

BUSINESS REPORT OF  
the SIJ Group and the company SIJ d.d.  
FOR THE FIRST HALF OF 2018

sij

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# INTRODUCTION



BUSINESS REPORT OF  
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## OPERATING HIGHLIGHTS

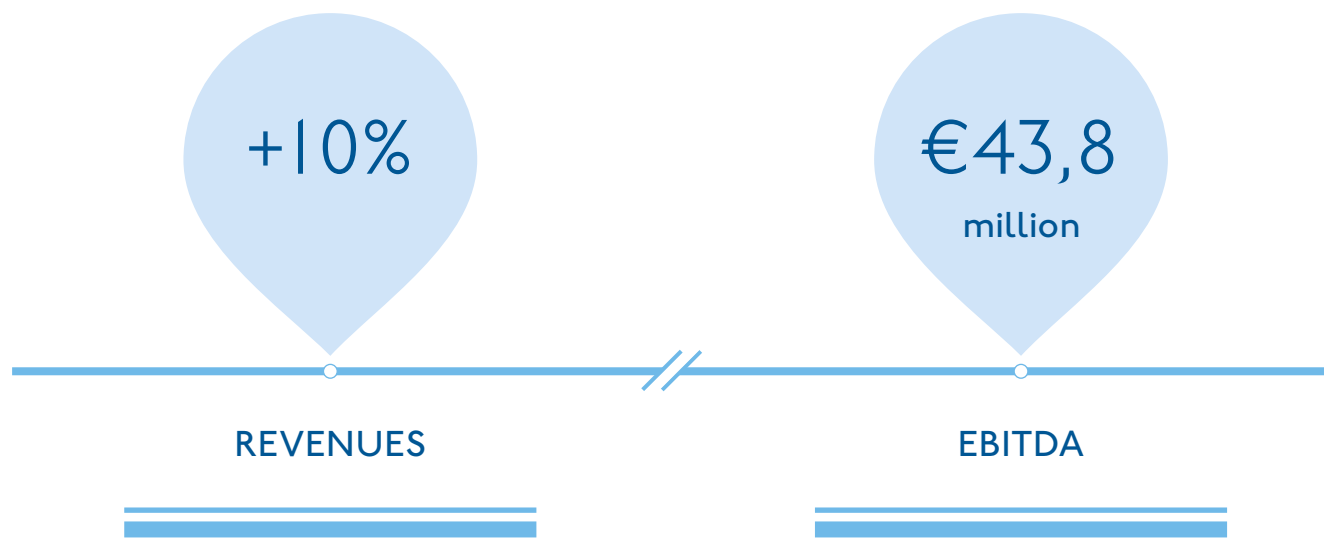
### HIGHLIGHTS OF THE SIJ GROUP

The SIJ Group is one of the largest business groups in Slovenia. The Group consists of two business divisions - the Metallurgy Division (core business) and the Poultry Division (the Perutnina Ptuj Group, hereinafter: the PP Group).

The business plan for 2018 anticipates the disposal<sup>1</sup> of the Poultry division (the PP Group); therefore, in the operating highlights, in the analysis of operations, in the profit and loss account for the first half of 2018 and for comparable periods, we only disclose the operations of the SIJ Group without the poultry division. The PP Group is disclosed in the net profit as a discontinued operation.

Comparability of the data with the published business report for the first half of 2017 is enabled by the analysis of key operating figures for the Metallurgy and Poultry Divisions on page [11](#).

<sup>1</sup> For translation purposes in the communication about the future strategy regarding the Perutnina Ptuj investment. The use of English name shall be performed according to the Slovenian Companies Act, where the terms of a specific name of corporate action as prescribed in the Slovenian language and legislation prevail.



### REVENUES INCREASED

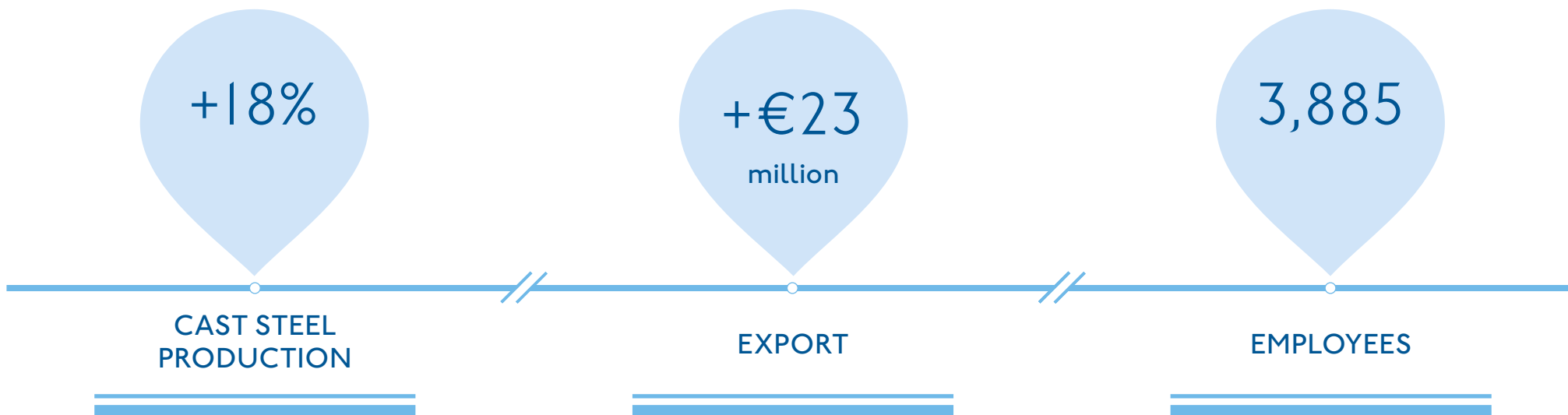
In the first half of 2018, the SIJ Group generated €426.2 million of revenues, which is 10 percent increased compared to the same period last year. It is a result of increased demand on the global market. We generated over 37 million higher revenues on both domestic and foreign markets.



### EBITDA MAINTAINED STABLE

EBITDA, company's operating profitability, is four percent lower than last year. The gap is the result of operations in other business divisions, namely service centres and the sales network, manufacturing, headquarters and other services, while the core business, the Steel Division, reached a two percent higher EBITDA.





### GOOD UTILISATION OF PRODUCTION CAPACITIES

The strategic investments of the SIJ Group in increasing production capacities, which were completed in 2017, are being exploited efficiently - in the first half of the year, we produced the greatest quantities of steel so far. We produced 260,709 tonnes of steel, which is 18 percent more than in the same period last year, and produced 204,342 tonnes of finished products, which is 15 percent raise.

### EXPORT VALUES ARE INCREASING

The SIJ Group is maintaining its position as one of the largest Slovenian exporters. In the first half of the year, we generated 84.4 percent of sales in foreign markets or €359.8 million, which is up €23 million on last year.

### STRENGTHENED POSITION AS A KEY EMPLOYER

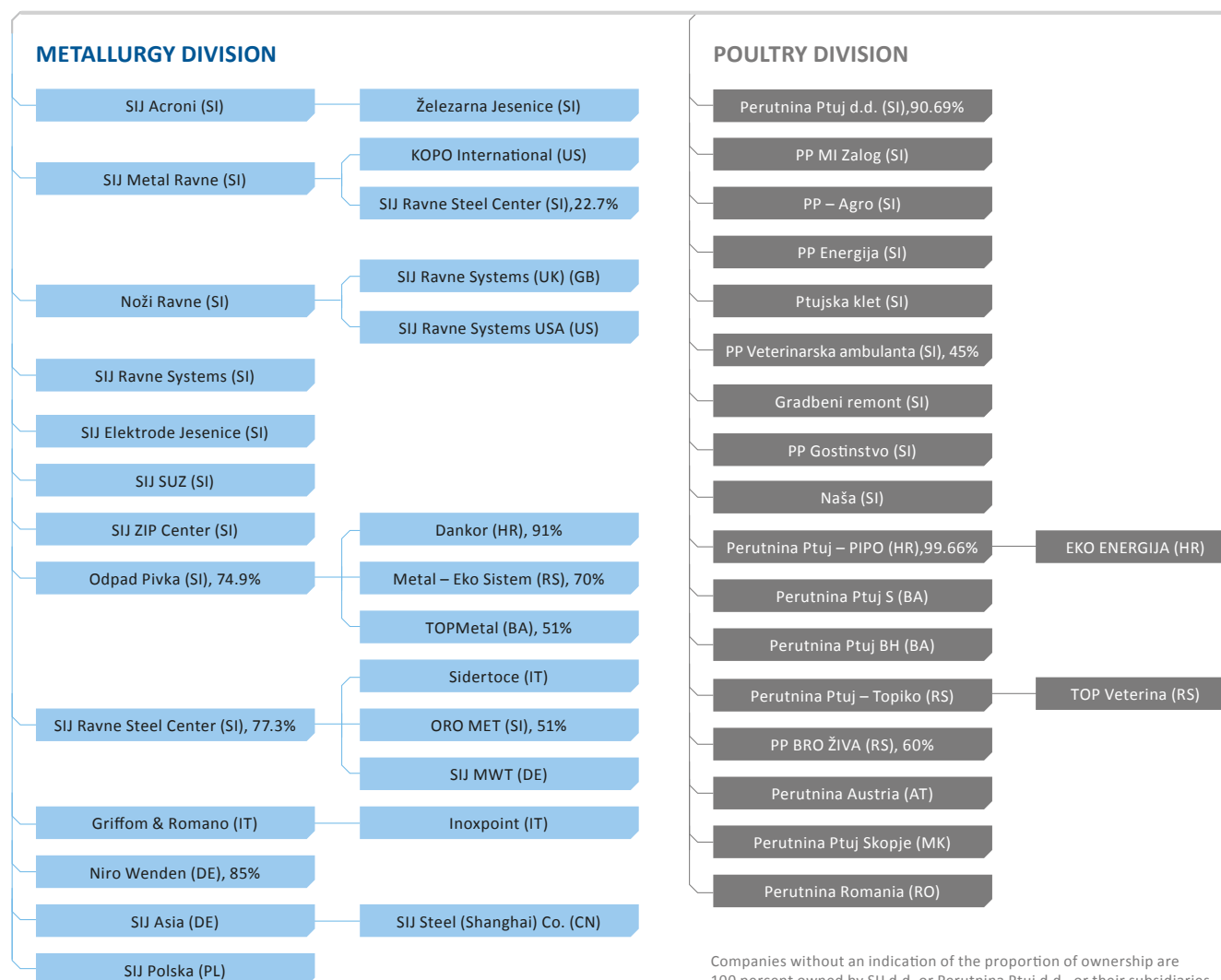
The SIJ Group and its companies are one of the largest employers in Slovenia. At the end of the first six months of the year, the Group employed 3,885 people, which is 230 employees or 6.3 percent more compared to the same period last year.

The great number of employees in the production sites and the demanding working conditions pose a risk for accidents at work. However, in the first half of the year, the SIJ Group recorded as much as 23.8 percent fewer accidents at work compared to the same period last year.

# OVERVIEW OF THE SIJ GROUP

## ORGANISATIONAL STRUCTURE

SIJ d.d.



### CONTROLLING COMPANY: CENTRALIZED SERVICES FOR THE COMPANIES IN THE SIJ GROUP

The SIJ Group is the largest Slovenian vertically integrated group consisting of a Metallurgy Division (core business) and Poultry Division (the PP Group).

SIJ d.d. is the controlling company and founder or direct or indirect owner of subsidiaries of the SIJ Group active in both divisions; SIJ d.d. has no registered branch offices. The Management Board of SIJ d.d. and its executive management represent the management of the entire SIJ Group, which guides, directs and supervises the operations of all Group companies, both in Slovenia and abroad.

The Metallurgy Division consists of 26 companies, of which 21 are established within the European Union, two in countries of the former Yugoslavia, while the remaining companies operate, the USA and Asia. The poultry division has 19 companies, of which 13 are in the European Union, and the rest are in countries of the former Yugoslavia.

Companies without an indication of the proportion of ownership are 100 percent owned by SIJ d.d. or Perutnina Ptuj d.d., or their subsidiaries.

## OVERVIEW OF THE CONTROLLING ENTITY SIJ D.D.

### 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

Primary activity: 70.100 Activities of head offices

Registered share capital: €145,266,065.76

Number of shares: 994,616 ordinary  
no-par-value shares

Ownership: 72.22 percent: DILON, d.o.o.,  
Gerbičeva ulica 98, Ljubljana  
5.00 percent: Republic of Slovenia,  
Gregorčičeva ulica 20, Ljubljana  
0.00 percent (10 shares): Unior d.d.,  
Kovaška cesta 10, Zreče  
2.77 percent: treasury shares

### MANAGEMENT AND SUPERVISORY BODIES

#### Management Board of SIJ d.d.:

President of the Management Board: Andrey Zubitskiy

Members of the Management Board: Tibor Šimonka,  
Igor Malevanov,  
Viacheslav Korchagin

#### Supervisory Board of SIJ d.d.:

President of the Supervisory Board: Evgeny Zverev

Deputy President of the Supervisory Board: Janko Jenko

Members of the Supervisory Board: Mitja Križaj,  
Boštjan Napast,  
Dmitry Davydov,  
Helena Ploj Lajovic,  
Polona Marinko

#### Audit Committee:

President of the Audit Committee: Janko Jenko

Members of the Audit Committee: Boštjan Napast in mag. Alan Maher

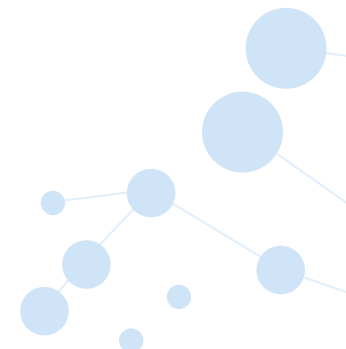
In the first half of 2018, there were changes in the composition of the Management Board and the Supervisory Board.

On 19 February, at the 31st General Assembly of SIJ d.d., the following new members of the Supervisory Board were appointed: Boštjan Napast, Helena Ploj Lajovic and Polona Marinko. Evgeny Zverev and Dmitry Davydov were reappointed members of the Supervisory Board. The current Supervisory Board members Sergey Frolov and Sergey Cherkaev were recalled from their positions, while Janko Jenko and Mitja Križaj remain members of the Supervisory Board, which has seven members.

On 22 February, members of the Supervisory Board appointed Tibor Šimonka and Igor Malevanov as members of the Management Board, while Viacheslav Korchagin was appointed on 9 April. On 9 April 2018, due to changes in the Supervisory Board, members of the Supervisory Board appointed members of the Audit Committee, namely Janko Jenko, Boštjan Napast and mag. Alan Maher.

The 32nd General Assembly of SIJ d.d. was held on 21 May. The General Assembly approved the proposal of the Management Board and the Supervisory Board to use €5,695,724.24 of the total distributable profit for 2017 (in the amount of €49,265,067.99) for the payment of dividends. The remaining part of the distributable profit in the amount of €43,569,343.75 remains undistributed, with the shareholders authorising the Management Board of SIJ d.d. to decide on the actual payment of dividends.

The shareholders also granted discharge to the Management Board and the Supervisory Board, and issued the Management Board a new authorisation for the purchase of treasury shares, while at the 33rd General Assembly on 5 July, they appointed the auditing firm KPMG Slovenija, d.o.o., Ljubljana, as the auditors for 2018.



# BUSINESS REPORT



BUSINESS REPORT OF  
the SIJ Group and the company SIJ d.d.  
FOR THE FIRST HALF OF 2018



## SIGNIFICANT BUSINESS EVENTS AND ACHIEVEMENTS OF THE SIJ GROUP IN THE FIRST HALF OF 2018

**JANUARY** Jernej Pavlin, director of ORO MET, a SIJ Group company, was named by the Manager's Association of Slovenia as one the three **best young managers in 2017**. According to the Association, young managers are individuals who represent a role model for Slovenian managers. With their work and personality, they significantly mark the economy. ORO MET is the leading Slovenian company engaged in the production of standard and non-standard tooling plates and CNC-treated tooling plates, as well as other items for the tooling industry.

**FEBRUARY** On Saturday, February 3, more than 200 employees of the SIJ Group gathered at the **2nd SIJ Winter Games**, a sports and social gathering at the Poseka ski slope at Ravne na Koroškem.

On 19 February, at the 31st General Assembly of SIJ d.d., the following **new members of the Supervisory Board were appointed: Boštjan Napast, Helena Ploj Lajovic and Polona Marinko. Evgeny Zverev and Dmitry Davydov** were reappointed members of the Supervisory Board. The current Supervisory Board members Sergey Frolov and Sergey Cherkhaev were recalled from their positions, while Janko Jenko and Mitja Križaj remain members of the Supervisory Board, which has seven members.

On 22 February, the Supervisory Board of SIJ d.d. appointed two **new members of the Management Board: Tibor Šimonka and Igor Malevanov**. The Management Board of SIJ d.d. thus has four members: besides Tibor Šimonka and Igor

Malevanov, current member Dmitrii Bochkarev and President of the Management Board Andrey Zubitskiy. Tibor Šimonka continues to be the President of the Management Board of Perutnina Ptuj d.d.

**MARCH** On 8 March, **the United States of America adopted a regulation imposing 25 percent import tariffs on steel** and 10 percent import tariffs on aluminium, which concerns all types and forms of steels exported to the USA by the SIJ Group. The USA then announced on 22 March that the European Union would be temporarily exempted from these tariffs until 1 June. In cooperation with official institutions of Slovenia and the USA, the SIJ Group pro-actively sought an exemption of the entire European Union, as well as an exemption of individual products of the SIJ Group, which domestic producers cannot produce or only produce in limited quantities. At the same time, we launched marketing activities in other markets to replace the potential loss of sales volumes in the USA.

**At the 10th anniversary of the operations of Perutnina Ptuj in Bosnia and Herzegovina, a new distribution centre with warehouses was opened** in Breza, and the meat plant in Srbac was modernised. By modernising the production lines to increase capacity, efficiency and quality, these investments totalling around €3 million are an important step in the process of registering these facilities for export to European Union markets, which is in line with the strategy of internationalisation of operations and the strengthening of exports of the PP Group.

**APRIL** On 9 April, the Supervisory Board took note of the resignation of Member of the Management Board of SIJ d.d. **Dmitri Bochkarev** and appointed **Viacheslav Korchagin as new Member** of the Management Board for the full term of office of six years; Mr Korchagin was already a Member of the Management Board of SIJ d.d. and the SIJ Group in the years 2007 to 2014. The Management Board of SIJ d.d. consists of four members: besides Viacheslav Korchagin, current members Tibor Šimonka and Igor Malevanov, and President of the Management Board Andrey Zubitskiy. Viacheslav Korchagin continues to hold the office of Vice-President and Member of the Board of Directors for Finance, Economics, Controlling and Procurement in Perutnina Ptuj.

On 12 April, **a steel heat treatment line was launched in the SIJ Metal Ravne rolling mill, representing a €4 million investment**. With the most important part of the investment - a continuous furnace costing €2.8 million - the company will be able to increase production of steel products by more than ten percent, in particular tool steels, thus freeing up production capacities for special steels demanded by the most demanding buyers from the energy and the oil and gas industries.

**JUNE** On 1 June, the USA imposed **25 percent tariffs on steel imports**, and the SIJ Group continued with all its efforts that began in March to exempt individual types of its steels, as well as its marketing activities to replace the potential loss of sales in the US. At the end of the first half of the year, the SIJ Group did not feel any consequences of the introduction of customs duties.

The SIJ Group received **five awards in the competition of the best innovations** organised by the Regional chambers of commerce for Gorenjska and Koroška - SIJ Acroni received a gold award, SIJ Metal Ravne a gold, silver and bronze award, and SIJ Ravne Systems a gold award. All three regional golden innovations will compete for the rewards at the national level.

SIJ Group's SIJ Metal Ravne, together with the Jožef Stefan Institute and partners from abroad, obtained funds for an **innovative project of using excess heat ETEKINA** in the HORIZON 2020 programme. The demonstration project will confirm the efficiency of waste heat recovery from steel production with an innovative heat exchanger technology in an energy-intensive industry by achieving at least 40 percent efficiency of excess heat.

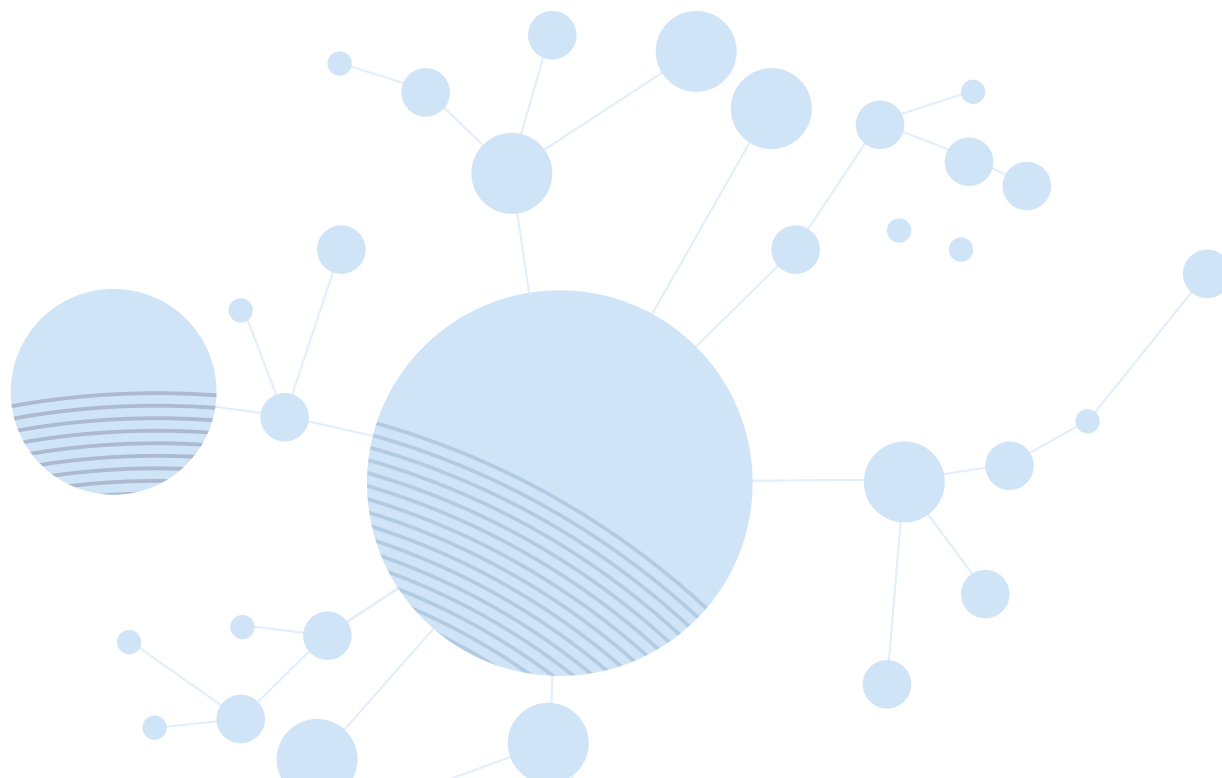
On 15 June 2018, the Management Board of the SIJ Group **appointed mag. Branko Žerdoner**, a manager with more than thirty-five years of experience in managing large companies, **as Managing Director of SIJ Acroni**.

Perutnina Ptuj promotes a healthy lifestyle and has been supporting cycling in Ptuj for 30 years and, together with the Perutnina Ptuj Cycling Club and several hundred volunteers, organised one of the most popular and largest recreational cycling events in Slovenia for the 16th consecutive year - the **Poli Marathon**. More than 5,000 recreational cycling enthusiasts participated in this year's event, including employees of the SIJ Group.

## MAJOR SUBSEQUENT BUSINESS EVENTS

**JULY** On 15 July 2018 at the 5th SIJ day (formerly Metallurgists' Day), 3,500 members of the SIJ Group and their family members gathered at Ravne na Koroškem. At the sporting and social event, best co-workers and inventors, employees celebrating work jubilees, and families who have been dedicated to the steel industry for several generations, were recognised.

**AUGUST** On 1 August, SIJ Acroni took over the activity, equipment and all employees of the slag processing company Harsco Minerali, with which the company had already been working closely before. This is an important further step of the entire SIJ Group towards efficient and environmentally friendly production. SIJ Acroni itself now processes slag, which used to be a waste product, into a by-product that is used downstream in the production process or is marketed for the needs of construction, road construction and environmental protection.



## ANALYSIS OF OPERATIONS

### KEY OPERATING FIGURES OF THE METALLURGY AND POULTRY DIVISION

The business plan for 2018 predicts the disposal the Poultry Division (PP Group). In the analysis of key operating figures in the first half of 2018 and for comparable periods, we show both the Metallurgy and Poultry Divisions together, facilitating comparability of the data with the published business report for the first half of 2017.

#### Key Financial Figures

	Unit of measure	1–6 2016 <sup>1</sup>	1–6 2017	1–6 2018
<b>Revenues</b>	<b>€ thousand</b>	<b>413,898</b>	<b>512,407</b>	<b>557,786</b>
<i>Metallurgy Division</i>	€ thousand	329,276	389,046	426,259
<i>Poultry Division</i>	€ thousand	84,622	123,492	131,659
<i>Adjustments</i>	€ thousand	0	-0,131	-0,132
Share of exports	%	81.0	81.5	80.4
EBIT	€ thousand	28,287	22,751	26,298
<b>EBITDA <sup>2</sup></b>	<b>€ thousand</b>	<b>84,342</b>	<b>55,858</b>	<b>57,426</b>
<i>Metallurgy Division</i>	€ thousand	47,324	45,457	43,683
<i>Poultry Division</i>	€ thousand	8,606	10,643	13,666
<i>Acquisitions and adjustments</i>	€ thousand	28,412	-0,241	0,077
EBITDA margin w/o acquisitions	%	13.5	10.9	10.3
Net profit	€ thousand	47,667	11,635	13,552
Capex <sup>3</sup>	€ thousand	53,196	39,190	22,376
<b>Net financial debt (NFD) <sup>4</sup></b>		<b>396,976</b>	<b>385,955</b>	<b>397,435</b>
<i>Metallurgy Division</i>	€ thousand	284,598	274,917	280,147
<i>Poultry Division</i>	€ thousand	36,695	40,181	35,277
<i>Acquisitions and adjustments</i>	€ thousand	75,683	70,857	82,012
<b>NFD/EBITDA <sup>5</sup></b>		<b>3.6</b>	<b>3.8</b>	<b>3.7</b>
<i>Metallurgy Division</i>		3.9	3.7	3.5
<i>Poultry Division</i>		1.6	1.6	1.2
<b>Employees as at 30 June</b>		<b>7,111</b>	<b>7,474</b>	<b>7,607</b>
<i>Metallurgy Division</i>		3,404	3,655	3,885
<i>Poultry Division</i>		3,707	3,819	3,722

<sup>1</sup> The Poultry Division is shown in the table for four months (from 1 March to 30 June 2016) as long as it is included in the consolidation.

<sup>2</sup> EBITDA: operating profit + depreciation and amortisation.

<sup>3</sup> Investments in subsidiaries are excluded.

<sup>4</sup> Net financial debt (NFD): principal of loans, financial leases and financial instruments - money and cash equivalents.

<sup>5</sup> NFD/EBITDA: EBITDA is shown for the past 12 months and includes impairments and reversal of impairments of current assets.

## ANALYSIS OF OPERATIONS OF THE SIJ GROUP

The business plan for 2018 predicts the disposal of the Poultry Division (PP Group). Therefore, in the analysis of operations, only the operations of the SIJ Group excluding the Poultry Division are shown, namely in the profit and loss account for the first half of 2018 and for comparable periods. The PP Group is disclosed in the profit and loss account as a discontinued operation.

### SIJ Group: Key Operating Figures

	Unit of measure	1–6 2016 <sup>1</sup>	1–6 2017	1–6 2018
<b>Physical ratios</b>				
Cast steel production	t	236,130	221,481	260,709
<b>Financial data</b>				
Revenues	€ thousand	329,272	389,025	426,244
Share of exports	%	85.0	86.6	84.4
Operating profit	€ thousand	24,194	20,398	19,052
EBITDA	€ thousand	46,874	45,653	43,789
EBITDA margin	%	14.2	11.7	10.3
Net profit	€ thousand	19,256	11,635	13,552
Capex <sup>2</sup>	€ thousand	50,120	36,999	16,751
<b>Employees as at 30 June</b>				
Number of employees		3,404	3,655	3,885

<sup>1</sup> The EBITDA, EBITDA margin and net earnings do not take into account the one-off effect from the business combination of the Poultry Division in the amount of €28,412 thousand.

<sup>2</sup> Investments in subsidiaries are excluded.



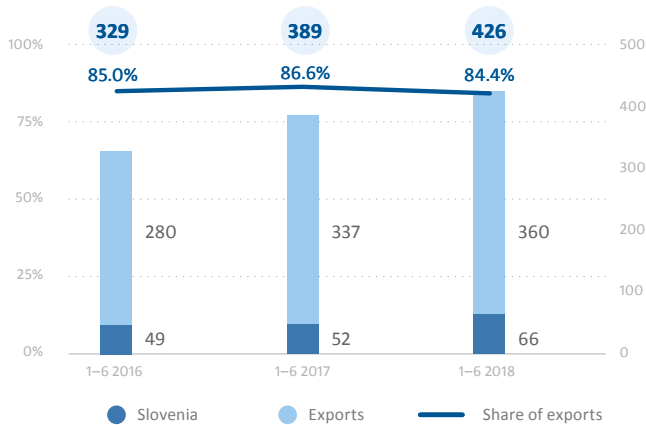


## REVENUES INCREASED

In the first half of 2018, we generated sales revenues of €37 million, which is 10 percent increase compared to the same period of 2017. It is a result of a trend of growing sales. The key source of growth originates from market growth.

The SIJ Group remains one of the largest exporters in the Slovenian economy. In foreign markets, €23 million more revenues were generated in the first half of 2018 or seven percent more of total sales than the same period in 2017. With exports at 84.4 percent in the first six months of this year, the SIJ Group remains one of the largest Slovenian exporters and has recorded a stable share of exports of well over 80 percent over the last decade. The decrease in the share of export is the result of both the structure of sales as well as the structure of markets.

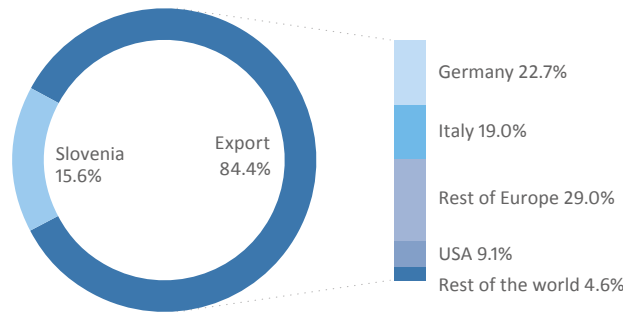
SIJ Group: Revenues (in € million) and Share of Exports (in percent)



## STABLE EXPORTS ON KEY MARKETS

Germany, Italy and other European countries continue to be the main export markets. On our largest export market, we sold 1.2 percentage points more than in the same period last year, while our second largest market shrunk by 2.5 percentage points. Compared to the previous year, the share of exports also increased in Poland, Hungary and Belgium, the same in the Russian market and other Eastern Europe countries.

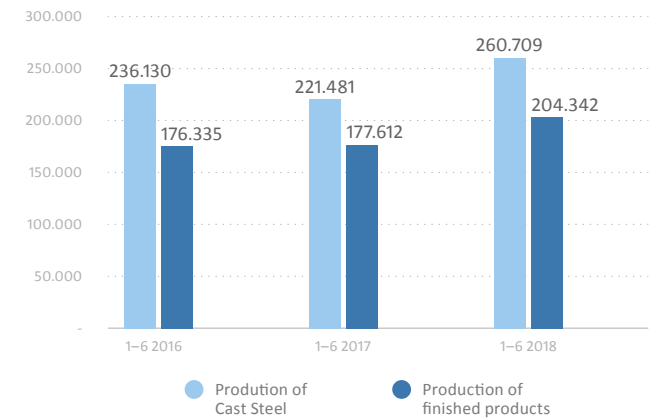
SIJ Group: Sales by Markets (in percent)



## CAST STEEL AND FINISHED PRODUCTS PRODUCTION

The total production of cast steel in the first half of 2018 grew by 18 percent in comparison to the same period last year. Quantities of finished products produced increased for 15 percent. At a time when the market situation encouraged sales growth, our production capacities satisfied increased demand, which we had the foresight to increase with investments in recent years. Thus, we created and made use of conditions for record production volumes.

SIJ Group: Production of Cast Steel and Production of Finished Products (in tonnes)



## SALES BY PRODUCT GROUPS

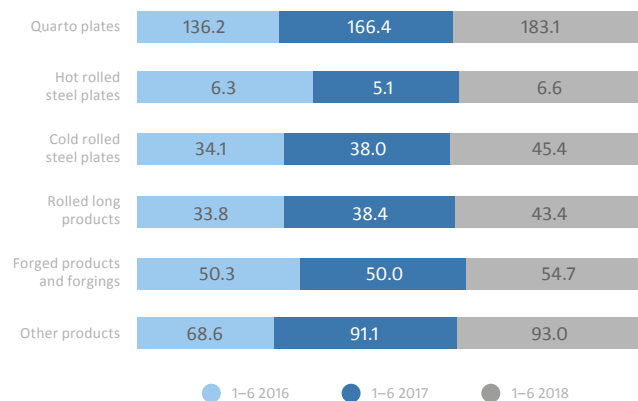
The Group maintains its position as manufacturer of high value-added steel for niche markets. Our leading ranges - stainless steel quarto plates, cold-rolled coils, rolled long products and forging range - retained the largest proportions in the Group's production mix.

In the flat range, favourable market conditions were mainly supported by the sale of stainless steel quarto plates, where we recorded a 10 percent increase in sales. With a 23.6 percent market share, the SIJ Group is ranked as the top supplier of stainless steel quarto plates in the European Union. On the European market, the consumption of stainless steel quarto plates decreased by 4 percent, which was also slightly reflected in the Group's production mix.

Sales growth was also recorded in the hot rolled coils, up by one third compared to the same period last year. The hot rolled coils is followed by the cold-rolled coils with 19 percent higher sales.

In the long range, we sold 13 percent more rolled products and increased sales of forged products by nine percent compared to the first half of 2017.

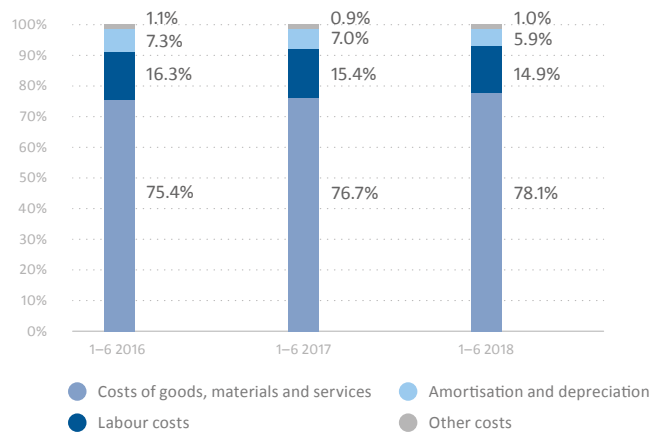
### SIJ Group: Sales by Product Groups (in € million)



## INFLUENCE OF ENERGY AND MATERIAL PRICES

The major costs of the SIJ Group, 78.1 percent of all costs in the first half of 2018, are the costs of goods, materials and services. In the structure of operating expenses, the costs of raw materials and energy products increased by almost a fifth due to the rise in prices.

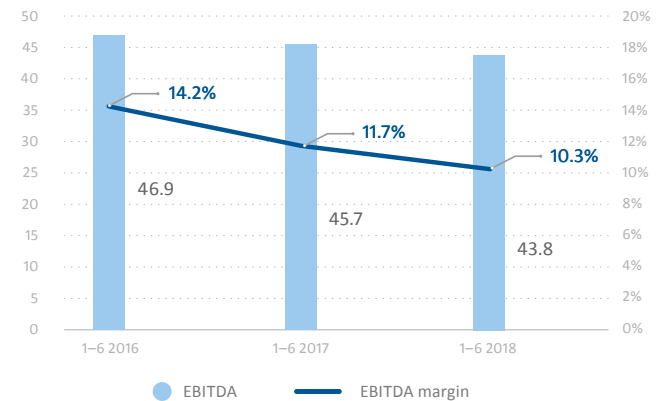
### SIJ Group: Structure of Operating Expenses (in percent)



## EBITDA MAINTAINED STABLE

The SIJ Group generated higher sales revenues, while also facing the rapid increase in the cost of materials, especially strategic raw materials, which directly affect the operational result. The growth of material prices mostly affected the manufacturing, service centres, and the sales network. However, the Steel Division succeeded in transmitting the price impact of strategic raw materials to sales prices. The transmission of higher costs, especially of energy products and graphite electrodes, to the sale price has not been part of the price model so far, therefore, their impact from the first half of the year is being transmitted to the sales price with a delay. The effect of these circumstances is expected in the next periods.

### SIJ Group: EBITDA (in € million) and EBITDA Margin (in percent)

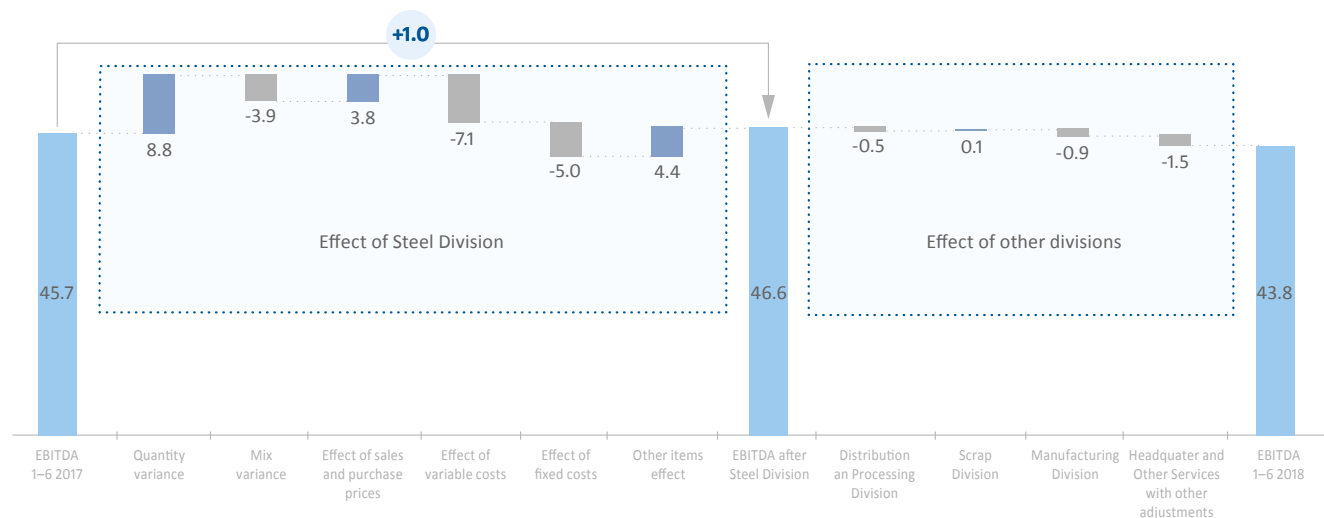


## HIGH PRICES OF STRATEGIC RAW MATERIALS WERE NEUTRALISED WITH GROWTH IN SALES PRICES

In the steel production, which contributes the most to the Group's operational results, quantities sold have had the most significant impact on achieving EBITDA. Quantities increased by 11.3 per cent compared to the same period last year. The positive trend in quantities sold and higher sales prices in the previous year continues. In line with the growing trend of steel consumption in the European Union in the first half of the year, the SIJ Group's production capacities were fully occupied.

Growth in sales prices neutralised the high prices of strategic raw materials, especially steel scrap, ferroalloys and refractory materials. Nevertheless, we were not able to completely offset the effect on profit due to the sales mix, where we mainly depend on the structure of orders.

SIJ Group: EBITDA Bridge (in € million)



## FINANCIAL POSITION

The business plan for 2018 predicts the disposal of the Poultry Division (PP Group). Therefore, in the analysis of operations, only the operations of the SIJ Group excluding the Poultry Division are

shown. For the period ended 30 June 2018 and the comparable periods, the PP Group is disclosed among assets and liabilities held for disposal.

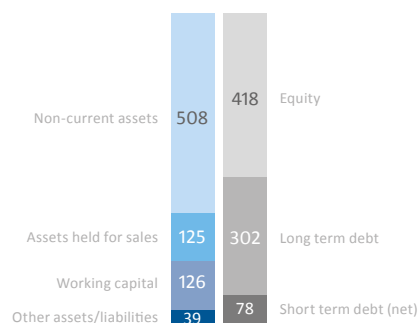
SIJ Group: Key Financial Figures as at 30 June

	Unit of measure	30.6.2016	30.6.2017	30.6.2018
<b>Statement of financial position</b>				
Total assets	€ thousand	943,899	1,183,119	1,148,668
Equity	€ thousand	359,033	425,246	417,864
Net financial debt (NFD)	€ thousand	355,070	345,776	362,182
<i>Metallurgy Division</i>	€ thousand	284,598	274,917	280,147
<i>Business combinations</i>	€ thousand	70,472	70,859	82,035
NFD/EBITDA		3.9	3.7	3.5

## HIGH SHARE OF CAPITAL AND LONG-TERM FUNDS

With its high share of capital and providing long-term sources of financing, the SIJ Group will continue to maintain a stable structure of assets and liabilities in the future. The SIJ Group continues to implement its existing financial policy of executing our investment strategy with long-term funds, and managing seasonal fluctuations of revolving capital using short-term funds.

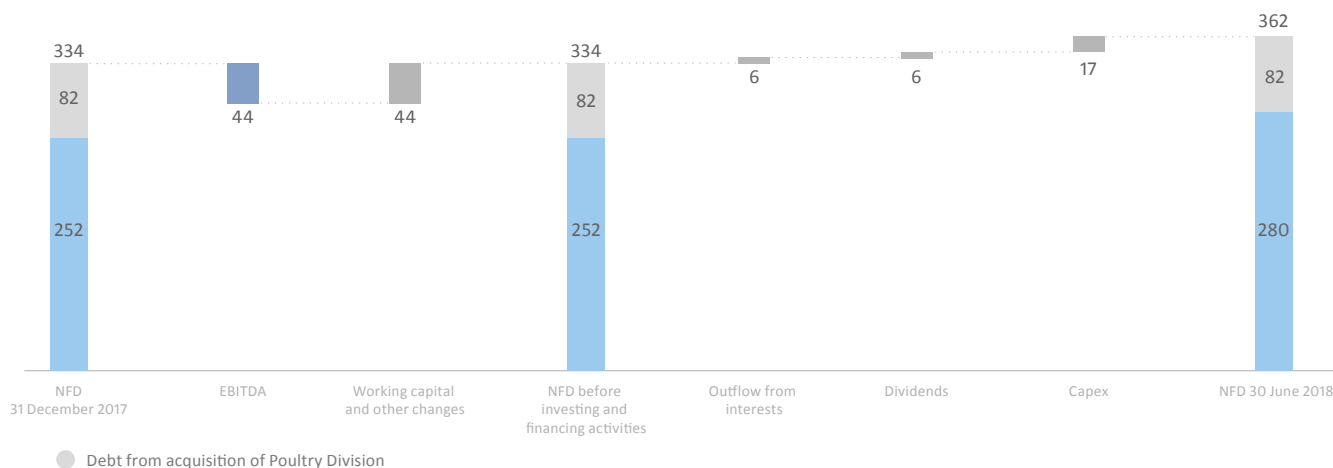
SIJ Group: Structure of Financial Position as at 30 June (in € million)



## OUR GOAL IS TO GRADUALLY REDUCE NET FINANCIAL DEBT

In the first half of the year, the net debt of the SIJ Group increased mainly due to changes in working capital and investments, where more than half of the debt during the period was covered by EBITDA. In 2018, in line with the planned easing of the investment cycle, we will reduce the investments projects. This is in line with the long-term strategy to gradually decrease the level of debt of the SIJ Group in the coming years.

SIJ Group: NFD Bridge (in € million)

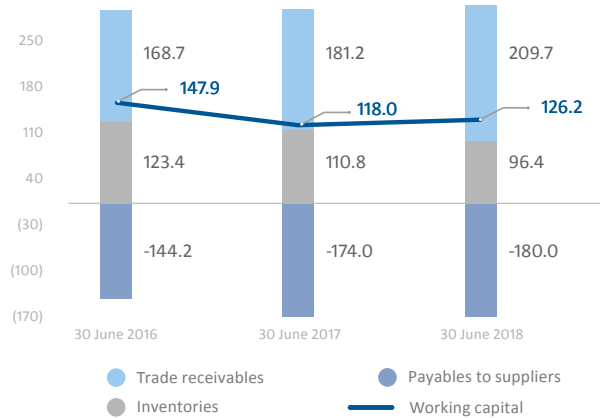




## WORKING CAPITAL MANAGEMENT

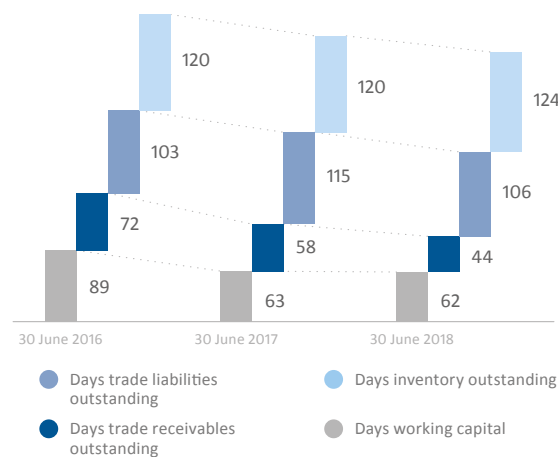
The SIJ Group pays appropriate attention to the management of working capital since working capital management is, at high investment values, key to ensuring positive cash flow. Yearly changes in working capital are managed with approved credit lines, while receivables and liabilities are actively and effectively monitored on a daily basis.

SIJ Group: Working Capital from Operations (in € million)



Compared to the same period last year, days working capital outstanding improved slightly. With active management of trade receivables, we further shortened the period of days trade receivables outstanding. As a result of the rising prices of strategic materials and raw materials and achieving better conditions with shorter payment terms, the period of days trade liabilities outstanding was consequently shortened. Inventory turnover periods were up due to cyclical production and the seasonal impact, which is more pronounced during the year.

SIJ Group: Days Working Capital from Operations

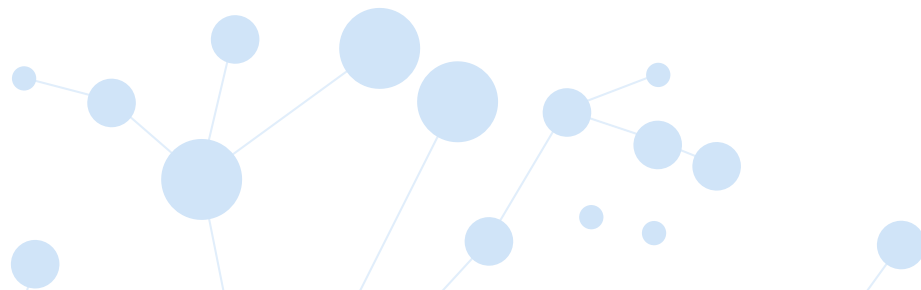
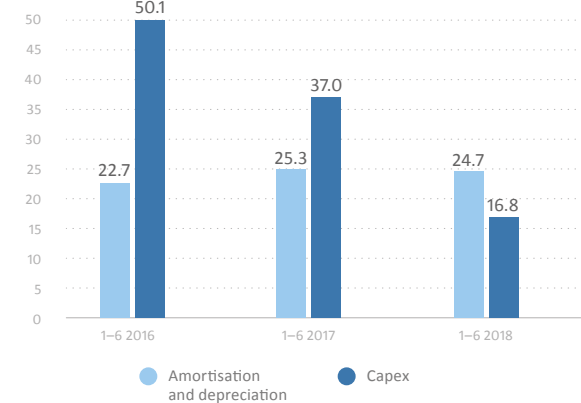


## SLOWDOWN OF THE INVESTMENT CYCLE

The major strategic investments in the modernisation and new production equipment completed in 2017, increased our production capacities and raised the level of production processes to a high level. In line with the slowdown of the investment cycle, in the first half of 2018, €16.8 million was earmarked for investments, which is less than half the amount spent in the same period last year. We mainly carried out projects that complement the production processes and ensure optimal operation of strategic projects, modernise technology and eliminate bottlenecks.

The impact of long-term intensive investment is still present in the financial structure of the SIJ Group. Depreciation remains at a high level due to the activation of major projects in the past period.

SIJ Group: Depreciation and Amortisation Costs and Capex (in € million)



## EXTERNAL BUSINESS ENVIRONMENT

### SALES

#### General economic trends in the first half of 2018:

- International economic activity has slowed down due to increased market uncertainty. In the Euro area, in the first quarter of 2018, economic activity was down 0.3 percent compared to the previous year.
- In the Euro area, GDP fell to 0.4 percent in the first quarter compared to the last quarter of 2017, when it stood at 0.7 percent. The decline in GDP was mainly due to increased uncertainty due to rising oil prices and the introduction of protectionist measures in the world's largest economies (US, European Union, China)<sup>1</sup>.
- In Germany, the SIJ Group's largest export market, positive economic dynamics continued in the first half of 2018 continued, mainly thanks to exports, while domestic consumption growth is slowing. The projected growth of real GDP for 2018 is 2.3 percent.
- The economy in Italy, the SIJ Group's second largest export market, will continue to grow steadily like in the previous year, mainly because of domestic consumption. In the first half of 2018, domestic production declined considerably. The projected growth in real GDP for 2018 is 1.5 percent.
- In the first half of 2018, the introduction of tariffs on steel and aluminium in the US did not have a significant impact on the European Union steel market as the tariffs for the European Union entered into force on 1 June.

<sup>1</sup> Source: [https://ec.europa.eu/info/sites/info/files/economy-finance/ecfin\\_forecast\\_spring\\_030518\\_de\\_en.pdf](https://ec.europa.eu/info/sites/info/files/economy-finance/ecfin_forecast_spring_030518_de_en.pdf) (11 July 2018)

#### Major trends in the steel markets in 2018:

- In the first half of 2018, world steel production increased by 4.6 percent compared to the same period in 2017.
- EU steel production increased 1.6 percent compared to the first half of 2017. Production growth in the first half of 2018 decreased by 2.5 percentage points compared to the same period of the previous year.
- Steel consumption in the EU<sup>2</sup> in the first quarter of 2018 grew by 3.6 percent compared to the same period last year, and by 3.3 percent in the second quarter. Expectations for the second half of 2018 are somewhat more conservative, with a slightly lower, 3.1 percent increase in consumption for 2018. Thus, the forecast for the year 2018 is a 2.1 percentage point lower growth in the consumption of steel than in the previous year.
- In the first half of 2018, steel imports into the EU from third countries decreased by 8 percent compared to the same period last year. In accordance with general steel trends, in the first half of 2018, in the segment of stainless steel quarto plates, imports increased by 6.2 percent, while in the tool steel industry (rods and plates), imports grew by 21.8 percent in the first quarter. This is the largest increase in the import of tool steels into the European Union seen in the first quarter of the year in the last eight years.

<sup>2</sup> Source: <http://www.eurofer.be/Issues%26Positions/Economic%20Development%20%26%20Steel%20Market/REPORT%20-%20Economic%20and%20Steel%20Market%20Outlook%20-%20Quarter%202,%202018.pdf> (2 July 2018).

### PURCHASES

The key raw materials for metallurgy industry are scrap steel, alloy scrap and ferroalloys, while raw materials for manufacturing companies include steel products and welding materials. Supplier management thus exceeds the scope of the price aspect. Other factors, such as the timeliness of deliveries, quality and responsiveness, support our competitive advantages.

The continuation of economic growth and the surge in demand for raw materials needed for production, which outstripped supply, also raised the level of prices in the first half of the year. Raw materials were produced under full occupancy of production capacities, but this did not satisfy the increased market demand. Additional short-term capacity increases in the production of raw materials are not possible. All this led to a further rise in prices, especially in the first quarter of 2018.

The automotive industry also exerted an additional pressure on the consumption of certain raw materials, as nickel, cobalt, and niedel coke are used in the manufacture of automotive batteries. This is because the development of sustainable mobility has become a significant trend in many industries, in line with global sustainability and development trends.

Sanctions and other restrictions such as the recent introduction of tariffs on imports of steel and aluminium into the US and the related retaliation measures of other countries, lead to further market fluctuations and uncertainty. In the first half of the year, short-term fluctuations in prices were also the result of environmental measures in China, which is the world's largest steel producer.

The situation on the market of graphite electrodes and refractory materials partially calmed down in terms of availability in the second half of the previous year, but the price levels are considerably higher than last year in the same period, which in turn increased the costs of steel production.

Prices of steel scrap, as well as other raw materials, recorded a positive trend and stabilised at higher levels than last year.

The SIJ Group continues to optimise its manufacturing and sales programme with products of high added value and thus expand the range of raw materials in accordance with the outlined strategy. We also continue to test the use of alternative materials suitable for use in the AOD convertor, which is one of the investments completed in SIJ Acroni in 2017, and thus take advantage of the benefits of such technology. In the first half of 2018, some alternative materials have already become part of the permanent recipes for steel production and are in regular use.

## EMPLOYEES

The SIJ Group and its companies are one of the largest employers in Slovenia. In the municipality of Ravne na Koroškem, SIJ Group companies employ more than one third of the active popula-

### SIJ Group: Key Data on Employees as at 30 June

	30.6.2016	30.6.2017	30.6.2018
Number of employees	3,404	3,655	3,885
Average age (in years)	44.6	43.6	41.1
Share of women (percent)	17.4	17.0	16.5
Number of disabled persons	339	327	327
Proportion of employees with at least secondary education (percent)	45.6	46.0	46.1
Sick leave (percent)	6.8	6.5	6.3
Number of accidents	81	101	77

tion, and almost one fifth of the active population in Jesenice. By increasing the number of employees, we are constantly strengthening our role as a pillar of employment in the regions of Gorenjska and Koroška.

At the end of the first six months of the year, the SIJ Group employed 3,885 workers, which is up 230 employees or 6.3 percent on the same period last year. The average age of employees

in the Group is gradually declining and amounted to 41.1 years in the first half of the year. Due to the specifics of working in production, SIJ Group employees are predominantly men. The share of women stands at 16.5 percent.

The SIJ Group has also seen declining levels of sick leave, which was 6.3 percent in the first half of the year, while in the first half of the year we recorded as much as 23.8 percent fewer accidents at work.

## RISK MANAGEMENT

The SIJ Group has established a comprehensive risk management system, covering both business risks typical to the Metallurgy Division and risks specific to the Poultry Division. The identification, monitoring, control and risk management for both divisions is carried out centrally and is based on a well-rounded, systematic process of planning, coordinating and reporting. The risk management process is established

at all levels of business management and decision-making, and priorities are determined according to the probability estimates for the occurrence of a particular risk and the impact assessment of individual risks on performance. We monitor and regulate the following risks: research and development risks, financial risks (liquidity, credit, exchange rate and interest rate risks), commercial risks (purchasing,

sales, investment, quality assurance risks), environmental, IT, HR, reputation and goodwill risks, and legal risks. All of these risks will be monitored and controlled in the second half of 2018. We do not expect these risks to have any negative effects on operations.

# FINANCIAL REPORT

FOR PERIOD ENDED  
on 30 JUNE 2018



BUSINESS REPORT OF  
the SIJ Group and the company SIJ d.d.  
FOR THE FIRST HALF OF 2018



## STATEMENT OF THE MANAGEMENT'S RESPONSIBILITY

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

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

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

- properly selected and consistently applied accounting policies;
- reasonable and rational assessments and estimates;
- the consolidated financial statements have been compiled in accordance with the IFRS as adopted by the European Union.

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

Anytime within 5 years after the end of the year in which the tax assessment should be made, the tax authorities can inspect the operations of the individual companies in the Group. This can result in an 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 a possible liability in this title is known to the Management Board.

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

The Management Board approved the consolidated financial statements, accounting policies and notes on 31 August 2018.

President of the Management Board  
ANDREY ZUBITSKIY

Member of the Management Board  
TIBOR ŠIMONKA

Member of the Management Board  
IGOR MALEVANOV

Member of the Management Board  
VIACHESLAV KORCHAGIN

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF SIJ GROUP AND THE FINANCIAL STATEMENTS OF SIJ D.D.

## REPORTING ENTITY

SIJ – Slovenska industrija jekla, d. d. (hereinafter: SIJ d.d. or controlling company) is a company with its registered office in Slovenia. Its registered address is Gerbičeva ulica 98, 1000 Ljubljana.

Given below are the unaudited consolidated financial statements for SIJ Group and financial statements for SIJ d.d. for the period ending on 30 June 2018. 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.

Consolidated financial statements for a selected group of subsidiaries are compiled by the SIJ d.d. Consolidated financial statements for a wider group of subsidiaries are compiled by DILON Cooperatief U. A.. The consolidated report for the period ending on 30 June 2018 isn't compiled by DILON Cooperatief U.A. The consolidated annual report for the 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

## STATEMENT OF COMPLIANCE

The financial statements for the period ending on 30 June 2018 have been prepared in compliance with the IFRS as adopted by European Union. The standards have been applied directly in disclosures and valuations of items. The exception was the valuation of items for which the standards allow several methods of valuation.

The financial statements for the period ending on 30 June 2018 have been prepared in accordance with the same accounting policies as used in the annual report 2017.

The financial statements in this report are presented in thousands euros. Due to the rounding off of value amounts, there might be insignificant deviations to the sums given in tables.

## BASIS OF MEASUREMENT

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

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

## FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements in this report are presented in thousands euros; the euro is also the functional currency of the Group's controlling company, which compiles consolidated financial statements.

## APPLICATION OF ESTIMATES AND JUDGMENTS

The preparation of 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.

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

- estimate of the useful life of assets subject to depreciation;
- impairment test of assets;
- estimate of the fair value of available-for-sale financial assets;
- estimate of the fair value of financial assets measured at fair value through profit or loss;
- estimate of the net realisable value of inventories;
- estimate of the collectible amount of receivables;
- estimate of the created provisions;
- estimate of the possibility for realisation of deferred tax assets.

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

## COMPOSITION OF THE GROUP OF RELATED PARTIES

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 € thousand	Activity	% of voting rights	Value of assets as at 30 June 2018	Value of equity as at 30 June 2018	Net profit (loss) for period ended 30 June 2018
<b>Controlling company of the Group</b>					
SIJ – Slovenska industrija jekla, d. d., Gerbičeva ulica 98, Ljubljana, Slovenia	Activities of head offices		375,820	202,049	724
<b>SIJ – subsidiaries</b>					
SIJ ACRONI d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	Steel production	100	445,713	170,472	964
SIJ METAL RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Steel production	100	224,389	83,336	3,517
NOŽI RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Industrial knives production	100	9,396	4,411	(248)
SIJ ELEKTRODE JESENICE d.o.o., Cesta železarjev 8, Jesenice, Slovenia	Welding materials production	100	10,935	3,576	(109)
SIJ SUZ d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	Drawn wires production	100	5,945	2,605	306
SIJ ZIP CENTER d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Education and training of the disabled	100	2,177	634	55
ODPAD d.o.o. Pivka, Velika Pristava 23, Pivka, Slovenia	Recovery of secondary raw materials from scrap	74.90	28,025	7,395	610
NIRO Wenden GmbH, Glück-Auf-Weg 2, Wenden, Germany	Steel cutting, engineering and trade	85	14,156	(1,536)	(352)
SIJ RAVNE STEEL CENTER d.o.o., Litostrojska cesta 60, Ljubljana, Slovenia	Trade	77.28	33,697	18,457	1,080
GRIFFON & ROMANO S.P.A., Via Dossetti 11, Loc. Casinello de Dosso, Italy	Heat processing and special steel trade	100	26,898	(156)	(132)
SIJ Asia GmbH, Berger Str. 2, 40213 Düsseldorf, Germany	Trade	100	367	256	(175)

in € thousand	Activity	% of voting rights	Value of assets as at 30 June 2018	Value of equity as at 30 June 2018	Net profit (loss) for period ended 30 June 2018
SIJ RAVNE SYSTEMS d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Metallurgic machines production	100	47,174	7,964	(11)
SIJ Polska Sp. Z o.o., ul. Zamkowa 7 lok.11, Poznan, Poland	Trade	100	1	1	-
PERUTNINA PTUJ d. d., Potrčeva cesta 10, Ptuj, Slovenia	Processing and preserving of poultry meat	90.69	188,896	109,441	4,147
HOLDING PMP d. d., Vinarski trg 1, Ptuj, Slovenia	Financial service activities	100	8,113	8,113	17
<b>PERUTNINA PTUJ – subsidiaries</b>					
PP ENERGIJA, d.o.o., Potrčeva cesta 10, Ptuj, Slovenia	Production of electricity	100	4,830	578	35
Perutnina Ptuj-Topiko d. o. o., Petefi Brigade 2, Bačka Topola, Serbia	Processing and preserving of poultry meat	100	27,082	17,313	183
PP MI ZALOG d. o. o., Hladilniška pot 37, Ljubljana, Slovenia	Processing and preserving of poultry meat	100	19,058	13,269	399
Perutnina Ptuj – Pipo Čakovec d. o. o., Rudolfa Steinerja 7, Čakovec, Croatia	Processing and preserving of poultry meat	99.66	25,782	15,848	1,157
Perutnina Ptuj-BH d. o. o., Potkrajaska bb, Breza, Bosnia and Herzegovina	Processing and preserving of poultry meat	100	20,718	10,336	1,076
Ptujska klet d. o. o., Vinarski trg 1, Ptuj, Slovenia	Growing of grapes	100	5,613	2,516	(48)
Perutnina Romania S. r. l., Str. 13 Decembrie Nr. 96, Brasov, Romania	Trade	100	1,128	165	43
Perutnina Ptuj S d. o. o., Povelic b. b., Srbac, Bosnia and Herzegovina	Processing and preserving of poultry meat	100	14,126	2,167	306

in € thousand	Activity	% of voting rights	Value of assets as at 30 June 2018	Value of equity as at 30 June 2018	Net profit (loss) for period ended 30 June 2018
PP Gostinstvo d. o. o., Dravska ulica 9, Ptuj, Slovenia	Restaurants and inns	100	417	(496)	(43)
Gradbeni remont d. o. o., Žnidaričevo nabrežje 10, Ptuj, Slovenia	Construction	100	716	515	6
PP BRO ŽIVA d. o. o., Petefi Brigade 2, Bačka Topola, Serbia	Processing and preserving of poultry meat	60	648	1	(87)
Perutnina Ptuj doool Skopje, ul. Pero Nakov 108-A, Skopje, Macedonia	Trade	100	2,300	80	113
Veterinarska ambulanta PP d. o. o., Potrčeva 6, Ptuj, Slovenia	Veterinary activities	45	1,117	381	23
Perutnina Austria GmbH, Haushammerstrasse 1, Seiesberg, Austria	Trade	100	2,084	564	193
PP - Agro d. o. o., Tržaška cesta 41A, Maribor, Slovenia	Mixed farming	100	16,105	11,558	237
NAŠA d. o. o., Potrčeva cesta 10, Ptuj, Slovenia	Trade	100	478	(545)	(188)
<b>Perutnina Ptuj - Pipo Čakovec – subsidiaries</b>					
Eko ENERGIJA d.o.o., Rudolfa Steinerja 7, Čakovec, Croatia	Production of electricity	100	193	168	18
<b>Perutnina Ptuj - Topiko – subsidiaries</b>					
TOP-VETERINA d. o. o., Dušana Popivode b.b., Bačka Topola, Serbia	Veterinary activities	100	369	98	8
<b>SIJ ACRONI – subsidiaries</b>					
ŽELEZARNA JESENICE, d.o.o., Cesta železarjev 8, Jesenice, Slovenia	Trading with own real estate	100	10,232	9,742	46
<b>SIJ METAL RAVNE – subsidiaries</b>					
KOPO International Inc., 100 Village Court, Suite # 202, Hazlet, New Jersey 07730, USA	Trade	100	31,594	2,499	697

in € thousand	Activity	% of voting rights	Value of assets as at 30 June 2018	Value of equity as at 30 June 2018	Net profit (loss) for period ended 30 June 2018
<b>ODPAD – subsidiaries</b>					
DANKOR, d.o.o., Vukovarska 436, Osijek, Croatia	Recovery of secondary raw materials from scrap	91	1,555	482	129
METAL-EKO SISTEM DOO JAGODINA, Put Kneza Mihaila 107, Jagodina, Serbia	Recovery of secondary raw materials from scrap	70	3,704	1,551	(21)
"TOPMETAL" d.o.o. Laktaši, Karađorđeva 69, 78250 Laktaši, Bosnia and Herzegovina	Recovery of secondary raw materials from scrap	51	1,492	470	(94)
<b>SIJ Ravne Steel Center – subsidiaries</b>					
SIDERTOCE S. p. A., Via XX. Settembre 198, C. P. 34, Gravelona Toce, Italy	Trade	100	13,621	4,283	357
SIJ MWT GmbH, Celsiusstrasse 17, Germany	Trade	100	3,692	245	(14)
ORO MET d.o.o., Neverke 56, Košana, Slovenia	Manufacture of other tools	51	11,254	5,732	665
<b>NOŽI RAVNE – subsidiaries</b>					
SIJ Ravne Systems (UK) Limited, 12 Conqueror Court, Sittingbourne, Kent, ME10 5BN, Great Britain	Trade	100	768	33	(4)
SIJ Ravne Systems USA Inc., 2711 Centerville Road, Suite 400, Wilmington, Country of New Castle, Delaware 19808, USA	Trade	100	100	(355)	(140)
<b>SIJ Asia – subsidiaries</b>					
SIJ Steel (Shanghai) Co., Ltd., Rm.320, 2449 Gonghexin Road, Zhabei District, Shanghai 200072, China	Trade	100	34	28	4

In 2018, disposition activities of the investments in Perutnina Ptuj Group are under way. The Management Board estimates that the disposition will be concluded in 2018, therefore it presents their assets and liabilities as assets and liabilities held for disposals, and their profit as discontinued operations.



# FINANCIAL REPORT OF THE SIJ GROUP

FOR PERIOD ENDED  
ON 30 JUNE 2018



BUSINESS REPORT OF  
the SIJ Group and the company SIJ d.d.  
FOR THE FIRST HALF OF 2018

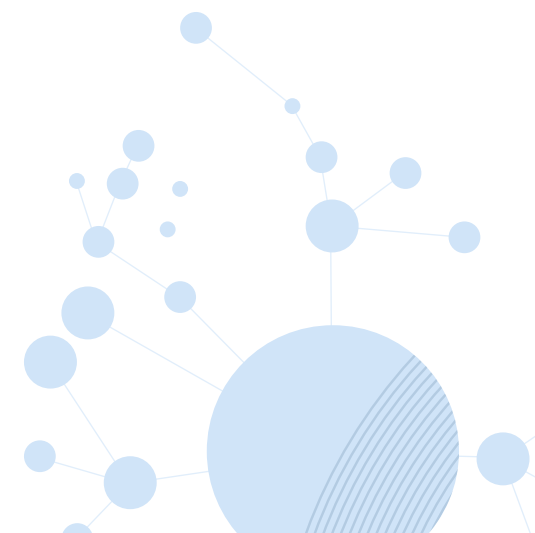
# CONSOLIDATED FINANCIAL STATEMENTS OF THE SIJ GROUP

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in € thousand	Note	1–6 2018	1–6 2017
Revenue	1	426,243	389,025
Cost of sales	2	(327,370)	(307,759)
<b>Gross profit</b>		<b>98,873</b>	<b>81,266</b>
Distribution costs	2	(29,889)	(22,034)
General and administrative expenses	2	(49,908)	(41,668)
Other operating income	3	1,709	4,827
Other operating expenses	3	(1,733)	(1,993)
<b>Profit from operation</b>		<b>19,052</b>	<b>20,398</b>
Finance income	4	846	699
Finance expenses	4	(9,411)	(9,973)
<b>Net finance costs</b>		<b>(8,566)</b>	<b>(9,274)</b>
Share of profit in associates		41	56
<b>Profit before tax</b>		<b>10,527</b>	<b>11,180</b>
Income tax expense		(1,053)	(702)
Deffered income tax		(1,402)	(68)
<b>Profit for the period from continuing operations</b>		<b>8,072</b>	<b>10,410</b>
Profit from discontinued operations		5,480	1,225
<b>Profit for the period</b>		<b>13,552</b>	<b>11,635</b>
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Income tax related to components of comprehensive income		(69)	(13)
<i>Items that may be reclassified subsequently to profit or loss</i>			
Change in fair value reserves for available-for-sale financial assets		66	47

in € thousand	Note	1–6 2018	1–6 2017
Exchange rate difference on translating foreign operations		160	285
Other changes in comprehensive income		0	76
<b>Comprehensive income</b>		<b>13,709</b>	<b>12,030</b>
<b>Profit attributed to:</b>			
Owners of the controlling company		12,643	10,963
Non-controlling interest		909	672
Basic and diluted earnings per share (in €)	5	13.07	11.34
<b>Comprehensive income attributed to:</b>			
Owners of the controlling company		12,715	11,250
Non-controlling interest		994	780

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 € thousand	Note	30 June 2018	31 December 2017
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>507,595</b>	<b>520,570</b>
Intangible assets	6	34,122	35,069
Property, plant and equipment	7	443,731	452,508
Investment property		159	166
Investments in associates		1,757	1,716
Available-for-sale financial assets		1,275	1,215
Financial receivables		30	30
Operating receivables		22	198
Other assets		521	2,287
Deferred tax assets		25,978	27,381
<b>Current assets</b>		<b>641,073</b>	<b>631,614</b>
Assets held for disposal (disposal groups)		266,951	270,038
Inventories	8	209,728	205,037
Financial receivables		36,037	25,848
Operating receivables	9	101,057	92,766
Income tax assets		487	1,023
Cash and cash equivalents	10	21,226	34,909
Other assets	11	5,587	1,993
<b>Total assets</b>		<b>1,148,668</b>	<b>1,152,184</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	12	<b>417,864</b>	<b>415,512</b>
<b>Equity attributed to owners of the controlling company</b>		<b>398,581</b>	<b>396,877</b>
Share capital		145,266	145,266
Capital surplus		11,461	11,461
Revenue reserves		811	811
Fair value reserves		(2,309)	(2,366)
Translation differences		845	593
Retained earnings		242,507	241,112
<b>Non-controlling interest</b>		<b>19,283</b>	<b>18,635</b>
<b>Non-current liabilities</b>		<b>301,557</b>	<b>285,766</b>

in € thousand	Note	30 June 2018	31 December 2017
Employee benefits		14,136	14,160
Other provisions		1,148	1,148
Deferred revenues		1,902	1,925
Financial liabilities	13	283,927	268,115
Operating liabilities		424	403
Deferred tax liabilities		20	15
<b>Current liabilities</b>		<b>429,247</b>	<b>450,906</b>
Liabilities directly associated with assets classified as held for sale		124,761	133,017
Financial liabilities	13	98,862	97,330
Operating liabilities	14	197,112	217,985
Income tax liabilities		475	394
Other liabilities		8,037	2,180
<b>Total equity and liabilities</b>		<b>1,148,668</b>	<b>1,152,184</b>

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 on 30 June 2018

in € thousand	Equity attributed to the owners of the controlling company							Non-controlling interest	Total
	Share capital	Capital surplus	Revenue reserves	Fair value reserves	Translation differences	Retained earnings	Total		
<b>Balance as at 31 December 2017</b>	<b>145,266</b>	<b>11,461</b>	<b>811</b>	<b>(2,366)</b>	<b>593</b>	<b>241,113</b>	<b>396,878</b>	<b>18,635</b>	<b>415,513</b>
Changes due to the implementation of IFRS 9	0	0	0	0	0	(5,316)	(5,316)	(345)	(5,661)
<b>Balance as at 1 January 2018</b>	<b>145,266</b>	<b>11,461</b>	<b>811</b>	<b>(2,366)</b>	<b>593</b>	<b>235,797</b>	<b>391,562</b>	<b>18,290</b>	<b>409,852</b>
Dividends paid	0	0	0	0	0	(5,696)	(5,696)	0	(5,696)
<b>Total transactions with owners</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(5,696)</b>	<b>(5,696)</b>	<b>0</b>	<b>(5,696)</b>
Profit for the period	0	0	0	0	0	12,643	12,643	909	13,552
Other changes in comprehensive income	0	0	0	57	252	(237)	72	85	157
<b>Total changes in comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>57</b>	<b>252</b>	<b>12,406</b>	<b>12,715</b>	<b>994</b>	<b>13,709</b>
<b>Balance as at 30 June 2018</b>	<b>145,266</b>	<b>11,461</b>	<b>811</b>	<b>(2,309)</b>	<b>845</b>	<b>242,507</b>	<b>398,581</b>	<b>19,283</b>	<b>417,864</b>

### Consolidated Statement of Changes in Equity in 2017

in € thousand	Equity attributed to the owners of the controlling company							Non-controlling interest	Total
	Share capital	Capital surplus	Revenue reserves	Fair value reserves	Translation differences	Retained earnings	Total		
<b>Balance as at 31 December 2016</b>	<b>145,266</b>	<b>11,461</b>	<b>811</b>	<b>(385)</b>	<b>149</b>	<b>231,740</b>	<b>389,042</b>	<b>34,429</b>	<b>432,471</b>
Acquisitions of non-controlling interest	0	0	0	0	0	5,615	5,615	(17,074)	(11,459)
Dividends paid	0	0	0	0	0	(9,970)	(9,970)	0	(9,970)
<b>Total transactions with owners</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(4,355)</b>	<b>(4,355)</b>	<b>(17,074)</b>	<b>(21,429)</b>
Profit for the year	0	0	0	0	0	13,727	13,727	1,228	14,955
Other changes in comprehensive income	0	0	0	(1,981)	444	0	(1,537)	51	(1,485)
<b>Total changes in comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(1,981)</b>	<b>444</b>	<b>13,727</b>	<b>12,190</b>	<b>1,280</b>	<b>13,470</b>
<b>Balance as at 31 December 2017</b>	<b>145,266</b>	<b>11,461</b>	<b>811</b>	<b>(2,366)</b>	<b>593</b>	<b>241,112</b>	<b>396,877</b>	<b>18,635</b>	<b>415,512</b>

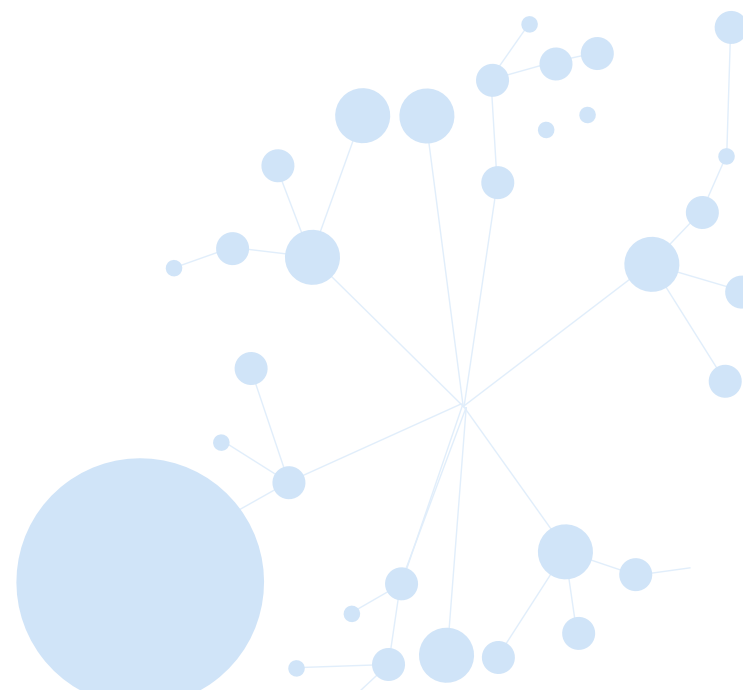
The notes to the consolidated financial statements are an integral part of the consolidated financial statements and should be read in conjunction with them.

## CONSOLIDATED CASH FLOW STATEMENT

in € thousand	Note	1–6 2018	1–6 2017
<b>Cash flow from operating activities</b>			
<b>Profit before tax</b>		<b>16,802</b>	<b>12,446</b>
Adjusted for:			
Depreciation and amortisation	6, 7	31,128	33,108
Share of profit in associates		(41)	(56)
Interest income	4	(710)	(649)
Interest expenses	4	7,884	8,118
Other adjustments		(3,358)	(138)
<b>Operating cash flows before changes in working capital</b>		<b>51,705</b>	<b>52,829</b>
<b>Changes in working capital</b>			
Change in operating receivables		(19,470)	(52,260)
Change in inventories		(5,315)	20,930
Change in operating payables		(11,692)	13,187
Change in taxes other than income tax		1,357	1,446
Other direct payments		(1,084)	(1,637)
<b>Changes in working capital</b>		<b>(36,204)</b>	<b>(18,334)</b>
<b>Net cash generated from operating activities</b>		<b>15,501</b>	<b>34,495</b>
<b>Cash flow from investing activities</b>			
Payments for investments in subsidiaries		0	(285)
Payments for property, plant and equipment		(20,485)	(35,374)
Receipts from property, plant and equipment		640	368
Payments for intangible assets		(418)	(1,929)
Payments for loans issued		(9,551)	(4,700)
Receipts from loans issued		89	259
Interests received		43	84
Receipts for other assets		72	103
<b>Net cash used in investing activities</b>		<b>(29,610)</b>	<b>(41,474)</b>

in € thousand	Note	1–6 2018	1–6 2017
<b>Cash flow from financing activities</b>			
Receipts from borrowings		257,969	509,013
Payments for borrowings		(251,590)	(471,001)
Payments for financial lease		(1,183)	(1,339)
Payments for finance services		(1,238)	(1,109)
Interest paid		(6,101)	(6,699)
Dividends paid		(5,696)	(3,530)
<b>Net cash (used)/generated in financing activities</b>		<b>(7,839)</b>	<b>25,335</b>
Cash and cash equivalents as at 1 January		69,534	59,443
Translation differences		30	58
(Decrease)/Increase		(21,948)	18,356
<b>Cash and cash equivalents as at 30 June</b>		<b>47,616</b>	<b>77,857</b>

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



# NOTES TO INDIVIDUAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. REVENUE

in € thousand	1–6 2018	1–6 2017
In Slovenia	66,479	52,247
In other countries	359,764	336,778
<b>Revenue</b>	<b>426,243</b>	<b>389,025</b>

## 2. OPERATING EXPENSES

in € thousand	1–6 2018	1–6 2017
Costs of goods, materials and services	326,608	278,443
Labour costs	62,436	56,079
Depreciation and amortisation costs	24,737	25,256
Other costs	4,266	3,350
Changes in the value of inventories	(10,880)	8,333
<b>Operating expenses</b>	<b>407,167</b>	<b>371,461</b>

### Review of Costs by Type on 30 June 2018

in € thousand	Cost of sales	Distribution costs	General and administrative expenses	Total
Costs of goods, materials and services	281,610	26,214	18,784	326,608
Labour costs	33,235	3,402	25,799	62,436
Depreciation and amortisation costs	21,233	240	3,264	24,737
Other costs	2,172	33	2,061	4,266
Changes in the value of inventories	(10,880)	0	0	(10,880)
<b>Operating expenses</b>	<b>327,370</b>	<b>29,889</b>	<b>49,908</b>	<b>407,167</b>

### Review of Costs by Type on 30 June 2017

in € thousand	Cost of sales	Distribution costs	General and administrative expenses	Total
Costs of goods, materials and services	247,204	18,343	12,896	278,443
Labour costs	28,730	3,333	24,016	56,079
Depreciation and amortisation costs	21,709	329	3,218	25,256
Other costs	1,783	29	1,538	3,350
Changes in the value of inventories	8,333	0	0	8,333
<b>Operating expenses</b>	<b>307,759</b>	<b>22,034</b>	<b>41,668</b>	<b>371,461</b>

## 3. OTHER OPERATING INCOME AND EXPENSES

in € thousand	1–6 2018	1–6 2017
Revenues from received subsidies	946	907
Reversal of impairments	322	2,609
Other income	441	1,311
<b>Other operating income</b>	<b>1,709</b>	<b>4,827</b>
Expenses for donations and sponsorships	(183)	(380)
Allowances for receivables	(1,112)	(1,145)
Other expenses	(438)	(468)
<b>Other operating expenses</b>	<b>(1,733)</b>	<b>(1,993)</b>
<b>Net other operating (expenses)/income</b>	<b>(24)</b>	<b>2,834</b>



#### 4. FINANCE INCOME AND EXPENSES

in € thousand	1–6 2018	1–6 2017
Interest income	663	583
Exchange rate differences	150	116
Other income	33	0
<b>Finance income</b>	<b>846</b>	<b>699</b>
Interest expenses	(6,859)	(6,956)
Exchange rate differences	(24)	(175)
Other expenses	(2,529)	(2,842)
<b>Finance expenses</b>	<b>(9,412)</b>	<b>(9,973)</b>
<b>Net finance costs</b>	<b>(8,566)</b>	<b>(9,274)</b>

#### 5. NET EARNINGS PER SHARE

	1–6 2018	1–6 2017
Profit attributed to owners of controlling company in € thousand	12,643	10,963
Weighted number of issued ordinary shares	967,016	967,016
<b>Basic and diluted earnings per share in €</b>	<b>13.07</b>	<b>11.34</b>

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

#### 6. INTANGIBLE ASSETS

in € thousand	30 June 2018	31 December 2017
Non-current property rights	15,332	15,003
Goodwill	18,286	18,286
Assets under construction	504	1,780
<b>Present value</b>	<b>34,122</b>	<b>35,069</b>

Intangible assets are not pledged as security for liabilities. The Group reviewed the value of intangible assets and established that the present amount does not exceed the recoverable amount.

#### 7. PROPERTY, PLANT AND EQUIPMENT

in € thousand	30 June 2018	31 December 2017
Land	34,297	34,040
Buildings	101,032	102,451
Equipment	287,667	297,084
Other	8,988	9,213
Assets under construction	11,747	9,720
<b>Present value</b>	<b>443,731</b>	<b>452,508</b>

Property, plant and equipment, with the current value on 30 June 2018 amount to €5,855 thousand (2017: €5,685 thousand) are pledged as security for liabilities. The Group reviewed the value of property, plant and equipment and established that the present amount does not exceed the recoverable amount.

#### 8. INVENTORIES

in € thousand	30 June 2018	31 December 2017
Raw material	79,283	82,973
Work in progress	76,999	67,272
Finished products	37,483	39,561
Trade goods	15,963	15,231
<b>Inventories</b>	<b>209,728</b>	<b>205,037</b>

Inventories are not pledged as security for liabilities. The Group reviewed the value of inventories and established that the present amount does not exceed the recoverable amount.

#### 9. CURRENT OPERATING RECEIVABLES

in € thousand	30 June 2018	31 December 2017
Trade receivables	96,412	84,361
VAT receivables	1,981	3,494
Issued advance payments and cautions	1,710	3,111
Other operating receivables	954	1,800
<b>Current operating receivables</b>	<b>101,057</b>	<b>92,766</b>

The majority of the Group's trade receivables are insured against commercial risks with an insurance company. Trade receivables in the amount of €3,642 thousand on 30 June 2018 (2017: €15,643 thousand) are pledged as security for liabilities. The disclosed value of operating receivables does not exceed their realizable value.

## 10. CASH AND CASH EQUIVALENTS

in € thousand	30 June 2018	31 December 2017
Cash in the bank account and petty cash	21,226	34,909
<b>Cash and cash equivalents</b>	<b>21,226</b>	<b>34,909</b>

Deposits in the amount of €76 thousand (2017: €76 thousand) are in the national currency and have a maturity of up to three months. The interest rate for deposits is fixed.

## 11. OTHER CURRENT ASSETS

in € thousand	30 June 2018	31 December 2017
Other assets	5,587	1,992
<b>Other current assets</b>	<b>5,587</b>	<b>1,992</b>

Current deferred expenses refer to the advance payments costs, which will in short term evenly debit profit or loss. Because most of the advance payments are deferred within the year, the amount of other current assets is higher as on 31 December 2017.

## 12. EQUITY

in € thousand	30 June 2018	31 December 2017
<b>Equity attributed to the owners of the controlling company</b>	<b>398,581</b>	<b>396,877</b>
Share capital	145,266	145,266
Capital surplus	11,461	11,461
Revenue reserves	811	811
Fair value reserves	(2,309)	(2,366)
Translation differences	845	593
Retained earnings	242,507	241,112
<b>Non-controlling interest</b>	<b>19,283</b>	<b>18,635</b>
<b>Equity</b>	<b>417,864</b>	<b>415,512</b>

The share capital of the controlling company is recognised in the amount of €145,266 thousand and is distributed among 994,616 shares. The face value of each share is €146.05. The number of shares did not change in 2018.

## Ownership Structure of the Controlling Company

Shareholder	Number of shares 30 June 2018	Number of shares 31 December 2017
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
<b>Total</b>	<b>994,616</b>	<b>994,616</b>

The ownership structure of the controlling company did not change in 2018.

## Revenue Reserves

in € thousand	30 June 2018	31 December 2017
Legal reserves	3,065	3,065
Treasury shares	(6,009)	(6,009)
Reserves for treasury shares	3,755	3,755
<b>Revenue reserves</b>	<b>811</b>	<b>811</b>

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

In 2018, the controlling company did not create legal reserves from its profit.

### 13. NON-CURRENT AND CURRENT FINANCIAL LIABILITIES

in € thousand	30 June 2018	31 December 2017
Borrowings	187,400	172,184
Liabilities for bonds issued	93,868	93,802
Liabilities arising from finance lease	2,659	2,129
<b>Non-current financial liabilities</b>	<b>283,927</b>	<b>268,115</b>
Borrowings	66,627	67,347
Liabilities for commercial papers issued	27,186	26,993
Interest liabilities	3,525	1,602
Liabilities arising from finance lease	1,375	1,307
Other financial liabilities	149	81
<b>Current financial liabilities</b>	<b>98,862</b>	<b>97,330</b>
<b>Total financial liabilities</b>	<b>382,789</b>	<b>365,445</b>

#### Borrowings

Borrowings include loans from domestic and foreign banks. Borrowings in the amount of €6,339 thousand (2017: €29,319 thousand) are secured with real estate, movable property, receivables and inventories. Other borrowings are not secured. The interest rate for the majority of borrowings is flexible and based on EURIBOR.

#### Liabilities for Bonds Issued

Liabilities for bonds issued refer to the bonds issued with the ticker symbol of SIJ4. The controlling company issued bonds with the total nominal value of €42,897 thousand in November 2014. The entire bond issue contains 42,897 denominations of €1 thousand. The bond maturity date is 24 November 2019. The interest rate for the bonds is fixed, i.e. 4.50 percent per annum. Interest is accrued annually in arrears. The nominal value of the principal falls due, in full and in a single amount, on the maturity of the bond. The bonds have been traded on the Ljubljana Stock Exchange.

Liabilities for bonds issued refer to the bonds issued with the ticker symbol of SIJ5. The controlling company issued bonds with the total nominal value of €51,218 thousand in July 2015. The entire bond issue contains 51,218 denominations of €1 thousand. The bond maturity date is 21 July 2020. The interest rate for the bonds is fixed, i.e. 4.00 percent per annum. Interest is accrued annually in arrears. The nominal value of the principal falls due, in full and in a single amount, on the maturity of the bond. The bonds have been traded on the Ljubljana Stock Exchange.

#### Liabilities for Commercial Papers Issued

Liabilities for commercial papers amounting to €27,325 thousand refer to 12-month commercial papers with the ticker symbol SIK04, issued by the controlling company on 15 December 2017 as a 4th issue. The total nominal value of the commercial papers is €27,325 thousand, and covers denominations of €1 thousand. The interest rate for a commercial paper is 1.1 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 14 December 2018. Commercial papers are traded on Ljubljana Stock Exchange. The controlling company repaid the 3rd issue of commercial papers with the ticker symbol SIK03 on the maturity day.

### 14. CURRENT OPERATING LIABILITIES

in € thousand	30 June 2018	31 December 2017
Liabilities to suppliers	182,482	204,507
Liabilities to employees	5,978	5,266
Received advance payments	2,102	1,841
Tax liabilities	5,646	4,950
Other liabilities	904	1,421
<b>Current operating liabilities</b>	<b>197,112</b>	<b>217,985</b>



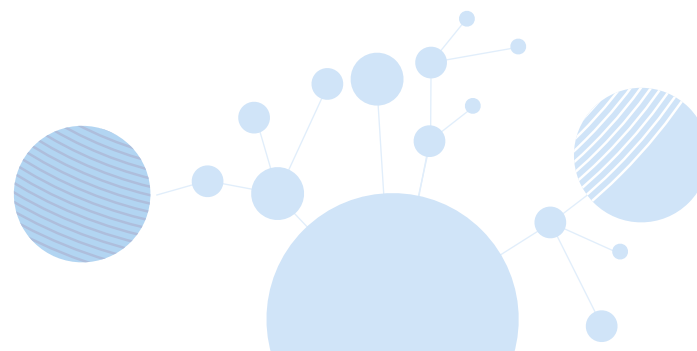
## 15. SEGMENT REPORTING

### Segment Reporting on 30 June 2018

in € thousand	Steel Division	Distribution & Processing Division	Scrap Division	Manufacturing Division	Headquarters and Other Services	Transactions between segments	Total	Consolidated Financial Statements
Revenues	337,018	97,442	51,992	36,409	9,905	-	532,766	-
Eliminations	(2,689)	(5,880)	(1,540)	(355)	(50)	(96,008)	(106,522)	-
<b>Revenues</b>	<b>334,329</b>	<b>91,562</b>	<b>50,452</b>	<b>36,054</b>	<b>9,855</b>	<b>(96,008)</b>	<b>426,244</b>	<b>426,244</b>
Operating Expenses	322,821	94,187	50,892	36,673	9,116	-	513,689	-
Eliminations	(2,689)	(5,880)	(1,540)	(355)	(50)	(96,008)	(106,522)	-
<b>Expenses</b>	<b>320,132</b>	<b>88,307</b>	<b>49,352</b>	<b>36,318</b>	<b>9,066</b>	<b>(96,008)</b>	<b>407,167</b>	<b>407,167</b>
Other operating income (expenses)	(838)	(56)	(20)	520	425	(56)	(25)	(25)
<b>Profit (loss) from operation</b>	<b>13,359</b>	<b>3,199</b>	<b>1,080</b>	<b>256</b>	<b>1,214</b>	<b>(56)</b>	<b>19,052</b>	<b>19,052</b>
Net finance income (costs)	(7,042)	(778)	(311)	(372)	(154)	91	(8,566)	(8,566)
Share of profit in associates	41	0	0	0	0	0	41	41
Taxes	(1,836)	(434)	(146)	54	(93)	-	(2,455)	(2,455)
<b>Net profit (loss) for the period</b>	<b>4,522</b>	<b>1,987</b>	<b>623</b>	<b>(62)</b>	<b>967</b>	<b>35</b>	<b>8,072</b>	<b>8,072</b>
<b>30 June 2018</b>								
Assets	665,643	132,629	31,583	65,173	382,367	(128,727)	1,148,668	1,148,668
Liabilities	411,835	103,143	21,685	46,617	169,943	(22,419)	730,804	730,804

### Segment Reporting on 30 June 2017

in € thousand	Steel Division	Distribution & Processing Division	Scrap Division	Manufacturing Division	Headquarters and Other Services	Transactions between segments	Total	Consolidated Financial Statements
Revenues	299,822	99,167	45,806	39,095	9,822	-	493,712	-
Eliminations	(1,984)	(5,287)	(3,346)	(5,470)	(65)	(88,535)	(104,687)	-
<b>Revenues</b>	<b>297,838</b>	<b>93,880</b>	<b>42,460</b>	<b>33,625</b>	<b>9,757</b>	<b>(88,535)</b>	<b>389,025</b>	<b>389,025</b>
Operating Expenses	293,335	95,471	44,913	34,305	8,126	-	476,150	-
Eliminations	(1,984)	(5,287)	(3,347)	(5,470)	(66)	(88,535)	(104,689)	-
<b>Expenses</b>	<b>291,351</b>	<b>90,184</b>	<b>41,566</b>	<b>28,835</b>	<b>8,060</b>	<b>(88,535)</b>	<b>371,461</b>	<b>371,461</b>
Other operating income (expenses)	1,579	(100)	(120)	(3,007)	269	4,213	2,834	2,834
<b>Profit (loss) from operation</b>	<b>8,066</b>	<b>3,596</b>	<b>774</b>	<b>1,783</b>	<b>1,966</b>	<b>4,213</b>	<b>20,398</b>	<b>20,398</b>
Net finance income (costs)	(6,154)	(856)	(397)	(409)	(1,458)	0	(9,274)	(9,274)
Share of profit in associates	56	0	0	0	0	0	56	56
Taxes	24	(572)	(101)	(100)	(21)	-	(770)	(770)
<b>Net profit (loss) for the period</b>	<b>1,992</b>	<b>2,168</b>	<b>276</b>	<b>1,274</b>	<b>487</b>	<b>4,213</b>	<b>10,410</b>	<b>10,410</b>
<b>31 December 2017</b>								
Assets	689,209	133,411	34,896	69,217	640,864	(415,413)	1,152,184	1,152,184
Liabilities	417,199	105,833	24,825	48,148	298,733	(158,066)	736,672	736,672



## RELATED PARTIES

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

### Related Party Transactions Excluded from Consolidated Financial Statements

in € thousand	1–6 2018	1–6 2017
Revenues/expenses	109,546	113,128

in € thousand	30 June 2018	31 December 2017
Operating receivables/liabilities	77,159	65,588
Financial receivables/liabilities	90,972	81,721
Investments in subsidiaries	186,302	186,302

### CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

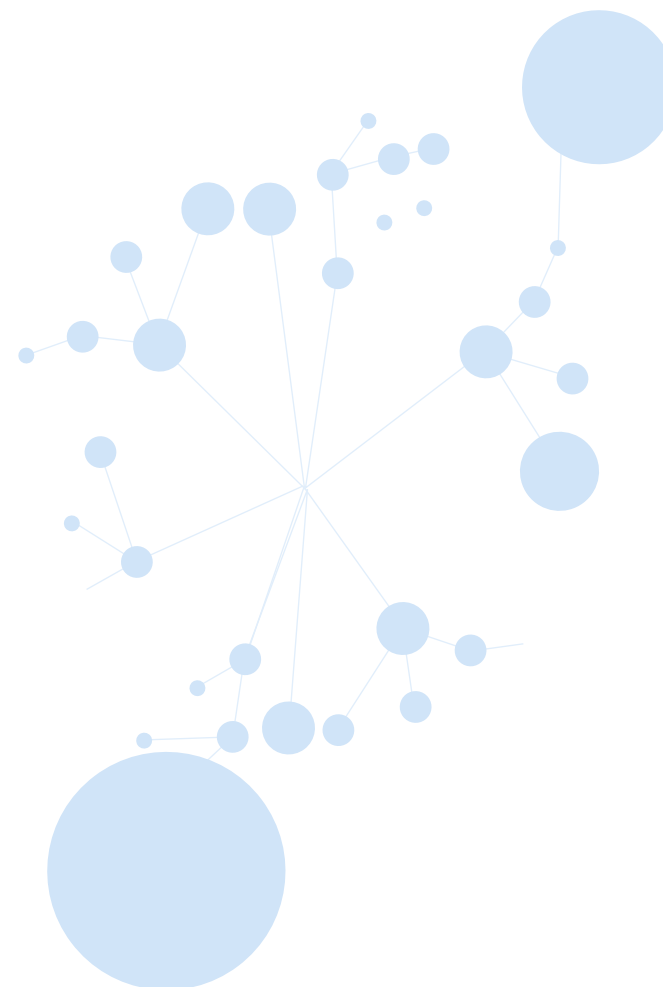
in € thousand	30 June 2018		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Available-for-sale financial assets	1,275	1,275	1,215	1,215
Financial receivables	36,067	36,067	25,878	25,878
Operating receivables	101,078	101,078	92,964	92,964
Cash and cash equivalents	21,226	21,226	34,909	34,909
Financial liabilities	(382,789)	(387,579)	(365,445)	(370,407)
Operating liabilities	(197,536)	(197,536)	(218,388)	(218,388)
<b>Total</b>	<b>(420,679)</b>	<b>(425,469)</b>	<b>(428,867)</b>	<b>(433,829)</b>

### FAIR VALUE MEASUREMENTS

in € thousand	30 June 2018	31 December 2017
Financial assets at fair value of the first level	788	754
Financial assets at fair value of the third level	158,836	154,212
Financial liabilities at fair value of the first level	121,055	120,795
Financial liabilities at fair value of the third level	459,270	463,038

## EVENTS AFTER THE REPORTING DATE

After the reporting date there were no events that would have a significant impact on the consolidated financial statements in the period ended on 30 June 2018.



# FINANCIAL REPORT OF THE COMPANY SIJ d.d.

FOR PERIOD ENDED  
ON 30 JUNE 2018



BUSINESS REPORT OF  
the SIJ Group and the company SIJ d.d.  
FOR THE FIRST HALF OF 2018

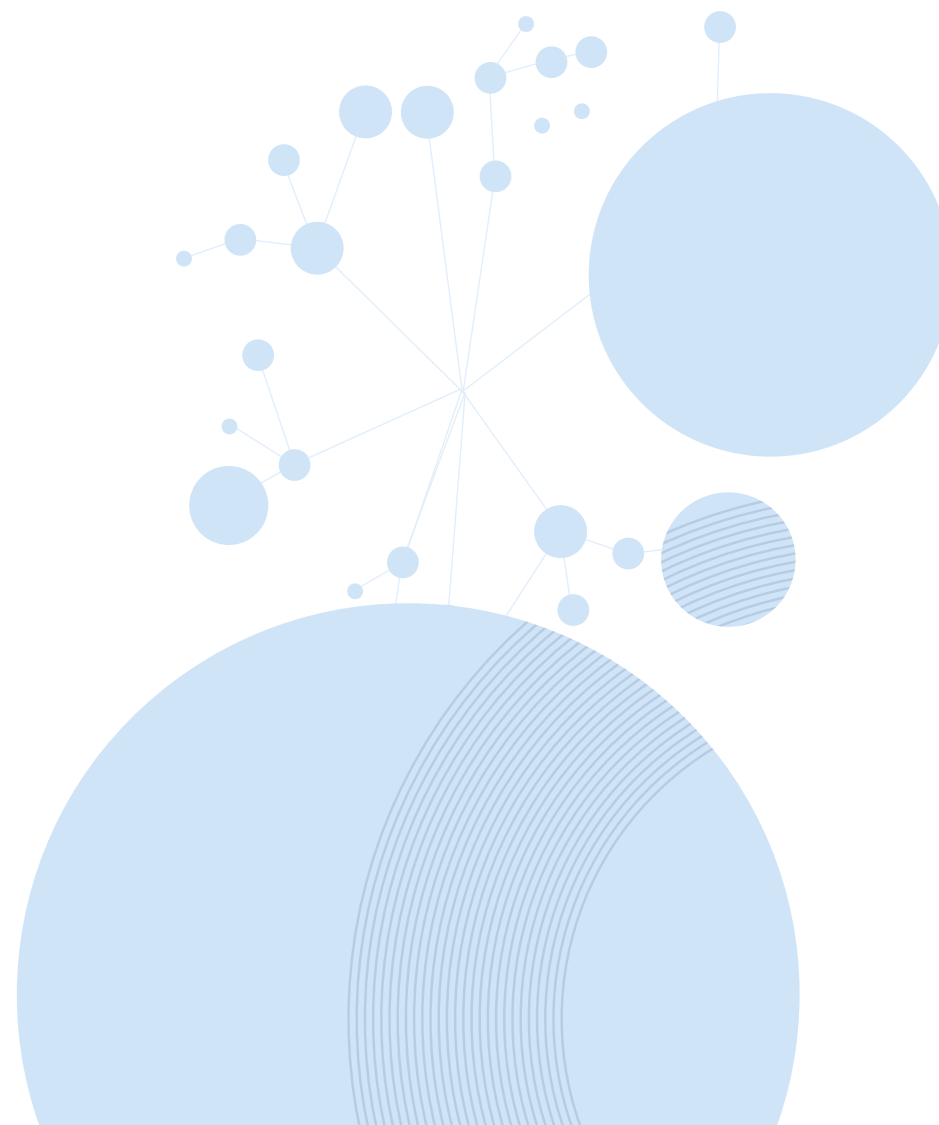


## FINANCIAL STATEMENTS OF THE COMPANY SIJ D.D.

### STATEMENT OF COMPREHENSIVE INCOME

in € thousand	Note	1-6 2018	1-6 2017
Revenue	1	8,182	8,154
<b>Gross profit</b>		<b>8,182</b>	<b>8,154</b>
General and administrative expenses	2	(7,203)	(6,167)
Other operating income	3	112	177
Other operating expenses	3	(62)	(233)
<b>Profit from operation</b>		<b>1,029</b>	<b>1,931</b>
Finance income	4	2,343	2,564
Finance expenses	4	(2,578)	(4,223)
<b>Net finance costs</b>		<b>(235)</b>	<b>(1,659)</b>
<b>Profit before tax</b>		<b>793</b>	<b>272</b>
Income tax expense		(69)	0
<b>Profit for the period</b>		<b>724</b>	<b>272</b>
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Income tax related to components of comprehensive income		(7)	(12)
<i>Items that may be reclassified subsequently to profit or loss</i>			
Change in fair value reserves for available-for-sale financial assets		34	47
<b>Comprehensive income</b>		<b>751</b>	<b>307</b>
<b>Profit for the period</b>		<b>724</b>	<b>272</b>
Basic and diluted earnings per share (in EUR)	5	0.75	0.28

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

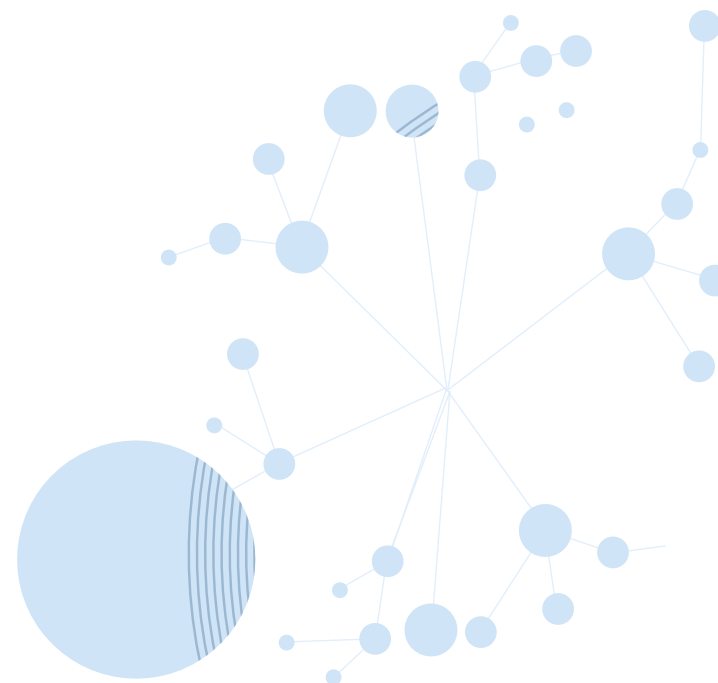


## STATEMENT OF FINANCIAL POSITION

in € thousand	Note	30 June 2018	31 December 2017
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>189,476</b>	<b>184,416</b>
Intangible assets		641	695
Property, plant and equipment		5,965	6,109
Investment property		2	2
Investments in subsidiaries		160,054	159,959
Available-for-sale financial assets		1,253	1,193
Financial receivables	6	20,299	15,154
Other assets		146	182
Deferred tax assets		1,116	1,122
<b>Current assets</b>		<b>186,344</b>	<b>179,672</b>
Assets held for disposal (disposal groups)		82,066	82,065
Financial receivables	6	83,909	75,790
Operating receivables	7	19,858	20,159
Income tax assets		0	323
Cash and cash equivalents	8	115	312
Other assets	9	396	1,023
<b>Total assets</b>		<b>375,820</b>	<b>364,088</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	<b>10</b>	<b>202,049</b>	<b>207,089</b>
Share capital		145,266	145,266
Capital surplus		11,461	11,461
Revenue reserves		811	811
Fair value reserves		314	286
Retained earnings		44,197	49,265
<b>Non-current liabilities</b>		<b>113,810</b>	<b>95,016</b>

in € thousand	Note	30 June 2018	31 December 2017
Employee benefits		305	305
Financial liabilities	11	113,505	94,711
<b>Current liabilities</b>		<b>59,961</b>	<b>61,983</b>
Liabilities directly associated with assets classified as held for sale		3,287	3,290
Financial liabilities	11	53,947	55,496
Operating liabilities	12	2,461	3,013
Other liabilities		266	184
<b>Total equity and liabilities</b>		<b>375,820</b>	<b>364,088</b>

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

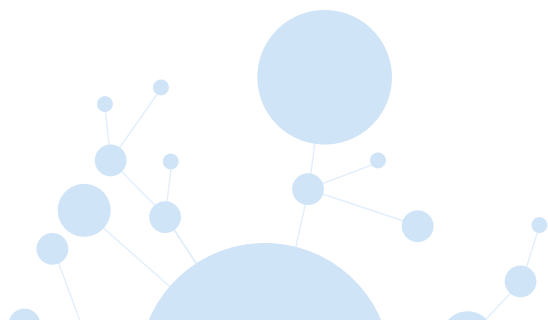
### Statement of Changes in Equity on 30 June 2018

in € thousand	Share capital	Capital surplus	Revenue reserves	Fair value reserves	Retained earnings	Total
<b>Balance as at 31 December 2017</b>	<b>145,266</b>	<b>11,461</b>	<b>811</b>	<b>286</b>	<b>49,265</b>	<b>207,089</b>
Changes due to the implementation of IFRS 9	0	0	0	0	(96)	(96)
<b>Balance as at 1 January 2018</b>	<b>145,266</b>	<b>11,461</b>	<b>811</b>	<b>286</b>	<b>49,169</b>	<b>206,993</b>
Dividends paid	0	0	0	0	(5,696)	(5,696)
<b>Total transactions with owners</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(5,696)</b>	<b>(5,696)</b>
Profit for the period	0	0	0	0	724	724
Other changes in comprehensive income	0	0	0	27	0	27
<b>Total changes in comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>27</b>	<b>724</b>	<b>751</b>
<b>Balance as at 30 June 2018</b>	<b>145,266</b>	<b>11,461</b>	<b>811</b>	<b>314</b>	<b>44,197</b>	<b>202,049</b>

### Statement of Changes in Equity on 30 June 2017

in € thousand	Share capital	Capital surplus	Revenue reserves	Fair value reserves	Retained earnings	Total
<b>Balance as at 31 December 2016</b>	<b>145,266</b>	<b>11,461</b>	<b>811</b>	<b>151</b>	<b>47,843</b>	<b>205,532</b>
Dividends paid	0	0	0	0	(9,970)	(9,970)
<b>Total transactions with owners</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(9,970)</b>	<b>(9,970)</b>
Profit for the period	0	0	0	0	11,392	11,392
Other changes in comprehensive income	0	0	0	136	0	136
<b>Total changes in comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>136</b>	<b>11,392</b>	<b>11,528</b>
<b>Balance as at 31 December 2017</b>	<b>145,266</b>	<b>11,461</b>	<b>811</b>	<b>286</b>	<b>49,265</b>	<b>207,089</b>

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

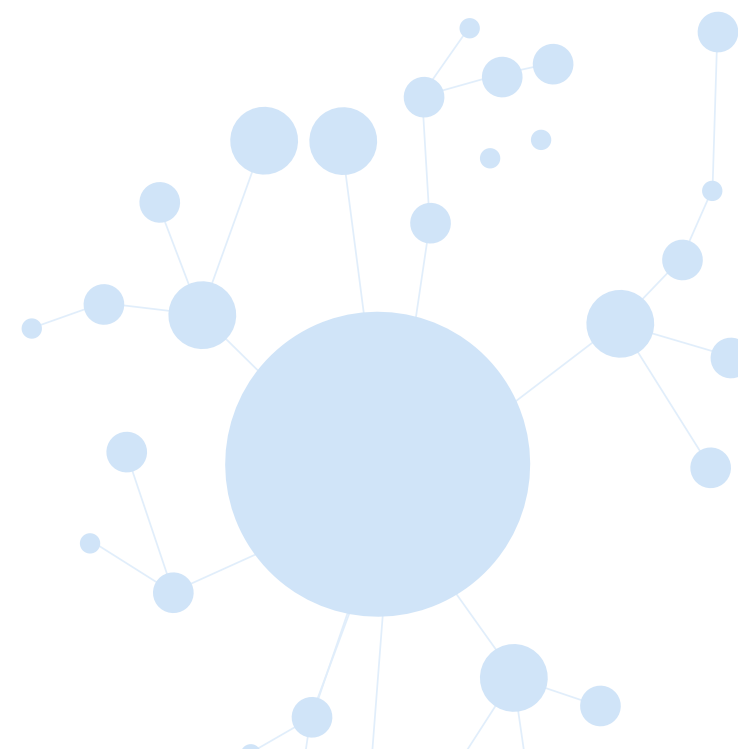


## CASH FLOW STATEMENT

in € thousand	Note	1–6 2018	1–6 2017
<b>Cash flow from operating activities</b>			
<b>Profit before tax</b>		<b>793</b>	<b>272</b>
Adjusted for:			
Depreciation and amortisation		278	266
Interest income	4	(1,521)	(1,734)
Interest expenses	4	2,399	3,684
Other adjustments		(879)	(301)
<b>Operating cash flows before changes in working capital</b>		<b>1,070</b>	<b>2,187</b>
<b>Changes in working capital</b>			
Change in operating receivables		804	9,874
Change in operating payables		(694)	(1,481)
Change in taxes other than income tax		180	(771)
Income tax paid		323	204
Other direct payments		(31)	0
<b>Changes in working capital</b>		<b>582</b>	<b>7,826</b>
<b>Net cash generated from operating activities</b>		<b>1,652</b>	<b>10,013</b>
<b>Cash flow from investing activities</b>			
Payments for investments in subsidiaries		0	(285)
Payments for property, plant and equipment		(98)	(146)
Receipts from property, plant and equipment		8	37
Payments for intangible assets		0	(43)
Receipts from other assets		0	36
Payments for loans issued		(24,800)	(17,198)
Receipts from loans issued		12,423	35,385
Interests received		861	1,229
Dividend received		92	8,265
<b>Net cash (used)/generated in investing activities</b>		<b>(11,514)</b>	<b>27,280</b>

in € thousand	Note	1–6 2018	1–6 2017
<b>Cash flow from financing activities</b>			
Receipts from borrowings		37,450	120,500
Payments for borrowings		(21,780)	(160,000)
Payments for financial lease		(200)	(92)
Payments for finance services		516	400
Interest paid		(625)	(1,832)
Dividends paid		(5,696)	(3,529)
<b>Net cash generated/(used) in financing activities</b>		<b>9,665</b>	<b>(44,553)</b>
<b>Cash and cash equivalents as at 1 January</b>		<b>312</b>	<b>8,286</b>
Decrease		(197)	(7,260)
<b>Cash and cash equivalents as at 30 June</b>		<b>115</b>	<b>1,026</b>

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



## NOTES TO INDIVIDUAL ITEMS IN THE FINANCIAL STATEMENTS

### 1. REVENUE

in € thousand	1–6 2018	1–6 2017
In Slovenia	8,178	8,150
In other countries	4	4
<b>Revenue</b>	<b>8,182</b>	<b>8,154</b>

### 2. OPERATING EXPENSES

in € thousand	1–6 2018	1–6 2017
Costs of goods, materials and services	1,218	1,653
Labour costs	5,636	4,194
Depreciation and amortisation costs	278	266
Other costs	71	54
<b>Operating expenses</b>	<b>7,203</b>	<b>6,167</b>

### 3. OTHER OPERATING INCOME AND EXPENSES

in € thousand	1–6 2018	1–6 2017
Dividends	92	65
Profit on sale of assets classified for sale	3	46
Other income	17	66
<b>Other operating income</b>	<b>112</b>	<b>177</b>
Expenses for donations and sponsorships	(33)	(233)
Allowances for receivables	(25)	0
Other expenses	(4)	0
<b>Other operating expenses</b>	<b>(62)</b>	<b>(233)</b>
<b>Net other operating income/(expenses)</b>	<b>50</b>	<b>(56)</b>

### 4. FINANCE INCOME AND EXPENSES

in € thousand	1–6 2018	1–6 2017
Interest income	1,521	1,734
Revenues from issued guarantees	822	829
Exchange rate difference	0	1
<b>Finance income</b>	<b>2,343</b>	<b>2,564</b>
Interest expenses	(2,479)	(3,684)
Other expenses	(99)	(539)
<b>Finance expenses</b>	<b>(2,578)</b>	<b>(4,223)</b>
<b>Net finance costs</b>	<b>(235)</b>	<b>(1,659)</b>

### 5. NET EARNINGS PER SHARE

	1–6 2018	1–6 2017
Profit attributed to owners of controlling company in € thousand	724	272
Weighted number of issued ordinary shares	967,016	967,016
<b>Basic and diluted earnings per share in €</b>	<b>0.75</b>	<b>0.28</b>

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

## 6. FINANCIAL RECEIVABLES

in € thousand	30 June 2018	31 December 2017
Loans issued	20,299	15,154
<b>Non-current financial receivables</b>	<b>20,299</b>	<b>15,154</b>
Loans issued	80,622	73,462
Interest receivables	2,523	1,864
Receivables arising from financial services	764	464
<b>Current financial receivables</b>	<b>83,909</b>	<b>75,790</b>

The interest rate for loans issued is fixed. The disclosed value of loans issued does not exceed their realizable value. The loans issued fall due in 2021. The loans issued are not pledged as security for liabilities.

## 7. OPERATING RECEIVABLES

in € thousand	30 June 2018	31 December 2017
Trade receivables	8,431	8,606
VAT receivables	7	132
Issued advance payments and cautions	82	89
Dividends receivables	11,296	11,296
Other operating receivables	42	36
<b>Current operating receivables</b>	<b>19,858</b>	<b>20,159</b>

The operating receivables are not secured nor pledged as security for liabilities. The disclosed value of operating receivables does not exceed their realizable value.

## 8. CASH AND CASH EQUIVALENTS

in € thousand	30 June 2018	31 December 2017
Cash in the bank account and petty cash	115	312
<b>Cash and cash equivalents</b>	<b>115</b>	<b>312</b>

## 9. OTHER CURRENT ASSETS

in € thousand	30 June 2018	31 December 2017
Deferred expenses	396	1,023
<b>Other current assets</b>	<b>396</b>	<b>1,023</b>

Current deferred expenses refer to advance payments of costs, which in 2018 will debit against profit or loss.

## 10. EQUITY

in € thousand	30 June 2018	31 December 2017
Share capital	145,266	145,266
Capital surplus	11,461	11,461
Revenue reserves	811	811
Fair value reserves	314	286
Retained earnings	44,197	49,265
<b>Equity</b>	<b>202,049</b>	<b>207,089</b>

The share capital is recognised in the amount of €145,266 thousand and is distributed among 994,616 shares. The face value of each share is €146.05. The number of shares did not change in 2018.

### Ownership Structure of the Controlling Company

Shareholder	Number of shares 30 June 2018	Number of shares 31 December 2017
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
<b>Total</b>	<b>994,616</b>	<b>994,616</b>

The ownership structure of the controlling company did not change in 2018.



## Revenue Reserves

in € thousand	30 June 2018	31 December 2017
Legal reserves	3,065	3,065
Treasury shares	(6,009)	(6,009)
Reserves for treasury shares	3,755	3,755
<b>Revenue reserves</b>	<b>811</b>	<b>811</b>

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

## 11. FINANCIAL LIABILITIES

in € thousand	30 June 2018	31 December 2017
Borrowings	19,000	0
Liabilities for bonds issued	94,115	94,115
Liabilities arising from finance lease	390	596
<b>Non-current financial liabilities</b>	<b>113,505</b>	<b>94,711</b>
Borrowings	23,206	26,536
Liabilities for commercial papers issued	27,325	27,325
Interest liabilities	3,006	1,232
Liabilities arising from finance lease	408	403
Other current financial liabilities	2	0
<b>Current financial liabilities</b>	<b>53,947</b>	<b>55,496</b>
<b>Total financial liabilities</b>	<b>167,452</b>	<b>150,207</b>

### Borrowings

Borrowings include loans from companies in the SIJ Group and banks. The interest rate for borrowings is fixed.

## Liabilities for Bonds Issued

Liabilities for bonds issued refer to the bonds issued with the ticker symbol of SIJ4. The controlling company issued bonds with the total nominal value of €42,897 thousand in November 2014. The entire bond issue contains 42,897 denominations of €1 thousand. The bond maturity date is 24 November 2019. The interest rate for the bonds is fixed, i.e. 4.50 percent per annum. Interest is accrued annually in arrears. The nominal value of the principal falls due, in full and in a single amount, on the maturity of the bond. The bonds have been traded on the Ljubljana Stock Exchange.

Liabilities for bonds issued refer to the bonds issued with the ticker symbol of SIJ5. The controlling company issued bonds with the total nominal value of €51,218 thousand in July 2015. The entire bond issue contains 51,218 denominations of €1 thousand. The bond maturity date is 21 July 2020. The interest rate for the bonds is fixed, i.e. 4.00 percent per annum. Interest is accrued annually in arrears. The nominal value of the principal falls due, in full and in a single amount, on the maturity of the bond. The bonds have been traded on the Ljubljana Stock Exchange.

## Liabilities for Commercial Papers Issued

Liabilities for commercial papers amounting to €27,325 thousand refer to 12-month commercial papers with the ticker symbol SIK04, issued by the controlling company on 15 December 2017 as a 4th issue. The total nominal value of the commercial papers is €27,325 thousand, and covers denominations of €1 thousand. The interest rate for a commercial paper is 1.1 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 14 December 2018. Commercial papers are traded on Ljubljana Stock Exchange. The controlling company repaid the 3rd issue of commercial papers with the ticker symbol SIK03 on the maturity day.

## 12. CURRENT OPERATING LIABILITIES

in € thousand	30 June 2018	31 December 2017
Liabilities to suppliers	1,061	1,883
Liabilities to employees	432	336
Tax liabilities	965	785
Other liabilities	3	9
<b>Current operating liabilities</b>	<b>2,461</b>	<b>3,013</b>

## RELATED PARTIES

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

### Transactions with the Controlling Company

in € thousand	1-6 2018	1-6 2017
Revenues	643	532

in € thousand	30 June 2018	31 December 2017
Receivables	35,648	25,505

### Transactions with Subsidiaries

in € thousand	1-6 2018	1-6 2017
Revenues	9,950	10,254
Expenses	188	722

in € thousand	30 June 2018	31 December 2017
Receivables	88,279	84,285
Liabilities	13,006	7,121

### CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

in € thousand	30 June 2018		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Available-for-sale financial assets	1,253	1,253	1,193	1,193
Financial receivables	104,209	104,209	90,944	90,944
Operating receivables	19,858	19,858	20,159	20,159
Cash and cash equivalents	115	115	312	312
Financial liabilities	(167,453)	(172,243)	(150,207)	(155,169)
Operating liabilities	(2,461)	(2,461)	(3,013)	(3,013)
<b>Total</b>	<b>(44,479)</b>	<b>(49,269)</b>	<b>(40,612)</b>	<b>(45,574)</b>

### FAIR VALUE MEASUREMENTS

in € thousand	30 June 2018	31 December 2017
Financial assets at fair value of first level	788	754
Financial assets at fair value of third level	124,647	111,854
Financial liabilities at fair value of first level	(121,440)	(121,440)
Financial liabilities at fair value of third level	(48,474)	(31,780)

### EVENTS AFTER THE REPORTING DATE

After the reporting date there were no events that would have a significant impact on the financial statements on 30 June 2018.

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