TOGETHER

Annual Report of SIJ Group and SIJ d.d. 2020

TABLE OF CONTENTS

01 business review — 3

SIJ Group at a Glance 4
Letter of the President of the Management Board to Shareholders 5
Report of the President of the Supervisory Board 8

2020 HIGHLIGHTS 11
SIJ Group during the Covid-19 Pandemic 11

RISK MANAGEMENT AND NOTABLE EVENTS 19
Risk Management System 19
Key Risks During the Covid-19 Pandemic 20
Systematically Monitored Risks 23
Notable Events of the Business Year 28
Notable Events after the Reporting Period 31

ORGANISATION AND GOVERNANCE 32
About SIJ d.d. 32
Operating Results of SIJ d.d. 34
Organisation of the Companies of SIJ Group 36
Governance of SIJ d.d. and SIJ Group 38

BUSINESS REPORT 44
Business Strategy 44
Analysis of Business Activities 46
Investments 55
Research, Development and Innovation 56

SUSTAINABILITY 60
Statement on Non-financial Operations of SIJ d.d. and SIJ Group 60
Maintaining a Strategic Focus towards a Sustainable Future 61
Our Carbon Footprint 62
Circular Economy 63
Specific Energy Consumption 66
Careful use of Natural Resources 67
Responsible together with our Employees 69
Responsible Partnerships with Local Communities 73

02 financial report of the SIJ Group — 75

Independent Auditor's Report 76
Statement of the Management Board's Responsibility 80
Consolidated Financial Statements 81
Notes on the Consolidated Financial Statements 85

03 financial report of SIJ d.d — 134

Independent Auditor's Report 135
Statement of the Management Board's Responsibility 137
Financial Statements 138
Notes on the Financial Statements 141

01 business review

SIJ GROUP AT A GLANCE

The unpredictable conditions of 2020 have given us the opportunity to prove our stability and adaptability by working together.

LEADING MARKET SHARES

Top 3 producer of stainless-steel quarto plates in the European Union

Top 3 producer of tool steels in the European Union and founder of a new leading tooling centre to support the region's tooling industry

Top 10 producer of industrial knives in the world

2020 IN NUMBERS

	2020	2019
Revenues (€m)	696.0	767.4
Exports (percent)	84.4	84.6
EBITDA (€m)	37.8	58.8
Steel production (thousand t)	451.6	477.6
Investments (€m)	40.3	37.6
Employees	3,818	3,859

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

Our **financial position will be solid**, profitability above the industry average.

Our value lies in human capital. SIJ Group will be **considered as desired employer** in Slovenia, giving it the ability to attract the right talent.

LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD TO SHAREHOLDERS

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

2020 was an exceptionally challenging year due to the effects of the COVID-19 pandemic. Thanks to our niche market focus, SIJ Group was able to navigate the crisis relatively well. We closed our financial year with a better bottom line than our competitors, which provided additional validation of our strategic focus. However, the fact is that the global situation had a profoundly negative impact on the metallurgy industry across the world. Despite efficient crisis management efforts undertaken together with our employees and business partners, the pandemic has inevitably cut into our business performance.

SIJ Group's reaction was swift and organised, and our efforts were coordinated with all key stakeholders. In the first half of the year, we introduced a number of activities to protect the health of our employees and mitigate the negative operational impacts of the coronavirus.

In 2020, the most substantial operational risk was that of an extreme spike in employee absences, driven by the epidemic in Slovenia. **We introduced carefully planned precautionary measures in our working environments**. Through consistent observation and with the help of our motivated employees, we successfully ensured sufficient numbers of employees to support a stable production process. At the same time, **we optimised costs and adjusted our business plans by the end of 2020**. Presented below in more detail are our countermeasures and the operational impacts of the crisis which, despite our best efforts, we were unable to fully counteract.

Declining Revenues Were Mitigated with a Great Deal of Flexibility

According to audited operational figures for 2020, **SIJ Group generated EUR 696.0 million in sales revenue**, down 9.3 percent from the year 2019. **In the second quarter in particular, the pandemic caused a slowdown in industrial**

activity on key markets and lowered the demand for SIJ Group's products. Decreased demand led to the lowering of sales prices. This pricing pressure was further magnified by the declining commodity prices.

The changes in price differentials had a negative impact on the EBITDA. **An EBITDA of EUR 37.8 million was generated**, which is 35.8 percent lower compared to 2019. **The EBITDA margin stood at 5.4 percent**. SIJ Group also recorded **a loss of EUR 49.9 million**. The majority of this came from impairments, the rest from operations.

Exports and Leading Market Shares Were Kept on Par with Pre-Coronavirus Levels

During a time when international business was experiencing disruptions, with measures varying from country to country, **we generated 84.4 percent of our sales revenue on foreign markets**, which is comparable to that seen in 2019. **SIJ Group was able to show that it is an extremely adaptable business partner**. Based on spot analyses, we replaced the declining sales on markets implementing the most stringent measures by redirecting sales to markets with lower constraints on demand and to segments with the best forecasts.

We were able to **maintain our leading market shares in stainless steel quarto plates, tool steels and industrial knives** markets through successful risk management activities and by making appropriate and timely adjustments as needed.

Actively Managing Receivables in Order to Ensure Liquidity

The economic slowdown caused by the COVID-19 pandemic could cause companies buying SIJ Group products to run into liquidity issues. This could increase credit risks in relation to customers, and expose SIJ Group to a higher level of liquidity risk. **We managed this risk through active and systematic management of receivables and collaterals. Thus we were able to avoid significant worsening of payment discipline and liquidity**.

SIJ Group Enjoys Investors' Trust in Times of Crisis

In July we repaid our liabilities to our investors and settled the SIJ5 bonds upon maturity with EUR 51.2 million of our own capital. In November, SIJ d.d. **successfully finalised the fourth bond issue of SIJ7 bonds, for the cumulative nominal value of EUR 26.1 million**. The new bond issue partially replaced the SIJ5 bonds. **Combined with the seventh successful issue of corporate bonds in the amount of EUR 26.7 million, which took place in December 2020, SIJ Group raised a total of EUR 52.8 million on the capital market this year**. This ranks us as one of the most active and well-known companies on the domestic capital market, and one that has retained investors' trust even in these times of crisis. The funds raised helped us more easily implement our financial policies and investment strategy, which has been adjusted in response to the circumstances. The Group's **financial leverage, which increased by EUR 27.9 million in 2020 and now amounts to EUR 208.5 million**, is mainly attributable to investments in equipment and corporate acquisitions.

> "The pandemic inevitably cut into the metallurgy industry across the world, including SIJ Group's operations. However, we were able to remain a reliable business partner to our customers and our suppliers throughout this period. We were able to save all jobs. We successfully implemented measures to curb the spread of the virus among our employees. We also helped our local communities through the crisis by lending an ear to their needs and by acting responsibly. We worked together, hand in hand. We can be at peace about SIJ Group's performance over the last year."
>
> Andrey Zubitskiy

Investment Projects of Strategic Importance Were Realised

Investments with binding covenants and critical investments aiming to ensure continued production were carried out according to plan. Other investments were prolonged or postponed. **In 2020, capital expenditure amounted to EUR 40.3 million, one-third less than planned**.

Among SIJ Group's foremost investments in 2020 were **modernisation of the industrial knife production**, which is planned for automation at a later stage, and **modernisation of the welding wire production**.

In the Steel Processing and Distribution Division, we collaborated with the company TPA to set up **RSC Holding as a joint venture, which became a leading centre supporting the tooling industry in the region**. Among other projects of RSC Holding, we are developing products for pressure die casting and injection moulding, produced using a patented innovative technology of additive production. **The patented MTF (Metal Fusion Technology) pushes the limits of product complexity allowed by conventional technologies**. This marks an important step forward in pursuance of its strategy for developing the group in the tool steels segment.

We also laid the groundwork to enter a period of recovery in other areas: **we obtained the EN 9100 international quality standard**, allowing us to penetrate the demanding market of high-quality technologically advanced products for use in the **aircraft industry, space flight and other advanced industries**. We are particularly proud of being listed as an **official supplier of the Russian Agency for Quality Assurance in the ITER project**. For use in building the flange, which will serve as a component of the ITER Tokamak reactor – which is currently one of the most ambitious, largest, advanced and expensive projects in the world – we supplied the SINOXX state-of-the-art austenite stainless and corrosion-resistant steel.

The Future Fills Us with Optimism

As we draw a line under the year, we can see that by joining forces with our employees, our customers, our suppliers, our investors and other key stakeholders, **we put our best efforts into mitigating the negative impacts of the crisis brought on by the COVID-19 pandemic**. While we cannot be satisfied with our performance, we can find some comfort in the fact that we remained a reliable business partner throughout this period, while retaining all our jobs and implementing measures to protect the health of our employees and successfully curb the spread of the virus among the workforce, and even in the worst of times we engaged in humanitarian initiatives to help the local communities in which our employees and their families live. **Positive forecasts are already coming in from the markets, signalling the gradual recovery of the steel industry in 2021. By the beginning of the year, the orders volumes had already returned to pre-crisis levels**. This fills us with optimism about the future.

Andrey Zubitskiy,
President of the Management Board

REPORT OF THE PRESIDENT OF THE SUPERVISORY BOARD

Dear shareholders and stakeholders,

In the challenging year of 2020, the Supervisory Board was constantly looking for coordinated solutions and guidelines to support the management board's activities and the governance of both SIJ d.d. and SIJ Group as a whole. In consultation with the Audit Committee and based on the Management Board's reports, the Supervisory Board passed decisions which fall within its competence, as defined under the law, the company's Articles of Association and other applicable regulations.

Facing the Global Challenge Posed by the Covid-19 Pandemic

The Supervisory Board applauds the Management Board efforts which helped SIJ Group keep its position as a reliable business partner to its customers in 2020. Throughout the process, their efforts were geared towards minimising the negative impacts on key business processes (Production, Sales, Purchasing, Logistics), which were affected by the COVID-19 pandemic for most of the year. Everyone involved in the operational process pooled together their knowledge and efforts. **The management and employees made a responsible, concerted effort and ensured that the business operations of SIJ Group and its various companies never came to a complete standstill.**

In 2020, the circumstances driven by the pandemic had a significant impact on our sales activities and on reaching our sales targets. Due to rapid and unanticipated changes on various markets during specific periods, production was sub-optimal. Lower sales volumes, uneven production, difficulties in managing inventories of raw materials, constant changes in the business environment, as well as other factors driven by the pandemic, all culminated in **SIJ Group's lower business results**. Compared with the previous year, the EBITDA result decreased by one third.

But even in the face of such challenging circumstances in 2020, SIJ Group once again generated the largest share of its revenues on the demanding German market, where it retained **a high market share of 21,7 percent**.

Based on the positive market outlook, SIJ Group expects the steel industry will slowly begin recovery in 2021. It is stepping into post-pandemic times **with a stable and structurally sound financial position**. At the end of 2020, **EUR 52.8 million** of additional financing was secured through the fourth issue of bonds and the seventh of commercial papers. It is on these foundations that the Group is able to implement its financial policy and investment strategy, with an emphasis on upgrading automated production facilities and manufacturing more technologically advanced products. The Supervisory Board will closely oversee the process as these targets are achieved.

Composition of the Supervisory Board

There were no changes in the structure of the Supervisory Board or the Audit Committee in 2020. These bodies comprised the same members as they did at the end of 2019.

Supervisory Board:

- Evgeny Zverev, President,
- Štefan Belingar, Deputy President,
- Mitja Križaj,
- Boštjan Napast,
- Dmitry Davydov,
- Helena Ploj Lajovic,
- Richard Pochon.

Audit Committee:

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

Cooperation with the Company's Management

The Supervisory Board is satisfied with its cooperation with the Management Board of SIJ d.d. in 2020. Members of the governing and supervisory body met at **5 Supervisory Board meetings and held 9 Audit Committee sessions**.

The Management Board of SIJ d.d. was reorganised in May 2020. Rather than having a collegiate management body, the company now has a **single-member Management Board**, whose powers are vested in the President of the Management Board Andrey Zubitskiy. Former members of the Management Board Tibor Šimonka, Viacheslav Korchagin and Igor Malevanov took over new executive functions and mandates associated with key strategic business functions, the organisation and operations of SIJ d.d. and SIJ Group.

The Supervisory Board is still kept fully updated on all the relevant fields of business with clear and detailed information and materials. During the epidemic, the Supervisory Board's work was supported by **advanced virtual communication and networking tools**. Due to its international focus and support through information technology, SIJ Group always meets these needs.

The supervisory body is structured with a strong emphasis on interdisciplinarity. During sessions, Supervisory Board members carefully discuss issues and prudently monitor actions and business activities. They **critically assess reports on measures taken** on an ongoing basis, and in doing so are **actively supported by the Audit Committee**.

Key Activities

As was the case in the global economic space, SIJ Group's comprehensive monitoring of the management's reports on financial and non-financial operational matters in 2020 was also inseparably linked to the pandemic. These impacts marked all the periods of the financial year, including the periods before the epidemic was declared.

During the Supervisory Board meetings in 2020, the Management Board was presenting regular KPI reports for SIJ Group as the COVID-19 situation developed. The Management Board kept the Supervisory Board informed of **centralised crisis management activities** and measures taken to protect employee health, as well as efforts to minimise disruptions to operations.

Prior to the epidemic, the Management Board prepared the **SIJ Group Strategy for the period 2020-2025**. The Supervisory Board approved the strategy, which incorporates the production of a broad range of steel products, customer orientation in the industries with higher added value products, and further strengthening of competitiveness. Based on the impacts of the pandemic, the Supervisory Board will also carefully monitor any need for the strategy to be revised.

At the June meeting, the Supervisory Board approved the proposal for **revising the controlling agreement concluded between SIJ d.d. as the parent company and its main directly controlled companies** in Slovenia. The General Assembly adopted the agreement in June 2020.

Having noted the observations contained in the Audit Committee's report, the Supervisory Board adopted the **audited annual reports of SIJ d.d. and SIJ Group for the business year 2019** and approved the Management Board's proposal on distribution of profit. Based on the recommendations on the distribution of profits in 2020, the shareholders convening at the regular annual General Assembly on 19 June 2020 confirmed the Management Board's and Supervisory Board's proposal according to which the **distributable profits for 2019 in the amount of EUR 108,611,628.83 would remain undistributed**. While adopting the annual report, the Supervisory Board also took note of the audited report on relations with related entities.

Starting Points for Operations in 2021

Moving forward, SIJ Group's objectives remain geared towards **maximising the benefits of vertical integration**. As a corporate governance body, the Supervisory Board will continue monitoring the efforts of the Management Board and the management of SIJ Group in pursuance of this strategy. In terms of managing financial and operational risks, the Supervisory Board will work closely with the Management Board to tackle the challenges faced by SIJ Group due to COVID-19 restrictions and the impacts of the global pandemic.

Work of the Supervisory Board's Audit Committee

In 2020, the Audit Committee actively performed its tasks as laid out in the applicable laws. By regularly reporting to the Supervisory Board, it made a significant contribution to quality decisions being made.

Because a decision was made at the 2019 General Assembly that the statutory audit of SIJ d.d. and SIJ Group in the 2019-2021 period would be performed by Deloitte Revizija d.o.o. from Ljubljana, the Audit Committee did not need to review any auditor bids in 2020. The Audit Committee's work was focused predominantly on **monitoring the activities involved in the compulsory audit** of the 2019 annual accounts of SIJ d.d. and SIJ Group following the replacement of appointed auditors in 2018. Besides reviewing the financial and non-financial reports of the management, the Audit Committee focused its efforts on effectively **monitoring the internal control and risk management system**. The impact of the COVID-19 pandemic stood out as a particularly important risk factor.

The Supervisory Board is of the view that the Management Board of SIJ d.d. and SIJ Group undertook appropriate and effective measures to protect the health of all employees in 2020. Through joint efforts and with contributions from all participants involved in the business processes, working under demanding and unpredictable circumstances, the Management Board of SIJ d.d. effectively ensured that SIJ Group brought the year 2020 to a reasonable conclusion – **without unnecessary stoppages, responsibly fulfilling the Group's obligations to customers and suppliers, and taking the necessary safety measures to protect the health of our employees.**

Evgeny Zverev,
President of the Supervisory Board

2020 Highlights

In 2020, uncertain conditions on a global scale have changed the scale of risks recognised thus far, and caused new risks to emerge. But there are opportunities to be found for team players who work together.

SIJ GROUP DURING THE COVID-19 PANDEMIC

Key Corporate Measures

Centralised crisis management Introduced when the epidemic was declared in Slovenia on the 13 March 2020.

Intensive **risk management** efforts undertaken across all areas of operations.

Adoption of an **adjusted economic plan.**

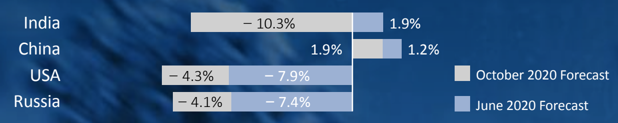
Sales and Impacts of the External Environment

Changed External Market Circumstances and Opportunities for SIJ Group

In 2020, the COVID-19 pandemic radically changed global economic trends, affected steel demand and consumption, as well as strengthened global protectionism.

GLOBAL ECONOMIC OUTLOOK

Economic Growth Forecast 2020



Economic Growth Forecast 2020

Observations and Trends

4.4% global decline in GDP in 2020, but global GDP is forecast to increase by 3.4% in 2021.

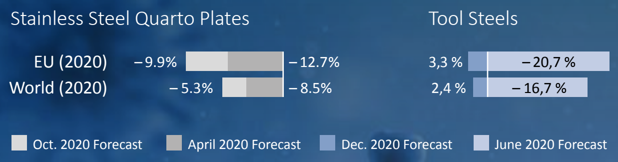
8.3% decline in the EU economy as a result of the intense second wave of the COVID-19 pandemic

SIJ Group Activities

- Strengthening relations with existing customers and attracting new ones.
- Replacing sales activities on high-risk markets with those on lower risk markets, in terms of the coronavirus.
- Seeking opportunities for production of new high added-value products.

NEW STEEL DEMAND TRENDS

Growth in Steel Consumption



Growth in Steel Demand

Observations and Trends

11.8% decline in EU steel production in 2020.

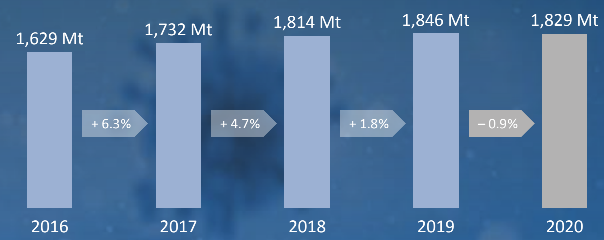
0.9% decline of global steel production in 2020.

SIJ Group Activities

- Increasing sales with existing customers and developing new sales activities.
- Understanding the customers' needs and looking for satisfactory production demand.
- Keeping track of development-focused activities on the market and looking for new business opportunities.

GLOBAL PROTECTIONISM AND CORONAVIRUS

Global Decline in Steel Production



Observations and Trends

50% decline in EU steel demand during the COVID-19 pandemic.

40% of the EU's workforce in steel production is temporarily or permanently inactive.

SIJ Group Activities

- Extension of existing exemptions.
- 93% of the products we sell to the USA are exempt from tariff duties. Encouraging US customers to further increase their support for the requested exemptions for SIJ Group.
- Active involvement through EUROFER to protect the European steel market from "third country" steel imports.
- Utilising the complete range of SIJ Group's legal and business capabilities to protect its interests on the US market.

Sources:

a. International Monetary Fund. October 2020. World Economic Outlook, October 2020: A Long and Difficult Ascent. Available at: link (4 December 2020).

b. World Steel Organization. December 2020. World Steel in Figures. Available at: link (4 December 2020).

c. World Steel Organization. October 2020. Steel Demand Forecast. Top 10 steel using countries. Available at: link (4 December 2020).

d. SMR - Steel and Metals Market Research. October 2020. Stainless Steel Plate Mill Plate Market Data. Internal data.

e. SMR - Steel and Metals Market Research. June 2020. Alloy Tool Steel Market Data. Internal data.

SIJ Group products are used in a variety of industries, including mechanical engineering and the automotive industry, the oil, gas and petrochemical industry, the power generation industry, and the construction industry. The COVID-19 pandemic most affected orders in the automotive industry segment.

MEASURES:	IMPACTS:
- **Attracting new customers** in commercially promising segments;	- **568 new customers**; 80 percent of which are in the Steel Division, which has the greatest impact on SIJ Group's business results;
- Intensified **financial and sales monitoring** of individual customers;	- **Mitigating the trend of declining orders** in the Manufacturing Division;
- **Agile adjustments to sales activities and commercial terms** to accommodate the customers' market situation;	- Achieving the **status of a certified supplier to the nuclear industry;**
- **Expanding online sales channels** to achieve more direct contact with smaller end customers;	- Obtained the **EN 9100 standard certificate for the aircraft industry** – improved our options for increasing sales and expanding the share of products with the highest added value.
- Cultivating partnerships and **strengthening customer trust.**	

During a time of strict restrictions, which varied from country to country, **SIJ Group was able to show that it is an extremely adaptable business partner**. This was particularly important when dealing with customers who were recognised as essential producers in individual countries (e.g. producers of medical equipment, the food industry, etc.).

The impact of COVID-19 pandemic on our sales activities varied based on the industries we are involved with. The largest impact on sales was driven by the **crisis in the automotive industry**. We managed the decline in sales by redirecting to markets employing less strict restrictions, such as the USA, India, Russia and others. Based on our sales analyses, we focused our efforts on segments with better outlooks. We fulfilled our contractual obligations by closely working with our customers and offering simple and effective solutions.

Although we were unable to completely replace the shortfall of our H1 sales revenues by the end of 2020, we quickly adjusted our efforts to expand our sales opportunities and **increased the share of our highest sales value products in our sales structure**.

SIJ Group's Markets in 2020

Europe & Russia

Austria
Belarus
Belgium
Bosnia and Herzegovina
Bulgaria
Croatia
Czech Republic
Denmark
Estonia
Finland
France
Germany
Greece
Hungary
Italy
Kosovo
Latvia
Lithuania
Luxembourg
Moldova
Montenegro
Netherlands
North Macedonia
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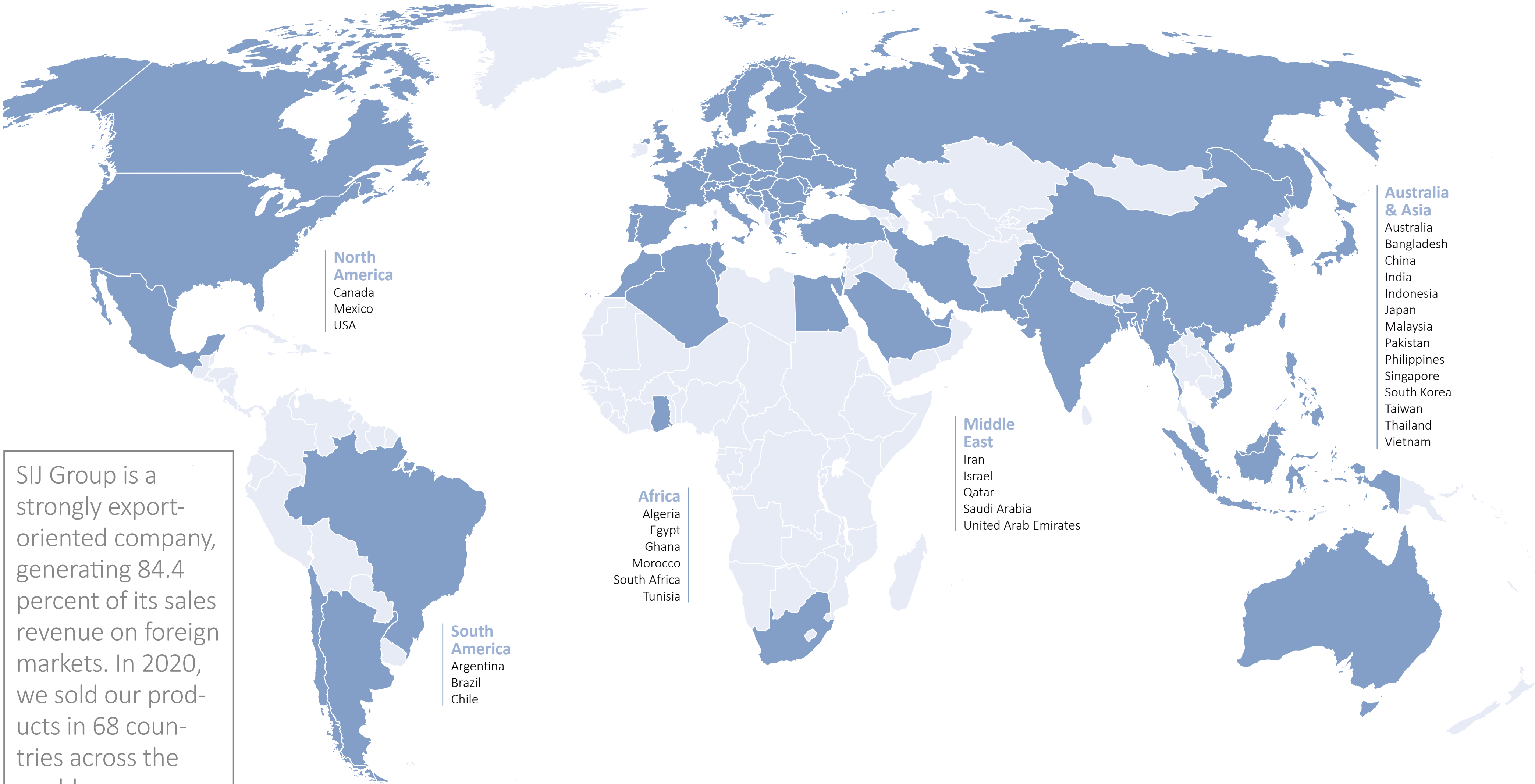
Portugal
Romania
Russia
Serbia
Slovakia
Slovenia
Spain
Sweden
Switzerland
Turkey
Ukraine
United Kingdom



SIJ Group is a strongly export-oriented company, generating 84.4 percent of its sales revenue on foreign markets. In 2020, we sold our products in 68 countries across the world.

By taking appropriate measures to protect the health of employees and prevent the spread of infections, SIJ Group was able to work around the clock under these crisis circumstances, and thus kept its reputation as a reliable business partner and employer.

Employees and Production

In 2020, the most substantial operational risk was the risk of an extreme spike in employee absences, driven by the epidemic in Slovenia. We introduced precautionary measures in our working environments to curb the spread of COVID-19 through the timely introduction of crisis management and carefully planned activities, which were introduced and implemented in cooperation with all business process participants. We kept our operations running by ensuring fast turnaround times. After some initial adjustments, sufficient attendance of employees allowed us to keep our production processes running.

MEETING ALL OUR OBLIGATIONS

In the first half of 2020, during a time when some industries were deciding to shut down their operations, SIJ Group, together with its employees, made a commitment to fulfil existing orders as much as possible. Through consistent observation of the necessary precautions and with the help of motivated employees, we proved ourselves a reliable partner. In the second half of the year, when the global economic situation caused a decline in incoming orders, **we kept our production processes running, with some necessary adjustments**, while also performing equipment overhauls and maintenance in accordance with our adjusted plans.

MEASURES IN PRODUCTIONS SITES:

- **Optimisation of production processes** in the second half of 2020 – due to decreased demand (switching to serial work processes, shorter work hours and use of government furlough instruments);
- **Cost-effective management of booked quantities of energy products;** with production volumes declining, we were able to sell off surplus quantities of energy products and reduce costs thanks to having signed appropriate contracts with our suppliers.
- **Optimal timeframe for overhauls and maintenance work**, which we had planned for a later time. Changes in our production processes have allowed us to adjust the timing of these overhauls and maintenance work accordingly.
- **Optimisation of investment plans**: all strategic investment plans which are of essential importance for SIJ Group's development were retained, while the timing of other investments was adjusted. We decreased the investment budget planned for 2020 by 39 percent.

Improvements in the field of information technology have allowed us to further improve monitoring the availability of equipment for use by all production companies within SIJ Group.

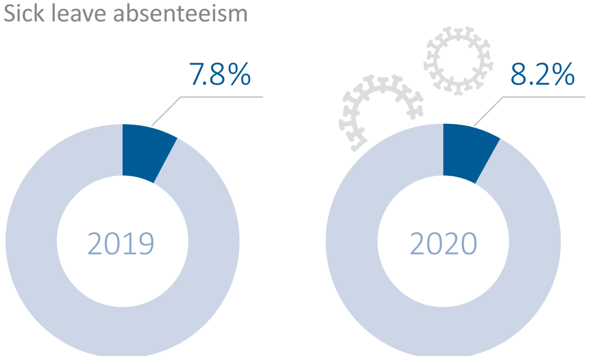
A unified stoppage management system launched in March 2021 streamlines the business decision-making process based on direct inputs received from production.

PROTECTING THE HEALTH OF OUR EMPLOYEES

SIJ Group is a key employer in Ravne na Koroškem and Jesenice – two important steel-working regions of Slovenia. Even during the pandemic, these SIJ Group companies proved themselves as stable, reliable employers. In the first wave of the epidemic, we made it a priority to protect the health of our employees by taking various precautions, allowing us to work through the entire first wave of the epidemic, with the knowledge that we were preserving jobs in this manner. Our responsible actions, with help from our employees, allowed us to deliver our existing orders in a timely manner.

In the year of the COVID-19 pandemic, the number of sick leave absences in SIJ Group increased only by a minimal amount. The working environments within SIJ Group companies were not hotspots of infections.

Sick leave absenteeism



MEASURES FOR PROTECTING HEALTH OF EMPLOYEES:

- **We provided sufficient quantities of personal protective equipment for our employees** in a timely manner. We also implemented additional safety measures, beyond the recommendations provided by Slovenian authorities.
- **We adjusted our work processes to better fit the circumstances**, including reorganising shifts, preventing contact between shifts, introducing clean zones within complete technological areas, and allowing employees to work from home where possible.
- **We introduced new incentive schemes to improve employee motivation** by introducing an additional bonus system for production workers who remained at work throughout the epidemic; **total budget for employee bonuses: EUR 3.8 million.**
- **We improved our employees' safety by introducing preventive measures**: improved and upgraded employee digital communication and communication with external stakeholders, cancelling of business trips and educational seminars, and closing down canteens and food vending machines during the first wave of the epidemic.
- **We raised awareness of our employees about the urgency and proper execution** of all the related safety measures, and provided them with updates on the impacts of the pandemic on our operations.

UTILISATION OF GOVERNMENT RELIEF MEASURES:

- **Refunds of salary compensation paid out to temporarily furloughed employees and for absences due to unanticipated events involving provision of childcare due to the closing-down of schools and kindergartens**;
- **Waiving of social contributions** for temporarily furloughed employees;
- **Refunds of employee compensation for short-term sick leave**;
- **Subsidies for reduction of working hours**;
- **Payout of a crisis allowance** for eligible employees.

Care for our employees is one of the foremost commitments in the SIJ Group Strategy 2020-2025.

MEASURES:

- **Territorial diversification of supplier warehouses**, particularly for our most essential alloys;
- **Raising the minimum stock of raw materials originating from critical areas** as transport restrictions intensified;
- **Mitigating the risks associated with non-delivery of steel scrap** from outside the country by increasing the sourcing of supplies from the Slovenian market.

IMPACTS:

- **Use of substitutes in the production of tool steels** in parallel with technologic adjustments (consumption of steel scrap decreased 10 percent as a result of shutdowns in the European automotive industry);
- **Increased reliance on insourced secondary raw materials from the Slovenian market**

Purchasing and Logistics

CHALLENGES WITH PROVISION OF PERSONAL PROTECTIVE EQUIPMENT

With the spread of the pandemic, most companies found themselves facing an entirely new risk – the risk of not being able to provide sufficient quantities of personal protective equipment for employees (masks, disinfectant). SIJ Group was able to reach an agreement with our employees and other stakeholders that we would not shut down production due to having unfulfilled existing orders. That is why **timely purchase and delivery of all necessary protective equipment** for our employees was a priority.

During the first (spring) wave of the pandemic, we ensured safe working conditions based on a centralised day-to-day planning of inventories across all SIJ Group companies. Ahead of the second (fall) wave, we signed contracts with a domestic producer of protective masks and selected suppliers of other protective equipment and accessories. We introduced a **comprehensive system of deliveries and backup supplies**. Taking action in a timely manner allowed us to ensure appropriate protection for our employees from the start of the epidemic in Slovenia until the end of 2020.

RISKS ASSOCIATED WITH THE SUPPLY OF STRATEGIC RAW MATERIALS

The pandemic increased the risk of not having a reliable supply of strategic raw materials. Since we were able to properly manage the purchasing risks, we encountered no disruptions in terms of the supply of raw materials. In 2020, **adequate and timely supply of raw materials allowed production to continue without hindrance**. We further increased reliability through timely and appropriate inventory management, increasing reliance on our own resources in the context of SIJ Group's vertical integration, and through cost and process optimisation.

DIFFICULTIES IN PLANNING SUPPLIES

Planning supplies of raw materials was made difficult due to longer transit times caused by the pandemic. We experienced minor delays in delivering goods to our customers and across the supply chain of SIJ Group due to stricter control procedures on national borders. Most of the transport was done by road, using a wide network with **over 100 partners.** With regard to planning warehouse capacities in SIJ Group production companies, we are introducing a modern **time interval management system** powered by information technology. The system allows greater flexibility in reserving time intervals in warehouses, and reduces the costs associated with the transporters' idling costs.

Ensuring Liquidity and Compliance

The economic slowdown caused by the COVID-19 pandemic could cause companies buying SIJ Group products to run into liquidity issues. This could increase credit risks in relation to customers, and expose SIJ Group to a higher level of liquidity risk. So far we have been able to address these risks with appropriate measures. SIJ Group has not faced any significant worsening of payment discipline, and customers have been paying off their liabilities in full.

SIJ Group was able to meet all of its obligations on time. The liquidity position is adequate, and at the same time we have a liquidity reserve in the form of unutilised short-term and long-term credit lines held with banks.

MEASURES:

- **Monitoring additional indicators** linked to increased customer risk;
- **Resolving potential payment delays on an individual basis** by adjusting the terms of payment;
- **Intensive communications with customers.**

IMPACTS:

- **Customers' payment discipline maintained**;
- **High share of receivables insured by prime collateral**;
- **Adequate liquidity of SIJ Group.**

The process of adopting intervention legislation, restrictions and economic relief measures increased the legal risks in 2020. As the regulations were changing rapidly, their implementation was made more difficult.

SIJ Group managed this elevated risk by paying even more attention to legislative changes, and immediately checking the significance and impacts of these regulations with all relevant departments. Where necessary, we also engaged external legal experts with specific skill sets.

Risk Management

Due to the unpredictable and ever-changing circumstances in 2020, we increased our efforts with regard to risk identification and risk assessment. We placed particular emphasis on the changed HR-, sales-, purchasing-related risks, and financial risks.

RISK MANAGEMENT SYSTEM

The opportunities and risk system is based on a well-rounded process of **planning, coordinating and reporting**. The management of SIJ d.d. makes decisions on the measures to control and eliminate risks. Risk management is centralised across the entire SIJ Group.

Risk management processes are inseparably linked and integrated into the business processes and into the system of internal controls which are in place in individual SIJ Group member companies, as well as on the level of the entire Group. Risk management processes are in place at various levels, depending on which level SIJ Group companies encounter them in the course of their business, where such risks could potentially have a negative impact on:

- **assets,**
- **cash flows,**
- **profitability,**
- **reputation,**
- **continuity of operations.**

In SIJ Group, 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.

KEY RISKS DURING THE COVID-19 PANDEMIC

HR risks increased as a result of the COVID-19 pandemic. COVID-19 safety measures (closed kindergartens and schools, shutdown of public transportation) and elevated infection levels could have caused increased absenteeism of employees from work and disruptions in the operations of SIJ Group, as SIJ Group would be unable to organise production in the case of employee absences. While we rated these risks as high, we were able to adequately manage them through timely crisis management during the epidemic.

The pandemic increased all **procurement risks**. Unpredictable conditions had an impact on timely deliveries, pricing changes and the availability of raw materials. We rated this risk as high, but were able to avoid interruptions in production by taking adequate preventive measures.

●○○ Low

●●○ Moderate

●●● High

High HR Risks

Risk	Risk Description	Risk Management Method	Risk Exposure
Repeat of the COVID-19 pandemic	There is an increased level of key employee absences due to COVID-19 pandemic. Disregard for preventive measures to curb the spread of the virus among employees.	- Timely introduction of recommended and additional preventive measures, regular and consistent implementation and follow-up. - Regular and consistent implementation of preventive measures, adjusted handover process during shift changes. - Leaders' commitment to set an example for observing preventive measures, follow-up on the implementation and observance of the prescribed preventive measures.	●●●

High Procurement Risks

Risk	Risk Description	Risk Management Method	Risk Exposure
Access to strategic raw materials and auxiliary material	Untimely supply of strategic raw materials and auxiliary materials due to logistics issues.	- Careful supply chain planning, negotiations and identification of suitable suppliers, long-term framework agreements with suppliers. - Geographically dispersed suppliers. - Accumulating suitable safety reserves. - Planning and approving alternative suppliers of key raw materials in case fixed suppliers are unable to make deliveries due to extraordinary circumstances.	●●●
	Changes in purchase pricing.	- Balancing sales and purchase volumes using the raw materials booking method under the business model involving paying a surcharge for alloys or hedging with fixed purchases.	
	Limited availability of raw materials.	- Testing substitute materials and the introduction of possible substitutes.	
	Inadequate quality of raw materials and auxiliary materials.	- Monitoring suppliers using the established testing process, and performing ongoing input controls according to prescribed protocols.	

We correlated the impacts of the pandemic with the customers' diminished ability to conduct their business activities and to the decline in new incoming orders, decreasing market prices and other **sales risks**. In 2020, these risks increased, but we were able to manage them successfully together with our customers. In 2021, we will continue managing these risks, which we assessed as High, with well thought-out measures.

High Sales Risks

Risk	Risk Description	Risk Management Method	Risk Exposure
Sales Risks	Reduced volume of business from our customers, reduced purchasing power, and reduced volume of new orders.	- Direct communication with customers, with prompt adjustments to sales activities and commercial terms to accommodate the customers' market situation. - Accelerated redirection of sales activities to take advantage of sales potentials and attract new customers.	●●●
	Growing inventories of materials and products due to postponed deliveries or the customers' inability to pick up material deliveries.	- Flexible adjustment of inventories of ordered products for individual key customers, especially end-users and projects. - Intensified financial and sales monitoring of individual customers from countries with an increased risk profile.	
	Shrinking insurance coverage limits for some customers.	- Internal limits system to reduce any fall in sales due to of shrinking insurance coverage limits.	
	Risk that market prices are not aligned with purchase price movements, or adjustment is delayed by several months.	- Aligning purchasing terms with our terms of sale in combination with raw materials booking - Fixing sales prices for a short period of time. - Tailoring our sales activities to the needs of end users across various industries, with varied pricing trends.	
	Market risks – introduction of import restrictions in certain countries and possible inadequate marketing activities.	- Adjusting marketing models to better address different customer industries. - Restructuring our production programme with a focus on increasing the share of more complex niche products. - Maintaining a quality portfolio of customers and markets.	
	Delayed deliveries due to production delays and logistical issues	- Internal organisational measures (safety reserves for key customers) aimed at ensuring good and timely satisfaction of commitments.	

●○○ Low
●●○ Moderate
●●● High

While we rate **financial risks** as significant, they remain low and are managed as per usual despite the pandemic. We were keeping a close watch on the moderate-level credit risk, which could have increased due to the possibility of our customers running into solvency issues. We managed this risk through active and systematic management of receivables.

Moderate and Low Financial Risks

Risk	Risk Description	Risk Management Method	Risk Exposure
Credit Risks	The risk of failure 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. - Large share of receivables insured by prime collateral.	●●○
Liquidity Risks	Insolvency due to a lack of liquidity.	- Regular planning of cash flows. - Managing liquidity by constantly monitoring liquidity risks on the daily, monthly and annual levels. - Preparing liquidity and working capital projections.	●○○
Foreign Exchange Risks	Risks associated with the use of foreign currencies, due to fluctuations in foreign exchange rates.	- Price policy method of integrating the foreign currency into the price difference. - Matching or balancing sales and purchasing, and balancing the outflows and inflows, classified by currency.	●○○
Interest Rate Risks	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.	●○○

●○○ Low
●●○ Moderate
●●● High

SYSTEMATICALLY MONITORED RISKS

Key HR-, sales-, purchasing-related and financial risks, where the potential impacts of the COVID-19 pandemic were particularly notable, are presented in the previous chapter. Below, we present the remaining risks which we monitor systematically, and which were not significantly affected by the challenging circumstances in 2020.

HR Risks

Risk	Risk Description	Risk Management Method	Risk Exposure
Active ageing of employees	Risk associated with decreased work productivity and growing absenteeism	- Modernisation of job descriptions, improving working conditions and long-term focus on automation of certain working procedures. - Promoting health in the workplace, introducing healthy meals in the workplace, providing attractively-priced employee insurance schemes.	●●●
Increase of the share of labour costs in gross value added	Enactment of the provisions of the Minimum Wage Act in SIJ Group- increasing the minimum wage to 120 percent of minimum living expenses and pro-rata adjustments across all pay grades.	- Raising employee productivity and work process automation. - Employee training and increasing employee capacity for multi-tasking.	●●●
Shortage of qualified resources	Risk related to the provision of professionally qualified staff and staff availability in the metallurgy and foundry industries.	- Transfer of knowledge from older metallurgy experts to younger people through practical education classes – through mentoring programmes. - Systematic work with key employees. - Promotion of technical professions through close collaboration with educational institutions.	●●○

Risks Related to the Safety and Health of Employees

Risk	Risk Description	Risk Management Method	Risk Exposure
Injuries and absence from work	Working in most metallurgy companies presents an increased risk of injury or occupational diseases.	- Carrying out measures set out in the risk assessment document; designing and implementing additional measures in the context of the incident investigation.	●●○

●○○ Low
●●○ Moderate
●●● High

●○○ Low
●●○ Moderate
●●● High

Investment Risks

Risk	Risk Description	Risk Management Method	Risk Exposure
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. - A system is in place to ensure monthly control over the progression and achievement of desired investment outcomes.	●●○
	Risks associated with corporate acquisitions and operational restructurings.	- Active investment portfolio management. - Participation in all phases of projects and processes.	

Quality Risks

Risk	Risk Description	Risk Management Method	Risk Exposure
Quality-related risks	Risk of 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. - Identifying "KPI Quality" as one of the criteria used in the assessment of the variable monthly pay bonus.	●●○

●○○ Low
●●○ Moderate
●●● High

Research and Development Risks

Risk	Risk Description	Risk Management Method	Risk Exposure
Research and Development	Risks associated with the achievement and guaranteeing of safety and technical standards.	- Constant investments in new technology, software, and market improvements.	●●○
	Risks associated with the new product development process.	- Careful planning of development projects, quality reporting, adequate control.	
	Shortage of suitably educated and qualified employees.	- Scholarships and constant monitoring of the labour market.	

Environmental Risks

Risk	Risk Description	Risk Management Method	Risk Exposure
Emissions into the air	The risk of failure to achieve the planned levels of reduction of CO_2 emissions, permitted dust and other emissions into the air (in accordance with the law).	- Regular 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	Risk of failure to achieve compliance with regulations.	- Monitoring done by our own laboratory using accredited methods. - Diligent planning of investment projects. - Supervision over the implementation of technological processes. - High-quality reporting. - Raising awareness among employees.	●●○
Noise emissions	Risk of failure to achieve compliance with legislation about noise in the workplace and about noise pollution in the surroundings of industrial facilities.	- Diligent planning of investment projects. - Supervision of the implementation of technological processes. - High-quality reporting.	●●○

Continuation of the table →

Continuation of the table

●○○ Low
●●○ Moderate
●●● High

Risk	Risk Description	Risk Management Method	Risk Exposure
Emissions into the ground	Risk of failure to achieve the planned reduction of the quantity of deposited waste and the quantity of dumped municipal waste.	- Diligent planning of investment projects. - Raising awareness among employees. - Supervision of the implementation of technological processes. - Innovation in technological procedures, high-quality reporting.	●○○
Use of starting materials	Risk of failure to achieve the planned high yields of finished products compared to starting materials, failure to ensure low specific consumption of auxiliary materials, failure to achieve the planned reduction of the consumption of water and drinking water.	- Diligent planning of investment projects. - Raising awareness among employees. - Supervision of the implementation of technological processes. - Innovation in technological procedures. - Monitoring the secondary raw materials consumption rate. - High-quality reporting.	●○○
Energy product consumption	Risks related to increasing the specific consumption of electricity and technical gases.	- Diligent planning of investment projects. - Raising awareness among employees. - Supervision of the implementation of technological processes. - Innovation in technological procedures. - High-quality reporting.	●○○
Operational risks with a potentially adverse environmental impact	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 incidents. - Supervision of the implementation of technological processes. - Indicator monitoring (number of incidents/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 excess heat, risks associated with the implementation of the sustainable development strategy.	- Reducing the use of hazardous materials, 100-percent implementation of radioactive control. - Diligent planning of investment projects. - Raising awareness among employees. - Innovation in technological procedures. - High-quality reporting.	●○○

Other Risks

●○○ Low
●●○ Moderate
●●● High

Risk	Risk Description	Risk Management Method	Risk Exposure
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.	●●○
Legislation risks	Risks associated with changes in legislation or the interpretation thereof.	- Monitoring legislation and case law and preparing related measures.	●●○
Contractual risks	Risks associated with the execution of commercial agreements.	- Reviewing all agreements being executed with suppliers and customers by running preliminary credit rating checks and including the relevant contract clauses to prevent negative consequences in case of delays or complications.	●●○
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.	●●○

NOTABLE EVENTS OF THE BUSINESS YEAR

February

Commitment to Achieve the Targets of the 2050 Green Deal

Together with other members of the Strategic Council for Metallurgy, SIJ Group presented the Minister of Economic Development and Technology and the Minister of the Environment and Spatial Planning with the challenges and proposed solutions for achieving the European Green Deal targets for the year 2050, and brought attention to the National Energy and Climate Plan (NECP). Slovenian metallurgy companies are ranked among the world's top companies in terms of the energy efficiency of their business processes and low greenhouse gas emissions, and they **welcome the transition to a green economy**.

Signing the Agreement for an Investment into SIJ Metal Ravne

SIJ Metal Ravne and international innovative engineering group ANDRITZ signed an agreement for a **special line for the most advanced heat treatment processes** for products intended for use in the energy industry, aircraft industry and other advanced technology sectors. The new hardening and tempering line, which comprises two dual-chamber furnaces, a charging manipulator and steel improvement pools, as well as an automation system, will be launched in 2021.

March

Setting up a Crisis Management System During the Epidemic

After the COVID-19 epidemic was declared in Slovenia, a crisis management team was assembled, which immediately took measures to protect the health of employees, then carefully monitored the conditions while managing **all identified risks across all key areas of operation**. The team observed the measures set out by the Republic of Slovenia and the National Institute of Public Health, the European Steel Association, Eurofer, and other relevant institutions, and continuously worked with customers, suppliers, investors, labour unions and other important partners.

Entry into the Aircraft and Space Industry

SIJ Metal Ravne, was awarded the **EN 9100 certificate**, allowing it to enter the demanding market of high-quality technologically advanced products for use in the aircraft industry, space flight and other advanced industries.

April

Organisational Change in the Management Board

On 30 April 2020, Tibor Šimonka, Viacheslav Korchagin and Igor Malevanov's mandates as Members of the Management Board of SIJ d.d. ended. SIJ Group now has a **single-member Management Board**, which is still headed by its President, Andrey Zubitskiy. Under the new matrix-based organisation, the former Members of the Management Board are now vested with the powers and responsibilities for managing SIJ Group's business functions as the executive management team.

2019 Annual Report Confirmed

During its 11th session, the Supervisory Board reviewed and adopted SIJ Group and SIJ d.d.'s Audited Annual Report for the financial year 2019.

June

38th General Assembly of Shareholders of SIJ d.d.

On 19 June, the General Assembly unanimously granted discharge to the Management Board and the Supervisory Board for the financial year 2019. The General Assembly passed the decision that the **distributable profits for 2019 in the amount of EUR 108,611,628.83 would remain undistributed**. The General Assembly gave its consent to the signing of the Contract on the Governance and Organisation of the Contractual Group between the controlling company SIJ d.d. and the controlled companies SIJ Acroni, SIJ Metal Ravne, SIJ Elektrode Jesenice, Noži Ravne, SIJ SUZ, SIJ ZIP Center and SIJ Ravne Systems.

July

Setting up a Leading Center to Support the Tooling Industry in the Region

The company SIJ Ravne Steel Center was reorganised to become **RSC Holding, of which SIJ d.d. owns a 51 percent equity share**, while a 49 percent equity share is owned by the Ljubljana-based TPA tehnološki center d.o.o., which brings together a number of companies supporting the tooling industry. These companies are transferred under RSC Holding, which is becoming a leading centre supporting the tooling industry in the region.

Repayment of SIJ5 Bonds Using Own Funds

On 21 July, the company SIJ d.d. publicly announced that it had paid off its obligations arising from SIJ5 bonds **in the nominal amount of EUR 51,218,000.00**, as they fell due. SIJ Group settled its obligations using its own funds.

September

SINOXX 4404 Steel Used in the World's Largest Fusion Reactor

SIJ Group, through its subsidiary SIJ Metal Ravne, is involved in the building of the world's largest fusion reactor. For use in building the flange, which will serve as a component of the ITER Tokamak reactor, we supplied the SINOXX 4404 **state-of-the-art austenite stainless and corrosion-resistant steel**.

Operating Results and Adjusted Plans

On 30 September, SIJ Group published unaudited operating results of SIJ Group for the first half of 2020, and some information about the adjustments to SIJ Group's operations in response to the COVID-19 pandemic. Among other measures taken, the Group **adjusted its economic plans**, carefully examined the **investments projected** for 2020, and resolved to carry out the strategic investments while leaving the rest for a later time.

October

Plans to Build an Advanced Energy Community

SIJ Acroni, a subsidiary of SIJ Group, is involved in the Creators Project together with its project partners, exploring the possibilities for setting up an advanced energy community in Jesenice. The project includes developing applications and service packages, as well as researching the practical aspects of **using excess heat to provide remote heating for the local community**. Plans also include **building an up to 5 megawatt solar power plant and a hydrogen power plant.**

Online Sales of Products of our Subsidiary SIJ Elektrode Jesenice

Since 15 October, business users and end-consumers can now also buy electrodes, welding wires and other welding materials online. The SIJ Shop Elektrode is an important new channel to **attract new customers, increase sales and improve brand recognition.**

November

Successful Issue of SIJ7 Corporate Bonds

On 2 November, SIJ d.d. successfully finalised the fourth bond issue, **for the cumulative nominal value of EUR 26.1 million**. The bonds are issued with a three-year maturity and a 3.9-percent annual coupon rate. The funds raised with the sale of SIJ7 bonds will be used to diversify long-term sources of financing, support long-term investments in technology with production, environmental and energy impacts, and for optimising the maturity structure of existing loan obligations.

National Innovation Awards

At the Innovation Day event, the Slovenian Chamber of Commerce and Industry awarded SIJ Group **three Silver Awards** in recognition of its innovations. We received these awards for a special stainless steel for use in the nuclear industry, for a new generation of cold rolled steels, and for developing the methodology for processing duplex stainless steels.

December

Seventh Successful Issue of Commercial Papers

On 11 December, SIJ Group successfully completed the seventh issue of commercial papers **in the amount of EUR 26.7 million**, and an annual interest rate of 1.20 percent. Combined with the fourth successful issue of corporate bonds in the amount of EUR 26.1 million, which took place in November, SIJ Group has raised a total of EUR 52.8 million on the capital market this year. This ranks it as one of the most active and well-known companies on the domestic capital market, which has retained investors' trust even in these times of crisis.

NOTABLE EVENTS AFTER THE END OF THE REPORTING PERIOD

February

Decisively Entering the Most Challenging Industries with the New ESR4 Investment

SIJ Metal Ravne launched the investment in the new ESR4 electro slag remelting device, which will support the production of higher purity steels with improved malleability. Our investment follows the SIJ Group Strategy for 2020–2025 and pursues the goal of maintaining our leading position in the niche tool steels market. The investment in ESR4 will help **increase the production of higher purity steels with better malleability and thereby support additional expansion of the niche tool steels market**. The end-users come from the most demanding industries, such as the energy sector, engineering, oil, and gas industries, to name a few. We are also planning to enter a market of high-quality, technologically advanced products, the aircraft industry, and we already received the ISO 9100 certificate for this purpose last year.

CONTINUATION OF THE CORONAVIRUS PANDEMIC

At the time of publication of the annual report, SIJ Group has taken preventive measures to curb the spread of the coronavirus in Slovenia and protect our employees' health and ensure our operations can continue as smoothly as possible. We keep abreast of the situation across all key business areas (Sales, Procurement, Logistics, Human Resources) and manage all identified risks.

At this time, there are no legal obstacles to SIJ Group companies to continue operations, and we do not anticipate any major shutdowns in our steel companies. The supply chains are running without any significant restrictions, with only occasional disruptions due to a lack of availability of raw materials on global markets, an issue we are mitigating through inventory management.

Since the start of 2021, positive forecasts have been coming in from the markets, signalling the gradual recovery of the steel industry in 2021. SIJ Group is therefore not experiencing any significant adverse effects in terms of its sales, and order volumes are already returning to pre-crisis levels. We keep our key markets and customers well-supplied through the active implementation of our sales policy. We are experiencing minimal order cancellations, and these are not having a material effect on our operations.

Despite the current positive trends, however, there are still numerous areas of uncertainty surrounding the coronavirus pandemic. It is impossible to accurately predict the measures and potential new restrictions; therefore, it is not possible to give a reliable estimate of their potential effects on SIJ Group's operational performance.

Organisation and Governance

As part of the vertically-integrated SIJ Group, each company is achieving its goals in mutual collaboration. Together, we are effective even in challenging circumstances.

ABOUT SIJ d.d.

The company SIJ d.d. is responsible for effectively managing the operations of SIJ Group. In accordance with the outlined long-term strategy, key business functions are managed and strategic decisions taken on the level of individual Group companies, as well as on the level of SIJ Group as a whole.

Strategic management, coordination and supervision of the operations of all SIJ Group subsidiaries, both Slovenian and international, is the responsibility of the Management Board of SIJ d.d. and its executive management team, which consists of a Strategic and an Operational Collegium.

SIJ d.d. directly acts as the manager of its equity interests in the companies of the SIJ Group, and it passes decisions by voting with the majority share of the parent company.

SIJ d.d. is the controlling company, founder and either the direct or indirect owner of the subsidiaries of SIJ Group. It has no registered branches.

The revised **Contract on the Governance and Organisation of the Contractual Group**, which the General Assembly approved in June 2020, stipulates that SIJ d.d. is the controlling company which carries out centralised services for its subsidiaries SIJ Acroni, SIJ Metal Ravne, SIJ Elektrode Jesenice, Noži Ravne, SIJ SUZ, SIJ ZIP Center and SIJ Ravne Systems, i.e. for the entire SIJ Group. As a rule, other subsidiary companies are either 100-percent owned or under the predominant influence of the parent company SIJ d.d. The new Contract supersedes its predecessor, which was in force since 2007.

Until 21 June 2021, the Management Board is authorised to acquire treasury shares up to a maximum of 27,610. With the exception of these shares, all other 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 profits (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.

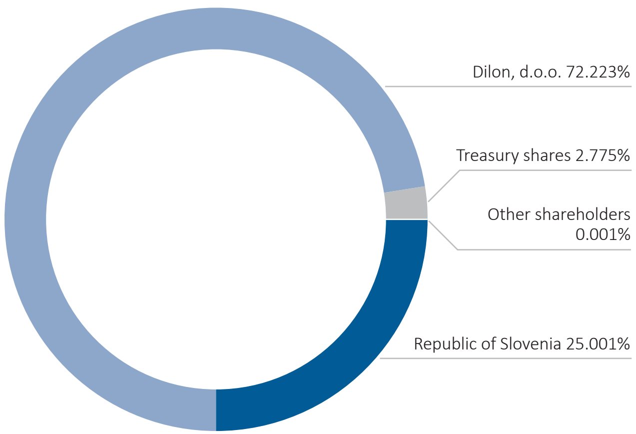
All Company shares are freely transferrable. The Company has not issued any securities which provide special control rights, nor does it have any employee stock option schemes or contractually foresee any specific positions in the case of acquisitions.[1]

Basic Information About SIJ d.d.

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 registration:	6 February 1990
Registered share capital:	EUR 145,266,065.75
No. of shares:	994,616 ordinary no par value shares with the ticker symbol SIJR*
Registration number:	5046432000
Tax number:	SI 51018535
Core business:	M70.100 Activities of head offices

** The shares are not traded on an organised securities market.*

Ownership Structure as at 31 December 2020



1 SIJ d.d. is subject to the provisions of the law governing mergers and acquisitions, and as at 31 December 2020, no specific positions referred to in item 11 of the sixth paragraph of Article 70 of the Companies Act apply.

OPERATING RESULTS OF SIJ d.d.

SIJ d.d. is the controlling company, founder and either the direct or indirect owner of the subsidiaries of SIJ Group. The company's main source of revenue is service fees from services performed for the benefit of SIJ Group companies, and dividends paid out by SIJ Group companies. The company SIJ d.d. provides its Group companies with strategic development, technological research & 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.

In 2020, the company realised a net profit of EUR 3.9 million, which is significantly less compared to the preceding period. In 2019, this net profit realised by the company also came from the successful divestment of Perutnina Ptuj d.d. While the average number of employees increased by 8.9 percent, the labour costs were up only 2.5 percent.

Profit reserves were set aside in accordance with the Companies Act (ZGD). No dividends were paid out in 2020. As a result, the company's equity increased EUR by 3.8 million.

Key Operating Figures

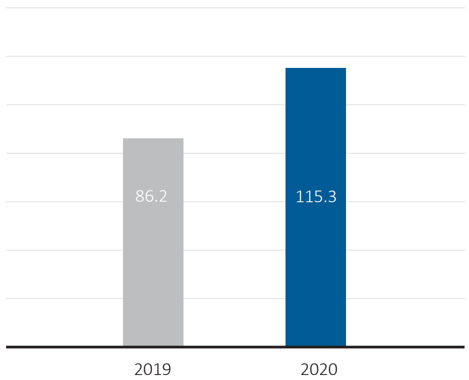
Financial figures	Unit of Measure	2019	2020
Sales revenue	000 EUR	12,983	14,535
Other operating revenues	000 EUR	126,511	152
EBIT	000 EUR	116,231	–2,326
EBITDA*	000 EUR	124,622	387
Financial result	000 EUR	–18,962	6,500
Profit or loss before taxes	000 EUR	97,269	4,175
Net profit or loss	000 EUR	84,882	3,924
CapEx	000 EUR	781	759
Statement of financial position as at 31 Dec			
Total assets	000 EUR	407,465	406,350
Non-current assets	000 EUR	278,542	334,791
Equity	000 EUR	271,655	275,414
Non-current liabilities and current liabilities	000 EUR	135,810	130,936
Net financial debt as at 31 Dec.			
Non-current financial liabilities	000 EUR	40,334	67,185
Short-term financial liabilities	000 EUR	83,522	49,684
Cash and cash equivalents	000 EUR	37,656	1,612
Net financial debt	000 EUR	86,200	115,257
Employees			
Labour costs	000 EUR	10,119	10,368
Average number of employees		99.9	108.8
Financial ratios			
Return on assets (ROA)	%	21.6	1.0
Return on equity (ROE)	%	36.2	1.4
Participation rate of equity		0.7	0.7
Long-term liabilities-to-assets ratio		1.1	1.1
Long-term debt-to-assets ratio		0.1	0.2
Net profit or loss per employee	000 EUR	850	36

** EBITDA: operating profit or loss before depreciation and amortisation + impairments and write-offs of value – elimination of impairments and write-offs of value*

WORSENING OF THE FINANCIAL POSITION

As of the end of 2020, the net financial debt amounted to EUR 115.3 million, up by EUR 29.1 million compared to the preceding year. The increase in financial debt was mostly influenced by investments in subsidiaries, payment of the capital gains tax from the divestment and the increase in financial receivables. While the net financial debt is higher, it remains at a sustainable level.

SIJ d.d.: Net Financial Debt (in EUR million)



NOTES TO THE PERFORMANCE INDICATORS

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

Indicator	Explanation of the calculation	Use
Return on assets (ROA)	Net profit or loss / Average assets	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 a net profit.
	Average assets are calculated as an average of the current and previous periods.	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	The indicator shows the profitability of equity, or the company's effectiveness in generating net profits per unit of equity.
	Average equity is calculated as an average of the current and previous periods.	The higher the ratio, the more efficient the company is in generating a net profit.
Participation rate of equity	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 taxation 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-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.

ORGANISATION OF THE COMPANIES OF SIJ GROUP

SIJ Group is comprised of 36 companies. The founder, or the direct or indirect owner of the subsidiaries of SIJ Group is the controlling company SIJ d.d.

All SIJ Group companies are part of a vertically integrated business model. 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 as an essential raw material, all the way to the distribution and processing of steel and finished steel products. This is supplemented by the production of high-added value finished metal products.

Organisational Structure

SIJ

- SIJ Acroni (SI)
  - Železarna Jesenice (SI)
- SIJ Metal Ravne (SI)
- Noži Ravne (SI)
  - SIJ Ravne Systems (UK) (GB)
- SIJ Ravne Systems (SI)
- SIJ Elektrode Jesenice (SI)
- SIJ SUZ (SI)
- SIJ ZIP Center (SI)
- RSC Holding (SI), 51%
  - Ravne Steel Center (SI)
  - Sidertoce (IT)
  - SIJ MWT (DE)
  - ORO MET (SI), 51%
  - Steel (SI)
  - CTO (HR)
  - Kaldera (SI), 80%
  - HTS IC (SI)
  - HTS IC (AT)
  - HTS IC (CZ)
  - DCTL (ES), 80%
    - Alrotec (ES)
- Additherm (SI), 51%
- Niro Wenden (DE), 85%
- KOPO International (US)
- Griffon & Romano (IT)
  - Inoxpoint (IT)
- Odpad (SI), 74.9%
  - Metal-Eko Sistem (RS), 70%
  - Topmetal (BA), 51%
  - Dankor (HR), 91%
- SIJ Asia (DE)
- OOO SSG (RU)
- Holding PMP (SI)
- SIJ Polska (PL)

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

Programme Scheme: Vertically Integrated Business Model

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

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 products 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.

Distribution And Processing Division
In key markets, companies use distribution and other services to develop and strengthen direct contact with end customers. After the strategic transformation of SIJ Ravne Steel Center into RSC Holding and the joining of eight new companies in 2020, this Division has also been involved in the foundation of the leading centre to support the tooling industry in our region.

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

GOVERNANCE OF SIJ d.d. AND SIJ GROUP

Statement of Compliance with Corporate Governance Codes

In the course of conducting its business activities, SIJ Group follows the standards of quality corporate governance, acting in accordance with the law and established business customs, while maintaining responsible relations with stakeholders.

During the period from 1 January 2020 to 31 December 2020, SIJ d.d.'s governance activities were conducted in line with the optional recommendations of the Slovenian Corporate Governance Code[2] and the Corporate Governance Code for Companies with Capital Assets of the State[3].

In cases of specific questions related to corporate governance, SIJ d.d. performs regular checks to verify whether these recommendations apply to SIJ Group, although it has not implemented any of them, except insofar as they overlap with applicable laws or good business customs.

The reason for this lies in the specifics of the organisation and corporate governance system of the entire SIJ Group.

Acting in Accordance with the Shareholders' Agreement

The ownership of the parent company SIJ d.d. is divided between the two largest shareholders Dilon d.o.o. and the Republic of Slovenia, who have a mutual corporate governance system in place, as set out in the shareholders' agreement. The corporate governance standards geared towards reaching the goals of SIJ Group are therefore based on governance through a parent company, which is mutually agreed between the two main shareholders. The parent company acts transparently and keeps all stakeholders informed about key events involved in the management of SIJ Group through press releases. As the subsidiaries of SIJ Group are mostly organised as limited liability companies, the corporate governance of the entire SIJ Group is closest to the principles of corporate governance for non-public companies.

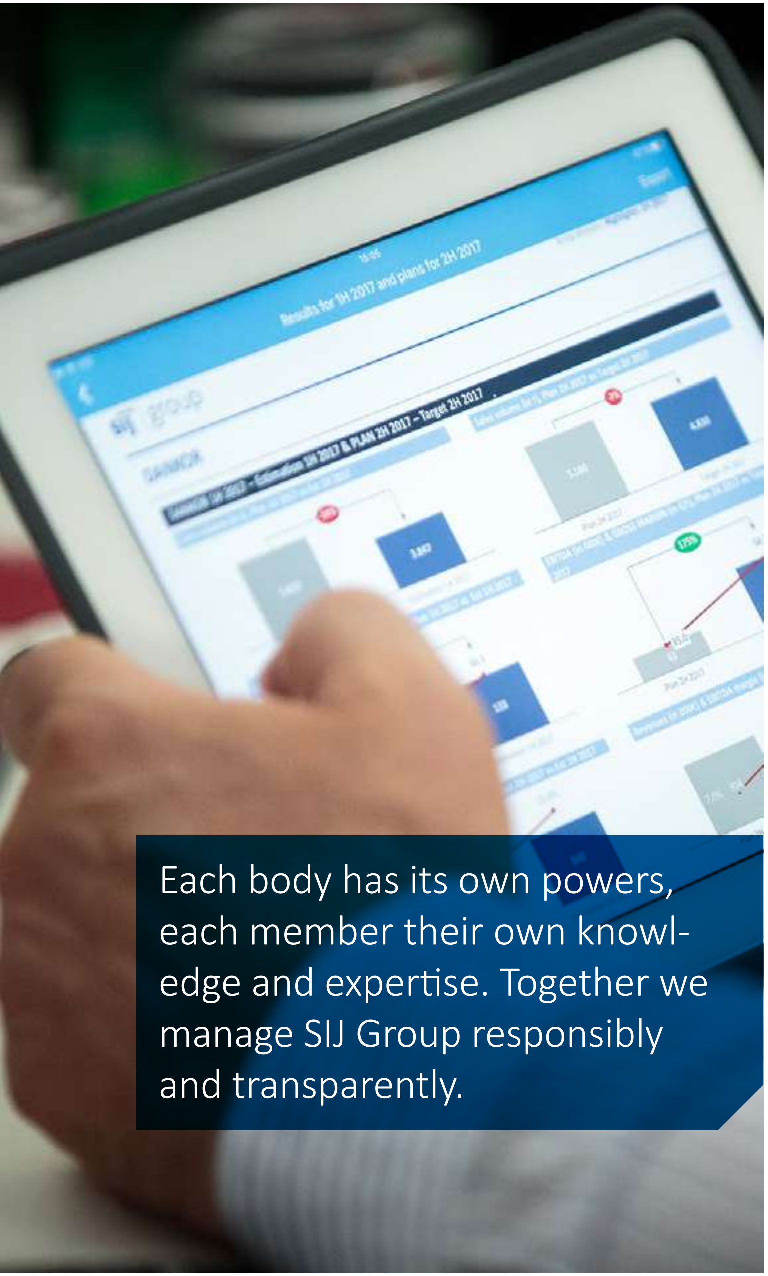
Because of SIJ Group's centralised structure and due to the specific characteristics of the steel-working industry, SIJ Group began preparing its own code of ethical conduct for the entire Group in 2020 through the quality corporate governance standards. In addition to the main ethical principles of SIJ Group, this code of ethical conduct will also incorporate the standards of quality corporate governance. It will likely be adopted in 2021.

Internal Controls and Risk Management in Financial Reporting

SIJ d.d. has ongoing operational, financial and other internal controls and systems in place, whereby it is assured that the accuracy of financial reporting is effectively managed, and this thus prevents the risk of adverse effects on the operations of SIJ d.d. and SIJ Group as a whole.

SIJ Group's internal controls system incorporates the execution and supervision of business processes, which are comprised of a set of rules and procedures defined in the

2 The applicable version of this Code is available on the Ljubljana Stock Exchange website www.ljse.si.
3 The applicable version of this Code is available on the Slovenian Sovereign Holding (SDH) website www.sdh.si.



Each body has its own powers, each member their own knowledge and expertise. Together we manage SIJ Group responsibly and transparently.

company's internal regulations or decisions passed by the executive management of SIJ d.d. as the parent company of SIJ Group.

Internal control functions, including the task of identifying risks and detecting fraud, are vested in separate divisions of SIJ d.d., which the management team regularly monitors on the operational and strategic level across the entire SIJ Group.

The internal control system is supported by IT solutions, which allow for daily on-the-fly monitoring of all key operational parameters of SIJ Group subsidiaries, and by business intelligence solutions which allow the company to track events and operational records in real time, directly on the operational level.

Risks associated with financial reporting are managed:

- By having a unified reporting system and by making extensive disclosures and clarifications;
- By preparing the financial statements and analyses in a timely manner and properly structuring them, as they serve as a basis in the decision-making process;
- By conducting regular external annual audits.

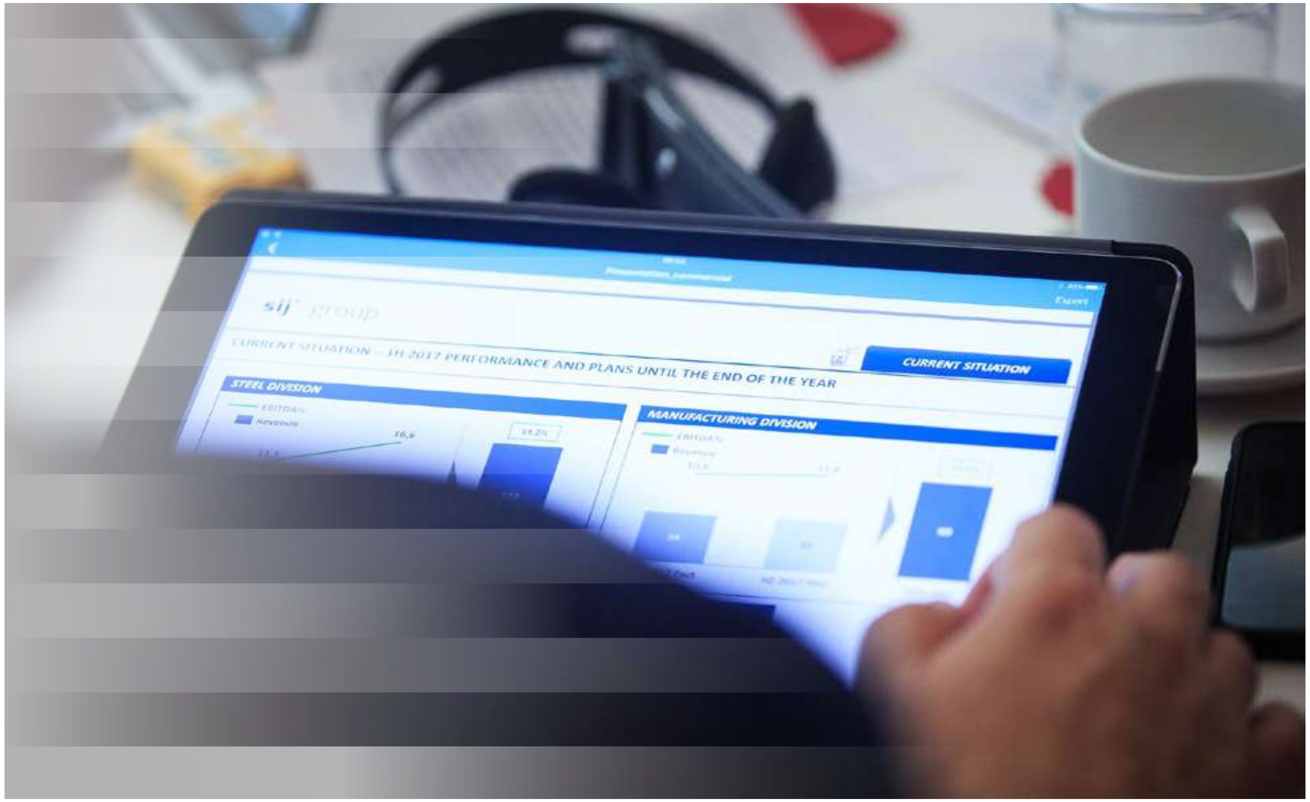
For the purposes of exchanging data and information, SIJ d.d. and SIJ Group have a two-way communication system in place. We provide timely, complete and accurate internal and external reporting, in accordance with the law.

This conveyance of information is comprised of:

- Reports from the subsidiaries' managements to the parent company SIJ d.d.;
- Transmittal of the necessary information to employees who are responsible for specific areas;
- Notifying and reporting to institutions (Financial Administration of the Republic of Slovenia (FURS), AJPES, Securities Market Agency (ATVP), and other regulators).

SIJ Group's internal control system ensures that business objectives are achieved effectively and successfully, as well as makes sure that company operations comply with the law and guarantee fair and transparent reporting.

Evgeny Zverev,
President of the Supervisory Board



Company Governance Bodies

A two-tier board system remains the chosen governance system of SIJ d.d. in 2020. In accordance with the law, the Articles of Association and internal company regulations, the company governance is divided among the General Assembly, the Supervisory Board and the Management Board, which has been a single-member Management Board since May 2020.

GENERAL ASSEMBLY

SIJ d.d.'s shareholders exercise their rights through the General Assembly. In accordance with the provisions of the Companies Act, the convening and activities of the General Assembly are regulated in the Company's Articles of Association. Due to the customary division of ownership between three shareholders, SIJ d.d. usually convenes General Assembly meetings in the form of a universal convention event, and sends the shareholders direct invitations to the event. The adopted resolutions and information are available on SEOnet websites and on the company's website.

The 38th General Assembly was convened on the 19 June 2020, with universal attendance from all shareholders. All COVID-19 precautions were duly observed. The shareholders convening at the General Assembly confirmed the Management Board's and Supervisory Board's proposal, according to which the distributable profits for 2019 in the amount of EUR 108,611,628.83 would remain undistributed. They also granted a discharge letter to the Management Board and Supervisory Board. The General Assembly also gave its consent to the signing of the Contract on the Governance and Organisation of the Contractual Group between the controlling company SIJ d.d. and the controlled companies.

THE SUPERVISORY BOARD AND THE AUDIT COMMITTEE

In accordance with the Company's Articles of Association, SIJ d.d.'s Supervisory Board is comprised of seven members, whereas the Audit Committee is comprised of three. Members of the Supervisory Board are appointed by the General Assembly, whereas members of the Audit Committee, which is a committee supporting the work of the Supervisory Board, are appointed by members of the Supervisory Board, in turn.

In line with the shareholders' agreement executed between the largest shareholders of SIJ Group, the Supervisory Board has five members representing the majority shareholder DILON d.o.o., and two members representing the Republic of Slovenia. In accordance with its powers set out in the Companies Act, the Financial Operations of Companies Act, the Company's Articles of Association and other valid regulations, the Supervisory Board and the Audit Committee conducted their respective activities in 2020 without any changes in membership.

Members of the Supervisory Board and the Audit Committee of SIJ d.d. in 2020

Name and surname	Function	Sex	Date of first appointment to the function	Current mandate	Professional background	References/Membership of supervisory bodies of other companies
Evgeny Zverev	President of the Supervisory Board, representing the majority shareholder	M	30-Aug-13	19 Feb 2018- 19 Feb 2022	Law, Mergers and Acquisitions	Management functions in SIJ Group
Štefan Belingar	Deputy President of the Supervisory Board and President of the Audit Committee	M	11-Apr-19	11 Apr 2019- 11 Apr 2023	Economics, Finance and Banking	Management functions in Finance with a focus on Banking, and supervisory board functions
Mitja Križaj	Supervisory Board Member, representing the Republic of Slovenia	M	09-Jun-17	9 Jun 2017- 9 Jun 2021	Economics, Banking, Investments	Management and supervisory functions in various corporations
Boštjan Napast	Supervisory Board Member and Member of the Member of the Audit Committee, representing the majority shareholder	M	19-Feb-18	19 Feb 2018- 19 Feb 2022	Mechanical Engineering, Energy Sector	Management and supervisory functions in various energy industry corporations, President of the Management Board of Geoplin d.o.o. Ljubljana
Dmitry Davydov	Supervisory Board Member, representing the majority shareholder	M	09-Jun-17	19 Feb 2018- 19 Feb 2022	Book-keeping, Logistics	Management functions at IMH Group, Russian Federation
Helena Ploj Lajovic	Supervisory Board Member, representing the majority shareholder	F	19-Feb-18	19 Feb 2018- 19 Feb 2022	Civil and Corporate Law	Management functions in SIJ Group
Richard Pochon	Supervisory Board Member, representing the majority shareholder	M	11-Apr-19	11 Apr 2019- 11 Apr 2023	Economics, Finance and Taxes	Management functions in International Finance and Tax, Director and Partner at Léman Cabinet Fiscal SA, Pully, Switzerland
Alan Maher	Audit Committee Member, independent expert	M	18-Apr-16	9 Apr 2016- 19 Feb 2022	Economics, Taxes	Background in management and major international corporate restructuring projects, bankruptcy trustee

Governance System

As the majority shareholder, SIJ d.d. strategically manages all the companies it owns, collectively referred to as SIJ Group. The Management Board of SIJ d.d., its vice-presidents or executive directors, together with the executive management team, are responsible for strategically managing, coordinating and supervising the operations of all SIJ Group companies, both in Slovenia and abroad, on strategic as well as operational levels.

INTEGRATION OF THE COMPANIES OF THE SIJ GROUP

Most SIJ Group companies operate in Slovenia. Other subsidiaries are registered in the European Union, Great Britain, Bosnia Herzegovina, Serbia, Eastern Europe and the United States. As a rule, companies are 100-percent owned or under the influence of the parent company SIJ d.d. Most of them are organised as limited liability companies.

The business goals, defined for individual strategic areas, and consistent application of centralised mechanisms used across the entire SIJ Group, are achieved through contractual concern mechanisms, such as issuing mandatory instructions and passing decisions made by the majority shareholder.

THE MANAGEMENT BOARD AND THE EXECUTIVE MANAGEMENT TEAM

In accordance with SIJ d.d.'s Articles of Association, the company's Management Board consists of one to four Members. The Management Board is led by the President of the Management Board. The President and Members of the Management Board 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 independently, as he is currently the only member of the Management Board of SIJ d.d. Andrey Zubitskiy was appointed President of the Management Board in 2017.

The centralised management of strategic business functions of SIJ Group has been following a new organisational structure since May 2020, with a Strategic and an Operational Collegium. Both collegia are presided over by the Vice-Presidents.

The Strategic Collegium confirms the strategy of SIJ Group, the economic plan of SIJ d.d., and the plans of other companies, mergers, acquisitions and sales of companies, major investments, sponsorships, donations, and other major non-commercial affairs of SIJ Group. It is also responsible for setting up teams to undertake various projects of strategic importance for SIJ Group.

Once defined, the strategic goals are sent to the **Operational Collegium** to be executed under the supervision of the Chief Executive Officer, who is responsible for managing and overseeing the day-to-day operations of SIJ Group and all its subsidiaries.

Management Board in 2020

Name and surname	**Andrey Zubitskiy**
Function	President of the Management Board
Representing	independent representation
Mandate	18 Jul 2017 – 18 Jul 2023
Professional background	technology, metallurgy, economics
References	management functions at IMH Russia and Dilon Cooperatief, Honorary Consul of the Russian Federation in the Republic of Slovenia

Executive Management in 2020

Tibor Šimonka

Senior Vice-President

Viacheslav Korchagin

Vice-President and
Chief Executive Officer

Igor Malevanov

Vice-President and
Chief Financial Officer

Evgeny Zverev

Vice-President and
Chief Legal and Corporate Governance Officer

THE MANAGEMENT'S PARTICIPATION IN INTERNATIONAL ASSOCIATIONS

In 2020, the Management Board continued to actively participate in the work of international steel associations, while outside of SIJ Group, the Management Board and members of the executive management team did not conduct any activities which could be considered relevant to their positions within the SIJ Group.

OBSERVANCE OF THE DIVERSITY POLICY IN THE CORPORATE BODIES OF SIJ D.D. AND THE SIJ GROUP

SIJ d.d. has no codified diversity policy. It that ensures diversity in executive and supervisory bodies is maintained by selecting members with **mutually complementary knowledge and expertise.**

Comprised of Vice-Presidents and Executive Directors, Directors and Heads, the executive management team of SIJ d.d. counts 20 key employees. **Various professional backgrounds** are also represented here. On this level, **both sexes are equally represented**, with eight women on the executive management team.

Besides staff diversity, we place emphasis on **continuity and the cross-generational transfer of knowledge** across all key levels of our organisation.

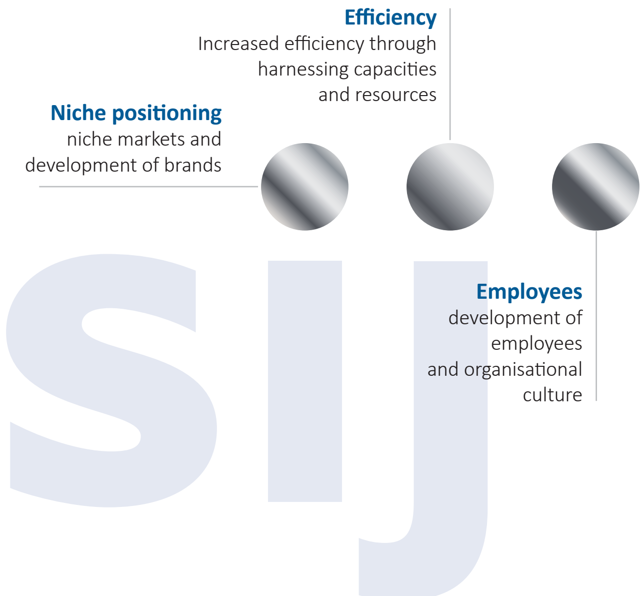
Business Report

Over the next five years, SIJ Group will continue to work in accordance with its carefully conceived business strategy. We will work together to put the strategy into practice. Together with our employees. Together with our partners. Together with all our stakeholders.

STRATEGY

By 2025, SIJ Group will be focusing on strengthening **financial stability**, reinforcing its **position as a leader in niche steel industries**, and **maintaining its reputation as a desired employer** with engaged employees.

In spite of all the challenges we faced in 2020, we were able to successfully implement all three of the above strategic foundations. Thanks to our robust business model and adaptable strategy, we were able to achieve results above the industry average.



Implementation of SIJ Group's Strategy in 2020

FINANCIAL STABILITY & ABOVE-AVERAGE PROFITABILITY

NICHE MARKET LEADER

Activities

- We are expanding our portfolio of high added-value steel products - within our own brand system.
- Through our in-house development, we are increasing the number of products which exceed our customers' standards and expectations.
- We are entering the most challenging industries.

Achievements in 2020

- **Retained our leading market shares** in niche steel markets.
- **Setting up a leading centre** to support the tooling industry in the region.
- Entering into the **nuclear and aircraft industries.**

Goal for 2025

SIJ Group will maintain leading positions in steel niche markets.

EFFECTIVE

Activities

- We are eliminating bottlenecks in our production processes and modernising our production lines.
- We focus our investments on improving efficiency: better utilisation of energy products, raw materials and other resources and reducing environmental impacts.

Achievements in 2020

- **Execution of investments in accordance with the updated economic plan** due to the COVID-19 pandemic – execution of strategic investments.
- **Key investments carried out:**
  1. Modernisation of the welding wire production line, SIJ Elektrode Jesenice.
  2. Modernization of industrial knifes production for recycling plastic and other knives, SIJ Ravne Systems.
- Setting up a project office for investments and **project management modernisation**.

Goal for 2025

Superior efficiency and capacity utilisation.

DESIRED EMPLOYER

Activities

- The HR strategy until 2025 has been adopted.

Achievements in 2020

- **Protecting the health of our employees** during the COVID-19 pandemic.
- **Preserving jobs in companies**, which are considered among the main employers in the region, despite the COVID-19 situation and worsening of business results.
- **Organisational climate measurements, employee satisfaction and engagement** and preparing an action plan.

Goal for 2025

SIJ Group will be a desired employer with engaged employees.

ANALYSIS OF BUSINESS ACTIVITIES

SIJ GROUP'S FINANCIAL STABILITY

In 2020, the global situation had a profoundly negative impact on the metallurgy industry across the world. In a financial year which proved to be exceptionally challenging due to the impact the pandemic had on operations, SIJ Group maintained its financial fitness, ready to further consolidate its position on the financial market. The key performance indicators for 2020 are proof of that.

SUCCESSFULLY MANAGING DECLINING SALES

In 2020, SIJ Group generated EUR 696.0 million in sales revenue, down 9.3 percent from the preceding year. Despite lower sales values, we were able to maintain our leading market shares in the stainless steel quarto plates, tool steels and industrial knives markets by making appropriate and timely adjustments. In terms of quantity, sales are down 3.3 percent compared to the preceding year.

In the second quarter in particular, the pandemic caused a slowdown in industrial activities and lowered the demand for SIJ Group's products. Decreased demand then led to the lowering of sales prices. The price pressures were further driven by prices of raw materials, which also formed a downward trend. Under these circumstances, we worked

SIJ Group Key Operating Figures

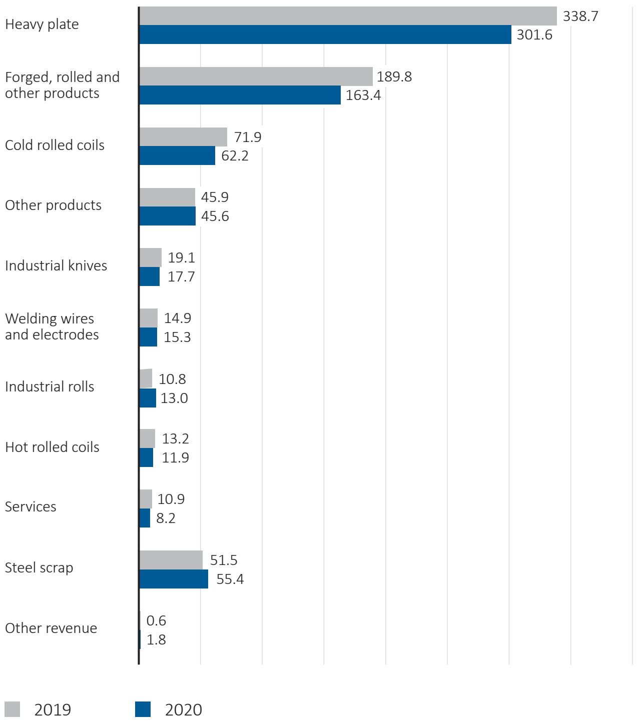
Financial figures	unit of measure	2019	2020
Revenues	000 EUR	767,351	696,037
EBIT[a]	000 EUR	–5,154	–35,607
EBIT margin %	%	–0.7	–5.1
Depreciation and amortisation	000 EUR	–49,780	–50,543
EBITDA[b]	000 EUR	58,818	37,769
EBITDA margin %	%	7.7	5.4
EBITDA per employee	EUR	15,242	9,828
Profit or loss before taxes	000 EUR	–17,004	–43,875
Net profit	000 EUR	44,908	–49,904
Capex	000 EUR	37,555	40,316
Statement of financial position as at 31st December			
Total assets	000 EUR	950,205	866,892
Equity	000 EUR	418,928	381,281
Working capital as at 31st December			
Inventories	000 EUR	212,398	198,497
Trade receivables	000 EUR	69,138	70,949
Trade payables[c]	000 EUR	180,076	180,541
Working capital	000 EUR	101,460	88,904
Net financial debt as at 31st December			
Non-current financial liabilities	000 EUR	162,840	159,035
Current financial liabilities	000 EUR	137,954	90,648
Cash and cash equivalents	000 EUR	120,250	41,208
Net financial debt[d]	000 EUR	180,545	208,474
NFD/EBITDA	000 EUR	3.1	5.5
Employees			
Average number of employees		3,859	3,843

a EBIT: operating profit or loss.
b 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.
c Trade payables for operating assets.
d Net financial debt (NFD): non-current and current financial liabilities – cash and cash equivalents.

closely with our partners to identify new sales channels. By taking appropriate and prompt action, we were able to curb the sales decline in the second half of the year. Meanwhile, industrial activities were intensifying, and demand was gradually improving.

The sales structure remained comparable with the same period last year, and SIJ Group's sales increased in the Welding Wires & Electrodes, Industrial Knives and Steel Scrap segments.

Sales by Product Groups (in EUR million)



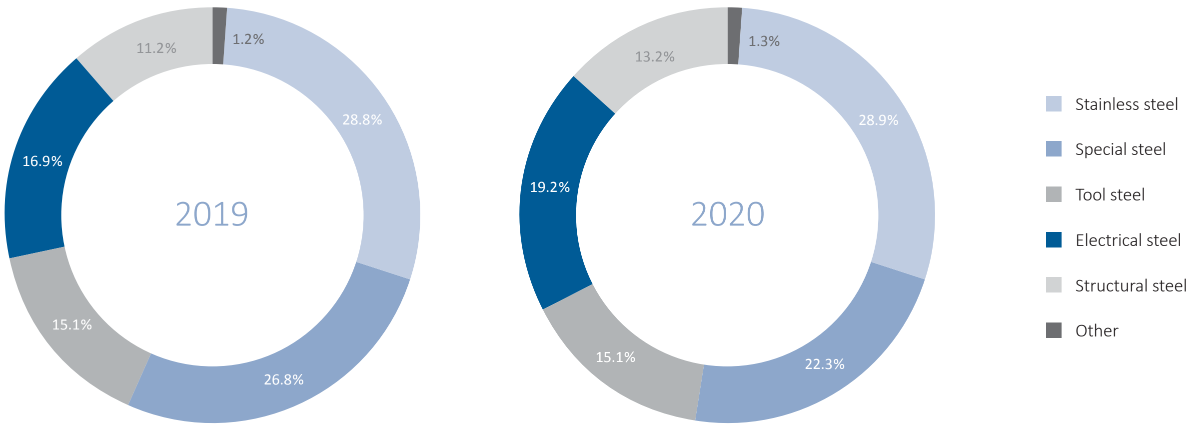
INCREASING COMPETITIVENESS IN PROSPECTIVE SEGMENTS

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.

We kept the sales of stainless steels, SIJ Group's most profitable product segment, on par with the previous year. We consider the increase in sales of electro-steels, which is closely related to the development of e-mobility, as one of our foremost achievements in 2020. SIJ Group is increasing its competitiveness in prospective segments of metallurgy through in-house R&D and by working closely with customers.

Our innovations are developed by our in-house teams, whose work we coordinate in collaboration with our customers. Together with our partners, who can dependably 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, even in light of changed economic circumstances.

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

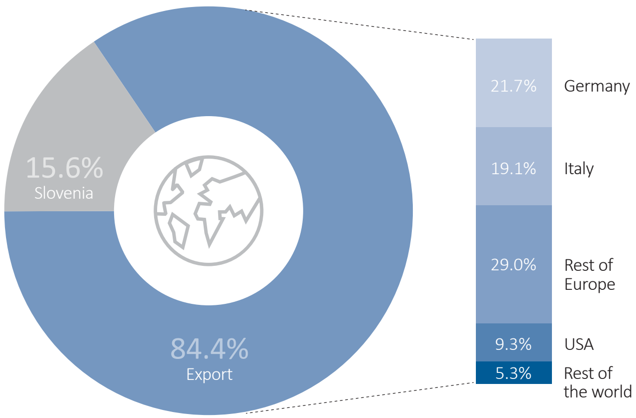


THE LEVEL OF EXPORTS REMAINS HIGH

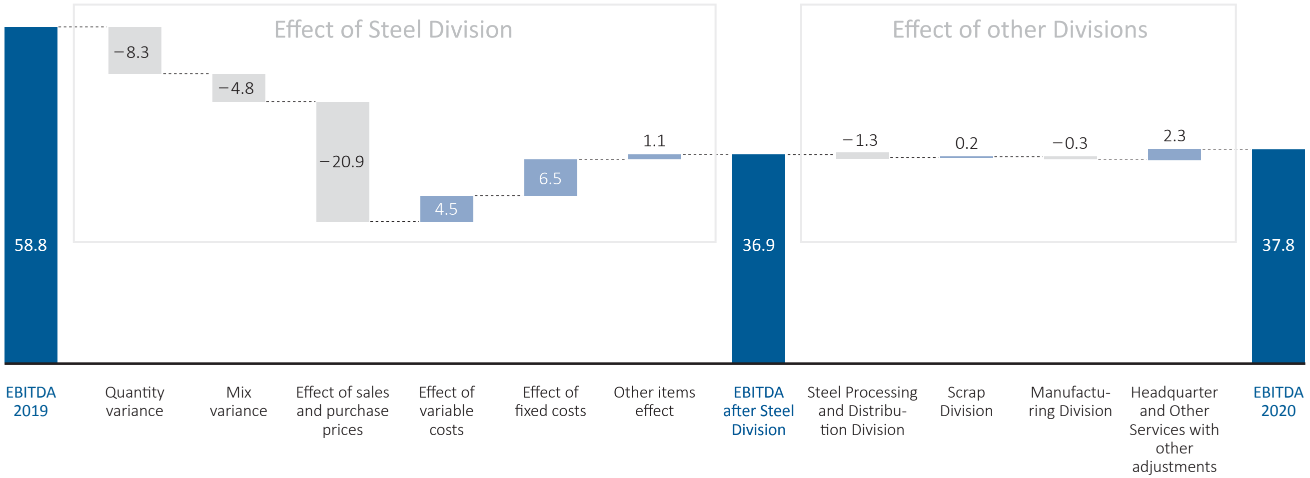
SIJ Group remains one of Slovenia's top exporters. The year 2020 presented a number of challenges to international operations due to various restrictions being imposed. Nevertheless, 84.4 percent of our revenue was generated on foreign markets, which remains comparable to the year before.

Germany, Italy, and other European countries remain our main export markets. Exports to Germany, our most important export market, decreased by 2.1 percentage points in 2020. The decline was offset by increased sales in other European and US markets.

Share of Revenues by Market for the Year 2020 (in percentages)



EBITDA Bridge (in EUR million)



MITIGATING THE IMPACTS ON THE EBITDA

SIJ Group's overall result is lower in 2020 compared to the previous year due to constantly shifting economic circumstances, decreased demand, uneven production, difficulties in inventories management and the effects the new circumstances are having on pricing. The EBITDA stands at EUR 37.8 million.

Changes in price differentials had the greatest negative impact on the EBITDA. Market prices were decreasing faster than raw material prices. We mitigated these effects by taking a more economical approach in our operations, as well as through optimisation of production and process costs. Our efforts to mitigate the negative impacts were aided by labour cost subsidies, which SIJ Group was eligible for as part of the coronavirus countermeasures. The business result was also favourably impacted by investments in the expansion of the SIJ Group with vertically integrated new companies of the Steel Processing and Distribution Division.

Effect of the Steel Division

The Steel Division, which has the greatest impact on SIJ Group's EBITDA, generated an EBITDA EUR 21.9 million lower compared to the preceding year. Looking at the structure of negative impacts, the narrowing of price scissors stands out. The decrease in quantities produced and sold and increased demand for products with a lower sales value also had a significant impact. These impacts were mitigated through increased cost-effectiveness measures.

The negative impacts of lower quantities and changes of the product mix were almost entirely balanced out by the cumulative effect of variable and fixed costs. Lower variable costs were achieved through lower prices of electricity and lower purchase prices of graphite electrodes. Fixed costs were managed and reduced with the help of labour cost subsidies, which SIJ Group was eligible for as part of the coronavirus countermeasures, and by lowering the costs of maintenance and production outsourcing. The subsidies and our own countermeasures have enabled us to save jobs.

Effect of the Distribution and Processing Division

The Distribution and Processing Division, which follows the trends of developments in the steel industry, was faced with a decline in demand, lower quantities and increased pricing pressures on sales prices. In the second half of the year, the EBITDA benefited from the positive effects of the acquisition and absorption of the companies of Ljubljana's TPA tehnološki center into SIJ Group, which now form part of the RSC Holding.

Effect of the Scrap Division

Unlike in 2019, where it had a negative impact on EBITDA, the Scrap Division had a slightly positive effect in 2020. The key factor in the turnaround was the increase in prices of steel scrap.

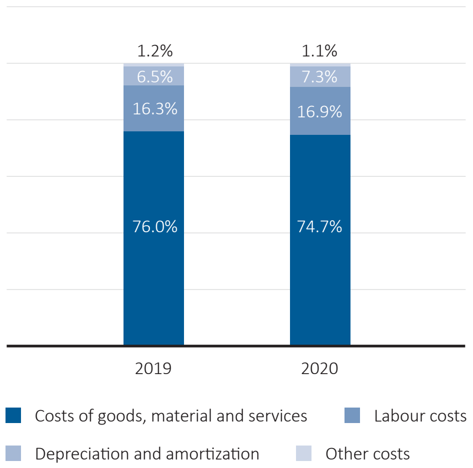
Effect of the Manufacturing Division

Despite optimisation of production and processing costs, the lower quantities, sales-to-purchase price ratios and changes in the product mix had significant negative effects on the EBITDA.

EXPENDITURE UNDER CHANGED CIRCUMSTANCES

Changes in the structure of SIJ Group's operating expenses can be seen in 2020 compared to the previous year. These changes were influenced by lower production quantities, which resulted in lower costs of materials. These still represent the largest share in the structure of operating expenses 54.4 percent in 2020.

Structure of Operating Costs (in percentages)

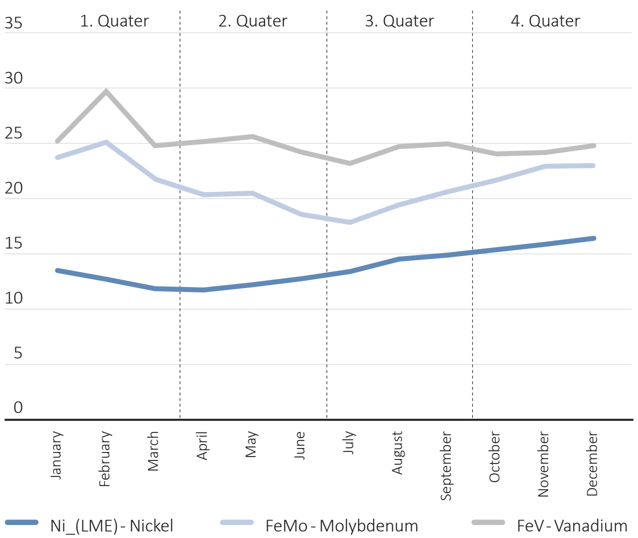


Effect of the Pandemic on Prices of Raw Materials

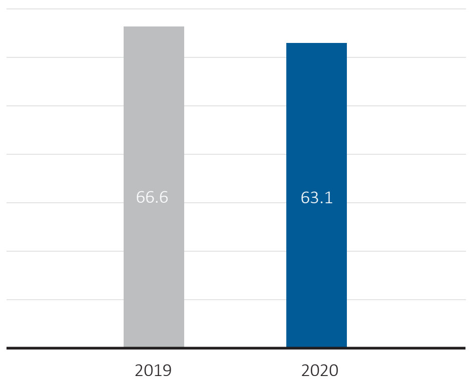
In addition to secondary raw materials (stainless and non-alloy steel scrap), the key raw materials for the production of stainless and special steels are nickel, chromium, molybdenum, vanadium, silicone, and manganese. The prices of these raw materials decreased during the first wave of the pandemic. By the end of the summer, the prices of some raw materials had already returned to previous levels, while others began increasing in the last quarter. The price increase came as a reflection of optimism in Asian markets. Projected consumption and some supply disruptions suggest that the prices will not be decreasing in 2021.

Among the key raw materials, vanadium has proven to be the most stable in 2020 in terms of pricing. The nickel prices on the LME (London Metal Exchange) were more a reflection of the situation on financial markets than the steel industry. The projected surplus and increase in inventories did not have the expected effect on prices on the exchange.

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



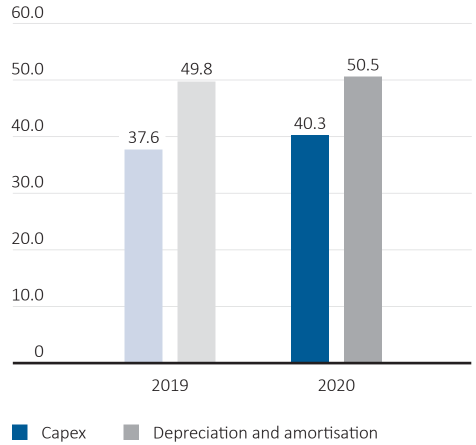
Energy Costs (in EUR million)



Lower Consumption of Energy Products

The Steel and Manufacturing Divisions are the largest consumers of energy products in the SIJ Group. Due to lower production volumes, the use of energy products in these two divisions was down 5.3 percent compared to the previous year. In the Steel and Manufacturing Divisions, we consumed approximately 500 thousand megawatt hours of electricity and 75 million cubic metres of natural gas.

Depreciation and Amortisation and CapEx (in EUR million)



Lowering Capital Expenditure (CapEx)

After the large-scale investment projects completed in previous years, investments are below the level of depreciation.

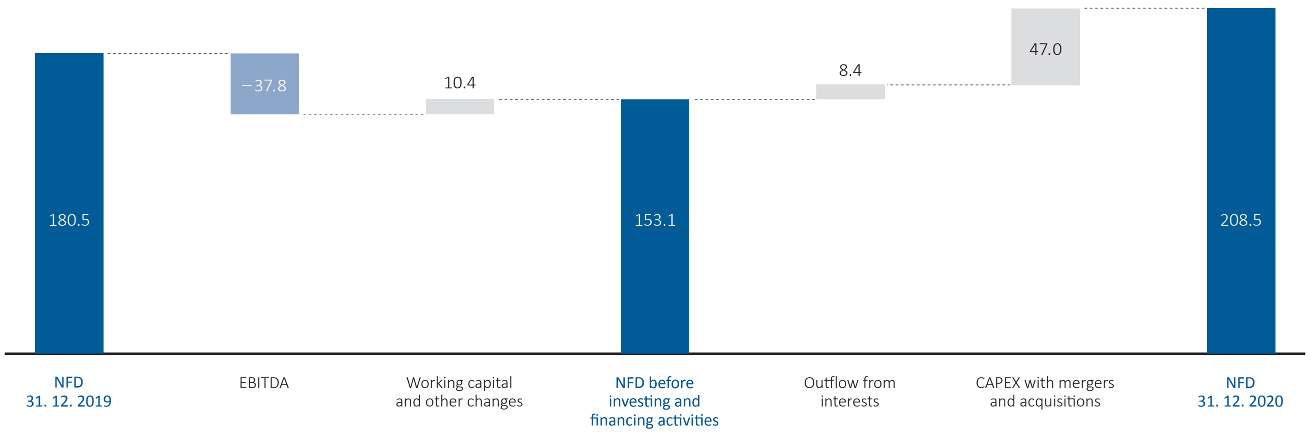
In 2020, capital expenditure amounted to EUR 40.3 million, up 7.4 percent compared to the preceding year. Under uncertain circumstances, we further optimised our investment plans. We realised all strategically significant investment projects. We either extended the investments which were not essential for further development, or postponed them until a later time.

INCREASE OF DEBT TO REALISE PLANS

SIJ Group partly finances new investments using its own funds, and in 2020 it took out new loans in order to realise these investments. The Group's financial leverage, which increased in 2020, is attributable to investments in equipment and corporate acquisitions.

Prior to investing and financing activities, SIJ Group decreased the financial debt to EUR 153.1 million. Besides adjustments in working capital, other adjustments also include EUR 10.4 million in taxes paid.

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

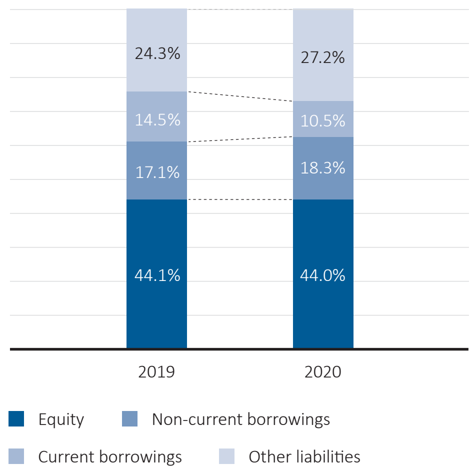


Maintaining a High Share of Equity

The share of equity in the debt structure remains at a high level. Compared to the previous year, the share of non-current financial liabilities is higher, while the share of current financial liabilities is lower.

Non-current liabilities are attributable to the successful sale of new SIJ7 bonds for the nominal amount of EUR 26.1 million. We decreased the level of current financial liabilities through repayment of SIJ5 bonds. At the end of 2019, these liabilities stood at EUR 51.2 million. In 2020, they were fully repaid.

Capital Structure as at 31 December (in percentages)



Diversification of Sources of Financing through Commercial Papers

In December 2020, for the seventh time the SIJ Group issued one-year commercial papers (ticker symbol: SIK07) with a total nominal value of EUR 26.7 million and an annual interest rate of 1.2 percent. With the new issue, we replaced the existing commercial papers in the amount of EUR 28.1 million, which fell due in December 2020. With the commercial papers, we are optimising our financing costs and ensuring diversification of short-term sources of financing.

Securing Financing with SIJ7 Bonds

In addition to the commercial papers, SIJ Group issued 3-year bonds in November 2020 under the ticker symbol SIJ7, for the nominal amount of EUR 26.1 million, and a 3.9 percent annual coupon.

Our newly-issued bonds partly replaced the SIJ5 bonds, which fell due for payment in July 2020. We repaid our obligations amounting to EUR 51.2 million profit from our own capital.

Investor Trust in Operational Stability

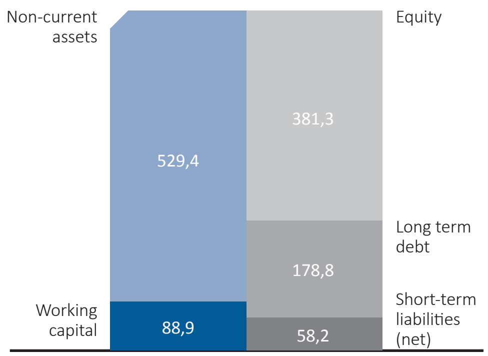
SIJ Group is one of the most active and well-known companies on the domestic capital market. We raised a total of EUR 52.8 million through our issued commercial papers. The results prove that institutional and private investors have kept their trust in the stability of SIJ Group and its commitment to implementing its development strategy.

STABLE FINANCIAL STRUCTURE

The SIJ Group uses long-term financing to enable long-term development, while short-term sources of financing are used to balance seasonal fluctuations in working capital. Through implementation of this financial policy and an exceptionally high share of equity financing, along with ensuring long-term sources of financing, SIJ Group will continue maintaining a stable financing structure and portfolio of sources of financing.

All of the fixed assets and 34.5 percent of the working capital is covered through long-term sources of financing.

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



Working Capital Management

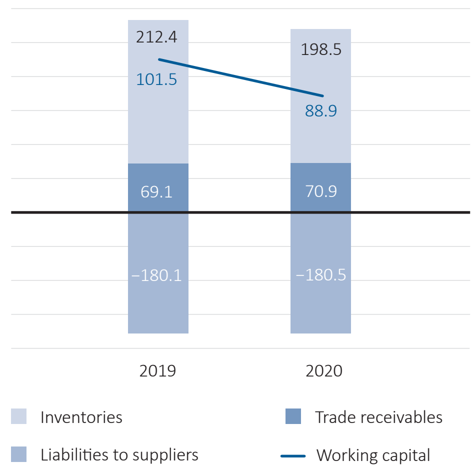
SIJ Group maintains a cash-positive position through appropriate management of our working capital. Changes in working capital over the course of the year are managed using our approved credit lines, and effective day-to-day monitoring of receivables and liabilities.

In 2020 we also improved our days working capital compared to the preceding year. Since there are a number of products with longer payment due dates in our sales structure, the days trade receivables outstanding figure has also increased somewhat. We effectively manage receivables using special program Securitization of trade receivables.

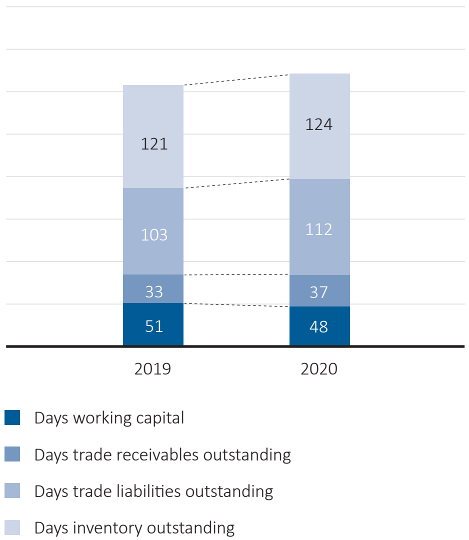
> Good cash flow management comes from close cooperation with our customers and our suppliers. Even under challenging economic circumstances we were able to work together and look for suitable and financially viable solutions.

We put a special focus on managing our trade payables. Regular and timely payment of our liabilities and carefully maintaining good relations with our business partners have allowed us to achieve somewhat longer payment deadlines with some suppliers. We increased the days trade liabilities outstanding by 9 days.

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



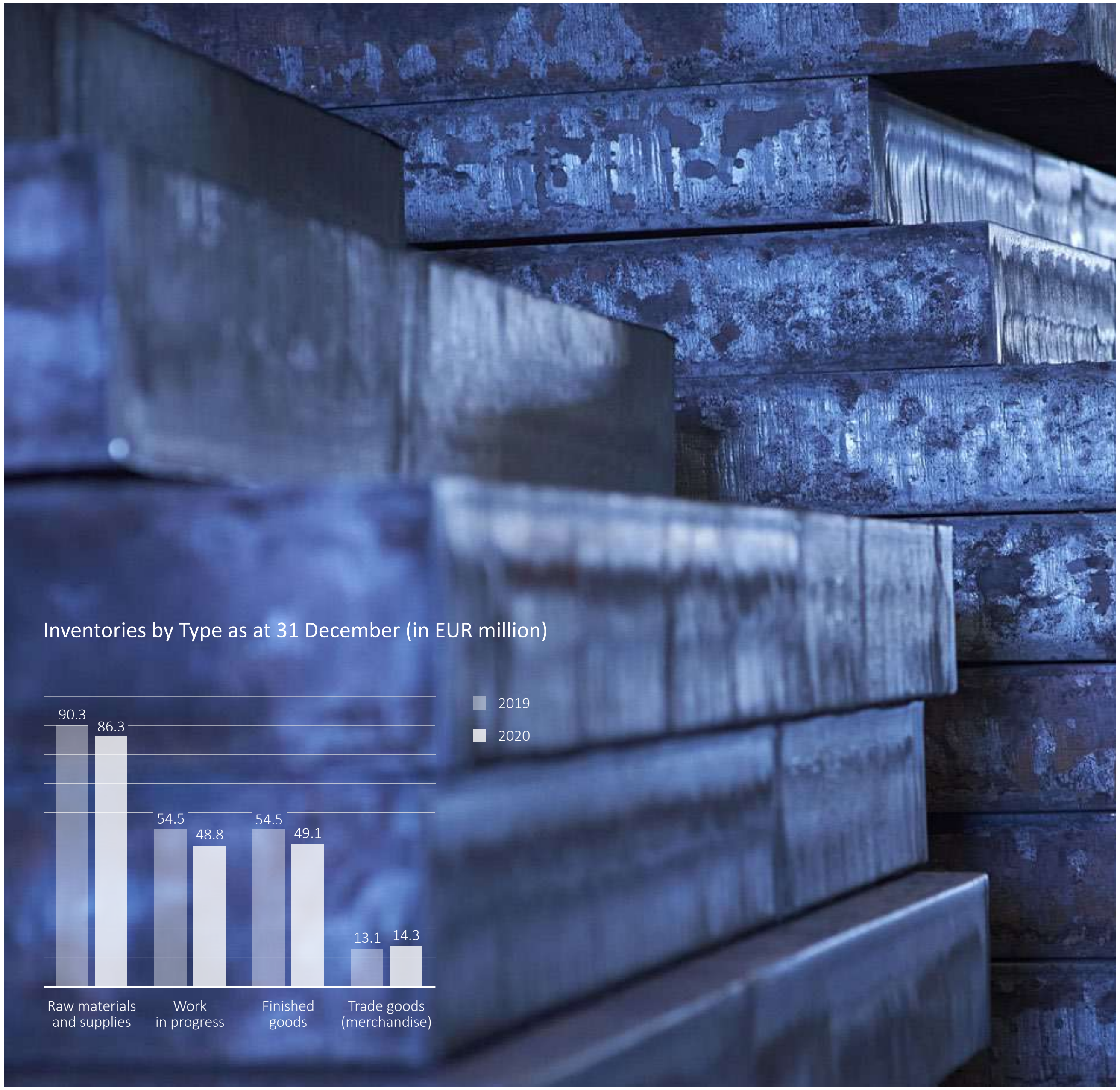
Days Working Capital from Operations as at 31 December



ENSURING OPTIMAL STOCKS OF INVENTORY

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

The level of inventories as at year-end 2020 was down 6.5 percent compared to the preceding year. Due to the lower prices of raw materials, decline in the level of production and optimisations, the level of inventories of raw materials was down 4.4 percent.



ALTERNATIVE PERFORMANCE INDICATORS

SIJ, d.d. also reports its operating performance according to alternative performance indicators defined by the ESMA (European Securities and Markets Authority). Net sales revenue and net profit or loss are defined according to International Financial Reporting Standards.

Notes to the Performance Indicators

Indicator	Explanation of calculation	Use
Net sales revenue	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 average cash flows from its core business operations. A higher value means a higher operating cash flow, which translates to a lower risk for investors.
EBIT 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 vis-a-vis investors.

INVESTMENTS

Leading up to the year 2025, more than **EUR 244 million** will be dedicated towards increasing efficiency, focusing on more profitable production programmes and reducing environmental impacts, in line with the SIJ Group strategy. EUR 10.5 million will be invested in areas we believe will directly reduce environmental impacts.

INVESTMENT PROJECTS IN 2020

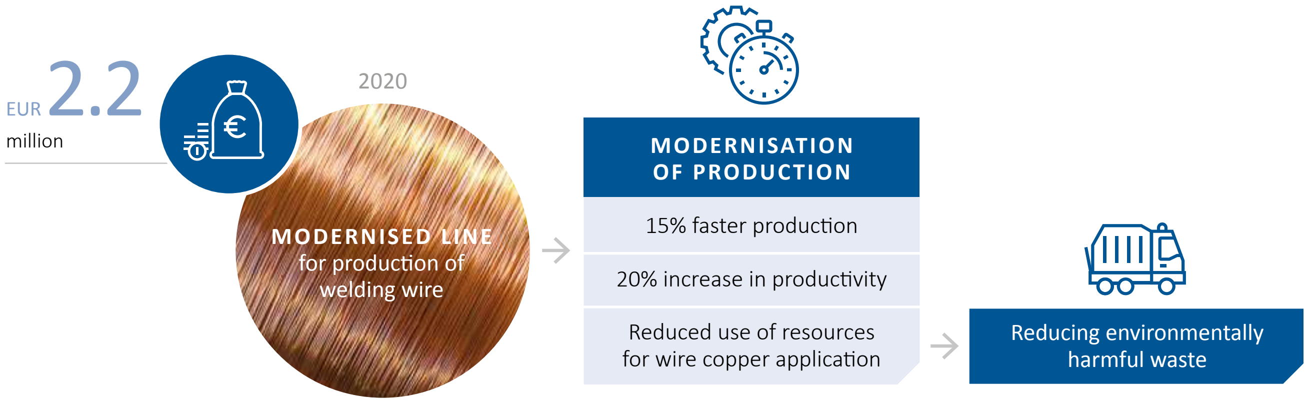
Our investment plans were adjusted in 2020 as a result of the COVID-19 pandemic. Despite the challenging circumstances, we were able to make strategic investments totalling EUR 40.3 million. We postponed other investments to a future period.

CapEx for 2020 (in EUR million)

Company	Value of investments
SIJ Acroni	19.9
SIJ Metal Ravne	12.7
SIJ Ravne Systems	1.4
Other investments	6.3
Total	40.3

Among SIJ Group's foremost investments in 2020 were **modernisation of industrial knife production**, which is planned for automation at a later stage, and **modernisation of welding wire production.**

SIJ Elektrode Jesenice: Investment in Welding Wire Production



SIJ Ravne Systems: Investment in the Knife Production Process

INVESTMENTS AIMING TO REDUCE ENVIRONMENTAL IMPACTS

In 2020, we invested EUR 1.3 million, or **3.2 percent of our investment budget, directly into reducing environmental impacts**. Due to planning our investments with the BAT (best available technology) principle in mind, SIJ Group will indirectly reduce its environmental impacts in all of its planned investments.

By directing our investment activities this way, we are staying true to the **commitments set out in the Sustainable Development Charter**, which we signed as members of the World Steel Association. In accordance with the Charter, our investment activities are focused in seven main areas.

The Seven Areas of Environmental Investments

WATER
Investments to lower consumption of drinking water

AIR
Investments to reduce pollutant dispersions

CLIMATE CHANGE
Investments to reduce consumption of electricity

RECYCLING
Investments to increase use of secondary raw materials in steel production
(see Carbon Footprint and Careful Use of Natural Resources section)

SUPPLY CHAIN
Choosing the best available technology (BAT) will indirectly reduce its environmental impacts

BY-PRODUCTS
Closed steel production cycles and use of by-products
(see Circular Economy section)

PRODUCT APPLICATIONS
Research of products with a longer life-cycle and other improved characteristics
(see Research and Development section)

RESEARCH, DEVELOPMENT AND INNOVATION

SIJ Group's research, development and innovation activities are closely aligned with the global trends in the steel industry. SIJ Group companies are involved in international consortia and research groups carrying out research and development projects, which are partially funded by various grants. Some of the more prominent areas of our activity include **development of new steels** and products with specific characteristics, **digitalisation of production processes** and the **use of secondary raw materials and by-products** generated by the steel industry.

Research and Development

RIS-ALICE: SUSTAINABLE USE OF BY-PRODUCTS

Steel slag, a by-product of steel production, is one of the most promising resources which can potentially be used to develop cement substitutes and potentially reduce the carbon footprint of the cement industry. SIJ Group is involved in the international project RIS-ALiCE[4], which is researching Eastern and South East Europe to determine the availability of materials to produce BSCA clinker – a cement substitute.

4 RIS – Alice: Al-rich industrial residues for mineral binders; EIT Raw Materials KAVA activity call, RIS project; The international project is coordinated by a consortium of 15 partners; Project value: EUR 932,339; to find out more about the project, visit ris-alice.zag.si.

SIJ Group uses slag in our own production processes, and we have also identified other end users for unused slag – mainly in road construction. We have obtained all the certifications required for the slag we deliver to other users. We are constantly on the lookout for alternative uses for this promising by-product, with one example being the production of BCSA clinker.

INEVITABLE: DIGITALISATION OF PRODUCTION

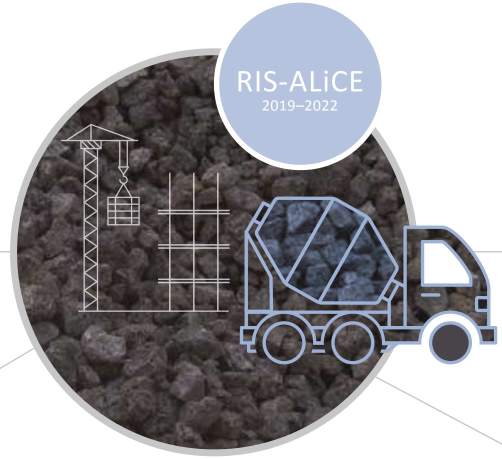
In the global steel arena, digitalisation is becoming a key factor in unleashing competitive advantages. At SIJ Group's largest steel company, the mathematical model of the electric arc furnace (EAF) and the ZRM rolling mill status monitoring algorithm will serve as important cornerstones in the process of steel production digitalisation. They are being developed as part of the INEVITABLE project[5], co-funded by the European Commission.

Digitalisation of production will help to improve the technological processes used in steel production and the cold working of steel, increasing their efficiency and ultimately improving the quality of the semi-products. The fully digitised monitoring of the production process will help reduce energy consumption and emissions.

GLOBAL STEEL INDUSTRY TREND*

To create innovations to help reduce greenhouse gas emissions not just in the steel industry, but other industries, as well.

To reduce the carbon footprint of cement factories by substituting clinker with steel slag granulate.



GOALS OF THE SIJ GROUP RESEARCH PROJECT

To develop the process for producing BSCA clinker from a by-product - processed steel slag.

To perform a Life Cycle Assessment (LCA) and Life Cycle Cost (LCC) analysis for processed steel slag.

GLOBAL STEEL INDUSTRY TREND*

Transformation of the steel industry through implementation of digital technologies.

Achieving competitive advantages and increasing profitability by improving efficiency, responsiveness, introducing innovative approaches based on digitalisation.

GOALS OF THE SIJ GROUP RESEARCH PROJECT

Total digitalisation of the demonstration sites (electric arc furnace and steel rolling mill framework).

Optimisation and verification of the mathematical model for the electric arc furnace (EAF).

Development of an algorithm for monitoring and running diagnostics on the ZRM rolling mill.

5 *INEVITABLE: Optimization and performance improving in metal industry by digital technologies; Horizon 2020 – DT-SPIRE-06-2019, the international project is coordinated by a consortium of 12 partners; Project value: EUR 6,204,415.63; to find out more about the project, visit http://inevitable-project.eu/.*

**Source: World Steel Association. Steel Innovation. Available at: link (14 January 2021).*

PROJECTION FOR 2021: STELT-NGO: DEVELOPMENT OF ELECTRICAL STEELS FOR USE IN THE ELECTRIC MOTORS OF THE FUTURE

Even now, SIJ Group is among Europe's best producers of electrical steels, and is focusing its research projects on developing electrical steels with state-of-the-art electromagnetic properties and other characteristics. In the context of the STELT – NGO[6] project, we are developing steels with superior functionalities and surface quality

In 2020, SIJ Group already developed a new specialty electrical steel for integration in the engines of electrical and hybrid vehicles. While staying within the required total loss at a frequency of 400 Hz of achieved magnetic polarisation, this electrical steel can achieve electromagnetic properties very few manufacturers are able to match. The improved electromagnetic properties are associated with low power losses at lower frequencies, which help increase the engine's capacity and efficiency.

GLOBAL STEEL INDUSTRY TREND*

Importance of steel for electric mobility: development of new electrical steels for use in electric and hybrid vehicles.

Newly-developed electrical steels boast 30% less losses compared to their standard counterparts and help reduce the carbon footprint of electric cars.

GOALS OF THE SIJ GROUP RESEARCH PROJECT

Development of electrical steel NO-grades with state-of-the-art electromagnetic properties for use in electrical engines in next-generation electric and hybrid vehicles.

Improved functionality and surface quality of the next-generation steel.

** Source: World Steel Association. Steel Innovation. Available at: link (14 January 2021).*

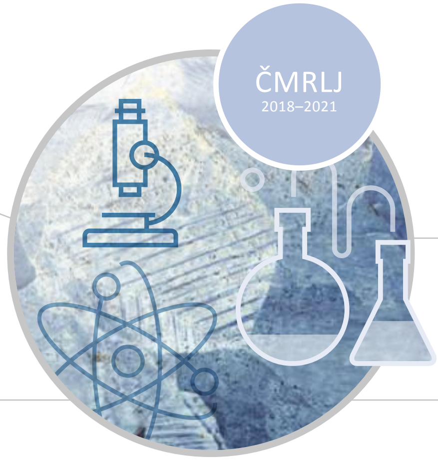
ČMRLJ: NEW TECHNOLOGICAL CHANNELS TO ACHIEVE NEW STEEL GRADES

As part of the partner project ČMRLJ[7], SIJ Metal Ravne is researching the impact of various microalloying elements on the ultimate properties of both existing and new steels. Using optimal microalloying systems allows us to achieve the desired steel purity and a controlled value of non-metallic inclusions. Within the scope of the project we are also developing new industrial processes to produce new grades of steel.

GLOBAL STEEL INDUSTRY TREND*

Development of new steels for new areas of application.

There are opver 3,500 types of steel with different characteristics.
Each steel has specific characteristics suited to a specific application.



GOALS OF THE SIJ GROUP RESEARCH PROJECT

Identify suitable microalloying elements and study their ultimate impact on the properties of both existing and new steels.

Develop new industrial processes to produce new grades of steel, which conform to high-purity standards.

** Source: World Steel Association. Steel Facts. Available at: link (14 January 2021).*

6 STELT-NGO: Surface and Texture Engineering for Low Thickness; The project is currently in the running to get a grant from the Research Fund for Coal and Steel (RFCS-2020; STELT-NGO project).
7 ČMRLJ = Achieving Cleanliness and Properties with Micro Alloying of Steel; Co-funding: Ministry of Education, Science and Sport of the Republic of Slovenia, and the European Regional Development Fund; the project is being carried out by 5 partner organisations; Total co-funding value of the project: 1,996,120.57 EUR. more about the project: https://www.imt.si/aktualno/novice-dogodki/cmrlj.

Innovation

MFT INNOVATIVE TECHNOLOGY

At RSC Holding, a new member of SIJ Group, we are developing products for pressure die casting and injection moulding, produced using a patented innovative technology of additive production. The patented MFT (Metal Fusion Technology) pushes the limits of product complexity allowed by conventional technologies. This exciting new development comes from the research team of RSC Holding, which brings together companies supporting the tooling industry.

A leading centre to support the tooling industry in the region is currently being developed, with RSC Holding at its core. This leading regional centre will provide customers with a full range of products and services, ranging from warehousing, scrapping and distribution of tool steels, heat treatment services, mechanically treated steel plates, and supplementary services. Besides the new products produced with MFT technology, it will expand its offering by producing aluminium extrusion tools.

EMPLOYEE INNOVATION ACTIVITY

Due to the pandemic, promoting mass innovation in SIJ Group's companies in 2020 was not a priority. As a result, fewer ideas and proposals for improvement were submitted, and the savings achieved through implementation of our employees' ideas were also lower.

In 2020, SIJ Group employees submitted 290 ideas, 273 useful proposals, 20 technical improvements.

Sustainability

Together with other responsible steel-makers of the world, we have our eyes set on sustainable development. We are reducing our environmental impacts and increasing our social responsibility to local communities during the COVID-19 pandemic.

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

SIJ d.d. and SIJ Group involved in sustainable development processes as a reliable partner to all stakeholders. Under the vertical integration business model, the management and employees work together to encourage cost-effective and sustainable operations across all SIJ Group companies, both on the global and on the local level. In this chapter, we describe SIJ Group's non-financial activities in 2020, as they pertain to principles of sustainability.

As **signatories of the World Steel Association's Sustainable Development Charter**[8], we respect the seven commitments with which the world's leading steel producers contribute to the realisation of the 17 Sustainable Development Goals, as defined by the United Nations Organisation.

Sustainable development principles are an integral part of SIJ Group's fundamental values. In 2020, our non-financial and sustainable development activities were guided by

8 World Steel Association. 2018. Sustainable Development Charter. Available at link (3 December 2020).

our **commitment to solidarity**, which we endeavoured to spread across the supply and procurement chain in the communities where we operate. As an important pillar supporting local communities, humanitarian activities and athletes, we maintained our determination to cooperate in 2020, as well. We honoured our commitments.

Our sustainable development projects are geared towards generating positive effects in all phases of purchasing and manufacturing processes and in the local environment, creating **global synergies**. Even in the year of the COVID-19 pandemic, we stayed true to our commitment of managing operations through careful reviews, planning, reporting, risk management and supervision.

Andrey Zubitskiy,
President of the Management Board

STRATEGIC FOCUS TOWARDS A SUSTAINABLE FUTURE

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.

Commitments of Global Steel Producers and SIJ Group

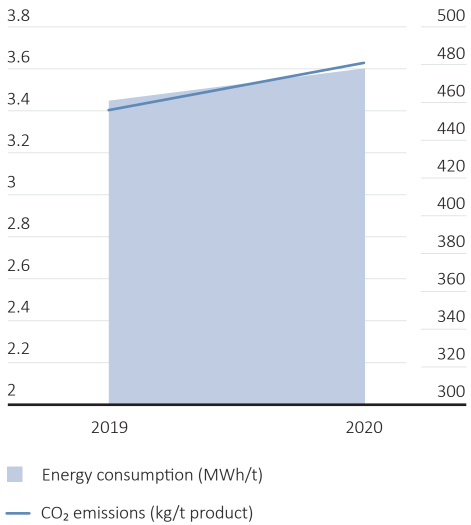
1. Improving health and safety at work.
2. Respecting and cooperating with local communities.
3. Conducting our business according to high ethical standards.
4. Strengthening the cooperation with the most important stakeholders and creating value for them.
5. Developing our production and products by 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

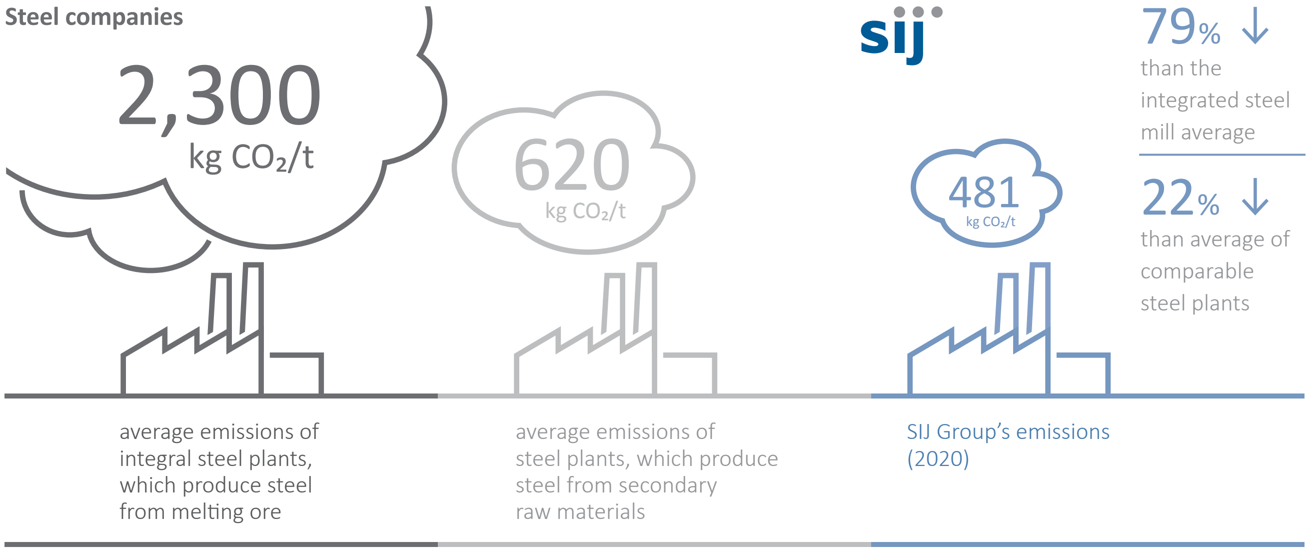
CARBON FOOTPRINT

SIJ Group production companies are modern steel companies using recycling technologies, where steel production is based on the reuse of secondary raw materials. SIJ Group's production processes generate **carbon emission levels which are significantly under the global average**. We rank among the world's top 15 most efficient steel producers included in the measurements carried out by the World Steel Association.

Carbon (kg CO2/t) and Energy Footprint (MWh/t)



SIJ Group's Carbon Footprint Compared to World Steel Companies (kg CO2/t)



Source: World Steel Association. August 2020. CO2 data report 2020. Internal materials for members of the Association.

In 2020, the new business circumstances had an impact on the carbon footprint and energy consumption. With a decline in order volumes and reorganisation of production due to the COVID-19 pandemic, the production was not entirely continuous, causing a slight increase in the carbon footprint. However, emissions remained much lower than the global average.

DECARBONISATION STRATEGY

SIJ Group's planning activities take into account the targets of the European Green Deal and the National Energy and Climate Plan (NECP), which the Republic of Slovenia adopted in 2020. We operate according to the principles of a circular economy, and plan to make decarbonisation our strategic priority.

Both of SIJ Group's steelmaking companies take part in emissions trading. At the end of 2020, the third emission coupon trading period ended. In 2021, we will prepare a **detailed coupon trading strategy for the new 10-year period**. We will align it with the targets set out in the European Green Deal and Slovenian National Energy and Climate Plan, as well as in the SIJ Group Strategy 2020-2025.

CIRCULAR ECONOMY

SIJ Group's carbon emissions are lower thanks to the fact that we operate according to the principles of a circular economy.

Distinguishing Advantages of SIJ Group Steel Companies

DISTINGUISHING ADVANTAGE:
Basic material: steel scrap (not ore)
Energy sources: electricity, gas (not coking coal)
Vertically integrated group: closed material cycles, semi products, finished products

POTENTIAL PATH TO DECARBONISATION:
Basic material: residual steel scrap, substitutes for alloys
Energy sources: renewable energy sources (excess heat, solar power, etc.), hydrogen
Building energy communities

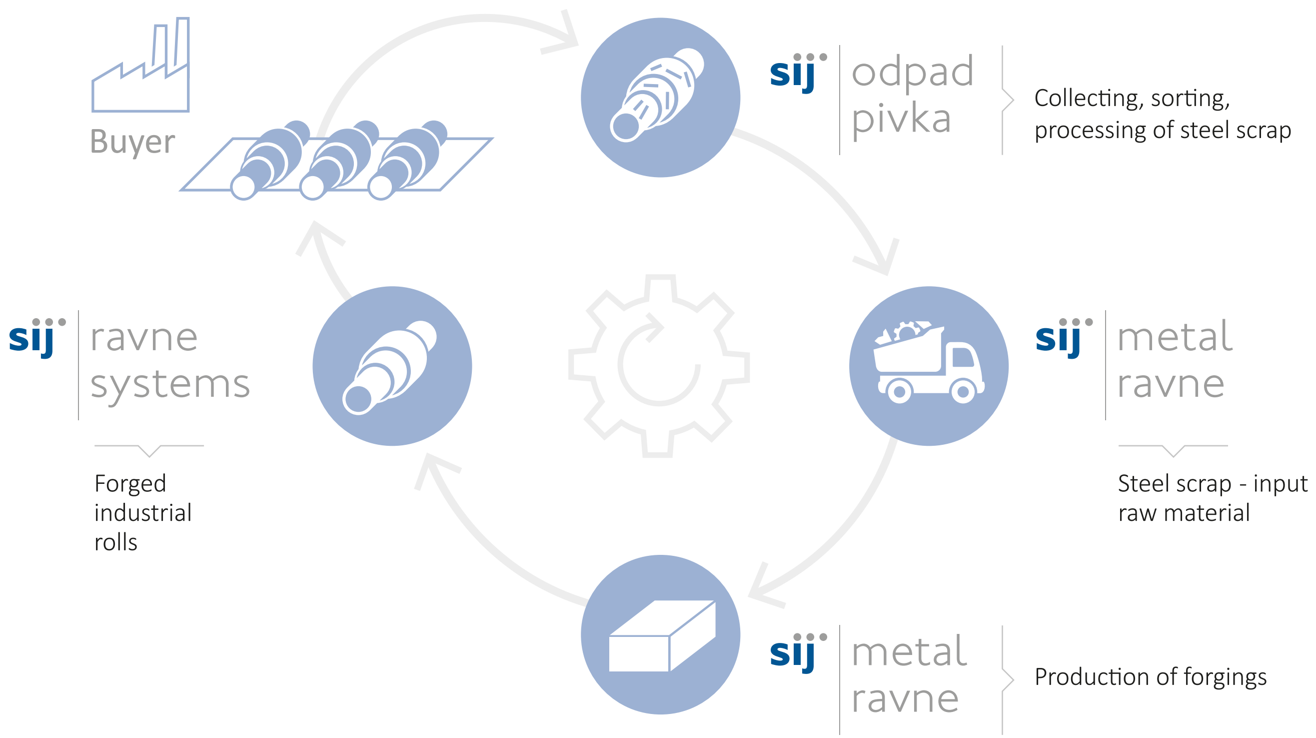
SECONDARY RAW MATERIAL LOOP CYCLE

In the vertically integrated group, we dedicate special attention to creating closed material loop cycles. Related companies form a closed raw material loop cycle, which rotates from processing and distribution to reusing steel scrap in production processes.

The raw material, i.e. steel scrap, is collected in our own collecting warehouses – scrapyards. These secondary raw materials thus accumulated are then used for steel production.

We have distribution and cutting centres at selected locations in Slovenia and Europe, where we trim, cut and heat-treat the steel, or adjust it to the needs of our customers. Cuttings are returned directly to the steel plant, which helps us efficiently utilise the alloy elements (nickel, chromium, vanadium, etc.). This also applies to all metal scrap.

An Example of the Circular Economy in the SIJ Group



SYSTEMATIC USE OF BY-PRODUCTS

At SIJ Group, all our material loops are closed loop cycles. With the exception of municipal waste, which cannot be otherwise disposed of, we do not dump anything in landfills. For all our by-products, we have either found end-users to make use of them, or else they are used as a material in our own production processes for the end products.

Prospective Use of Excess Heat

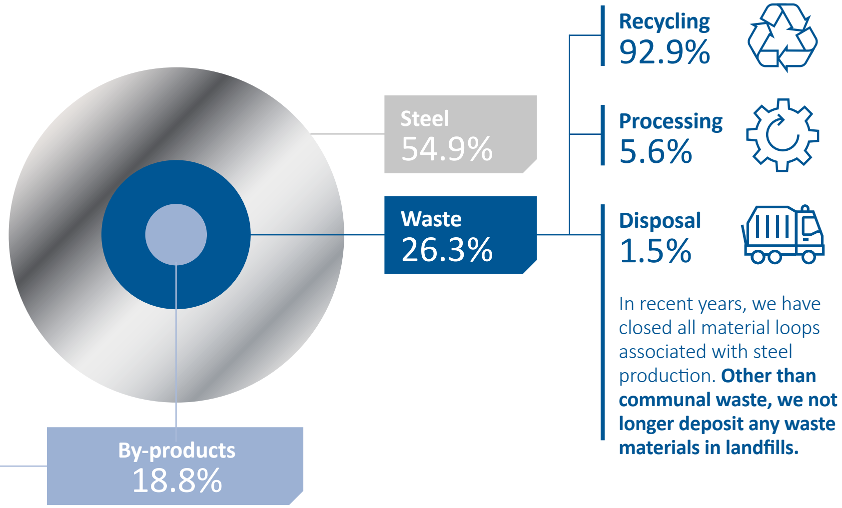
In accordance with the European Green Deal, which the European Commission unveiled at the end of 2019, Slovenia adopted the National Energy and Climate Plan (NECP) in 2020. The EU document sets out the timeframe for the EU's transition to a sustainable economy, and lays out new climate and energy targets for the year 2030. Slovenia's national document, which regulates the operations of energy-intensive companies, foresees an increase in the share of using renewable energy sources, including excess heat.

The following national targets are particularly important for SIJ Group, which is already providing excess heat to local communities and is increasing its degree of self-sufficiency through cogeneration of heat and electricity:

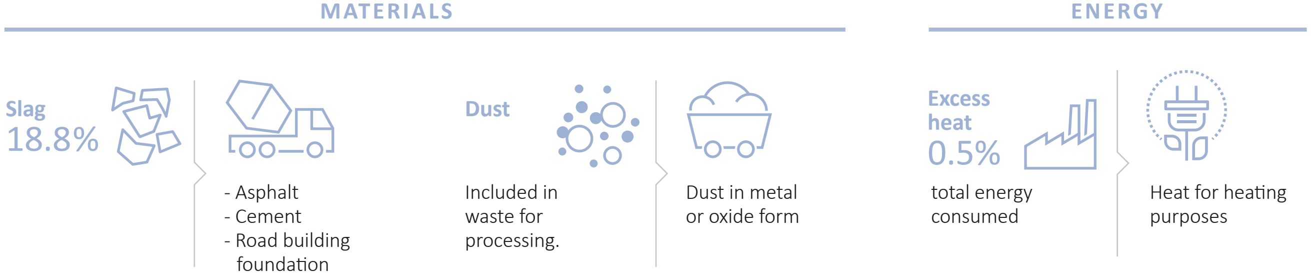
- 1.3 percent p.a. increase in the use of renewable energy sources for industrial heating and cooling, including the use of excess heat and cooling (with a priority focus on such use);
- Minimum 30 percent share of renewable energy sources used in industry (including excess heat);
- 1 percent p.a. increase in the use of renewable energy sources and excess heat and cooling in remote heating and cooling systems;

Use of By-products at SIJ Group

In 2020, we returned 9,000 tonnes of metals into the production process by processing white and black slag, effectively reducing consumption of natural resources by the equivalent amount.



In recent years, we have closed all material loops associated with steel production. **Other than communal waste, we not longer deposit any waste materials in landfills.**



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.

Blasting dust is produced in the process of dusting metal – the dust in metal or oxide form is used in our own production processes, while the rest of the blasting dust with a suitable levels of iron oxide is used to dilute melted material. Using the dust allows us to reduce the cost of alloys and dust disposal.

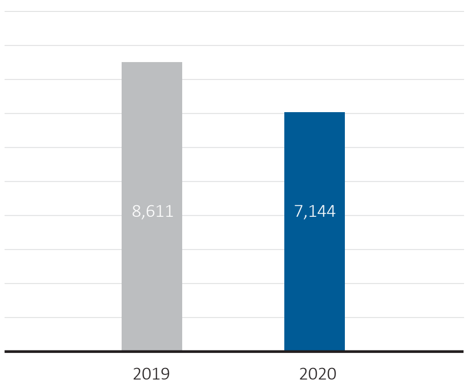
We are using **excess heat**, generated in the steel production process, to provide heating to the community in which we operate. Its importance as a heating source in local communities is increasing.

- Building a regulatory framework with incentives aiming to accelerate community development in using renewable energy sources (shared power-generating units) and targeted investments in renewable energy sources in areas where no additional investments in the network are needed.

With existing and planned new projects, SIJ Group is also contributing to reaching the targets set at the national level.

Excess Heat Used to Supply Heat for the Town of Ravne na Koroškem

Use of excess heat (MWh) in Ravne na Koroškem



Ever since 2016, excess heat produced by SIJ Metal Ravne has been used to supply heating for the town. In 2020, we handed over some 7,144 megawatt-hours of thermal energy generated as waste heat in the electric arc furnace process used in steel production. This amount represents 35 percent of all the heat required by Ravne na Koroškem. SIJ Group donates part of this excess heat to heat the covered winter swimming pool of the Ravne na Koroškem Sports Centre.

In 2021, as part of the Etekina project, we installed new heat exchange technology in the form of heat pipes, which will further increase the share of consumption of excess heat. We expect the amount of heat emitted to reach 9,000 in 2021, which will cover more than 45 percent of all heating requirements of Ravne na Koroškem. SIJ Group's thermal energy will become the main source of heating for the town.

Cogeneration in Jesenice

SIJ Acroni has been cogenerating heat and electricity since 2014. In 2020 we generated 3,043 megawatt-hours of electricity and 4,512 megawatt-hours of thermal energy. Through efficient use and cogeneration of energy, we have achieved full heating self-sufficiency and partial self-sufficiency for electricity. We are also reducing greenhouse gas emissions through cogeneration.

Potential Provided by an Energy-Intensive Industry in an Urban Environment

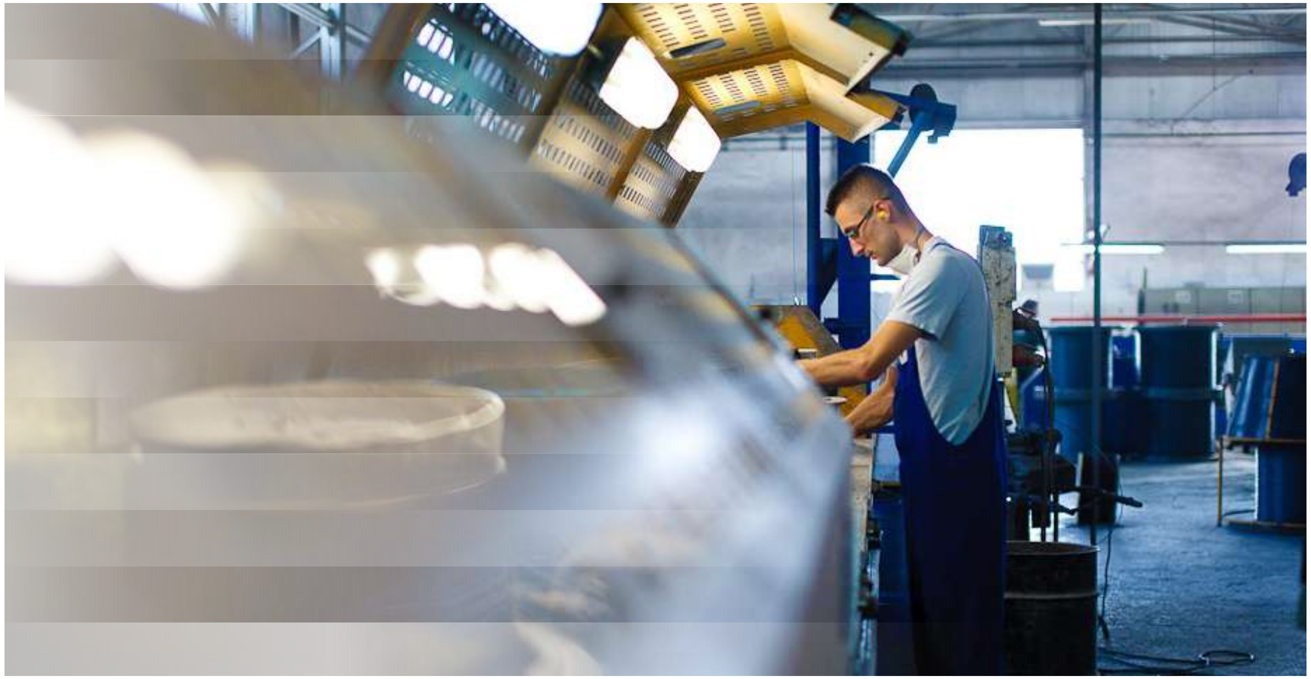
With the funds we raised in 2020 as part of the Creators project[9], we are going to explore the options for establishing an energy community in Jesenice. We are planning to develop a useful and commercially viable service platform, CES (Community Energy Systems). The platform will be used for planning, launching and coordinating future local energy communities in urban environments with an energy-intensive industry presence. In collaboration with the Jesenice local community, we are going to explore the options for utilising excess heat to heat the city, build a five-megawatt solar plant and hydrogen power plant.

Energy Management and more Cost-Effective Solutions

SIJ Group's companies are managing their energy consumption with an integrated energy management system, supported by appropriate partnerships with selected suppliers of energy sources (electricity and gas). Together with our partners and employees, we are lowering energy costs and responsibly reducing our environmental impacts.

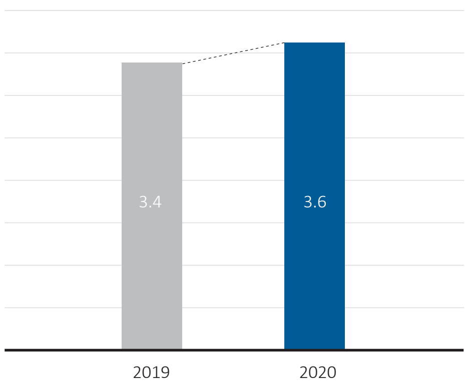
9 In 2020, the Creators project won the grant offered by the EU's research and innovation programme Horizon 2020, under the grant agreement no. 957815.

SPECIFIC ENERGY CONSUMPTION



While we are among Slovenia's larger consumers of energy-generating products, in recent years we have been able to decrease our specific energy consumption by implementing numerous modernisation measures and taking steps to increase energy efficiency. However, in 2020 it was not possible to reduce our specific energy consumption, mostly because of our inability to maintain a continuous production process (due to the epidemic and decreasing order volumes).

Specific Energy Consumption (MWh/t)



ADJUSTABLE ENERGY CONSUMPTION

We combined active inclusion of consumption, advanced management of consumption response, and energy management in the platform we codeveloped with our partners as part of the Demonstration of Comprehensive Energy Management (DEUP) project[10]. The project was finished in 2020. Besides SIJ Group, the pilot demonstration projects brought together major industrial consumers (from the iron, automotive and electrical industries, along with ICT) and water supply systems.

10 The Demonstration of Integrated Energy Management Project (DEUP) was chosen at a tender of the Ministry of Economic Development and Technology and the SPIRIT Slovenia public agency 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.

LIGHTING SAVINGS

In 2020 SIJ Group continued the project of replacing inefficient lighting fixtures with energy-efficient LED lighting. LED lighting fixtures have already been installed in all production facilities at SIJ Ravne Systems, SIJ SUZ and SIJ Elektrode Jesenice. As for the steel companies, in SIJ Acroni the lighting fixtures have been replaced in 30 percent of the production areas, and 60 percent at SIJ Metal Ravne. Besides the improvement of working conditions, this also saves electricity. In 2021, we will also continue to systematically replace lighting fixtures at other SIJ Group companies.

CAREFUL USE OF NATURAL RESOURCES

SIJ Group ensures that suppliers across our supply chain comply with the principles set out in SIJ Group's Code of Conduct. We have a zero tolerance policy for illegal and ethically questionable conduct.

STANDARDISED SUPPLIER RATING SYSTEM

Starting in 2020, SIJ Group evaluates suppliers according to a standardised rating system. They are classified into three categories based on pre-set criteria. Of those that meet our requirements, 40 percent of the suppliers of raw materials and strategic materials meet the highest standards in the industry.

MAINTAINING STRATEGIC RELATIONSHIPS WITH RESPONSIBLE SUPPLIERS

Even in times of market pricing volatility, we are increasing the reliability of supplies through building long-term strategic partnerships with key suppliers. 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.

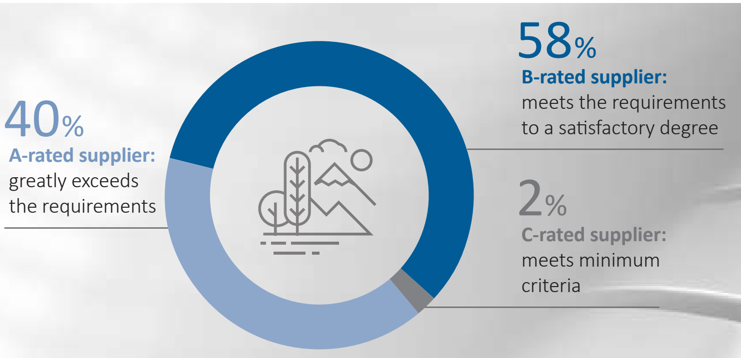
When it comes to the supply of raw materials, we are constantly staying up to date with progress and innovations. We are introducing quality, cost-effective and environmentally friendly substitutes in our production process. In 2020, we tested 96 substitutes - i.e. new materials, or materials supplied by new suppliers. We assess our choice of suppliers based on their observation of the principles set out in the codes of conduct, beyond the statutory framework, and based on their observing sustainability commitments.

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. In 2020, SIJ Group worked with four certified suppliers of wolfram and ferrotungsten.

Criteria for Assessment of Suppliers and Supplier Ratings

1. Timeliness of supplies
2. Meeting the expected standard of quality
3. Managing quality assurance and traceability systems
4. Supplier's commitment and engagement in finding optimal technical solutions



82 percent secondary raw material use is achieved in SIJ Group's production of stainless steel, one of its most profitable product categories.

ADVANCED PRODUCTS MADE WITH SECONDARY 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 we purchase, steel scrap from our own production process also serves as an important resource, which is returned to the production process after appropriate separation and preparation. Our proprietary material recycling technologies allow us to constantly increase the use of secondary raw materials, which helps reduce the need for primary natural resources.

One of SIJ Group's priority goals is to produce the most advanced steel products while progressively reducing the use of primary raw materials with regard to ferroalloys. Since 2020, we have been tracking this target using the raw materials consumption index.

> As much as two-thirds of the most advanced steel produced by SIJ Group is produced using alloys produced from secondary sources.

We are substituting ferroalloys for alloy elements (nickel, chromium, vanadium, etc.) in the form of secondary raw materials. We use them in the main production lines, for stainless and alloy structural steels and tool steels.

Using carefully sorted secondary raw materials, which provide a source of alloys for recycling, we are effectively reducing the costs of ferroalloys, and at the same time improving the material loop cycles in SIJ Group's vertically integrated structure.

RESPONSIBLE TOGETHER WITH OUR EMPLOYEES

By 2025, SIJ Group will be among the most desired employers in Slovenia, and will attract talented employees. This is one of SIJ Group's three key goals for the year 2025. The HR strategy we adopted in 2020 defines key areas of operation in pursuance of this goal.

Key Topics of the HR Strategy Until 2025

1. Leadership
2. Performance management
3. Building competencies, knowledge and skills
4. Digitalisation of HR data management
5. Reducing sick leave absenteeism
6. Talent management

SIJ Group will upgrade its position as an important employer by building its reputation as a desired employer.

By taking part in various projects, we will systematically develop the professional competencies of employees in production, encouraging management staff development, promoting employee and occupational health, building a positive organisational climate and employee engagement. We will be introducing new, attractive employee remuneration models and salary policies.

As the coronavirus epidemic has made introducing additional HR projects difficult, the HR strategy implementation efforts will intensify in 2021.

JOB RETENTION

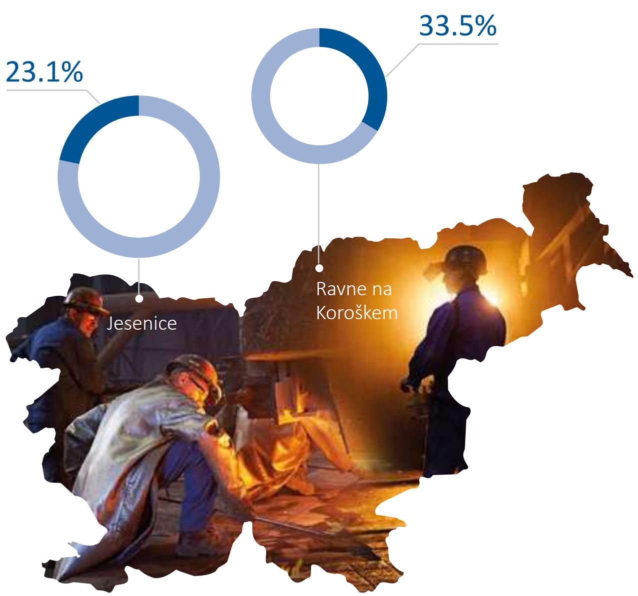
SIJ Group is one of the most high-profile employers in the two regions of Slovenia where our largest steel companies and a number of other core companies operate. Understanding the importance of SIJ Group for the local employment situation, we act as a responsible employer even in challenging times, working closely with our local communities. In 2020, as the COVID-19 pandemic also caused a decline in the order volume, we took appropriate and timely measures to retain jobs and a headcount comparable to that in previous years.

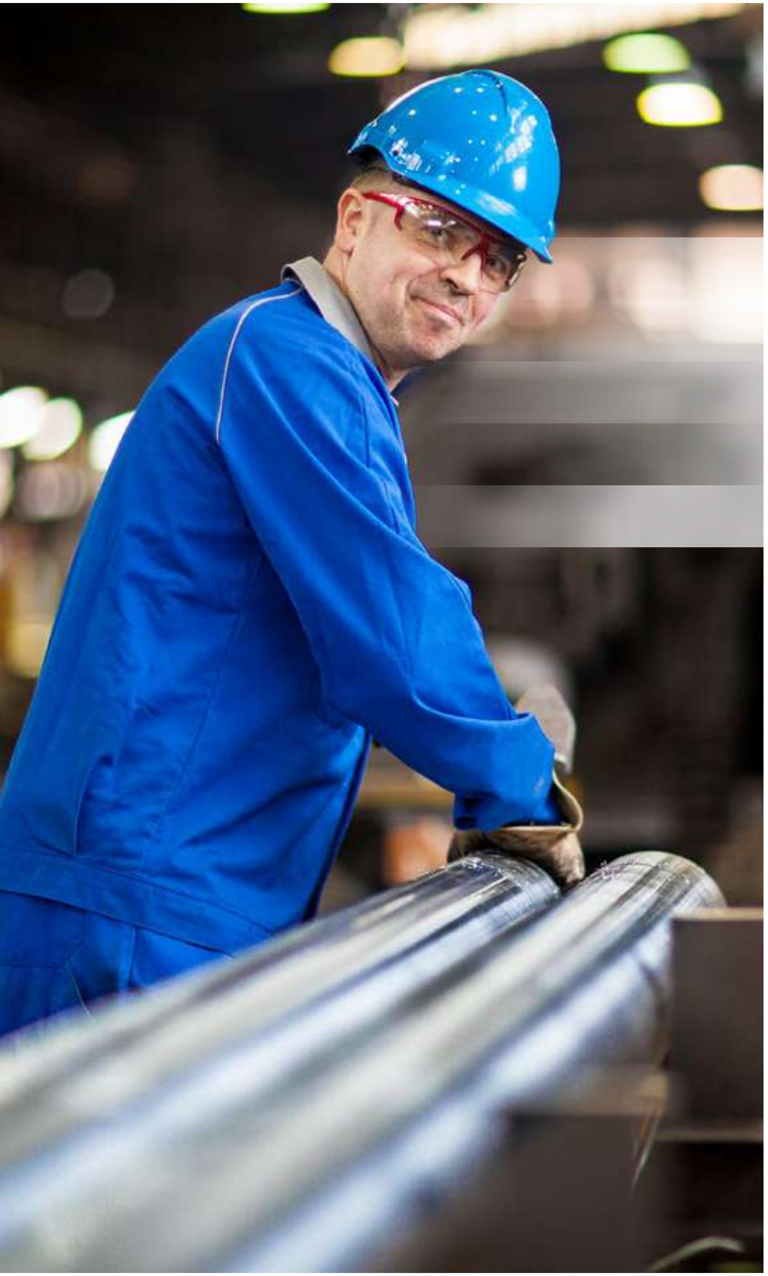
Working Population in the Municipality and Employees in SIJ Group Companies

Municipality	Number of employees in the municipality	Number of employees of SIJ Group	%
Ravne na Koroškem	4,846	1,623	33.5
Jesenice	7,001	1,616	23.1

Source: National Statistical Office of the Republic of Slovenia. 2021. Active population by municipality of employment, Slovenia, monthly data. Available at link (25 February 2021).

Share of Employees of SIJ Group in Key Municipalities





Key data on Employees as at 31 December

	2019	2020
Number of employees	3,859	3,818
Average age (in years)	40.5	44.3
Share of women (%)	16.6	16.0
Number of persons with disabilities	336	335
Sick leave absenteeism (%)*	7.8	8.2
Number of accidents	148	116
Accident frequency (F2)*	27.3	21.2

** Data refer to the companies SIJ Acroni, SIJ Metal Ravne, SIJ Ravne Systems, SIJ SUZ and SIJ Elektrode Jesenice.*

We have no plans to increase our employee count until 2025. In line with our HR strategy, we are going to build on our employees' productivity, with a focus on cross-generational knowledge transfer and increasing the share of employees with qualifications in metallurgy.

OCCUPATIONAL SAFETY AND HEALTH

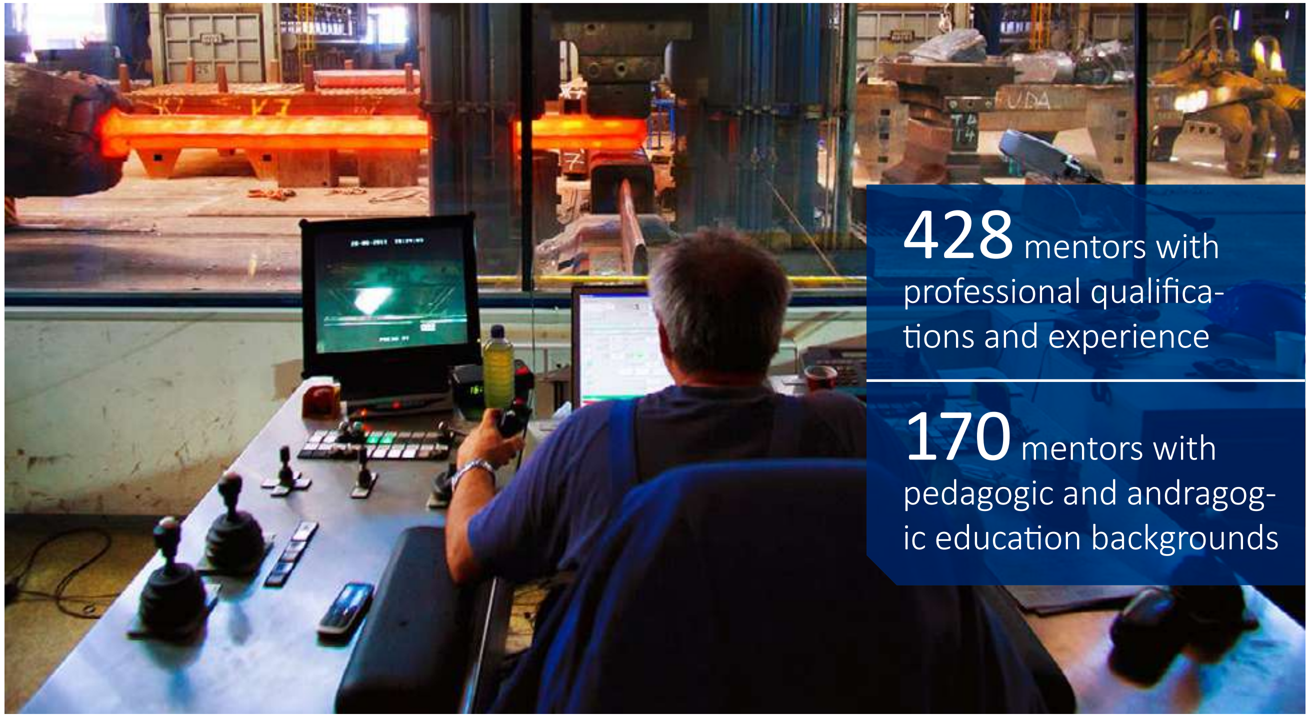
Due to the labour intensity in the industry in which we operate, high average age of employees, and the management of sick leave and work-related accidents, particular attention is paid to measures to ensure occupational safety and health. In 2020, protecting the health of our employees was a priority due to the COVID-19 situation. By taking the appropriate measures presented in the chapter SIJ Group During the COVID-19 Pandemic, we were able to successfully manage newly identified risks. At the same time, we continued our existing projects dedicated to accident prevention and maintaining a healthy lifestyle.

Awards to Facilities with the Best Safety Record

As part of our Working Safely, Staying Healthy campaign, we are making efforts to achieve zero work accidents. We are monitoring and rating our production facilities on an ongoing basis and rewarding those with the least accidents. At the beginning of 2021, we announced the facilities with the best safety records for the fifth year in a row.

A Healthy Lifestyle in Leisure-Time

We encourage our employees to maintain a healthy lifestyle both at work and outside of work. Among other benefits, our employees may use our sports and various holiday facilities free of charge or at subsidised rates, including thermal spa resorts.



KNOWLEDGE AND COMPETENCES

One of the key areas to ensure the performance and sustainable development of SIJ Group is planning employee development and recognition, along with increasing knowledge, qualifications and competences among employees. In 2020, we began to introduce a standardised competency system and training programmes. We invested EUR 310,984 in the education and training of employees.

We encourage employees to take part in part-time studies, which we co-finance through our annual internal calls for applications. In 2020, 92 SIJ Group employees attended part-time secondary school and university programmes.

Mentorship Programmes

We are making a planned effort to ensure specific skills are transferred to new employees. Mentors with appropriate pedagogical and andragogical qualifications ensure the transfer of their knowledge to secondary school and university students, who receive practical training classes as part of their school curriculum with our assistance. During the COVID-19 pandemic, however, we did not allow high school or university students to gain access to our working environment. After the situation has been resolved, our mentors will resume this educational project. We regularly analyse the work of the mentors and provide them with supplementary training.

Technical Occupations of the Future and Scholarships

Much like the steel-working industry, industries of the future will also require skilled employees with technical backgrounds. We have thus been systematically presenting technical professions in the Metallurgy Division 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, organise open-door activities, 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 2020, we mostly organised these events remotely, in cooperation with interested organisations and individuals.

In past years, we have worked with the Ravne Secondary School to launch a curriculum for metallurgical technicians. In 2020, we already employed the first generation of metallurgy graduates. We are also involved with the Jesenice Secondary School curriculum for mechanical technicians.

We offer high school and university students scholarships and provide them with practical training courses. In 2020, we granted scholarships to 128 young people enrolled in secondary vocational and professional education programmes and higher and university study programmes. Our practical training classes, which we normally offer under the mentorship of our professionally qualified employees, were affected by the COVID-19 pandemic in 2020.

SOCIAL DIALOGUE AND REMUNERATION

SIJ Group respects the principles of social dialogue with trade unions and employees, and fully complies with the terms of industry-specific collective agreements and corporate collective agreements. In 2020, SIJ Group met twice with its trade unions, whereas the management of individual SIJ Group companies meet with the trade unions on a monthly basis. Trade unions were actively involved in the COVID-19 crisis management process and the updating of the salary system. They were also involved in the selection of a new catering service provider.

As of the start of 2020, four SIJ Group companies introduced a new salary system with a smaller number of job positions and a reconceptualised job valuation and pay grade categorisation. This gives employees with a wide range of qualifications new career advancement options, while giving these companies a lean organisational structure.

When the COVID-19 epidemic was declared in Slovenia, we also introduced a temporary system of extra bonuses for employees meeting their daily production quotas, with the aim of ensuring adequate work attendance so that production could continue unobstructed.

SIJ Group employees also enjoy the benefit of supplementary pension insurance, which increases their long-term social security. In 2020, we paid into the supplementary pension insurance schemes for 2,655 employees. The average paid-in premium amounted to EUR 617.6, while paid-in premiums totalled EUR 1,693,622.

ENSURING EQUAL OPPORTUNITIES

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 those of their families, we are building partnerships with their local communities. We select new employees carefully and comply with the legal regulations in all jurisdictions in which we operate.

Professional Treatment of Vulnerable Groups

Part of SIJ Group's ethic is creating opportunities for persons with disabilities and special needs. In cases where our employees' work ability is reduced, we transfer them to other available positions in SIJ Group companies.

We provide stable employment for people with disabilities in our SIJ ZIP Centre subsidiary. We preserve and create new jobs for such individuals in joinery, printing and service programmes. As a concession partner 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 through the Koroška Rehabilitation Centre, which is an integral part of the company. A total of 147 persons took part in the concession programmes in 2020.

As part of the national project partnership entitled Transition into the Labour Market for Young People with Disabilities, 11 young people with special needs were included in the work activities of the SIJ ZIP Centre in 2020.

FOSTERING CONNECTIONS IN THE YEAR OF THE EPIDEMIC

My SIJ

The My SIJ internal web portal was introduced in the year of the COVID-19 epidemic. It can be used by all employees, as it is accessible using both computer and mobile devices. Since September 2020, the central intranet, accessible to all employees, has served as the digital environment for teamwork which can be used at any time, from anywhere.

3. SIJ Winter Games

In February 2020, our employees and scholarship recipients got together for the 3rd edition of the SIJ Winter Games. The relaxed atmosphere on the white slopes builds connections among people working in different locations and areas. Unfortunately, the biggest social event of the year, SIJ Day, was cancelled in 2020 due to the COVID-19 situation.

Maintaining a Sporting Spirit through Virtual Channels

Under the auspices of the SIJ Sports Club, 119 active-lifestyle employees motivated others to take part in running, cycling, Nordic walking and various forms of exercise in both live and virtual settings.

SIJ Group Employees Celebrating Anniversaries

In 2020, 244 of our employees received anniversary bonuses in recognition of their 10, 20, 30 or 40 years' of loyalty to SIJ Group. As many as 29 of them celebrated their 40th anniversaries.

Best Wishes for the Future

To mark the closing of the year 2020, all our employees received practical gifts, while Santa Claus brought presents to almost a thousand children and visited them in virtual reality.

RESPONSIBLE PARTNERSHIPS WITH LOCAL COMMUNITIES

In 2020, despite the challenging business climate, we were able to fully realise all our strategic partnerships, as there was no downsizing of the budgets. Even under the difficult circumstances, we maintained our position as a reliable sponsor. We responded to the needs of the environment. We increased our humanitarian efforts and donations with a focus on healthcare.

SIJ Group's activities are inseparably linked to the local communities in which it operates. We have designed uniform guidelines for sponsorships and donations, which apply to the entire SIJ Group and related companies belonging to the Group. Key areas of our involvement include sports, culture, education and humanitarian projects.

STAYING CONNECTED IN THE FACE OF A HEALTHCARE CRISIS

SIJ Group **actively responded to the local environment's needs sparked by the COVID-19 pandemic**. We donated over 17,000 surgical protective masks. We donated 7,000 to three local healthcare facilities in Jesenice and Ravne na Koroškem, and in collaboration with the Embassy of the Russian Federation and the Slovenia Russia Society, we donated 10,000 to elderly care facilities across Slovenia.

At the closing of the year, we forwent giving business gifts, and dedicated part of the gift budget to buy tablets and computers to donate to elderly care facilities in Ravne na Koroškem and Jesenice, where some of our former employees are also staying. Therefore they could stay in touch with their families during the time of the epidemic, which was not possible by any other means.

OUR RESPONSIBILITY TO SPORTS

On the national level, we continued giving our support to our top athletes in 2020 as part of the Slovenian Olympics Committee, which was faced with its own challenges due to the COVID-19 restrictions. In 2020, the awards presented to Slovenian athletes by the Association of Slovenian Sports Journalists were made of SIJ Group steel for the fifth consecutive year.

At the local level we stayed connected to athletic programmes, which SIJ Group employees and their family members also take part in. In Jesenice, we sponsor the HDD SIJ Acroni Jesenice and the local football club. In Ravne na Koroškem, we are partners with the Fužinar volleyball, football, swimming and ski clubs. **As responsible stakeholders in the life of the local communities, we stayed true to our commitments and paid out all agreed the sponsorship funds to our clubs, despite the epidemic**.

One of Slovenia's best athletes is the legendary Olympian Petra Majdič, former cross-country skier. As our Mind of Steel Ambassador, she works with young athletes and local sports clubs supported by SIJ Group. She continued to build their determination for athletic achievement in 2020 through agility and coordination training.

INNOVATION IN USING STEEL AND BYPRODUCTS

Providing innovative sporting and recreational infrastructure is an important part of our commitment to athletics. As of the end of 2020, **we have installed 14 steel outdoor training courses** across Slovenia, in collaboration with the Slovenian Olympic Committee. In recognition of this, the International Olympic Committee awarded us the Sports and Sustainable Architecture Award in September 2020.

Over the next two-year period, we are going to build five sustainable slag pump tracks in collaboration with our partners. With the slag pump tracks, SIJ Group joined the World Steel Association's initiative to promote responsible use of steel as a material with a wide variety of uses. With the addition of new pump tracks, we are going to expand our efforts to reduce the use of natural resources in sporting infrastructure.

For the purposes of constructing the bike pump tracks, which will be built in partnership with the Slovenian Olympic Committee, the company Batt Crew and the Pumptrack Slovenia Initiative, SIJ Group, SIJ Group will donate black slag, a by-product of steel production. Slag will replace gravel in the construction of rollers, berms and drainage.

In 2020, **we also produced the Slovenian torch** out of steel. It will take the values of steel, which link SIJ to our top athletes, to the Tokyo Olympics, which were moved to 2021 due to the COVID-19 pandemic.

SIJ Group use of Steel and By Products - Slag and Heat in Socially Responsible Projects

PRESERVING THE STEEL-WORKING TRADITION

In a more cultural context, we place special attention on building partnerships to highlight the cultural and technological heritage of steel-working. In 2020, SIJ Group was the Gold Sponsor of the exhibition **The Song of Metal – Millennia of Metallurgy in Slovenia**. The exhibition was created to commemorate the centenary of metallurgy in Slovenia, in cooperation with the University of Ljubljana, Faculty of Natural Sciences and Engineering and the National Museum of Slovenia.

In 2020, we participated in the **anniversary exhibition with the title Shine of Steel**, commemorating 400 years of steel-working in the Mežica Valley, Koroška region.

02 financial report of the SIJ Group

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

Report on the Audit of the 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 2020, 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 2020, 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 European Union (hereinafter 'IFRSs').

Basis for Opinion

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 Statement* section of our report. In accordance with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (the IESBA Code) and the ethical requirements relating to the audit of financial statements in Slovenia, we hereby confirm our independence from the Group and that we have fulfilled all other ethical obligations in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 2020. 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.

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Valuation of Goodwill

Key audit matter	How our audit addressed the key audit matter
As at 31 December 2020, as disclosed in Note 8 – Intangible Assets to the consolidated financial statements, the Group had a goodwill of EUR 19,409 thousand (31 December 2019: EUR 7,847 thousand). 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. Considering the significant portion of management judgement in determination of cash generating unit (hereinafter "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 assessment of the recoverable amount accounting policy in note Application of Estimates and Judgements and Note 8 – Intangible Assets.	Our audit procedures included assessing whether management's judgment is appropriate and whether the requirements of IAS 36 are met, including: - assessment of whether the CGUs are determined appropriately in compliance with IAS 36 requirements; - we made use of our experts to evaluate whether the methodology used by the management expert is appropriate and whether the significant assumptions used are adequate for given purposes; - validation of assumptions used to calculate the discount rates and review of methodological appropriateness and mathematical accuracy of calculations of discounts rates; - assessment of the calculation related to impairment of goodwill; - assessment whether information disclosed in the notes to the financial statements meet the requirements of applicable financial reporting standards.

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Impairment of assets IAS 36 – valuation of real estate and equipment

Key audit matter	How our audit addressed the key audit matter
As at 31 December 2020, the Group discloses in the consolidated statement of financial position property, plant and equipment in the amount of EUR 386,924 thousand. In the year ended 31 December 2020, the Group recognized EUR 22,479 thousand of expenses from impairments of the aforementioned assets. As required by IAS 36 Impairment of assets, management conducts annual impairment tests to assess the signs of impairment of cash generating units (CGU). Where signs of of impairment were detected, management made use of experts for the assessment of real estate and equipment. Significant management judgment is involved in determination of critical assumptions for the estimate of the recoverable amount of assets, accordingly, the impairment of real estate and equipment is considered to be a key audit matter. In Note 9. Property, Plant and Equipment to the consolidated statement of financial position, management provided additional information on impairments related to real estate and equipment.	As part of our audit procedures, we assessed the adequacy of the company's accounting policies regarding impairments of real estate and equipment and compliance with IFRS and performed following procedures: - we assessed whether the models used to calculate the recoverable amount meet the requirements of IAS 36 Impairment of Assets and whether the assumptions used are reasonable given the current macroeconomic situation; - we made use of our experts to evaluate whether the methodology used by the management expert is appropriate and whether the significant assumptions used are adequate for given purposes; - in case of some real estate, where the expert used the cost method as a method of real estate valuation, we also checked the valuation of the cash generating unit and assessed whether the recoverable amount was properly determined as the value in use in accordance with IAS 36. We also reviewed the information in the consolidated financial statements to assess whether the disclosures regarding impairments are appropriate in accordance with the requirements of the applicable financial reporting standards

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Accounting for the business combination under IFRS 3

Key audit matter	How our audit addressed the key audit matter
As disclosed in the Business report and disclosure Composition of the consolidated group of companies and note 31. Business combinations the parent company completed an important strategic project in July 2020 and acquired new companies and included some of its subsidiaries as an in-kind contribution. Management has provided additional information on accounting policies, the accounting for the acquisition and recognized goodwill in Note 31. Business Combinations. Accounting for business combinations involves an important degree of management judgment in determining the purchase value and calculation of goodwill. Therefore, business combinations as defined in IFRS 3 and accounting for acquisitions have been identified as a key audit matter.	Our audit procedures included assessing whether the accounting of business combination is appropriate and whether the requirements of IFRS 3 are met, including: - review of purchase agreements (strategic partnership) and assessment whether the defined purchase price is appropriate; - reviewing the assessment of the fair value of contingent considerations based on the assessment of future business plans of the companies in the RSC Holding Group and other contractual provisions; - review of the date of taking control; - assessment whether information disclosed in the notes to the financial statements meet the requirements of applicable financial reporting standards.

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.

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Responsibilities of Management and Those Charged with Governance 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.

Those charged with governance 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.

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- 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 consolidaterd financial statements of the audit 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 Auditor and Period of Engagement

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 2 years.

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 19 April 2021 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.

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

DELOITTE REVIZIJA d.o.o.
Dunajska cesta 165
1000 Ljubljana

Katarina Kadunc
Certified Auditor

For signature please refer to the original Slovenian version.

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

Ljubljana, 19 April 2021

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 2020, 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 2020.

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 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 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, 19th April 2021

Andrey Zubitskiy,
President of the Management Board

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Comprehensive Income

in EUR thousand	Note	2020	2019
Revenue	1	696,037	767,351
Cost of sales	2	(585,968)	(640,119)
Gross profit		110,069	127,232
Distribution costs	2	(41,478)	(35,003)
General and administrative expenses	2	(82,168)	(87,253)
Other operating income	3	4,403	7,336
Other operating expenses	4	(26,381)	(17,678)
Impairments of trade receivables (losses/gains)		(52)	212
Operating loss		(35,607)	(5,154)
Finance income	5	3,905	3,095
Finance expenses	6	(12,203)	(14,976)
Net finance costs		(8,298)	(11,881)
Share of profit in associates	10	30	31
Loss before tax		(43,875)	(17,004)
Income tax	7	(5,762)	(6,984)
Loss for the year from continuing operations		(49,637)	(23,988)
(Loss) profit from discontinued operations	15	(267)	68,896
(Loss) profit for the period		(49,904)	44,908

Continuation of the table →

Continuation of the table

in EUR thousand	Note	2020	2019
Items that will not be reclassified subsequently to profit or loss			
Income tax related to components of comprehensive income	14	16	(15)
Net actuarial losses on pension programs		(251)	(872)
Items that may be reclassified subsequently to profit or loss			
Change in other reserves due to changes of financial assets at fair value	11	(85)	78
Exchange rate difference on translating foreign operations		(280)	(20)
Other comprehensive income form discontinued operations	15	(3)	19
Total other comprehensive income		(603)	(810)
Comprehensive income		(50,507)	44,098
(Loss) profit for the period attributed to:		(49,904)	44,908
Owners of the controlling company		(50,363)	44,218
Non-controlling interest		459	690
Comprehensive income attributed to:		(50,507)	44,098
Owners of the controlling company		(50,917)	43,414
Non-controlling interest		410	684
Comprehensive income attributed to the owners of the controlling company:		(50,917)	43,414
Continuing operations		(51,015)	(25,482)
Discontinued operations		98	68,896

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

Consolidated Statement of Financial Position

in EUR thousand	Note	31 Dec. 2020	31 Dec. 2019
ASSETS			
Non-current assets		529,434	512,715
Intangible assets	8	33,562	21,947
Property, plant and equipment	9	386,924	407,194
Investment property		1	63
Investments in associates	10	1,876	1,846
Financial assets at fair value through other comprehensive income	11	1,260	1,351
Financial receivables	12	81,340	54,067
Trade receivables		61	141
Other assets	13	3,137	1,005
Deferred tax assets	14	21,273	25,101
Current assets		337,458	437,490
Assets (groups) held for sale	15	4,060	4,993
Inventories	16	198,497	212,397
Financial receivables	17	4,012	18,942
Trade receivables	18	81,604	75,479
Income tax assets		3,057	659
Cash and cash equivalents	19	41,208	120,250
Contract assets		692	337
Other assets	20	4,328	4,433
Total assets		866,892	950,205
EQUITY AND LIABILITIES			
Equity	21	381,281	418,928
Equity attributed to the owners of the controlling company		*354,596*	*412,817*
Share capital		145,266	145,266
Capital surplus		11,461	11,461
Revenue reserves		6,136	5,940
Fair value reserves		(2,577)	(2,310)
Translation differences		(72)	205
Retained earnings		194,382	252,255
Non-controlling interest		26,685	6,111
Non-current liabilities		178,848	182,668
Employee benefits	22	16,050	15,552
Other provisions	23	504	770
Deferred incomes	24	1,649	1,732
Financial liabilities	25	159,035	162,840
Trade payables		714	937
Contract liabilities		793	837
Deferred tax liabilities	14	103	0
Current liabilities		306,763	348,609
Liabilities included in disposal groups	15	419	889
Financial liabilities	26	90,648	137,954
Trade payables	27	205,904	198,891
Income tax liabilities		242	6,369
Contract liabilities		1,875	200
Other liabilities	28	7,675	4,306
Total equity and liabilities		866,892	950,205

Continuation of the table →

Continuation of the table

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

Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Equity in 2020

	Equity attributed to the owners of the controlling company									
in EUR thousand	Share capital	Capital surplus	Revenue reserves	Fair value reserves	Actuarial gains (losses)	Translation differences	Retained earnings	Total	Non-controlling interest	Total
Balance as at 31 Dec. 2019	145,266	11,461	5,940	381	(2,691)	205	252,255	412,817	6,111	418,928
Acquisition of companies	0	0	0	0	32	0	(7,335)	(7,304)	20,164	12,860
Total transactions with owners	0	0	0	0	32	0	(7,335)	(7,304)	20,164	12,860
Profit (loss) for the period	0	0	0	0	0	0	(50,363)	(50,363)	459	(49,904)
Other changes in comprehensive income	0	0	0	(69)	(230)	(277)	21	(554)	(49)	(603)
Total changes in comprehensive income	0	0	0	(69)	(230)	(277)	(50,342)	(50,917)	410	(50,507)
Creation of legal reserves	0	0	196	0	0	0	(196)	0	0	0
Total changes in equity	0	0	196	0	0	0	(196)	0	0	0
Balance as at 31 Dec. 2020	145,266	11,461	6,136	312	(2,889)	(72)	194,382	354,596	26,685	381,281

Consolidated Statement of Changes in Equity in 2019

	Equity attributed to the owners of the controlling company									
in EUR thousand	Share capital	Capital surplus	Rezerve iz dobička	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

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

Consolidated Cash Flow Statement*

in EUR thousand	2020	2019
Cash flow from operating activities		
Profit (loss) before tax	(44,093)	64,821
Adjusted for:		
Depreciation and amortisation (Notes 8 and 9)	50,663	49,896
Share of profit in associates (Note 10)	(30)	(31)
Interest income	(3,732)	(2,954)
Interest expenses	8,912	12,614
Profit on investment sales	0	(84,461)
Impairment of assets (Note 4)	22,819	15,740
(Reversal) creation of allowances and provisions	1,316	(1,816)
Net other expenses (income)	(1,742)	(2,189)
Operating cash flow before changes in working capital	34,113	51,620
Changes in working capital		
Change in trade receivables	(8,407)	130
Change in inventories	15,168	(9,351)
Change in trade payables	(591)	(22,207)
Change in taxes other than income tax	761	(1,448)
Changes in working capital	*6,931*	*(32,876)*
Payments for disposal of provisions	(4)	(2,821)
Receipts from government grant	7,213	500
Payments for retirement benefits	(1,509)	(1,261)
Income tax paid	(10,427)	(1,140)
Net cash generated from operating activities	36,317	14,022
Cash flow from investing activities		
Payments for investments in subsidiaries	(2,721)	(699)
Receipts from investments in subsidiaries	0	202,617
Payments for property, plant and equipment	(35,526)	(26,209)
Receipts from property, plant and equipment	1,079	2,503
Payments for intangible assets	(2,385)	(1,562)
Payments for loans issued (Notes 12 and 17)	(9,529)	(47,056)
Receipts from loans issued (Notes 12 and 17)	588	158
Interests received	26	1,990
Dividends received	0	96
Receipts from other assets	0	53
Net cash (used) generated in investing activities	(48,468)	131,891
Cash flow from financing activities		
Receipts from borrowings (Notes 25 and 26)	434,646	364,234
Payments for borrowings (Notes 25 and 26)	(490,331)	(449,308)
Payments for lease (Notes 25 and 26)	(2,820)	(3,037)
Interests paid	(8,437)	(11,375)
Dividends paid	0	(10,000)
Net cash used in financing activities	(66,942)	(109,486)
Cash and cash equivalents as at 1 Jan.	120,289	83,828
Translation differences	168	34
Net change in cash and cash equivalents	(79,093)	36,427
Cash and cash equivalents as at 31 Dec.	41,364	120,289

Continuation of the table →

Continuation of the table

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Reporting Entity

Company SIJ – Slovenska industrija jekla, d.d. (hereinafter: SIJ d.d. or the controlling company) is a company registered 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 2020.

Those consolidated financial statements are compiled by the controlling company SIJ d.d. and cover all its subsidiaries (hereinafter: the Group). The consolidated financial statements for a wider 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 Board 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 Management Board approved the consolidated financial statements on 19 April 2021.

A. STATEMENT OF COMPLIANCE

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).

Initial application of new amendments to the existing standards issued by IASB and adopted by the EU effective for the current reporting period

- **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 3 "Business Combinations"** – Definition of a Business – adopted by the EU on 21 April 2020 (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 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 IFRS 16 "Leases"** – COVID-19-Related Rent Concessions (adopted by the EU on 9 October 2020 and effective at the latest, as from 1 June 2020 for financial years starting 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 to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of the consolidated financial statements, the amendments to IFRS 4 Insurance Contracts "Extension of the Temporary Exemption from Applying IFRS 9" were issued by the IASB and adopted by the European Union on 16 December 2020, but not yet effective (the expiry date for the temporary exemption from IFRS 9 was extended from 1 January 2021 to annual periods beginning on or after 1 January 2023).

New standards and amendments to the existing standards 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"** including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 1 "Presentation of Financial Statements"** – Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 16 "Property, Plant and Equipment"** – Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** – Onerous Contracts — Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022);
- **Amendments to IFRS 3 "Business Combinations"** – Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),
- **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),
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases"** – Interest Rate Benchmark Reform — Phase 2 (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018–2020)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (the amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022; the amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.

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. GOING CONCERN ASSUMPTION

In the preparation of the consolidated financial statements for 2020, the Management Board took into account the going concern assumption based on activities and actions that improve the Group's future operations in such a way that it will be able to generate cash flow to cover liabilities and provide investors with an adequate return on capital.

C. 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.

D. FUNCTIONAL AND PRESENTATION CURRENCY

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

E. APPLICATION OF ESTIMATES AND JUDGMENTS

The preparation of consolidated 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 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 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 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 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 Board 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 associate (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).

Estimate of the Fair Value of Assets (Notes 12, 17, 18 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 Board is regularly checking whether the settling of the probable 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 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 H)

The Group recognises deferred tax assets in connection with provisions for jubilee benefits and post-employment 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 recognised deferred tax assets and liabilities. Deferred tax assets are recognised if it is probable that future taxable net profit, against which the deferred tax asset can be utilised, will be available. Deferred taxes are derecognised by the amount for which it is unlikely to enforce the tax relief associated with the asset.

Critical Assessment of the COVID-19 Pandemic (Note 29)

Due to the deteriorating macroeconomic environment caused by the COVID-19 pandemic, the Group reviews significant accounting policies and estimates in areas where the pandemic could have a negative impact, in particular on assets, impairments and provisions, fair value measurement, leases, labour costs, and taxes.

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 2020 & 2019	Value of assets as at 31 Dec. 2020	Value of equity as at 31 Dec. 2020	Net profit (loss) for 2020
Controlling company of the Group					
SIJ – Slovenska industrija jekla, d. d., Gerbičeva ulica 98, Ljubljana, Slovenia	Activities of head offices		406,350	275,414	3,924
SIJ – subsidiaries					
SIJ ACRONI d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	Steel production	100	382,795	147,028	(30,031)
SIJ METAL RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Steel production	100	181,820	64,278	(13,001)
NOŽI RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Industrial knives production	100	1,075	406	(148)
SIJ ELEKTRODE JESENICE d.o.o., Cesta železarjev 8, Jesenice, Slovenia	Welding materials production	100	11,295	160	(1,163)
SIJ SUZ d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	Drawn wires production	100	6,570	3,009	181
SIJ ZIP CENTER d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Education and training of the disabled	100	2,315	778	7
ODPAD d.o.o. Pivka, Velika Pristava 23, Pivka, Slovenia	Recovery of secondary raw materials from scrap	74.90	35,846	8,276	305
RSC HOLDING d.o.o., Litostrojska cesta 60, Ljubljana, Slovenia*	Investment management activity	51/100	56,328	50,851	545

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Continuation of the table

in EUR thousand	Activity	% of voting rights 2020 & 2019	Value of assets as at 31 Dec. 2020	Value of equity as at 31 Dec. 2020	Net profit (loss) for 2020
NIRO Wenden GmbH, Glück-Auf-Weg 2, Wenden, Germany	Steel cutting, engineering and trade	85	12,987	(6,479)	(3,034)
GRIFFON & ROMANO S.P.A., Via Dossetti 11, Loc. Casinello de Dosso, Italy	Heat processing and special steel trade	100	22,048	572	(1,624)
SIJ Asia GmbH, Berger Str. 2, Düsseldorf, Germany	Trade	100	194	174	76
SIJ RAVNE SYSTEMS d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Metallurgic machines production	100	37,983	7,809	(4,062)
SIJ POLSKA Sp. Z.o.o., ul. Zamkowa 7 lok.11, Poznanj, Poland	Trade	100	1	1	0
HOLDING PMP d.o.o., Gerbičeva ulica 98, Ljubljana, Slovenia	Financial service activities	100	15,867	15,867	(713)
KOPO International Inc., 331 Newman Springs Road Suite, 104, Red Bank, New Jersey, USA	Trade	100	31,458	1,644	(472)
OOO SSG, Presnenskaya nab. 12, floor 59, office 10, Moscow, Russia	Renting and managing of own and leased real estate	100	303	301	(245)
ADDITHERM d.o.o., Litostrojska cesta 60, Ljubljana, Slovenia	Research and experimental development on natural sciences and engineering	51	628	571	5
SIJ ACRONI – subsidiaries					
ŽELEZARNA JESENICE, d.o.o., Cesta železarjev 8, Jesenice, Slovenia	Trading with own real estate	100	10,744	10,278	93
ODPAD – subsidiaries					
DANKOR, d.o.o., Vukovarska 436, Osijek, Croatia	Recovery of secondary raw materials from scrap	91	1,134	517	45

Continuation of the table →

Continuation of the table

in EUR thousand	Activity	% of voting rights 2020 & 2019	Value of assets as at 31 Dec. 2020	Value of equity as at 31 Dec. 2020	Net profit (loss) for 2020
METAL-EKO SISTEM DOO JAGODINA, Put Kneza Mihaila 107, Jagodina, Serbia	Recovery of secondary raw materials from scrap	70	3,045	1,776	193
"TOPMETAL" d.o.o. Karađorđeva 69, Laktaši, Bosnia and Herzegovina	Recovery of secondary raw materials from scrap	51	831,464	(102)	(102)
RSC HOLDING – subsidiaries					
RAVNE STEEL CENTER d.o.o., Litostrojska cesta 60, Ljubljana, Slovenia	Trade	100	15,147	3,085	712
SIDERTOCE S. p. A., Via XX. Settembre 198, C. P. 34, Gravellona Toce, Italy	Trade	100	12,936	5,731	482
SIJ MWT Gmbh, Celsiusstrasse 17, Landsberg am Lech, Germany	Trade	100	3,149	495	(1,216)
ORO MET d.o.o., Neverke 56, Košana, Slovenia	Manufacture of other tools	51	15,578	8,501	969
HTS IC d.o.o., Litostrojska cesta 60, Ljubljana, Slovenia**	Manufacture of metal constructions and other parts	100 / 0	3,341	1,423	242
HTS IC GmbH, Wienerbergstrasse 11/12A, Vienna, Austria**	Trade	100 / 0	510	153	29
HTS IC s.r.o., Viktora Huga 377/4, Praga, Czech Republic**	Trade	100 / 0	62	3	0
DCTL SL, Avda de les Puntes – Nave 3 Constanti, Tarragona, Spain**	Trade	80 / 0	379	(6)	(5)
STEEL podporni center orodjarske industrije d.o.o., Litostrojska cesta 60, Ljubljana, Slovenia**	Manufacture of metal constructions and their parts	100 / 0	4,773	1,945	413
CENTAR TOPLINSKE OBRADE d.o.o., Slavonska avenija 22D, Zagreb, Croatia**	Industrial heat treatment services	100 / 0	1,238	411	120

Continuation of the table →

Continuation of the table

in EUR thousand	Activity	% of voting rights 2020 & 2019	Value of assets as at 31 Dec. 2020	Value of equity as at 31 Dec. 2020	Net profit (loss) for 2020
KALDERA d.o.o., Kolodvorska ulica 33A, Slovenska Bistrica, Slovenia**	Manufacture of tools	80 / 0	3,558	2,857	86
DCTL – subsidiaries					
ALROTEC SL; Avada de les Puntes – Nave 5 (Esquina calle dinamarca) Poligono, Industrial de Consanti, Tarragona, Spain**	Manufacture of tool parts	80 / 0	1,053	431	146
NOŽI RAVNE – subsidiaries					
SIJ Ravne Systems (UK) Limited, 12 Conqueror Court, Sittingbourne, Kent, Great Britain	Trade	100	571	93	22

* *In July 2020, SIJ RAVNE STEEL CENTER d.o.o. changed its corporate name to RSC HOLDING d.o.o.*
** *Data are presented for the year 2020 and not only for the period when the financial statements of subsidiaries are included in the consolidated financial statements.*

In 2020, the winding-up activities of SIJ Asia GmbH and the disposal activities of the investment in Metal-Eko Sistem were underway but were not finished due to the COVID-19 pandemic. The Management Board estimates to conclude the winding-up and the disposal by the end of 2021.

In July 2020, the Group made an important strategic step in line with the strategy of further development of group RSC Holding, as it created a leading tooling support centre in the region, which provides customers with a comprehensive range of products and services from storage, cutting and distribution of tool steels (Ravne Steel Center, Sidertoce, MWT) to the services of heat (Steel podporni center orodjarske industrije, Centar toplinske obrade) and mechanical treatment of tool plates (Oro met) and other additional services. Thereby, the SIJ Group realises its orientation on the development of comprehensive solutions for customers, and by acquiring a manufacturer of products for pressure die casting and injection moulding, it also increases the level of its vertical integration.

In addition to tooling, in a subsidiary, a unit of high-performance products was formed (HTS IC in Ljubljana, HTS IC in Vienna, HTS IC in Prague, Alrotec, Kaldera). Its core business is the production of high value-added components for pressure die casting and injection moulding, produced using patented innovative technology of additive production that transcends the production limits using conventional technologies. It is developed by Additherm, which is also the holder of all intellectual property rights.

Thus, the Group will strengthen its position in key niches related to the industries of the future and high value-added products tailored to customers, which will enable it to achieve the strategic goals, i.e. long-term development and growth.

Net Profit or Loss Attributed to Non-controlling Interest

in EUR thousand	2020	2019
NIRO Wenden	(455)	(113)
ORO MET	0	575
ODPAD	77	53
DANKOR	14	14
TOPMETAL	(63)	(286)
ADDITEHRM	3	0
RSC HOLDING group	791	0
Discontinued operations	92	447
Net profit attributed to non-controlling interest	459	690

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 under IFRS 9.

Intra-group balances and any gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates (accounted for using the equity method) are eliminated to the extent of the Group's interest in the entity. 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 recognised at fair value as at acquisition date. The excess to the 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 listed as incurred expenses.

Contingent liabilities from business combinations are recognised at fair value at the acquisition date. If a contingent liability is classified as equity it is not remeasured, and the payment is calculated within the equity. Subsequent changes in the contingent liabilities are recognised in profit or loss. A contingent liability, which is a financial instrument and is classified as an asset or liability, is measured at fair value. The changes in its fair value are recognised in profit or loss.

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 at a point 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 recognised 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 products is transferred to customer. In case discounts are agreed, revenue is reduced for amounts of discount. Customers do not have right to return steel scrap. Payment term is agreed in sale contract.	Revenue is recognised when scrap is delivered to and have been accepted at customer premises or when customer collects products at seller`s premises at 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 recognised 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 recognised 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 at a point in time.

Continuation of the table →

Continuation of the table

** 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. Financial 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 shown directly in the other 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, 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 arising from the tax values of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is calculated by using the tax rates (and laws) applicable on the date of the statement of financial position, which are expected to be used when the deferred tax asset is 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,against which the deferred tax asset can be utilised, will be available. 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 expenses 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

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. Right-of-use assets 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
Property	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 (for example, maintenance 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

The Group is using single model for majority of lease items in the Statement of Financial Position.

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 of 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 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 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 amortisation 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 business 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 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.

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, or cash and cash equivalents.

Non-derivative financial assets include cash and cash equivalents, loans, receivables, and investments. 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 on the basis of 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 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 Group'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 sthat 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).

Derivative Financial Instruments

Derivative financial instruments are initially recognised at fair value. Costs related to a business transaction are recognised in profit or loss when they are incurred. After the initial recognition, the derivative financial instruments are measured at fair value, with changes in fair value recognised in profit or loss.

Derivative financial instruments also include option agreements classified by the Company as financial assets or financial liabilities at fair value through profit or loss. Fair value is defined as 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. If the transaction price is not equal to the fair value on the date of measurement, the difference in market assets is recognised in profit or loss or deferred and subsequently released to profit or loss in accordance with the policy.

Financial investments and financial liabilities, measured at fair value through profit or loss, are remeasured at fair value at least once per year, in the preparation of the annual consolidated financial statements. Profit or loss, arising from a change in fair value, are recognised in profit or loss.

M. ASSETS (GROUPS) HELD FOR SALE

Assets (groups) held for sale 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 and liabilities held for sale. Assets (groups) held for sale are re-measured directly before their classification as assets held for sale. 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 sale, 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 sale, intangible assets and property, plant and equipment are no longer amortised or depreciated. When investments are classified as assets held for sale, they are no longer equity accounted.

Discontinued operations are the Group's integral part that was or will be disposed under the coordinated plan. In the Statement of Comprehensive Income, the Group states profit or loss from discontinued operations separately from continuing operations. Upon sale, the Group derecognises an asset (group) held for sale and recognises 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 on the basis of the selling price in the ordinary course of business, less the estimated costs of completion and estimated distribution costs. Write-offs of damaged, expired and useless inventories are regularly performed during the year on individual items.

O. IMPAIRMENT OF ASSETS

Financial Assets

According to IFRS 9, the Group uses the expected credit loss model. According to this model, it 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 Board'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 indications of impairment at the reporting date, an allowance for impairment losses due to expected credit losses is made in its entirety.

The Group recognises 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 recognised in other comprehensive income and are recognised 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 important 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 (CGUs). Each subsidiary represents a CGU. If goodwil is allocated to CGU, an impairment test is performed annually. The impairment is first allocated to goodwill. The residual impairment is proportionally allocated to assets within DUE on the basis of the carrying amount of individual assets. 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.

For a CGU to which no goodwill is allocated, an impairment test is performed if there are signs of impairment. 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 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 on the basis of 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 articles 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 on the basis of 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 probable 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 on the basis of 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.

The Group states government grants for the COVID-19 epidemic in Slovenia as a decrease in costs for which the subsidiaries received the government grants. Government and other grants, 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 30)

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses which 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 Board in the decision-making process.

The Group has a wide range of customers and does not depend on just a few major customers.

The Group uses the following 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.

Each subsidiary reports to the Management Board at weekly management meetings for the purposes of allocating funds and evaluating performance. Individual segment comprises subsidiaries that have a similar nature of products and production processes and similar methods for distributing products to customers.

The segments are presented in more detail in the business part of the annual report in the chapter Organization of companies in the SIJ Group.

Notes to Individual Items in The Consolidated Financial Statements

1. REVENUE

in EUR thousand	2020	2019
In Slovenia	108,690	118,443
In other countries:	587,347	648,908
- Germany	*151,284*	*182,593*
- Italy	*133,222*	*142,210*
- USA	*65,225*	*62,369*
- Croatia	*4,992*	*10,261*
- Austria	*20,988*	*21,758*
- other countries	*211,636*	*229,717*
Revenue	696,037	767,351

Revenue by Products and Segments for 2020

in EUR thousand	Steel Division	Distribution & Processing Division	Scrap Division	Manufacturing Division	Total segments	Headquarters and Other Services	Total	Elimination of discontinued operations	Revenue
Quarto plates	254,316	47,258	0	0	301,574	0	301,574	0	301,574
Cold rolled strip and sheets	59,994	2,207	0	0	62,201	0	62,201	0	62,201
Hot rolled strip and sheets	8,371	3,560	0	0	11,931	0	11,931	0	11,931
Forged, rolled and other products	100,326	56,613	0	6,448	163,387	0	163,387	0	163,387
Industrial knives	0	2,318	0	15,404	17,722	0	17,722	0	17,722
Industrial rolls	0	0	0	13,017	13,017	0	13,017	0	13,017
Welding wires and electrodes	0	0	0	15,259	15,259	0	15,259	0	15,259
Steel scrap	291	201	62,334	101	62,927	0	62,927	(7,540)	55,387
Services and other revenues	3,687	41,900	134	8,362	54,082	1,477	55,559	0	55,559
Revenue	426,985	154,057	62,468	58,591	702,100	1,477	703,577	(7,540)	696,037

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

2. OPERATING EXPENSES

in EUR thousand	2020	2019
Cost of goods, materials and services	517,680	578,429
Labour costs	117,363	124,326
- wages and salaries	*89,142*	*90,573*
- social security costs	*14,007*	*17,056*
- other labour costs	*14,214*	*16,697*
Depreciation and amortisation costs	50,543	49,780
Other costs	7,719	9,439
Changes in the value of inventories	16,309	401
Operating expenses	709,614	762,375

Review of Costs by Type in 2020

in EUR thousand	Cost of sales	Distribution costs	General and administrative expenses	Total
Cost of goods, materials and services	460,155	35,479	22,046	517,680
Labour costs	63,174	5,497	48,692	117,363
Depreciation and amortisation costs	43,352	379	6,812	50,543
Other costs	2,978	123	4,618	7,719
Changes in the value of inventories	16,309	0	0	16,309
Discontinued operations	7,236	292	209	7,737
Operating expenses	593,204	41,770	82,377	717,351
Elimination of discontinued operations	(7,236)	(292)	(209)	(7,737)
Operating expenses	585,968	41,478	82,168	709,614

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

In 2020, the costs of annual reports auditing amounted to EUR 331 thousand (2019: EUR 305 thousand). The costs for other authorised services amounted to EUR 34 thousand (2019: EUR 34 thousand).

Average Number of Employees by Level of Education

	2020	2019
Primary school	567	596
2.5-year vocational school	342	372
Secondary vocational school	1,075	1,095
Secondary general school	1,005	989
1st cycle degree – Bachelor's degree	481	445
2nd cycle degree – Master's degree	309	302
3rd cycle degree – Doctoral degree	64	60
Total	3,843	3,859

3. OTHER OPERATING INCOME

in EUR thousand	2020	2019
Reversal of allowances for inventories (Note 16)	39	1,311
Revenues from received subsidies (Note 24)	3,015	2,433
Received compensations	329	1,524
Profit from sale of property, plant and equipment	91	1,084
Reversal of provisions (Note 23)	268	232
Other income	661	752
Other operating income	4,403	7,336

4. OTHER OPERATING EXPENSES

in EUR thousand	2020	2019
Expenses for donations and sponsorships	409	718
Impairment of inventories (Note 16)	340	593
Impairments of intangible assets and property, plant and equipment (Notes 8 and 9)	22,479	15,122
Emission coupons	2,093	0
Other expenses	1,060	1,245
Other operating expenses	26,381	17,678

EBITDA Calculation

in EUR thousand	2020	2019
Operating profit	(35,607)	(5,154)
Amortisation and depreciation	50,543	49,780
Impairments of trade receivables (gains/losses)	52	(212)
Impairments of intangible assets and property, plant and equipment	22,479	15,122
Impairment of inventories	340	593
Reversal of allowances for inventories	(39)	(1,311)
EBITDA	37,768	58,818

5. FINANCE INCOME

in EUR thousand	2020	2019
Interest income	3,728	2,945
Exchange rate differences	171	145
Other income	6	5
Finance income	3,905	3,095

6. FINANCE EXPENSES

in EUR thousand	2020	2019
Interest expenses	8,910	12,352
Exchange rate differences	654	176
Other expenses	2,639	2,448
Finance expenses	12,203	14,976

7. INCOME TAX

in EUR thousand	2020	2019
Current income tax expense	(1,835)	(1,179)
Deferred income tax	(3,927)	(5,805)
Income tax	(5,762)	(6,984)

in EUR thousand	2020	2019
Loss before tax	(43,875)	(17,004)
Tax at effective tax rate 19 %	(8,336)	(3,231)
Tax effects from:		
- non-taxable income	*(41)*	*(146)*
- tax non-deductible expenses	*616*	*939*
- tax relief	*(198)*	*(998)*
- tax losses for which no deferred tax assets were recognised	*11,388*	*3,021*
- tax losses for which deferred tax assets were derecognised	*0*	*7,109*
- neizrabljenih olajšav za vlaganja v opremo in neopredmetena sredstva	*1,848*	*0*
- change in tax rates	*485*	*290*
Income tax	5,762	6,984
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 realize 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 2020

in EUR thousand	Software	Goodwill	Assets under construction	Total
Cost as at 31 Dec. 2019	25,914	19,596	1,233	46,743
Acquisition of companies	358	17,858	0	18,216
New additions	0	0	2,135	2,135
Transfer from assets under construction	2,737	0	(2,737)	0
Disposals	(275)	(6,296)	0	(6,571)
Transfer from property, plant and equipment	0	0	105	105
Translation differences	(34)	0	0	(34)
Cost as at 31 Dec. 2020	28,700	31,158	736	60,594
Accumulated amortisation as at 31 Dec. 2019	(13,047)	(11,749)	0	(24,796)
Amortisation	(2,517)	0	0	(2,517)
Disposal	275	0	0	275
Translation differences	6	0	0	6
Accumulated amortisation as at 31 Dec. 2020	(15,283)	(11,749)	0	(27,032)
Carrying amount as at 31 Dec. 2019	12,867	7,847	1,233	21,947
Carrying amount as at 31 Dec. 2020	13,417	19,409	736	33,562

As at 31 December 2020, the Group has EUR 145 thousand (2019: EUR 154 thousand) of outstanding liabilities for the purchase of intangible assets. In 2020, already known contractual obligations amounted to EUR 707 thousand (2019: EUR 1,201 thousand). As at 31 December 2020 and 31 December 2019, any items of intangible assets are pledged as security for liabilities.

Impairment Test for Goodwill

in EUR thousand	31 Dec. 2020	31 Dec. 2019
ODPAD	1,397	1,397
RAVNE STEEL CENTER	0	758
DANKOR	154	154
ORO MET	0	5,538
RSC HOLDING GROUP	17,858	0
Carrying amount of goodwill	19,409	7,847

Goodwill was tested for impairment on 31 December 2020. The valuation of the recoverable amount of the investments except for investments in RSC HOLDING Group, which was done internally, was carried out by a business appraiser certified by Slovenian Institute of Auditors. Recoverable amounts represent the valuation of fair values, decreased by the costs of sale and determined using the present value of estimated free cash flows method. This method attempts to project, based on the analysis of past operations and the estimate of future business possibilities, the owners' future returns in cash, which are subsequently translated to the carrying amount by using the corresponding discount rate. The thus-calculated value based on the free cash flows represents the return required by the risk inherent in the investment. This is theoretically and practically the most appropriate and useful method of valuation of a company, as it concentrates on what is the most important to investors, i.e. return in the form of cash flow.

All projections were prepared from the majority shareholder perspective. Given the object of the valuation, a 5 percent marketability discount was used (including the cost of sale). The discount rate used is defined as the 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. The projections took into account all the facts known up to the drawing up the annual report.

In 2020, no need to impair goodwill was determined.

Goodwill was tested for impairment on 31 December 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 of the 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 of valuation of a company, as it concentrates on what is the most important to investors, i.e. return in the form of cash flow.

Review of the Determination of the Recoverable Amount of CGUs to Which Goodwill is Allocated for 2020

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. 2020	2021–2026	2020	8.07%	1.2%	2.8% – achieved in the last few years	falling by 3.8% in the first, followed by an increase of 1.8% per year	5,685	6,036	+543/–480	+41/–41	0	1,397
DANKOR (Scrap Division)	31 Dec. 2020	2021–2026	2020	8.24%	0.9%	8.8% – achieved in the last few years	20.5% in the first year, following with 4.6%, 1.9%, 1.9%, 1.9% and 0.9%	1,012	1,063	+91/–81	+11/–11	0	154
RSC HOLDING GROUP (Steel Processing and Distribution Division)	31. 12. 2020	2021–2026	2020	between 7.37% and 11.01% in the forecast period or between 9.66% and 13.76% in the residual	between 2.0% and 3.0%	13.8%	33.3% in the first year, following with 11.9%, 11.3%, 8.1% and 8.2%	44,329	46,605	+2,494/–2,208	+2,059/–1,832	0	17,858

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

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. 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%, 5% and 1.5%	7,870	8,146	+525/–469	+28/–28	0	5,538

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

9. PROPERTY, PLANT AND EQUIPMENT

Movement of Property, Plant and Equipment in 2020

in EUR thousand	Land	Buildings	Equipment	Other	Assets under construction	Total
Cost as at 31 Dec. 2019	33,390	295,892	914,960	48,129	6,559	1,298,930
Acquisition of companies	780	1,707	2,893	46	321	5,746
New additions	0	0	0	0	44,548	44,548
Transfer from assets under construction	0	1,763	25,492	2,613	(29,868)	0
Disposals	(354)	(446)	(4,476)	(1,042)	(188)	(6,506)
Translation differences	(11)	(36)	(51)	(16)	0	(114)
Transfer to intangible assets	0	0	0	0	(105)	(105)
Change in lease agreements	0	876	20	(2)	0	894
Transfer form other assets	0	0	44	0	0	44
Cost as at 31 Dec. 2020	33,805	299,756	938,882	49,728	21,266	1,343,437
Accumulated depreciation as at 31 Dec. 2019	(587)	(198,997)	(653,236)	(38,916)	0	(891,736)
Depreciation	(7)	(5,179)	(40,059)	(2,779)	0	(48,024)
Disposals	11	446	4,424	797	0	5,678
Translation differences	0	11	30	7	0	48
Impairment	(1,226)	(16,423)	(4,830)	0	0	(22,479)
Accumulated depreciation as at 31 Dec. 2020	(1,809)	(220,142)	(693,671)	(40,891)	0	(956,513)
Carrying amount as at 31 Dec. 2019	32,803	96,895	261,724	9,213	6,559	407,194
Carrying amount as at 31 Dec. 2020	31,996	79,614	245,211	8,839	21,266	386,924

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

- additional investments in the cold rolling mill,
- purchase of heat treatment furnace,
- investments in stainless quarto plates warehouse,
- purchase of casting crane,
- purchase of new steel scrap manipulator,
- rolling mill modernisation,
- purchase of new milling center,
- ongoing updates and overhauls of existing production capacity components.

Disposals of property, plant and equipment mostly refer to the sale and write-off of equipment connected with the renovation of basic production capacities and write-off of unusable and out-dated equipment. Property, plant, equipment, whose present value as at 31 December 2020 is EUR 9,356 thousand (2019: EUR 6,460 thousand), are pledged as security for liabilities.

As at 31 December 2020, the Group has EUR 9,778 thousand (2019: EUR 2,988 thousand) of outstanding liabilities to purchase property, plant and equipment and EUR 16,131 thousand (2019: EUR 13,100 thousand) of contractual commitments for purchase known in advance.

In 2020, due to lower steel demand, the actual operating results began to lag behind those originally planned. The decline in demand was mainly influenced by the decrease in production volumes and a partial shutdown of production activity in the European Union due to the COVID-19 crisis and restrictive measures. Based on the performance evaluation of individual CGUs, the Group verified the signs of impairment and undertook a valuation exercise where such signs existed. Compared to last year, when the impairment test was performed under the assumption that the entire company is a single cash-generating unit (CGU), this year, due to deteriorating results and signs of impairment, the Group carried out individual valuations of property, plant and equipment. Property, plant and equipment of SIJ Acroni, SIJ Metal Ravne, and SIJ Ravne Systems were subjected to valuation. The valuation of the recoverable amount of the property plant and equipment was carried out by a certified business appraiser with a Slovenian Institute of Auditors licence. The recoverable amount of the property plant and equipment was calculated as the fair value decreased by the cost of sale. The valuation was performed on a going concern basis (the value of the property, plant and equipment were evaluated as assets in the going concern). A control method was also used, where the recoverable amount of the company as a whole (or CGU) was determined based on the fair value decreased by the costs of sale, then compared to the recoverable amount of individually assessed assets.

The following valuation methods were used to determine the recoverable amount of non-current assets:

Income Approach (Income Capitalisation Method)

The income capitalisation method involves assessing the value of expected cash flows from the use or possible sale of the property. This method is characterized by converting the amount of returns into evaluation and by taking into account the capitalisation rate, the discount rate, or both. The substitution principle requires that the revenue flow which gives the highest returns at a given level of risk yields to the most probable value.

Cost Approach (Replacement Value Method)

The replacement value method is based on the principle of replacement (substitution) and argues that a prudent person would not pay for goods or services more than the purchase value of equivalent goods or services without the complex factor of time, risk or inconvenience. This means that a prudent investor will not be willing to pay more for the valuated property than the cost of setting up an equivalent property.

According to the replacement value method, it is necessary, when evaluating plants and equipment, to obtain new replacement values and reproduction costs for the valuated assets. In the market, it is necessary to identify the most suitable comparable asset with a known value from the producers or sellers or agents, and based on these determine the new replacement value of the valuated assets.

The use of the cost approach as a technique for estimating the value of assets for financial reporting is very rare in practice, and used only exceptionally. As a rule, it is not possible to reliably estimate the fair value using the cost method, as the appraisals use this method when there is no reliable market data. For impairment testing, the value of assets should also be verified in the context of value in use.

Sales Comparison Approach (Transaction Comparison Method)

The transaction comparison method takes into account the sale of similar or substitute assets and relevant market data and determines the valuation through comparison procedures. Generally speaking, the assets being valued are compared to the sale of similar assets made on the market. In this valuation method, a so-called direct sales comparison method was used.

Property

To determine the recoverable amount of the property, all three methods described above were used. The valuation of administrative buildings, industrial plants, and production halls has been determined using the method of capitalization of income/lease payments. 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 based on which potential market leases and stabilized revenues have been valuated are obtained by analysing the supply of rental business for the rental of comparable premises. The valuation used:

- a capitalisation rate of 7.87 to 8.50 percent for office space and of 8.04 to 8.82 percent for industrial plants in Jesenice;
- a lease of EUR 4.38 to EUR 6.60 per square meter per month for office space and of EUR 3.00 to EUR 4.00 per square meter per month for industrial plants in Jesenice;
- a capitalisation rate of 7.53 to 9.30 percent for office space and industrial plants in Ravne na Koroškem;
- a lease of EUR 3.00 to EUR 6.00 per square meter per month for office space and of EUR 2.00 to EUR 4.50 per square meter per month for industrial plants in Ravne na Koroškem;

The industrial plants and production halls are located in Jesenice and Ravne na Koroškem. They are functional, serve their purpose, and the premises are predominantly intended for production and storage activities.

Presentation of the assumptions under income capitalisation method:

	Capitalisation rate in %	Lease in EUR/m²	Location
Office space	7.87-8.50	4.38-6.60	Jesenice
Industrial plants	8.04-8.82	3.00-4.00	Jesenice
Office space	7.53-9.30	3.00-6.00	Ravne na Koroškem
Industrial plants	7.53-9.30	2.00-4.50	Ravne na Koroškem

Following the cost method, the Group valuated a property which is a specific asset for which there are neither market transactions nor leases and does not have wider or alternative uses (transformer substation, wastewater treatment plant, steel plants, forging shop, ESR). Under the discontinued operation assumption, the property is functionally unusable, as it is considered to have been created for exactly the activity for which it is used on the valuation day. The use of the cost approach as a technique for estimating the value of assets for financial reporting is very rare in practice and used only exceptionally, therefore a control method was also used. The amount of the non-current assets was compared to the evaluated recoverable amount of the company as a whole (as a single CGU) determined based on the fair value decreased by the costs of sale, then compared to the recoverable amount of individually assessed assets. The comparison showed that the impairments are sufficient.The sales comparison approach only makes sense in cases where there are sufficient transactions and sufficient quality and current data of comparable real estate. Specifically, this valuation method was used in the valuation of land and parts of housing (apartments, residential house, holiday facilities, garage).

At the end of 2020, the total area of estimated vacant property owned by SIJ Acroni, SIJ Metal Ravne and SIJ Ravne Systems was 725,020 square meters, with areas for industrial use predominating (85 percent). The fair value of the property was estimated based on comparable sales analysis for Jesenice and Ravne na Koroškem.

Presentation of the assumptions under the direct sales comparison method:

Dedicated use of land	Area in m²	Fair value in EUR/m²	
		Jesenice	Ravne na Koroškem
Industrial areas	614,158	38.90	38.20
Rest, recreation and sports areas	70,925	5.20	0
Agricultural area	35,672	5.20	5.00
Central areas of central activities	2,336	53.00	0
Residential area	1,929	0	43.00
Total	725,020		

When comparing the thus-determined recoverable amounts of individual valuated property to their carrying amount, it was determined that the carrying amount of the land and buildings must be impaired by a total of EUR 17,649 thousand.

Plant and Equipment

The cost method was used to evaluate the recoverable amount of plant and equipment. Valuated assets are machinery, equipment and vehicles, used in the production of steel and steel products in Jesenice and Ravne na Koroškem. On the valuation day, they are in working order, well-maintained, and regularly serviced. The valuation took into account the physical, functional and economic wear- and-tear.

When comparing the thus-determined recoverable amounts of individual valuated plant or machine to its carrying amount, it was determined that the carrying amount of plants and machines must be impaired by a total of EUR 4,830 thousand.

In total, the non-current assets were impaired in 2020 by EUR 22,479 thousand.

Presentation of assets, for which the fair value less cost of sale was determined:

in EUR thousand	Basis for fair value less cost of sales	Impairment in 2020	Impairment in 2019
Land and buildings	Income capitalisation method	9,713	209
Land and buildings	Transaction comparison method	522	0
Land and buildings	Cost method	7,414	0
Equipment and other assets	Cost method	4,830	731
Land, buildings, equipment and other assets	FVLDC not measurable	0	14,182
Total		22,479	15,122

Movement of Property, Plant and Equipment in 2019

in EUR thousand	Land	Buildings	Equipment	Other	Assets under construc-tion	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 sale	(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)
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 sale	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

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 in 2020

in EUR thousand	Land	Buildings	Equipment	Other	Total
Cost as at 31 Dec. 2019	35	1,334	8,129	2,899	12,397
Acquisition of companies	0	245	1,149	0	1,394
New additions	0	397	3,016	976	4,390
Reversal of the right-of-use assets	0	(18)	(2,267)	(334)	(2,619)
Translation differences	0	(37)	0	(4)	(41)
Change in lease agreements	0	876	20	(2)	894
Cost as at 31 Dec. 2020	35	2,797	10,047	3,535	16,414
Accumulated depreciation as at 31 Dec. 2019	(7)	(343)	(2,442)	(973)	(3,766)
Depreciation	(7)	(307)	(961)	(575)	(1,850)
Reversal of right-of-use asset	0	18	898	240	1,156
Translation differences	0	7	0	2	9
Redistribution	0	0	94	25	119
Accumulated depreciation as at 31 Dec. 2020	(14)	(625)	(2,411)	(1,281)	(4,331)
Carrying amount as at 31 Dec. 2019	28	991	5,687	1,926	8,632
Carrying amount as at 31 Dec. 2020	21	2,172	7,636	2,254	12,083

Movement of the Right-Of-Use Asset 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 right-of-use asset	0	0	(530)	(123)	(653)
Translation differences	0	(1)	0	0	(1)
Transfer to assets (groups) held for sale	(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 right-of-use asset	0	0	493	50	543
Transfer to assets (groups) held for sale	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 2020, the Group leases assets which include buildings, equipment and cars. In 2020, the interest expenses for lease liabilities amounted to EUR 191 thousand (2019: EUR 155 thousand).

Analysis of the maturity of lease liabilities and the lowest sum of future lease payments are described in Notes 25 and 26. The Group follows exceptions allowed by the standard, namely for short-term and for leases of low-value assets. In 2020, the total expenses related to these leases amounted to EUR 678 thousand (2019: EUR 680 thousand).

10. INVESTMENTS IN ASSOCIATES

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Razvojni center Jesenice, Cesta Franceta Prešerna 61, Jesenice, Slovenia	1,876	1,846
Investments in associates	1,876	1,846

in EUR thousand	Activity	% of voting rights	Value of assets as at 31 Dec. 2020	Value of equity as at 31 Dec. 2020	Revenues 2020	Net profit for 2020	Profit for 2020 attributed to the Group
Razvojni center Jesenice	Development	24.95	8,699	6,815	1,469	121	30

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 for 2019 attributed to the Group
Razvojni center Jesenice	Development	24.95	8,902	7,032	3,167	123	31

The investment in associate is valued on the basis of equity method. In 2020, the Group attributed a corresponding share of 2020 profit which amounted to EUR 30 thousand (2019: EUR 31 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. 2020	31 Dec. 2019
Investments and shares in companies	1,260	1,351
Financial assets at fair value through other comprehensive income	1,260	1,351

Finance assets measured at fair value through other comprehensive income represent shares of Slovenian insurance companies 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 decreased due to revaluation at fair value in the amount of EUR 85 thousand (2019: increase by EUR 78 thousand) charged to the comprehensive income. There were no dividends received in 2020 (2019: EUR 96 thousand).

12. NON-CURRENT FINANCIAL RECEIVABLES

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Loans issued	81,340	54,067
Non-current financial receivables	81,340	54,067

The major part of non-current financial receivables refers to loans issued to the controlling company totalling EUR 76,520 thousand and the corresponding non-current interests totalling EUR 4,811 thousand (2019: EUR 54,037 thousand). The loans will be repaid from two sources – by refinancing the existing loan and by dividends received from subsidiaries. Dividend payments are planned in accordance with the prepared long-term projections of the Group's operations. The condition for their payment is the achievement of the Group's leverage of less than 3.75. It is always possible to pay minimum dividends if the conditions set by the applicable legislation are met.

The interest rate for the loan issued is fixed and amounts to 5 percent. Loans are not insured.

Movement of Non-Current Loans Issued

in EUR thousand	2020	2019
Balance as at 1 Jan.	54,067	30
Acquisition of companies	330	0
Loans issued	745	0
Impairment	(5)	(13)
Change in interest receivables	6,910	0
Transfer to/from current loans issued	19,293	54,050
Balance as at 31 Dec.	81,340	54,067

13. OTHER NON-CURRENT ASSETS

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Other assets	3,137	1,005
Other non-current assets	3,137	1,005

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

14. DEFERRED TAX ASSETS AND LIABILITIES

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Deferred tax assets	21,273	25,101
Deferred tax liabilities	(103)	0
Deferred tax assets (liabilities), net	21,170	25,101

Movement of Deferred Tax Assets and Liabilities in 2020

in EUR thousand	31 Dec. 2019	Acquisition of companies	Translation differences	Changes in profit and loss	Changes in the comprehensive income	31 Dec. 2020
Property, plant and equipment	0	0	0	(103)	0	(103)
Deferred tax liabilities	0	0	0	(103)	0	(103)
Other provisions	109	0	(3)	17	0	123
Unused tax losses	15,576	0	(7)	(930)	0	14,639
Inventories	154	0	(7)	(26)	0	121
Trade receivables	613	16	0	(154)	0	475
Employee benefits	1,981	0	0	(20)	0	1,961
Property, plant and equipment	304	0	0	203	0	507
Financial assets at fair value through other comprehensive income	(89)	0	0	0	16	(73)
Unused tax reliefs	6,453	1	(20)	(2,914)	0	3,520
Deferred tax assets	25,101	17	(37)	(3,824)	16	21,273
Deferred tax assets (liabilities), net	25,101	17	(37)	(3,927)	16	21,170

The value of unused tax losses for which deferred tax assets are recognised amounted to EUR 65,084 thousand on 31 December 2020 (2019: EUR 65,084 thousand). The value of unused tax losses for which deferred tax assets are not recognised amounts to EUR 52,054 thousand (2019: EUR 52,054 thousand), while unrecognised deferred tax assets amount to EUR 10,219 thousand (2019: EUR 10,219 thousand).

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	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

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 sale (Note 15).

15. ASSETS (GROUPS) HELD FOR SALE

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Assets held for sale	30	31
Assets of Metal-Eko Sistem – discontinued operations	4,030	4,962
Assets (groups) held for sale	4,060	4,993
Liabilities of Metal-Eko Sistem – discontinued operations	(419)	(889)
Liabilities included in disposal groups	(419)	(889)

In 2020, disposal activities of the investment in Metal-Eko Sistem were in progress. Due to the COVID-19 epidemic, the planned activities were not fully implemented. The Management Board estimates the sale to be concluded in 2021, therefore it presents their assets and liabilities as assets and liabilities held for sale, and their profit as discontinued operations.

Statement of comprehensive income, statement of financial position and cash flow statement are presented bellow.

Statement of Comprehensive Income

in EUR thousand	2020	2019
Revenue	7,540	18,130
Operating expenses	(7,737)	(18,279)
Other operating income (expenses), net	(20)	(33)
Operating loss	(217)	(182)
Net finance income (costs)	(2)	1
Income tax	(48)	(3)
Loss for the period	(267)	(184)
Changes in the comprehensive income	(3)	19
Comprehensive income	(270)	(165)

Statement of Financial Position

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Non-current assets	2,771	2,881
Intangible assets (goodwill)	1,003	1,003
Property, plant and equipment	1,768	1,878
Current assets	1,259	2,081
Inventories	270	805
Trade receivables	787	1,010
Cash and cash equivalents	156	39
Other assets	46	227
TOTAL ASSETS	4,030	4,962
Non-current liabilities	53	57
Financial liabilities	41	50
Other liabilities	12	7
Current liabilities	366	832
Financial liabilities	228	231
Other liabilities	138	601
TOTAL LIABILITIES	419	889
NET ASSETS	3,611	4,073

Cash Flow from Discontinued Operations

in EUR thousand	2020	2019
Net cash generated from operating activities	367	197
Net cash generated (used) in investing activities	127	(30)
Net cash used in financing activities	(376)	(167)
Translation differences	(1)	8
Cash and cash equivalents net decrease	117	8

Discontinued operation – sale of investment in Perutnina Ptuj

In the second half of 2018, the controlling company SIJ d.d. announced its intention to dispose of 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, 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 completion of the transaction could have been concluded.

On 25 April 2019, MHP Group announced that it will increase the takeover price per share to acquire 90.69 percent of Perutnina Ptuj. From this 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 Ukrainian group MHP, one of the leaders in the international agricultural and food processing industry, acquired a slightly more than 90 percent share of Perutnina Ptuj. This means that since this date Perutnina Ptuj has not been a part of SIJ Group anymore.

Results of Discontinued Operation

in EUR thousand	2m 2019
Profit for the period	4,688
Gain on sale of discontinued operations	84,461
Transaction cost at sale of discontinued 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)
Results of Discontinued Operation	69,080

16. INVENTORIES

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Raw material	86,316	90,317
Work in progress	48,787	54,488
Finished products	49,117	54,462
Trade goods	14,277	13,130
Inventories	198,497	212,397

On 31 December 2020, any items of inventories are pledged as security for liabilities (2019: EUR 0 thousand). On 31 December 2020, the Group reviewed the value of inventories. It found that the net realisable value of finished products is lower that their production value, and impaired the inventories by EUR 340 thousand (2019: EUR 593 thousand). In 2020 the Group reversed allowances for obsolete inventories in the amount of EUR 39 thousand (2019: EUR 1,311 thousand).

17. CURRENT FINANCIAL RECEIVABLES

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Loans issued	3,993	18,145
Other financial receivables	19	797
Current financial receivables	4,012	18,942

Loans issued include a loan issued to the controlling company amounting to EUR 3,096 thousand (2019: EUR 13,000 thousand). The interest rate for the loan issued is fixed and amounts to 5 percent.

Movement of Current Loans Issued

in EUR thousand	2020	2019
Balance as at 1 Jan.	18,145	24,437
Acquisition of companies	9	0
Loans issued	8,784	47,038
Reversal of impairment (impairment)	0	1
Repayment of loans issued	(450)	(146)
Allowances for loans issued	3	2
Change in interests	(3,205)	1,002
Transfer to/from non-current loans issued	(19,293)	(54,050)
Transfer to assets (groups) held for sale	0	(139)
Balance as at 31 Dec.	3,993	18,145

18. CURRENT TRADE RECEIVABLES

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Trade receivables	74,354	73,400
Allowances for trade receivables	(3,405)	(4,262)
Receivables from government and other institutions	5,185	4,013
Issued advance payments and cautions	3,212	1,639
Allowances for advance payments	0	(199)
Other receivables	2,317	1,148
Allowances for other receivables	(59)	(260)
Current trade receivables	81,604	75,479

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 2020 amounts to EUR 6,818 thousand (2019: EUR 7,179 thousand) are pledged as security for liabilities.

Movement of Allowance for Receivables from Customers

in EUR thousand	2020	2019
Balance as at 1 Jan.	4,262	6,444
Acquisition of companies	144	0
Changes with impact on profit or loss	59	(205)
Changes without impact on profit or loss	(1,060)	(1,966)
Transfer to assets (groups) held for sale	0	(11)
Balance as at 31 Dec.	3,405	4,262

19. CASH AND CASH EQUIVALENTS

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Cash in national currency	35,265	112,346
Cash in foreign currency	5,942	7,903
Restricted cash	1	1
Cash and cash equivalents	41,208	120,250

Deposits in the amount of EUR 15,500 thousand are in the national currency and have a maturity of up to three months (2019: EUR 71,596 thousand). The interest rate for deposits is fixed.

20. OTHER CURRENT ASSETS

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Deferred expenses	3,677	4,014
Accrued revenues	651	420
Other current assets	4,328	4,434

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. 2020	31 Dec. 2019
Equity attributed to the owners of the controlling company	*354,596*	*412,817*
Share capital	145,266	145,266
Capital surplus	11,461	11,461
Reserves	3,487	3,835
Retained earnings	194,382	252,255
Non-controlling interest	*26,685*	*6,111*
Equity	381,281	418,928

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 2020.

Ownership Structure of the Controlling Company

Shareholder	Number of shares 31 Dec. 2020	Number of shares 31 Dec. 2019
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 2020.

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. 2020	31 Dec. 2019
Legal reserves	8,391	8,195
Treasury shares	(6,009)	(6,009)
Reserves for treasury shares	3,754	3,754
Revenue reserves	6,136	5,940
Fair value reserve due to financial assets at fair value through other comprehensive income	385	470
Deferred tax liabilities	(73)	(89)
Fair value reserves	312	381
Net actuarial gains on pension programs	(2,889)	(2,691)
Translation differences	(72)	205
Reserves	3,487	3,835

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 2020, the controlling company created legal reserves from net profit in the amount of EUR 196 thousand (2019: EUR 4,244 thousand).

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. 2020	31 Dec. 2019
Provisions for severance pay	13,743	13,303
Provisions for jubilee benefits	2,083	2,034
Provisions for post-employment benefits	224	215
Employee benefits	16,050	15,552

The actuarial calculation in 2020 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 Group, 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 0.1 percent.

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

Movement of Employee Benefits in 2020

in EUR thousand	31 Dec. 2019	Creation	Reversal and utilisation	31 Dec. 2020
Provisions for severance pay	13,303	746	(306)	13,743
Provisions for jubilee benefits	2,034	103	(54)	2,083
Provisions for post-employment benefits	215	23	(14)	224
Employee benefits	15,552	872	(374)	16,050

Movement of Employee Benefits in 2019

in EUR thousand	31 Dec. 2018	Creation	Reversal and utilisation	Transfer to assets (groups) held for sale	31 Dec. 2019
Provisions for severance pay	11,818	1,511	(19)	(7)	13,303
Provisions for jubilee benefits	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

Sensitivity Analysis of Actuarial Assumptions for 2020

in EUR thousand	31 Dec. 2020		
Actuarial assumption	Change in assumption (pp)	Post-employment benefits on retirement	Jubilee benefits
Yield	0.5	(559)	(76)
	–0.5	609	81
Salary growth	0.5	599	79
	–0.5	(562)	(77)
Fluktuacija	0.5	(572)	(79)
	–0.5	475	77

23. OTHER PROVISIONS

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Provisions for lawsuits	461	739
Provisions for complaints	43	31
Other provisions	504	770

Movement of Other Provisions in 2020

in EUR thousand	31 Dec. 2019	Acquisition of companies	Creation and reversal	Utilisation	31 Dec. 2020
Provisions for lawsuits	739	0	(276)	(2)	461
Provisions for complaints	31	6	8	(2)	43
Other provisions	770	6	(268)	(4)	504

Movement of Other Provisions in 2019

in EUR thousand	31 Dec. 2018	Creation and reversal	Utilisation	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

24. NON-CURRENT DEFERRED INCOMES

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Assigned contributions	962	1,046
Subsidies for property, plant and equipment	629	681
Other deferred incomes	58	5
Non-current deferred incomes	1,649	1,732

Movement of Non-Current Deferred Incomes in 2020

in EUR thousand	31 Dec. 2019	Acquisition of companies	Creation	Reversal and utilisation	31 Dec. 2020
Assigned contributions	1,046	71	1,568	(1,723)	962
Subsidies for property, plant and equipment	681	0	17	(69)	629
Other deferred incomes	5	55	1,221	(1,223)	58
Non-current deferred incomes	1,732	126	2,806	(3,015)	1,649

Movement of Non-Current Deferred Incomes in 2019

in EUR thousand	31 Dec. 2018	Creation	Reversal and utilisation	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

25. NON-CURRENT FINANCIAL LIABILITIES

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Borrowings	85,524	118,305
Liabilities for bonds issued (SIJ6, SIJ7)	65,808	39,729
Liabilities from lease	7,703	4,806
Non-current financial liabilities	159,035	162,840

Borrowings include loans from domestic and foreign banks. Borrowings in the amount of EUR 5,775 thousand (2019: EUR 1,975 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	2020	2019
Balance as at 1 Jan.	118,305	177,172
Acquisition of companies	1,161	0
New borrowings	4,307	0
Transfer to current borrowings	(38,249)	(58,867)
Balance as at 31 Dec.	85,524	118,305

Liabilities for Bonds Issued

The controlling company issued bonds with the ticker symbol of SIJ6 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.

The controlling company issued bonds with the ticker symbol of SIJ6 with the total nominal value of EUR 26,100 thousand in November 2020. The entire bond issue contains 261 denominations of EUR 100 thousand. The bond maturity date is 2 November 2023. The interest rate for the bonds is fixed, i.e. 3.9 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.

Movement of Non-Current Liabilities Arising from Lease

in EUR thousand	2020	2019
Balance as at 1 Jan.	4,806	2,846
Effect of applying IFRS 16	0	1,150
Acquisition of companies	1,010	0
New leases	4,262	3,251
Transfer to current liabilities from lease	(3,235)	(2,391)
Translation differences	(17)	0
Change in lease agreements	876	0
Transfer to liabilities included in disposal groups	0	(50)
Balance as at 31 Dec.	7,702	4,806

The lowest sum of future leases due for payment in the next 1 to 5 years amounts to EUR 7,743 thousand (2019: EUR 4,691 thousand). After 5 years it amounts to EUR 215 thousand (2019: EUR 285 thousand).

The net present value of future leases due for payment in the next 1 to 5 years, amounts to EUR 7,493 thousand (2019: EUR 4,531 thousand). After 5 years it amounts to EUR 209 thousand (2019: EUR 275 thousand).

26. CURRENT FINANCIAL LIABILITIES

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Borrowings	60,532	54,890
Liabilities for bonds issued (SIJ5)	0	51,096
Liabilities for commercial papers issued	26,556	28,072
Liabilities from lease	3,152	2,057
Other financial liabilities	408	1,839
Current financial liabilities	90,648	137,954

Borrowings include loans from domestic and foreign banks. Borrowings in the amount of EUR 10,400 thousand (2019: EUR 7,427 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	2020	2019
Balance as at 1 Jan.	54,890	74,359
Acquisition of companies	1,141	0
New borrowings	377,541	295,344
Repayments of borrowings	(410,663)	(373,807)
Transfer from non-current borrowings	38,249	58,867
Translation differences	(626)	127
Balance as at 31 Dec.	60,532	54,890

Liabilities for Bonds Issued

Liabilities for bonds issued with the ticker symbol of SIJ5 in the amount of EUR 51,218 thousand fell due on the maturity of the bond in July 2020, and were fully repaid by the controlling company on the maturity day.

Liabilities for Commercial Papers Issued

Liabilities for commercial papers amounting to EUR 26,700 thousand refer to 12-month commercial papers with the ticker symbol SIK07, issued by the controlling company on 11 December 2020 as a seventh consecutive issue. The total nominal value of the commercial papers is EUR 26,700 thousand and covers 267 denominations of EUR 100 thousand. The interest rate for a commercial paper is 1.2 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 10 December 2021. The controlling company repaid the sixth issue of commercial papers with the ticker symbol SIK06 in the amount of EUR 28,100 thousand on the maturity day.

Movement of Current Liabilities Arising from Lease

in EUR thousand	2020	2019
Balance as at 1 Jan.	2,057	1,487
Effect of applying IFRS 16	0	216
Acquisition of companies	493	0
New leases	218	365
Repayments of liabilities arising from lease	(2,861)	(2,389)
Transfer from non-current liabilities arising from lease	3,235	2,391
Translation differences	(8)	0
Transfer to liabilities included in disposal groups	0	(13)
Change in lease agreements	18	0
Balance as at 31 Dec.	3,152	2,057

The lowest sum of future leases due for payment in the next financial year amounts to EUR 3,337 thousand on 31 December 2020 (2019: EUR 2,187 thousand), and the net present value of future leases amounts to EUR 3,152 thousand on the same date (2019: EUR 2,057 thousand).

27. CURRENT TRADE PAYABLES

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Payables to suppliers	190,319	182,909
Liabilities to employees	7,207	7,371
Received advance payments and cautions	2,217	2,962
Tax liabilities	5,439	4,688
Other liabilities	722	961
Current trade payables	205,904	198,891

28. OTHER CURRENT LIABILITIES

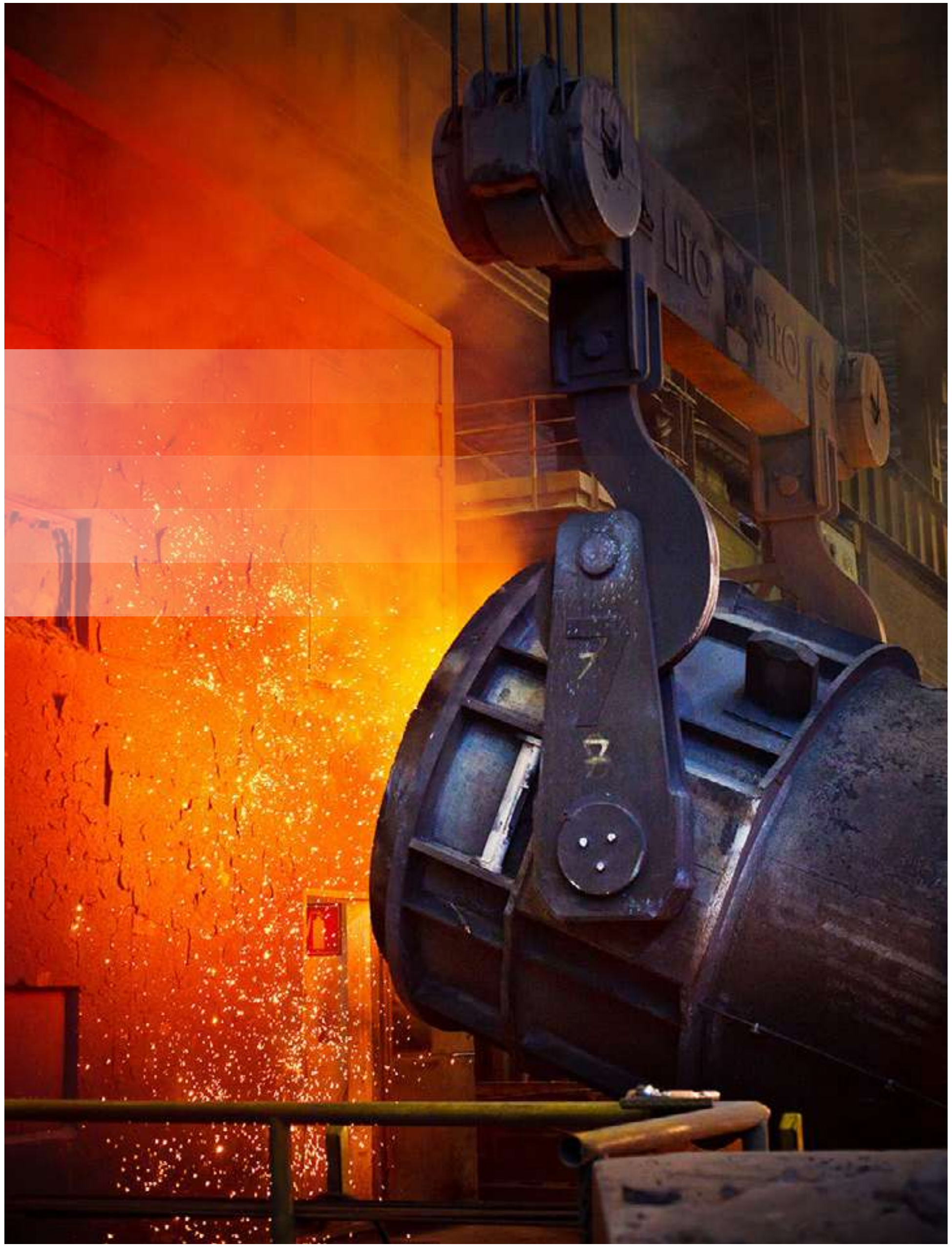
in EUR thousand	31 Dec. 2020	31 Dec. 2019
Accrued expenses for unused annual leave	2,232	1,275
Accrued expenses for lawsuits	747	1,560
Accrued expenses for emission coupons	3,636	743
Other liabilities	824	499
Deferred revenue	236	229
Other current liabilities	7,675	4,306

29. IMPACT OF COVID-19 ON THE GROUP'S FINANCIAL STATEMENTS

Due to the deteriorating macroeconomic environment caused by the COVID-19 pandemic, the Group reviewed significant accounting policies and estimates in areas where the pandemic could have a negative impact, in particular on assets, impairments and provisions, fair value measurement, leases, labour costs, and taxes.

- **Financial instruments:** The Group regularly monitors and reviews the model of expected losses following IFRS 9 and does not detect material increase in credit risk due to the effects of COVID-19. Nevertheless, due to the changed economic situation, it adjusted the model for calculating the impairment of financial instruments as at 31 December 2020 and concluded on the basis of the calculation that the effect on its financial statements is not material.

- **Goodwill:** Based on the known facts, the Group tested goodwill for possible impairment and found that there was no need for impairment by time of drawing up the report.
- **Property, plant and equipment:** The Group reviewed the signs of impairment of property, plant, and equipment based on the performance valuation of individual CGUs and proceeded to annual value assessment where such signs existed. The impairment has arisen not just for the COVID-19 reasons. A more detailed explanation of impairments is disclosed in Note 9.
- **Inventories:** Inventories are measured at cost or net realisable value, whichever is the lowest. Until the date of drawing up the report the Group did not materially reduce the selling prices of inventories, nor did the pandemic increase the costs required to complete the inventories.
- **Receivables and loans issued:** The Group did not have to impair receivables and loans issued due to the COVID-19 epidemic.
- **Leases:** Changes in rents due to the COVID-19 epidemic may lead to different accounting treatment of leases. On 31 December 2020, the Group reviewed all significant facts and found that there were no material changes in the lease agreements due to COVID-19 pandemic.
- **Financial commitments in loan agreements:** Within the provisions of financial agreements, the Group is obliged to fulfill contractually determined financial commitments. The impact of the COVID-19 pandemic on teh Group's operations could lead to a deviation from achieving contractually agreed financial commitments. Nevertheless, the Group timely received from all banks-lenders a waiver or a change in financial commitments and financial indicators. In 2020, the Group therefore fully complied with all commitments set in loan agreements.
- **Employee benefits:** On 31 December 2020, the review of the defined actuarial assumptions for employee benefits, including the interest rate, did not lead to the need to recalculate provisions for employee benefits.
- **Labour costs:** The Group states the government grands received based on the COVID-19 epidemic in the amount of EUR 6,751 thousand as a decrease in labour costs. The Group reviewed the conditions for receiving government grants and assessed that there is no risk to recover the aid and, therefore, is no need to recognise a liability.



30. SEGMENT REPORTING

Segment Reporting for 2020

in EUR thousand	Steel Division	Distribution & Processing Division	Scrap Division	Manufacturing Division	Total segments	Headquarters and Other Services	Total	Eliminations	Elimination of discontinued operations	Consolidated financial statements
Operating income (external)	426,985	154,057	62,467	58,591	702,100	1,477	703,577	0	(7,540)	696,037
Operating income (between segments)	106,227	4,670	19,718	10,287	140,902	16,007	156,909	(156,909)	0	0
Revenues	533,212	158,727	82,186	68,878	843,003	17,484	860,486	(156,909)	(7,540)	696,037
Profit (loss) before tax	(40,948)	(2,559)	474	(3,589)	(46,622)	2,528	(44,094)	0	219	(43,875)
Interest income	8	11	122	0	141	5,590	5,731	(1,999)	(4)	3,728
Interest expenses	5,674	1,074	524	599	7,871	3,222	11,093	(2,182)	(1)	8,910
Amortisation and depreciation	42,316	3,917	626	3,140	49,999	1,040	51,039	(376)	(120)	50,543
Impairment of assets	20,383	380	22	2,131	22,916	(43)	22,873	0	(2)	22,871
Property, plant, equipment, and intangible assets	20,386	0	10	2,083	22,479	0	22,479	0	0	22,479
Inventories	263	56	0	21	340	0	340	0	0	340
Impairments of trade receivables (gains/losses)	(266)	324	12	27	97	(43)	54	0	(2)	52
Share of profit in associates	30	0	0	0	30	0	30	0	0	30
Assets	534,531	141,870	31,669	54,475	762,545	104,347	866,892	0	0	866,892
Liabilities	294,958	49,271	16,503	23,735	384,467	101,144	485,611	0	0	485,611

Segment Reporting 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	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
Impairment of assets	12,974	189	279	675	0	14,117	(34)	14,083	109	0	14,192
Property, plant, 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

31. BUSINESS COMBINATIONS

In July 2020, the controlling company made an important strategic step in line with the strategy. Under its subsidiary RSC Holding, it created a leading tooling support centre in the region and formed a unit of high-performance products manufactured by using the patented innovative technology of additive production. To the existing companies of the RSC Holding Group, Ravne Steel Center, Oromet, Sidertoce and MWT, it incorporated new companies Steel podporni center orodjarske industrije, Centar toplinske obrade, HTS IC in Ljubljana, HTS IC in Vienna, HTS IC in Prague, DCTL and Alrotec in Spain, and Kaldera. Previously, the controlling company controlled 100% of RSC Holding Group. After the entry of a new shareholder, it controls 51% of the group.

The Group considered carrying amounts of acquired assets, liabilities and potential liabilities as fair for the initial accounting for the business combination. Initial accounting will be redone within 12 months form the date of takeover and the initial recognition will be properly adjusted.

The statement of financial position of company Additherm d.o.o. and RSC Holding on the date, when the Group acquired control, is given below.

in EUR thousand	Temporary fair value as at 1 Jul. 2020	Carrying amount as at 1 Jul. 2020
ASSETS		
Cash and cash equivalents	11,415	11,415
Property, plant and equipment, intangible assets	18,833	18,833
Inventories	17,627	17,627
Trade receivables	15,377	15,377
Financial receivables	423	423
Other assets	582	582
PPA assets	13,461	0
EQUITY AND LIABILITIES		
Trade payables	13,505	13,505
Financial liabilities	17,866	17,866
Other liabilities	1,876	1,875
Non-controlling interest	4,574	4,574
NET ASSETS	39,897	26,437
Non-controlling interest (49%)	19,549	
ACQUIRED NET ASSETS	20,348	
Acquisition price	38,206	
Carrying amount of acquired net assets	20,348	
GOODWILL	17,858	

Continuation of the table →

Continuation of the table

Statement of financial position of the new companies only:

in EUR thousand	Temporary fair value as at 1 Jul. 2020
ASSETS	
Cash and cash equivalents	2,789
Property, plant and equipment, intangible assets	6,104
Inventories	1,080
Trade receivables	3,234
Financial receivables	395
Other assets	74
EQUITY AND LIABILITIES	
Trade payables	2,250
Financial liabilities	4,295
Other liabilities	337
Non-controlling interest	614

In 6 months after the acquisition of a company the Group generated EUR 7,461 thousand of revenue and EUR 508 thousand of profit of the year in this title. If the acquisition would had been made on 1 January 2020 the revenue of the Group would increase by EUR 4,183 thousand, and the profit of the year would increase by EUR 205 thousand. Costs related to the acquisition of new companies were mostly incurred in 2019 and were recognized as costs of services when they were incurred.

32. CONTINGENT LIABILITIES AND ASSETS

On 31 December 2020, the contingent liabilities amount to EUR 2,140 thousand (2019: EUR 4,108 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.

On 31 December 2020, the contingent assets amount to EUR 815 thousand (2019: EUR 0) and refer to received guarantees and bills for the elimination of errors in the warranty period. The Company expects no inflows from received guarantees.

In July 2020, the controlling company concluded with the other member an option agreement related to interests in RSC Holding and Additherm, namely: i) call option 1 in favour of the other member to buy a 2% share in RSC Holding and a 51% share in Additherm; ii) call option 2 in favour of the other member to buy a 51% share in Additherm; iii) call option in favour of the controlling company to buy a 49% share of the other member in RSC Holding and a 49% share of the other member in Additherm; iv) put option 1 in favour of the other member to sell a 49% shares of the other member in RSC Holding and Additherm; v) put option 2 in favour of the other member to sell a 49 % share of the other member in RSC Holding. The options can be exercised under the terms and conditions set out in the option agreement. On 31 December 2020, the controlling company reviewed the fair value of option agreements and assessed that the fair value was minimal or equal to zero. It will review the fair value annually and recognise possible changes in profit or loss.

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	2020	2019
Revenues	3,692	2,902
Expenses	3	12

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Financial receivables	84,428	71,266

Transactions with Other Related Parties

in EUR thousand	2020	2019
Revenues	2,752	1,871
Expenses	2,267	1,307

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Receivables	651	640
Liabilities	1,392	378
Contingent liabilities	1,094	0

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	2020	2019
Key management personnel	14,504	13,057
Members of the Supervisory Board	145	120

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 the members of the Supervisory Board in 2020. On 31 December 2020, the Group has no receivables or liabilities towards the key management personnel, except for liabilities for December salaries paid January 2021.

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). Due to the COVID-19 pandemic and the consequent decline in economic activity, many companies are facing liquidity problems, which in turn means higher exposure to retail credit risk. Therefore, the Group introduced daily monitoring of receivables structure, intensive communication with customers and intensive monitoring of possible indicators of increased retail credit risk. In 2020, the Group does not detect material deterioration in payment discipline resulting from the COVID-19 pandemic.

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 credit risk since initial recognition, the Group 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 2020.

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		Overdue				
31 Dec. 2020	Not-overdue	Up to 3 months	3 months to 1 year	1 year to 3 years	Over 3 years	Total
Trade receivables	66,334	4,677	1,103	688	1,924	74,726
Financial receivables and deposits	85,372	0	0	0	0	85,372
Total	151,706	4,677	1,103	688	1,924	160,098

in EUR thousand		Overdue				
31 Dec. 2019	Nezapadla	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

Movement of Allowances for Financial Assets

in EUR thousand	Allowance as at 31 Dec. 2019	Acquisition of company	Changes with impact on profit or loss	Changes without impact on profit or loss	Allowance as at 31 Dec. 2020
Trade receivables	4,660	144	59	(1,124)	3,739
Financial receivables and deposits	37	0	3	(20)	20
Other operating receivables	260	0	(7)	(192)	61
Total	4,957	144	55	(1,336)	3,820

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 sale	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 operating receivables	262	(2)	0	0	260
Total	7,160	(207)	(1,985)	(11)	4,957

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. Skupina v obdobju pandemije koronavirusa še večjo pozornost usmerja k vodenju denarnega toka in načrtovanju denarnih tokov ter k pripravi različnih scenarijev projekcij likvidnosti in obratnega kapitala. The majority of financial liabilities relate to long-term syndicated loan in the amount of EUR 95.1 million principal outstanding and to issued bonds and commercial papers in total amount of EUR 92.8 million. The total liquidity reserves in form of unused short and long term credit lines amounted to EUR 82.8 million as at 31 December 2020, which significantly reduces the liquidity risk. Liquidity risk is additionally managed by the receivables securitisation program.

in EUR thousand		Expected cash flows				
31 Dec. 2020	Carrying amount as at	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Cash and cash equivalents	41,208	41,208	0	0	0	**41,208**
Trade receivables	70,986	65,121	5,249	543	73	**70,986**
Other trade receivables	2,282	1,496	762	24	0	**2,282**
Financial receivables	85,352	4	4,033	35,691	70,556	**110,284**
Non-financial assets	667,064	0	0	0	0	**667,064**
Total assets	866,892	107,829	10,044	36,258	70,629	891,824
Payables to suppliers	191,033	185,863	4,450	720	0	**191,033**
Financial liabilities	249,683	7,341	89,889	164,670	1,398	**263,298**
Other liabilities	722	717	5	0	0	**722**
Non-financial liabilities	44,173	0	0	0	0	**44,173**
Total liabilities	485,611	193,921	94,344	165,390	1,398	499,226

in EUR thousand		Expected cash flows				
31 Dec. 2019	Carrying amount as at	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Cash and cash equivalents	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	73,009	1,743	17,540	55,912	8,097	**83,292**
Non-financial assets	673,135	0	0	0	0	**673,135**
Total 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	1,688	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.

Within the provisions of financial agreements, the Group is obliged to fulfill contractually determined financial commitments. The impact of the COVID-19 pandemic on the Group's operations could lead to a deviation from achieving contractually agreed financial commitments. Nevertheless, the Group timely received from all banks-lenders a waiver or a change in financial commitments and financial indicators. In 2020, the Group therefore fully complied with all commitments set in loan agreements.

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. 2020	EUR	USD	GBP	CHF
Cash and cash equivalents	1	6,639	0	0
Trade receivables	8	24,481	299	0
Financial receivables	0	508	0	0
Trade payables	0	(30,423)	(1)	(61)
Financial liabilities	(43)	0	0	0
Exposure	(34)	1,205	298	(61)

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)

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 2020, the value of US dollar expressed in euro increased by 9.2 percent compared to 31 December 2019. In 2020, the average value of US dollar was 2.0 percent higher than in 2019. Sensitivity analysis is prepared for US dollar.

Sensitivity analysis and presentation of US dollar exchange rate impact on profit before tax

in EUR thousand	2020		2019	
Change of exchange rate by	10%	–10%	10%	–10%
US dollar (USD)	(98)	98	(1.138)	1.138

The change in the value of US dollar by 10 percent compared to euro on 31 December 2020 or 31 December 2019 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 2020 and 2019, the following exchange rates were material for the Group:

Currency	31 Dec. 2020	31 Dec. 2019	Average exchange rate in 2020	Average exchange rate in 2019
EUR/USD	1.2271	1.1234	1.1422	1.1195
EUR/GBP	0.89903	0.85080	0.88970	0.87777
EUR/CHF	1.0802	1.0854	1.0705	1.1124
EUR/HRK	91.4671	7.4395	82.7248	7.4180
EUR/RUB	7.5519	69.9563	7.5384	72.4553
EUR/CZK	26.2420	25.4080	26.4550	25.6700

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. It 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 2019 was prepared in the same manner.

in EUR thousand	2020	2019
Change in profit/loss if increased by 100 bp	(1,317)	(1,549)
Change in profit/loss if increased by 50 bp	(659)	(775)
Change in profit/loss if decreased by 50 bp	43	38
Change in profit/loss if decreased by 100 bp	86	76

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 2020, 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	2020	Debt increase by 10%	Debt decrease by 10%
Level of debt on equity	65.49	72.03	58.94
Equity	381,281	381,281	381,281
Financial liabilities	249,683	274,651	224,714

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 shown, since their carrying amount is adequate approximation of their fair value.

in EUR thousand	31 Dec. 2020		31 Dec. 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets at fair value through other comprehensive income	1,260	1,260	1,351	1,351
Financial receivables	85,352	85,352	73,009	73,009
Trade receivables	81,665	81,665	75,620	75,620
Cash and cash equivalents	41,208	41,208	120,250	120,250
Financial liabilities	(249,683)	(249,683)	(300,794)	(302,227)
Trade payables	(206,618)	(206,618)	(199,828)	(199,828)

Presentation of Financial Assets and Liabilities, Disclosed at Fair Value According to Fair Value Determination Hierarchy

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Financial assets at fair value through other comprehensive income	783	869
Financial assets at fair value of first level	783	869
Financial assets at fair value through other comprehensive income	477	482
Financial assets at fair value of third level	477	482
Bonds and commercial papers	(92,364)	(120,330)
Financial liabilities at fair value of first level	(92,364)	(120,330)
Borrowings	(146,056)	(173,195)
Finance lease	(10,855)	(6,863)
Other financial liabilities	(408)	(1,839)
Financial liabilities at fair value of second level	(157,319)	(181,897)

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 2020, there were no transfers of financial instruments between different levels.

Events After the Reporting Date

At the time of publication of the annual report, the Group has taken preventive measures to curb the spread of the coronavirus in Slovenia and protect its employees' health and ensure the operations can continue as smoothly as possible. It keeps abreast of the situation across all key business areas (Sales, Procurement, Logistics, Human Resources) and manages all identified risks. At this time, there are no legal obstacles to the Group's companies to continue operations, and the Group does not anticipate any major shutdowns in its steel companies. The supply chains are running without any significant restrictions, with only occasional disruptions due to a lack of availability of raw materials on global markets, an issue the Group is mitigating through inventories management.

Since the start of 2021, positive forecasts have been coming in from the markets, signalling the gradual recovery of the steel industry in 2021. The Group is therefore not experiencing any significant adverse effects in terms of its sales, and order volumes are already returning to pre-crisis levels. The Group keeps its key markets and customers well-supplied through the active implementation of its sales policy. It is experiencing minimal order cancellations, and these are not having a material effect on its operations. Despite the current positive trends, however, there are still numerous areas of uncertainty surrounding the coronavirus pandemic. It is impossible to accurately predict the measures and potential new restrictions; therefore, it is not possible to give a reliable estimate of their potential effects on the Group's operational performance.

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

03 financial report of SIJ d.d.

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INDEPENDENT AUDITOR'S REPORT
to the shareholders of SIJ d.d. – 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 2020, 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 2020, 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.

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 2020. 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.

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Valuation of Investments in Subsidiaries

Key audit matter	How our audit addressed the key audit matter
Investments in subsidiaries amount to EUR 217 mln as of 31 December 2020 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 the present value of expected future cash flows to be generated by the subsidiary is assessed. 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 valuation related to subsidiaries in note 10 – *Investments in Subsidiaries.*	As part of our audit procedures, we assessed the adequacy of the company's accounting policies regarding impairments of investments in subsidiaries. Our audit procedures included assessing whether management's judgment is appropriate and whether the requirements of IAS 36 are met, including: - 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 whether assumptions used are reasonable and supportable given the current macroeconomic climate and expected future performance; - we made use of our 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 information disclosed in the notes to the financial statements meet the requirements of applicable financial reporting standards.

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.

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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 and Those Charged with Governance 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.

Those charged with governance 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.

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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 audit 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 Auditor and Period of Engagement

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 2 years.

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 19 April 2021 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 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.

DELOITTE REVIZIJA d.o.o.
Dunajska cesta 165
1000 Ljubljana

Katarina Kadunc
Certified Auditor

For signature please refer to the original Slovenian version.

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

Ljubljana, 19 April 2021

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 2020, 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 2020.

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, 19th April 2021

Andrey Zubitskiy,
President of the Management Board

FINANCIAL STATEMENTS

Statement of Comprehensive Income

in EUR thousand	Note	2020	2019
Revenue	1	14,535	12,983
Gross profit		**14,535**	**12,983**
General and administrative expenses	2	(13,920)	(14,382)
Other operating income	3	105	126,511
Other operating expenses	4	(1,093)	(8,888)
Impairment (gains) of trade receivables	17	47	7
Operating (loss) profit		**(326)**	**116,231**
Finance income	5	9,185	6,823
Finance expenses	6	(4,684)	(25,785)
Net finance income (costs)		**4,501**	**(18,962)**
Profit before tax		**4,175**	**97,269**
Income tax	7	(251)	(12,387)
Profit for the period		**3,924**	**84,882**
Items that will not be reclassified subsequently to profit or loss			
Income tax related to components of comprehensive income		16	(15)
Net actuarial losses on pension programs		(95)	(13)
Items that may be reclassified subsequently to profit or loss			
Change in other reserves due to changes of financial assets at fair value		(86)	78
Total other comprehensive income		**(165)**	**50**
Comprehensive income		**3,759**	**84,932**

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.

Statement of Financial Position

in EUR thousand	Note	31 Dec. 2020	31 Dec. 2019
ASSETS			
Non-current assets		**340,193**	**278,542**
Intangible assets	8	625	512
Property, plant and equipment	9	6,245	6,249
Investment property		1	1
Investments in subsidiaries	10	222,873	197,266
Financial assets at fair value through other comprehensive income	11	1,248	1,334
Financial receivables	12	108,074	61,737
Trade receivables	13	0	10,300
Deferred tax assets	14	1,127	1,143
Current assets		**71,559**	**128,923**
Assets (groups) held for sale	15	31	31
Financial receivables	16	65,464	84,877
Trade receivables	17	2,371	6,159
Income tax assets		1,903	0
Cash and cash equivalents	18	1,612	37,656
Other assets		178	200
Total assets		**411,752**	**407,465**
EQUITY AND LIABILITIES			
Equity	19	**275,414**	**271,655**
Share capital		145,266	145,266
Capital surplus		11,461	11,461
Revenue reserves		6,136	5,940
Fair value reserves		211	375
Retained earnings		112,340	108,613
Non-current liabilities		**80,368**	**40,786**
Employee benefits	20	765	452
Financial liabilities	21	67,185	40,334
Trade payables	22	12,418	0
Current liabilities		**55,970**	**95,024**
Financial liabilities	23	49,684	83,522
Trade payables	24	4,697	5,222
Income tax liabilities		0	6,015
Other liabilities	25	1.589	265
Total equity and liabilities		**411,752**	**407,465**

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.

Statement of Changes in Equity

Statement of Changes in Equity for 2020

in EUR thousand	Share capital	Capital surplus	Revenue reserves	Fair value reserves	Retained earnings	Total
Balance as at 31 Dec. 2019	**145,266**	**11,461**	**5,940**	**375**	**108,613**	**271,655**
Profit for the period	0	0	0	0	3,924	3,924
Other changes in comprehensive income	0	0	0	(165)	0	(165)
Total changes in comprehensive income	**0**	**0**	**0**	**(165)**	**3,924**	**3,759**
Creation of legal reserves	0	0	196	0	(196)	0
Total changes in equity	**0**	**0**	**196**	**0**	**(196)**	**0**
Balance as at 31 Dec. 2020	**145,266**	**11,461**	**6,136**	**211**	**112,340**	**275,414**

Statement of Changes in Equity for 2019

in EUR thousand	Share capital	Capital surplus	Revenue reserves	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)
Total 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**

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

Cash Flow Statement

in EUR thousand	2020	2019
Cash flow from operating activities		
Profit before tax	**4,175**	**97,269**
Adjusted for:		
Depreciation and amortisation (Notes 8 and 9)	759	727
Interest income (Note 5)	(5,403)	(5,202)
Interest expenses (Note 6)	2,988	4,576
Profit on investment sales (Note 15)	0	(125,751)
Impairment of assets	0	28,655
Reversal of allowances and provisions	(2,045)	(30)
Dividends	0	(691)
Net other finance and operating income (expenses)	737	(225)
Operating cash flow before changes in working capital	**1,212**	**(672)**
Changes in working capital		
Change in trade receivables	5,067	(651)
Change in trade payables	(1,424)	(29,567)
Change in taxes other than income tax	236	134
Changes in working capital	*3,879*	*(30,084)*
Payments for retirement benefits	(219)	(6)
Receipts from government grants	484	0
Income tax paid	(8,134)	(102)
Net cash used from operating activities	**(2,778)**	**(30,864)**
Cash flow from investing activities		
Payments for investments in subsidiaries	(14,146)	(8,541)
Receipts from investments in subsidiaries (Note 15)	0	207,576

Continuation of the table →

Continuation of the table

in EUR thousand	2020	2019
Payments for property, plant and equipment	(107)	(135)
Receipts from property, plant and equipment	18	69
Payments for intangible assets	(203)	(29)
Payments for loans issued (Notes 12 and 16)	(91,797)	(162,328)
Receipts from loans issued (Notes 12 and 16)	80,035	42,514
Interests received	1,682	4,329
Dividends received	0	1,687
Net cash (used) generated in investing activities	**(24,518)**	**85,142**
Cash flow from financing activities		
Receipts from borrowings (Notes 21 and 23)	142,343	97,180
Payments for borrowings (Notes 21 and 23)	(148,615)	(128,713)
Receipts from finance services	1,745	1,293
Payments for lease	(450)	(617)
Interests paid	(3,771)	(4,437)
Dividends paid	0	(10,000)
Net cash used in financing activities	**(8,748)**	**(45,294)**
Cash and cash equivalents as at 1 Jan.	**37,656**	**28,672**
Net change in cash and cash equivalents	(36,044)	8,984
Cash and cash equivalents as at 31 Dec.	**1,612**	**37,656**

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

NOTES TO THE FINANCIAL STATEMENTS

Reporting Entity

SIJ – Slovenska industrija jekla, d.d (hereinafter: 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 2020.

These are the Company's individual financial statements. The consolidated financial statements are issued 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 19 April 2021.

A. STATEMENT OF COMPLIANCE

The 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).

Initial application of new amendments to the existing standards issued by IASB and adopted by the EU effective for the current reporting period

- **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 3 "Business Combinations"** – Definition of a Business – adopted by the EU on 21 April 2020 (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 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 IFRS 16 "Leases"** – Covid-19-Related Rent Concessions (adopted by the EU on 9 October 2020 and effective at the latest, as from 1 June 2020 for financial years starting 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 adoption of amendments to the existing standards has not led to any material changes in the Company's financial statements.

Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the amendments to IFRS 4 Insurance Contracts "Extension of the Temporary Exemption from Applying IFRS 9" were issued by the IASB and adopted by the European Union on 16 December 2020, but not yet effective (the expiry date for the temporary exemption from IFRS 9 was extended from 1 January 2021 to annual periods beginning on or after 1 January 2023).

New standards and amendments to the existing standards 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"** including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 1 "Presentation of Financial Statements"** – Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 16 "Property, Plant and Equipment"** – Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** – Onerous Contracts — Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022);
- **Amendments to IFRS 3 "Business Combinations"** – Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),
- **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),
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases"** – Interest Rate Benchmark Reform — Phase 2 (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018–2020)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (the amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022; the amendment to IFRS 16 only regards an illustrative example, so no effective date is stated).

The Company anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Company in the period of initial application. Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated. According to the Company's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and

Measurement" would not significantly impact the financial statements, if applied as at the Statement of financial position.

B. GOING CONCERN ASSUMPTION

In the preparation of the financial statements for 2020, the Management Board took into account the going concern assumption based on activities and actions that improve the Company's future operations in such a way that it will be able to generate cash flow to cover liabilities and provide investors with an adequate return on capital.

C. 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.

D. FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements in this report are presented in thousand euros; the euro is also the functional currency of the Company.

E. 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 Amortisation or Depreciation (Notes 8 and 9, and Policies E and F)

When estimating the useful life of assets, the Company takes into account 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 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 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:

- intangible assets (Note 8),
- property, plant and equipment (Note 9);
- investments in subsidiaries (Note 10);
- financial assets at fair value through other comprehensive income (Note 11);
- financial assets measured at amortised cost (including trade receivables) (Policy H);
- financial receivables (Notes 12 and 16).

Estimate 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 Company, due to a past event, has a legal or indirect obligation which can be reliably measured, and if there is a probability that settling the obligation will require an outflow of resources enabling economic benefits. Probable obligations are not recognised in the financial statements, as their actual existence will only be confirmed when events will or will not occur in an unpredictable future, which is something the Company cannot influence. The Management Board is regularly checking whether the settling of the probable 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 disclosed deferred tax assets and liabilities. Deferred tax assets are recognised if it is probable that future taxable net profit, against which the deferred tax asset can be utilised, will be available. Deferred taxes are derecognised by the amount for which it is unlikely to enforce the tax relief associated with the asset.

Critical Assessment of the Covid-19 Epidemic (Note 27)

Due to the deteriorating macroeconomic environment caused by the covid-19 epidemic, the Company reviews significant accounting policies and estimates in areas where the epidemic could have a negative impact, in particular on assets, impairments and provisions, fair value measurement, leases, labour costs, and taxes.

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 is 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 fulfil 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 payments decreased by repayments, discounts, rebates for further sales, and quantity discounts.

Sales of 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.

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. The management fees are charged according to the achieved revenues of each subsidiary, where the percentage of the fee charged also depends on the size of the subsidiary. For sales of services, a performance obligation arises during the period when the services are provided, being charged on a monthly basis.

Finance Income

Financial 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.

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 other 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, and 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 disclosed in total by applying the method of obligations after the statement of financial position for temporary differences, arising from the tax values of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is calculated by using the tax rates (and laws) applicable on the date of the statement of financial position, which are expected to be used when the deferred tax asset is 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, against which the deferred tax asset can be utilised, will be available. 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% 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, not exceeding 63 percent of the tax base. 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.

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. 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 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 assetRight-of-use assets 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 (for example, maintenance 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

The Company is using single model for majority of lease items in the Statement of Financial Position.

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, 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 has taken 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 lease payments which do not depend on an index or a rate are not included in the measurement of lease liabilities and 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 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 amortisation 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 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 business 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.

G. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are recognised at cost. The cost may also include contingent consideration which depends on future events agreed in the purchase agreement. The consideration should be recognised at fair value. Changes in the fair value of the consideration arising from events after the date of purchase are recognised in profit or loss.

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, non-derivative financial liabilities and derivative financial instruments. 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.

Non-derivative financial assets include cash and cash equivalents, loans, 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 on the basis of 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 Note J.

iii. 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 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 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.

iv. Financial Assets at Amortised Cost

The Company's financial assets at amortised cost include financial assets held by the Company that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Company's financial assets at amortised cost include loans issued, 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 trade payables, financial and other liabilities. Financial liabilities are initially recognised on the transaction 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).

Derivative Financial Instruments

Derivative financial instruments are initially recognised at fair value. Costs related to a business transaction are recognised in profit or loss when they are incurred. After the initial recognition, the derivative financial instruments are measured at fair value, with changes in fair value recognised in profit or loss.

Derivative financial instruments also include option agreements classified by the Company as financial assets or financial liabilities at fair value through profit or loss. Fair value is defined as 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. If the transaction price is not equal to the fair value on the date of measurement, the difference in market assets is recognised in profit or loss or deferred and subsequently released to profit or loss in accordance with the policy.

Financial investments and financial liabilities, measured at fair value through profit or loss, are remeasured at fair value at least once per year, in the preparation of the annual financial statements. Profit or loss, arising from a change in fair value, are recognised in profit or loss.

I. ASSETS (GROUPS) HELD FOR SALE

Assets (groups) held for sale 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 and liabilities held for sale. Assets (groups) held for sale are re-measured directly before their classification as assets held for sale. 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 sale, 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 sale, intangible assets and property, plant and equipment are no longer amortised or depreciated. When investments are classified as assets held for sale, they are no longer equity accounted.

Upon sale, the Company derecognises an asset (group) held for 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 Board'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 indications of impairment at the reporting date, an allowance for impairment losses due to expected credit losses is made individually.

The Company recognises 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 recognised in other comprehensive income and are recognised 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 (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 (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 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 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 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.

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, amounts that exceed 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, revenue reserves, fair value reserves, actuarial gains and losses.

Treasury Shares

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

Dividends

Until approved at the General 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 legal 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 created. 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 on the basis of a projected unit by an actuary, who is selected at the Company 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.

The government grants for the coronavirus epidemic states as a decrease in costs for which it received the government grants. Other 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. REVENUES

in EUR thousand	2020	2019
In Slovenia	14,528	12,976
In other countries	7	7
Revenue	**14,535**	**12,983**

2. OPERATING EXPENSES

in EUR thousand	2020	2019
Cost of goods, materials and services	2,654	3,269
Labour costs	10,368	10,119
- wages and salaries	*8,571*	*7,379*
- social security costs	*988*	*2,005*
- other labour costs	*809*	*735*
Depreciation and amortisation costs	759	727
Other costs	139	267
Operating expenses	**13,920**	**14,382**

The auditing costs for the 2020 Annual Report amounted to EUR 55 thousand (2019: EUR 29 thousand). The cost for other audit services amounted to EUR 1 thousand (2019: EUR 1 thousand).

Average Number of Employees by Level of Education

	2020	2019
Secondary vocational school	2.00	2.00
Secondary general school	7.00	7.33
1st cycle degree – Bachelor's degree	15.25	8.42
2nd cycle degree – Master's degree	67.00	70.25
3rd cycle degree – Doctoral degree	17.50	12.17
Total	**108.75**	**100.17**

3. OTHER OPERATING INCOME

in EUR thousand	2020	2019
Profit from sale of assets (groups) held for sale (Note 15)	0	125,751
Revenues from dividends (Notes 10, 11 and 15)	0	691
Revenues from received subsidies	58	24
Other income	47	45
Other operating income	**105**	**126,511**

4. OTHER OPERATING EXPENSES

in EUR thousand	2020	2019
Expenses for donations and sponsorships	174	504
Impairment of investments (Note 10)	0	7,671
Compensations	886	698
Other expenses	33	15
Other operating expenses	**1,093**	**8,888**

EBITDA Calculation

in EUR thousand	2020	2019
Operating profit	(326)	116,231
Amortisation and depreciation	759	727
Impairment (gains) of trade receivables	(47)	(7)
Impairment of investments	0	7,671
EBITDA	**386**	**124,622**

5. FINANCE INCOME

in EUR thousand	2020	2019
Interest income	5,403	5,202
Revenues from issued guarantees	1,471	1,621
Reversal of impairment of loans issued (Notes 12 and 16)	2,311	0
Finance income	**9,185**	**6,823**

6. FINANCE EXPENSES

in EUR thousand	2020	2019
Interest expenses	3,063	4,576
Exchange rate differences	38	4
Impairment of loans issued (Notes 12 and 16)	0	21,029
Discounting of financial receivables	1,365	0
Other expenses	218	176
Finance expenses	**4,684**	**25,785**

7. TAXES

in EUR thousand	2020	2019
Current income tax expense	(219)	(6,064)
Deferred income tax	(32)	(6,323)
Income tax	**(251)**	**(12,387)**

in EUR thousand	2020	2019
Profit before tax	**4,175**	**97,269**
Tax at effective tax rate 19 %	793	18,481
Tax effects from:		
- non-taxable income	*(725)*	*(11,804)*
- tax non-deductible expenses	*546*	*5,804*
- tax relief	*(363)*	*(94)*
Income tax	**251**	**12,387**
Effective tax rate	**6.02%**	**12.73%**

8. INTANGIBLE ASSETS

Movement of Intangible Assets in 2020

in EUR thousand	Software	Assets under construction	Total
Cost as at 31 Dec. 2019	**1,321**	**0**	**1,321**
New additions	0	239	239
Transfer from assets under construction	239	(239)	0
Disposals	(284)	0	(284)
Cost as at 31 Dec. 2020	**1,276**	**0**	**1,276**
Accumulated amortisation as at 31 Dec. 2019	**(809)**	**0**	**(809)**
Amortisation	(126)	0	(126)
Disposal	284	0	284
Accumulated amortisation as at 31 Dec. 2020	**(651)**	**0**	**(651)**
Carrying amount as at 31 Dec. 2019	**512**	**0**	**512**
Carrying amount as at 31 Dec. 2020	**625**	**0**	**625**

The increase in intangible assets refers to purchase of software. The disposal includes a write-off of out-dated software. On 31 December 2020, the Company's unsettled liabilities to suppliers for the purchase of intangible assets amounted to EUR 36 thousand (2019: EUR 0 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 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**

9. PROPERTY, PLANT AND EQUIPMENT

Movement of Property, Plant and Equipment in 2020

in EUR thousand	Land	Buildings	Equipment	Assets under construction	Total
Cost as at 31 Dec. 2019	**717**	**5,173**	**3,293**	**0**	**9,183**
New additions	0	0	0	652	652
Transfer from assets under construction	0	58	594	(652)	0
Disposals	0	0	(181)	0	(181)
Cost as at 31 Dec. 2020	**717**	**5,231**	**3,706**	**0**	**9,654**
Accumulated depreciation as at 31 Dec. 2019	**0**	**(1,396)**	**(1,538)**	**0**	**(2,934)**
Depreciation	0	(147)	(487)	0	(633)
Disposals	0	0	162	0	162
Other changes	0	0	(3)	0	(3)
Accumulated depreciation as at 31 Dec. 2020	**0**	**(1,543)**	**(1,866)**	**0**	**(3,408)**
Carrying amount as at 31 Dec. 2019	**717**	**3,777**	**1,755**	**0**	**6,249**
Carrying amount as at 31 Dec. 2020	**717**	**3,688**	**1,840**	**0**	**6,245**

The increase in property, plant and equipment results from the purchase of computer equipment, office furniture, and vehicles leasing. Disposals include sales of vehicles and computer equipment.

Items of property, plant and equipment are not pledged as security for liabilities. On 31 December 2020, the Company has EUR 54 thousand (2019: EUR 7 thousand) of outstanding liabilities for the purchase of property, plant and equipment. The Company did not capitalise borrowing costs in 2020 and 2019.

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 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 on 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
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 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 in 2020 and 2019

in EUR thousand	2020	2019
Cost as at 31 Dec. 2019/2018	**1,884**	**1,167**
Effect of applying IFRS 16	0	185
Cost as at 1 Jan. 2019/2018	**1,884**	**1,352**
New additions	498	601
Reversal	(130)	(69)
Cost as at 31 Dec. 2020/2019	**2,252**	**1,884**
Accumulated depreciation as at 31 Dec. 2019/2018	**(584)**	**(299)**
Depreciation	(322)	(308)
Reversal	117	23
Other changes	(3)	0
Accumulated depreciation as at 31 Dec. 2020/2019	**(791)**	**(584)**
Carrying amount as at 31 Dec. 2019/2018	**1,300**	**868**
Carrying amount as at 31 Dec. 2020/2019	**1,461**	**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. Average lease term is less than 1 year (2019: 2 years). Analysis of the maturity of lease liabilities and the lowest sum of future lease payments are described in Notes 21 and 23. In 2020 the interest expenses for lease liabilities amounted to EUR 24 thousand (2019: EUR 29 thousand).

The Company follows exceptions allowed by the standard, namely for short-term leases, and for lower-valued leases. In 2020, the total cost of leases amounted to EUR 173 thousand (2019: EUR 204 thousand).

10. INVESTMENTS IN SUBSIDIARIES

in EUR thousand	31 Dec. 2020	31 Dec. 2019
SIJ ACRONI	111,337	111,337
SIJ METAL RAVNE	46,714	46,714
GRIFFON & ROMANO	0	0
RSC HOLDING	31,545	11,987
NIRO Wenden	0	0
NOŽI RAVNE	505	505
ODPAD Pivka	4,981	4,981
SIJ ELEKTRODE JESENICE	957	957
SIJ SUZ	616	616
SIJ ZIP CENTER	68	68
SIJ Asia	100	100
SIJ RAVNE SYSTEMS	8,945	8,945
SIJ POLSKA	1	1
HOLDING PMP	7,687	7,687
KOPO INTERNATIONAL	2,670	2,670
SSG	845	698
ADDITHERM	5.902	0
Investments in subsidiaries	**222,873**	**197,266**

In July 2020, the Company provided its subsidiary RSC Holding (before SIJ Ravne Steel Center) with additional cash payment and recognised contingent consideration amounting to EUR 19,558 thousand. The contingent consideration is also recognised as a liability (Note 22). Thus, the Company that was a 100% owner became a 51% owner after the entry of the other member.

This was an important strategic step in line with the strategy of the SIJ Group for further development, as it created a leading tooling support centre in the region, which provides customers with a comprehensive range of products and services from storage, cutting and distribution of tool steels (Ravne Steel Center, Sidertoce, MWT) to the services of heat (Steel podporni center orodjarske industrije, Centar toplinske obrade) and mechanical treatment of tool plates (Oro met) and other additional services. Thereby, the SIJ Group realises its orientation on the development of comprehensive solutions for customers, and by acquiring a manufacturer of products for pressure die casting and injection moulding, it also increases the level of its vertical integration.

In addition to tooling, in a subsidiary, a unit of high-performance products was formed (HTS IC in Ljubljana, HTS IC in Vienna, HTS IC in Prague, Alrotec, Kaldera). Its core business is the production of high value-added components for pressure die casting and injection moulding, produced using patented innovative technology of additive production that transcends the production limits using conventional technologies. It is developed by Additherm, which is also the holder of all intellectual property rights.

In July 2020, the Company established the new company Additherm with a cash payment and recognised contingent consideration amounting to EUR 5,902 thousand), and thus became its 51% owner. The contingent consideration is also recognised as a liability (Note 22). The subsidiary was established to develop innovative technology of additive production.

In July 2020, the company concluded with the other member an option agreement related to interests in RSC Holding and Additherm, namely: i) call option 1 in favour of the other member to buy a 2% share in RSC Holding and a 51% share in Additherm; ii) call option 2 in favour of the other member to buy a 51% share in Additherm; iii) call option in favour of the company to buy a 49% share of the other member in RSC Holding and a 49% share of the other member in Additherm; iv) put option 1 in favour of the other member to sell a 49% shares of the other member in RSC Holding and Additherm; v) put option 2 in favour of the other member to sell a 49-% share of the other member in RSC Holding. The options can be exercised under the terms and conditions set out in the option agreement. On 31 December 2020, the company reviewed the fair value of option agreements and assessed that the fair value was minimal or equal to zero. It will review the fair value annually and recognise possible changes in profit or loss.

In August 2020, the Company provided its subsidiary SSG with additional payment totalling EUR 147 thousand). Due to additional payment, the registered capital of the subsidiary nor the existing share of the member did not increase.

At the end of 2020, the Company provided its subsidiary Griffon & Romano with additional payment, namely by transferring to the subsidiary a claim against the subsidiary from a current loan. Due to additional payment, the registered capital of the subsidiary nor the existing share of the shareholder did not increase. The loan issued was impaired by 100% in 2019 and therefore does not affect the comprehensive income.

In 2020, the Company did not receive any dividends (2019: EUR 595 thousand).

Information on Subsidiaries as at 31 December 2020

in EUR thousand	Activity	% of voting rights	Value of equity as at 31 Dec. 2020	Net profit (loss) for 2020
SIJ ACRONI d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	Steel production	100	147,028	(30,031)
SIJ METAL RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Steel production	100	64,278	(13,001)
NOŽI RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Industrial knives production	100	406	(148)
SIJ ELEKTRODE JESENICE d.o.o., Cesta železarjev 8, Jesenice, Slovenia	Welding materials production	100	160	(1,163)
SIJ SUZ d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	Drawn wires production	100	3,009	181
SIJ ZIP CENTER d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Education and training of the disabled	100	778	7
ODPAD d.o.o. Pivka, Velika Pristava 23, Pivka, Slovenia	Recovery of secondary raw materials from scrap	74.90	8,276	305
NIRO Wenden GmbH, Glück-Auf-Weg 2, Wenden, Germany	Steel cutting, engineering and trade	85	(6,479)	(3,034)
GRIFFON & ROMANO S.P.A., Via Dossetti 11, Loc. Casinello de Dosso, Italy	Heat processing and special steel trade	100	572	(1,624)
SIJ Asia GmbH, Berger Str. 2, Düsseldorf, Germany	Trade	100	174	76
SIJ RAVNE SYSTEMS d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Metallurgic machines production	100	7,809	(4,062)
SIJ POLSKA Sp. Z.o.o., ul. Zamkowa 7 lok. 11, Poznanj, Poland	Trade	100	1	0
HOLDING PMP d.o.o., Gerbičeva ulica 98, Ljubljana, Slovenia	Holding activity	100	15,867	(713)
KOPO International Inc., 331 Newman Springs Road Suite, 104, Red Bank, New Jersey, USA	Trade	100	1,644	(472)

Continuation of the table →

Continuation of the table

in EUR thousand	Activity	% of voting rights	Value of equity as at 31 Dec. 2020	Net profit (loss) for 2020
OOO SSG, Presnenskaya nab. 12, floor 59, office 10, Moscow, Russia	Renting and managing of own and leased real estate	100	301	(245)
ADDITHERM d.o.o., Litostrojska cesta 60, Ljubljana, Slovenia	Research and experimental development on natural sciences and engineering	51	571	5
RSC HOLDING d.o.o.*, Litostrojska cesta 60, Ljubljana, Slovenia	Investment management activity	51	50,851	545

** In July 2020, SIJ RAVNE STEEL CENTER d.o.o. changed its corporate name to RSC HOLDING d.o.o.*

As part of the preparation of the annual report for 2020, an impairment test was performed for all investments for which the examination of indications of impairment under IAS 36 showed the need for impairment. The following companies were subjected to valuation: SIJ Acroni d.o.o., SIJ Metal Ravne d.o.o., SIJ Ravne Systems d.o.o., SIJ Elektrode Jesenice d.o.o.

The valuation of the recoverable amount of the investments was carried out by a business appraiser certified by Slovenian Institute of Auditors. The recoverable amount of the investments was determined as a fair value less cost of sale. The valuation took into account the going concern assumption. 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.

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 cost

of sale). 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.

The impairment test as at 31 December 2020 showed that no additional impairments of financial assets are required in 2020. The Impairment test as at 31 December 2019 showed that the impairments of financial assets were required in 2019. They are presented in the table below.

Review of the Determination of the Recoverable Amount for 2020

Subsidiary	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 ACRONI (Steel Division)	2020	Effect of COVID-19 epidemic (revenues decreased by 10% compared to 2019)	A	31 Dec. 2020	2021–2026	8.26%	0.6%	9.9% – before 2018 it had achieved 10.5%, comparable with companies with the same activity in the same industry	in the first year 8.8%, following with 8.5%, 0.1%, 0.8%, 3.6% and 1.0%	148,311	158,427	+14,901/-13,191	+747/–747	0	111,337	
SIJ METAL RAVNE (Steel Division)	2020	Effect of COVID-19 epidemic (revenues decreased by 10% compared to 2019)	A	31 Dec. 2020	2021-2026	8.20%	0.5%	11.8% – before 2018 it had achieved 12.5%, comparable with companies with the same activity in the same industry	in the first year 6.3%, following with 15.1%, 2.4%, –0.5%, 0.8% and 0.8%	55,611	60,789	+7,397/-6,554	+364/–364	0	46,714	
SIJ RAVNE SYSTEMS (Manufacturing Division)	2020	The Company has had operational loss for the last 2 years	A	31 Dec. 2020	2021-2026	8.30%	0.8%	7.9% – before 2018 it had achieved 9.3%, comparable with companies with the same activity in Europe	in the first year –3.1%, following with 16.9%, 3.5%, 3.8%, 2.5% and 0.8%	9,004	10,112	+1,616/-1,430	+295/–295	0	8,945	
SIJ ELEKTRODE (Manufacturing Division)	2020	The Company has had operational loss for the last 2 years	A	31 Dec. 2020	2021-2026	8.43%	1.2%	5.9% – before 2017 it had achieved 6.2%, comparable with companies with the same activity in Europe	in the first year 7.4%, following with 11.9%, 4.5%, 4.0%, 2.3% and 1.0%	959	1,062	+92/-90	+12/–12	0	957	Sensitivity analysis is prepared for the change in discount rate at +/–0.1% and the change in long-term growth rate at +/–0.25%, otherwise, the estimated range would be too big.
KOPO (Steel Processing and Distribution Division)	2020	Investment value exceeds company's equity	A	31 Dec. 2020	2021-2026	8.22%	0.9%	1.8%	in the first year –5.6%, following with 22.8%, 1.1%, 6.4% and 3.3%	2,877	3,042	+308/-291	+56/–53	0	2,670	Sensitivity analysis is prepared for the change in discount rate at +/–0.1% and the change in long-term growth rate at +/–0.2%, otherwise, the estimated range would be too big.

A – Valuation of the fair value, less cost of sale, by using the method of present value of the estimated free cash flows.

Review of the Determination of the Recoverable Amount for 2019

Subsidiary	Financial year	Indications of impairment	Determination of recoverable amount	Material assumptions used: Valuation date	Projection of operations	Discount rate (WACC)	Long-term growth rate	Target EBITDA margin	Revenue growth	Sensitivity analysis: 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 (Distribution & Processing 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 CGU 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 residual 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 CGU will move beyond the applied projections.
NOŽI RAVNE (Manufacturing Division)	2019	In 2017, the CGU ceased the production of industrial knives Operation of CGU is limited to renting out the property to the controlling company	B	31 Dec. 2019	/	/	/	/	/	505	/	/	/	151	505	The fair value, less cost of sale, 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 cost of sale, which is considered within the marketability discount in amount of 5%.

A – Valuation of the fair value, less cost of sale, by using the method of present value of the estimated free cash flows.
B – Valuation of the fair value, less cost of sale, by using the accumulation method (net asset value method).

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Investments and shares in companies	1,248	1,334
Financial assets at fair value through other comprehensive income	**1,248**	**1,334**

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 decreased due to revaluation at fair value in the amount of EUR 86 thousand (2019: increase by EUR 78 thousand) charged to the comprehensive income. There were no dividends received in 2020 (2019: EUR 96 thousand).

12. NON-CURRENT FINANCIAL RECEIVABLES

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Loans issued	98,983	61,737
Dividend receivables from subsidiaries	9,091	0
Non-current financial receivables	**108,074**	**61,737**

The major part of non-current financial receivables refers to loans issued to the controlling company totalling EUR 76,520 thousand and the corresponding non-current interests totalling EUR 4,811 thousand. The loans will be repaid from two sources – by refinancing the existing loan and by dividends received from subsidiaries. Dividend payments are planned in accordance with the prepared long-term projections of the group's operations. The condition for their payment is the achievement of the group's leverage of less than 3.75. It is always possible to pay minimum dividends if the conditions set by the applicable legislation are met.

Following the revised payment plan, dividend receivables from subsidiaries, stated in 2019 under non-current operating receivables, are stated under non-current financial receivables.

Movement of Non-Current Loans Issued

in EUR thousand	2020	2019
Balance as at 1 Jan.	**61,737**	**17,139**
Loans issued	10,627	796
Reversal of impairment (impairment)	55	(128)
Exchange rate differences	(38)	0
Change in interest receivables	4,809	0
Transfer from/to current loans issued	21,793	43,930
Balance as at 31 Dec.	**98,983**	**61,737**

The loans issued refer to loans issued to the controlling company and subsidiaries and 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. 2020	31 Dec. 2019
Dividend from subsidiaries	0	10,300
Non-current trade receivables	**0**	**10,300**

The Company transferred dividend receivables from subsidiaries to non-current financial receivables.

14. DEFERRED TAX ASSETS AND LIABILITIES

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Deferred tax assets	1,200	1,232
Deferred tax liabilities	(73)	(89)
Deferred tax assets (liabilities), net	**1,127**	**1,143**

Movement of Deferred Tax Assets and Liabilities in 2020

in EUR thousand	31 Dec. 2019	Changes in profit and loss	Changes in the comprehensive income	31 Dec. 2020
Financial assets at fair value through comprehensive income	(89)	0	16	(73)
Deferred tax liabilities	**(89)**	**0**	**16**	**(73)**
Unused tax losses	1,117	0	0	1,117
Employee benefits	70	0	0	70
Trade receivables	45	(32)	0	13
Deferred tax assets	**1,232**	**(32)**	**0**	**1,200**
Deferred tax assets (liabilities), net	**1,143**	**(32)**	**16**	**1,127**

On 31 December 2020, the total unused tax loss amounts to EUR 34,977 thousand (2019: EUR 34,976 thousand). The value of unused tax losses for which deferred tax assets are not recognised amounts to EUR 29,025 thousand (2019: EUR 29,093 thousand), while unrecognised deferred tax assets amount to EUR 5,528 thousand (2019: EUR 5,882 thousand).

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**

15. ASSETS (GROUPS) HELD FOR SALE

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Other assets held for sale	31	31
Assets (groups) held for sale	**31**	**31**

Movement of Assets (Groups) Held for Sale

in EUR thousand	2020	2019
Balance as at 1 Jan.	**31**	**82,067**
Sale of investment in Perutnina Ptuj	0	(74,349)
Transfer of investment in Perutnina Ptuj to investments in subsidiaries	0	(7,687)
Balance as at 31 Dec.	**31**	**31**

In 2019, the Company sold its 85.17% share in Perutnina Ptuj to the Ukrainian group MHP. The final sale price amounted to EUR 22.34 per share. The total sale price amounted to EUR 207,576 thousand. The cost of sale amounted to EUR 7,475 thousand, and the profit from sale amounted to EUR 125,751 thousand.

The Company did not receive any dividends in 2020 and 2019.

16. CURRENT FINANCIAL RECEIVABLES

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Loans issued	64,825	84,317
Other	639	560
Current financial receivables	**65,464**	**84,877**

Movement of Current Loans Issued

in EUR thousand	2020	2019
Balance as at 1 Jan.	**84,317**	**62,697**
Loans issued	81,170	161,532
Repayment of loans issued	(80,035)	(42,514)
Reversal of impairment (impairment)	2,256	(20,901)
Change in interest receivables	(1,090)	873
Transfer to/from non-current loans issued	(21,793)	(43,930)
Recapitalisation of subsidiaries	0	(33,440)
Balance as at 31 Dec.	**64,825**	**84,317**

The loans issued refer to loans issued to subsidiaries. The interest rates for loans issued are fixed as well as flexible and vary between 1.60 and 5.00% (2019: from 1.60 to 5.00%). The loans issued are not pledged as security for liabilities. At the reporting date, the Company decreased the allowance for loans issued by EUR 2,311 (2019: creation of allowance of EUR 21,029 thousand). The decrease in the allowance for loans issued is mainly due to the repayment of loans issued for which allowances were made in the previous year.

17. CURRENT TRADE RECEIVABLES

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Trade receivables	2,078	5,856
Allowances for trade receivables	(66)	(133)
Receivables from government and other institutions	173	401
Issued advance payments and cautions	76	6
Other receivables	110	29
Current trade receivables	**2,371**	**6,159**

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 Receivables from Customers

in EUR thousand	2020	2019
Balance as at 1 Jan.	**(133)**	**(140)**
Changes with impact on profit or loss	47	7
Changes without impact on profit or loss	20	0
Balance as at 31 Dec.	**(66)**	**(133)**

18. CASH AND CASH EQUIVALENTS

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Cash in national currency	1,612	37,656
Cash and cash equivalents	**1,612**	**37,656**

Cash in national currency includes cash in a current account. On 31 December 2020 the Company had no deposits with up to 3-month maturity (2019: EUR 31,983 thousand).

19. EQUITY

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Share capital	145,266	145,266
Capital surplus	11,461	11,461
Revenue reserves	6,136	5,940
Fair value reserves	211	375
Retained earnings	112,340	108,613
Equity	**275,414**	**271,655**

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 2020.

Ownership Structure

Shareholder	Number of shares 31 Dec. 2020	Number of shares 31 Dec. 2019
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.

Revenue Reserves

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Legal reserves	8,391	8,195
Treasury shares	(6,009)	(6,009)
Reserves for treasury shares	3,754	3,754
Revenue reserves	**6,136**	**5,940**

The 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 Company did not establish a treasury shares fund. Shares are recognised at cost.

Fair Value Reserves

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Fair value reserve due to financial assets at fair value through comprehensive income	385	469
Deferred tax liabilities	(73)	(89)
Net actuarial gains on pension programs	(101)	(5)
Fair value reserves	**211**	**375**

Distributable Profit

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Retained earnings	108,613	27,975
Profit for the period	3,924	84,882
Creation of legal reserves	(196)	(4,244)
Distributable profit	**112,340**	**108,613**

20. EMPLOYEE BENEFITS

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Provisions for severance pay	712	409
Provisions for jubilee benefits	53	43
Employee benefits	**765**	**452**

The actuarial calculation in 2020 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 0.2 percent.

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

Movement of Employee Benefits in 2020

in EUR thousand	31 Dec. 2019	Creation	31 Dec. 2020
Provisions for severance pay	409	303	712
Provisions for jubilee benefits	43	10	53
Employee benefits	**452**	**313**	**765**

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 jubilee benefits	38	5	43
Employee benefits	**305**	**147**	**452**

Sensitivity Analysis of Actuarial Assumptions for 2020

in EUR thousand		31 Dec. 2020		31 Dec. 2019	
Actuarial assumption	Change in assumption (pp)	Post-employment benefits on retirement	Jubilee benefits and severance pays	Post-employment benefits on retirement	Jubilee benefits and severance pays
Yield	+0.5	(45)	(2)	(20)	(2)
	–0.5	49	2	22	1
Salary growth	+0.5	48	2	22	2
	–0.5	(44)	(2)	(20)	(1)
Fluctuation	+0.5	(45)	(2)	(21)	(2)
	–0.5	32	2	23	2

21. NON-CURRENT FINANCIAL LIABILITIES

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Borrowings	734	0
Liabilities for bonds issued (SIJ6, SIJ7)	65,808	39,728
Liabilities from lease	643	606
Non-current financial liabilities	**67,185**	**40,334**

Movement of Non-Current Borrowings

in EUR thousand	2020	2019
Balance as at 1 Jan.	**0**	**19,977**
New borrowings	1,343	0
Transfer to current borrowings	(609)	(19,977)
Balance as at 31 Dec.	**734**	**0**

Liabilities for Bonds Issued

The Company issued bonds with the ticker symbol of SIJ6 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.

The Company issued bonds with the ticker symbol of SIJ6 with the total nominal value of EUR 26,100 thousand in November 2020. The entire bond issue contains 261 denominations of EUR 100 thousand. The bond maturity date is 2 November 2023. The interest rate for the bonds is fixed, i.e. 3.9 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.

Borrowings include borrowings from other parties. The borrowings have no insurance.

Movement of Non-Current Liabilities Arising from Lease

in EUR thousand	2020	2019
Balance as at 1 Jan.	**606**	**446**
Effect of applying IFRS 16	0	105
New leases	497	601
Transfer to current liabilities from lease	(460)	(546)
Balance as at 31 Dec.	**643**	**606**

The lowest sum of future leases due for payment in the next 1 to 5 years amounts to EUR 667 thousand (2019: EUR 622 thousand).

The net present value of future leases due for payment in the next 1 to 5 years, amounts to EUR 643 thousand (2019: EUR 606 thousand).

22. NON-CURRENT OPERATING LIABILITIES

in EUR thousand	2020	2019
Liabilities for contingent consideration	12,418	0
Non-current operating liabilities	**12,418**	**0**

Pursuant to the shareholders' agreement, the Company recognised an obligation to pay contingent consideration to grant RSC Holding a loan on market terms. The loan must be granted within 3 months after the general meeting resolution for the year in which the indicator set out in the shareholders' agreement will be exceeded. The obligation is valid for the period from 2022 to 2024. If the indicator set out in the shareholder's agreement will be exceeded in the period from 2025 to 2027, the Company will convert the principal and interest into the capital of the subsidiary as a subsequent payment without the right to demand the return of such subsequent payment.

Pursuant to the shareholders' agreement, the Company also recognised an obligation to pay contingent consideration to grant Additherm additional subsequent payments, executed within 5 years. Subsequent payments will be executed in equal annual instalments based on the resolution concluded by both members every time the liability will fall due.

Changes in the fair value of the obligation to pay contingent consideration due to new information that will relate to changes in events after the acquisition date will be recognised in profit or loss.

23. CURRENT FINANCIAL LIABILITIES

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Borrowings	22,612	3,100
Liabilities for bonds issued (SIJ5)	0	51,095
Liabilities for commercial papers issued	26,556	28,072
Liabilities from lease	425	418
Other current financial liabilities	91	837
Current financial liabilities	**49,684**	**83,522**

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	2020	2019
Balance as at 1 Jan.	**3,100**	**9,797**
New borrowings	88,200	8,500
Repayments of borrowings	(69,297)	(35,174)
Transfer from non-current borrowings	609	19,977
Balance as at 31 Dec.	**22,612**	**3,100**

Liabilities for Bonds Issued

Liabilities for bonds issued with the ticker symbol of SIJ5 in the amount of EUR 51,218 thousand fell due on the maturity of the bond in July 2020 and were fully repaid by the Company on the maturity day.

Liabilities for Commercial Papers Issued

Liabilities for commercial papers amounting to EUR 26,700 thousand refer to 12-month commercial papers with the ticker symbol SIK07, issued by the Company on 11 December 2020 as a seventh consecutive issue. The total nominal value of the commercial papers is EUR 26,700 thousand and covers 267 denominations of EUR 100 thousand. The interest rate for a commercial paper is 1.2 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 10 December 2021. The Company repaid the sixth issue of commercial papers with the ticker symbol SIK06 in the amount of EUR 28,100 thousand on the maturity day.

Movement of Current Liabilities Arising from Lease

in EUR thousand	2020	2019
Balance as at 1 Jan.	**418**	**409**
Effect of applying IFRS 16	0	80
Repayments of liabilities arising from lease	(450)	(617)
Transfer from non-current liabilities arising from lease	460	546
Other changes	(3)	0
Balance as at 31 Dec.	**425**	**418**

The lowest sum of future leases due for payment in the next financial year amounts to EUR 447 thousand on 31 December 2020 (2019: EUR 439 thousand), and the net present value of future leases amounts to EUR 425 thousand on the same date (2019: EUR 418 thousand).

24. CURRENT TRADE PAYABLES

in EUR thousand	2020	2019
Payables to suppliers	2,312	2,442
Liabilities to employees	1,382	1,353
Tax liabilities and other liabilities	1,003	1,427
Current trade payables	**4,697**	**5,222**

25. OTHER CURRENT LIABILITIES

In EUR thousand	2020	2019
Accrued expenses for unused annual leave	327	136
Short-term of contingent consideration liability (Note 22)	1,200	0
Other liabilities	62	129
Other current liabilities	**1,589**	**265**

26. CONTINGENT LIABILITIES

Contingent liabilities for issued guarantees amount to EUR 159,787 thousand on 31 December 2020 (2019: EUR 182,594 thousand). The total amount of issued guarantees was issued to the companies of the group. The Company expects no outflows from the issued guarantees.

27. IMPACT OF COVID-19 ON THE COMPANY'S FINANCIAL STATEMENTS

Due to the deteriorating macroeconomic environment caused by the covid-19 epidemic, the Company reviewed significant accounting policies and estimates in areas where the epidemic could have a negative impact, in particular on assets, impairments and provisions, fair value measurement, leases, labour costs, and taxes.

- **Financial instruments:** The Company regularly monitors and reviews the expected credit loss model under IFRS 9. The Company does not perceive a significant increase in credit risk as a result of covid-19 effects. Nevertheless, based on changed economic situation, it adjusted the model for calculating the impairment of financial instruments as at 31 December 2020 and concluded on its basis that the effect on its financial statements is not material.

- **Property, plant and equipment:** The Company did not have to impair property, plant and equipment due to the coronavirus epidemic.
- **Receivables and loans issued:** The Company did not have to impair receivables and loans issued due to the coronavirus epidemic.
- **Leases:** Changes in rents as a result of the coronavirus epidemic may lead to different accounting treatment of leases. On 31 December 2020, the Company checked all significant facts and found that there were no material changes in the lease agreements, and therefore did not recalculate the lease liabilities.
- **Employee benefits:** On 31 December 2020, the review of the defined actuarial assumptions for employee benefits, including the interest rate, did not lead to the need to recalculate provisions for employee benefits.
- **Labour costs:** The Company shows the government grands received based on the coronavirus epidemic in the amount of EUR 489 thousand as a decrease in labour costs.
- **Deferred tax:** The Company did not have to create additional deferred tax due to the coronavirus epidemic.

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	2020	2019
Revenues	3,692	2,902
Expenses	3	12

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Receivables	84,428	71,266
Liabilities	0	0

Transactions with Subsidiaries

in EUR thousand	2020	2019
Revenues	19,000	17,458
Expenses	2,468	275

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Receivables	108,996	111,124
Liabilities	24,889	862

Transactions with Other Related Companies

in EUR thousand	2020	2019
Revenues	1,129	72
Expenses	76	46

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Receivables	104	1,182
Liabilities	6,813	3,104

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	2020	2019
Key management personnel	8,844	8,417
Members of the Supervisory Board	145	120

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 2020, 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 2020, the Company has no receivables or liabilities towards the key management personnel, except for liabilities for December salaries paid January 2021.

All other employees of the Company, who do not represent key management personnel, also have individual contracts, as the company has not signed any collective agreements. The disclosed labour costs, therefore, represent the employee benefits based on individual contracts under Article 69 of the Companies Act.

Financial Instruments and Risks

Credit Risk

The Company assesses credit risk 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 from 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 include loans issued to subsidiaries and 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 credit risk since initial recognition, the Company recognises a loss allowance on a case by case basis (stage 3).

Balance of Financial Receivables and Deposits and Impairments by Groups

in EUR thousand	31 Dec. 2020			31 Dec. 2019		
	Gross amount	Impairments	Total	Gross amount	Impairments	Total
Group 1	165,175	(41)	165,134	170,634	(37)	170,597
Group 3	25,142	(16,738)	8,404	29,052	(21,053)	7,999
TOTAL	**190,317**	**(16,779)**	**173,538**	**199,686**	**(21,090)**	**178,596**

Age Structure of Financial Assets

in EUR thousand		Overdue				
31 Dec. 2020	Not-overdue	Up to 3 months	3 months to 1 year	1 year to 3 years	Over 3 years	Total
Trade receivables	716	1,281	7	74	0	2,078
Financial receivables and deposits	191,475	30	21	0	0	191,526
Total	**192,191**	**1,311**	**28**	**74**	**0**	**193,604**

in EUR thousand		Overdue				
31 Dec. 2019	Not-overdue	Up to 3 months	3 month 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**

Movement of Allowances for Financial Assets

in EUR thousand	Allowance as at 31 Dec. 2019	Changes with impact on profit or loss	Changes without impact on profit or loss	Allowance as at 31 Dec. 2020
Trade receivables	133	(47)	(20)	66
Financial receivables and deposits	21,090	(2,311)	(2,000)	16,779
Total	**21,223**	**(2,358)**	**(2,020)**	**16,845**

Movement of Allowances for Financial Assets

in EUR thousand	Allowance as at 31 Dec. 2018	Changes with impact on profit or loss	Allowance as at 31 Dec. 2019
Trade receivables	140	(7)	133
Financial receivables and deposits	61	(21,029)	21,090
Total	**201**	**(21,036)**	**21,223**

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 can settle any overdue liabilities at any time. Majority of financial liabilities refers to issued bonds and commercial papers totalling EUR 52.8 million.

in EUR thousand		Expected cash flows				
31 Dec. 2020	Carrying amount as at	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Cash and deposits at banks	1,612	1,612	0	0	0	**1,612**
Trade receivables	2,012	2,012	0	0	0	**2,012**
Financial receivables	173,538	13,036	50,707	63,234	75,252	**202,229**
Total assets	**177,162**	**16,660**	**50,707**	**63,234**	**75,252**	**205,853**
Payables to suppliers	2,312	2,312	0	0	0	**2,312**
Financial liabilities	116,869	243	52,050	72,896	0	**125,189**
Other liabilities	8,296	80	0	8,216	0	**8,296**
Total liabilities	**127,477**	**2,635**	**52,050**	**81,112**	**0**	**135,797**

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 means a shortage of resources to be provided.

in EUR thousand		Expected cash flows				
31 Dec. 2019	Carrying amount as at	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Cash and deposits at banks	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**
Total assets	**200,322**	**47,309**	**82,493**	**69,466**	**13,098**	**212,366**
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**
Total liabilities	**126,839**	**3,027**	**85,953**	**45,186**	**0**	**134,166**

The Company assesses its exposure to financial markets and banks as low. 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. 2020	USD
Trade receivables	12
Financial receivables	508
Trade payables	(52)
Exposure	**468**

31 Dec. 2019	USD	CZK
Trade receivables	12	4
Financial receivables	501	0
Trade payables	(59)	0
Exposure	**454**	**4**

In 2020 and 2019, the following exchange rates were material for the Company:

Currency	31 Dec. 2020	31 Dec. 2019	Average exchange rate in 2020	Average exchange rate in 2019
EUR/USD	1.2271	1.1234	1.1422	1.1195
EUR/GBP	0.89903	0.85080	0.88970	0.87777
EUR/CZK	26.242	25.4080	26.455	25.6700

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 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 financial 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 a decrease of profit or loss by the amounts stated below. The analysis assumes that all other variables remain unchanged. The analysis for 2019 was prepared in the same manner.

In 2019, considering the Company's exposure to the interest risk, a change in interest rate by 100 or 50 basis points would result in a change of profit or loss by less than EUR 1 thousand.

In 2020, considering the Company's exposure to the interest risk was similar: a change in interest rate by 100 or 50 basis points would also result in a change of 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 2020, 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	2020	Debt increase by 10%	Debt decrease by 10%
Level of debt on equity	42.43	46.68	38.19
Equity	275,414	275,414	275,414
Financial liabilities	116,869	128,556	105,182

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. 2020		31 Dec. 2019	
Type of financial instrument	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets at fair value through other comprehensive income	1,248	1,248	1,334	1,334
Financial receivables	173,538	173,538	146,614	146,614
Trade receivables	2,371	2,371	16,459	16,459
Cash and cash equivalents	1,612	1,612	37,656	37,656
Financial liabilities	(116,869)	(116,869)	(123,857)	(125,291)
Trade payables	(12,912)	(12,912)	(5,222)	(5,222)

Presentation of Financial Assets and Liabilities, Disclosed at Fair Value According to Fair Value Determination Hierarchy

in EUR thousand	31 Dec. 2020	31 Dec. 2019
Financial assets at fair value through other comprehensive income	783	869
Financial assets at fair value of first level	**783**	**869**
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	(92,364)	(120,330)
Financial liabilities at fair value of first level	**(92,364)**	**(120,330)**
Borrowings	(23,345)	(3,100)
Leases	(1,068)	(1,024)
Other financial liabilities	(91)	(837)
Financial liabilities at fair value of second level	**(24,504)**	**(4,961)**

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 and 2020, there were no transfers of financial instruments between different levels.

Events After the Reporting Date

At the time of publication of the annual report, the Group has taken preventive measures to curb the spread of the coronavirus in Slovenia and protect its employees' health and ensure the operations can continue as smoothly as possible. It keeps abreast of the situation across all key business areas (Sales, Procurement, Logistics, Human Resources) and manages all identified risks. At this time, there are no legal obstacles to the Group's companies to continue operations, and the Group does not anticipate any major shutdowns in its steel companies. The supply chains are running without any significant restrictions, with only occasional disruptions due to a lack of availability of raw materials on global markets, an issue the Group is mitigating through inventories management.

Since the start of 2021, positive forecasts have been coming in from the markets, signalling the gradual recovery of the steel industry in 2021. The Group is therefore not experiencing any significant adverse effects in terms of its sales, and order volumes are already returning to pre-crisis levels. The Group keeps its key markets and customers well-supplied through the active implementation of its sales policy. It is experiencing minimal order cancellations, and these are not having a material effect on its operations. Despite the current positive trends, however, there are still numerous areas of uncertainty surrounding the coronavirus pandemic. It is impossible to accurately predict the measures and potential new restrictions; therefore, it is not possible to give a reliable estimate of their potential effects on the Group's operational performance.

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

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