going concern assumption and in accordance with applicable legislation and International Financial Reporting Standards as adopted by the European Union.

Anytime within 5 years after the end of the year in which the tax assessment should be made, the tax authorities can inspect the operations of the Company. 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 possible liability of this type is known to the Management Board.

Ljubljana, 20th April 2020

Andrey Zubitskiy
President of the Management Board

Tibor Šimonka
Member of the Management Board

Igor Malevanov
Member of the Management Board

Viacheslav Korchagin
Member of the Management Board

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

in EUR thousand	Note	2019	2018 Restated
Revenue	1	12,983	13,001
Gross profit		**12,983**	**13,001**
General and administrative expenses	2	(14,382)	(15,252)
Other operating income	3	126,511	10,821
Other operating expenses	4	(8,888)	(18,915)
Impairments of trade receivables (gains/losses)	17	7	(138)
Operating profit (loss)		**116,231**	**(10,483)**
Finance income	5	6,823	5,001
Finance expenses	6	(25,785)	(5,449)
Net income costs		**(18,962)**	**(448)**
Profit (loss) before tax		**97,269**	**(10,931)**
Income tax	7	(12,387)	6,298
Profit (loss) for the period		**84,882**	**(4,633)**
Items that will not be reclassified subsequently to profit or loss			
Income tax related to components of comprehensive income		(15)	(9)
Net actuarial losses on pension programs		(13)	0
Items that may be reclassified subsequently to profit or loss			
Change in other reserves due to changes of financial assets at fair value		78	48
Total other comprehensive income		**50**	**39**
Comprehensive income		**84,932**	**(4,594)**

The notes to the financial statements are an integral part of the financial statements and should be read in conjunction with them. More detailed explanation of the error correction is disclosed in Note 25.

STATEMENT OF FINANCIAL POSITION

in EUR thousand	Note	31 Dec. 2019	31 Dec. 2018 Restated	1 Jan. 2018
ASSETS				
Non-current assets		278,542	199,067	195.531
Intangible assets	8	512	610	695
Property, plant and equipment	9	6,249	6,014	6.109
Investment property		1	1	2
Investments in subsidiaries	10	197,266	155,269	159.959
Financial assets at fair value through other comprehensive income	11	1,334	1,256	1.193
Financial receivables	12	61,737	17,139	15.154
Trade receivables	13	10,300	11,296	11.296
Other assets		0	0	1
Deferred tax assets	14	1,143	7,482	1.122
Current assets		128,923	179,333	167.831
Assets (groups) held for sale	15	31	82,067	82.065
Financial receivables	16	84,877	63,135	75.790
Trade receivables	17	6,159	5,381	8.787
Income tax receivables		0	0	323
Cash and cash equivalents	18	37,656	28,672	312
Other assets		200	78	554
Total assets		407,465	378,400	363.362
EQUITY AND LIABILITIES				
Equity	19	271,655	196,723	207.014
Share capital		145,266	145,266	145.266
Capital surplus		11,461	11,461	11.461
Reserves from profit		5,940	1,696	1.696
Fair value reserves		375	325	286
Retained earnings		108,613	37,975	48.305
Non-current liabilities		40,786	71,804	94.703
Employee benefits	20	452	305	305
Financial liabilities	21	40,334	71,499	94.398
Current liabilities		95,024	109,873	61.645
Liabilities held for disposal (disposal groups)	15	0	3,907	3.290
Financial liabilities	22	83,522	83,944	55.159
Trade payables	23	5,222	21,750	3.013
Income tax liabilities		6,015	53	0
Other liabilities		265	219	183
Total equity and liabilities		407,465	378,400	363.362

STATEMENT OF CHANGES IN EQUITY

Statement of Changes in Equity for 2019

in EUR thousand	Share capital	Capital surplus	Reserves from profit	Fair value reserves	Retained earnings	Total
Balance as at 31 Dec. 2018	145,266	11,461	1,696	325	37,975	196,723
Dividends paid	0	0	0	0	(10,000)	(10,000)
Transactions with owners	0	0	0	0	(10,000)	(10,000)
Profit for the period	0	0	0	0	84,882	84,882
Other changes in comprehensive income	0	0	0	50	0	50
Total changes in comprehensive income	0	0	0	50	84,882	84,932
Creation of legal reserves	0	0	4,244	0	(4,244)	0
Total changes in equity	0	0	4,244	0	(4,244)	0
Balance as at 31 Dec. 2019	145,266	11,461	5,940	375	108,613	271,655

Statement of Changes in Equity in 2018 – Restated

in EUR thousand	Share capital	Capital surplus	Reserves from profit	Fair value reserves	Retained earnings	Total
Balance as at 31 Dec. 2017	145,266	11,461	1,696	286	48,381	207,090
Changes from first application of IFRS 9	0	0	0	0	(76)	(76)
Balance as at 1 Jan. 2018	145,266	11,461	1,696	286	48,305	207,014
Dividends paid	0	0	0	0	(5,696)	(5,696)
Transactions with owners	0	0	0	0	(5,696)	(5,696)
Loss for the period	0	0	0	0	(4,633)	(4,633)
Other changes in comprehensive income	0	0	0	39	0	39
Total changes in comprehensive income	0	0	0	39	(4,633)	(4,594)
Balance as at 31 Dec. 2018	145,266	11,461	1,696	325	37,975	196,723

The notes to the financial statements are an integral part of the financial statements and should be read in conjunction with them. More detailed explanation of the error correction is disclosed in Note 25.

CASH FLOW STATEMENT

in EUR thousand	Note	2019	2018 Adjusted
Cash flow from operating activities			
Profit (loss) before tax		97,269	(10,931)
Adjusted for:			
Depreciation and amortisation of intangible assets, property, plant and equipment, and investment property	8, 9	727	560
Interest income	5	(5,202)	(3,358)
Interest expenses	6	4,576	5,431
(Profit) loss on investment sales	15	(125,751)	12
Impairment of assets		28,655	18,625
(Reversal) creation of allowances and provisions		(30)	138
Dividends	10, 11, 15	(691)	(10,793)
Net other finance and operating (income) expenses		(225)	(1,626)
Operating cash flow before changes in working capital		(672)	(1,942)
Changes in working capital			
Change in trade receivables		(651)	4,290
Change in trade payables		(29,567)	19,047
Change in taxes other than income tax		134	(232)
Changes in working capital		*(30,084)*	*23,105*
Payments for retirement benefits		(6)	(11)
Income tax (payments) receipts		(102)	323
Net cash (used) generated from operating activities		(30,864)	21,475
Cash flow from investing activities			
Payments for investments in subsidiaries	10	(8,541)	(1)
Receipts for investments in subsidiaries	15	207,576	0
Payments for financial assets at fair value through other comprehensive income		0	(26)
Payments for property, plant and equipment		(135)	(148)
Receipts from property, plant and equipment		69	44
Payments for intangible assets		(29)	(6)
Payments for loans issued	16	(162,328)	(42,555)
Receipts from loans issued	16	42,514	40,844
Interests received		4,329	1,716
Dividends received	10, 11	1,687	10,793
Net cash generated in investing activities		85,142	10,661
Cash flow from financing activities			
Receipts from borrowings	21, 22	97,180	131,500
Payments for borrowings	21, 22	(128,713)	(125,525)
Receipts for financial services		1,293	1,624
Payments for lease		(617)	(419)
Interests paid		(4,437)	(5,260)
Dividends paid	19	(10,000)	(5,696)
Net cash used in financing activities		(45,294)	(3,776)
Cash and cash equivalents as at 1 Jan.	18	28,672	312
Net change in cash and cash equivalents		8.984	28,360
Cash and cash equivalents as at 31 Dec.		37,656	28,672

Continuation of the table →

Continuation of the table

The notes to the financial statements are an integral part of the financial statements and should be read in conjunction with them. More detailed explanation of the error correction is disclosed in Note 25.

NOTES TO THE STAND-ALONE FINANCIAL STATEMENTS

REPORTING ENTITY

SIJ – Slovenska industrija jekla, d.d. (hereinafter: company SIJ or the Company) is a company with its registered office in Slovenia. The address of its registered office is Gerbičeva ulica 98, 1000 Ljubljana. Given below are the financial statements for the period ending on 31 December 2019.

These are the separate financial statements of the Company. The consolidated financial statements are issued as at the same date. Consolidated financial statements for a broader group of subsidiaries are compiled by DILON Cooperatief U.A., the ultimate parent of SIJ d.d. The consolidated annual report for Group DILON Cooperatief is 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 are expressed in thousands of euros. Due to the rounding of the 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 Management Board considered the following three requirements: 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 affect users' economic decisions.

The Management Board approved the financial statements on 20 April 2020.

A. Statement of Compliance

The financial statements with associated notes have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by International Accounting Standards Board (IASB), and the interpretations of the IFRS Interpretations Committee (IFRIC), adopted by the EU, as well as in accordance with the Companies Act (ZGD).

Standards and Amendments to the Existing Standards Issued by IASB and Adopted by the European Union effective from 1 January 2019

- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IFRS 9 "Financial Instruments"** – Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 19 "Employee Benefits"** – Plan Amendment, Curtailment or Settlement – adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** – Long-term Interests in Associates and Joint Ventures – adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015–2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019;
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

Transition to IFRS 16 "Leases"

IFRS 16 application includes leases of all assets, with some exceptions. Lessees must, in accordance with the standard, account all leases using a harmonised model within the statement of financial position, similarly to how financial leases are accounted for under IAS 17. The Company applied IFRS 16 for annual periods beginning on or after 1 January 2019.

The Company applied IFRS 16 using modified retrospective approach. Comparative information presented for 2018 is not restated. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered or changed on or after 1 January 2019.

For leases previously classified as operating leases, the Company measures the lease liability at the date of initial application as the present value of the remaining lease payments. The discount rate is the Company's incremental borrowing rate at that date. For leases previously classified as operating leases, the Company measures the right-of-use assets at an amount equal to the lease liability.

Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these leases.

On transition to IFRS 16, the Company elected to apply the practical expedients. For short-term leases with a lease term not exceeding 12 months and with no option to purchase, and for leases of low-value assets where the Company has considered new assets which do not individually exceed EUR 5 thousand. For these leases the Company recognises the lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented in profit or loss statement, within item Costs of goods, material and services.

The Company depreciates the right-to-use assets, and attributes interests to the lease liabilities.

Accounting for leases will not undergo any significant changes for lessors. The lessor defines the lease, based on its nature, either as operating or financial. A lease is classified as financial if it includes the transfer of all significant risks and rewards incidental to ownership. Otherwise, the lease is considered as operating.

IFRS 16 replaces the existing lease management instructions included in IAS 17 "Leases", IFRIC 4 "Determining Whether an Agreement Contains a Lease", SIC-15 "Operating Leases" – Incentives, SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

A more detailed information about the Company's policies as a lessee or a lessor is presented in the section 'Accounting Policies, "Property, plant and equipment", subsection "Leases"'.

Effect of Applying IFRS 16

Effect of Applying IFRS 16 on the Company's Statement of Financial Position as at 1 January 2019

in EUR thousand	1 Jan. 2019	Effect of applying IFRS 16	31. 12. 2018
Right-of-use asset	1,053	185	868
Current lease liabilities	489	80	409
Non-current lease liabilities	551	105	446
Total lease liabilities	1,040	185	855

The right-of-use asset and lease liabilities are not stated as a separate item in the statement of financial position but are disclosed separately in notes to the financial statements, as provided in IFRS 16.

Effect of Applying IFRS 16 on the Company's Income Statement in the Period from 1 January until 31 December

in EUR thousand	2019
Increase in depreciation of the right-of-use asset	150
Increase in finance costs	12
Decrease in other expenses	(99)
Increase in profit for the period	63

Lease liabilities reconciliation at date of initial application, 1 January 2019

in EUR thousand	1 Jan. 2019
Operating lease commitments at 31 Dec. 2018	219
Short term leases	(28)
The effect of discounting the above amounts using the incremental borrowing rate (2.51%)	(6)
Finance lease liabilities recognised under IAS 17 as at 31 Dec. 2018	855
Lease liabilities recognised as at 1 Jan. 2019	1,040

The Company assesses that the adoption of the amendments to other existing standards will not have any significant effect on the financial statements at their first application.

Standards and Amendments to the Existing Standards Issued by IASB and Adopted by the European Union, But Not Yet Effective

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** – Interest Rate Benchmark Reform - adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to References to the Conceptual Framework in IFRS Standards** adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

The Company assesses that the adoption of these new standards and amendments will not have any significant effect on the financial statement at their first application.

Standards and Amendments Issued by IASB, but not yet Adopted by the EU

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to IFRS 3 "Business Combinations"** – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period);
- **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 and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

The Company assesses that the adoption of these new standards, and the amendments of existing standards will not have any significant effect on the financial statement at their first application. 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 accounting of hedging instrument in connection with financial assets and liabilities in accordance with the requirements of IAS 39 – "Financial Instruments: Recognition and Measurement" would not have a significant influence on the financial statements, if it was used on the date of the Statement of financial position.

B. Basis of Measurement

The financial statements have been prepared based on historical cost, except for the financial instruments, which are measured at their fair value or amortised cost.

C. Functional and Presentation Currency

The financial statements in this report are presented in euros; the euro is also the functional currency of the Company.

D. Application of Estimates and Judgments

The preparation of financial statements requires the Management Board 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 financial statements, and the disclosed amounts of income and expenses during the reporting period.

Since estimates are subject to subjective judgments and a certain degree of uncertainty, the subsequent actual results can differ from those estimated. Estimates are reviewed on an ongoing basis. Amendments to the accounting estimates are recognised 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.

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

Estimate of the useful life of assets subject to amortization or depreciation (Notes 8 and 9, and Policies E and F)

When estimating the useful life of assets, the Company considers the expected physical wear and tear, the technical and economic obsolescence, as well as expected legal and other restrictions of use. In addition, the Company checks the useful life of significant assets in case circumstances change and the useful life needs to be changed and amortization or depreciation charges revalued.

Impairments of assets

Information on significant uncertainty estimates and critical judgments that were prepared by the Management Board in the process of accounting policy implementation and which affect the amounts in the financial statements the most was used in the estimation of the value of:

- investment property;
- investments in subsidiaries (Note 10);
- financial assets measured at amortised cost (including trade receivables) (Policy H);
- financial receivables (Note 12 and 16).

Estimation of the fair value of assets (Policies J and K)

Fair value is used for financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss. All other items in the financial statements represent the purchase or amortised cost.

In measuring the fair value of a non-financial asset, the Company must take into account a market participant's ability to generate economic benefits using the asset in its best use or by selling it to another market participant that would use the asset to the fullest and best possible extent. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, especially by applying appropriate market input data and minimum non-market inputs.

All assets and liabilities measured and disclosed in the financial statements at fair value are classified within the fair value hierarchy based on the lowest level of input data that is relevant for the fair value measurement as a whole:

Level 1 – quoted (unadjusted) prices in active markets for similar assets and liabilities;
Level 2 – valuation techniques that are based directly or indirectly on market data;
Level 3 – valuation techniques that are not based on market data.

For assets and liabilities already disclosed in the financial statements in previous periods, the Company determines at the end of each reporting period whether transfers have occurred between levels by re-assessing the classification of assets based on the lowest level input that is relevant for the fair value measurement as a whole.

The fair value hierarchy of assets and liabilities of the Company is presented in Note ‘Financial Instruments and Risks’.

Estimate of created provisions (Policy M)

A provision is recognised when the Group, due to a past event, has a legal or constructive obligation which can be reliably measured, and if it is probable that settling the obligation will require an outflow of resources embodying economic benefits. Possible obligations are not recognised in the consolidated financial statements as liabilities, as it has yet to be confirmed whether the Group has a present obligation that could lead to outflows of economic. The Management is regularly checking whether it is probable that the settling of the contingent obligation will require an outflow of resources enabling economic benefits. If such outflow becomes probable, the possible obligation is reclassified when a degree of probability has changed by creating in the consolidated financial statements a provision for it.

Estimate of provisions for employee post-employment and other long-term benefits (Note 20 and Policy N)

Defined post-employment and other benefit obligations include the present value of post-employment benefits on retirement and jubilee benefits. They are recognised based on an actuarial calculation which is prepared by an authorised actuary and approved by the Management Board. An actuarial calculation is based on the assumptions and estimates applicable at the time of the calculation, and these may differ from the actual assumptions due to future changes. This mainly refers to determining the discount rate, the estimate of staff turnover, the mortality estimate, and the salary increase estimate. Due to the complexity of the actuarial calculation and the item's long-term nature defined benefit obligations are sensitive to changes in the said estimates.

Assessing the possibility of using deferred tax assets (Note 14 and Policy D)

The Company recognises deferred tax assets in connection with provisions for jubilee benefits and post-employment benefits on retirement, impairment of financial assets, impairment of receivables, and tax losses.

On the day the financial statements are completed, the Company verifies the amount of recognised deferred tax assets and liabilities. Deferred tax assets are recognised if it is probable that future taxable net profit will be available against which deferred tax assets can be utilised in the future. Deferred taxes are derecognised by the amount for which it is unlikely to enforce the tax relief associated with the asset.

E. Prior Periods Errors

The Company corrects prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery. The Company corrects errors by restating the comparative amounts for the prior period(s) presented in which the error occurred; and if the error occurred before the earliest prior period presented, by restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

A more detailed explanation of the error correction is disclosed in Note 25.

SIGNIFICANT ACCOUNTING POLICIES

A. Foreign Currency Conversion

Transactions in foreign currencies are translated into the adequate functional currency at the ECB (European Central Bank) exchange rate on the trade date. Cash assets and liabilities denominated in a foreign currency at the end of the period are translated into the functional currency at the exchange rate applicable at that time. Positive or negative exchange rate differences are the differences between the amortised cost in functional currency at the beginning of the period and the payments during the period, and the amortised cost in a 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 into the functional currency at the exchange rate on the date when the fair value is set. Non-cash assets and liabilities, denominated in foreign currency and measured at cost, are translated into the functional currency at the exchange rate on the date of the transaction. Exchange rate differences are recognised in profit or loss.

B. Revenues

The Company is a holding company and it generates revenue from managing its subsidiaries. The Company accounts for contracts with customers if all the following criteria according to IFRS 15 are met: (i) contracting parties have approved a contract (in writing, orally, or in accordance with other standard business practices) and are obliged to fulfill their obligations; (ii) the Company can identify the rights of each contracting party to the services to be transferred; (iii) the Company can identify payment terms and conditions for services to be transferred; (iv) the contract has commercial substance; (v) it is probable that the Company will be entitled to a consideration in exchange for the services which will be transferred to a customer.

Revenue from contracts with customers is recognised at the moment of transfer of control over services to a customer in the amount of consideration that the Company expects to be entitled to in exchange for transferring the services. Revenue from contracts with customers is recognised at the fair value of received repayments decreased by repayments, discounts, rebates for further sales, and quantity discounts.

Sale of Services

Revenue and other operating income are recognised when the service is performed, and the customer obtains control of services according to IFRS 15.

The Company is a holding managing its subsidiaries. From this, it also generates revenues which are recognised over time. Revenues are recognised equally during the period when a service is provided. The buyer receives and enjoys the benefits provided by the Company. Within sale of services, the largest portion represent management fees charged to the subsidiaries. Management fees are charged based on the earnings of each subsidiary, in addition the percentage of commission charged depends on the size of the subsidiary. For sales of services, a performance obligation arises over time during the period when the services are provided, being charged on a monthly basis.

Finance Income

Finance income comprises interest income and positive exchange rate differences resulting from financing and investing. Interest income is recognised upon its occurrence, using the effective interest rate method.

C. Expenses

Expenses are recognised 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 recognised when the costs are no longer held in inventories, finished and unfinished products, or when goods are sold. Costs that cannot be held in inventories of finished and unfinished products are recognised as operating expenses when they are incurred.

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 recognised in the income statement using the effective interest rate method.

D. Taxation

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

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

Deferred tax is recognised in total by applying the liability method on temporary differences, which arise 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 realised or the deferred tax liability is recovered. A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised. If in the future the available taxable profit is insufficient to create the deferred tax assets for the full amount of unused tax relief, they are created based on maturity of tax relief utilisation possibilities in accordance with the legislation.

A deferred tax liability is recognised for all taxable temporary differences, unless they come from initial goodwill recognition, or the initial recognition of an asset or liability in a business transaction other than a business combination and affects neither the accounting profit nor taxable profits (tax loss) during the transaction.

Tax loss in a tax period can be covered by reducing the tax base in the subsequent tax periods. In reducing the tax base due to tax losses from preceding tax periods, the tax base shall first be reduced by the oldest tax loss. A reduction of the tax base due to tax losses from preceding tax periods may only be allowed to a maximum of 50 percent of the tax base for the tax period.

Tax base may be reduced by legally imposed percentage of the amount invested in equipment, intangible assets and for the amount invested in research and development, along with utilisation of unused portion of the tax relief from preceding tax periods. For the unused part of the tax relief in the tax period, the Company can reduce the tax base in the subsequent five tax periods. In reducing the tax base due to the unused portion of the tax relief from preceding tax periods, the tax base shall first be reduced by the oldest unused portion of the tax relief. As of 1 January 2020, the utilization of unused tax loses, and tax reliefs together cannot exceed 63 percent of the tax base.

E. Intangible Assets

Intangible assets with a definite useful life are recognised 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 recognised as part of the cost of such an asset. The cost model is used for any subsequent measuring of intangible assets.

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

Intangible assets with indefinite useful life are not amortised, they are impaired.
The estimated useful life of individual intangible assets for the current and past year 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 recognised 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 recognised in the income statement as expenses as soon as they are incurred.

F. Property, Plant and Equipment

Tangible assets (property, plant and equipment) are carried at its cost less any accumulated depreciation and accumulated impairment losses, except for land and other assets that are not depreciated, which are recognised 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 recognised as part of the cost of each such asset. The cost model is used for any subsequent measuring of property, plant and equipment.

Depreciation is calculated on a straight-line basis over the estimated useful life of each individual part (component) of the tangible asset. Leased assets (in 2018) and right-of-use assets (in 2019) are depreciated over the estimated period of lease and useful life, depending on which is shorter. Land and unfinished construction are not depreciated. Depreciation is accounted when an asset becomes available for use.

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

	Useful life
Real estate	20–55 years
Computer equipment	2–5 years
Motor vehicles	3–8 years
Other equipment	2–10 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 these assets are recognised 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 the cost of the asset can be measured reliably. All other costs are recognised in the income statement as expenses as soon as they are incurred.

Carrying amount recognition of an item of property, plant and equipment is derecognised when disposed or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. Disposal effects are recognised in other operating income or expenses.

Leases

Accounting Policy Being Used after 1 January 2019

Leases are determined in accordance with new IFRS 16 with effect from 1 January 2019. According to the new standard the Company is using single model for majority of lease items in the Statement of Financial Position. Effect of the new standard is summarised in the section 'Basis of Preparation'.

i. Company as a Lessee

When signing a contract, the Company assesses whether the contract is or contains lease. The Company recognises a lease liability and the right-of-use asset if it deems that the leased asset is identified, and when it controls the use of the asset. The Company depreciates the right-of-use assets, and attributes interests to the lease liabilities.

The Company follows exceptions allowed by the standard, namely for short-term leases with a lease term not exceeding 12 months and with no option to purchase, and for lower-valued leases, where the Company takes into account new assets which do not individually exceed EUR 5 thousand. For these leases the Company recognises the lease payments as operating expenses on a straight-line basis, unless another systematic basis is more representative.

Variable leases payments which do not depend on an index or a rate are not included in the measurement of lease liabilities and the right-of-use assets. The related payments are recognised in the period to which they relate as operating expense.

On the date of the commencement of the lease term, the lease liability is measured at present value of future leases and discounted at interest rate implicit in the lease. If this rate cannot be readily determined, an incremental borrowing rate is used. The Company remeasures lease liability by discounting modified lease payments using modified discount rates, if a lease term or assessment of the exercise of option to buy leased asset had been changed. When doing so, the lessee determines the modified discount rate as an interest rate implicit in the lease for the remaining lease term.

On the date of the commencement of the lease term, an asset representing the right-of-use is measured at cost. Value of assets representing the right-of-use includes the value of initial measurement of lease liability, and leases payments paid on or before the commencement of the lease term decreased by lease incentives and increased by initial directly attributable costs. After the date of commencement of the lease term, an asset representing the right-of-use is measured at cost decreased by accumulated depreciation and accumulated impairment losses and corrected by remeasured lease liability if an index or a rate has changed.

The right-of-use asset is depreciated from the date of the commencement of lease until the end of useful life or end of lease term, whichever is shorter. If the lease transfers ownership of the asset or the value of asset representing the right-of-use reflects expectation that the Company will use the possibility to buy, the asset representing the right-of-use is depreciated from the date of the commencement of lease until the end of useful life of leased asset. For determining whether the right-of-use asset is impaired and for other impairment related matters, the Company uses IAS 36.

ii. Company as a Lessor

The Company classifies each of its leases as operating or financial lease. A lease is classified as financial lease if it includes the transfer of substantially all significant risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases. The Company is only in a position of a lessor in operating leases.

Lease rental income from operating lease is recognised on a straight-line basis. Initial directly attributable costs incurred from acquisition of a lease are added to carrying amount of the leased asset. These costs are recognised as an expense during a lease term on the same basis as lease rental income.

Accounting Policy Being Used before 1 January 2019

i. Company as a Lessee

Lease: when assessing whether it is a finance lease, the Management Board follows a lease contract content assessment, i.e. whether substantially all risks and rewards incidental to ownership of the leased asset are transferred to the lessee. Following factors are taken into account: lease term with regard to useful life of an asset, present value of minimum lease payments with regard of fair value of an asset, and whether there is an ownership transfer to the lessee at the end of the lease. For leases of land and buildings, firstly the minimum lease payments for components based on relative fair values of appropriate shares of lease are attributed. Later, each component is estimated separately for possible classification as finance lease, taking into consideration that the useful life of land is indefinite. Interest element of lease payments is disclosed in profit or loss as finance cost during the lease contract validity.

Operating lease: all other leases are classified as operating leases. Lease payments are recognised on a straight-line basis over the lease term.

ii. Company as a Lessor

Lease rental income from operating leases is recognized on a straight-line basis during the period of lease.

G. Investments in Subsidiaries

Investments in subsidiaries are recognised at cost. The Company recognises revenues from financial investments in the amount arising from the distribution of the accumulated profit after the date of the acquired financial investment.

If a loss made by a subsidiary requires the investment to be impaired, the impairment loss is measured as the difference between the investment's carrying amount and recoverable value.

H. Financial Instruments

Financial instruments include non-derivative financial assets and non-derivative financial liabilities. Financial instruments are carried at fair and at amortised cost. Fair value is a price that would be achieved by selling an asset or paid by transferring a liability in an orderly transaction between market participants at the date of measurement.

Non-Derivative Financial Assets

At initial recognition a financial asset is classified into one of the following groups: financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income, or cash and cash equivalents.

Non-derivative financial assets include cash and cash equivalents, loans and receivables, and investments. The Company recognises liabilities, borrowings and deposits when they are incurred. Other assets are initially recognised on the trade date on which the Company becomes a contracting party in a contract on the instrument. The financial asset is derecognised when the contractual rights of the cash flows from the financial asset expire, or when the rights of the contractual cash flows are transferred from a financial asset based on a business transaction in which all the risks and benefits of ownership of the financial asset are transferred.

A more detailed explanation of the impairment of financial assets is disclosed in Policy J.

i. Financial Assets at Fair Value through Other Comprehensive Income

Financial assets at fair value through other comprehensive income that have the nature of a debt instrument are the financial assets held by the Company under its business model for collecting contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, and financial assets available for sale. For debt instruments at fair value through other comprehensive income, interest income, foreign exchange differences and impairment losses or reversals are recognised in the statement of profit or loss and accounted for in the same manner as financial assets at amortised cost. The remaining fair value changes are recognised in the statement of other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is reclassified to profit or loss.

Financial assets at fair value through other comprehensive income that have the nature of an equity instrument are the financial assets that meet the definition of equity under IAS 32 "Financial Instruments" for which the Company elected to classify them irrevocably as equity instruments designated at fair value through other comprehensive income and which are not held for trading. The classification is determined on an instrument-by-instrument basis. Gains and losses on these financial assets are never reclassified to profit or loss.

Dividends are recognised as other revenue in the statement of profit or loss when the Company's right of payment has been established.

ii. Financial Assets at Amortised Cost

The Company's financial assets at amortised cost include financial assets held to collect contractual cash flows when the cash flows are solely payments of principal and interest on the principal amount outstanding. The Company's financial assets at amortised cost include loans and receivables. Depending on their maturity, they are classified as current (maturity of up to 12 months from the date of the statement of financial position) or non-current financial assets (maturity of more than 12 months from the date of the statement of financial position). Financial assets measured at amortised cost are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less any impairment losses. Gains and losses are recognised in profit or loss when derecognised, modified or impaired.

Trade receivables insurance is not considered as a specific financial instrument, but as an integral part of receivables. Insurance policies are concluded periodically and are related to specific receivables and/or business partners. The concluded insurance policy is flexible. Business partners can be included or excluded from the insurance during the duration of the insurance policy. Insurance policies are related to trade receivables insurance exclusively.

iii. Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, bank deposits up to three months, and other current and easily realisable investments with original maturity of three months or less. They are recognised at cost.

Non-Derivative Financial Liabilities

Non-derivative financial liabilities include trade payables, financial and other liabilities. Financial liabilities are initially recognised on the trade date on which the Company becomes a contracting party in relation to the instrument. The Company derecognises a liability when the contractual obligations are fulfilled, annulled or expired.

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

I. Assets (Groups) Held for Sale

Assets or disposal groups which include assets and liabilities for which it can be expected that their value will be recovered through sale, and the sale is very probable, 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 a disposal group are recognised at their carrying amount or fair value less cost of sale, whichever is lower. Impairment losses on the reclassification of assets as assets held for disposal, and subsequent losses and gains on re-measurement, are recognised in profit or loss. Gains are not recognised 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.

Upon sale, the Company derecognizes an asset (group) held of sale and recognises the effect of the disposal among other operating income or expenses less costs directly attributable to the sale.

J. Impairment of Assets

Financial Assets

According to IFRS 9, the Company uses the expected credit loss model. According to this model, the Company recognises not only incurred losses, but also losses which are expected to be incurred in the future. The Company assesses indications of impairment of financial instruments. Impairment estimates are based on the expected credit losses associated with the probability of defaults of financial instrument over the next 12 months, if the credit risk has not increased significantly since initial recognition. For financial assets such as trade receivables that do not contain a significant component of financing, a simplified approach is used to calculate value adjustment as an amount equal to the expected credit losses over the life of the asset. The Company creates groups of receivables based on collateral, maturity of receivables and similar risk characteristics and repayments in previous years, corrected for the management's assessment of whether actual losses due to current economic and credit conditions may be greater or less than the losses foreseen in the past development.

In case the credit risk has increased significantly since initial recognition, but there are no objective indications for assets impairment, the impairment estimates are based on the probability of default over the life of the financial asset. Expected credit losses represent the difference between the contractual cash flows that are due and all the cash flows that the Company expects to receive. For financial assets that show objective signs of impairment at the reporting date, an allowance for impairment losses due to expected credit losses is made in its entirety.

The Company recognizes a write-off of a financial asset when it reasonably expects that the contractual cash flows will fail to recover. 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. The Company evaluates evidence of loan impairment on a loan-by-loan basis.

Financial assets measured at fair value through other comprehensive income include investments in equity securities or shares of other companies for which an irrevocable non-trading decision was made upon initial recognition. The fair value of quoted securities is measured at the stock exchange rate at the reporting date. Gains or losses on changes in fair value are recognized in other comprehensive income and are recognized directly in equity as the fair value reserve of financial instruments in net amount. The amounts presented in other comprehensive income may not be subsequently transferred to profit or loss. Accumulated profit or loss is transferred within equity.

Non-Financial Assets

At each reporting date, the Company reviews the carrying value of its significant non-financial assets to determine whether there is an indication of impairments. If any such indication exists, the recoverable value of the asset 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 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. For the purpose of the impairment test, assets which cannot be tested individually are classified as the smallest possible group of assets that generate cash inflows from further use and which are largely independent of the inflow of other assets or groups of assets (cash-generating units).

The impairment of an asset or cash-generating unit is recognised if their carrying amount exceeds their recoverable value. The impairment is recognised 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 amortisation write-off, if no impairment loss had been recognised for the asset in previous years.

K. 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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the date of measurement. The Company determines the fair value of financial instruments by taking into account the following fair value hierarchy:

- Level 1 comprises market prices in active markets for identical assets or liabilities;
- Level 2 comprises values other than market prices included within Level 1 that are observable either directly (prices for identical or similar assets or liabilities in markets that are less active or inactive) or indirectly (e.g. values derived from quoted prices in an active market, based on interest rates and yield curves, implied volatilities, and credit spreads);
- Level 3 comprises inputs for the asset or liability that are not based on observable market data. Unobservable inputs need to reflect the assumptions that market participants would use when determining a price for the asset or liability, including risk assumptions.

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

Intangible Assets

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

Property, Plant and Equipment

The fair value of property, plant and equipment is their market value. The market value of property is equal to the estimated value at which the property could be sold on the date of valuation and after proper marketing. The market value of equipment is based on the approach using quoted market price for similar items. If there is no quoted market price, the method of discounted cash flows which are expected to arise from use and possible disposal of the assets is used.

Financial Assets at Fair Value through Profit or Loss and through Other Comprehensive Income

The fair value of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income is determined by reference to the above fair value hierarchy for financial instruments.

Receivables and Loans

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

Non-Derivative Financial Liabilities

For reporting purposes, the fair value is calculated based on the present value of future principal payments and interest discounted at the market interest rate at the end of the reporting period.

L. Equity

Share Capital

The share capital of the Company takes the form of share capital, the amount of which is defined in the Company's Articles 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 based on simplified decrease of share capital, and the amounts based on reversal of general revaluation adjustment.

Reserves

Reserves include: legal reserves, reserves from profit, fair value reserves, actuarial gains and losses.

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 Meeting of Shareholders, the planned dividends are treated as retained earnings.

M. Provisions

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

N. Employee Benefits

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

The provisions are formed in the amount of estimated future payments for loyalty bonuses and severance pay, discounted at the end of the financial year. The calculation is made for 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 based on a projected unit by an actuary, who is selected at the Group level. The provisions are reviewed periodically or when the assumptions used to determine the amount of provision change significantly.

O. Deferred Incomes

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

State and other subsidies received for covering of expenses are consistently recognised as revenues in periods in which the respective expenses, which the subsidies should cover, are incurred.

P. Cash Flow Statement

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

NOTES TO INDIVIDUAL ITEMS IN THE FINANCIAL STATEMENTS

1. REVENUE

in EUR thousand	2019	2018
In Slovenia	12,976	12,994
In other countries	7	7
Revenue	12,983	13,001

2. OPERATING EXPENSES

in EUR thousand	2019	2018
Cost of goods, materials and services	3,269	3,249
Labour costs	10,119	11,200
- wages and salaries	*7,379*	*9,059*
- social security costs	*2,005*	*1,510*
- other labour costs	*735*	*631*
Depreciation and amortisation costs	727	560
Other costs	267	243
Operating expenses	14,382	15,252

The auditing costs for the 2019 Annual Report amounted to EUR 29 thousand (2018: EUR 20 thousand). The cost for other audit services amounted to EUR 1 thousand (2018: EUR 2 thousand).

Average Number of Employees by Level of Education

	2019	2018
Secondary vocational school	2.00	2.92
Secondary general school	7.33	6.25
1st cycle degree – Bachelor's degree	8.42	9.33
2nd cycle degree – Master's degree	70.25	68.71
3rd cycle degree – Doctoral degree	12.17	13.75
Total	100.17	100.96

3. OTHER OPERATING INCOME

in EUR thousand	2019	2018
Profit from sale of assets (groups) held for sale (Note 15)	125,751	0
Revenues from dividends (Notes 10, 11 and 15)	691	10,793
Revenues from received subsidies	24	18
Other income	45	10
Other operating income	126,511	10,821

4. OTHER OPERATING EXPENSES

in EUR thousand	2019	2018 Restated
Expenses for donations and sponsorships	504	218
Impairment of assets (Notes 10 and 25)	7,671	18,625
Compensations	698	0
Other expenses	15	72
Other operating expenses	8,888	18,915

5. FINANCE INCOME

in EUR thousand	2019	2018
Interest income	5,202	3,357
Revenues from issued guarantees	1,621	1,633
Other income	0	11
Finance income	6,823	5,001

6. FINANCE EXPENSES

in EUR thousand	2019	2018
Interest expenses	4,576	5,431
Exchange rate differences	4	0
Impairment of loans issued	20,984	0
Other expenses	221	18
Finance expenses	25,785	5,449

7. INCOME TAXES

in EUR thousand	2019	2018
Current income tax expense	(6,064)	(53)
Deferred income tax	(6,323)	6,351
Income tax (expenses) income	(12,387)	6,298

in EUR thousand	2019	2018
Profit (loss) before tax	97,269	(10,931)
Tax at effective tax rate 19%	18,481	(2,077)
Tax effects from:		
- non-taxable income	*(11,804)*	*(1,323)*
- tax non-deductible expenses	*5,804*	*3,661*
- utilisation of previously unrecognised tax losses	*0*	*(228)*
- tax reliefs	*(94)*	*0*
- tax losses for which deferred tax assets were subsequently recognised (Note 14)	*0*	*(6,331)*
Taxes	12,387	(6,298)
Effective tax rate	12.73%	0.00%

8. INTANGIBLE ASSETS

Movement of Intangible Assets in 2019

in EUR thousand	Software	Assets under construction	Total
Cost as at 31 Dec. 2018	1,286	23	1,309
New additions	0	12	12
Transfer from assets under construction	35	(35)	0
Cost as at 31 Dec. 2019	1,321	0	1,321
Accumulated amortisation as at 31 Dec. 2018	(699)	0	(699)
Amortisation	(110)	0	(110)
Accumulated amortisation as at 31 Dec. 2019	(809)	0	(809)
Carrying amount as at 31 Dec. 2018	587	23	610
Carrying amount as at 31 Dec. 2019	512	0	512

On 31 December 2019, the Company had none unsettled liabilities arising from the purchase of intangible assets (2018: EUR 19 thousand). The intangible assets are not pledged as security for liabilities.

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

Movement of Intangible Assets in 2018

in EUR thousand	Software	Assets under construction	Total
Cost as at 31 Dec. 2017	1,257	29	1,286
New additions	0	23	23
Transfer from assets under construction	29	(29)	0
Cost as at 31 Dec. 2018	1,286	23	1,309
Accumulated amortisation as at 31 Dec. 2017	(591)	0	(591)
Amortisation	(108)	0	(108)
Accumulated amortisation as at 31 Dec. 2018	(699)	0	(699)
Carrying amount as at 31 Dec. 2017	666	29	695
Carrying amount as at 31 Dec. 2018	587	23	610

9. PROPERTY, PLANT AND EQUIPMENT

Movement of Property, Plant and Equipment in 2019

in EUR thousand	Land	Buildings	Equipment	Assets under construction	Total
Cost as at 31 Dec. 2018	717	5,156	2,528	0	8,401
Effect of applying IFRS 16	0	0	185	0	185
Cost as at 1 Jan. 2019	717	5,156	2,713	0	8,586
New additions	0	0	0	737	737
Transfer from assets under construction	0	24	713	(737)	0
Disposals	0	(7)	(133)	0	(140)
Cost as at 31 Dec. 2019	717	5,173	3,293	0	9,183
Accumulated depreciation as at 31 Dec. 2018	0	(1,256)	(1,131)	0	(2,387)
Depreciation	0	(144)	(473)	0	(617)
Disposals	0	4	65	0	69

Continuation of the table →

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000 EUR	Land	Buildings	Equipment	Assets under construction	Total
Accumulated depreciation as at 31 Dec. 2019	0	(1,396)	(1,538)	0	(2,934)
Carrying amount as at 31 Dec. 2018	717	3,900	1,397	0	6,014
Carrying amount as at 31 Dec. 2019	717	3,777	1,755	0	6,249

The increase in property, plant and equipment results from the purchase of computer equipment, office furniture, and the purchase of vehicles. Disposals include sales of vehicles and computer equipment.

Items of property, plant and equipment are not pledged as security for liabilities. On 31 December 2019 the Company's unsettled liabilities to suppliers for the purchase of property, plant and equipment amount to EUR 7 thousand (2018: EUR 6 thousand). The Company did not capitalise borrowing costs in 2019 and 2018.

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 2018

in EUR thousand	Land	Buildings	Equipment	Assets under construction	Total
Cost as at 31 Dec. 2017	717	5,142	2,347	0	8,206
New additions	0	0	0	402	402
Transfer from assets under construction	0	14	388	(402)	0
Disposals	0	0	(207)	0	(207)
Cost as at 31 Dec. 2018	717	5,156	2,528	0	8,401
Accumulated depreciation as at 31 Dec. 2017	0	(1,112)	(985)	0	(2,097)
Depreciation	0	(144)	(308)	0	(452)
Disposals	0	0	162	0	162
Accumulated depreciation as at 31 Dec. 2018	0	(1,256)	(1,131)	0	(2,387)
Carrying amount as at 31 Dec. 2017	717	4,030	1,362	0	6,109
Carrying amount as at 31 Dec. 2018	717	3,900	1,397	0	6,014

The right-of-use asset is not stated as a separate item in the statement of financial position. It is included in property, plant and equipment. Movement of the right-of-use asset is disclosed in the table below.

Movement of the Right-Of-Use Asset in 2019

in EUR thousand	Equipment	Total
Cost as at 31 Dec. 2018	1,167	1,167
Effect of applying IFRS 16	185	185
Cost as at 1 Jan. 2019	1,352	1,352
New additions	601	601
Reversal of the right-of-use asset	(69)	(69)
Cost as at 31 Dec. 2019	1,884	1,884
Accumulated depreciation as at 31 Dec. 2018	(299)	(299)
Depreciation	(308)	(308)
Reversal of right-of-use asset	23	23
Accumulated depreciation as at 31 Dec. 2019	(584)	(584)
Carrying amount as at 31 Dec. 2018	868	868
Carrying amount as at 31 Dec. 2019	1,300	1,300

The Company has cars under lease. It has an option to buy the asset after the lease period, but it is planning to return the cars after the lease period and lease new ones. Analysis of the maturity of lease liabilities and the lowest sum of future leases payments are described in Notes 21 and 22. In 2019 the interest expenses for lease liabilities amounted to EUR 29 thousand.

The Company follows exceptions allowed by the standard, namely for short-term leases, and for leases of low valued assets. In 2019, the total expenses related to of these leases amounted to EUR 204 thousand.

10. INVESTMENTS IN SUBSIDIARIES

in EUR thousand	31 Dec. 2019	31 Dec. 2018 Restated
SIJ ACRONI d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	111,337	91,336
SIJ METAL RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	46,714	43,714
GRIFFON & ROMANO S.P.A., Via Dossetti 11, Loc. Casinello de Dosso, Italy	0	0
SIJ RAVNE STEEL CENTER d.o.o., Litostrojska cesta 60, Ljubljana, Slovenia	11,987	6,815
NIRO Wenden GmbH, Glück-Auf-Weg 2, Wenden, Germany	0	0
NOŽI RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	505	656
ODPAD d.o.o. Pivka, Velika Pristava 23, Pivka, Slovenia	4,981	4,981
SIJ ELEKTRODE JESENICE d.o.o., Cesta železarjev 8, Jesenice, Slovenia	957	957
SIJ SUZ d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	616	616
SIJ ZIP CENTER d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	68	68
SIJ Asia GmbH, Berger Str. 2, 40213 Düsseldorf, Germany	100	100
SIJ RAVNE SYSTEMS d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	8,945	6,025
SIJ POLSKA Sp. Z.o.o., ul. Zamkowa 7 lok. 11, Poznan, Poland	1	1
HOLDING PMP d.o.o., Gerbičeva 98, 1000 Ljubljana, Slovenia	7,687	0
KOPO INTERNATIONAL, 100 Village Court, Suite 202, Hazlet, 07730 New Jersey, USA	2,670	0
OOO SSG, 119019, Moskva, Novy Arbat, d. 21, pom. I, et. 21, kom. 29, Russia	698	0
Investments in subsidiaries	197,266	155,269

In 2019, the Company acquired from its subsidiary SIJ METAL RAVNE d.o.o. a 100% share of KOPO INTERNATIONAL and a 22.72% share of SIJ RAVNE STEEL CENTER and became their 100% owner. The acquisition price was established based on a valuation prepared by an independent appraiser. The Company established a new company OOO SSG Russia and transferred an investment in HOLDING PMP d.o.o. from assets held for disposal (disposal groups) to investments in subsidiaries.

Received dividends (without considering assets held for sale, note 15) in 2019 amounted to EUR 595 thousand (2018: EUR 1,546 thousand).

Information on Subsidiaries as at 31 December 2019

in EUR thousand	Activity	% of voting rights	Value of equity as at 31 Dec. 2019	Net profit (loss) for 2019
SIJ ACRONI d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	Steel production	100	177,033	(4,364)
SIJ METAL RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Steel production	100	77,483	(10,695)
NOŽI RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Industrial knives production	100	554	(102)
SIJ ELEKTRODE JESENICE d.o.o., Cesta železarjev 8, Jesenice, Slovenia	Welding materials production	100	2,184	(1,255)
SIJ SUZ d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	Drawn wires production	100	2,815	152
SIJ ZIP CENTER d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Education and training of the disabled	100	769	88
ODPAD d.o.o. Pivka, Velika Pristava 23, Pivka, Slovenia	Recovery of secondary raw materials from scrap	74.90	7,973	210
NIRO Wenden GmbH, Glück-Auf-Weg 2, Wenden, Germany	Steel cutting, engineering and trade	85	(3,427)	(1,239)
SIJ RAVNE STEEL CENTER d.o.o., Litostrojska cesta 60, Ljubljana, Slovenia	Trade	100	18,189	876
GRIFFON & ROMANO S.P.A., Via Dossetti 11, Loc. Casinello de Dosso, Italy	Heat processing and special steel trade	100	363	(3,681)
SIJ Asia GmbH, Berger Str. 2, 40213 Düsseldorf, Nemčija	Trade	100	99	(62)
SIJ RAVNE SYSTEMS d.o.o., Koroška cesta 14, Ravne na Koroškem, Germany	Metallurgic machines production	100	11,830	(870)
SIJ POLSKA Sp. Z.o.o., ul. Zamkowa 7 lok. 11, Poznan, Poland	Trade	100	1	0
HOLDING PMP d.o.o., Gerbičeva 98, 1000 Ljubljana, Slovenia	Holding activity	100	16,591	8,449
KOPO INTERNATIONAL, 100 Village Court, Suite 202, Hazlet, 07730 New Jersey, USA	Trade	100	2,276	224
OOO SSG, 119019, Moskva, Novy Arbat, d. 21, pom. I, et. 21, kom. -29, Russia	Renting and managing of own and leased real estate	100	503	(204)

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As part of the preparation of the 2019 Annual Report, all the investments in subsidiaries were assessed whether there are any indications that an asset may be impaired. Each subsidiary represents a separate cash-generating unit (CGU). That is how the Management Board monitors the Group's operations since each company represents the lowest level of identifiable independent cash inflows. For determining indications of impairment, the Company used assumptions according to IAS 36.

For 2018, the Company received a qualified opinion which states that the carrying amount of certain investments in subsidiaries might be impaired, so the valuation of recoverable amount of the investments in subsidiaries for 2019 was carried out by a business appraiser certified by Slovenian institute of Auditors. Since the appraiser used other sources for discount rate as used in 2018, the Company reviewed also the estimations for 2018. Despite using the same projections and rates of remaining cash flows, some value assessments for 2018 were different. The determined additional impairments were restated for 2018 to ensure the comparability of information. A more detailed explanation of the error correction effect is disclosed in Note 25 and below.

Method of Present Value of the Estimated Free Cash Flows

When determining the recoverable amount, the Company applied the method of present value of the estimated free cash flows. This method attempts to project, based on the analysis of past operations and the estimate of future business possibilities, the future returns of owners in cash, which are subsequently translated to the carrying amount by using the correspondent discount rate. The so-calculated value of the company based on the free cash flows represents the return requested by the risk embedded in the investment. This is theoretically and practically the most appropriate and useful method to valuate a company, as it concentrates on what is the most important to investors, i.e. return in the form of cash flow.

Projections were prepared from the perspective of the majority shareholder. According to the object of the valuation, a 5 percent marketability discount was used (including sale costs). The discount rate used is defined as weighted average cost of capital (WACC). It reflects current market assessments of the time value of cash and the risks specific to the valuated asset.

As a control method the method of comparable companies listed on stock exchange was applied. Due to a limited number of comparable companies listed on stock exchange and since there are not many comparable companies engaged in a similar business and with the same characteristics, this method was used only as a control method for the results, obtained with the method of present value of the estimated free cash flows.

Asset Accumulation Method (Net Asset Value Method)

When determining the recoverable amount, the asset accumulation method (net asset value method) was applied based on the assumption of liquidation of the company. According to this method, all assets (all assets in the statement of financial position) and liabilities (minus equity) are valuated at their fair value on the valuation date. Subject to valuation is also the carrying amount of possible assets and liabilities, which are either not shown in the statement of financial position or their carrying amount equals to zero.

Review of the Determination of the Recoverable Amount for 2019

				Material assumptions used						Sensitivity analysis						
Subsidiaries	Financial year	Indications of impairment	Determination of recoverable amount	Valuation date	Projection of operations	Discount rate (WACC)	Long-term growth rate	Target EBITDA margin	Revenue growth	Recoverable amount (in EUR thousand)	Upper bound of the range (in EUR thousand)	Change in discount rate (WACC) +/−0.5% (in EUR thousand)	Change in long-term growth rate +/−0.5% (in EUR thousand)	Impairment loss (in EUR thousand)	Value of investment after being impaired (in EUR thousand)	Note
GRIFFON & ROMANO (Steel Processing and Distribution Division)	2019	Investment in subsidiary is lower than its net assets	A	31 Dec. 2019	2020–2025	9.53%	2.2%	3.4% – higher than the rate achieved in the last few years; comparable with companies with the same activity in Italy	in the first year 18.8%, following with 3.7% per year	0	/	/	/	3,440	0	
SIJ ELEKTRODE JESENICE (Manufacturing Division)	2019	The Company has had operational loss for the last 2 years.	A	31 Dec. 2019	2020–2027	9.69%	1.6%	6.5% – before 2017 it had achieved 5.9%, comparable with companies with the same activity in Europe.	17.1% in the first year, following with 5.8% and 3.4%, and in the last four years between 2.3% and 1.5%	1,160	1,393	+439/-397	+19/-19	0	957	Prolonged projection due to closure of investment cycle and balancing the remaining cash flow.
SIJ RAVNE SYSTEMS (Manufacturing Division)	2019	Investment in subsidiary is higher than its net assets	A	31 Dec. 2019	2020–2025	9.40%	1.3%	From 6.0% to 8.0% – in the last few years it was achieving 6.2%; comparable with similar activities in Europe.	in the first year 8.4%, following with 2.5% per year	8,203	8,945	+1,312/-179	+71/-72	4,080	8,945	Impaired to upper bound of the range, as the Management Board assesses that the Company will move beyond the applied projections.

A – Valuation of the fair value, less sale costs, by using the method of present value of the estimated free cash flows.
B – Valuation of the fair value, less sale costs, by using the accumulation method (net asset value method).

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Continuation of the table

Subsidiaries	Financial year	Indications of impairment	Determination of recoverable amount	Material assumptions used						Sensitivity analysis				Impairment loss (in EUR thousand)	Value of investment after being impaired (in EUR thousand)	Note
				Valuation date	Projection of operations	Discount rate (WACC)	Long-term growth rate	Target EBITDA margin	Revenue growth	Recoverable amount (in EUR thousand)	Upper bound of the range (in EUR thousand)	Change in discount rate (WACC) +/−0.5% (in EUR thousand)	Change in long-term growth rate +/−0.5% (in EUR thousand)			
NOŽI RAVNE (Manufacturing Division)	2019	In 2017, the Company ceased the production of industrial knives Operation of the Company is limited to renting out the property to the controlling company	B	31 Dec. 2019	/	/	/	/	/	505	/	/	/	151	505	The fair value, less sale costs, is evaluated by using accumulation method, since the value of the company lies in its assets (real estate) and not in its cash flow from operating activities. To determine the value of real estate property the valuation of the fair value was applied. It was not decreased by sale costs, which are considered within the marketability discount in amount of 5%.

A – Valuation of the fair value, less sale costs, by using the method of present value of the estimated free cash flows.
B – Valuation of the fair value, less sale costs, by using the accumulation method (net asset value method).

Review of the Determination of the Recoverable Amount for 2018 – Restated

Subsidiaries	Financial year	Indications of impairment	Determination of recoverable amount	Material assumptions used						Sensitivity analysis				Impairment loss (in EUR thousand)	Value of investment after being impaired (in EUR thousand)	Note
				Valuation date	Projection of operations	Discount rate (WACC)	Long-term growth rate	Target EBITDA margin	Revenue growth	Recoverable amount (in EUR thousand)	Upper bound of the range (in EUR thousand)	Change in discount rate (WACC) +/−0.5% (in EUR thousand)	Change in long-term growth rate +/−0.5% (in EUR thousand)			
GRIFFON & ROMANO (Steel Processing and Distribution Division)	2018	Investment in subsidiary is lower than its net assets	A	31 Dec. 2018	2019–2023	9.02%	1.5%	6,7% – higher than the rate achieved in last few years, comparable with companies with the same activity in Europe	in the first year 23%, following with 10%, 8%, 6% and 4%	3,665	4,017	+1,218/-1,070	+133/-147	7,702	4,017	
GRIFFON & ROMANO (Steel Processing and Distribution Division)	2018 restated		A		2019–2023	9.44%	1.5%	6,7% – higher than the rate achieved in last few years, comparable with companies with the same activity in Europe	in the first year 23%, following with 10%, 8%, 6% and 4%	0	/	/	/	11,719	0	A review of impairment by using other sources for the discount rate was also made for 2018. Subsequently, an additional impairment in the amount of EUR 4,017 thousand was made.
NIRO Wenden (Steel Processing and Distribution Division)	2018	Investment in subsidiary is lower than its net assets	A	31 Dec. 2018	2019–2023	7.76%	1.5%	5,2% – higher than the rate achieved in last few years, comparable with companies with the same activity in Europe	in the first year 10%, following with 8%, 6%, 6% and 4%	1,594	1,758	+375/-351	+204/-191	3,363	1,758	
NIRO Wenden (Steel Processing and Distribution Division)	2018 restated		A		2019–2023	7.74%	1.5%	5,2% – higher than the rate achieved in last few years, comparable with companies with the same activity in Europe	in the first year 10%, following with 8%, 6%, 6% and 4%	0	/	/	/	5,121	0	A review of impairment by using other sources for the discount rate was also made for 2018. Subsequently, an additional impairment in the amount of EUR 1,758 thousand was made.
SIJ ELEKTRODE JESENICE (Manufacturing Division)	2018	No indications of impairment	C	31 Dec. 2018	/	/	/	/	/	/	/	/	/	0	1.256	
SIJ ELEKTRODE JESENICE (Manufacturing Division)	2018 restated		A		2019–2023	9.72%	2.2%	3% – before 2017 it was 5.9%	in the first year 18.4%, following with 2% per year	957	1,030	+125/-119	+8/-8	299	957	A review of impairment by using other sources for the discount rate was also made for 2018. Subsequently, an additional impairment in the amount of EUR 299 thousand was made.

Continuation of the table →

Continuation of the table

Subsidiaries	Financial year	Indications of impairment	Determination of recoverable amount	Material assumptions used						Sensitivity analysis				Impairment loss (in EUR thousand)	Value of investment after being impaired (in EUR thousand)	Note
				Valuation date	Projection of operations	Discount rate (WACC)	Long-term growth rate	Target EBITDA margin	Revenue growth	Recoverable amount (in EUR thousand)	Upper bound of the range (in EUR thousand)	Change in discount rate (WACC) +/−0,5% (in EUR thousand)	Change in long-term growth rate +/−0,5% (in EUR thousand)			
SIJ RAVNE SYSTEMS (Manufacturing Division)	2018	No indications of impairment	C	31 Dec. 2018	/	/	/	/	/	/	/	/	/	0	6,025	
NOŽI RAVNE (Manufacturing Division)	2018	In 2017, the Company ceased the production of industrial knives; operation of the Company is limited to renting out the property to the controlling company	B	31 Dec. 2018	/	/	/	/	/	656	/	/	/	1,486	656	The fair value, less sale costs, is evaluated by using accumulation method, since the value of the company lies in its assets (real estate) and not in its cash flow from operating activities.

A – Valuation of the fair value, less sale costs, by using the method of present value of the estimated free cash flows.
B – Valuation of the fair value, less sale costs, by using the accumulation method (net asset value method).
C – The valuation was not carried out.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Investments in companies	1,334	1,256
Financial assets at fair value through other comprehensive income	1,334	1,256

Finance assets measured at fair value through other comprehensive income represent shares of Slovenian insurance company with intends to receive cash flows from dividends and from sale of shares. Financial assets at fair value through other comprehensive income are measured at fair value. They increased due to revaluation at fair value in the amount of EUR 78 thousand (2018: EUR 48 thousand) charged to the other comprehensive income. Received dividends in 2019 amounted to EUR 96 thousand (2018: EUR 96 thousand).

12. NON-CURRENT FINANCIAL RECEIVABLES

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Loans issued	61,737	17,139
Non-current financial receivables	61,737	17,139

Movement of Non-Current Loans Issued

in EUR thousand	2019	2018
Balance as at 1 Jan.	17,139	15,154
Loans issued	796	4,860
Impairment	(128)	(6)
Reclassification from/to current loans issued	43,930	(2,869)
Balance as at 31 Dec.	61,736	17,139

The loans issued refer to loans issued to the controlling company and subsidiaries and are approved for their liquidity needs. The interest rates for loans issued are flexible and vary between 1.60 and 5.00 percent. The loans issued are not pledged as security for liabilities.

13. NON-CURRENT TRADE RECEIVABLES

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Receivable towards subsidiaries for unpaid dividends	10,300	11,296
Non-current trade receivables	10,300	11,296

14. DEFERRED TAX ASSETS (LIABILITIES)

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Deferred tax assets	1,232	7,556
Deferred tax liabilities	(89)	(74)
Deferred tax assets (liabilities), net	1,143	7,482

Movement of Deferred Tax Assets and Liabilities in 2019

in EUR thousand	31 Dec. 2018	Changes in profit and loss	Changes in the comprehensive income	31 Dec. 2019
Financial assets at fair value through comprehensive income	(74)	0	(15)	(89)
Deferred tax liabilities	(74)	0	(15)	(89)
Unused tax losses	7,448	(6,331)	0	1,117
Employee benefits	70	0	0	70
Trade receivables	38	7	0	45
Deferred tax assets	7,556	(6,323)	0	1,232
Deferred tax assets (liabilities), net	7,482	(6,323)	(15)	1,143

On 31. December 2019, the total unused tax loss amounts to EUR 34,976 thousand (2018: EUR 68,844 thousand). The value of unused tax losses for which deferred tax assets are not recognised amounts to EUR 29,093 thousand (2018: EUR 29,644 thousand), while unrecognised deferred tax assets amount to EUR 5,882 thousand (2018: EUR 5,632 thousand). In 2019, the deferred tax assets decreased due to utilisation of tax relief for unused tax losses from the corporate tax on profit generated from sale of investment in Perutnina Ptuj.

Movement of Deferred Tax Assets and Liabilities in 2018

in EUR thousand	31 Dec. 2017	Effect of applying IFRS 9	Changes in profit and loss	Changes in the comprehensive income	31 Dec. 2018
Financial assets at fair value through comprehensive income	(66)	0	0	(8)	(74)
Deferred tax liabilities	(66)	0	0	(8)	(74)
Unused tax losses	1,118	0	6,330	0	7,448
Employee benefits	70	0	0	0	70
Trade receivables	0	18	20		38
Deferred tax assets	1,188	18	6,350	0	7,556
Deferred tax assets (liabilities), net	1,122	18	6,350	(8)	7,482

15. ASSETS (GROUPS) HELD FOR SALE

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Investments in subsidiaries	0	82,036
Other assets held for disposal	31	31
Assets held for disposal (disposal groups)	31	82,067
Financial liabilities and trade payables	0	(3,907)
Liabilities included in disposal groups	0	(3,907)

A decrease in assets held for disposal (disposal groups) is a result of disposal of the investment in subsidiary Perutnina Ptuj d.d. The Company sold its 85.17% share to Ukrainian group MHP, the final acquisition price amounted to EUR 22.34 per share. The total sale price amounted to EUR 207,576 thousand. Sales costs amounted to EUR 7,475 thousand and the profit from sale amounted to EUR 125,751 thousand.

Movement Assets (Groups) Held for Sale

in EUR thousand	2019	2018
Balance as at 1 Jan.	82,067	82,067
Sale of investment in Perutnina Ptuj	(74,349)	0
Transfer of investment in Holding PMP to investment in subsidiaries	(7,687)	0
Balance as at 31 Dec.	31	82,067

Received dividends in 2019 amounted to EUR 0 thousand (2018: EUR 9,151 thousand).

16. CURRENT FINANCIAL RECEIVABLES

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Loans issued	84,317	62,697
Other	560	438
Current financial receivables	84,877	63,135

Movement of Current Loans Issued

in EUR thousand	2019	2018
Balance as at 1 Jan.	62,697	75,326
Loans issued	161,532	37,695
Repayment of loans issued	(42,514)	(40,844)
Impairment	(20,901)	(54)
Change in receivables for interests	873	1,640
Transfer to/from non-current loans issued	(43,930)	2,869
Capitalisation of subsidiaries	(33,440)	(13,935)
Balance as at 31 Dec.	84,317	62,697

The loans issued refer to loans issued to the controlling company and subsidiaries. Purpose of a loan issued to the controlling company is sensible use of liquidity surpluses. Loans issued to subsidiaries were approved for their liquidity needs. The interest rates for loans issued are fixed as well as flexible and vary between 1.60 and 5.00 percent (2018: from 1.65 to 5.00 percent). The loans issued are not pledged as security for liabilities. Due to increased credit risk and objective indication of impairment at the reporting date, the Company made value adjustment for loans issued in the total amount of EUR 20,984 thousand.

17. CURRENT TRADE RECEIVABLES

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Trade receivables	5,856	4,893
Allowances for trade receivables	(133)	(140)
Receivables towards the State and other institutes	401	568
Issued advance payments and securities	6	23
Other receivables	29	37
Current trade receivables	6,159	5,381

The current trade receivables are nor secured nor pledged as security for liabilities. The disclosed value of trade receivables does not exceed their realisable value.

Movement of Allowance for Current Trade Receivables

in EUR thousand	2019	2018
Balance as at 1 Jan.	(140)	(53)
Effect of applying IFRS 9	0	(22)
Changes with impact on profit or loss	7	(138)
Changes without impact on profit or loss	0	73
Balance as at 31 Dec.	(133)	(140)

18. CASH AND CASH EQUIVALENTS

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Cash in national currency	37,656	28,672
Cash and cash equivalents	37,656	28,672

Deposits in the amount of EUR 31,983 thousand are in the national currency and have a maturity of up to three months (2018: EUR 0 thousand). The interest rate for deposits is fixed.

19. EQUITY

in EUR thousand	31 Dec. 2019	31 Dec. 2018 Restated
Share capital	145,266	145,266
Capital surplus	11,461	11,461
Reserves from profit	5,940	1,696
Fair value reserves	375	325
Retained earnings	108,613	37,975
Equity	271,655	196,723

The share capital is recognised in the amount of EUR 145,266 thousand 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 2019.

More detailed explanation of the error correction is disclosed in Note 25.

Ownership Structure

Shareholder	Number of shares 31 Dec. 2019	Number of shares 31 Dec. 2018
DILON, d. o. o., Gerbičeva ulica 98, Ljubljana, Slovenia	718,351	718,351
Republic of Slovenia, Gregorčičeva ulica 20, Ljubljana, Slovenia	248,655	248,655
SIJ d.d., Gerbičeva ulica 98, Ljubljana, Slovenia	27,600	27,600
UNIOR, d. d., Kovaška cesta 10, Zreče, Slovenia	10	10
Total	994,616	994,616

Capital Surplus

Capital surplus in the amount of EUR 11,461 thousand was formed during the simplified decrease of the Company's capital.

Reserves from profit

in EUR thousand	31 Dec. 2019	31 Dec. 2018 Restated
Legal reserves	8,195	3,951
Treasury shares	(6,009)	(6,009)
Reserves for treasury shares	3,754	3,754
Reserves from profit	5,940	1,696

The Company acquired treasury shares in the amount of EUR 2,255 thousand based on the Act Regulating the Incurrence and Settlement of Liabilities of Slovenske železarne as regards the Restructuring Programme (Official Gazette of the RS, nr. 111/2001) and in line with the Privatization of Slovenske železarne Act (Official Gazette of the RS, nr. 13/1998). Treasury shares were acquired by exchanging interests in subsidiaries for shares of the controlling company, owned by authorised companies. The shares were acquired ex lege and not in line with the Companies Act, which is why the Company did not establish a treasury shares fund. Shares are recognised at cost.

Fair Value Reserves

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Fair value reserve due to financial assets at fair value through comprehensive income	469	391
Deferred tax liabilities	(89)	(74)
Net actuarial (losses) gains on pension programs	(5)	8
Fair value reserves	375	325

Distributable Profit

in EUR thousand	31 Dec. 2019	31 Dec. 2018 Restated
Retained earnings	27,975	42,608
Profit (loss) for the period	84,882	(4,633)
Creation of legal reserves	(4,244)	0
Distributable profit	108,613	37,975

20. EMPLOYEE BENEFITS

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Provisions for severance pay	409	267
Provisions for loyalty bonuses	43	38
Employee benefits	452	305

The actuarial calculation in 2019 was made on the basis of the actuarial model and assumptions, derived from the life expectancy tables in Slovenia from 2007, separately for men and women, decreased by 10 percent (active population), growth of wages in the Republic of Slovenia and in the Company, and the yield curve, which represents the relationship between market yields on government bonds in the Eurozone and the time remaining to maturity. The average discount rate considered in the calculations was 0.4 percent.

Employee benefits are calculated by an authorized actuary. The change in employee benefits had a direct effect on the income statement, except for actuarial gains and losses which effect comprehensive income.

The Company did not carry out an actuarial calculation in 2018, because the assumptions used to determine the amount of provisions did not change significantly from 2017.

Movement of Employee Benefits in 2019

in EUR thousand	31 Dec. 2018	Creation	31 Dec. 2019
Provisions for severance pay	267	142	409
Provisions for loyalty bonuses	38	5	43
Employee benefits	305	147	452

Sensitivity Analysis of Actuarial Assumptions for 2019

in EUR thousand	31 Dec. 2019		
Actuarial assumption	Change in assumption (pp)	Post-employment benefits on retirement	Jubilee benefits
Yield	+0,5	(20)	(2)
	–0,5	22	1
Salary growth	+0,5	22	2
	–0,5	(20)	(1)
Fluctuation	+0,5	(21)	(2)
	–0,5	23	2

21. NON-CURRENT FINANCIAL LIABILITIES

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Borrowings	0	19,977
Liabilities for bonds issued	39,728	51,076
Liabilities from lease	606	446
Non-current financial liabilities	40,334	71,499

Movement of Non-Current Borrowings

in EUR thousand	2019	2018
Balance as at 1 Jan.	19,977	0
New borrowings	0	47,000
Transfer to current borrowings	(19,977)	(27,023)
Balance as at 31 Dec.	0	19,977

Liabilities for Bonds Issued

Liabilities for bonds issued refer to the bonds issued with the ticker symbol SIJ6. The Company issued bonds with the total nominal value of EUR 40,000 thousand in November 2019. The entire bond issue contains 400 denominations of EUR 100 thousand. The bond maturity date is 25 November 2024. The interest rate for the bonds is fixed, i.e. 2.8 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 are traded on the Ljubljana Stock Exchange. Liabilities for bonds issued with the ticker symbol of SIJ5 in the amount of EUR 51,218 thousand fall due on 21 July 2020 and were therefore transferred to current financial liabilities.

Movement of Non-Current Liabilities Arising from Lease

in EUR thousand	2019	2018
Balance as at 1 Jan.	446	596
Effect of applying IFRS 16	105	0
New leases	601	275
Transfer to current liabilities from lease	(546)	(425)
Balance as at 31 Dec.	606	446

The lowest sum of future leases due for payment in the next 1 to 5 years amounts to EUR 622 thousand (2018: EUR 460 thousand).

The net present value of future leases due for payment in the next 1 to 5 years, amounts to EUR 606 thousand (2018: EUR 446 thousand).

22. CURRENT FINANCIAL LIABILITIES

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Borrowings	3,100	9,797
Liabilities for bonds issued	51,095	42,859
Liabilities for commercial papers issued	28,072	29,723
Liabilities from lease	418	409
Other current financial liabilities	837	1,156
Current financial liabilities	83,522	83,944

Current borrowings include loans from companies in the Group. Borrowings are secured with bills. The interest rate for borrowings and leases is fixed.

Movement of Current Borrowings

in EUR thousand	2019	2018
Balance as at 1 Jan.	9,797	26,531
New borrowings	8,500	54,466
Repayments of borrowings	(35,174)	(98,223)
Transfer from non-current borrowings	19.977	27,023
Balance as at 31 Dec.	3,100	9,797

Liabilities for Bonds Issued

Liabilities for bonds issued refer to the bonds issued with the ticker symbol of SIJ5. The Company issued bonds with the total nominal value of €51,218 thousand in July 2015. The entire bond issue contains 51,218 denominations of EUR 1 thousand. The bond maturity date is 21 July 2020. The interest rate for the bonds is fixed, i.e. 4.0 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 are traded on the Ljubljana Stock Exchange. Ljubljana Stock Exchange closing quotation as at 31 December 2019 was 100.00 and was used for fair value calculation on the same date.

Liabilities for Commercial Papers Issued

Liabilities for commercial papers amounting to EUR 28,100 thousand refer to 12-month commercial papers with the ticker symbol SIK06, issued by the Company on 13 December 2019 as a sixth consecutive issue. The total nominal value of the commercial papers is EUR 28,100 thousand and covers 281 denominations of EUR 100 thousand. The interest rate for a commercial paper is 0.9 percent per annum. Commercial papers are a discounted security. Interest is charged in advance and deducted on payment of a commercial paper in the form of a discount from the nominal value of the commercial paper. Liabilities from commercial papers are payable on 11 December 2020. Commercial papers are traded on Ljubljana Stock Exchange Ljubljana Stock Exchange closing quotation as at 31 December 2019 was 100.00 and was used for fair value calculation on the same date. The Company repaid the forth issue of commercial papers with the ticker symbol SIK05 in the amount of EUR 30,000 thousand on the maturity day.

Movement of Current Liabilities Arising from Lease

in EUR thousand	2019	2018
Balance as at 1 Jan.	409	403
Effect of applying IFRS 16	80	0
Repayments of liabilities arising from lease	(617)	(419)
Transfer from non-current liabilities arising from lease	546	425
Balance as at 31 Dec.	418	409

The lowest sum of future leases due for payment in the next financial year amounts to EUR 439 thousand on 31 December 2019 (2018: EUR 425 thousand), and the net present value of future leases amounts to EUR 418 thousand on the same date (2018: EUR 409 thousand).

23. CURRENT TRADE PAYABLES

in EUR thousand	2019	2018
Payables to suppliers	2,442	839
Liabilities to employees	1,353	355
Received advance payments	0	20,000
Tax liabilities and other liabilities	1.427	556
Current trade payables	5,222	21,750

In November 2018, the Company received EUR 20,000 thousand as a caution for a binding offer for a disposal of an investment in a subsidiary. The disposal procedure was concluded in February 2019. A more detailed explanation of the transaction is disclosed in Note 15.

24. CONTINGENT LIABILITIES

Contingent liabilities for issued guarantees amount to EUR 182,594 thousand on 31 December 2019 (2018: EUR 221,402 thousand). The total amount of issued guarantees was issued to the companies of the Group. The Company expects no outflows from the issued guarantees.

25. CORRECTION OF A PRIOR PERIODS ERROR

In 2019, the Company corrected a prior periods error and additionally impaired investments in subsidiaries (Note 10). The Company has also reversed legal reserves created in 2018, since it, as a result of additional impairment, states loss for the period.

Note Regarding Balances Adjustments in the Statement of Comprehensive Income for 2018

in EUR thousand	2018 Reported	Adjustment	2018 Restated
Revenue	13,001	0	13,001
Gross profit	**13,001**	**0**	**13,001**
General and administrative expenses	(15,252)	0	(15,252)
Other operating income	10,821	0	10,821
Other operating expenses	(12,841)	(6,074)	(18,915)
Impairment of trade receivables	(138)	0	(138)
Operating profit	**(4,409)**	**(6,074)**	**(10,483)**
Net finance costs	**(448)**	**0**	**(448)**
Loss before tax	**(4,857)**	**(6,074)**	**(10,931)**
Income tax	6,298	0	6,298
Profit (loss) for the period	**1,440**	**(6,074)**	**(4,633)**

Note Regarding Balances Adjustments in the Statement of Financial Position as at 31 December 2018

in EUR thousand	31 Dec. 2018 Reported	Adjustment	31 Dec. 2018 Restated
ASSETS			
Non-current assets	**205,141**	**(6,074)**	**199,067**
Intangible assets	610	0	610
Property, plant and equipment	6,014	0	6,014
Investment property	1	0	1
Investments in subsidiaries	161,343	(6,074)	155,269
Financial assets at fair value through other comprehensive income	1,256	0	1,256
Financial receivables	17,139	0	17,139
Trade receivables	11,296	0	11,296
Deferred tax assets	7,482	0	7,482
Current assets	**179,333**	**0**	**179,333**
Total assets	**384,474**	**(6,074)**	**378,400**
EQUITY AND LIABILITIES			
Equity	**202,797**	**(6,074)**	**196,723**
Share capital	145,266	0	145,266
Capital surplus	11,461	0	11,461
Reserves from profit	1,768	(72)	1,696
Fair value reserves	325	0	325
Retained earnings	43,977	(6,002)	37,975
Non-current liabilities	**71,804**	**0**	**71,804**
Current liabilities	**109,873**	**0**	**109,873**
Total equity and liabilities	**384,474**	**(6,074)**	**378,400**

RELATED PARTIES

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

Transactions with the Controlling Company

in EUR thousand	2019	2018
Revenues	2,902	1,560
Expenses	12	0

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Receivables	71,266	24,207
Liabilities	0	95

Transactions with Subsidiaries

in EUR thousand	2019	2018
Revenues	17,458	27,156
Expenses	275	852

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Receivables	111,124	71,143
Liabilities	862	4,011

Transactions with Other Related Companies

in EUR thousand	2019	2018
Revenues	72	62
Expenses	46	168

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Receivables	1,182	1,007
Liabilities	3,104	5,851

Transactions with Management

The total amount of the receipts of the Supervisory Board members and the receipts of the Company's key management personnel for the performance of functions or tasks based on the business management contracts:

in EUR thousand	2019	2018
Key management personnel	8,417	3,871
Members of the Supervisory Board	120	50

The receipts include gross salaries and payment for annual leave. Travel expenses, accommodation costs and daily allowances are not shown, since they do not represent a payment to key management personnel by their nature.

In 2019, the Company did not grant any loans, issue any guarantees nor make any advance payments to the key management personnel or the members of the Supervisory Board. On 31. December 2019, the Company has no receivables or liabilities towards the key management personnel, except for liabilities for December salaries paid in January 2020.

The key management personnel represent the Company’s broader management.

FINANCIAL INSTRUMENTS AND RISKS

Credit Risk

The credit risk is assessed as accordingly managed. Exposure to credit risks is assessed based on receivables insurability, data and information predicting a risk of losses (financial information on customers and their financial statements, media available information, earlier business relations with customers, and forward-looking information).

The effects of expected future losses of trade receivables are measured by using allowances matrix, where the loss allowance is measured by using the simplified model at an amount equal to 12-month expected credit losses.

Financial receivables and deposits represent deposits at banks and loans granted to companies in the Group and to the controlling company. For loans issued, where on the reporting date has not been a significant increase in credit risk since initial recognition, the impairment assessment is based on expected credit losses linked to a default on loans that is possible within next 12 months (stage 1). For those loans issued for which there has been a significant increase in credit risk since initial recognition, the company recognises a loss allowance on a case by case basis (stage 3). Deposits are held in the form of short-term deposits with commercial banks, where the principle of asset diversification is pursued for the purpose of reducing credit risk

Balance of the Financial receivables and Deposits and Respective Allowances according to stages

in EUR thousand	31 Dec. 2019			31 Dec. 2018		
	gross amount	allowance	total	gross amount	allowance	total
Stage 1	170,634	(37)	170,597	80,335	(61)	80,274
Stage 3	29,052	(21,053)	7,999	0	0	0
Total	199,686	(21,090)	178,596	80,335	(61)	80,274

Age Structure of Financial Assets

in EUR thousand		Overdue				
31 Dec. 2019	Not-overdue	Up to 3 months	3 months to 1 year	1 year to 3 years	Over 3 years	Total
Trade receivables	2,164	3,532	5	155	0	5,856
Financial receivables and deposits	199,686	0	0	0	0	199,686
Total	201,850	3,532	5	155	0	205,542

in EUR thousand		Overdue				
31 Dec. 2018	Not-overdue	Up to 3 months	3 months to 1 year	1 year to 3 years	Over 3 years	Total
Trade receivables	2,889	4	1,420	579	5	4,897
Financial receivables and deposits	80,214	34	87	1	0	80,335
Total	83,103	38	1,507	580	5	85,232

Liquidity Risk

The Company is managing its 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. The majority of financial liabilities relate to issued bonds and commercial papers in total amount of EUR 118,896 thousand.

in EUR thousand		Expected cash flows				
31 Dec. 2019	Present value as at	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Cash and deposits	37,656	37,656	0	0	0	37,656
Trade receivables	5,723	5,723	0	0	0	5,723
Other trade receivables	10,330	30	0	10,300	0	10,330
Financial receivables	146,613	3,900	82,493	59,166	13,098	158,657
Non-financial assets	7,905	0	0	0	0	7,905
Total assets	208,227	47,309	82,493	69,466	13,098	220,271
Payables to suppliers	2,241	2,157	0	84	0	2,241
Financial liabilities	123,857	132	85,950	45,102	0	131,184
Other liabilities	741	738	3	0	0	741
Non-financial liabilities	6,280	0	0	0	0	0
Total liabilities	133,119	3,027	85,953	45,186	0	140,446

The Company regularly monitors and analyses the liquidity gap on time-to-pocket basis, measures the maturity structure of assets and liabilities. The liquidity gap cannot be avoided but can be managed effectively by the Company. A positive gap means a surplus of resources and a negative one means a shortage of resources that should be provided.

in EUR thousand		Expected cash flows				
31 Dec. 2019	Present value as at	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Payables to suppliers	839	691	85	63	839	37,656
Financial liabilities	155,443	20,216	87,077	53,727	161,020	158,657
Other liabilities	3	3	0	0	3	7,905
Total	156,285	20,910	87,162	53,790	161,862	220,271

The Company assesses its exposure to financial markets and banks as moderate. The Company fully complies with the liabilities and conditions stated in loan contracts.

Foreign Exchange Risk

Since most inflows and outflows are in the national currency – euro, the Company assesses its foreign exchange risk as low and accordingly managed. Other currencies are represented to a lesser extent, therefore a change in exchange rates would not have a material influence on the Company's profit or loss. Consequently, the Company does not prepare a sensitivity analysis on foreign exchange risk.

31 Dec. 2019	USD	CZK
Trade receivables	12	4
Financial receivables	501	0
Trade payables	(59)	0
Exposure	454	4

31 Dec. 2018	USD	GBP	CZK
Trade payables	(12)	(1)	(4)
Exposure	(12)	(1)	(4)

In 2019 and 2018 the following exchange rates were material for the company:

Currency	31. Dec. 2019	31. Dec. 2018	Average exchange rate in 2019	Average exchange rate in 2018
EUR/USD	1.1234	1.1450	1.1195	1.1810
EUR/GBP	0.85080	0.89453	0.87777	0.88471
EUR/CZK	25.4080	25.7240	25.6700	25.6470

The exchange rates used for the conversion of the balance sheet items as at 31 December correspond to the European Central Bank exchange rates on that day.

Interest Rate Risk

The Company assesses its interest rate risk as low and accordingly managed. The Company regularly monitors its exposure to interest rate risk by monitoring developments in money markets, changes to the interest rates and changes to the prices of derivative financial instruments, and by proposing in due time measures of interest rate hedging.
The Company's borrowings have fixed interest rate, variable interest rate is used only for a small portion of leases.

A change in interest rate by 100 or 50 basis points on the reporting date would result in decrease of profit or loss by the amounts stated below. The analysis assumes that all other variables remain unchanged. The analysis for 2018 was prepared in the same manner.
In 2018, considering the Company's exposure to the interest risk, an increase in interest rate by 100 basis points would result in a decrease of profit or loss by EUR 200 thousand, and an increase by 50 basis points would result in a decrease of profit or loss by EUR 100 thousand.

In 2019, the Company's exposure to the interest risk is substantially lower, as an increase in interest rate, by 100 or 50 basis points, would affect profit or loss by less than EUR 1 thousand.

Equity Management

The Company's main purpose of equity management is to achieve an adequate volume of capital to ensure confidence of its creditors, financial stability and long-term solvency, as well as proper dividends to its owners. On 31 December 2019, the Company owns 27,600 treasury shares.

In the structure of total indebtedness, the share of equity value remains at a high level, as the Company continues to implement the current financial policy to ensure long-term development through long-term sources.

in EUR thousand	2019	Debt increase by 10 %	Debt decrease by 10 %
Level of debt on equity	45.59	50.15	41.03
Equity	271,655	271,655	271,655
Financial liabilities	123,856	136,242	111,470

Carrying Amounts and Fair Values of Financial Instruments

The table shows carrying amounts and fair values of financial assets and financial liabilities.

in EUR thousand	31 Dec. 2019		31 Dec. 2018	
Type of financial instrument	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets at fair value through other comprehensive income	1,334	1,334	1,256	1,256
Financial receivables	146,614	146,614	80,273	80,273
Trade receivables	16,459	16,459	16,677	16,677
Cash and cash equivalents	37,656	37,656	28,672	28,672
Financial liabilities	(123,857)	(125,291)	(155,443)	(159,315)
Trade payables	(5,222)	(5,222)	(21,750)	(21,750)

Presentation of Financial Assets and Liabilities, Disclosed at Fair Value According to Fair Value Determination Hierarchy

in EUR thousand	31 Dec. 2019	31 Dec. 2018
Financial assets at fair value through other comprehensive income	869	791
Financial assets at fair value of first level	869	791
Financial assets at fair value through other comprehensive income	465	465
Financial assets at fair value of third level	465	465
Bonds and commercial papers	(120,330)	(127,529)
Financial liabilities at fair value of first level	(120,330)	(127,529)
Borrowings	(3,100)	(29,774)
Leases	(1,024)	(855)
Other financial liabilities	(837)	(1,174)
Financial liabilities at fair value of second level	(4,961)	(31,786)

Second level of liabilities at fair value include secured loans granted, leases and interest liabilities, representing, according to the valuation model, carrying amounts of discounted expected future payments with adjusted risk level.

In 2018 and 2019, there were no transfers of financial instruments between different levels.

EVENTS AFTER THE REPORTING DATE

SIJ Group has concluded a Term Sheet agreement with a business partner on establishing a joint venture that will be active in the distribution of steels, the production and distribution of standard and non-standard tool steel plates, parts of tools and tools for mass production, technical heat treatment services, surface treatment of tool steels, and the production of high-performance products for improving the production by using innovative technologies. The project, which is expected to be completed by the end of 2020, is part of the implementation of SIJ Group's vertical integration strategy aimed at diversifying the range of products and services.

In line with the spread of coronavirus in Slovenia, SIJ Group has taken preventive measures to protect the health of its employees and ensure undisrupted business operations. Since the end of march, the Group has implemented all the preventive measures adopted by the SIJ Group crisis team. The situation in all key business areas (sales, purchasing, logistics, human resources) has been monitored daily, thus managing all identified risks and complying with all the measures taken by the Republic of Slovenia, the European Union, the European Steel Association Eurofer and other competent institutions.

At the time of issuing the Annual Report, SIJ Group had not yet recorded any significant impact on business, however, in line with the outlook and development of the epidemic in the Republic of Slovenia and its key European markets, it is expected that the risks and thus disruptions in business will increase. SIJ Group will strive to curb all identified risks by taking new measures accordingly.

There are currently no legal restrictions on the operations of most of the companies in SIJ Group, and we do not expect any major shutdowns of steel companies. Supply chains operate without major restrictions, only occasional supply delays being detected, which is managed by a slight increase in inventories of raw materials. By the time the Annual Report was issued, SIJ Group had also fulfilled all contractual quantitative conditions and liabilities for the supply of electricity and natural gas.

Currently, in mid-April, we do not feel any major negative impact on the sale of our products, which is largely related to the geographical and industry diversification of our markets and customers. Despite restrictions on transportation and the closure of some of our customers' manufacturing facilities, we are able, by implementing active sales policy, to supply all our key markets effectively, including Italy and Germany. We face minimal cancellations of deliveries of our products, without having any significant impact on our operations. Particular attention is paid to working capital management. We monitor daily compliance with customer payment deadlines and regulate the low level of inventories of products and work in progress goods, focusing even more on production for our familiar customers' orders and on optimization of production processes. As a result, the liquidity of SIJ Group is strong and stable.

Possible adjustments to the carrying amounts of assets and determination of the fair values related to the constantly changing operating conditions due to the coronavirus, were not taken into account in the financial statements of SIJ Group, as it is an irreversible event after the reporting date. Due to many uncertainties posed by the epidemic, the potential impact on the operations of SIJ Group cannot be estimated reliably at this time.

There were no other significant events after the reporting date that would have a material effect on the financial statements presented.

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Translation only, Slovene original prevails.