Annual Report 2016

Connecting Business Divisions,
Combining Success

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

2016

Connecting Business Divisions, Combining Success

sij | group

The corporate brand of the closely related companies serves as a guarantee of
- successful performance for our investors,
- compliance with the agreed commitments for our partners,
- long-term stable performance for our employees,
- socially responsible cooperation with the environment, and
- our understanding of our customers' needs, and the need for developing appropriate solutions.

The metallurgy product brands owned by the SIJ Group serve our business customers as a guarantee of quality in the whole process of cooperation – from understanding their needs, to providing adequate solutions, from raw materials to a technological state-of-the-art production, to service solutions.

The established food brands owned by the Perutnina Ptuj Group, which was taken over by the SIJ Group, provide end customers with the assurance that the food they choose is trustworthy. From the field to the fork!

The development and management of new and established brands brings us closer to our customers. We are connecting business divisions and combining our success.

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2016 Highlights

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We are a responsible owner and manager of established brands, which repeatedly justify the confidence of our customers.

We manage the present through the understanding of the future needs of customers. Continually.

We bring together diversity through business integrity and vertical integration. Strategically.

In planning for the future, we consider market volatility and strengthen centralised functions. Dynamically.

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Performance Summary

SIJ Group: Key Operating Figures

	Unit of measure	2014	2015	2016
SIJ Group: Revenues	€ thousand	707,858	664,817	842,645
Metallurgy Division	*€ thousand*	*707,858*	*664,817*	*631,884*
*Poultry Division*****	*€ thousand*			*211,350*
Business combinations	*€ thousand*			*–589*
Exports	%	86.2	87.3	80.4
Operating profit	€ thousand	39,543	23,341	68,636
SIJ Group: EBITDA[1]	€ thousand	77,832	63,509	127,057
Metallurgy Division	€ thousand	77,832	63,509	74,417
Poultry Division	€ thousand			24,229
Business combinations	€ thousand			28,412
EBITDA margin	%	11.0	9.6	15.1
Net profit	€ thousand	24,904	10,793	51,325
Capex	€ thousand	47,633	56,886	70,267*
SIJ Group: NFD[2]	€ thousand	216,731	272,743	367,520
Metallurgy Division	*€ thousand*	*216,731*	*228,423*	*261,453*
Poultry Division	*€ thousand*			*35,492*
Business combinations	*€ thousand*		*44,320*	*70,575***
SIJ Group: NFD/EBITDA		2.8	3.8 ***	2.9
Metallurgy Division		2.8	3.6	3.5
Poultry Division				1.4
Employees		2014	2015	2016
Number of employees as at 31 Dec.		3,134	3,126	7,239

** Investments in the companies Perutnina Ptuj, Holding PMP, Sistemska tehnika (now: SIJ Ravne Systems), ORO MET and MWT Meyer (now: SIJ MWT) are excluded.*
*** Purchases of shares in the Perutnina Ptuj Group and Holding PMP by 31 December 2016.*
**** Ratio calculated on the basis of accounting data for specific purposes (the Perutnina Ptuj Group and Holding PMP are disclosed under investments).*
***** The data for the Poultry Division in the table is provided for ten months (from 1 March to 31 December 2016), which covers the same period as is included in the consolidation. A performance analysis for the Poultry Division for the entire 2016 is provided on page 55.*

THE SIJ GROUP IS OPERATING STEADILY

In 2016, we recorded a **net profit of €51.3 million**. We improved the business performance of both the Metallurgy Division and the Poultry Division. We achieved successful operations by focusing on programmes with greater added value. By strengthening our brands and becoming closer to our end users, we reduced our dependence on external market trends.

REVENUE INCREASED

In 2016, revenue **increased for €178 million** compared to the previous year. A key factor was the mergers of Sistemska tehnika (January 2016), the Perutnina Ptuj Group (March 2016), the company ORO MET and the company MWT Meyer (July 2016).

1 EBITDA: operating profit + depreciation and amortization.
2 Net financial debt (NFD): Non-Current and Current financial liabilities – Liabilities for interests – Cash and Cash equivalents – Current Bank Deposits

EXPORTS REMAINED HIGH

In 2016, the SIJ Group's **exports amounted to 80.4 percent**, down from the previous year, which is a result of the merger of the Poultry Division. In the Metallurgy Division, we continue to generate 85.5 percent of revenue in foreign markets. In the Poultry Division, we are a leading provider of poultry meat and products in the Slovenian market, while exports are also enhanced in this division by products of higher added value.

PROFITABILITY INCREASED

Improved profitability in both the Metallurgy and Poultry Division is the reason for the 100 percent increase in EBITDA. This performance ratio **increased by almost €64 million** compared to the previous year. Part of this increase is the result of the impact of the merger of the Perutnina Ptuj Group in the amount of €28 million, which is explained in detail in the financial section of the annual report. In both the Metallurgy and the Poultry Division, we achieved EBITDA margins well above the industry average. In the metallurgy industry, the average EBITDA margin amounts to 7.1 percent, and 9.3 percent in the poultry industry.[3]

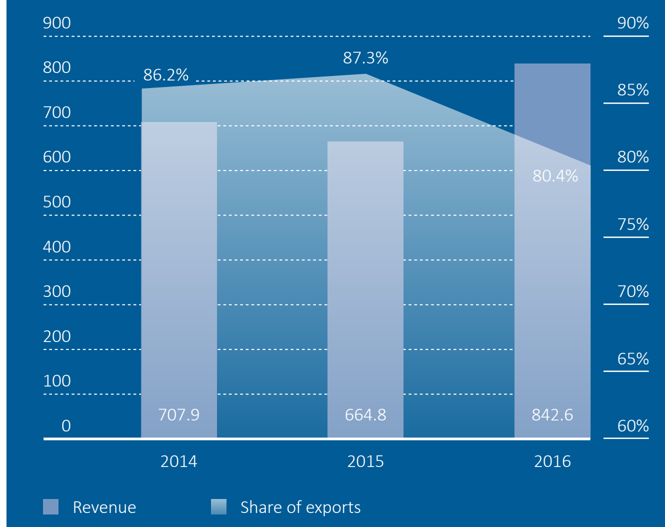
51.3
€ million net profit recorded in 2016.

85.5%
of the Metallurgy Division's revenue is generated on export markets.

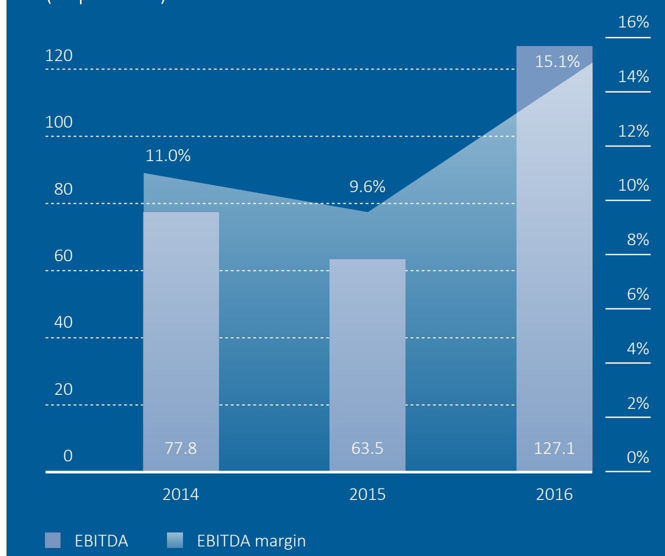
63.5
€ million more EBITDA than last year.

3 Source: indication of the average margins in the industries: CSI market/Industry_Profitability_Ratios.

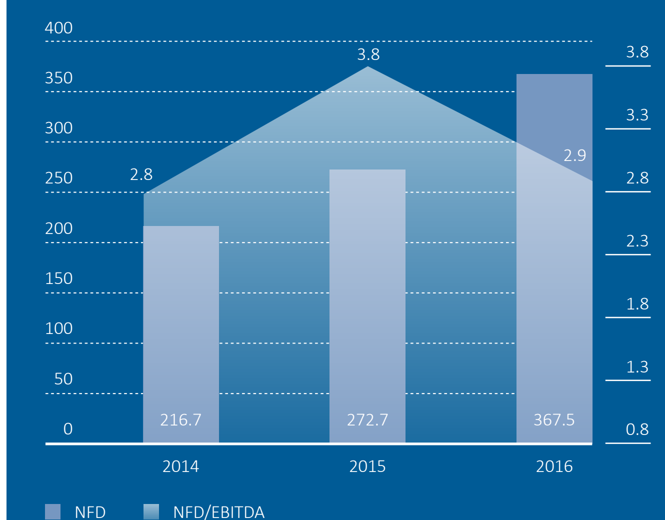
SIJ Group: Revenues (in € million) **and Exports** (in percent)



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



SIJ Group: NFD (in € million) **and NFD/EBITDA**



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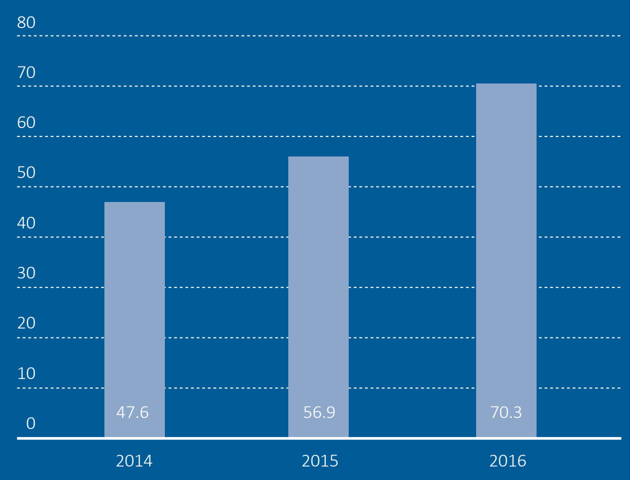
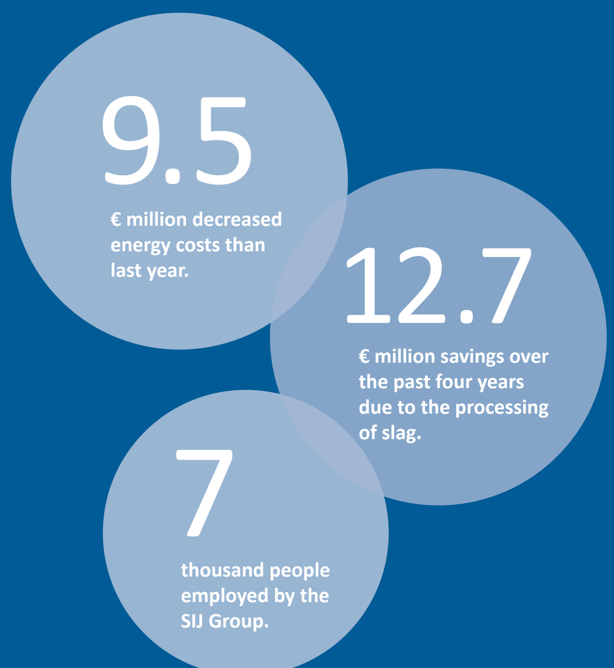
SIJ Group: Capex (in € million)





INVESTMENTS INCREASED, THE DEBT RATIO DECREASED

Investments in the modernisation of existing equipment and the purchase of new production equipment, as well as investments in the acquisitions of new companies (those are not taken into account in the chart SIJ Group: Capex), through which we are expanding our product portfolio in accordance with the strategic guidelines, **increased by €13.4 million,** or 24 percent compared to last year. Due to the investments, net financial debt has increased in recent years, while due to growth in EBITDA, in 2016, **the NFD/EBITDA ratio is down 0.9** and **stands at 2.9.** In accordance with the strategic guidelines, the investment cycle in the next period is gradually slowing down.

ENERGY COSTS DECREASED

Our well-thought-out presence in the energy markets allows us to reduce purchase prices. Owing to the lower prices achieved, energy costs were **down €9.5 million** in 2016 compared to the previous year.

OUR IN-HOUSE PROCESSING OF RAW MATERIALS INCREASES SAVINGS

In the last four years, due to processing more than 600 thousand tonnes of slag, we have obtained 61 thousand tonnes of input metal for steel production. The project of processing the slag on a temporary landfill, which is now being abandoned, brought savings of **€12.7 million over four years.**

THE SIJ GROUP IS ONE OF THE LARGEST EMPLOYERS IN SLOVENIA

Following the acquisition of the new companies, including the Perutnina Ptuj Group, the SIJ Group employs **more than seven thousand people.** Of these, companies in Slovenia account for 5,106 employees. In some regions, we are a key employer. In the municipality of Ravne na Koroškem, we employ as much as 35.8 percent of the economically active population.

Significant Business Events in 2016

JANUARY

SIJ Group received the consent of the Slovenian Competition Protection Agency and concluded the **acquisition of the company Sistemska tehnika.** On 18 January 2016, Sistemska tehnika was renamed **Ravne Systems d.o.o.,** while work on the merge with the companies Noži Ravne and Serpa is being continued.

The Ministry of Education, Science and Sport confirmed the **programme for the secondary technical and vocational education of metallurgy technicians.** The SIJ Group, which had strived to re-introduce such a vocation, encouraged young people to enrol in the programme by offering attractive vocational grants.

On **22 January 2016,** the General Assembly of Perutnina Ptuj d.d. unanimously approved a new Management Board comprised of Tibor Šimonka, Viacheslav Korchagin, Dr. Roman Glaser and Tone Čeh. With the General Assembly's approval, the Supervisory Board appointed Tibor Šimonka as the President of the Management Board.

FEBRUARY

At a **meeting in Slovenia,** the SIJ Group management discussed mutual cooperation, initiated in 2015, with the **First Vice President of the European Bank for Reconstruction and Development (EBRD), Philip Bennett.** The EBRD's investment in five-year bonds of the SIJ Group at that time amounted to €8.5 million, or 17 percent of the total issue. This was the first such investment of this renowned international financial institution in Slovenia.

MARCH

On 2 March 2016, we successfully concluded the **takeover of Perutnina Ptuj d.d.** The bid, which SIJ d.d. published on 24 December 2015, was accepted by 2,348 shareholders who together held 26.09% of shares of the target company with the PPTG ticker symbol. Together with the five million shares of Perutnina Ptuj d.d. held by SIJ d.d. on the date the takeover bid was published and the 603,184 shares of the target company held by Holding PMP on the date the takeover bid was published, SIJ d.d. acquired 77.43% of all issued shares of Perutnina Ptuj d.d.

APRIL

SIJ d.d. concluded an agreement on the purchase of a 51 percent stake in the company ORO MET, which specialises in the manufacture of standard and non-standard tooling plates and CNC-treated tooling plates. **The acquisition of the company ORO MET** represents part of the strategy of vertical integration of the metallurgy activities of the SIJ Group.

Perutnina Ptuj concluded an agreement for a syndicated loan of €73 million with a maturity of seven years with a syndicate of banks. At the same time, all the provisions of the MRA (Master Restructuring Agreement), which had been concluded prior to the company's capital increase, ceased to apply. Refinancing the existing financial liabilities of the subsidiaries, financing seasonal working capital, and drawing on approved overdrafts as and when needed support the **financial stabilisation process of the Perutnina Ptuj Group.**

Under the slogan **working safely, staying healthy,** we launched a comprehensive campaign to raise awareness on health and safety at work at the level of the entire Metallurgy Division. The campaign follows the best practices and guidelines of the World Steel Association.

MAY

The SIJ Group donated €45,000 to the University Rehabilitation Institute Soča for the **purchase of Innowalk Pro Small equipment** for walking rehabilitation, strengthening muscles, and improving overall physical capabilities in children.

On 27 May 2016, the extraordinary General Assembly of Shareholders approved the **amendments to the Memorandum of Association of Perutnina Ptuj d.d.** and appointed new members of the Supervisory Board. According to the amendments, the number of Management Board members was reduced to two, namely Tibor Šimonka as President of the Management Board, and Viacheslav Korchagin as member of the Management Board responsible for finance, economics, controlling and procurement.

JUNE

In Germany, the SIJ Group **acquired the company MWT Meyer,** which is specialised in the cutting and sale of tooling and other special purpose steel. The acquisition of this established steel supplier for industrial producers strengthens the sales channels of the SIJ Group on the German market.

The Metallurgy Division of the SIJ Group received five gold and one silver award in the competition of the best innovations organised by regional chambers of the Chamber for Gorenjska and Koroška, while SIJ Acroni was officially recognised as the most innovative company in the Gorenjska region. **Three golden regional innovations** were admitted to the competition at the national level.

Perutnina Ptuj for the fourteenth time in a row organised the

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traditional **Poli Cycling Marathon.** This major event in Slovenia was attended by four thousand cyclists.

JULY

In Ravne na Koroškem, nearly three thousand employees of the SIJ Group and their close family members celebrated the international vocational **metallurgists' day on 17 July.**

AUGUST

The metallurgy company SIJ Metal Ravne concluded a contract with the company Ebner **for the supply of a new continuous heat treatment furnace with a protective atmosphere.** The investment, aimed to increase the heat treatment capacity of long products in the rolling mill, is expected to amount to €4 million. It will enable an increase in the production of products for the most demanding customers, in particular in the energy, and oil and gas industry.

Since 31 August, the names of the metallurgy companies of the SIJ Group have adopted the corporate brand name. As of that date, the new company names are SIJ Acroni d.o.o., SIJ Metal Ravne d.o.o., SIJ Ravne Systems d.o.o., SIJ SUZ d.o.o., SIJ Elektrode Jesenice d.o.o., SIJ ZIP Center d.o.o., SIJ Ravne Steel Center d.o.o., and SIJ MWT GmbH.

SEPTEMBER

At its second Sales Conference, the SIJ Group presented the **new product brands** to its key business partners from 38 countries. A well-thought-out system of branding and marketing has been used to unify the offer of high-quality steel products by the metallurgy companies of the SIJ Group.

On 23 September, the company SIJ Acroni concluded an investment of €32 million and put it to use. The new **line for the heat treatment of heavy plates HTL** (Heat Treatment Line) combines three until-now separate machining processes, and enables effective production of products for the most demanding applications. With this line, the company SIJ Acroni will enter the most demanding markets, such as the automotive, chemical, energy and oil and gas markets. The investment will enable an increase in the value of sales.

At the Innovation Day at Brdo pri Kranju, the Slovenian Chamber of Commerce awarded the company SIJ Acroni the **national gold medal for innovation.** Two innovations of SIJ Metal Ravne were awarded the silver and bronze medals.

Perutnina Ptuj was the first company in Slovenia to introduce **an advanced standard of chicken-friendly breeding** (PPR) and offered to the market a new Natur Premium product line.

OCTOBER

In Ravne na Koroškem, we opened **the new SIJ Training Centre** aimed at developing the knowledge, competencies and skills of the seven thousand employees of the SIJ Group. The centre will provide a single system of education, promote the transfer of knowledge within and across companies within the SIJ Group, and promote and strengthen the already existing cooperation with other relevant institutions.

NOVEMBER

At the environmental meeting of the Finance magazine, the innovation of the company SIJ Acroni titled, Non-Acid Cleaning of Hot and Cold Rolled Sheets received a **gold environmental award** in the category of environmentally friendly processes.

In the SIJ Training Centre, the companies SIJ Metal Ravne and SIJ Ravne Systems organised a reception for 17 secondary school students – scholarship recipients – enrolled in the recently re-established educational programme for the profession of metallurgy technician at Ravne Secondary School.

DECEMBER

The SIJ Group successfully completed its third consecutive **issue of short-term commercial notes** worth €30 million. The interest of the largest Slovenian institutional and private investors, which significantly exceeded the target value, demonstrates their confidence in the competitiveness of the business and the stability of the SIJ Group.

On 19 and 20 December, 190 employees of the Metallurgy Division actively participated in the **Third Strategic Conference of the SIJ Group.** The central theme of the meeting, which has already become traditional, were bottlenecks and the process continuous improvement.

Perutnina Ptuj included its products in the **Selected Slovenian Quality** national scheme, which brings new opportunities for the promotion and consumer awareness on the importance of locally grown food.

Events After the Reporting Period

JANUARY 2017

On 18 January, the Supervisory Board of SIJ d.d. appointed two new members of the Management Board of SIJ d.d.

Andrey Zubitskiy, until then the President of the Supervisory Board of SIJ d.d., was appointed interim President of the Management Board for a mandate not exceeding six months. Denis Mancevič, PhD, until then member of the Supervisory Board and Director of Corporate Communications of SIJ d.d., was appointed member of the Management Board and CEO for a mandate of five years. The mandate of of Igor Malevanov, already then member of the Management Board and CFO of SIJ d.d., continues. **The new three-member Management Board** was appointed following the resignation of the President of Management Board Anton Chernykh, who resigned due to personal reasons.

Evgeny Zverev is the **new President of the Supervisory Board** of SIJ d.d.

MARCH 2017

SIJ Acroni and SIJ Metal Ravne signed a long-term contract on a five-year syndicated loan to refinance the existing loan portfolio and ensure long-term funds for working capital totalling € 240 million with a syndicate of seven banks. This loan ensures both companies long-term funding, which will allow them further financial strength, growth and development. The consortium of banks is comprised of reputable domestic and foreign banks, including the European Bank for Reconstruction and Development.

The Business Year in the Words of the Company's Management Board

Stability. Partnership. People.

Denis Mancevič, PhD, member of the management team of the SIJ Group from 2014, until recently Director of Corporate Communications, and from early 2017 member of the Management Board and CEO, when looking back on the previous year highlights the achieved stability, and in planning for the future points out the potential for deliberate growth.

How would you describe the 2016 business year with just one word?

"Stability. The sound business results demonstrate the stability of the business model of the SIJ Group and SIJ d.d. We maintain high profitability. For the third consecutive year, we have achieved an EBITDA margin several percentage points higher than the global average in the steel industry. We have managed this under relatively unfavourable external circumstances. For the second year in a row, we have been faced with low prices of raw materials and of some stainless steel elements, with excess production capacity and unfair competition from third markets, which increase price pressures. Nevertheless, our operations are stable, we have achieved our strategic goals, and we are expanding through the well-thought-out acquisitions of companies that enhance our integrity. We are implementing smart investments, and increasing the specialisation in the production range with products offering higher added value. With good corporate governance, we have established a stable business model, which is an excellent basis for achieving our strategic goals in the coming years."

Every business year has its own peculiarities and its greatest achievements. What are, in your opinion, the three key highlights of 2016?

"The numbers speak for themselves, so I would personally stress the substantive projects that will ensure sound business performance in the long-term. The launch of our new product brands in the Metallurgy Division, the strengthening of vertical integration, and the establishment of the SIJ Training Centre are the most important highlights. Brands are the key to understanding our strategic customers, vertical integration is essential for increasing the share of finished products in the structure of our offering, while education and increasing the competencies of our employees are essential if our significant technology investments are to truly generate the desired results."

Why are brands so important in the Metallurgy Division, which essentially works for well-known corporate (B2B) customers?

"The launch of new product brands in the Metallurgy Division is the foundation for the realisation of our strategic decision to be highly focused on the customer and their needs. For us, this project is not a communication project, and we did not have it realised for the sake of public relations, but with clear strategic objectives. In the metallurgy industry, it was long considered that sales are for production and that the task of marketing departments was to market what is produced, taking into account the specifics of the production process. However, market conditions have changed, and old business models are not sufficient in such changed circumstances. Today, development support to customer needs is a source of competitive advantage, since those needs must be understood, and customers offered the right solutions at the right time. In this area we have a lot of development potential, from cross-selling and exploiting know-how within the Group, to digitisation and developing new business models. Our entire product range has therefore been put onto new, strategically sound foundations. We have established a single hierarchy of product brands. We are introducing a single system for customer relationship management. Although most of the project tasks lie ahead of us, our successful start fills me with optimism. Our brands ensure we are on the right track!"

The SIJ Group already brings together several successful metallurgy companies. Why does it makes sense to acquire new companies?

"By strengthening the vertical integration, it is easier and more efficient to capture margins in the value chain. In 2016 we therefore carried out three acquisitions. Two companies in Slovenia, namely Sistemska tehnika and ORO MET, joined the SIJ Group, while in Germany, the SIJ Group acquired the company MWT Meyer, which is specialised in the cutting and sale of tooling and other special purpose steel. These are not large acquisitions in terms of the volume of business for the SIJ Group, but these acquisitions are nonetheless important for our future development. The company Sistemska tehnika – merger with the companies Noži Ravne and Serpa to form SIJ Ravne Systems – allows us to enter a new market segment (rolls) and increase the synergies in the engineering programme. The company ORO MET, which is engaged in the manufacture of tooling plates and the export sale thereof, allows us to upgrade our existing programme of tool steel, which ensure we are among the world leaders. This also fulfils our priority strategic objective: to increase the share of final products."

The past year was marked by investments in technological modernisation and acquisitions. Now, you are emphasising education. Is this really a major achievement of 2016?

"Yes. Over the past decade, investments in employees, their competencies and especially in ensuring a supply of new, qualified staff, lagged behind the technological development of the SIJ Group. Now, we are changing this both alone and with our partners (especially the state and the local communities in which we are a major employer). In 2016, in Ravne na Koroškem, we established the SIJ Training Centre, through which we will not only ensure the centralised management of current education projects, but also develop and implement unified retraining programmes. The centre will allow us to more easily and more efficiently cooperate with the secondary education programme for metallurgy technicians, which was reintroduced by Ravne Secondary School in the 2016/2017 academic year. Under the roof of the education centre, we will be able to more effectively carry out other projects, such as internal academies and evaluation of development potentials.

In 2015, as part of the Young Potentials project, we announced the first generation of 33 promising young employees from all metallurgy companies in the SIJ Group. In 2016, the project was renamed Potentials and Successors, and found 42 employees – both younger and more experienced employees – who will be able to assume more responsible roles. Through the development of programmes such as this project, we are building employee competences and exercising concern for employees, without which all current and future investments in technology would be unable to generate adequate returns."

Metallurgy is the primary activity of the SIJ Group. Since 2016, the Poultry Division is also a significant part of the Group. What is the impact of the acquisition of the Perutnina Ptuj Group (PP) on the performance of the SIJ Group?

"In accordance with international accounting standards (IFRS), the results of operations of the acquired company can only be consolidated from the date of acquisition of control, which means that the final results for the year 2016 include the results of the Perutnina Ptuj Group since March. Therefore, we have only consolidated results for the last ten months, while on the other hand, we have assumed the entire debt of the Perutnina Ptuj Group. But even considering this fact, the contribution of the Perutnina Ptuj Group is positive, as it achieved an EBITDA of €24.2 million and a net profit of €10.9 million. Also, in terms of operational diversification and risk reduction for shareholders, the investment in the Perutnina Ptuj Group was a sound decision; at the same time, we can be satisfied with the ten-month business results of the Perutnina Ptuj Group itself."

The SIJ Group has achieved above-average results on the demanding metallurgy market. How is the Poultry Division doing?

"After we took over the corporate governance of the Perutnina Ptuj Group after the successful closing of the takeover bid in the first half of the year, the results were quickly apparent. In the Poultry Division, we managed to achieve profitability growth, as evidenced by the EBITDA margin, which stands at 10.5 percent and is – similarly as in the Metallurgy Division – above the industry average. The key reasons for the increase in profitability include cost optimisation, synergies with the Metallurgy Division in individual areas, and entering new markets. Adverse external circumstances, in particular price pressures and unfair competition in individual domicile markets require rapid adaptation of the business model, and effective action. These are challenges we will be able to overcome. In addition to its outstanding tradition, superior quality and reputable brands, the Perutnina Ptuj Group also has good development potential. The realisation of this potential is, inter alia, the result of the financial deleveraging as a result of the capital injection provided in 2015."

The results so far represent the foundation for the future. What are the biggest challenges of the SIJ Group for 2017?

"Our strategy is clear. We will strengthen the effectiveness of corporate governance, deepen the focus on final products, and optimise investments.

Due to the growth of the SIJ Group, the increasing number of companies and our entry into new business divisions, we will continue to upgrade the centralisation of key support functions, as well as create central policies in several areas. Improved processes, and especially human resources, an adequate organisational matrix and Group culture are key factors for more efficient management and control.

Due to our strategic focus on finished products, we will continue to even more intensively seek new niches, and actively promote the growth of those cores that generate the most added value. As our strategic objectives are fulfilled, those cores will contribute in the medium term the lion's share to the successful operations of the entire SIJ Group.

Smart investments and the optimisation of investments already made will continue to be a source of sound performance. We are in the middle of a new investment cycle, which, however, will not be as intense as the earlier cycle in the 2007-2014 period. Right now, we are mainly focusing on eliminating bottlenecks and increasing production capacity where we are currently operating at full capacity. Through numerous activities, we intend to increase the yield of investments already made, such as the new line for the heat treatment of special steel, thus increasing their profitability and contribution to the overall performance."

And what are your personal expectations concerning the future operations of the company and of the SIJ Group?

"I am convinced that we have a realistic foundation for successful operations and growth."

Denis Mancevič, PhD
Member of the Management Board and CEO of SIJ d.d.

Denis Mancevič

Strategically Oriented

SIJ Group and SIJ d.d. have a clearly defined development strategy. We will continue to realise this strategy in 2017.

I am convinced that our operations are already organised in a manner ensuring the effective achievement of our objectives. The centralisation of key functions will be adapted to the growth of the SIJ Group and the environmental conditions. Investments and expansions concluded to date and the associated changes require that we consolidate our internal processes. Before us is a period of consolidation, during which we will continue to act in accordance with our strategic guidelines. I am very familiar with the current state of affairs, and I know that we can fulfil the expectations of both our customers and shareholders, as well as other stakeholders.

Andrey Zubitskiy
President of the Supervisory Board until 2017,
President of the Management Board of SIJ d.d. since early 2017

Financially Sound

All plans are always contemplated from all aspects, with particular focus on assessing their impact on business performance.

The financial results to date illustrate that we are pursuing this objective carefully, professionally, and with appropriate risk management. Therefore, I can assure that the plans are realistic, while the achieved objectives of the strategic plans, which we can adequately protect, will further strengthen the reasons for confidence in the SIJ Group and SIJ d.d.

Igor Malevanov
Member of the Management Board and CFO of SIJ d.d.

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Report of the President of the Supervisory Board

Dear Shareholders,

In 2016, SIJ d.d. and the SIJ Group have continued to maintain their leading position in individual niches of the steel market. They have successfully carried out some acquisitions and integrated the system into a business model with a variety of high quality products, all of which are now more often recognised under the unified brand of the SIJ Group. Due to price pressures in the market, 2016 was also marked by the need for SIJ d.d. to persistently continue its strategic investments and actively adapt its production programme, which is enhanced through our product brands. Despite the vast expansion of the SIJ Group, in the 2016 financial year, SIJ d.d. ensured the successful management of all risks, to which the Supervisory Board also contributed through its supervisory function. In the Supervisory Board's opinion, the achievements of SIJ d.d. and the SIJ Group in 2016 demonstrate that the management has successfully implemented its activities and pursued a sustainable development strategy.

OPERATION OF THE SUPERVISORY BOARD IN 2016

From 11 April 2015 to the end of the 2016 financial year, the members of the Supervisory Board were as follows: [4]

- Andrey Zubitskiy, President;
- Janko Jenko, Deputy President;
- Tomaž Stare;
- Evgeny Zverev;
- Denis Mancevič, PhD;
- Sergey Cherkaev;
- Sergey Frolov.

The supervisory body is composed of members with different professional qualifications, experience and demonstrated competences. This composition was (along with the continuous ownership structure), important in the expansion of operations in 2016, when the Perutnina Ptuj Group was included in the SIJ Group. The SIJ Group now comprises almost fifty companies in Slovenia and other European Union countries, as well as some other countries on other continents (America and Asia).

In 2016, the Supervisory Board members, with their diverse knowledge, effectively and with a multi-disciplinary approach monitored the work of the Management Board of SIJ d.d. from the financial, legal, technical, marketing and communications perspectives. With their comments, questions or opinions they regularly highlighted various business risks and drew attention to them. With its activities, the Supervisory Board contributed significantly to ensuring the management made cost-effective and efficient business decisions, and that in 2016, the SIJ Group improved its risk management systems and provided mechanisms for the preventive detection thereof.

EFFECTIVE COOPERATION WITH COMPANY MANAGEMENT

In 2016, the Management Board regularly informed the Supervisory Board of all activities related to the operations of SIJ d.d. and the SIJ Group. Members of the Supervisory Board met at two sessions; in-between the sessions, the Management Board provided regular electronic correspondence, materials, and reports to transparently inform the Supervisory Board of events relevant to the business. The SIJ Group and the members of its Supervisory Board operate in a global international business environment, and use state-of-the-art communication tools, video-conferencing, translation and other resources in their supervisory role. Management ensured active cooperation with the members of the Supervisory Board, irrespective of their location.

The materials for the Supervisory Board were always of good quality and, in members' opinions, were translated professionally and were of a high-quality, as well as precise and transparently structured. Members of the Supervisory Board were provided with clear information, which they needed for their work and decision-making. Given the above, the Supervisory Board believes that its cooperation with management was of high quality and efficient in 2016, that management was open to suggestions and questions and ensured the transparency of operations through regular notices before one-off events.

KEY CONTENTS OF OPERATION

In 2016, the Supervisory Board monitored and verified the operations of SIJ d.d. and the SIJ Group, and adopted decisions in accordance with the responsibilities set out in the Companies Act, the Financial Operations of Companies Act, the Company's Memorandum of Association and other applicable regulations.

At the beginning of 2016, the Supervisory Board members were made aware of the reasoned decision of the Management Board to postpone until the end of 2015, the expected division of investments in thein the company Holding PMP d.d. and Perutnina Ptuj d.d., by establishing a new company. At the same time, the takeovers of the company Holding PMP d.d. (the takeover was completed in February 2016) and of the company Perutnina Ptuj d.d. (the takeover was completed in March 2016) were still pending.

In terms of the contents discussed, the work of the Supervisory Board was associated with regular notices on the investment activities in SIJ Group companies in 2016 (especially in SIJ Acroni and SIJ Metal Ravne), and with increasing the visibility and appearance of the SIJ Group under the uniform and recognisable SIJ brand. Extending the definition of mark in the Memorandum of Association of SIJ d.d. was also the basis for the implementation of the project of branding, and the introduction of new product brands in the Metallurgy Division. Members of the Supervisory Board monitored the project through the appropriate materials.

4 On 18 January 2017, Evgeny Zverev was appointed the new President of the Supervisory Board. Andrey Zubitskiy, President of the Supervisory Board until then, and Denis Mancevič, PhD, until then member of the Supervisory Board, were appointed members of the new three-member Management Board of SIJ d.d.

In terms of equity, in December 2016, SIJ d.d. issued a new series of commercial notes in the total nominal amount of €30 million due to the high interest of investors. The commercial notes made a significant contribution to reducing financing costs.

Other areas of work of the Supervisory Board included its discussion of the Annual Report of the SIJ Group and of SIJ d.d. together with the certified auditor's report. At the session of 18 April 2016, the Supervisory Board adopted the audited annual reports and approved the Management Board's proposal on profit distribution. At the General Assembly, the shareholders approved the proposal to earmark part of the profit of 2015 in the amount of €5,810,642.63 for dividends.

In accordance with the recommendations of the relevant codes of conduct, the Supervisory Board also discussed switching auditors. According to international references, the rotation of certified auditors within the audit company, and the size of the SIJ Group, the Supervisory Board proposed that the audit in 2016 be carried out by the company Deloitte Revizija d.o.o. from Ljubljana, which was unanimously approved by the shareholders at the General Assembly.

At their sessions, the Supervisory Board members took note of the interim business results, were informed of the activities of the Perutnina Ptuj Group after the acquisition closed, and other business developments and plans relevant to the operations of the Company and the SIJ Group.

ESTABLISHING THE AUDIT COMITEE

At its session held on 18 April 2016, the Supervisory Board established an Audit Committee consisting of three members. Supervisory Board members who are also members of the Audit Committee are Sergey Cherkaev and Sergey Frolov. The Supervisory Board appointed tax consultant mag. Alan Maher, an independent member of the Audit Committee.

CONFIRMATION OF BRAND AND MANAGEMENT CHANGES IN COMPANIES

In September 2016, the Management Board presented to the Supervisory Board changes adopted in the framework of the project of branding and enhancing the recognition of the SIJ Group. The companies were renamed in such a way that the names of the companies now include the word SIJ as the umbrella name. With this change and the uniform branding system, the companies show investors that they are included in the overall business strategy of the SIJ Group, as managed by the controlling company SIJ d.d. At the same time, the Supervisory Board also supported the changes in the management of certain subsidiaries, with which the management updated and refreshed the managerial competencies of company directors in light of the companies' needs.

STARTING POINTS FOR OPERATIONS IN 2017

At the Supervisory Board session held on 27 October 2016, the members took note of the planned activities until the end of the year, and the starting points for operations in 2017. These include, in particular, the continuation of investments in equipment and the production capacities of subsidiaries, since only through modernising production equipment and processes will SIJ be able to compete with global steel competitors.

WORK OF THE SUPERVISORY BOARD'S AUDIT COMMITTEE

After being established in April, the Audit Committee, composed of Sergey Cherkaev as President, Sergey Frolov as member, and Alan Maher as independent external member, held two sessions on 16 June and 3 November 2016. It adopted guidelines for its operations in accordance with Article 280 of the Companies Act and best business practices. At its sessions, the Audit Committee discussed material for the Supervisory Board and, as a supporting committee, also discussed other specific issues.

SIJ d.d.'s Management Board strengthened the Group's strong position on the global steel market, and at the same time began to implement its strategy regarding the Poultry Division of the Group. Through its takeover activities and due to ensuring business transparency by informing the public, it was also a major member in the Slovenian capital market in 2016. Maintaining a competitive advantage in 2017 will open up new challenges for optimising and streamlining key business processes, including the IT support. In 2016 the Management Board successfully pursued all objectives.

Evgeny Zverev [5]
President of the Supervisory Board of SIJ d.d.

5 Evgeny Zverev is President of the Supervisory Board as of 18 January 2017. The office of Andrey Zubitskiy, President of the Supervisory Board of SIJ d.d. shall be frozen for six months, the duration of his term of office as President of the Management Board of SIJ d.d.

Organisation and Corporate Governance

2

Since 2016, the SIJ corporate brand is included in the names of most of the metallurgy companies of the SIJ Group. Using this uniform corporate brand reflects the companies' organisational cohesion with the Group.

Such corporate branding is inherently linked to a common belief in the values of the new metallurgy product brands. We operate according to the principles of customization, striving, and proven.

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About 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
Entry no.	SRG 1/03550/00
Date of entry	22 February 1995
Registered share capital	€145,266,065.75
No. of shares	994,616 ordinary no-par-value shares
Ownership	
(Qualified and other shares)	72.224% – DILON, d.o.o., Gerbičeva ulica 98, Ljubljana 25.001% – Republic of Slovenia, Gregorčičeva ulica 20, Ljubljana 0.001% – other shareholders
	2.775% – treasury shares
Registration number	5046432000
Tax number	SI 51018535
Principal activity	70, 100 Activities of head offices

The Company's **share capital is divided into 994,616 ordinary shares** of one class, which are issued in non-materialised form with the SIJR ticker symbol, and are not traded on a regulated market. All shares, except treasury shares, give their holders unrestricted voting rights. SIJ d.d. is not aware of any agreements between shareholders that could result in restrictions on the transfer of shares or voting rights. In addition to voting rights, holders of shares are entitled to profits (dividends), to participate in company management and are entitled to a proportionate part of the remaining assets after the company's liquidation or bankruptcy. All company shares are freely transferable, while SIJ d.d. has not issued any securities that provide special control rights, nor does it have any employee share schemes or provide specific contractual situations for acquisitions.[6]

In 2016, pursuant to the decision of the 25th General Assembly of Shareholders of SIJ d.d. that took place on 9 June 2014, the Management Board still had valid authorisation to purchase a total of 27,610 treasury shares. Other than that, the management has no other powers in relation to the issuance of shares.[7]

SIJ d.d. is the **controlling company** and founder or direct or indirect owner of subsidiaries of the SIJ Group, and functions according to the principles of a contractual concern. The Management Board of SIJ d.d. and its executive management team thus represent the management of the entire SIJ Group, which strategically manages, guides and supervises the operations of all Group companies, both in Slovenia and abroad. SIJ d.d. has **no registered branches.**

SIJ d.d. performs its function as manager of investments in SIJ Group companies directly, with a controlling agreement in place as the legal basis for that function. **The aforementioned function also represents the basis for the provision of centralised services for Group companies.** In companies were no controlling agreement is in place, the majority share of the controlling company, pursuant to which the Company ensures the efficient management of the SIJ Group, serves as the basis for the implementation of strategic objectives. Through these services, key business functions are managed and strategic decisions are made at the level of an individual company and the entire SIJ Group.

In accordance with the long-term development strategy, we shall continue to further strengthen and develop our vertically integrated structure. At the same time, we shall maintain diversification of business divisions, thereby reducing certain business risks.

6 SIJ d.d. is subject to the provisions of the law governing mergers and acquisitions, and as at 31 December 2016, none of the specific positions referred to in item 11 of the sixth paragraph of Article 70 of the Companies Act were fulfilled.

7 Since the company SIJ d.d. must apply the law governing mergers and acquisitions, below we provide other information and explanations in accordance with the sixth paragraph of Article 70 of the ZGD-1 as at the last day of the financial year, insofar as such information is not already apparent from other parts of the annual report. We also provide clarification regarding the provision of the amended ZGD-1, which includes the provision of Article 70.b of the ZGD-1 as one of the requirements governing the drafting of the business report.

Since the company SIJ d.d. and the SIJ Group are not registered and do not engage in research, search, discovery, development, and extraction of minerals, oil, natural gas or other materials subject ascertained by law,[8] nor do they engage in activities in the industry of logging of rainforests, we are not subject to reporting under the provisions of Article 70.b of the Companies Act (ZGD-1).

Corporate Management of the SIJ Group: Centralised Business Functions

Strategic Development	Technology	Strategic Purchasing	Sales and Marketing	General and Legal Affairs	HR	IT	Economics	Corporate Communications
Programme Structure Definition (product mix)	Technological Development	Strategic Raw Materials	Key Accounts	Legal Affairs	Key Employees	Development of Group IT Support	Financial Support for Group Development	Public Relations
Investments in Further Development	Energy	Non-Strategic Synergistic Effects	Market Research	Mergers and Acquisitions	Education, Training and Competency Development	SW and HW Maintenance	Common Accounting Policies and Methodologies	Internal Communication
							Planning, Reporting and Control System	

8 Article 70.b of the ZGD-1 applies to large companies, whose activities include the exploration, search, discovery, development and extraction of minerals, oil, natural gas or other materials in the context of the economic activities referred to in sections 05 to 08 of section B of Annex I of the Regulation on the standard classification of activities (Official Gazette of the Republic of Slovenia, nos. 69/07 and 17/08), and to companies engaged in activities in the industry of logging of rainforests listed in group 02.2 of section 02 of section A of Annex I of the Regulation on the standard classification of activities. This article also applies to large companies not engaged in the activities referred to in the preceding sentence, but whose subsidiaries carry out such activities.

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Operating Results of SIJ d.d.

SIJ d.d.: Key Operating Figures

	Unit of measure	2014	2015	2016
Operating Revenues	€ thousand	10,318	35,590	40,575
Operating profit	€ thousand	459	21,269	24,584
EBITDA	€ thousand	781	21,643	25,017
Profit before taxes	€ thousand	1,348	20,467	20,130
Profit of the year	€ thousand	1,211	19,752	19,946
Investments	€ thousand	3,306	586	786*
Capex	€ thousand	4,561	604	803
Statement of financial position as at 31 Dec.				
Total assets	€ thousand	240,828	350,813	405,557
Equity	€ thousand	181,228	191,403	205,532
Non-current and current liabilities	€ thousand	59,600	159,410	200,026
NFD as at 31 Dec.				
Cash and cash equivalents	€ thousand	15,151	9,143	8,286
Short-term bank deposits	€ thousand	0	0	0
Non-current financial liabilities w/o interests	€ thousand	43,098	122,700	157,433
Current financial liabilities w/o interest	€ thousand	11,948	31,283	36,261
NFD	€ thousand	39,894	144,840	185,409
NFD/EBITDA		51.1	6.7	7.4
Employees				
Average number of employees		49	63	79
Financial ratios	**Unit of measure**	**2014**	**2015**	**2016**
Return on sales (ROS)	%	12.3	153.2	131.2
Return on assets (ROA)	%	0.5	6.7	5.3
Return on equity (ROE)	%	0.7	10.6	10.0
Net profit per employee	€ thousand	25	314	253

** The investment in subsidiaries have been eliminated.*

SERVICES FOR SIJ GROUP COMPANIES

The main revenue source of SIJ d.d. is revenue from the provision of services for SIJ Group companies. SIJ d.d. provides services of strategic development, technology research, strategic procurement, marketing and sales, human resources, legal and IT services, financing, acquisition and management of financial assets, accounting services, planning and analytical monitoring of operations. It is also responsible for internal communications and public relations.

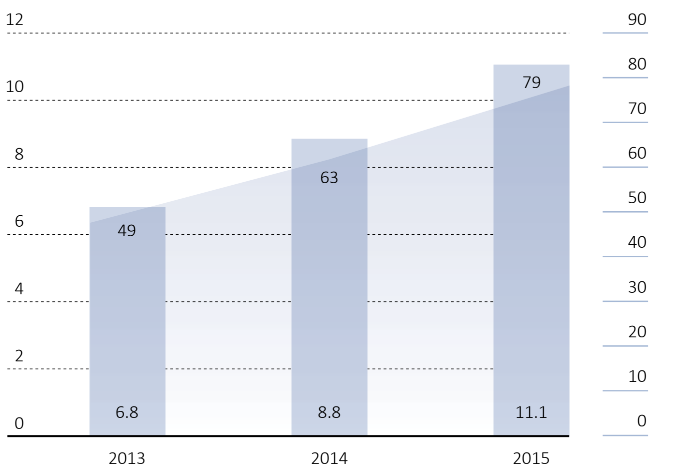
MORE EMPLOYEES FOR ENHANCED CENTRAL FUNCTIONS

The majority of costs represent labour costs, which are rising in line with growth in the number of employees. Central functions are being enhanced in line with the growth and development strategy. In 2016, the number of employees rose by 16.

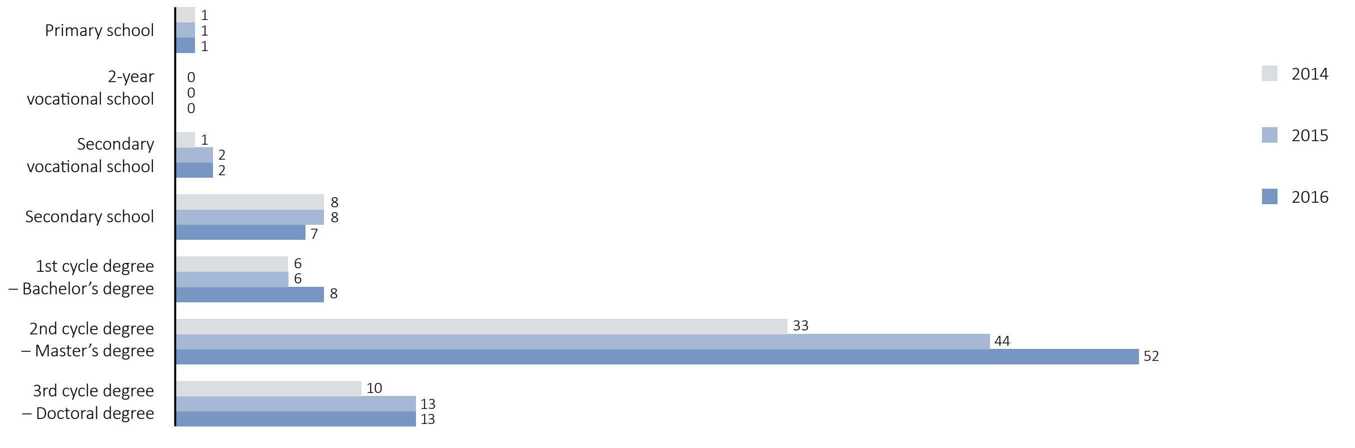
EMPLOYEES WITH HIGHEST LEVEL OF EDUCATION

More than three-quarters of employees have a bachelor's or master's degree. New jobs are opening up in areas where the nature and complexity of the work require at least a bachelor's degree. Given the management function of the company, we expect employment growth in particular of managerial staff with the highest level of education.

SIJ d.d.: Average Number of Employees and Labour Costs (in € million)



SIJ d.d.: Educational Structure of Employees as at 31 December 2016



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Presentation of the SIJ Group

SIJ Group: Organisational Structure per Division and Company and Geographical Distribution

sij group

METALLURGY DIVISION

- SIJ Acroni (SI)
  - Železarna Jesenice (SI)
- SIJ Metal Ravne (SI)
  - KOPO International (US)
  - SIJ Ravne Steel Center (SI), 22.7%
- Noži Ravne (SI)
  - SIJ Ravne Systems (UK) (GB)
    - SIJ Ravne Systems UK (North) (GB), 50%
  - SIJ Ravne Systems USA (US)
- SIJ Ravne Systems (SI)
- SIJ Elektrode Jesenice (SI)
- SIJ SUZ (SI)
- SIJ ZIP Center (SI)
- Odpad Pivka (SI), 74.9%
  - Dankor (HR), 91%
  - Metal – Eko Sistem (RS), 70%
  - TOPMetal (BA), 51%
- SIJ Ravne Steel Center (SI), 77.3%
  - Sidertoce (IT)
  - ORO MET (SI), 51%
  - SIJ MWT (DE)
    - Werkzeug Stahl Normalien (AT)
- Griffon&Romano (IT)
  - Inoxpoint (IT)
- Niro Wenden (DE), 85%
- SIJ Asia (DE)
  - SIJ Steel (Shanghai) Co. (CN)

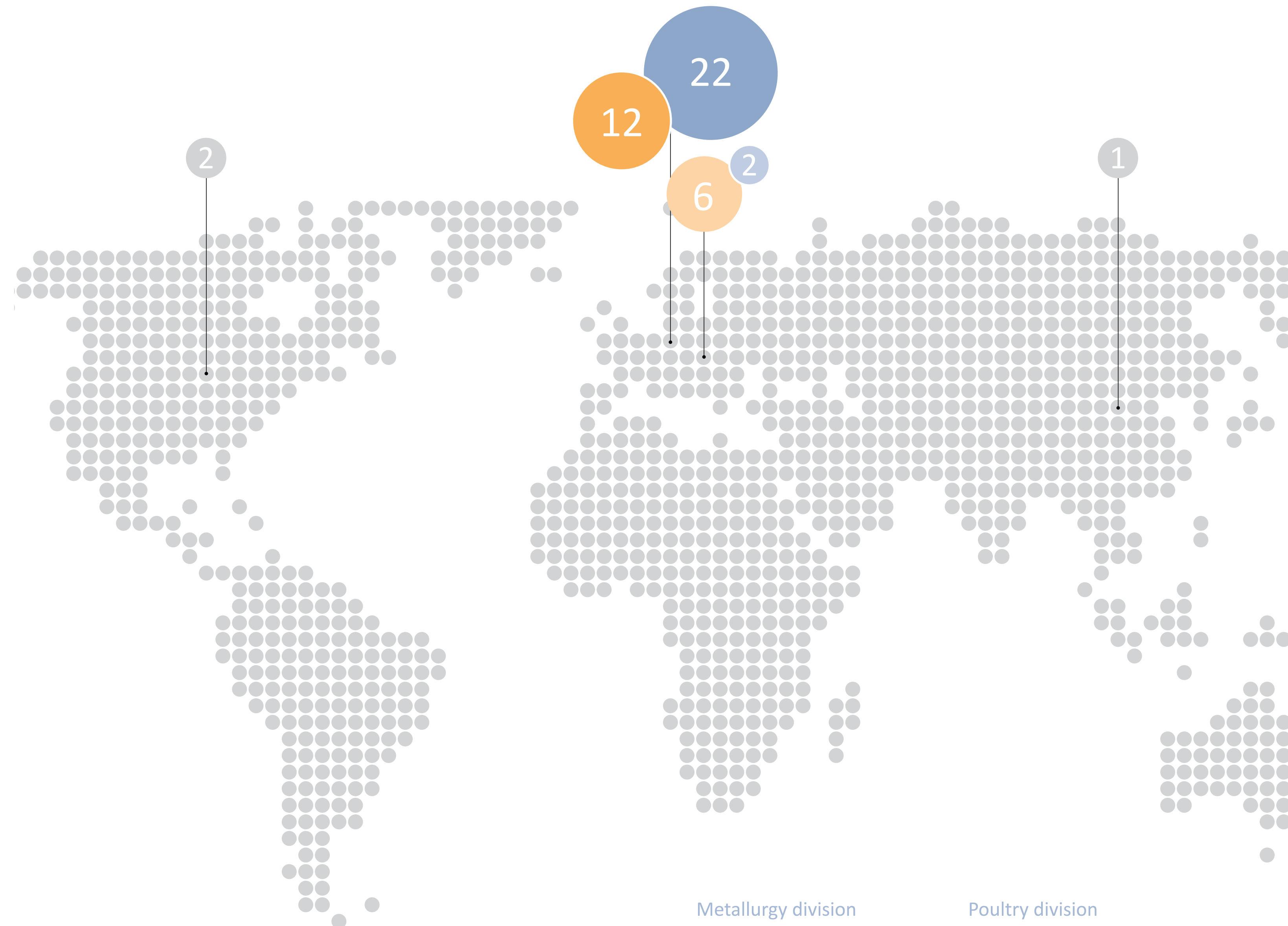
POULTRY DIVISION

- Perutnina Ptuj d.d. (SI)
- PP MI Zalog (SI)
- PP – Agro (SI)
- PP Energija (SI)
- Ptujska klet (SI)
- PP Veterinarska ambulanta (SI) 45%
- Gradbeni remont (SI)
- PP Gostinstvo (SI)
- Perutnina Ptuj – PIPO (HR), 99.66%
  - EKO – Energija (HR)
- PP S (BA)
- Perutnina Ptuj BH (BA)
- Perutnina Ptuj – Topiko (RS)
- PP BRO ŽIVA (RS), 60%
  - TOP Veterina (RS)
- Perutnina Austria (AT)
- Perutnina Ptuj DOOEL Skopje (MK)
- Perutnina Romania (RO)

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

The largest owners of SIJ d.d. and the SIJ Group are the company Dilon d.o.o., Ljubljana and the Republic of Slovenia. Other shareholders are holders of a minority interest in SIJ d.d.

The Metallurgy Division of the SIJ Group consists of 27 companies, 22 of which are established within the European Union, two in countries of the former Yugoslavia, while the remaining companies operate in Eastern Europe, the USA and Asia. As of March 2016, the Perutnina Ptuj Group, which has 18 companies, 12 of which are in the European Union, and the rest are in countries of the former Yugoslavia, is also part of the SIJ Group.



Metallurgy division
- European Union
- Ex Yugoslavia
- USA
- Asia

Poultry division
- European Union
- Ex Yugoslavia

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The following operating functions, key to the Group's performance, are centralised in the SIJ d.d. controlling company. In accordance with the long-term development strategy, we plan to further strengthen and develop the vertically integrated structure. At the same time, we maintain diversification of business divisions, thereby reducing certain business risks.

Metallurgy Division: Programme Structure

Scrap	Steel	Distribution		Manufacturing	Services
Scrap Division	Steel Division	Distribution and Processing Division		Manufacturing Division	Headquaters and Other Services
Odpad Pivka (SI)	SIJ Acroni (SI)	SIJ Ravne Steel Center (SI)	SIJ Asia (DE)	SIJ Ravne Systems (SI)	SIJ d.d. (SI)
Dankor (HR)	SIJ Metal Ravne (SI)	Sidertoce (IT)	SIJ Ravne Systems (UK) (GB)	Noži Ravne (SI)	SIJ ZIP Center (SI)
Metal – Eko Sistem (RS)		Niro Wenden (DE)	SIJ Ravne Systems UK (North) (GB)	SIJ Elektrode Jesenice (SI)	Železarna Jesenice (SI)
TOPMetal (BA)		Griffon&Romano (IT)	SIJ Ravne Systems USA (US)	SIJ SUZ (SI)	
		Inoxpoint (IT)	SIJ Steel (Shanghai) Co. (CN)		
		KOPO International (US)	ORO MET (SI)		
			SIJ MWT (DE)		
			Werkzeug Stahl Normalien (AT)		
			SIJ Polska (PL)		

Companies ORO MET, MWT Meyer (now SIJ MWT) and Sistemska tehnika (now SIJ Ravne Systems) were acquired in 2016. Companies SIJ Ravne Systems and Noži Ravne will be merged in 2017 in one comany named SIJ Ravne Systems.

Poultry Division: Programme Structure

Raw Materials: Energetics	Raw Materials: Agriculture	Feed Production	Livestock Production	Slaughterhouses	Sales Network
PP Energija (SI)	PP – Agro (SI)	Perutnina Ptuj d.d. (SI)	Perutnina Ptuj d.d. (SI)	Perutnina Ptuj d.d. (SI)	Perutnina Austria (AT)
	Perutnina Ptuj d.d. (SI)	Perutnina Ptuj – PIPO (HR)	Perutnina Ptuj – PIPO (HR)	Perutnina Ptuj – PIPO (HR)	Perutnina Ptuj DOOEL Skopje (MK)
		Perutnina Ptuj – Topiko (RS)	Perutnina Ptuj – Topiko (RS)	Perutnina Ptuj – Topiko (RS)	Perutnina Romania (RO)
		PP – Agro (SI)	PP S (BA)	Perutnina Ptuj BH (BA)	
		EKO Energija (HR)	PP BRO ŽIVA (RS)	PP MI Zalog (SI)	
			EKO Energija (HR)		

Services	Winemaking
Gradbeni remont (SI)	Ptujska klet (SI)
PP Gostinstvo (SI)	
PP Veterinarska ambulanta (SI)	
TOP Veterina (RS)	

Corporate Governance and Supervision of SIJ d.d.

CORPORATE GOVERNANCE

SIJ d.d. has a two-tier corporate governance system. The Company is managed by its Management Board, while the work of the latter is supervised by the Supervisory Board. Corporate governance is based on legal provisions, the Company's memorandum of association, internal guidelines, as well as international best business practices.

The Company's governing bodies are:

- the General Assembly;
- the Supervisory Board;
- the Management Board.

In 2016 there were no changes to the Management Board, Supervisory Board or shareholder structure. Due to the changes introduced in early 2017,[9] the functions of each of the management and supervisory bodies of the company listed below include the functions applicable as of January 2017.

GENERAL ASSEMBLY

SIJ d.d.'s shareholders exercise their rights through the General Assembly. In accordance with the provisions of the Companies Act, convening and conducting the General Assembly are regulated in the company's memorandum of association.

In 2016, the General Assembly was held on 19 May 2016. The convening of the General Assembly with explanations of the proposed resolutions and the content of the resolutions adopted was made available to the shareholders and the public on the SEOnet websites[10] and the company's website.[11]

At the 29th General Assembly, shareholders were informed of the annual report of SIJ d.d. and the SIJ Group for the 2015 financial year, the opinion of the certified auditor and the Supervisory Board's report on the results of its review of the annual report. The Assembly agreed to the proposal of the Management Board and the Supervisory Board to, of the distributable profit for 2015 in the amount of €34,389,621.87, earmark an **amount equal to €5,810,642.63 for the payment of dividends.** Excluding treasury shares, the gross dividend per share amounted to €6.01. Dividends were paid after the General Assembly. The General Assembly **adopted a resolution whereby the rest of distributable profit in the amount of €28,578,979.24 remains undistributed.**

The General Assembly conferred official approval on the Management Board and Supervisory Board for their work in 2015. Based on the Supervisory Board's proposal, the General Assembly appointed the audit firm Deloitte Revizija from Ljubljana to audit the financial statements of the SIJ Group for the 2016 financial year.

The memorandum of association provides that amendments to the memorandum of association are validly adopted, if approved by a majority of three-quarters of all votes cast of the share capital represented in the decision. Since a sufficient majority in the vote at the 29th General Assembly was not achieved only with votes on the proposed amendments to the memorandum of association, these amendments were not adopted.

SUPERVISORY BOARD

In accordance with the Company's memorandum of association, SIJ d.d.'s Supervisory Board comprises seven members who are appointed by the General Assembly. Proposals for the adoption of resolutions on the election of members of the Supervisory Board, which are decided on by the General Assembly, must be made exclusively by the Supervisory Board in the published agenda of the General Assembly, except for those items that are proposed by shareholders in accordance with the second paragraph of Article 296 of the Companies Act. The Supervisory Board monitors operations in accordance with the powers set out in the Companies Act, the Financial Operations of Companies Act, the Company's memorandum of association and other applicable regulations.

MEMBERS OF THE SUPERVISORY BOARD

Andrey Zubitskiy
Member of the Supervisory Board since 2007.
President of the Supervisory Board until 18 January 2017.[12]

Evgeny Zverev
Member of the Supervisory Board since 30 August 2013.
President of the Supervisory Board since 18 January 2017.

Evgeny Zverev, born in 1981, is a lawyer by profession. Mr Zverev graduated from the Kemerovo State University in Russia. Until 2007, he was employed at the IMH – Industrial Metallurgical Holding Management Company in Moscow. After that, he joined SIJ d.d., where he was Director of Legal Affairs, Mergers and Acquisitions. He has also been the Director of Dilon, SIJ d.d.'s largest shareholder, since 30 November 2012.

9 A more detailed explanation of the changes is provided in the chapter Events after the reporting period.
10 http://seonet.ljse.si.
11 www.sij.si.
12 On 18 January 2017, Andrey Zubitskiy was appointed interim President of the Management Board of SIJ d.d. for a term of six months. During this time, his membership in the supervisory body has been frozen. His presentation is part of the presentation of the Management Board below.

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Corporate Governance System of SIJ d.d. and the SIJ Group

Denis Mancevič, PhD
Member of the Supervisory Board between 29 August 2014 and 18 January 2017.[13]

Janko Jenko
Member of the Supervisory Board since 30 August 2013. Deputy President of the Supervisory Board.

Janko Jenko, born in 1964, is a mechanical engineer. He has a wealth of international experience in business. He has established, managed and supervised companies in Slovenia, Croatia, the Czech Republic and the USA. He is particularly active in companies in the fields of telecommunications and IT.

Tomaž Stare
Member of the Supervisory Board since 30 August 2013.

Tomaž Stare, born in 1965, holds a master's degree in business, with majors in accounting and auditing. He has a wealth of experience in the field of energy and the production of electricity, and also possesses the knowledge required to serve as a member of the supervisory boards of state-owned companies. He is employed at Savske elektrarne Ljubljana.

Sergey Cherkaev
Member of the Supervisory Board since 2011.

Sergey Charkaev, born in 1981, is an expert in the field of finance. He manages the area of economics and financial departments at IMH – Industrial Metallurgical Holding Management Company. He is a member of the Supervisory Board of OAO Tulachermet, and Vice President of Financial Affairs and a member of the Management Board of the IMH – Industrial Metallurgical Holding Management Company.

Sergey Frolov
Member of the Supervisory Board since 2011.

Sergey Frolov, born in 1980, completed his postgraduate studies at the State University of Management in Russia. He is a member of the Supervisory Board of OAO Koks, and Vice President of Strategy and Communications, and a member of the Management Board of IMH – Industrial Metallurgical Holding Management Company.

SUPERVISORY BOARD'S AUDIT COMMITTEE

The work of the Audit Committee, established in April 2016, is linked to the better and more efficient control of the Company's operations, especially risk management. The Committee's powers are set out in Article 280 of the Companies Act. The Audit Committee consists of committee President Sergey Cherkaev, member Sergey Frolov and independent expert mag. Alan Maher.

Mag. Alan Maher
Independent expert, member of the Audit Committee.

Alan Maher is an experienced tax expert and a member of the Slovenian Institute of Auditors. He specialises in tax consulting in the field of corporate transformations, mergers and acquisitions, and complex tax law issues relating to corporate income tax and personal income taxes. He has actively participated in major international projects of corporate restructuring and due diligence in both Slovenia and countries of Central and Eastern Europe.

13 Denis Mancevič, PhD, was, on 18 January 2017, appointed member of the Management Board of SIJ d.d. and CEO, therefore, his presentation is provided as part of the presentation of the Management Board below.

As the majority shareholder, the SIJ Group strategically manages its subsidiaries. The Management Board of SIJ d.d. and its executive management team strategically manage, guide and supervise the operations of all Group companies, both in Slovenia and abroad.

INTEGRATION OF THE COMPANIES OF THE SIJ GROUP

Most SIJ Group companies operate in Slovenia. According to the controlling agreement, concluded between SIJ d.d. as the controlling company and six direct subsidiaries, which are limited liability companies in Slovenia (SIJ Acroni, SIJ Metal Ravne, Noži Ravne, SIJ Elektrode Jesenice, SIJ SUZ and SIJ ZIP Center), the subsidiaries are controlled by the controlling company. In 2007, the company Železarna Jesenice also concluded the agreement, and the former remains indirectly subject to unified management. Other subsidiaries are located in Italy, Germany and Great Britain, in Croatia, Bosnia and Herzegovina, Serbia, China and the USA. As a rule, companies are 100% owned or under the controlling influence of SIJ d.d. For the most part they are organised as limited liability companies.

Within the framework of the implementation of the strategic business diversification of the SIJ Group, on 2 March 2016, SIJ d.d. successfully completed the purchase of shares of Perutnina Ptuj d.d., and integrated the Poultry Division of the Perutnina Ptuj Group into the SIJ Group.

SIJ d.d.'s Management Board manages and strategically governs the entire Group through resolutions, instructions and other acts issued in accordance with its powers, and through which it actively and strategically governs and guides all key business processes of the SIJ Group as the management body of the Company and SIJ Group or owner of subsidiaries. The executive management team is responsible for ensuring that established objectives are achieved in individual strategic areas across the entire Group, and that established mechanisms of consolidated areas of operations are implemented consistently.

NEW THREE-MEMBER MANAGEMENT BOARD

In accordance with the memorandum of association of SIJ d.d., the Management Board comprises a president and one to three members. The President and members of the company's Management Board are appointed by the Supervisory Board for a term of office of no more than six years with the possibility of reappointment. The duration of a term of office is set out in each resolution on appointment. The President of the Management Board represents the Company individually and without limitation, while members of the Management Board represent the company together with the President. In 2016, the Company was managed by its Management Board with the following two members:

- Anton Chernykh,[14] President of the Management Board;
- Igor Malevanov, Vice President of the Management Board.

In accordance with the provisions of the Company's memorandum of associations and resolutions on appointment, the President of the Management Board represents the Company independently, while the Vice- President represents the Company together with the President.

There were no changes to the Management Board, appointed on 17 January 2014, during the 2016 financial year. As of 18 January 2017, the Company has a new three-member Management Board[15] composed of:

- Andrey Zubitskiy, President of the Management Board;
- Denis Mancevič, PhD, Member of the Management Board and CEO;
- Igor Malevanov, Member of the Management Board and CFO.

14 In the beginning of 2017, Anton Chernykh resigned as President of the Management Board due to personal reasons.
15 A more detailed explanation of the changes is provided in the chapter Events after the reporting period.

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MANAGEMENT BOARD

ANDREY ZUBITSKIY
President of the Management Board of SIJ d.d.

Andrey Zubitskiy, born in 1975, graduated from the Kuzbaki University of Technology, later earning a doctorate degree in economics. He began his career in the Koks Group system in 2003, when he became the first vice president and member of the Management Board of IMH – Industrial Metallurgical Holding company. He continues to occupy this position. He is also President of the Management Board of the Dutch company Dilon Cooperatief U.A. Since 2007, as well as President of the Supervisory Board of SIJ d.d., while in January 2017, he was appointed interim President of the Management Board. Andrey Zubitskiy is also the Honorary Consul of the Russian Federation in Slovenia, which is based in Jesenice.

IGOR MALEVANOV
Member of the Management Board and CFO of SIJ d.d.

Igor Malevanov, born in 1976, graduated from the Faculty of Management at Belarus State Economic University. During his postgraduate studies, until 2000, he worked at various Russian companies, where he specialised in insurance and finance. In 2001, he joined the Russian Koks Group as Finance Director of Koks subsidiaries. In 2004, he became Head of Finance at IMH – Industrial Metallurgical Holding Management Company, established in 2002. In 2007, he joined the SIJ Group as the CFO.

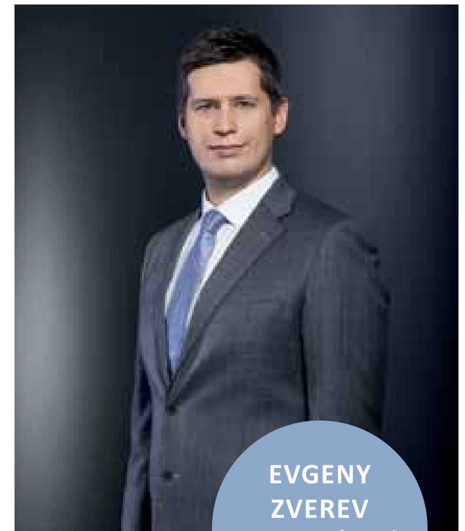
DENIS MANCEVIČ, PhD
Member of the Management Board and CEO of SIJ d.d.

Denis Mancevič, PhD, born in 1981, graduated from the Faculty of Social Sciences in Ljubljana, majoring in Political Science - International Relations, and from the Faculty of Arts in Ljubljana, majoring in Russian language and literature and sociology of culture. He continued his academic career at the University of Maribor, where he completed a Master's degree as part of the International Business Academy. In 2013, he obtained the title of Doctor of Science from the Faculty of Social Sciences. Currently, he in undergoing additional education at the IEDC - Bled School of Management in the Executive MBA programme.

He began his career in 2006 as a consultant and then as sales manager for foreign markets, specialised for the markets of Eastern Europe. In 2010, he continued his career in the position of economic adviser at the Embassy of the Republic of Slovenia in the Russian Federation. In 2014, he joined the SIJ Group as Director of Corporate Communications. In the same year, he became a member of the Supervisory Board of SIJ d.d., and in 2016, also a member of the Supervisory Board of Perutnina Ptuj d.d.

In January 2017, Denis Mancevič, PhD, was appointed member of the Management Board and CEO of SIJ d.d.

EXECUTIVE MANAGEMENT



EVGENY ZVEREV
Director of Legal Affairs, Mergers and Acquisitions

"Through the acquisition of companies, we are pursuing a strategy of vertical integration, which will ultimately allow us to provide our customers comprehensive services and deliver on the promises of our brands."

MARJANA DROLC KALUŽA
Purchasing Director

"The new metallurgy brands strengthen the Group's corporate reputation and also our reputation as a trusted procurer of raw materials from the point of view of global providers."

SLAVKO KANALEC
Director of Technology

"New and adapted technologies and materials are essential to meeting the expectations of customers, who are, due to branding, even more demanding."

DUŠICA RADJENOVIĆ, MA
Sales Director

"Our brands are creating new market opportunities, and we are using them to change our sales models."

MITJA KOLBE
Director for Business Development and Strategy

"Brands are a strategic tool to consolidate our position as a leading supplier in various market niches."

CONSIDERATION OF A DIVERSITY POLICY BY THE BODIES OF SIJ D.D. AND THE SIJ GROUP

SIJ d.d. has not adopted any specific diversity policy regarding representation in the management or supervision of the Company with regard to circumstances such as gender, age, education, or other circumstances. However, diversity in management and supervisory bodies is already ensured through the international composition of the members of the management bodies and their joint or individual diversity in terms of competencies and responsibilities. In their mutual communication, they have respect for dignity and mutual respect, thus fostering a corporate culture, which guarantees the adoption of sound business decisions for both the domestic and international business environment.

MANAGEMENT BOARD PARTICIPATES IN STEEL ASSOCIATIONS

In 2016, the Management Board actively participated in the work of international steel associations, while outside of the SIJ Group, members of the Management Board did not conduct any activities, which could be considered significant in relation to their position within the SIJ Group.

Statement of Compliance with the Corporate Governance Code

In the scope of its corporate governance statement pursuant to the provisions of the fifth paragraph of Article 70 of the Companies Act, SIJ d.d. hereby provides explanations regarding its compliance with or deviations from the corporate governance codes that apply to the Company and relate to the period between 1 January 2016 and 31 December 2016.

The provisions of the Corporate Governance Code, which was formulated and adopted by the Ljubljana Stock Exchange, the Slovenian Directors' Association and the Managers' Association of Slovenia and is in force since 8 December 2009, applied to SIJ d.d. in 2016. It is published on the website of the Ljubljana Stock Exchange www.ljse.si. In October 2016, the Ljubljana Stock Exchange and the Slovenian Directors' Association issued and published on the same website the revised Corporate Governance Code, which applies from 1 January 2017 onwards. Given the Slovenian Government's ownership stake in SIJ d.d., the Corporate Governance Code for Companies with Capital Assets of the State apply to the company from March 2016, which the Management Board of SDH adopted, with the approval of the Supervisory Board, and is published on its website http://www.sdh.si/.

In 2016, the Management Board and the Supervisory Board of SIJ d.d. did not specifically discuss formally applying the aforementioned codes of conduct, as the corporate governance of SIJ d.d and the SIJ Group already follows the content of the codes in those provisions that derive, in terms of content and purpose, from the provisions of valid legislation and best business practices, or are otherwise relevant to SIJ d.d and the SIJ Group in terms of corporate governance.

Since the SIJ Group is an export group aimed at international investors, it must, as a source of competitive advantage, already consistently ensure the transparent informing of the public, as well as domestic and foreign investors on all important business events and corporate governance events in line with international best practices. Due to the expansion of the SIJ Group through the acquisition of the company Perutnina Ptuj d.d. and its subsidiaries, it made no sense to already in 2016 verify the compliance or deviation of the corporate governance system of the Poultry and Metallurgy Division of the SIJ Group regarding the aforementioned codes, since the first post-acquisition activities primarily focused on effectively representing the interests of the new division in the corporate governance system of the modified Group. This will be followed by determining the existing corporate governance policy in the newly acquired division of the Group, the advantages or disadvantages of the corporate governance systems, and the potential synergies that could, in the future, be implemented in the unified corporate governance policy within the entire SIJ Group.

Due to their pursuit of a transparent business policy and compliance with supplier policies, some manufacturing companies in the Group have already adopted their own codes of conduct. In this statement, with reference to the corporate governance codes, SIJ d.d. expresses its intention to, when upgrading the corporate governance system, prepare and implement a code of conduct throughout the entire SIJ Group in line with its objectives concerning the centralised management of strategic business functions of the SIJ Group as the controlling company.

Andrey Zubitskiy
President of the Management Board

Evgeny Zverev
President of the Supervisory Board

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Business Report

The SIJ Group brands will be synonymous with excellence in specific market niches.

The SIJ Group's Metallurgy Division will be a leading provider of niche products with high added value. The brands of metallurgy products will meet the expectations of the most demanding customers of special purpose steel.

In the Poultry Division, the Perutnina Ptuj Group, which was taken over by the SIJ Group in 2016, shall penetrate new promising markets and increase its share of products with high added value with its own brands of food products.

This is our vision.

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Strategic Guidelines and Business Strategy

STRATEGIC OBJECTIVES UNTIL 2027

The SIJ Group has a clearly defined business strategy with quantifiable objectives. The key objective that will be achieved through strategically sound and effective business is steadily increasing the proportion of products with higher added value, and our own brand.

By 2027, sales of premium products shall account for **75 percent** of sales of metallurgy products, while the **share of our own final products** will, as soon as in 2021, reach **60 percent** of sales of food products.

In key markets, the proportion of sales of products under our own brands will increase steadily. In the main market segments, we shall strengthen our position as the leading manufacturer and become one of the top three producers in each of these segments.

These goals will be achieved through optimal capacity utilisation. Synergies within the SIJ Group shall ensure all business functions are implemented cost-effectively. In the long-term, we shall ensure a reduction of net financial debt and optimise the NFD/EBITDA ratio (to below 3.0).

KEY FOCUS

The SIJ Group intends to establish a **vertically integrated business model** in its key divisions. In both divisions (the Metallurgy and Poultry Division), vertical integration will allow us to provide better care for end customers and integrate the chain in the development of finished products. This is our key strategic focus.

The SIJ Group is adapting its product range to include a growing share of products with higher added value, which are marketed under its own brands.

We are building our market position in selected niche market segments, in which we design, produce and market a range of tailored products and services. This is our strategic orientation that is more easily realised by establishing vertical chains.

The SIJ Group's **proportion of revenue from sales of its own final products** and comprehensive solutions is growing. In key markets we are consolidating our market position through our own sales and distribution channels, which enable direct contact with end customers and consumers. This orientation is also strengthened through our management of both new and already established own brands.

The SIJ Group will continue to pursue synergies through meaningful consolidation and the **centralisation of selected business functions.**

Optimisation of the product mix in the Metallurgy Division is inextricably linked with appropriate management of future investments. Changing the production range in favour of more demanding products with the highest added value is supported by increasing investments in the special line for heat treatment of steel (MultiFlex Quench HTL), the planned investments in boutique production technologies such as VAR (Vacuum Arc Remelting) and VIM (Vacuum Induction Melting), for the production of new types of steel, investments in the more energy efficient and environmentally-friendly production of products with high added value – AOD (Argon Oxygen Decarburisation), and UHP (Ultra High Power Electric Arc Furnace) technologies. Increasing the proportion of our own steel processing into final products is supported by investments in the mechanical processing and the expansion of the product portfolio through the acquisition of companies such as ORO MET and SIJ Ravne Systems (formerly Sistemska tehnika).

In the Poultry Division, key activities relating to changing the product range in favour of products with the highest added value mainly relate to the marketing of high-quality and healthy poultry meat and products (without the use of antibiotics, animal proteins and hormones), and by increasing sales of these products in existing markets, such as Austria, Romania, Switzerland, Great Britain and Italy. The Group shall increase the proportion of products with high added value also thanks to investments in increasing production capacity, and by developing new products for selected market segments. A changed sales range is also vital for entry into new markets such as Turkey, Russia and the Middle East.

The key markets and market segments in which the SIJ Group intends **to establish its own brands and strengthen its position as the leading producer** are, for the Poultry Division, in particular South-East Europe, and for the Metallurgy Division, industrial countries in Europe (Germany and Italy), and, increasingly, the US. In key markets, SIJ Group will market its products under its own brands, which will be renowned for their quality, respect for the principles of sustainable development, and being tailored to the customer and consumer.

In key markets, SIJ Group will market its products under its own brands, which will be renowned for their quality, respect for the principles of sustainable development, and being tailored to the customer and consumer.

The well -established brands in the Poultry Division, which joined the SIJ Group in 2016, are and will continue to be an important factor of the success of the SIJ Group.

Through the development of new products, as well as modifications and improvements of its production processes, the SIJ Group will attempt to set market trends in premium segments with its own brands. In select product segments or niches, we will increase our market share by entering into new partnerships, and through active marketing. We will enter select new markets thanks to changed production ranges and obtaining the relevant certificates.

Optimal utilisation of capacities and synergies within the SIJ Group **for the cost-effective implementation of all business functions** will, inter alia, be achieved through the established vertical and horizontal transfer of information within the SIJ Group. This will allow us to increase the cost-effectiveness of procurement (energy sources, IT, services, logistics, etc.) and financing activities. The coordinated management of each of the key business processes in combination with an even more flexible and leaner production will be the cornerstone of the implementation of the planned changes.

The long-term **reduction in net financial debt** and **increasing profitability of operations** are priorities which are, inter alia, associated with the proper implementation of the investment cycle. We shall continue to ensure the profitability of operations, which grew effectively in 2016, through cost rationalisation and adjusting production processes, as well as increasing sales of products with higher value added and finished products.

ACHIEVING STRATEGIC GOALS IN 2016

In 2016, the SIJ Group carried out several projects aimed at supporting the implementation of the key strategic objectives until 2020. Our most important achievements include:

- **Expansion of representative offices and the service and sales network** in order to ensure the better supply of customers in key markets, and to support our penetration of rapidly growing markets; inter alia, we acquired the company MWT Meyer, which is an established provider of customised products for the automotive and tooling industry.
- **Expansion of the product portfolio of the SIJ Group;** in the Metallurgy Division, with the acquisition of Sistemska tehnika (now SIJ Ravne Systems) we have expanded our portfolio of finished products comprising rolls, cladding for steel and aluminium rolling, and specialised components. By acquiring the company ORO MET, the SIJ Group has added custom machined tooling plates with engraved elements to its portfolio.
- **Certification with renowned manufacturers of industrial equipment** is already supporting the increased sales of products with higher added value in the Metallurgy Division; with several potential customers, especially manufacturers of industrial equipment, we carried out certification processes, allowing SIJ Group products to be included on lists of approved products.
- **A common customer relationship management platform – CRM** has been introduced in the key metallurgy production companies in the Group.
- **The corporate architecture of the steel brands and the branding of selected steel products of the SIJ Group** are part of the newly established marketing platform in the Metallurgy Division. The steel brands were presented to key customers at the Second Sales Conference, which took place in September 2016.

The introduction of the heat treatment line (HTL) for the special purpose steel in the company SIJ Acroni and the beginning of integration of the companies Noži Ravne, Serpa and Sistemska tehnika in the single company SIJ Ravne Systems were also important for the realisation of the key strategic objectives, and achieving the high profitability of the Metallurgy Division in 2016.

We have maintained our leading market share in the market of stainless stell quarto plates in the European Union (SIJ Acroni), and the position of the third largest producer of tool steel in the market of the European Union (SIJ Metal Ravne). In customised production, we have maintained the competitive advantages offered by short delivery times, while changes in the production ranges and cost rationalisation have allowed us to maintain profitability.

New brands and common marketing tools (CRM) have allowed us to increase shared marketing and sales activities in the Metallurgy Division. The well-established brands in the Poultry Division, which joined the SIJ Group in 2016, are and will continue to be an important factor of the success of the SIJ Group. Despite price pressures, we increased the profitability of this division even in 2016, which was one of the most important aims of the take over.

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Impact of the External Environment on Achieving the Objectives

Finished products with higher added value, such as those developed by the Perutnina Ptuj Group under its brands, will allow us to maintain regional market leadership.

In the SIJ Group, strategic objectives are achieved in a global economic environment. By constantly monitoring the macroeconomic environment and industry developments, we systematically seek opportunities to develop and manage the associated risks. Sales and marketing activities related to our own brands focus primarily on promising industries, selected niche markets, and geographic areas.

MACROECONOMIC ENVIRONMENT

In 2016, global growth was stable, although the growth rates were lower than originally projected in developed countries. In commodity-exporting countries, growth recovery was noticeable. In the US, in the first half of 2016, economic growth continued amid the continuing decline in the unemployment rate, mainly owing to private consumption. **In the US,** the real gross domestic product grew by 1.3 percent year-on-year.

In developed countries, economic activity flattened, while **in BRIC countries,**[16] economic activity revived to a certain degree. Growth in the Russian and Chinese gross domestic product continued to shrink (the 6.7 percent growth recorded is the lowest growth in the last five years), but at the same time, other emerging markets continued to grow, particularly India (7.4 per cent growth).

Weaker activity in **developed countries** is associated with a slowdown in trade, investment, productivity and wages, which have an impact on long-term low growth and lower expectations. The impact of the uncertainties due to Brexit, the departure of Great Britain from the European Union, has so far been relatively small, while a greater impact can be expected in 2017 due to the effect of trade agreements and other relations with the rest of the European Union. Risks to financial stability are also growing due to the extremely low interest rates and their effects on the prices of financial assets and real estate.

In the Eurozone, economic growth slowed in the second quarter. Growth was mainly underpinned by services and industry. In August, the economic climate, which remained stable in almost all economic sectors, except in construction in the second quarter of 2016, deteriorated. An improvement followed in September, while confidence grew most in industry and in retail trade. Relatively low energy prices and low interest rates contributed to the moderate economic growth.

FORECASTS AND EXPECTATIONS

According to the forecasts of international institutions,[17] until 2018, gross domestic product growth in the Eurozone is expected to range between 1.4 and 1.6 percent. With further improvement in labour market conditions, continued growth is expected to be based on the growth of private consumption. Investment activity is expected to **recover rather modestly.** With the expected growth of the world economy, **export growth** in the Eurozone is initially expected to slow down, and then gradually strengthen in 2017. Due to the expected increases in oil and other commodity prices, the economic situation in Russia is expected to gradually improve.

After January 2016, when oil prices were USD 30 per barrel, prices have been steadily increasing. Expressed as an average over the first eight months, oil cost USD 40.9 per barrel, which is still almost 30 percent less than in the same period in 2015. In the next two years, oil prices will gradually increase. Prices of non-energy raw materials are expected to initially continue to fall, while in the next two years, modest growth is forecast.

GLOBAL CONDITIONS FOR THE METALLURGY INDUSTRY

The economic conditions were also reflected in the global market for steel,[18,19] and metallurgy products. 2016 was marked by the growth of the automotive industry, a major consumer of tool steel, by the protection of individual regional markets against imports, and by a modest 0.2-percent growth of world steel consumption.

For the second year in a row, the demand for steel in China has shrunk; however, the markets of NAFTA countries[20] and markets in the European Union are developing slowly but steadily. These markets will be the cornerstone for development of steel markets in 2017, during which global steel consumption is expected to **grow by 0.5 percent.** Excluding China, in 2016, demand for steel was up and reached 1.8 percent growth; in 2017, demand is expected to grow at a rate of three percent.

Consumption and demand were weak in the mechanical engineering and metal industry. **The automotive industry** is the only industry to **maintain strong growth,** due to the demand in developed economies.

16 Brazil, Russia, India, China.
17 Sources: EIA, IMF, ECB, CMF.
18 http://www.worldsteel.org/media-centre/press-releases/2016/worldsteel-Short-Range-Outlook-2016-2017.html.
19 Eurofer: Economic and Steel market Outlook 2016–2017.
20 The signatory states of the North American Free Trade Agreement.

In 2016, the European steel market strengthened due to increased private consumption, which was based on the automotive and household appliance industries. In the second quarter of 2016, the automotive industry grew by as much as 10.5 percent compared to the same period last year.

Overall, the European steel industry grew by 2.5 percent in 2016. Similar growth is expected in 2017. Growth will continue to be based on private consumption rather than on investments.

The situation in Europe is also linked to the imports of undervalued Chinese steel. In 2016, the European Commission took action by introducing duties on Chinese steel, from which the neighbouring countries benefited by increasing their sales in Europe. In the first ten months of 2016, Taiwan increased its sales in European markets by 90 percent, and India by 40 percent.

In addition to **undervalued imported steel,** the future situation on the world market will be impacted by various measures, and particularly by the decisions adopted by the US, where additional protective measures are expected.

THE SIJ GROUP ON THE GLOBAL STEEL MARKET

In deteriorated conditions, the SIJ Group managed to maintain a high 27.7 percent[21] share of the European market of thick stainless steel plates. The potential introduction of the announced protective measures will particularly impact the Group's further position in Europe and its breakthrough to the market of the United States, which is one of the key markets of the SIJ Group.

CONDITIONS FOR THE POULTRY DIVISION

The European poultry meat market has been growing for the second year in a row. In 2016, the year-on-year growth was four percent. Production of poultry meat is increasing in all European Union countries, except in France, where the market situation has not yet improved after the outbreak of avian flu. **Production growth** in 2016 is a result **of the fall in prices.**

Since the consumption of poultry meat in Europe is coming into the mature stage, while competition from Brazil and the US restricts the further growth of exports from the European Union, further pressure on prices can be expected. Since May 2016, poultry prices have been falling due to an abundant domestic supply. In 2016, consumption of poultry meat in the European Union increased by 3.4 percent and stood at 23.6 kilogram per person, while prices fell to €175 per 100 kilograms, which is eight percent below last year's prices.

In the first seven months of 2016, both **exports and imports of poultry meat increased in the European Union.** Compared to 2015, exports increased by seven percent. Exports most increased to Ukraine (48 percent), South Africa (44 percent), Hong Kong (33 percent), and the Philippines (28 percent). The growth in exports to South Africa is a result of preventive orders for due to the protective trade measures announced by the South African Trade Organisation (ITAC) against imports from the European Union.

All the developments in the market of poultry meat in 2016 are associated with low feed prices as a result of the abundant global harvest and the reallocation of the harvest from food to poultry feed.

FORECASTS AND PROSPECTS FOR THE PERUTNINA PTUJ GROUP

Last year, consumption of poultry meat in the European Union increased by 3.8 percent and stood at 13.8 million tonnes. Due to profitability, the production of poultry meat in the European Union is expected to continue to increase, while forecasts indicate that consumption growth shall slow down over the next 18 months.

The prospects of the Perutnina Ptuj Group are sound, in light of the expectations that **in the next decade the poultry industry** will become **the largest meat industry,** and that in 2024, the production of poultry meat will account for more than 50 percent of total meat production.

Global annual meat consumption per person is expected to reach 35.5 kilograms by 2024, which is 1.6 kilograms more than in the 2012-2014 period, while this additional consumption is expected to focus primarily on poultry meat.

In developed countries, meat consumption is more than double the consumption in developing countries. Due to such trends, finished products with higher added value will be crucial, such as those developed by the Perutnina Ptuj Group under its brands. These brands will allow us to maintain regional market leadership in all key markets of Southeast Europe, while we shall enter new markets with a specialised sales range. We will strengthen our competitive advantages, which are based on high standards of quality and innovation.

21 Eurofer: Economic and Steel market Outlook 2016–2017.

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Analysis of the Group's Operations

SIJ Group: Key Operational and Financial Data

	Unit of measure	2014	2015	2016**
Operational data				
Cast steel production	T	466,835	442,127	448,497
Production of poultry meat	T	79,391	76,851	83,052
Financial data				
Revenues	€ thousand	707,858	664,817	842,645
Exports	%	86.2	87.3	80.4
Operating profit	€ thousand	39,543	23,341	68,636
EBIT margin	%	5.6	3.5	8.1
EBITDA	€ thousand	77,832	63,509	127,057
EBITDA margin	%	11.0	9.6	15.1
Profit before taxes	€ thousand	26,686	8,973	48,054
Net profit	€ thousand	24,904	10,793	51,325
Operating cash flow	€ thousand	82,798	61,305	105,189
Capex	€ thousand	47,633	56,886	70,267***
Statement of financial position as at 31 Dec.				
Total assets	€ thousand	789,261	863,695	1,148,157
Equity	€ thousand	348,135	348,718	423,471
NFD	€ thousand	216,431	272,743	367,520
NFD/EBITDA		2.8	3.8*	2.9

** The data for the Poultry Division is provided in the table for ten months (from 1 March to 31 December 2016), which covers the same period as is included in the consolidation. A performance analysis for the Poultry Division for the entire 2016 is provided on page 55.*
*** The data for the Poultry Division is provided in the table for ten months (from 1 March to 31 December 2016), which covers the same period as is included in the consolidation. A performance analysis for the Poultry Division for the entire 2016 is provided on page 55.*
**** Investments in the companies Perutnina Ptuj, Holding PMP, Sistemska tehnika (now: SIJ Ravne Systems), ORO MET and MWT Meyer (now: SIJ MWT) are excluded.*

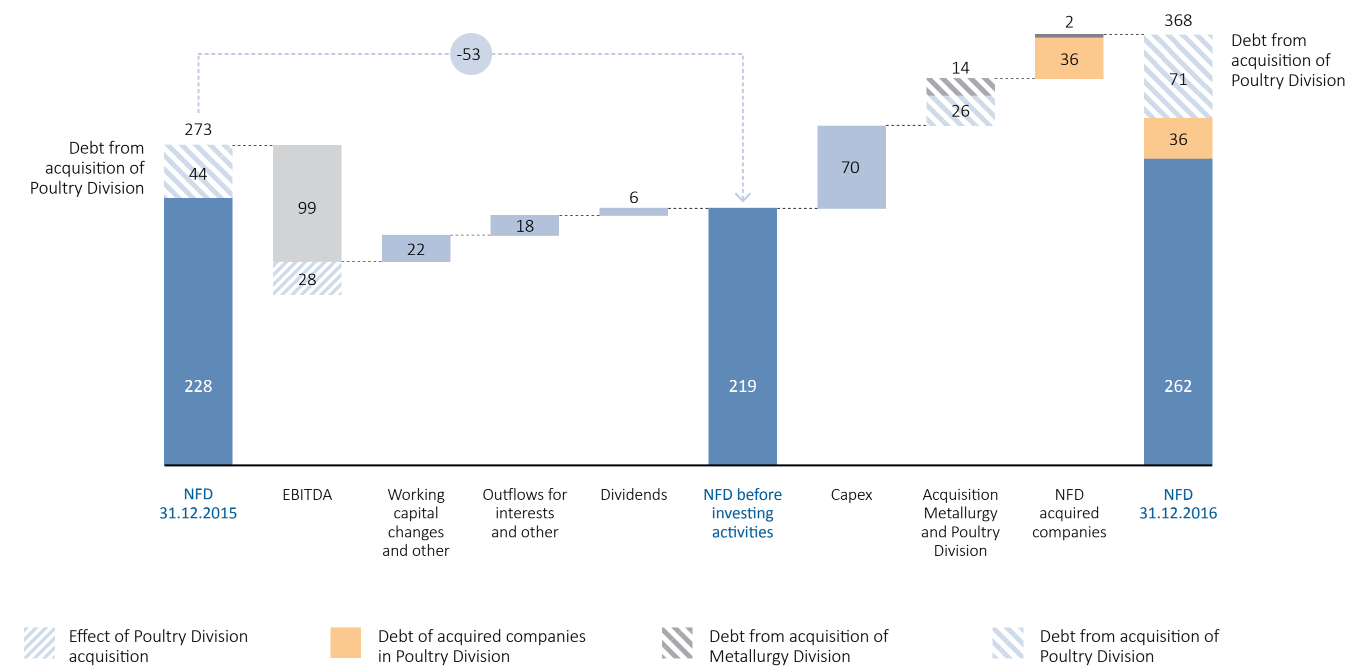
SYNERGIES OF BROADENING THE GROUP'S ACTIVITIES

The physical and financial ratios for 2016 are impacted by the acquisition of the companies Sistemska tehnika, ORO MET and MWT Meyer, which operate in the metallurgy industry, and the acquisition of the Perutnina Ptuj Group, which operates in the poultry industry. The achieved results show positive effects in both industries, and the positive synergy effects at the level of the SIJ Group. We are focusing on products with higher added value in both the Metallurgy Division and the Poultry Division. In both divisions, we are thoughtfully expanding our range, especially through vertical integration, while we are at the same time reducing sensitivity to market fluctuations with quality and our brands.

Revenue of the SIJ Group is higher than last year, even though the revenue of both divisions is lower than in the previous year. In the Metallurgy Division, this is mainly due to a decline in the prices of strategic raw materials, which serve as the basis on which market sales prices in the industry are formed. In the Poultry Division, the reason for the fall in prices and revenue lies in the increased supply of products from imports (mainly lower quality products).

The EBITDA of the SIJ Group in 2016 **doubled** compared to the previous year. The acquisition of the Perutnina Ptuj Group generated an additional impact on EBITDA of €28 million. In addition to the acquisition of the metallurgy companies and the acquisition of the Poultry Division, the increase in EBITDA is primarily due to the profitability of both divisions. Profitability has improved through the optimisation of production processes, and reducing purchasing costs, which has been achieved by synergistically enhancing our shared bargaining power in the market. The negative impact of fixed costs is a result of higher labour costs and the increased volume of outsourced services due to more complex production processes. Other impacts on operations reflect the revaluation of inventories to lower values due to the drop in market prices.

SIJ Group: NFD Bridge (in € million)



The main reason for the increase in NFD lies in the **intensive investment in equipment and acquisitions** of companies. In the operative part, the NFD of the SIJ Group fell to €219 million. Due to the intensive cycle of investment and the strategic acquisitions of companies, the SIJ Group has taken on additional debt, however, the Group's level of debt is expected to gradually decline in accordance with the long-term strategy. In 2025, we expect debt to amount to €86 million. The planned EBITDA will significantly exceed the planned capital expenditure.

SIJ Group: Available Liquidity

in € million	2014	2015	2016
Available liquidity	110	105	194
Cash and cash equivalents	39	45	59
Approved overdrafts for working capital	71	60	107
Approved overdrafts for investments	35	81	28

The SIJ Group enjoys a high level of liquidity. In 2016, the available liquidity **increased by €89 million** compared with 2015, mainly on account of the acquisition of the Perutnina Ptuj Group. In the context of available liquidity, the greatest increase was recorded in overdrafts for working capital, which afford us safety of operations and allow us to regulate the need for financing working capital.

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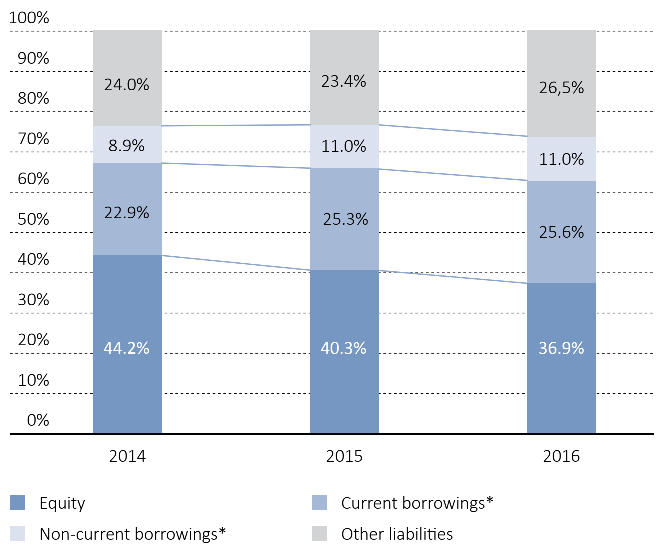
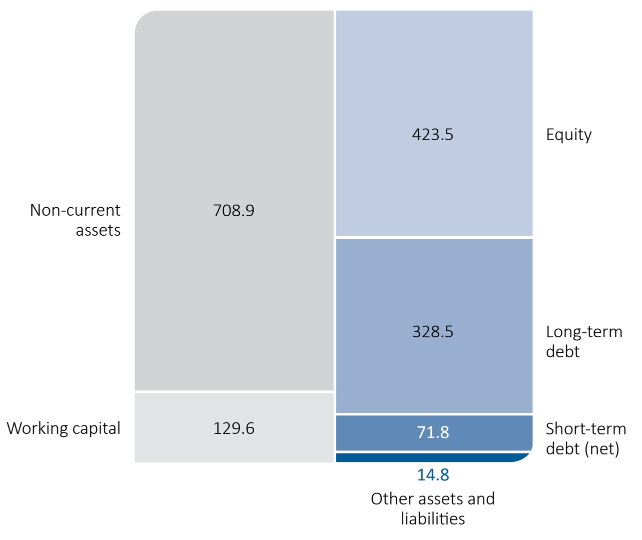
SIJ Group: Debt Structure as at 31 December (in percent)



* Financial lease and interests liabilities are not included.

SIJ Group: Structure of Financial Position: Asset-to-Debt Ratio as at 31 December 2016 (in € million)



In the structure of debt, the share of long-term funds to finance investments and operations increased slightly, while the share of equity decreased slightly as a result of the acquisition of the Perutnina Ptuj Group.

In December 2016, the SIJ Group again issued one-year commercial notes (ticker symbol: SIK03) of a total nominal value of €30 million. With these notes, it replaced the existing commercial notes that matured in December in the amount of €17.7 million. The difference of €12.3 million was earmarked to finance working capital. The interest rate on the commercial notes amounted to 1.2 percent, which is the lowest annual interest rate achieved by the issuer in its borrowings raised on the Slovenian equity market.

As the issuer of bonds listed on the Ljubljana Stock Exchange, the company SIJ d.d. is obligated to publish the total amount of so-called existing liabilities. This amount is equal to the amount of secured liabilities (including unencumbered, undrawn loans under previously concluded agreements). Together with the published permissible exceptions under the terms of the bond issue, as at 31 December 2016, the amount of secured liabilities amounted to €211,384,140.

STABLE STRUCTURE OF ASSETS AND DEBT

The statement of financial position continues to be stable and adequately structured. Long-term debt covers the entire property, plant and equipment, as well as thirty-three per cent of working capital. Short-term debt is used to finance seasonal fluctuations in working capital.

Analysis of Operations of the Metallurgy Division

SPECIALISTS IN STEEL WITH HIGH ADDED VALUE

In 2016, the SIJ Group strengthened its position as a specialised manufacturer of steel with high added value. In 2017, our total production of stainless and special purpose steel will increase by 26 percent compared to 2016. The greatest increase is planned in the segment of special purpose steel. In this segment, the production will increase by 57 percent. This increase is associated with the strategic investments made (into the HTL line).

Our focus on producing and selling stainless and special purpose steel for end users is already reflected in the results of our operations. In 2016, we maintained the volume of sales and **increased the proportion of products with higher added value,** thus mitigating the negative impact of the fall in market sales prices on revenue.

Financial Position of the Metallurgy Division

Metallurgy Division: Key Operating Figures

Operating ratios	Unit of measure	2014	2015	2016
Revenue	€ thousand	707,858	664,817	631,884
Exports	%	86.2	87.3	85.5
Operating profit	€ thousand	39,543	23,341	28,283
EBIT margin	%	5.6	3.5	4.5
EBITDA	€ thousand	77,832	63,509	74,417
EBITDA margin	%	11.0	9.6	11.8
EBITDA per employee	€	25,402	20,871	22,276
Profit before taxes	€ thousand	26,686	8,973	10,102
Net profit	€ thousand	24,904	10,793	15,670
Operating cash flow	€ thousand	82,798	61,305	71,484
Capex	€ thousand	47,633	56,886	65,813*
Employees as at 31 Dec.	Employees	3,134	3,126	3,552

** Investments in the companies Perutnina Ptuj, Holding PMP, Sistemska tehnika (now: SIJ Ravne Systems), ORO MET and MWT Meyer (now: SIJ MWT) are excluded.*

In 2016, EBITDA was up €10.9 million on 2015. This increase is the result of:

- increasing the proportion of products that ensure a higher coverage of variable costs;
- new technological solutions and innovations that reduce technological paths and optimise production processes;
- reducing purchasing costs;
- the acquisition of the companies Sistemska tehnika (now SIJ Ravne Systems), ORO MET and MWT Meyer (now SIJ MWT).

The EBITDA margin is the highest achieved in the last five years. At 11.8, we exceed the industry average, which stood at 7.1 percent in 2016, by 4.7 percentage points.

The net profit is reduced (slightly more so than in previous years), by amortisation and depreciation costs, and interest costs as a result of the increased volume of investments. The cash flow from operating activities indicates the high liquidity of the SIJ Group.

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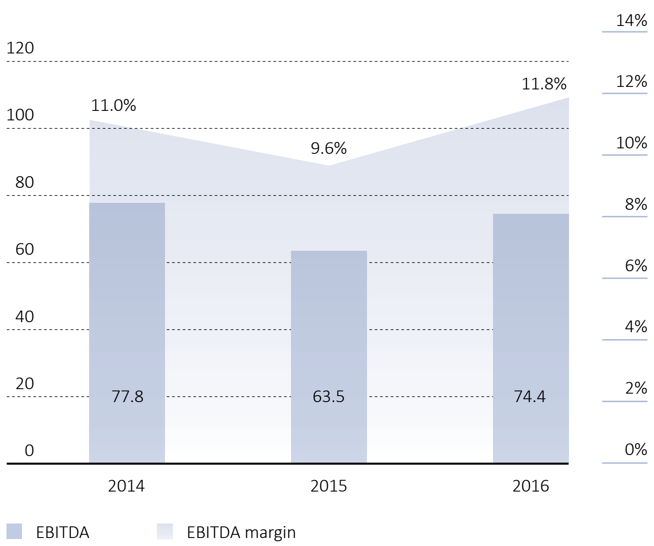
Metallurgy Division: EBITDA (in € million), **EBITDA Margin** (in percent)



In the Metallurgy Division, which contributes 83 percent of the Group operating profit, the EBITDA achieved is mostly impacted by the sales range. This is the result of the positive effect of the increase in the proportion of products offering higher profitability.

In the effect of the sales and purchase prices, it is of crucial importance to note that we successfully mitigated the impact of sales prices by reducing costs in the procurement of strategic raw materials. In 2016, the positive effects of procurement activities allowed us to offset most of the negative process cost impacts.

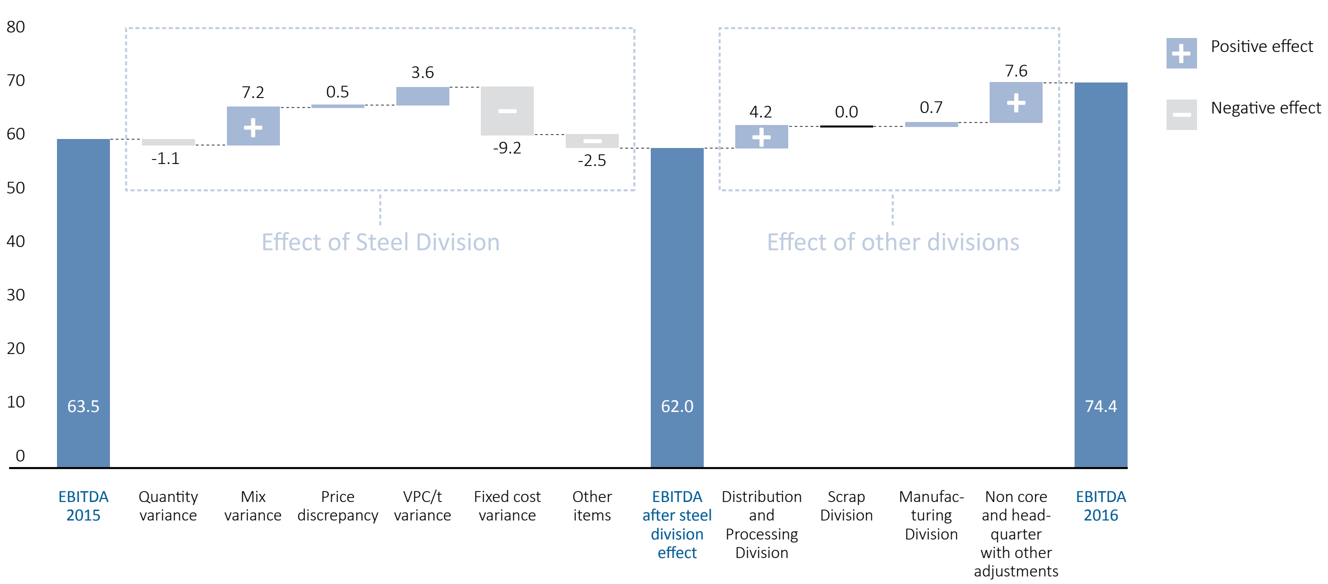
In the variable costs, savings are mostly related to the reduction in the costs of energy sources due to the specific consumption and lower energy prices. These savings allowed us to offset the negative impact of fixed costs.

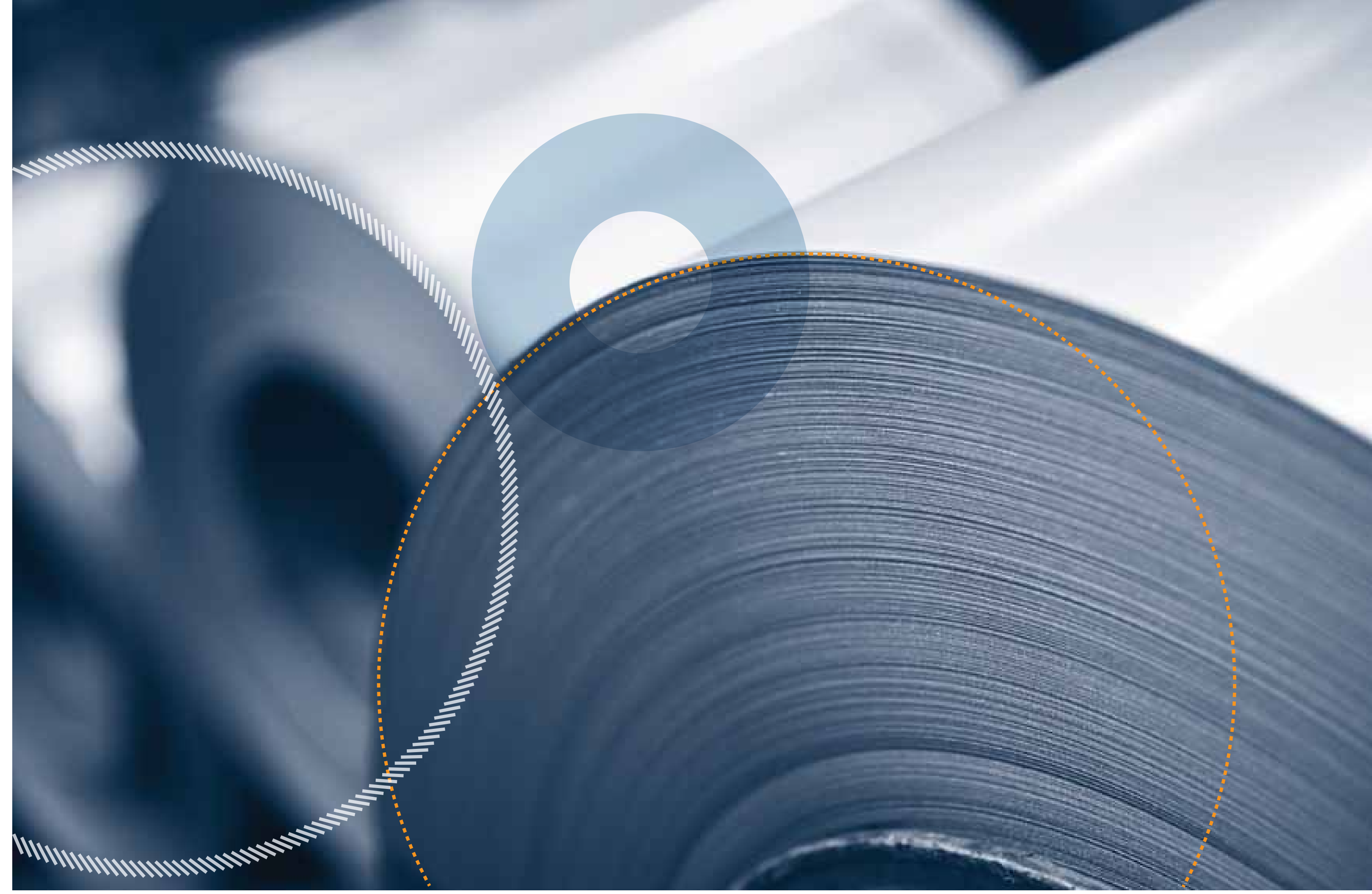
Fixed costs increased due to higher labour costs and a higher volume of outsourced services associated with more complex production processes.

Other impacts on operations reflect the revaluation of inventories due to the drop in market prices of most strategic raw materials, especially steel scrap and nickel.

The EBITDA is also associated with the positive effects of other business areas, which support the Metallurgy Division through a variety of services, and with the expansion of the sales network.

Metallurgy Division: EBITDA Bridge (in € million)





Metallurgy Division: NFD and the Structure of Liabilities (in € thousand)

Statement of financial position as at 31 Dec.	Unit of measure	2014	2015	2016
Total assets	€ thousand	789,261	863,695	944,224
Equity	€ thousand	348,135	348,718	359,935
Non-current and current liabilities	€ thousand	441,125	514,977	584,288
NFD as at 31 Dec.				
Cash and cash equivalents	€ thousand	38,800	44,513	21,261
Short-term bank deposits	€ thousand	0	200	0
Non-current financial liabilities w/o interests	€ thousand	183,382	221,198	240,110
Current financial liabilities w/o interests	€ thousand	72,149	96,058	113,380
NFD	€ thousand	216,731	228,423	261,453
NFD/EBITDA		2.8	3.6	3.5

MORE NON-CURRENT ASSETS

As at the end of 2016, total non-current assets amounted to €610 million. The 16.5 percent increase compared to 2015 is related to the acquisition of the companies ORO MET, MWT Meyer (now SIJ MWT) and Sistemska tehnika (now SIJ Ravne Systems). Under the item of non-current assets, the most important item is tangible assets, which are up 10.3 percent due to investments and amount €468 million.

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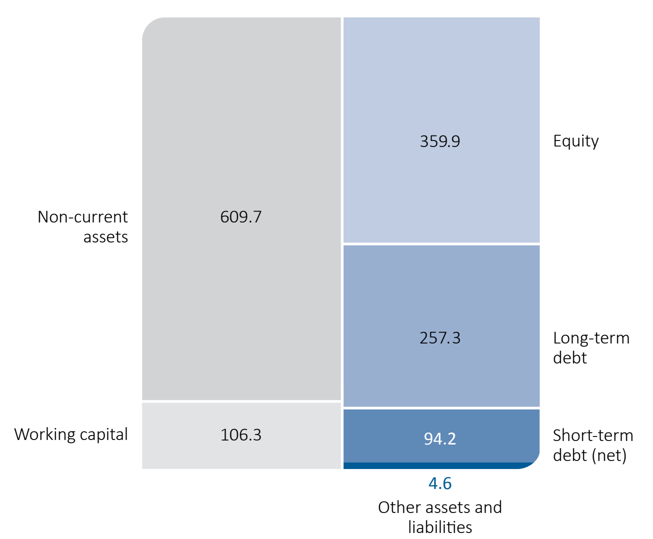
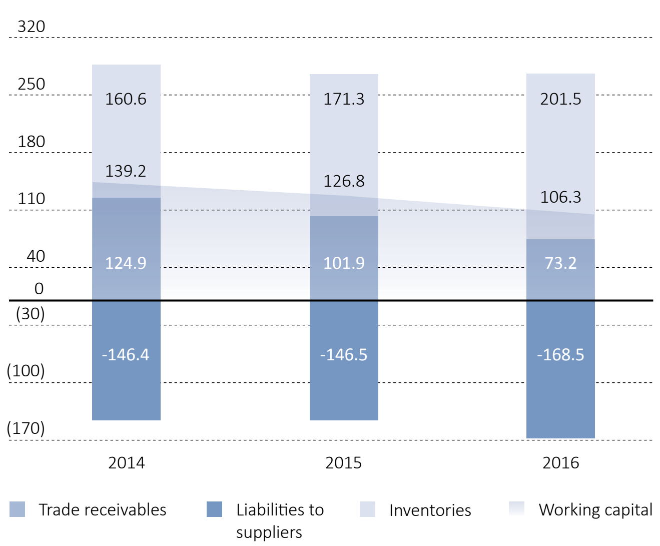
Metallurgy Division: Structure of Financial Position: Asset-to-Debt Ratio as at 31 December 2016 (in € million)



Metallurgy Division: Working Capital from Operations as at 31 December 2016 (in € million)



WORKING CAPITAL AND STOCK MANAGEMENT

Through the successful management of working capital, we have generated positive financial effects on liquidity and performance. Year-on-year changes in working capital were managed by raising current borrowings. Adequate working capital movement also depends on the fulfilment of production, delivery, and payment deadlines.

As at the end of 2016, the SIJ Group successfully carried out the Securitisation of trade receivables[22] programme, which has allowed us to reduce debt and, as a result, more effectively manage receivables. These activities have resulted in an **improvement of asset turnover** by 14 days compared to 2015.

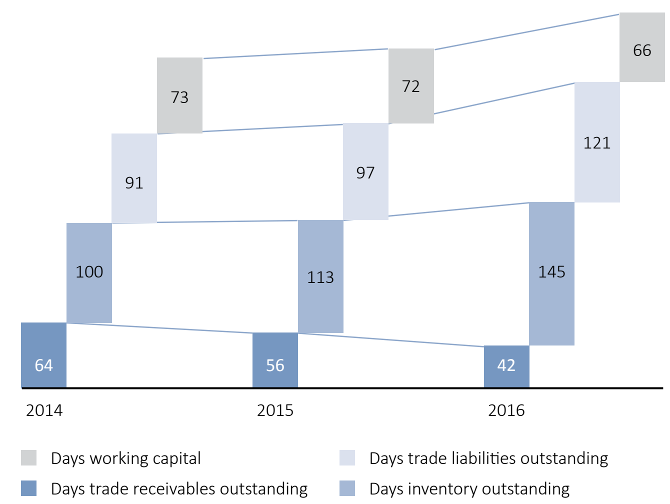
Special attention is paid to the movement of stocks and the management of supplier payables. In 2016, the value of stocks increased by €30 million. This increase in inventories was planned. Towards the end of 2016, prices of raw materials, particularly nickel, began to rise, while the SIJ Group procured additional stocks of raw materials at lower prices, which will affect the 2017 results. Due to the increase in raw material prices, the value of inventories of work in progress and finished products has also increased. In addition, the increase in the value of inventories is also the result of the slightly higher level of inventories of work in progress in the company SIJ Acroni, due to the failure of the furnace in December 2015, when stock levels were extremely low, and thus there was a delay in the production of finished products in January 2016.

In the Metallurgy Division, which is characterised by a cost-effective continuous production process, the planning and **control of stock levels** are of particular importance. In-process stocks ensure smooth production and allow us to manage production logistics, while at the same time, the control of stock levels is key to **managing working capital.** In 2016, appropriate inventory management was a special challenge, due to the completion of complex investment projects alongside regular operations.

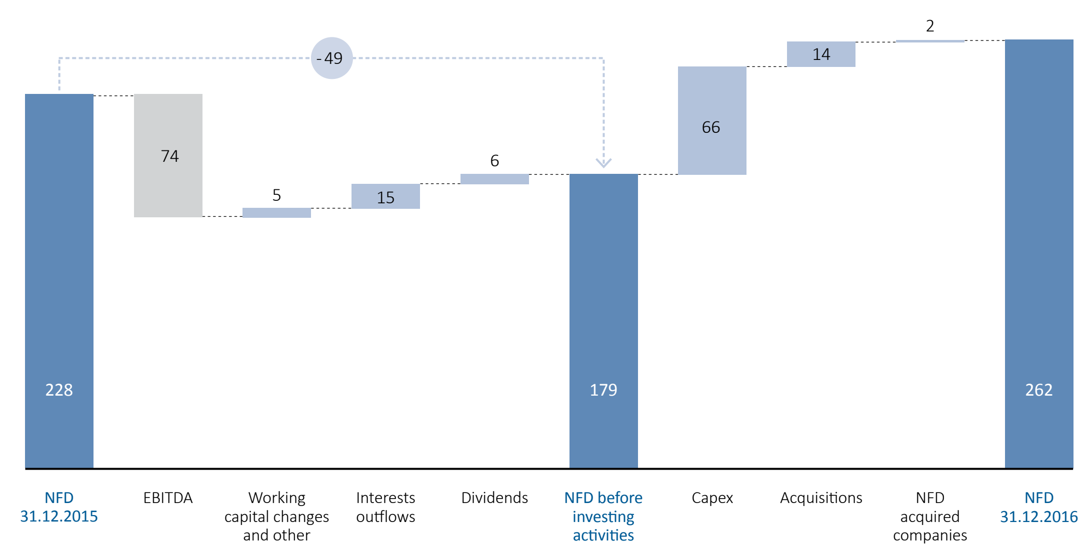
In 2017, we will further optimise production and purchasing processes and thus lower especially in-process stocks and stocks of raw materials. We plan to reduce the value of inventories at the end of 2017 to less than €170 million, by motivating customers to provide their orders earlier and by reducing delays.

22 The program focuses on the securitization and monetization of trade receivables.

Metallurgy Division: Days Working Capital as at 31 December



Metallurgy Division: NFD Bridge (in € million)



PROLONGED PAYABLE TURNOVER DAYS

On the basis of maintaining and strengthening good business relations with our suppliers, and ensuring the regular and timely payment of our liabilities, we have agreed to better payment terms with certain suppliers and have thus prolonged payable turnover days by 24 days.

All these actions reduce the need to finance working capital and contribute to the long-term financial stability of the SIJ Group.

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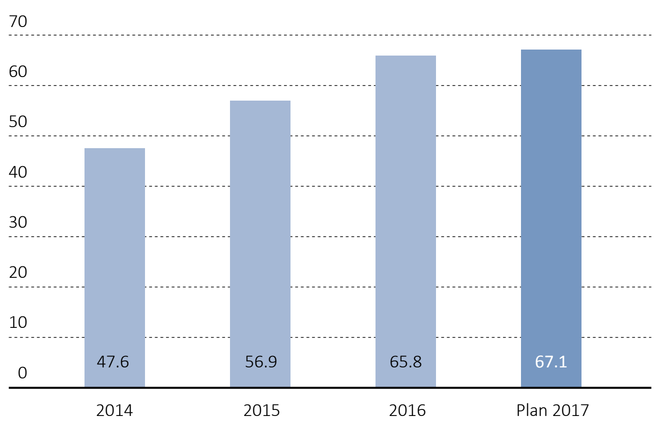
PLANNED STRUCTURE OF NET FINANCIAL DEBT (NFD) IN CONJUNCTION WITH THE INVESTMENT CYCLE

In order to ensure the stability of the SIJ Group, we are constantly pursuing financial debt structure that favours long-term funds. As at the end of 2016, the proportion of long-term debt accounted for 67.5 percent of all financial liabilities.

Compared to the previous year, in 2016, the NFD of the Metallurgy Division increased by €33 million. The reason for the increase lies in intensive investments and the acquisition of metallurgy companies. Thanks to the EBITDA generated and the reduction in working capital, the SIJ Group managed to reduce NFD from operations by €49 million to €179 million. The increase in working capital of €3.6 million was also a result of the merger of three companies: Sistemska tehnika (now SIJ Ravne Systems), ORO MET, and MWT Meyer. Capital expenditure amounted to €66 million, while the acquisitions of these three companies cost €14 million.

In the Metallurgy Division, over the past six years, more than €350 million has been invested in the purchase of new and modernising existing equipment. Investments focused on the technological modernisation of production processes in order to ensure the highest quality and expand the range of products to satisfy more demanding customers. These investments contribute to preserving and improving the performance of the SIJ Group. All capital expenditures are carefully planned in accordance with the business and development strategy. In 2017, capital expenditure is expected to amount to €67.1 million.

Metallurgy Division: Capex (in € million)



INCREASED PRODUCTION CAPACITY AND OPTIMISED PRODUCTION PROCESSES

The value of investments in the SIJ Group significantly exceeds amortisation and depreciation. In strategic terms, we are following the growing demands of customers, increasing production capacity and optimising production processes, which requires intensive investment in new equipment and updates. By focusing on technologically demanding production, we are successfully reducing our sensitivity to negative economic trends, while improvements in quality help maintain and increase our market shares in niche markets. Investments in new companies and the expansion of the portfolio of products contributes to a reduction of market risk and allows us to enter new markets.

The increase in debt in 2016 was in line with the planned short-term strategic development guidelines, and essential for the realisation of high-tech projects. The NFD/EBITDA ratio, which in the Metallurgy Division stood at 3.5 at the end of 2016, remains within the planned financial stability framework.

Physical and Operational Ratios of the Metallurgy Division

Metallurgy Division: Key Operational and Financial Figures

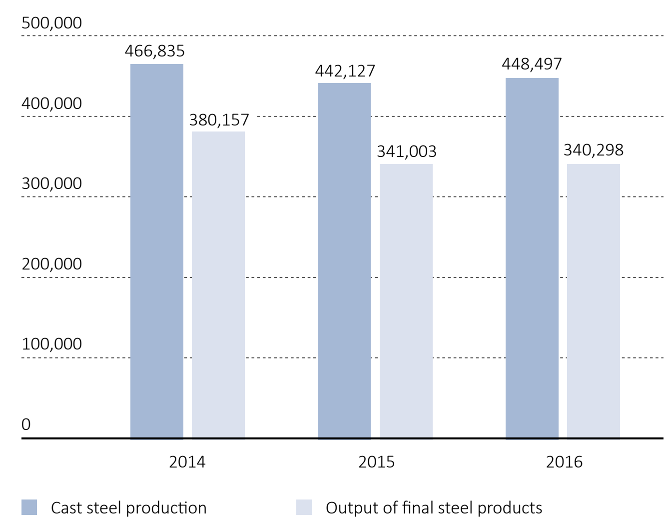
Operational ratios	Unit of measure	2014	2015	2016
Cast steel production	T	466,835	442,127	448,497
Production of finished products	T	380,157	341,003	340,298
Sales	T	617,308	567,697	585,309
Investments	€ thousand	49,374	69,498	72,212

In the Metallurgy Division, the strategic investments, expansion of activities and the introduction of new brands in 2016 strengthened our position as an integrated provider of specialised stainless and special purpose steel according to the requirements of our end customers. The acquisition of the companies Sistemska tehnika (now SIJ Ravne Systems), ORO MET, and MWT Meyer (now SIJ MWT) has allowed us to expand our range of products and services for existing and new customers. Strategic investment payments were **€65.8 million.**

In the coming years, long-term growth and development will be achieved through our future plans to increase the share of advanced products for direct sale to the end users.

The branding of metallurgy products, which we began in 2016, is an important part of the strategy to manage the changing conditions on the global steel market.

Metallurgy Division: Cast Steel and Final Steel Products Production (in tonnes)



ABOVE-AVERAGE CAPACITY UTILISATION

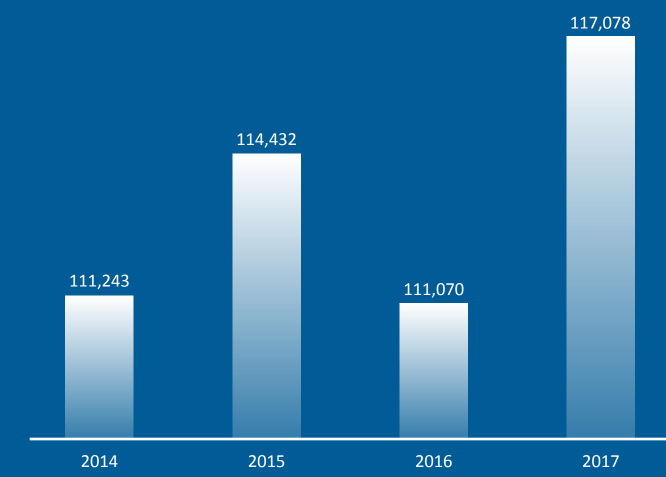
The metallurgy companies within the SIJ Group achieve a capacity utilisation that exceeds the industry average. In 2016, the SIJ Group reached 83 percent capacity utilisation, while the industry average was 69 percent. In 2016, production of cast steel was up 1.4 percent compared to the previous year. The declining trend of finished product production is the result of the increasing proportion of complex products, the production of which takes a longer period of time.

The high level of capacity utilisation is being maintained while investment and strategic projects, which affect production processes, are underway. In the company **SIJ Metal Ravne** the **project of the new vacuum plant project (VOD project),** in addition to regular production, required a parallel test production and constant control over the conclusion of the new investment. In the company **SIJ Acroni,** we began **test production on the new line for the heat treatment (HTL) of stainless stell quarto plates,** which will increase the production capacity to 80 thousand tonnes in 2017. The total capacity of the line is 100 thousand tonnes per year. The impact of the new line on the EBITDA is estimated at €13.6 million. This estimate is based on the variable coverage of additional quantities in 2017.

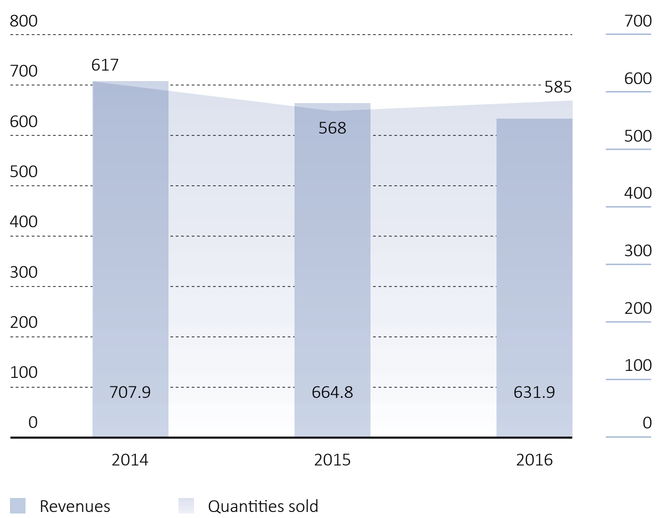
In 2016, the SIJ Group arranged its range of metal products into an integrated system of 11 product brands. Stainless steel with high added value, which is the product segment with the largest share in the production and sales, are now united under the SINOXX brand.

These types of steel, which are represented in almost every major global industry, accounted for 35 percent of sales in 2016. In 2017, when the quantity of SINOXX products will increase to more than six thousand tonnes, its share in total sales will remain at a similar level, since sales of other types of steel will also increase. In sales of stainless steel plates, which include products under the SINOXX brand, the SIJ Group has a 27.6 percent share of the European market, ranking among the top three providers in Europe.

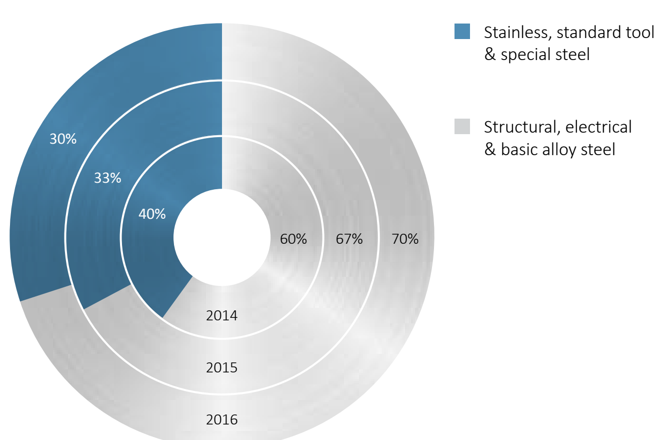
Metallurgy Division: The SINOXX brand, stainless steel, sales volumes (in tonnes)



Metallurgy Division: Revenues (in € million) **and Quantities Sold** (in thousand tonnes)



Metallurgy Division: Proportion of Sales Volume of Certain Types of Steel (in percent)



ACHIEVING SALES VALUES AND VOLUMES

Due to oversupply and falling prices of key raw materials[23], the market prices of steel also fell in 2016. The Metallurgy Division of the SIJ Group grew sales even under such circumstances. By focusing on more demanding, tailor-made products aimed at our end customers, we mitigated the negative impact of market prices on the value of sales. In 2017, we intend to continue to grow sales by using the new steel product brands and by stepping-up marketing activities. We will be especially active on the US market, where we have the potential to grow sales thanks to the DEFARS agreement concluded between Slovenia and the US, as well as on Asian markets, where we are becoming a recognised stakeholder in the most demanding segments of steel.

HIGHER PROPORTION OF PRODUCTS WITH HIGHER ADDED VALUE

The SIJ Group is establishing itself as a specialist provider of stainless, special purpose, and complex rod tool steel, in particular. Our high-quality products with higher added value focus on niche markets, which provide a more stable demand and generate higher sales prices, and are at the same time less exposed to imports from third countries. Further increasing the share of products with higher added value is facilitated by significant investments. By increasing the number of customers and changing our portfolio of customers, we are planning to increase cross-selling, which will be further supported by an extended range of high-quality finished products.

23 On the London Metal Exchange, the average price of nickel, the main input raw material especially for stainless steel plates, which is a key sales product of the Metallurgy Division of the SIJ Group, reached USD 16,868 per tonne in 2014, while in 2016, the market price was only USD 9,596 per tonne. More on the prices of key raw materials is given in the chapters Impact of the External Environment and Strategic Raw Materials Supply.

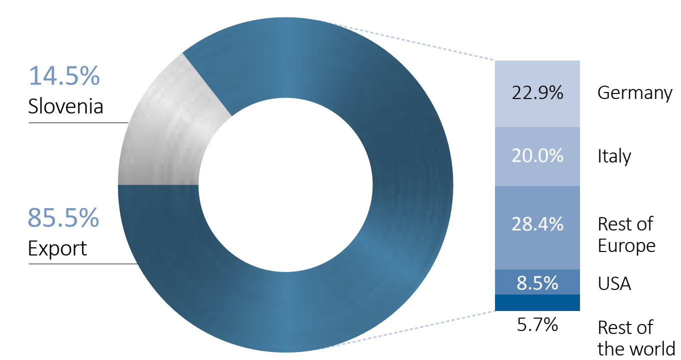
EXPORT PERFORMANCE WITH NEW CUSTOMERS

In 2016, SIJ Acroni and SIJ Metal Ravne, the largest metallurgy companies in the SIJ Group, gained more than 200 new customers, and sold products on more than 80 different markets. In a year characterised by demanding conditions on the world market, the SIJ Group maintained exports at the level of the previous year. Germany, Italy, and other European Union countries continue to be the main export markets. The merger of the company Sistemska tehnika (now SIJ Ravne Systems), which generates most sales in Slovenia, contributed to the higher sales in the domestic market.

Specialisation, high added value and branding will continue to contribute more than ever to breaking into new markets, particularly in the East and in the United States. While increasing the share of exports to markets outside the European Union, we are closely monitoring the movement of foreign currencies and carrying out activities to mitigate currency risks.

By expanding and deepening the product portfolio, we plan to increase sales to individual customers, whom we can offer a wider portfolio of products and services thanks to the acquisition of new companies. In comparison with our major competitors, we can provide our customers greater responsiveness and flexibility.

Metallurgy Division: Proportion of Revenues by Market (in percent)



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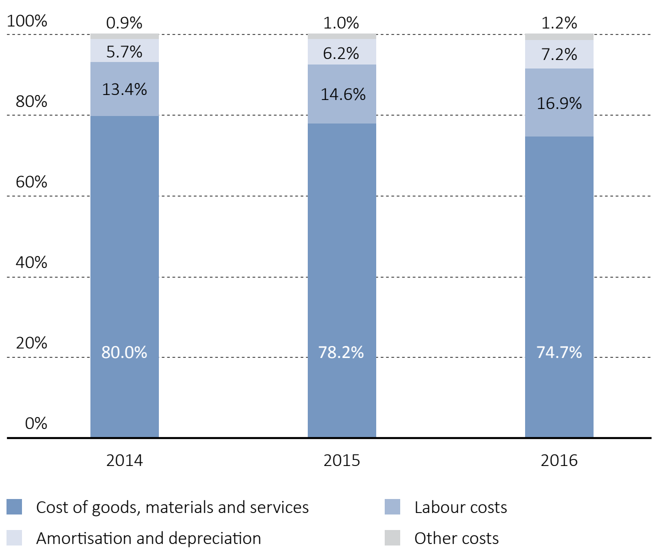
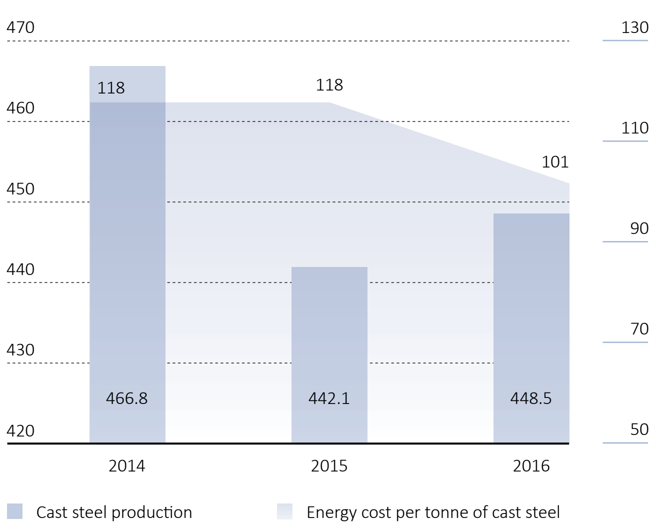
Metallurgy Division: Structure of Operating Expenses
(in percent)



Metallurgy Division: Production of Cast Steel (in tonnes) **and Energy Costs per Tonne of Cast Steel Produced**
(in € thousand)



MANAGEMENT OF EXPENDITURE FOR RELIABLE PRODUCTION

In the Metallurgy Division of the SIJ Group, the cost of goods, materials and services are the main cost drivers. Some 72 percent of these costs are costs of material. Some 55 percent of these costs in both steel companies represents the cost of steel scrap. The continuity of supply to metallurgy companies is, inter alia, ensured by Scrap Division, which operates within the SIJ Group. The second most important raw material in the production of steel is nickel, which comprises 14 percent of the costs of the Steel Division. The costs associated with nickel are highly dependent on market price movements.[24]

Among the remaining costs, energy costs are significant. In this area, despite the increase in production in 2016, we achieved savings in the amount of €6 million, mainly due to lower energy prices.

IMPACT OF THE EXPANSION AND INVESTMENTS ON LABOUR COSTS AND AMORTISATION AND DEPRECIATION

The increase in amortisation and depreciation costs of €6 million is the result of extensive investments in machinery and equipment, while the increase in labour costs is due to the increase in the number of employees, as a result of the acquisition of the metallurgy companies by the SIJ Group in 2016. Wage adjustments in accordance with the collective agreement translated into an increase in wages in most metallurgy companies in the SIJ Group; at the same time, the educational structure of employees also improved, which, together with promotions, had an impact on labour costs.

Due to the future completion of investments, the increase in capacity and in accordance with the strategy to strengthen the strategic functions in individual companies, labour costs and amortisation and depreciation are also expected to increase in 2017. Depreciation and amortisation is expected to increase by one percent, while labour costs will be up by three percent. In the Metallurgy Division, the headcount is expected to stand at 3,670 people in the next year. In early 2017, the wage, remuneration and promotion, as well as the job systematisation, are expected to be redesigned.

24 More on the prices of nickel is given in the chapters Impact of the External Environment and Strategic Raw Materials Supply; more on energy savings is given in the chapter Energy Supply.

Analysis of Operations of the Poultry Division

SPECIALISTS IN HIGH-QUALITY POULTRY MEAT AND PRODUCTS

In 2016, the Perutnina Ptuj Group successfully maintained and strengthened its position as a leading provider of foods made of poultry meat in Southeast Europe, particularly in the markets of Slovenia, Croatia, Bosnia and Herzegovina and Serbia. The Group, which brings together 18 subsidiaries in seven countries and the controlling company in Slovenia, has successfully adapted to changes in various markets. In the first months of 2016, the poultry meat and products of the Perutnina Ptuj Group were exposed to considerable price competition from imported pork, which had an impact on sales volumes. By focusing on export markets and products with higher added value, we managed to increase profitability, despite lower revenue.

Financial Position of the Poultry Division

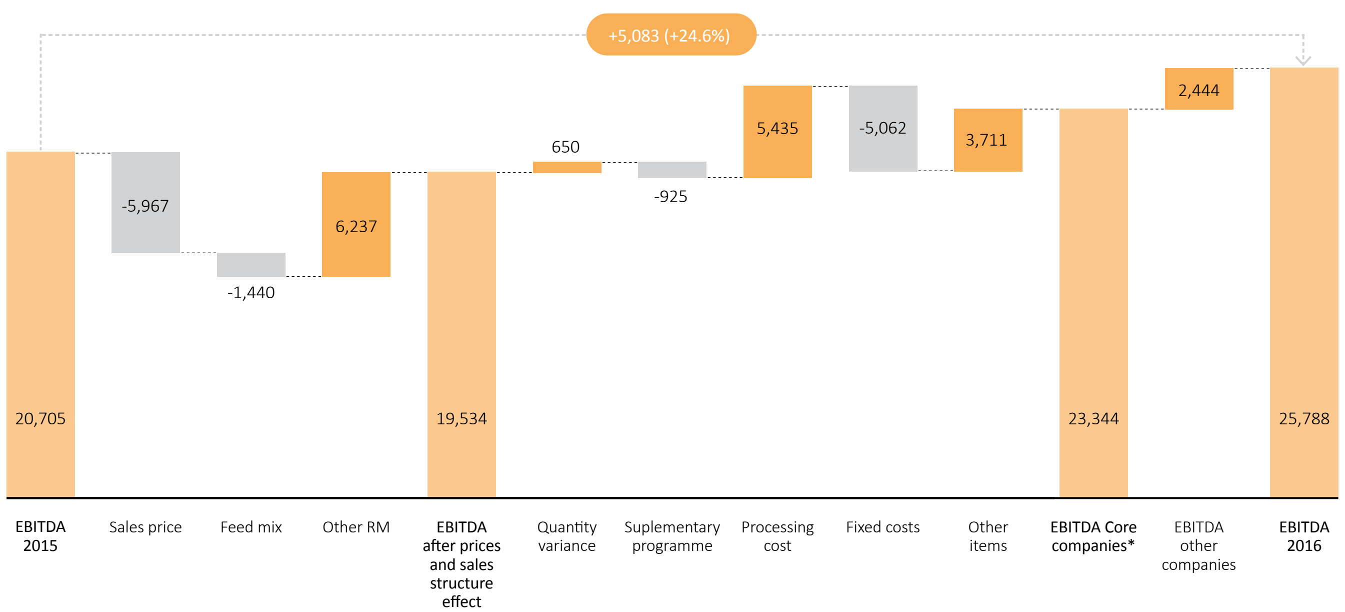
Poultry Division: Key Operating Figures

Financial data	Unit of measure	2014	2015	2016
Revenues	€ thousand	256,938	247,119	245,430
Exports	%	65.5	64.7	65.5
EBIT	€ thousand	14,653	10,544	15,623
EBIT margin	%	5.7	4.3	6.4
EBITDA	€ thousand	25,140	20,705	25,788
EBITDA margin	%	9.8	8.4	10.5
Profit before taxes	€ thousand	5,435	478	12,473
Net profit	€ thousand	5,831	92	10,917
Capex	€ thousand	5,761	8,712	5,774
No. of Employees as at 31 Dec.	Employees	3,490	3,514	3,687

The EBITDA achieved was up €5.1 million or 24.5 percent on the previous year. **Operating profit increased by 48 percent,** while amortisation and depreciation remained at the same level as in 2015. The EBITDA, a major performance ratio, was higher than that achieved in 2015, despite lower revenue by €1.7 million. Improved performance can be largely attributed to the savings achieved in the costs of raw materials, packaging and some other materials, in-process costs, and to the structural changes in the sales range. The reason for the lower revenue lies in the nine cents lower average selling price of the products of the core range, which is due to the situation on the market of poultry meat in Europe. **Sales volumes were up 4.2 percent** on the previous year.

Subsidies to the agricultural division and lower other financial expenses compared to the previous year are the two main factors that impacted performance.

Poultry Division: EBITDA Bridge (in € thousand)



* Core companies: Perutnina Ptuj d.d., MI Zalog, PP PIPO, PP TOPIKO, PP S, PP BH.

The **EBITDA margin is the highest achieved in the last three years.** We exceed the industry average, which stood at 7.8 percent in 2015, by 2.7 percentage points.

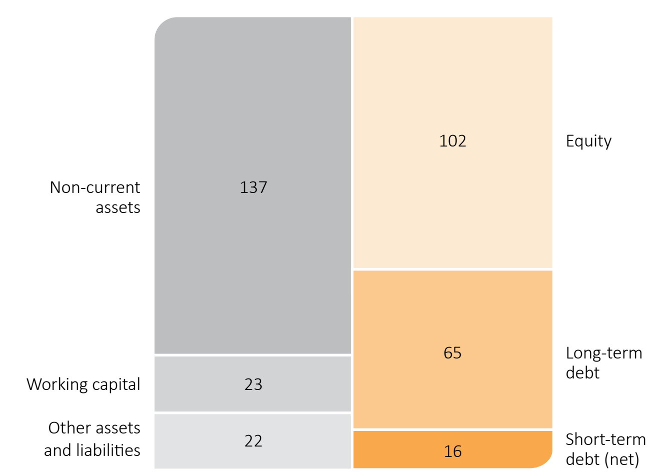
Poultry Division: NFD and the Structure of Liabilities (in € thousand)

	2014	2015	2016
Total assets	219,858	230,673	241,969
Equity	58,151	95,326	102,163
Non-current and current liabilities	161,707	135,347	139,807
NFD as at 31 Dec.			
Cash and cash equivalents	1,149	5,099	25,285
Short term bank deposits	2,212	24,226	12,896
Non-current financial liabilities w/o interests	18,048	56,544	58,301
Current financial liabilities w/o interests	85,529	16,523	15,373
NFD	100,216	43,742	35,492
NFD/EBITDA	4.0	2.1	1.4

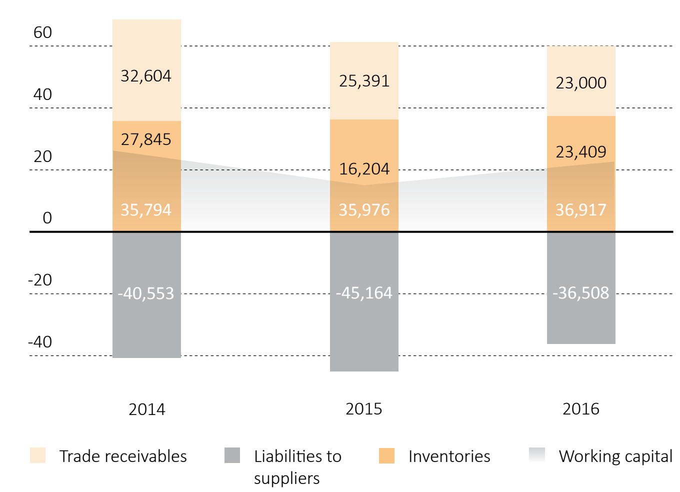
Over the past three years, the NFD of the Perutnina Ptuj Group has fallen significantly. In 2016, we reduced capital expenditure and entered into new agreements with suppliers. Due to the acquisition of the company PP Energija, as at the end of 2016, NFD is up €4.9 million. In 2017, NFD will be up due to planned investments in the amount of €10 million, and due to the payment of the purchase of the acquisitions in PP Energija and PP BH in the total value of €6.8 million.

Long-term debt covers all non-current assets, the entire working capital and thirty-two of other assets. Slightly less than €6 million of this increase is due to the increase in working capital, while €5.7 million of the increase is due to capital expenditure.

Poultry Division: Structure of Financial Position: Asset-to-Debt Ratio as at 31 December 2016 (in € million)



Poultry Division: Working Capital from Operations (in € thousand)



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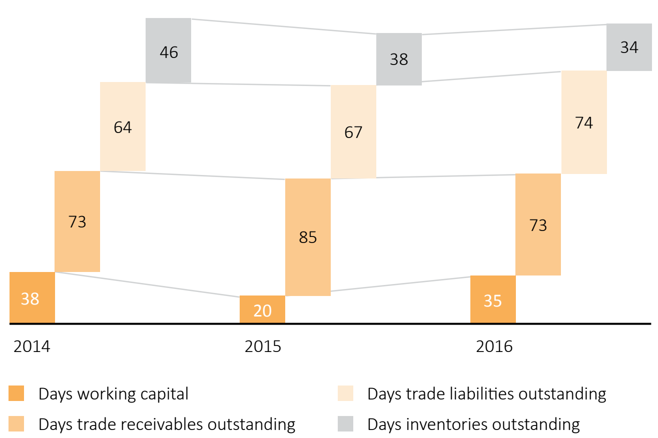
WORKING CAPITAL AND STOCK MANAGEMENT

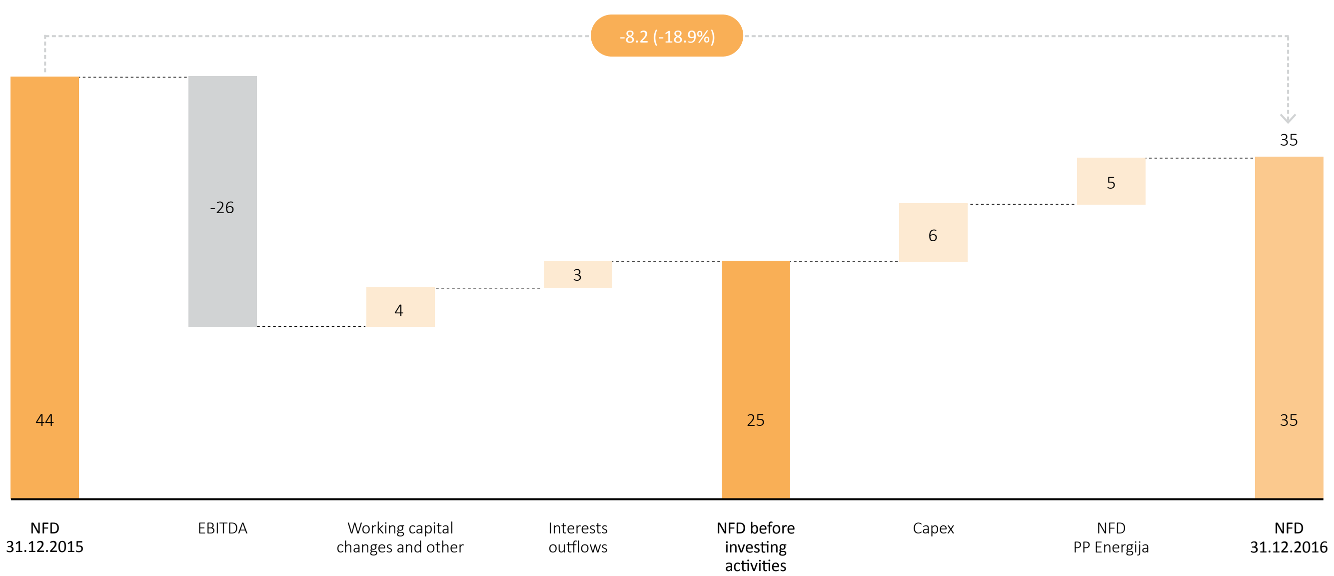
At the end of 2016, the working capital accounted for 9.5 percent of revenue, which is 2.3 percentage points more than at the end of 2015. This increase is a result to lower supplier payables, as the change in stock only amounts to slightly less than €1 million.

As at the end of 2016, days working capital are up 12 days due to an increase in the turnover of receivables, and an eight-day negative deviation of supplier liabilities turnover. In 2017, we expect working capital days to remain at the same level. Due to the higher volume of business, working capital items will be up, while the days outstanding are not expected to change. We expect stock levels to remain stable, since next year we plan to continue to make major purchases of raw materials at the time of harvest. Such purchases allow us to reduce our dependence on the movement of stock prices of corn and wheat.

Poultry Division: Days Working Capital as at 31 December



Poultry Division: NFD Bridge (in € million)



DECLINE IN NET FINANCIAL DEBT (NFD)

Over the past three years, the Perutnina Ptuj Group has significantly reduced its NFD. This is the result of the restructuring of financial resources and the capital increase upon the entry of the new owner – SIJ d.d. We have also reduced capital expenditure, increased the success ratio of debt recovery and concluded several agreements with suppliers.

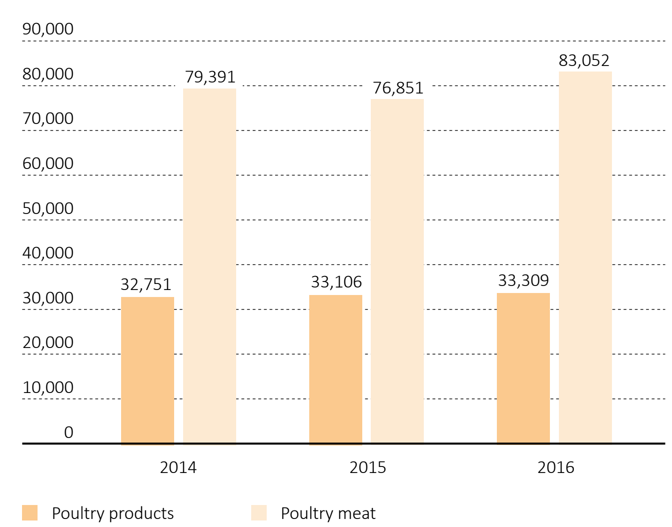
The NFD/EBITDA ratio is down 0.76 points and stands at 1.38. In 2017, this ratio will halve to 0.69. For 2017, we are planning a reduction in NFD due to better operating performance and investments, which will not exceed depreciation, and will not increase financial liabilities.

Physical and Other Ratios of the Poultry Division

Poultry Division: Key Physical and Financial Figures

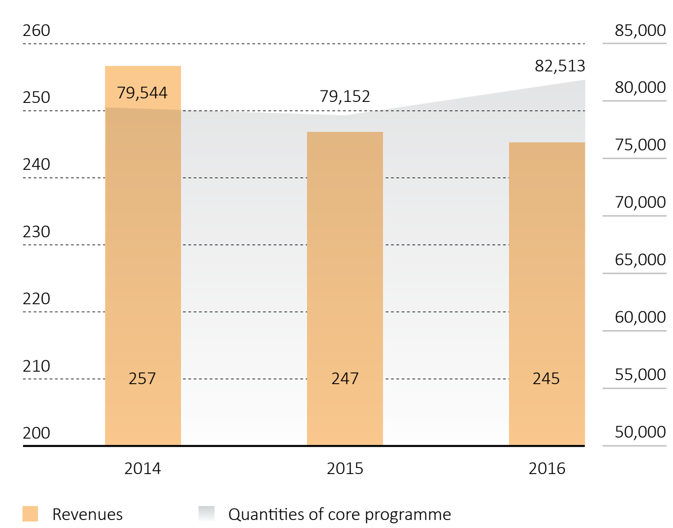
	Unit of measure	2014	2015	2016
Production of poultry meat	T	79,391	76,851	83,052
Production of poultry products	T	32,751	33,106	33,309
Sales of core programme	T	79,544	79,152	82,513
Capex	€ thousand	5,761	8,712	5,774

Poultry Division: Production of Poultry Meat and Poultry Products (in tonnes)



A seven percent increase in production was planned for 2016. The highest increase of eight percent was realised in the production of meat. Production of poultry products is up 0.6 percent.

Poultry Division: Revenues (in € million) **and Quantities of Core Programme** (in tonnes)



ACHIEVING SALES VALUES AND VOLUMES

Although quantities sold are up 4.2 percent, the result was eliminated by the negative impact of prices (3.2 percent). In 2016, the quantities of chicken meat sold have increased the most (7.9 percent), followed by ready to eat products (2.9 percent). Sales prices decreased in all key sales ranges, which was characteristic of the entire region and key markets.

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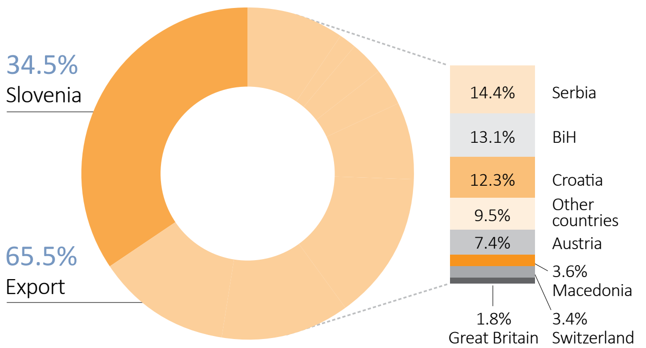
Poultry Division: Geographical Sales Structure in 2016
(in percent)

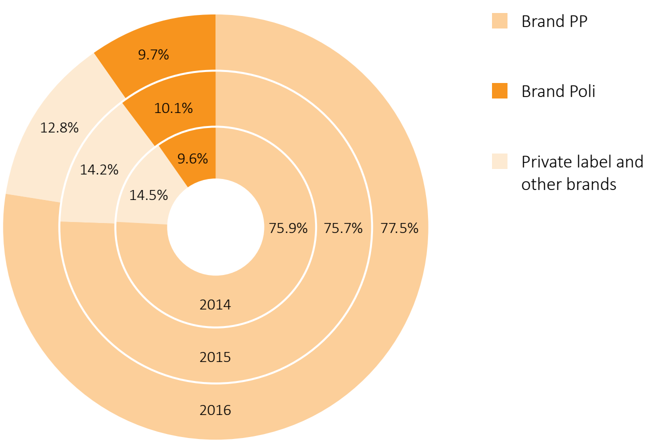


INCREASING PROFITABILITY AND EXPORTS

The Perutnina Ptuj Group has maintained its exports over the past three years.[25] In 2014, exports amounted to 65.5 percent, fell to 64.7 percent in 2015, but rose again to 65.5 percent in 2016. In Slovenia, we generated 34.5 percent of total sales, while the greatest share of sales was created in domicile markets, namely: Serbia with 14.4 percent, Bosnia and Herzegovina with 13.1 percent and Croatia with 12.3 percent. Total exports to other countries reached 25.7 percent. In comparison with the previous year, exports increased by 1.3 percentage points. This increase is due to a 26.5 percent increase in sales on the Swiss market, and a six percent increase in sales in other countries.

In 2016, we achieved a better return on revenue than in the previous two years. In 2016, this return stood at 4.4 percent. Although revenue is lower, we have achieved a better business outcome.

Poultry Division: Sales of Core programme per Brand
(in percent)

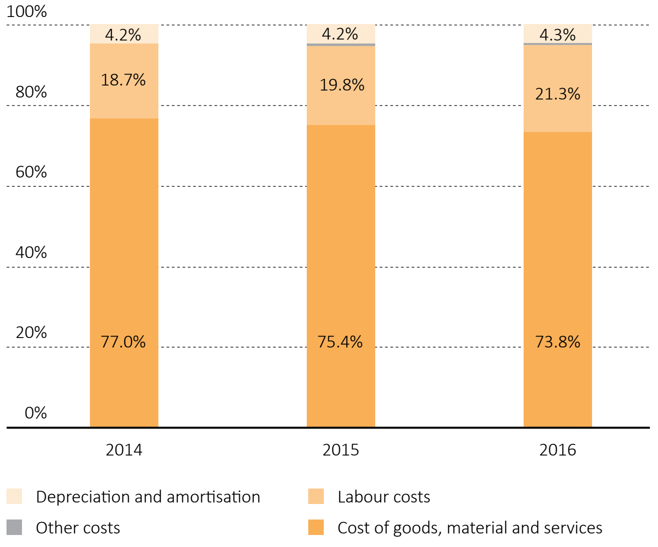


In the Perutnina Ptuj Group, the share of own brands in total sales of the core programme amounted to 87.7 percent. Compared with the previous period, this is an increase of one percentage point. A key source of the increase was the PP brand (1.8 percentage points), comprising 77.5 percent of total sales. The Poli brand, which is marketed only in the segment of sausages, comprises eight percent of total sales, and 9.7 percent of sales of the core programme. Private label and other brands account for 12.8 percent of the total sales of the core programme. In order to strengthen the brands, we carried out various marketing activities to bring our products closer to the end consumer.

> A key source of the increase of Poultry Division was the PP brand, comprising 77.5 percent of total sales.

25 *The methodology of counting exports has changed: from the perspective of the SIJ Group, sales by subsidiaries are considered exports.*

Poultry Division: Structure of Operating Expenses
(in percent)



COSTS UNDER THE INFLUENCE OF INPUT MIX PRICES

Costs of materials, goods, and services account for the major share of total operating expenses. Costs of materials accounted for 40 percent, a decrease of 5.5 percentage points on 2015 and of 4.8 percentage points on 2014. In 2016, cost of the raw materials mix amounted to 50.5 percent of the total costs of materials. Compared to 2015, this figure is up eight percentage points, in part due to changes in the protein content in the animal feed, and partly due to the price increase amounting to one percentage point. In the first three quarters of 2016, prices of the raw materials mix were higher, while in the last quarter of the year, they decreased slightly due to the abundant harvest.

In 2016, labour costs were up 1.5 percentage points on the level reached in 2015. In 2016, amortisation and depreciation costs remained at approximately the same level as in the previous year due to lower investment levels. The same applies to other costs.

Investments in the Development of Key Activities

In 2016, which was an intensive year in terms of investments, the SIJ Group spent €75 million on investments in its production companies. These planned investments allow us to pursue the strategy of vertical integration in both the divisions of the Group and increase the likelihood of increasing the share of finished products in the sales range.

Investments are inextricably linked with the fulfilment of all the quality and other assurances offered by our own brands, which applies to both the metallurgy and the Poultry Division.

Investment plans always consider the impact of investments on the operations of the entire SIJ Group and its financial deleveraging. In 2016, we centralised the model of drafting pre-investment studies through uniform economic models. We intensified our monitoring of individual investments in their transition into regular production. In terms of investments, we carefully monitor the effects achieved and compare them with the objectives, and thus ensure optimum utilisation of the funds invested.

GROWING DEVELOPMENT CAPACITY IN THE METALLURGY DIVISION

The company SIJ Acroni completed the investment in the new line for the heat treatment of stainless steel quarto plates. This line has increased the company's capacity for the production of heat-treated alloy sheet steel, which is one of the most important products in the company's future production range. We started working on a new power supply unit in the steelworks. The investments in the AOD (Argon Oxygen Decarburizator) power supply unit will reduce the cost of raw materials and thus also reduce process costs, and improve the company's profitability. The power supply unit is expected to come online in 2017.

The company SIJ Metal Ravne continued to modernise its steelworks. The company improved the flue system of the electric arc furnace, which together with the furnace cooling system, which was renovated last year, enables the capture of larger amounts of waste heat, which is used to heat the town of Ravne na Koroškem. We completed construction works on the facility for additional technological equipment, which will enable the further development and manufacture of new types of steel. By signing the contract for the supply of a new continuous furnace for heat treatment in a protective atmosphere in the Rolling plant, we continue the investment, which, after it begins in early 2018, will increase the company's capacity in the segment of long-rod special steel.

The investments of SIJ Ravne Systems aimed at increasing the existing production capacity and ensuring greater automation. In the Blades division, a new CNC machining centre became operational in November, while the contract for a new CNC grinding machine for grinding cylinders was also signed. We completed the investment in the new 12-metre deep heat treatment furnace. In comparison with existing furnaces, the efficiency of the new furnace is as much as 30 percent higher.

Metallurgy Division: Capex (in € thousand)

Company	
SIJ Acroni d.o.o.	39,957
SIJ Metal Ravne d.o.o.	18,376
Other investments	7,480
Total	65,813

INVESTMENTS IN NEW PRODUCTS IN THE POULTRY DIVISION

In 2016, the value of investments made by the Perutnina Ptuj Group was at a level comparable with the previous year. Investments of €5.7 million were primarily investments in the development of new products, replacement investments, and investments to increase capacity.

The company Perutnina Ptuj d.d. completed the renovation of nine farms buildings and completely renovated four additional facilities. The renovation of the buildings was associated with the focus on establishing so-called premium poultry breeding, which serves as the basis for the new Natur Premium product range. This range greatly strengthens our visibility and competitive advantage in the market. Other investments in the company Perutnina Ptuj d.d. were associated with renovation of the handling and storage equipment, and with ensuring the high quality of meat and products. Investments were conducted in the animal feed plant, the logistics department, and in the meat processing plant, where investments mainly related to the planned increase in production. Significant investments were also made in brand development and the promotion of new products, such as ready-to-cook chicken and the Poli hot dog sausages.

In other companies of the Perutnina Ptuj Group, investments were mainly IT investments, replacement investments and investments to increase efficiency. PP S invested in a line for cutting chicken parts in the amount of €100 thousand, as well as a few smaller investments, while PP-PIPO made several smaller investments in retail outlets, small technological upgrades in the meat processing plant, and the renovation of computer hardware.

Poultry Division: Capex (in € thousand)

Company	
Perutnina Ptuj d.d.	4,580
Perutnina Ptuj – PIPO	373
PP S	357
Other investments*	464
Total	5,774

* *The total value of investments made by Perutnina Ptuj BH, Perutnina Ptuj Topiko and the subsidiaries in Slovenia.*

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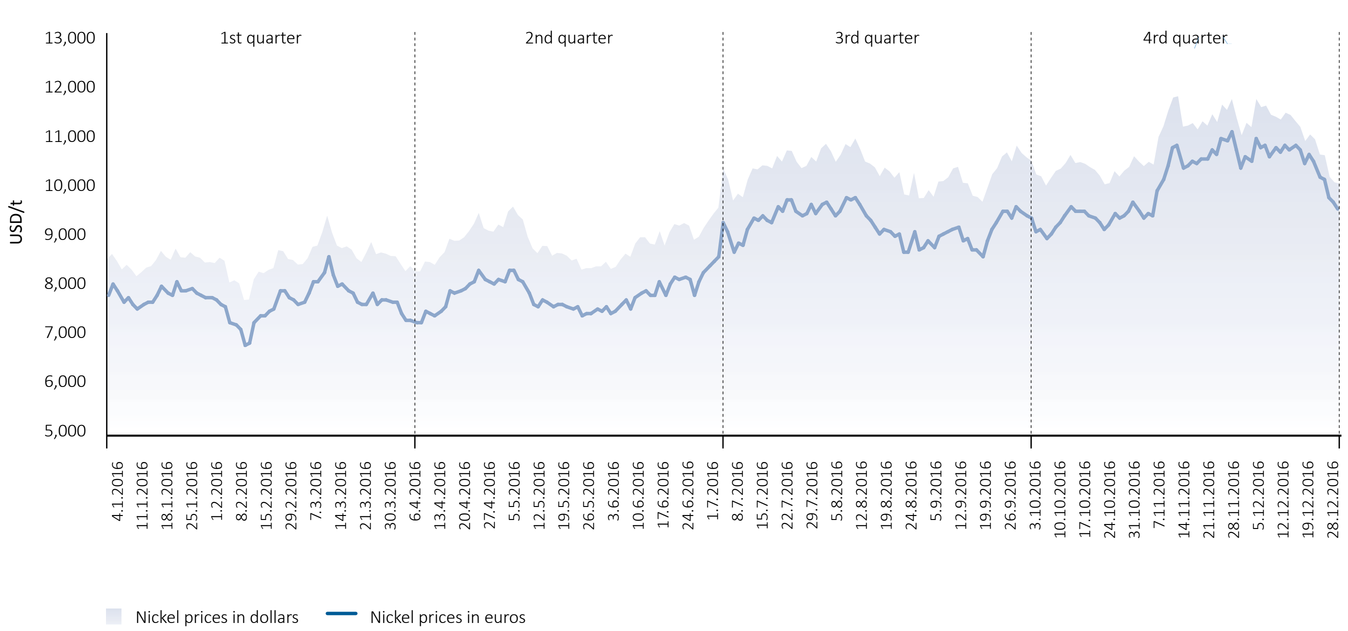
Strategic Supply of Raw Materials

The prices of raw materials have a significant impact on the performance of both divisions of the SIJ Group. In the Metallurgy Division, the strategic alliances with suppliers established allow us to manage risks associated with the availability of raw materials. In the Poultry Division, our in-house production, ensuring sufficient storage capacity and timely purchases help dampen the price risks associated with raw materials for the animal feed mix.

RELIABLE SUPPLY IN THE METALLURGY DIVISION

The key raw material for the production of stainless and speciality steel include stainless and alloyed scrap steel, nickel, chromium, molybdenum, vanadium, silicone and manganese. The integration of the SIJ Group companies increases the reliability of scrap steel supply, as some demand can be met within the Group,[26] while all other key raw materials are purchased pursuant to both long- and short-term contracts.

Metallurgy Division: Movements of Nickel Prices



Since procurement activities are impacted by the global dynamics of supply and demand, we establish **long-term strategic relationships with key suppliers.** This is the basis of the procurement policy of the SIJ Group, which increases the reliability of supply even during periods of extreme price fluctuations in the market.

After falling prices in recent years, the situation on the raw materials market consolidated in 2016. The excess supply seen in previous years fell, thus reversing the trend of raw material prices. Increased demand from China in the final quarter led to a disruption in the availability of chromium, manganese and silicone, which fuelled **price increases,** and also had an impact on increased **risk of availability of raw materials.** These risks are more easily managed through the careful selection of suppliers, which are assessed both in terms of price competitiveness and reliability, which is also related to their role on the global market.

26 The Scrap Division, which generates around ten percent of the total revenue of the SIJ Group, is an important part of the vertical integration of the Group's Metallurgy Division.

In light of the changing conditions on raw materials markets, the constant **matching of purchases and sales** is a key factor of sound performance of the Metallurgy Division, where the business model involves additional payments for alloys, which are passed through to sales prices. The time delay in the pass-through to sales price is mitigated by effecting timely purchases.

The risk of availability of raw materials is managed through maintaining strategic relationships with key suppliers, which were further deepened in 2016. We developed **lean supply chains** with leading global producers of raw materials. These provide us with both cost-effectiveness and responsiveness of supply, which is particularly important if we are to meet the needs of demanding end customers.

We are also testing **new raw materials as we change the production range in favour of final products.** In 2016, in cooperation with suppliers, we tested materials for the production of cleaner and more demanding newly-developed steel. Inter alia, we successfully introduced a new nickel product and a new type of pure titanium wire for the production of nickel alloys. These alloys are grouped under the SIPREME new product brand.

The SIJ Group is pursuing its programme of achieving synergies and harmonising the procurement activities of all companies. Through a standardised and harmonised presence on the commodity markets, we are strengthening the reputation of both the corporate brand and the new steel product brands.

Alloys are grouped under the SIPREME new product brand.

Through a standardised and harmonised presence on the commodity markets, we are strengthening the reputation of both the corporate brand and the new steel product brands.

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FOR OPTIMISED COSTS IN THE POULTRY DIVISION

Poultry Division: Consumption of Raw Materials and Animal Feed (in € thousand)

	2014	2015	2016
Corn	16,923	12,179	12,772
Wheat	3,032	4,109	5,270
Soy	20,146	18,780	18,377
Oil	2,254	2,828	3,751
Raw materials for the production of animal feed	42,355	37,896	40,170
Animal feed (purchased)	9,047	9,035	8,097

In the poultry-rearing companies, the raw material mix used to produce animal feed accounts for more than half the cost of materials and production services. In 2016, the Perutnina Ptuj Group managed to reduce the costs of these basic raw materials, although the situation in the market of raw materials was very demanding.

The prices of raw materials for the raw material mix were highly volatile on stock markets. After a period of decline of **soy prices** in the first quarter, the growth in soy bean meal prices exceeded 60 percent in the second quarter, then the prices stabilised in the third quarter, only to grow again in the final quarter of the year. For the Perutnina Ptuj Group, purchase prices fluctuated to a lesser extent, as they were linked to properly planned forward purchases, which we used to optimise the average price of the raw product mix. Thus, we achieved 3.5 percent lower costs. With the purchase of individual raw materials at harvest time, when prices are the lowest, we have achieved an additional €2.00 per tonne lower cost of the feed formulation for 2017.

Corn prices, which account for half of the costs of animal feed, were higher than in the previous year for most of 2016. During the harvest, the prices dropped significantly due to the abundant harvest, while after the harvest, they continued to grow. We achieved appropriate cost optimisation through intensive purchases during harvest time, by filling our own storage capacities and hiring additional external storage capacities. Some quantities were also satisfied through our own production.

In the first quarter, wheat prices remained at similar levels as in 2015. In the middle of the year, prices fell, driven further by an excellent harvest. Due to more favourable prices compared to corn, in compliance with all quality standards, we adapted the composition of the feed formulation and thus increased the consumption of wheat. The quantities from our own production and purchases in the stock will suffice until the 2017 harvest.

By concentrating animal feed formulations to achieve better results in livestock production, the costs of consumed raw materials have increased; however, by optimising formulations, we have achieved a **cheaper animal feed structure.** We have also optimised the costs of additives, energy sources, packaging materials, materials for agricultural production and the costs of other commodity groups, suppliers, and we have managed to extend the payment terms agreed on with suppliers.

All procurement activities **take place in compliance with the required quality policy,** as the raw materials used in the production of food products for both human and animal consumption must be compliant with the ISO, HACCP, BRC and IFS standards, and with the halal standard requirements.

All the required standards and certifications are part of the key promises of the Perutnina Ptuj Group food brands.

Centralised Energy Supply

Due to the nature of its activities, the SIJ Group is a major consumer of energy. Thus, special attention is paid to both well-thought-out sourcing, as well as efficient and responsible consumption. We strive to achieve savings, and comply with the principles of socially responsible and sustainable development.

ENERGY MANAGEMENT SYSTEM IN THE METALLURGY DIVISION

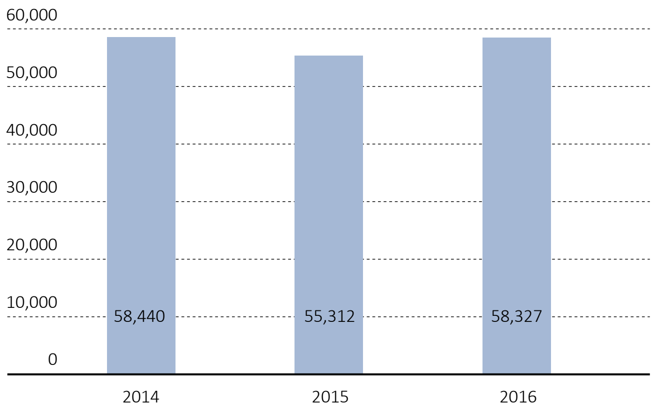
The main sources of energy used by the SIJ Group are electricity and natural gas, which are both procured centrally. In 2016, stock market pricing, which has already been in place for a long time in the purchase of gas, was also introduced in the purchase of electricity. An appropriate approach to pricing contributes to mitigating the risk associated with standard fixed prices for an individual year. The new approach to electricity purchases and stock market movements contributed to a **significant reduction in energy costs.**

In 2016, energy costs accounted for 6.9% of total operating expenses, a decrease of 1.6 percentage points from 2015. The largest consumers of energy within the Group were the two steel companies SIJ Acroni Jesenice and SIJ Metal Ravne, and the manufacturing companies SIJ Ravne Systems, SIJ Noži Ravne, SIJ Elektrode Jesenice, and SIJ SUZ. In 2016, these companies consumed a total of nearly 500 thousand MW of electricity, and nearly 75 million m3 of natural gas, a seven percent increase from the previous year.

In 2017, consumption is expected to increase due to the planned increase in production. As a result, the total energy costs will be higher, although energy prices are expected to remain at 2016 levels. For technical gases, which are a specific energy source to metallurgy production, we have achieved **price reductions, which will come into force in 2017, through a new long-term contract with the supplier.** Due to the new introductions and renovations performed with regard to the steelworks of the company SIJ Acroni related to adjusting the production range, we are also planning to increase energy consumption.

The efficiency of energy consumption is monitored and managed through a unified centralised energy management IT system. In 2016, this system was introduced in the companies SIJ Acroni Jesenice and SIJ Metal Ravne, while the system will be implemented in other metallurgy companies in 2017. The system enables the unified **monitoring of the energy consumption and energy efficiency of various technological processes** in real-time. We are also performing energy audits. For an investment of approximately €800 thousand, we also obtained a grant due to the guaranteed energy savings.[27]

SIJ Group: Energy Costs (in € thousand)



OPTIMISED ENERGY CONSUMPTION IN THE POULTRY DIVISION

The same energy management IT system will be introduced in the Poultry Division in 2017. This investment will enable the systematic monitoring and effective management and reduction of energy costs. In addition to energy management, the system will also support **environmental monitoring.**

In 2016, we carried out all the key preparations for the establishment of a comprehensive system for optimal energy. We have already selected an internationally renowned service provider.

27 This grant was obtained in accordance with the Regulation on the provision of energy savings (Official Gazette of the Republic of Slovenia, No. 96/204).

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Innovation-Oriented Research and Development

The SIJ Group gives research, development and innovation activities special attention, since new and more sophisticated ways of designing products and services, as well as the improvement of technological and other processes, are critical to achieving the Group's strategic goal of increasing the proportion of more advanced products with higher added value.

MEASURABLE IMPACTS IN THE METALLURGY DIVISION

In the metallurgy companies of the SIJ Group, innovation is a key part of the corporate culture. In 2016, one in three employees participated in the system of collecting ideas and proposals, which is 11 percent more than the year before. These 875 useful proposals and technical improvements were a source of ideas for new product development and technology optimisation. In 2016, innovation activities generated **savings of more than €2.2 million,** which is 40 percent more than in 2015.

Due to the strategic orientation of the SIJ Group, achievements in the development of new products are particularly important.

Research and development activities are focused on the manufacture of nickel alloys, new types of stainless steel under the new SINOXX brand, and tool steel under the SIHARD and SITHERM brands.

In the field of new technologies, in 2016, we successfully mastered hot transformation of titanium technologies (GR2, GR4 and GR5). The success of new product development is measured by the quantity of products sold. In 2016, newly-developed products have already accounted for 33,757 tonnes of steel sold, or ten percent of all volumes sold. These products generated more than **€64 million, or 13 percent of total revenue.**

The three development departments that support the production and sales functions in the SIJ Group companies, are, since 2015, part of the **Competency Centre for innovative metal materials.** In addition to the aforementioned development departments, this Competency Centre also includes the Institute of Metals and Technology and the Faculty of Natural Sciences. The Centre thus indirectly brings together 226 researchers, and is responsible for the implementation of the three-year-long MARTINA programme (materials and technologies for innovative applications). This smart specialisation programme, approved as part of the tender organised by the Ministry of Education, Science and Sport of the Republic of Slovenia, is subject to state co-funding in the amount of €6 million.

The development engineers operating in SIJ Group companies are among the recipients of distinguished awards. In 2016, the Slovenian Chamber of Commerce awarded them gold and silver medals for **the best innovation.**

RESEARCH INTO SAFETY AND QUALITY IN THE POULTRY DIVISION

In the Poultry Division, research work, which occupied 37 researchers and technical staff in 2016, is registered with the Research Agency of the Republic of Slovenia, and aims to address both current challenges in the poultry industry, and particularly the development transfer of research ideas from research organisations into the industry.

In 2016, researchers completed the project of **infection mitigation** in poultry, which had been ongoing since 2014 through the earmarked funds. The Veterinary Faculty of the University of Ljubljana also participated in the project.

The development department obtained funding for three new several-year-long projects, which all began in 2016. In addition to the project for the management of chicken contamination in the slaughterhouse environment, the project aimed at examining **animal welfare in relation to ensuring the health** of poultry and pigs in conventional and alternative rearing systems, and is particularly important due to the strategic orientation of the Poultry Division into animal-friendly rearing. In both projects, in which Perutnina Ptuj is the net recipient of funds for the project, we are working with several other research organisations and economic operators.

The Perutnina Ptuj Group is also co-funding the partnership project of **planning sustainable and energy self-sufficient processes** on the basis of renewable energy sources, which will conclude in 2019.

Marketing Strategy and Brand Management

The SIJ Group, who was until recently primarily renowned on the global market as a reliable partner for high-quality products and services in the field of metallurgy, thanks to its corporate brand, has also become an **owner and manager of established brands** through its entry into the poultry industry. Brands are understood as a strategic tool to create additional competitive advantages both in business-to-consumer (B2C) and business-to-business (B2B) markets, both in the individual markets we are already present on, as well as on the global market. By combining our experience from both areas of strategic marketing operations, we will reinforce our position as the leading provider in select market niches.

The marketing function was centralised as early as in 2015 as an important support to the vertical integration of the SIJ Group. Since then, marketing has been developed as a key factor for sales growth by acquiring new customers, and as important analytical and promotional support to the activities of the SIJ Group. Following our strategic focus, in 2016 we developed and **introduced a well-thought-out architecture of the corporate and product brands.** Brands are understood as a strategic tool for recognition and differentiation of the offering of the SIJ Group. In the coming years, we shall continue to upgrade the system of branding with our substantively centralised marketing function.

Brands are understood as a strategic tool for recognition and differentiation of the offering of the SIJ Group.

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SIMOLD SICLAD SIHARD
SIDUR SIPREME SIWATT
SITHERM SIRAPID SIMAXX
SIQUAL SINOXX

BRANDING FOR BETTER MANAGEMENT OF OPPORTUNITIES IN THE METALLURGY INDUSTRY

Confidence in the SIJ corporate brand, which has had a unified presence within the names of the Group's metallurgy companies as of 2016, will in future be linked to the recognition of currently 11 product brands of steel. The brands were first presented to 115 representatives of current and potential customers from 38 countries at the autumn sales conference of the SIJ Group.

Our brands of transparently-named steel, which have precisely defined characteristics and comply with the relevant internationally recognised standards, will facilitate customers' choices, and will, at the same time, be important in various certification processes. **The certification of branded steel** will increase the reputation of SIJ Group products with high added value, while the inclusion of steel of proven quality in a variety of lists of authorised products will also contribute to the recognition of the SIJ Group itself. We began this breakthrough as early as 2016. Our metallurgy companies have already been placed on the lists of approved suppliers maintained by the end users of steel in the energy and automotive industries, as well as by manufacturers of mining, construction, and lifting machinery.

The strategic management of brands will be complemented by **systematic digitalisation of marketing operations.** The SIJ Group's uniform approach to managing the marketing functions was in 2016 supported by the development of cloud solutions, while we also developed a mobile application for our customers and users. The application showcases both the brands and the broad production range, enables the filtering of steel according to the relevant specifications, as well as access to various other information about the products and the SIJ Group. In 2016, we also introduced a **state-of-the-art customer relationship management system** (CRM), which allows us to carefully plan the pre-sales processes. Our systematic approach is also associated with strategically entering new niche markets and optimising our trade fair presence as an important part of building relationships with potential customers. In 2016, we appeared at 18 fairs in six countries on three continents, and thus substantially increased contacts with potential clients of tailor-made products.

Confidence in the SIJ corporate brand, which has had a unified presence within the names of the Group's metallurgy companies as of 2016, will in future be linked to the recognition of currently 11 steel product brands.

Perutnina Ptuj

Natur · Natur Premium · Piknik · Gurman · Pepe priporoča · nori na poli · Slim & Fit

COMMUNICATION OF THE ESTABLISHED BRANDS AND NEW LINES OF FOOD PRODUCTS

In the Poultry Division in 2016, we successfully maintained the visibility and reputation of the already established and new brands of the Perutnina Ptuj Group by significantly optimising funds earmarked for marketing activities. In communications with end customers, we were more strongly focused on modern digital communication channels, and the management thereof was transferred to the controlling company.

In the markets of Southeast Europe, the Poli brand allowed us to maintain our market **leadership** in the category of special sausages, measured by sales volumes. By offering new products, we have successfully expanded the Poli brand into the category of hot dogs. We plan on gaining a significant market share in this category, and we have maintained and strengthened our position on the Slovenian market with the Golica hot dogs in new packaging.

The PP Natur Premium range of products has a special position within the PP brand. With it, we already achieved a market share of **12 percent** in 2016. This success is based on successful communication to consumers concerning the benefits of chicken-friendly breeding (PPR), which, together with assured quality, safety and traceability, is becoming an increasingly important reason for selecting Perutnina Ptuj Group products. In the spring and summer time, the success of the PP brand was strengthened by new products in the PP Piknik range, while three new PPR products (new spicy poultry dishes), presented in autumn 2016, contributed to the growth of the market shares of the PP brand in the autumn and winter. The development, marketing and market communication activities carried out in the domestic market are being transferred to other markets of Southeast Europe.

In the entire region, we are especially developing the category of pre-packed fresh poultry meat. In Bosnia and Herzegovina, the new slice pack of chicken **has doubled the quantity of pre-packed meat sold.** The same packaging is now being introduced into the production of subsidiaries in Croatia (at the end of 2016) and Serbia (in 2017), while the category of pre-packed poultry meat is also being developed in Macedonia and Kosovo. We are entering the traditional retail market in Austria with our state-of-the-art pre-packed meat.

High-quality and appropriately communicated products, such as products from the PP Slim & Fit range and cold cuts are facilitating our entry into new export markets.

In the Poultry Division in 2016, we successfully maintained the visibility and reputation of the already established and new brands of the Perutnina Ptuj Group by significantly optimising funds earmarked for marketing activities.

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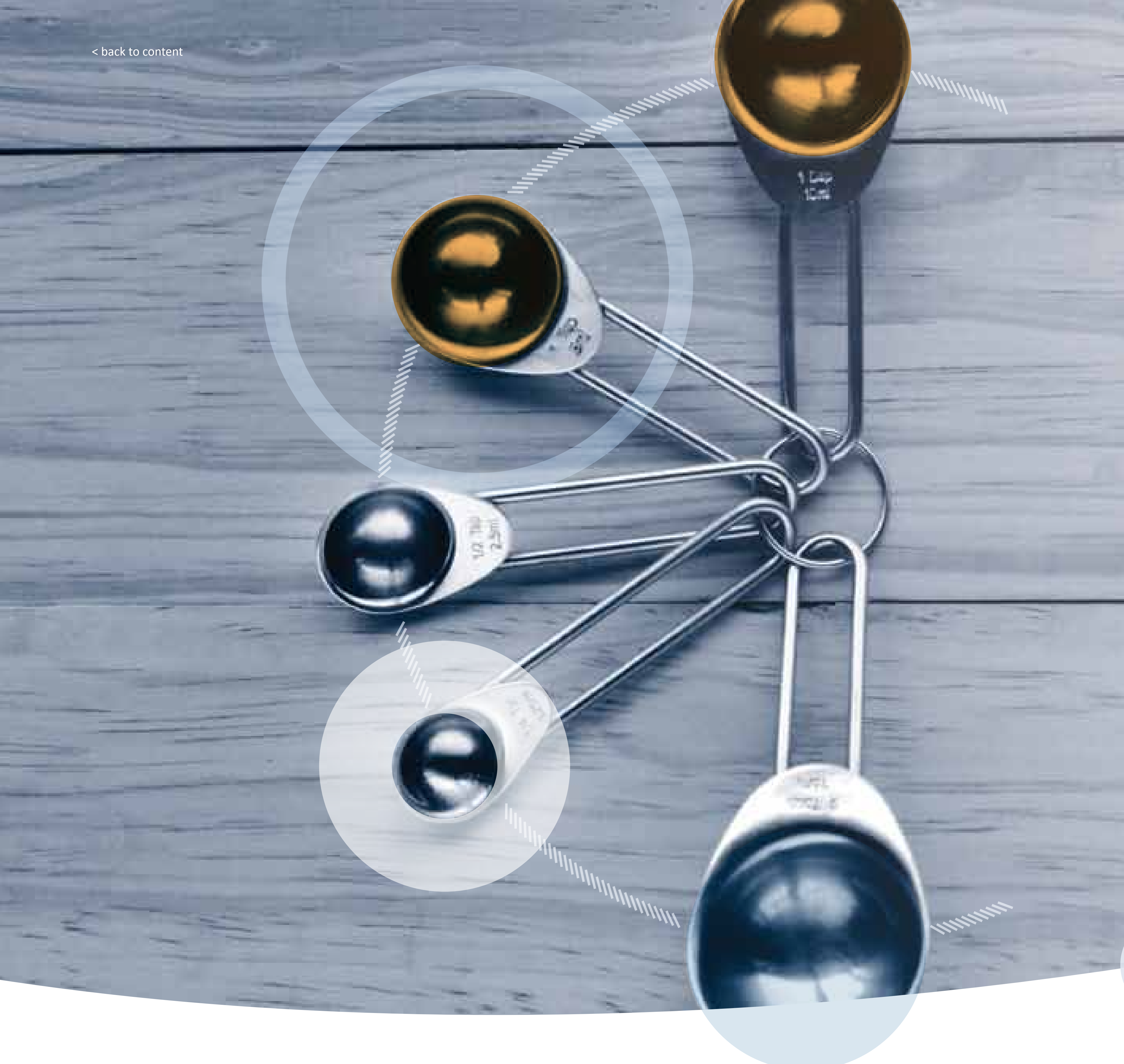

Operating According to the Principles of Sustainable Development

4

SIJ is a corporate brand, which enhances its reputation through responsibility to employees, to the environment, and to the local communities.

Employees become familiar with our new product brands through the SIJ Group Training Centre, among others, which is decorated in the image of our metallurgy brands.

Employees are key to the success of both our new metallurgy brands and our well-established food brands. We are proud of our sponsorships and donations, through which we, both at the level of the SIJ Group, as well as at the level of individual companies, support many socially helpful and relevant activities and organisations.

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Success is Based on Responsible Behaviour

The SIJ Group's operations according to the principles of sustainable development are underscored by our belief that good business results are a result of responsibility towards our employees, the environment, the local communities in which we operate, as well as to all other stakeholders. The footprint of our activities is visible in the development of employees, who represent the foundation for the growth and development of the Group. We build their skills and commitment, encourage innovation, as well as ensure workplace safety and health. Activities in the area of staff development are planned strategically, and implemented in the long-term. As a major employer, we are strongly embedded in the local communities, in mass sports and culture programmes, and in educational and humanitarian activities, which also involve SIJ Group employees and their family members. The SIJ Group consistently complies with environmental regulations and, through development, we ensure the introduction of environmentally-friendly technologies and efficient energy consumption.

Responsibility to Employees

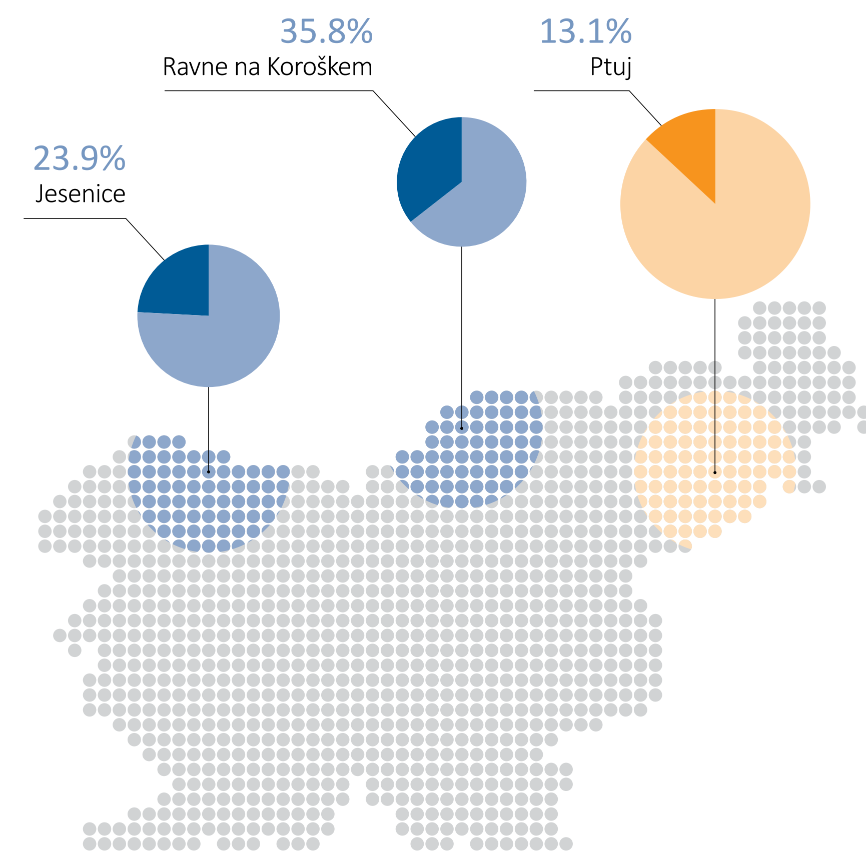
The SIJ Group and its companies are **one of the largest employers in Slovenia.** This is especially true in the regions of Štajerska, Gorenjska and Koroška. In the Koroška region, we employ more than eight per cent of the working population. In the municipality of Ravne na Koroškem, SIJ Group companies employ more than one-third of the working population.

SIJ Group: The Number of Employees in Relation to the Total Number of Persons in Employment in the Regions

November 2016	Number of employees in the region	Number of employees at SIJ Group	%
Podravje	104,669	1,489	1.4
Koroška	20,893	1,661	8.0
Gorenjska	62,946	1,481	2.4

SIJ Group: Working population in the municipality and Employees at SIJ Group

November 2016	Number of employees in the municipality	Number of employees at SIJ Group	%
Ptuj	11,340	1,489	13.1
Ravne na Koroškem	4,638	1,661	35.8
Jesenice	6,190	1,481	23.9



GUIDELINES FOR THE DEVELOPMENT OF HUMAN RESOURCES

The intensive development of employees at all levels is one of the SIJ Group's priority activities until 2025. The knowledge, development, motivation, commitment, creativity, innovative thinking and personal responsibility of our employees are key elements for the realisation of all other strategic goals of the SIJ Group. Concurrent with the strategic investment in the modernisation of technological processes within the SIJ Group, and focusing on the development of products with higher added value, we are **intensively increasing employee competences.** We are systematically establishing state-of-the art selection practices and developing innovative promotion systems. We recognise the potentials of our employees, systematically establish mentoring and succession programmes, and encourage part-time studies. Special attention is paid to the development of managers' individual competence and fostering a positive organisational culture.

Through various measures we are increasing **employers' reputation** of the SIJ Group and its companies. In cooperation with the state, we have re-established the educational programme for the vocation of metallurgy technician; we care for qualified personnel through scholarships for promising high school and university students in the relevant secondary, higher and university education programmes. The SIJ Group has offered 68 new vocational grants for the 2016/2017 academic year.

Employees **are guaranteed equal opportunities,** Irrespective of gender or other personal circumstances, and we are building partnerships with the local social environment. We select new employees carefully and comply with the legal regulations in all countries where we operate.

Due to the relatively high average age of employees, the labour intensity of the industries in which we operate, and the management of sick leave and work-related accidents, special **attention is paid to measures to ensure workplace health and safety** and particularly to promoting a healthy lifestyle.

EMPLOYEE STRUCTURE

SIJ Group: Key Data on Employees as at 31 December

	2016
Number of employees	7,239
Average age	42.81
Proportion of women employed (%)	34.60
Number of disabled persons	520
Proportion of employees with at least secondary education (%)	28.09
Sick leave (%)	5.49
Number of accidents	285

Metallurgy Division: Key Data on Employees as at 31 December

	2014	2015	2016
Number of employees	3,134	3,126	3,552
Average age	44.8	43.3	42.97
Share of women (percent)	17.6	17.3	17.12
Number of disabled persons	313	320	329
Proportion of employees with at least secondary education (%)	24.8	24.9	25.25
Sick leave (%)	6.0	6.7	6.58
Number of accidents	166	153	174

Poultry Division: Key Data on Employees as at 31 December 2016

	2014	2015	2016
Number of employees	3,490	3,514	3,687
Average age (in years)	41.72	42.38	42.65
Share of women (percent)	49.2	50.8	52.07
Number of disabled persons	187	183	191
Proportion of employees with at least secondary education (%)	27.71	29.31	30.93
Sick leave (%)	3.5	3.6	4.39
Number of accidents	101	112	111

In 2016, the number of employees increased significantly due to the acquisition of new metallurgy companies, and the acquisition of the Poultry Division through the Perutnina Ptuj Group. **The number of employees is also on the rise** due to the development and strengthening of functions for centralised operational management, supervision, and efficiency. The increase in the number of employees in the Poultry Division is also related to the increase of production and the transfer of some activities that were previously outsourced (cleaning) back to our own companies.

Due to the specifics of working in production, employees in the Metallurgy Division are **predominantly men.** In this division, the proportion of men and women has been stable over the years. In the Poultry Division, the proportion is gradually changing in favour of the proportion of women.

The average age of employees is 42.81 years. More than a third of employees are over 50 years of age. In the Metallurgy Division, **the average age of employees is gradually decreasing.** The knowledge and skills of older employees are transferred to the younger generation through mentoring programmes and by recognising potentials and successors, while at the same time increasing the number of scholarships.

At the end of 2016, the SIJ Group employed 520 disabled persons. Within the SIJ Group there are two companies employing Group employees who, due to any disability, can no longer perform the tasks they used to, while these two companies also employ other disabled persons. In 2016, the SIJ Group **employed 31 people with disabilities.** In persons with disabilities, most cases of termination of employment are the result of retirement.

In the long-term, **the number of work-related accidents is down** in both the Poultry and the Metallurgy Divisions. The SIJ Group provides regular training in the field of occupational safety and systematically promotes workplace health through measures and integrated communications campaigns such as ***"Working safely, staying healthy"***, etc.

In 2016, sick leave in the SIJ Group accounted for 5.49 percent of the total hours worked. Expressed as a proportion of the total hours worked in the Metallurgy Division, 57.2 percent of hours of sick leave represents **prolonged and refunded sick leave.** The same applies to the Poultry Division, where, especially in intensive production units, the proportion of sick leave is slightly higher than in the previous year.

EDUCATION AND TRAINING

SIJ Group: Proportional Educational Structure of Employees as at 31 December (in percent)

	2016
3rd cycle – Doctoral degree	1.2
2nd cycle – Master's degree	7.7
1st cycle – Bachelor's degree	8.5
Secondary school	21.1
Secondary vocational school	32.1
2-year vocational school	9.8
Primary school	19.6

Metallurgy Division: Proportional Educational Structure of Employees as at 31 December (in percent)

	2014	2015	2016
3rd cycle – Doctoral degree	1.5	1.5	1.6
2nd cycle – Master's degree	6.7	7.6	8.0
1st cycle – Bachelor's degree	10.1	10.8	11.1
Secondary school	24.8	24.9	25.3
Secondary vocational school	28.1	27.4	28.4
2-year vocational school	11.7	11.7	10.7
Primary school	17.1	16.1	14.9

Poultry Division: Proportional Educational Structure of Employees as at 31 December (in percent)

	2014	2015	2016
3rd cycle – Doctoral degree	0.5	0.6	0.8
2nd cycle – Master's degree	6.9	7.2	7.3
1st cycle – Bachelor's degree	5.5	5.9	6.0
Secondary school	14.9	15.8	16.9
Secondary vocational school	35.6	35.8	35.9
2-year vocational school	11.3	9.9	8.8
Primary school	25.3	24.8	24.3

In the SIJ Group, **the number of employees with lower education is decreasing.** Through the updating of the production lines, new hires (including scholarship recipients), and part-time studies, the proportion of employees with vocational education and with higher education (levels I and II) is also on the rise, as is the proportion of employees with a Master's or doctorate degree. In both the metallurgy and the poultry, the educational structure reflects the work intensity of both divisions.

In accordance with the strategic development of employee competencies, in 2016, the SIJ Group invested **€725,136 in human resources education, training, and development.** Compared with 2015, the funds earmarked for this purpose have increased by one-third. Most of that sum, more than €440 thousand, was earmarked for functional education and training, while the rest was spent on part-time studies and scholarships. The SIJ Group has 78 scholarship recipients, mainly enrolled in the programmes of metallurgy, mechanical engineering, mechatronics and electrical engineering.

Since October 2016, the new multi-purpose **SIJ Training Centre** in Ravne na Koroškem is available for employee education and training, particularly in the metallurgy division. This centre with state-of-the-art equipment enables various forms of work, from traditional lectures and seminars for larger groups of participants, to intensive or individual workshops and trainings, as well as computer training. In the Poultry Division, the **PP Academy,** conducted by several companies of the Perutnina Ptuj Group in Slovenia, has a similar role. Modern e-learning methods, aimed in particular at the acquisition of knowledge concerning information technology and workplace safety, are an important part of training in the SIJ Group. A total of 607 e-students were trained in the **SIJ Group online classroom** in 2016.

PROGRAMMES FOR THE DEVELOPMENT OF EMPLOYEE COMPETENCIES

In 2016, we expanded programmes for the development of competences of managers and the development of young potentials in the SIJ Group, while we have developed a new programme for the acquisition of competencies for successors, and introduced a mentoring programme.

Management school for foremen, which was introduced as modular pilot training in the company SIJ Metal Ravne, will, after evaluation and any adjustments, be made available to all SIJ Group companies in 2017. **Manager workshops,** aimed at increasing managerial competencies, were also carried out within the Perutnina Ptuj Group, and for employees in the Poultry Division. The aim of such activities is also to increase the capacity and motivation of existing employees to achieve their career goals, and to assume managerial functions within the SIJ Group.

As part of the training programme entitled **Potentials and Successors,** in 2016, 29 young promising individuals received the award and title of potential, while 13 experienced employees were awarded the title of successor. In 2017, in accordance with their personal career plans, they will be offered training for relevant professional and other functions. This programme represents an upgrade of the Young Potentials training which began in 2015.

IMPROVEMENTS TO THE ORGANISATIONAL CLIMATE

After measuring the organisational climate, customer satisfaction and employee engagement for the first time in 2015, the SIJ Group has employed various actions and projects in order to primarily improve internal communication and information, and further deepen knowledge transfer and update the system for monitoring the performance of the SIJ Group. The measurements carried out in 2016 already show an improvement. The climate index of 3.05 is up by 0.15 compared with the previous year, while the employee satisfaction of 3.22 is up by 0.12 compared with 2015. In 2016, **employees had greater response** to climate measuring itself. The questionnaire was completed by more than 75 percent of all those invited.

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REWARDING AND MOTIVATION

The SIJ Group employs a rewarding system, which contributes to employee productivity and satisfaction and increases the loyalty of key personnel, and is designed as a combination of remuneration for the measurable goals achieved, promotions and bonuses earned, as well as benefits and subsidies.

The system includes:

- **variable rewarding of individuals** as recognition for work performed well on the basis of measurable objectives throughout the year;
- **performance-based rewarding paid to all employees at the end of the year**, depending on the fulfilment of criteria relating to the operating results achieved by an individual company during the past year;
- **promotion of the best employees,** which is used to systematically manage managerial employees, as well as special remuneration and bonuses for the **Best employees** of the SIJ Group as chosen by their peers;
- **loyalty bonuses and recognition for the most dedicated employees** are used to reward loyalty to the SIJ Group;
- **inclusion in the supplementary pension insurance,** increasing the long-term social security of our employees through systematic and timely saving for old age.

Nine SIJ Group companies are included in the supplementary pension scheme. Premiums totalling €1,244,423 were paid in 2016, while the average number of employees included in the scheme was 2,248, giving an average premium paid per employee of €947.

SOCIAL DIALOGUE

The SIJ Group respects the principles of social dialogue between work unions, employees, and employers. We organise meetings with employees several times a year, where they are presented the most important information regarding operations and briefed on developments within the SIJ Group. We have regular meetings with the representatives of work unions, where we communicate constructively on all issues. We comply with industry collective agreements, as well as all corporate collective agreements, which were most recently changed in 2015.

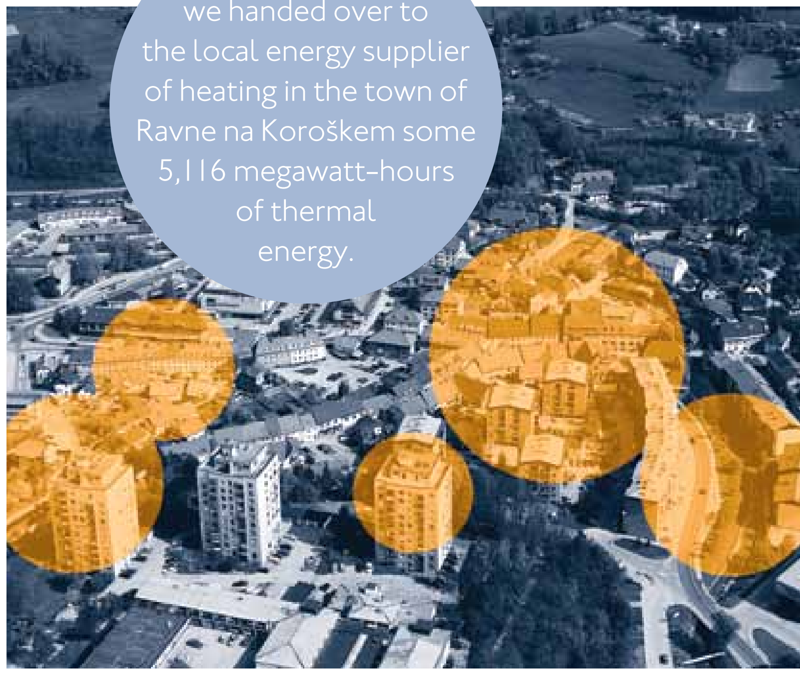
PROMOTING WORKPLACE HEALTH AND SAFETY

In 2016, the Metallurgy Division of the SIJ Group carried out the first integrated communication campaign aimed at improving workplace health and safety. This year-round campaign under the slogan **Working safely, staying healthy** was especially intensive in April, as the World Steel Association has declared April the month of workplace health and safety. Based on the year-round monitoring and achievement of the relevant goals, we announced the healthiest department without any workplace accidents. Sportsmen, as ambassadors of these activities, helped us implement the safety minute – a process carried out by production workers before the start of each shift to ensure workplace safety. We organised a competition for proposals to improve employee health and safety, and realised the best proposal from each company. We also carried out 25 workshops for the promotion of health, which were attended by the management of subsidiaries, managers and employees. This campaign continues in 2017 through additional activities.

In the SIJ Group, as part of our concern for the health of employees, we also provide the possibility of free or subsidised use of sports and leisure (including thermal and health), facilities in different locations. Under the sponsorship of the SIJ Group, its companies and the Perutnina Ptuj Group, many employees attend the Ljubljana Marathon and the Poli Cycling Marathon.

Environmental Protection through the Efficient Use of Energy Sources

In 2017, the SIJ Group companies shall introduce a uniform energy management system, which was in 2016 already introduced within the companies SIJ Acroni and SIJ Metal Ravne. At the same time, we launched systematic energy audits. Our uniform energy management IT system will contribute to the efficient and responsible use of energy throughout the entire SIJ Group, and will bring significant savings.



In 2016, we handed over to the local energy supplier of heating in the town of Ravne na Koroškem some 5,116 megawatt-hours of thermal energy.

ECONOMICAL USE OF LIGHTING

In 2016, as a measure aimed at reducing energy consumption, we carried out the first major replacement of energy-consuming lighting with **energy-saving LED lighting.** The project, performed by the company SIJ Metal Ravne, has already brought measurable effects: the savings in electricity consumption for lighting are up to 80 percent. In 2017, the lighting in other companies of the SIJ Group will also be systematically replaced. As already noted with respect to the investments in the energy management IT system, we also obtained a grant under the Regulation on the provision of savings for the project of replacing energy-consuming lighting.

EXCESS HEAT USED AS MUNICIPAL HEATING

The SIJ Group companies cooperate with local communities in the field of efficient energy use. In the town of Ravne na Koroškem, the waste heat from the company SIJ Metal Ravne partially covers the energy needs of the district heating system. In 2016, we handed over to the local energy supplier of **heating the town of Ravne na Koroškem** some 5,116 megawatt-hours of thermal energy generated as waste heat in the electric arc furnace process. This amount comprises about 21 percent of all the heat consumed by the town Ravne na Koroškem. Some of this energy warmed the pools of the Ravne Sports Centre as a donation from the SIJ Group.

Since the proportion of waste heat is one the rise, we expect the amount of heat handed over in 2017 will reach 12,000 megawatt-hours, which will be enough to cover about a third of all heating needed in the town Ravne na Koroškem. Through such cooperation, the thermal energy provided by the SIJ Group will become the preferred source of heating for the town.

A conceptual design for the locally effective use of waste heat was drafted for Jesenice in 2016. The project, which will begin in 2017, will see the excess heat of SIJ Acroni used for **heating the town of Jesenice and the surrounding area.** This energy will also heat part of the location of SIJ Acroni itself. We have already established the **co-generation of heat and electricity within SIJ Acroni.** In 2016, we produced 3,000 megawatt-hours of electricity and 4,100 megawatt-hours of thermal energy through co-generation. Energy efficiency and co-generation contributes to the reduction of greenhouse gas emissions.

Socially Responsible Sponsorships and Donations

Sports, culture, education and humanitarian activities are all areas co-funded by the SIJ Group's sponsorships and donations. We work with organisations, groups and individuals at the national level and in local environments where the SIJ Group companies are an important source of employment. In 2016, we earmarked €562,569 for support to socially important areas.

COOPERATION WITH LOCAL COMMUNITIES

At the local level, we support mass sports and culture programmes, as well as educational and humanitarian activities, which also involve SIJ Group employees and their family members. In the wider area of Ravne na Koroškem and Jesenice, where part of the funds donated are allocated to local music schools and museums, we especially support sports activities such as swimming, hockey, skiing, volleyball, bowling, football, hiking and other forms of recreation. Such activities will also be promoted through our own SIJ Sports Club, which was founded in 2016.

In Ptuj, we organise the Poli Cycling Marathon and actively support the Perutnina Ptuj Cycling Club, as well as **sports activities** such as volleyball and handball. We also participate in the traditional annual Kurent Festival, the largest ethnographic event in the region.

We also facilitate the quality leisure time of the inhabitants of the environments in which we operate by providing outdoor **sports grounds,** which are manufactured by the company SIJ Acroni. The first two sports parks, erected in Ravne na Koroškem and Prevalje were in 2016 joined by the Sports Park Podmežakla in Jesenice, soon followed by the sports park in Ptuj, home to the Poultry Division of the SIJ Group. We plan to, in cooperation with the Slovenian Olympic Committee, have built and donated to local communities 11 sports parks for training by 2018.

The steel structure donated by the SIJ Group is now part of the new **mountain bivouac** at Jezero.

SUPPORTING NATIONAL SPORTS

We continue to **strengthen the SIJ corporate brand** through the already established sponsorship of the Olympic Committee of Slovenia, the professional HDD SIJ Acroni Jesenice hockey team, and the Slovenian biathlon team. In 2016, we entered into a sponsorship agreement with the Swimming Association of Slovenia. Cooperation with top athletes is effectively intertwined with the activities aimed at SIJ Group employees. Athletes were, inter alia, ambassadors of the Working safely, staying healthy campaign, aimed at promoting active concern for maintaining workplace health and safety among the employees of the Metallurgy Division.

Athletes were able to learn about the usefulness, beauty, and value of the steel manufactured by SIJ Group companies. The Athlete of the Year winners announced in 2016 received trophies in the form of sculptures made of steel, manufactured by the companies of the SIJ Group.

CONCERN FOR HUMANITARIAN INITIATIVES

The SIJ Group also supports various humanitarian initiatives, especially those involving the interests of children. We have long-term cooperation agreement in place with the University Rehabilitation Institute of the Republic of Slovenia, Soča. In May 2016, we donated €45 thousand **for the purchase of Innowalk Pro Small equipment** for walking rehabilitation, strengthening muscles, and improving overall physical capabilities of children. During the Ljubljana Marathon, we conducted an internal humanitarian campaign within the SIJ Group entitled Steps for Little Heroes. Employees and their family members (a total of 102 participants), raised €1.00 with each kilometre run, while the SIJ Group doubled the amount raised as a donation. The amount thus collected (€3,002) was allocated to kindergartens and schools for children with special needs. The funds were received by a kindergarten in Jesenice, a kindergarten in Ljubljana and a school in Ravne na Koroškem.

INCENTIVES FOR READING AND LEARNING

In the field of culture and education, the SIJ Group, in cooperation with the UMco publishers, supports the issue of world renowned books on business and personal growth, whose readers would otherwise not find on the shelves of Slovenian bookstores. The innovative, **sustainable model of cooperation** in the field of publishing fosters a culture of reading and education among both buyers of books and key employees of the SIJ Group.

The steel structure donated by the SIJ Group is now part of the new mountain bivouac at Jezero.

We donated €45 thousand to the University Rehabilitation Institute Soča for the purchase of Innowalk Pro Small equipment for walking rehabilitation, strengthening muscles, and improving overall physical capabilities of children.

In cooperation with the Slovenian Olympic Committee we plan to build and donate 11 sports parks for training to local communities.

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Risk Management

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The SIJ corporate brand, the established food brands and new metallurgy product brands are an important part of risk management, due to their reputation and market position: they relate both to the risks associated with the achievement of sales targets, as well as risks that occur in assuring quality within the SIJ Group companies.

The brands provide an incentive for development and research, for technological modernisation and innovation. With their promises, they deepen our responsibility.

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Systematic Assessment of Risks and Opportunities

The SIJ Group has established a comprehensive risk management system, which until 2016, in addition to the business risks identified, mostly included risks specific to the metallurgy industry. Following the acquisition of the Poultry Division, the risk management system was deepened and strengthened, so that it now incorporates risks more typical of operating in markets with end consumers. Centralised control measures for the systematic management of opportunities and risks are in place for all companies and both key Divisions. In 2017, we shall strengthen systematic risk management by spinning-off the business functions of compliance, risk management and internal audit.

SIJ Group: Opportunities and Risk Management

In the SIJ Group, the opportunities and risk system is based on a **well-rounded, systematic process of planning, coordinating and reporting.** Risk assessment is associated with the identification and evaluation of opportunities – events and developments that enhance our ability to meet and exceed our goals. Risks and opportunities are assessed in terms of a broad portfolio of products for different markets, the diversification of business areas, and their vertical integration. In an ever-changing global environment, we are constantly looking for opportunities for the further development and benefit of the SIJ Group, taking into consideration the limitations of individual geographic areas and our activities within them. Our strategic plans and decisions are adapted to this.

AT ALL LEVELS OF MANAGEMENT AND DECISION-MAKING

Risks that arise in operations affect the Group's ability to implement its established strategy and the sustainable development of all SIJ Group companies. Therefore, the risk exposure is regularly monitored throughout the Group. A risk management process is in place at all levels of business management and decision-making. **The priorities in the field of risk management** are determined according to the assessment of the likelihood of the realisation of certain risks, and the impact of the risk on the assessed process.

SYSTEMATIC MONITORING OF THE RISK MANAGEMENT PERFORMANCE

Systematic risk management involves the identification and implementation of mitigation measures and monitoring of the risk management performance. Risk management and the exploitation of opportunities include a systematic process of planning and reporting, and control over business processes. The companies of individual divisions build identified opportunities and measures to mitigate identified risks into their **monthly plans and analyses of deviations,** which facilitates the assessment of their operating results and financial position.

SPECIAL FEATURES OF THE RISKS IN KEY DIVISIONS

Risks are managed at the level of the entire SIJ Group, considering also the specific risks for the two key divisions. **In the Metallurgy Division,** special attention is paid to financial and commercial risks due to the importance and the feasibility of rapid change, **while in the Poultry Division,** we pay particular attention to the risks associated with quality and food safety, as well as sales risks, which on the consumer market for food products vary depending on the competitiveness and the purchasing power of the population in different markets.

Reputation and good name, as well as well-established, trusted brands of products with proven safety, quality and traceability, significantly mitigate sales risks.

Research and Development Risks

SIJ Group: Research and Development Risks

Risk area	Description of risk	Method of management	Exposure 2016/2017
Research and development	Risks related to the realisation of our development strategy	Careful planning of development projects, quality reporting, adequate control	Moderate

Risks associated with development are categorised as risks affecting the development of the product, or related to the achievement and the provision of safety and technical standards, as well as risks associated with the development process of new products. Due to our strategic focus on development and adapting our production programmes to the needs of customers, we are constantly investing in new technology, software, and market improvements. The associated risks **are managed through the competence centre,** which combines all development departments of the SIJ Group companies, the Faculty of Natural Sciences and the Institute of Metals and Technology. We have defined joint projects, and monitor the progress or delays thereof by regular weekly videoconferences.

Financial Risks

SIJ Group: Financial Risks

Risk area	Description of risk	Method of management	Exposure 2016/2017
Foreign exchange risk	Possibility of loss due to unfavourable changes in foreign currencies	Coordination of purchases and sales in a foreign currency	Moderate
Interest rate risk	Risk of loss due to changes in interest rates	Monitoring of the financial markets and changes in interest rates, negotiations with banks and the search for more affordable alternative sources	Low
Credit risk	Risks associated with failure to pay contractual liabilities by business partners	Active management of receivables, the monitoring of credit ratings, the securing of operating receivables via insurance companies, bank guarantees and letters of credit	Moderate
Liquidity risk	Lack of funds for the repayment of financial and operating liabilities	Introduction of a system for the daily monitoring of cash flow, the long-term planning of needs for liquid funds and agreed credit lines	Moderate

Financial risks that may substantially affect business performance are managed through the regular monitoring of credit lines, continuously monitoring the necessary limits for collateral provided by the credit insurance company, the timely collection of receivables, and monitoring of payment deadlines. The most important and the most likely financial risks are price, credit, currency and liquidity risks, while we are currently less exposed to interest rate risks.

Foreign exchange risk is managed by integrating the exchange rate into the difference in prices, by balancing sales and purchases, through the optimal use of currency coverage of inflows and outflows, and by raising loans in the local currency.

Interest rate risk is low. A total of 52 percent of all borrowings secured by the SIJ Group bear a fixed interest rate. These are primarily funds raised from issued bonds and commercial papers. The majority of loans are tied to the EURIBOR and an interest margin. Currently, the EURIBOR is at the lowest levels in history, therefore, we estimate that the interest rate risk is low. Thus, in 2016, we did not opt to hedge against variable interest rates, or take out additional interest rate hedges.

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Credit risk is aligned depending on the credit rating of customers provided by third-party credit rating institutions, by using instruments for payment insurance and by insuring claims with a credit insurance company. Exposure to credit risk is **mitigated through the daily monitoring of outstanding receivables,** while the sales, finance and legal departments of all Group companies participate in collection activities. We are especially intensively engaged in the management of receivables against major customers, for which our in-house IT equipment is an important tool. We have concluded a permanent factoring contract (without recourse) with a reputable foreign financial institution.

Liquidity risk, or the risk of insolvency due to a deficit of financial resources available, **is managed through the daily monitoring of cash flow,** which is planned for several months ahead. We monitor and coordinate inflows and outflows on a daily basis, while we also use other instruments to hedge against risks associated with short-term liquidity and long-term solvency: the diversification of sources, security deposits, short-term loans, revolving loans, and approved account overdrafts. SIJ d.d.'s Finance Department coordinates activities with domestic and foreign banks to secure short-term and long-term sources of financing. At the end of the year, the unused portions of approved short-term and long-term credit lines amounted to €135 million, while bank account balances stood at €59 million.

Commercial Risks

SIJ Group: Commercial Risks

Risk area	Description of risk	Method of management	Exposure 2016/2017
Purchase risks	Purchasing quality and suitably affordable raw materials, the risk of timely supply, changes in purchasing prices	Careful planning of the supply chain, negotiation and searching for suitable suppliers, long-term framework agreements with suppliers	Moderate
Sales risks	Decreased amount of orders and loss of customers due to the bad economic situation and a weaker purchasing power of companies	Responding to changes in operating conditions, finding new markets, adjusting our sales activities to the markets, innovative market approaches	Moderate
Investment risks	The risk of incorrect decisions to invest in manufacturing and other facilities, risks related to the investment implementation process	Systematic planning of investment implementation, careful selection and choice of potential contractors; constant monitoring of the expertise, performance, quality, cost and agreed schedule within the unified IT project management system	Moderate
Quality assurance	Inappropriate quality of input materials for the production process, inappropriate implementation of development and production processes; inappropriate quality of end products	Upgrading certified management systems and following changes in the quality system, careful implementation of quality control in all development and production processes, additional insurance of adequate product quality through product responsibility insurance policies	Moderate

In the Metallurgy Division, purchasing risks are mainly related to the provision of high quality raw materials for steel production, and to price risks due to the time lag between purchases of raw materials, and the sale of products. Procedures for granting and introducing suppliers and raw materials have been defined for each raw material, while regular supplies are subject to quality monitoring procedures with a certain periodicity of sampling and supplier evaluation. This process includes the development and entry control, technology and procurement departments. The same applies to the Poultry Division, where procurement is integrally connected to the system of quality assurance, safety, and traceability.

In both divisions, **the time lag between the purchase of raw materials and the sale of products has a significant impact on purchase price risks.** These risks are mitigated by harmonising the procurement and sales, and the weekly harmonising of production plans and procurement plans. Sharp fluctuations in the prices of key raw materials can lead to the risk of excessive or insufficient inventories, and the risk that changes to prices will not be passed through to the customer. Key activities are therefore aimed to ensure timely purchases and correct purchasing models on the basis of coordinated plans.

The risk of late supply is controlled primarily by the choice of supplier. We have consignment stock agreements concluded with our key suppliers, or their materials are available in the vicinity of our locations, guaranteeing the response we need to service our customers. In the Poultry Division, risks are mitigated through purchases of raw materials during harvest and by increasing our own storage facilities.

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

The Group is exposed to different sales risks of varying intensity due to its operations in different geopolitical and macroeconomic conditions, and legal and competitive environments. Faced with lower rates of growth of the steel market, surplus supply and increasing pressures on sales prices, **focusing on niche products for demanding users** who are less sensitive to market fluctuations, focusing on market segments and industries with long-term positive growth trends, and the branding of metallurgy products, which began in 2016, are an important part of managing sales risks.

Both in the Metallurgy and Poultry Divisions, sales risks are mitigated through the appropriate management of brand image.

Investment risks associated with investments in the development and production of new products, the introduction of new technologies, ensuring adequate production capacity and achieving the planned investment objectives are managed by a preliminary market analysis, carefully selecting appropriate providers, ensuring precise technical specifications, which are harmonised in detail with the successful bidder, and the accurate planning and monitoring of investment implementation. The main highlights of operational investment implementation are the quality of implementation, monitoring the deadlines agreed upon, and the use of invested assets. Due to the vast scope of strategic investments, we continually improve the quality of preparation and implementation of projects, ensure the legal compliance of the contractual documentation, and verify the justification of any potential changes, as well as their influence on costs and time schedules. Due to the complexity and the scale of investment risks, in 2016, we began introducing an **IT system for the control of the time and cost performance of each investment.** We also carry out regular weekly video-conferences for the regular review of the progress and any delays sustained on individual projects.

Risks associated with quality are managed through the technical control of input raw materials and other materials, and through output controls of products. Products are certified by the relevant quality control organisations. We carry out technical controls in interim phases of production. Assessments are used to regularly and systematically verify the functioning of the quality system in all work processes, while we also implement necessary improvements aimed at the constant upgrading of the quality system. Particular attention is paid to internal self-reviews and the active involvement of employees in the process of improving the quality of products and services. We have introduced **measurements of failed production in the various stages of the process,** while the introduction of a system for measuring the effectiveness (OEE) of individual devices also gives us direct insight into the waste generated by individual devices. We have defined the persons responsible for, in the case of deviations from the defined goals, developing and implementing corrective actions. In the Poultry Division, the basis for managing the risks associated with quality, is **an integrated system of quality management, food safety and environmental management.** Ensuring the quality, safety and traceability is associated with the regular maintenance and validation of various certificates.

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Other Risks

SIJ Group: Other Risks

Risk area	Description of risk	Method of management	Exposure 2016/2017
Environmental risk	Risk of incidents harmful to the environment; the risk of pollution as a result of the Group's activities	Preventive practices and internal procedures in the event of an incident, and cooperation with external environmental protection agencies	Moderate
IT risks	Risk of interference due to faults of IT	Regular maintenance, updating and upgrading of the IT system, regular provision of IT training to employees	Moderate
	Risk associated with IT system implementation	Monitoring the performance of IT system maintenance, a methodological approach in introducing new solutions	Moderate
Human resources risk	Risk related to the provision of qualified staff and staff availability	Systematic work with key staff, system of awards, continuous education; testing the individual potential and preparation of development plans for key personnel; motivation; development of new educational programmes, promotion of technical vocations	Moderate
Legal risks	Risk associated with changes in legislation or the interpretation thereof	Monitoring legislation and case law and preparing measures	Moderate
	Risks associated with the conclusion of commercial agreements	Review of all agreements concluded with suppliers and customers	
	Risks associated with acquisitions of companies and the restructuring of operations	Active management of the portfolio of investments	
		Participation in all phases of projects and processes	
Risk of reputation and goodwill	Risk associated with the quality of services and products, unethical business practices, etc.	Active implementation of corporate governance and monitoring the management of our brands	Moderate

Environmental risks are managed through a comprehensive environmental management system to consistently implement the environmental protection policy in all divisions. Environmental risks are mitigated by taking into account impacts on the environment during the planning of investments, and through the transition to new, cleaner technologies and the introduction of closed circuits.

Both, the Poultry and Metallury Division, have for many years been operating in **accordance with the ISO 14001 standard.** Control is ensured through various monitoring programmes. Special attention is given to risks associated with energy consumption. SIJ Acroni is already operating in accordance with the **ISO50001 standard** in the aforementioned area. At the Group level, we are introducing a comprehensive system of energy management.

At the level of the SIJ Group, we have also established an automated system for the notification and management of incidents, where special attention is paid to monitoring the preparation and implementation of corrective actions. SIJ Group companies measure the **index of incidents,** which monitors the frequency of incidents per million work hours.

The risk associated with IT and the safety of internal processes is moderate. The most important risks in the field of IT are those of breakdown or malfunction in hardware, the local area network, the communications and system software, and risks associated with the introduction of the new business IT system. These risks are managed through the following activities and established corrective systems:

- Maintenance agreements with suppliers that ensure the functioning of the system, even in the event of the failure of vital elements;
- A security system that is designed to ensure the redundancy of the most important parts of the information system and communication channels;
- Access to the worldwide web via two providers;
- The implementation of changes to IT systems according to prescribed and predefined processes;
- Wherever possible, we have standardised purchasing and solutions at the SIJ Group level;
- We have introduced a system to provide assistance and ensure the central logging of errors or defects and thus accelerated the elimination thereof.

Measures to manage risks associated with IT are an integral part of the daily monitoring of the functioning of IT systems. The acquisition of the Perutnina Ptuj Group has partially increased the risk due to outdated system equipment. However, since updates are already planned, the risk remains moderate. All solutions to improve IT operations in the Perutnina Ptuj Group have been outlined in the IT audit, and will be gradually implemented in 2017.

Human resources risks are managed by planning the needs for human resources with a certain skill set, encouraging the continuous additional education of employees at our own training centre and through other forms of training, gaining new knowledge and competencies, sharing knowledge between employees, team work, personal initiative, creativity and innovative ideas. We attempt to limit employee fluctuation through good management and communication with and between employees, by ensuring continuous professional growth and motivation, and **by ensuring a stimulating work environment.** Special attention is given to improving the organisational climate.

Legal risks and risks associated with acquisitions are moderate. In the context of corporate governance, which is the main activity of the company SIJ d.d., we manage legal risks related to preventive and curative legal support to the strategic objectives of the SIJ Group, while subsidiaries minimise the risks at the operational level of their own operations. Legal risks are mitigated by through the established control systems and the periodic reporting of all companies in the SIJ Group on pending legal matters, through a system of approvals, issuing various instructions to subsidiaries, and introducing as unified as possible internal policies at the level of the entire SIJ Group. When needed, the legal department is also involved in the operational work of the subsidiaries. Where, due to the interdisciplinary nature of legal issues, it is impossible to ensure the sufficient availability of in-house legal experts (e.g. due to the complexity of financial, tax, administrative or other issues), we work with renowned domestic and international legal advisers and attorneys.

Due to the takeover of Perutnina Ptuj d.d. in 2016, special attention was paid to the legal risks associated with acquisitions, and carefully ensuring compliance with regulations governing merger and acquisition activities, obligations, the protection of competition, financial markets, etc. After obtaining the opinion of independent certified auditors and all required regulatory permits for the acquisition of the companies Holding PMP d.d. and Perutnina Ptuj d.d. as the target companies, this risk is assessed as moderate.

The risks of reputation and goodwill are moderate. The system of corporate governance within the SIJ Group is supported through additional activities related to the management of brands. The introduction of an integrated brand management system, which allows us to unify the market presence and ensure their greater visibility for end users, has reduced the risk of substitution of our products with competitive products. Brands are the basis for the certification and classification of SIJ Group products on the lists of approved suppliers of steel for the manufacture of critical components. With such classification, we reduce the risk of low-cost competition and price pressures.

The launch of new brands creates the risk of forgery or copying of the SIJ Group product brands. This risk is mitigated through trademark protection. Procedures for the protection of new metallurgy brands were launched in 2016. We believe that these procedures will be complete in 2017.

The introduction of an integrated brand management system, which allows us to unify the market presence and ensure their greater visibility for end users, has reduced the risk of substitution of our products with competitive products.

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Financial Report SIJ Group

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The sound management of brands contributes to maintaining the stable financial position of the SIJ Group. By developing excellent products, which customers choose also because of the promises fulfilled by our brands, we are creating new opportunities for growth. Each of our brands is inextricably linked to the reputation of the SIJ corporate brand. The successful performance figures are the best proof that this reputation has solid foundations.

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

Report on the Audit of Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of the SIJ – Slovenska industrija jekla, d.d. and its subsidiaries (hereinafter the Group'), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and consolidated cash flow statement for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Business combinations	
During the 2016, the Group completed the acquisition of Perutnina Ptuj d.d and Holding PMP d.d., Sistemska Tehnika d.o.o. (renamed to SIJ Ravne Systems d.o.o.), ORO MET d.o.o. and SIJ MWT GmbH as disclosed in Note 33 *Business Combinations.* As of acquisition date the assessment of fair value of net assets acquired and, consequently, the purchase price allocation on assets acquired and liabilities assumed were completed for Perutnina Ptuj d.d. and Holding PMP d.d. and SIJ Ravne Systems d.o.o. As a result, gain on bargain purchase was recognised in the amount of EUR 28,4 mln (Perutnina Ptuj d.d. and Holding PMP d.d.) and EUR 1,3 mln (SIJ Ravne Systems d.o.o.) in the consolidated statement of comprehensive income for the year ended 31 December 2016. The purchase price allocation on fair value of net assets acquired of ORO MET d.o.o. and SIJ MWT GmbH will be completed in 12 months since the acquisition date in accordance with *IFRS 3 Business combinations.* The assessment of control exercisable over acquiree, evaluation of fair value of net assets acquired and liabilities assumed and allocation of purchase price on fair value of net assets acquired require significant portion of management judgement and estimates. Accordingly, the recognition and disclosure of business combinations is a key audit matter.	Our audit response in relation to business combinations recognition included: >> Assessment of business combinations determination appropriateness, detailed analysis of IFRS 3 requirements application and assessment of control exercisable by the Group in accordance with IFRS 10 *Consolidated Financial Statements requirements*; >> The assessment of appropriateness of the fair value measurement of assets acquired and liabilities assumed, including the assessment of competence, capabilities and objectivity of management's independent valuator; >> We used the internal experts to evaluate whether the valuation approach used by the Group Management expert is in compliance with International Valuation Standards and whether the significant assumptions used are adequate for given purposes. >> We performed detailed review of appropriateness and mathematical accuracy of acquisition method applied (including appropriateness recognition and measurement of goodwill and non-controlling interest).

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Valuation of Goodwill	
As of 31 December 2016, the Group had a goodwill of EUR 20,6 mln in the consolidated financial statements, as disclosed in the Note 9. As required by IAS 36 *Impairment of assets*, management conducts annual impairment tests to assess the recoverability of the carrying value of goodwill. The recoverable amount is assessed on the basis of discounted cash flow models. Considering the significant portion of Management judgement in determination of cash generating unit (further on "CGU"), design of projections of future cash flows and calculation of net present value of relative CGUs, the impairment test of goodwill is considered as key audit matter.	Our audit procedures included the assessment whether management judgement is appropriate and whether the IAS 36 requirements are met, including: >> Assessment of whether the CGUs are determined appropriately in compliance with IAS 36 requirements; >> Evaluation of whether the models used by management to calculate the value in use of the individual CGUs comply with the requirements of IAS 36 and assessment of future projected cash flows used in the models to determine whether they are reasonable and supportable given the current macroeconomic climate; >> Validation of assumptions used to calculate the discount rates and review of methodological appropriateness and mathematical accuracy of calculations of discounts rates; >> Analysis of the sensitivity of impairment test outcomes to the changes of the key parameters; >> Assessment of accuracy of historic management projections, including analysis of projected cash flows and review of historical achievements.

Other information

The other information comprises the Business Report, which is an integral part of the Annual Report of the Group, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the consolidated financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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- Obtain sufficient appropriate audit evidence concerning the financial statements of group companies or their business activities in order to express an opinion on the consolidated financial statements. We are responsible for conducting, overseeing and performing the audit of the Group. We have sole responsibility for the audit opinion expressed.

With Supervisory board and Audit Committee we communicate the planned scope and timing of the audit and significant findings from the audit, including significant deficiencies in internal control we have identified during our audit.

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

Among the matters we communicate with Supervisory board and Audit Committee, we select those matters that were of most significance in our audit of the financial statements of the current period, and, therefore, represent key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter, or, in extremely rare circumstances, we determine that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal or regulatory matters

Pursuant to Article 294 of the Companies Act (ZGD-1), the Company is required to disclose the remuneration of each member of management and supervisory bodies in the notes to the financial statements, as well as the management and supervisory board remuneration policy when approved by shareholders at a general meeting. We draw your attention to insufficient disclosure of remuneration of the members of management and supervisory bodies. In Note *Related Parties*, the Company discloses only the aggregate amount of the remuneration paid to the management bodies as per Article 69 of ZGD-1.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc
Certified auditor

Ljubljana, 21 March 2017

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

Statement of 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 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 3 March 2017.

Andrey Zubitskiy
President of the Management Board

dr. Denis Mancevič
Member of the Management Board and CEO

Igor Malevanov
Member of the Management Board and CFO

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Consolidated Financial Statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in € thousand	Note	2016	2015
Revenue	1	842,645	664,817
Cost of sales	2	(665,364)	(551,438)
Gross profit		177,281	113,379
Distribution costs	2	(74,560)	(39,542)
General and administrative expenses	2	(82,704)	(56,355)
Other operating income	3	53,966	8,173
Other operating expenses	4	(5,347)	(2,314)
Profit from operation		68,636	23,341
Finance income	5	1,206	672
Finance expenses	6	(21,836)	(15,065)
Net finance costs		(20,630)	(14,393)
Share of profit in associates	12	49	25
Profit before tax		48,054	8,973
Income tax expense	7	(2,249)	(1,431)
Deferred income tax	7	5,520	3,251
Profit for the year		51,325	10,793
Items that will not be reclassified subsequently to profit or loss			
Income tax related to components of comprehensive income		1	1
Net actuarial losses on pension programs		(52)	(550)
Items that may be reclassified subsequently to profit or loss			
Changes in fair value reserves for available-for-sale financial assets		(8)	(3)
Exchange rate differences on translating foreign operations		(88)	161
Comprehensive income		51,178	10,402
Profit or loss, attributed to:		51,325	10,793
Owners of the controlling company		49,905	11,283
Non-controlling interest		1,420	(490)
Basic and diluted earnings per share (in EUR)	8	51.61	11.62
Comprehensive income, attributed to:		51,178	10,402
Owners of the controlling company		49,818	10,932
Non-controlling interest		1,360	(530)

The notes to the 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	31 Dec. 2016	31 Dec. 2015
ASSETS			
Non-current assets		708,858	523,187
Intangible assets	9	47,825	28,075
Property, plant and equipment	10	620,694	424,054
Investment properties	11	4,094	192
Investments in associates	12	1,622	1,573
Available-for-sale financial assets	13	1,225	45,219
Financial receivables		256	103
Operating receivables	14	2,239	2,072
Other assets	15	4,073	2,932
Deferred tax assets	16	26,829	18,967
Current assets		439,299	340,508
Assets held for disposal (disposal groups)	17	4,102	4,142
Inventories	18	238,397	171,342
Financial receivables	19	19,679	3,188
Operating receivables	20	112,099	114,281
Income tax assets		1,384	691
Cash and cash equivalents	21	59,443	44,587
Other assets	22	4,196	2,277
Total assets		1,148,157	863,695
EQUITY AND LIABILITIES			
Equity	23	423,471	348,717
Equity attributed to the owners of the controlling company		*389,043*	*344,915*
Share capital		145,266	145,266
Capital surplus		11,461	11,461
Revenue reserves		811	129
Fair value reserves		(385)	(369)
Translation differences		149	221
Retained earnings		231,741	188,207
Non-controlling interest		34,429	3,802
Non-current liabilities		328,473	236,683
Employee benefits	24	15,763	12,260
Other provisions	25	1,365	1,445
Deferred revenues	26	5,532	927
Financial liabilities	27	298,413	221,198
Operating liabilities		612	818
Deferred tax liabilities	16	6,787	35
Current liabilities		396,212	278,296
Financial liabilities	28	131,193	98,231
Operating liabilities	29	259,237	177,722
Income tax liabilities		1,333	767
Other liabilities	30	4,450	1,575
Total equity and liabilities		1,148,157	863,695

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

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated Statement of Changes in Equity in 2016

in € thousand	Equity attributed to the owners of the controlling company								
	Share capital	Capital surplus	Revenue reserves	Fair value reserves	Translation differences	Retained earnings	Total	Non-controlling interest	Total
Balance as at 31 Dec. 2015	145,266	11,461	129	(369)	221	188,207	344,915	3,802	348,717
Acquisitions of non-controlling interest	0	0	0	(2)	0	122	120	(618)	(498)
Acquisitions of subsidiaries	0	0	0	0	0	0	0	29,884	29,884
Dividends paid	0	0	0	0	0	(5,811)	(5,811)	0	(5,811)
Creation of legal reserves	0	0	682	0	0	(682)	0	0	0
Total transactions with owners	0	0	682	(2)	0	(6,371)	(5,691)	29,266	23,576
Profit for the year	0	0	0	0	0	49,905	49,905	1,420	51,325
Other changes in comprehensive income	0	0	0	(15)	(72)	0	(87)	(59)	(147)
Total changes in comprehensive income	0	0	0	(15)	(72)	49,905	49,818	1,360	51,178
Balance as at 31 Dec. 2016	145,266	11,461	811	(385)	149	231,741	389,043	34,429	423,471

Consolidated Statement of Changes in Equity in 2015

in € thousand	Equity attributed to the owners of the controlling company								
	Share capital	Capital surplus	Revenue reserves	Fair value reserves	Translation differences	Retained earnings	Total	Non-controlling interest	Total
Balance as at 31 Dec. 2014	145,266	11,461	(859)	171	33	187,477	343,550	4,586	348,135
Covering the loss	0	0	0	0	0	0	0	1	1
Purchase of treasury shares	0	0	(3,752)	0	0	0	(3,752)	0	(3,752)
Dividends paid	0	0	0	0	0	(5,811)	(5,811)	(257)	(6,068)
Creation of legal reserves	0	0	988	0	0	(988)	0	0	0
Decrease of non-controlling interest	0	0	0	0	0	(3)	(3)	2	(1)
Total transactions with owners	0	0	(2,765)	0	0	(6,801)	(9,566)	(254)	(9,820)
Profit (loss) for the year	0	0	0	0	0	11,283	11,283	(490)	10,793
Other changes in comprehensive income	0	0	0	(539)	188	0	(351)	(40)	(391)
Total changes in comprehensive income	0	0	0	(539)	188	11,283	10,932	(530)	10,402
Creation of reserves for treasury shares	0	0	3,752	0	0	(3,752)	0	0	0
Total changes in equity	0	0	3,752	0	0	(3,752)	0	0	0
Balance as at 31 Dec. 2015	145,266	11,461	129	(369)	221	188,207	344,915	3,802	348,717

The notes to the 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	2016	2015
Cash flow from operating activities			
Profit before tax		48,054	8,973
Adjusted for:			
Depreciation and amortisation	9, 10	58,421	40,168
Share of profit in associates	11	(49)	(25)
Negative goodwill	33	(29,623)	0
Interest income	5	(742)	(232)
Interest expenses	6	16,646	11,355
Exchange rate differences, net		(99)	4
Loss in investment sales		28	1
Impairment of assets	4	919	533
Creation of allowances and provisions		1,121	995
Other adjustments		(3,615)	1,884
Operating cash flow before changes in working capital		91,062	63,656
Changes in working capital			
Changes in operating receivables		29,106	28,734
Changes in inventories		(35,333)	(12,390)
Changes in operating payables		26,377	(17,207)
Changes in taxes other than income tax		109	307
Payments for disposal of provisions		(32)	(5)
Receipts from government grants		4,068	402
Payments for loyalty bonuses and severance pay		(885)	(827)
Income tax paid		(2,783)	(1,367)
Other receipts		0	1
Changes in working capital		*20,627*	*(2,351)*
Net cash generated from operating activities		111,689	61,305
Cash flow from investing activities			
Payments for investments in subsidiaries		(16,102)	(146)
Payments for available-for-sale financial assets		0	(44,320)
Payments for property, plant and equipment		(58,954)	(42,746)
Receipts from property, plant and equipment		801	314
Payments for intangible assets		(2,291)	(4,575)
Payments for other assets		(6,576)	(3,746)
Payments for loans issued	19	(15,507)	(3,224)
Receipts from loans issued	19	176	99
Interests received		183	194
Dividends received	12	77	87
Net cash used in investing activities		(98,193)	(98,061)
Cash flow from financing activities			
Receipts from borrowings	27, 29	892,008	553,394
Payments for borrowings	27, 29	(864,699)	(492,127)
Payments for finance lease	27, 29	(2,864)	(2,270)
Interests paid		(17,701)	(10,802)
Dividends paid		(5,811)	(5,811)
Net cash generated in financing activities		933	42,384
Cash and cash equivalents as at 1 Jan.		44,587	38,993
Translation differences		427	(34)
Debt increase		14,429	5,628
Cash and cash equivalents as at 31 Dec.		59,443	44,587

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

Notes to the Consolidated Financial Statements

REPORTING ENTITY

SIJ – Slovenska industrija jekla, d. d. (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 consolidated financial statements for the year ending on 31 December 2016.

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 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

The consolidated financial statements for 2016 have been prepared in accordance with the IFRS as adopted by the 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 consolidated financial statements in the report are expressed in thousands of euros. Due to the rounding off of value amounts, there might be insignificant deviations to the sums given in tables.

In the selection of accounting principles and their application, as well as in the preparation of these consolidated financial statements, the Management Board considered the following three requirements: the consolidated financial statements are comprehensible if the users can understand them without difficulty; the information is adequate if it helps users make economic decisions; and the information is fundamental, if its exclusion or false presentation could influence users' economic decisions.

The consolidated financial statements have been prepared in compliance with the IFRS, adopted by the International Accounting Standards Board (hereinafter: IASB), and with the interpretations issued by the International Financial Reporting Interpretations Committee (hereinafter: IFRIC), as adopted by the European Union, namely:

a) First application of new amendments to the existing standards which are effective for the current annual period.

The following amendments and new interpretations of the existing standards issued by the IASB and adopted by the EU currently apply:

- Amendments to IFRS 10 'Consolidated Financial Statement', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 28 'Investments in Associates and Joint Ventures' – Investment Entities: Applying the Consolidation Exception – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 11 'Joint Arrangements' – Accounting for Acquisitions of Interests in Joint Operations – adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 1 'Presentation of Financial Statements' – Disclosure Initiative – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets' – Clarification of Acceptable Methods of Depreciation and Amortisation – adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16 'Property, Plant and Equipment' and IAS 41 'Agriculture' – Agriculture: Bearer Plants – adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 19 'Employee Benefits' – Defined Benefit Plans: Employee Contributions – adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015);
- Amendments to IAS 27 'Separate Financial Statements' – Equity Method in Separate Financial Statements – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- Amendments to various standards 'Improvements to IFRSs (cycle 2010–2012)' resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015);
- Amendments to various standards 'Improvements to IFRSs (cycle 2012–2014)' resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

Adoption of these amendments to the existing standards had no significant effect on the Group's consolidated financial statements.

b) Standards and amendments to the existing standards issued by IASB and adopted by the European Union, but not yet effective

On the date of the adoption of these consolidated financial statements the following new standards and amendments to the existing standards, issued by IASB and adopted by the EU, were issued, but are not yet effective:

- IFRS 9 'Financial Instruments', adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);
- IFRS 15 'Revenue from Contracts with Customers' and amendments to IFRS 15 'Effective Date of IFRS 15' adopted by the EU on 22 December 2016 (effective for annual periods beginning on or after 1 January 2018);

The Group decided not to apply these standards, amendments and interpretations before their entry into force. The Group assesses that the adoption of these new standards and amendments will not have any significant effect on the consolidated financial statement at their first application.

c) New standards and amendments issued by IASB, but not yet adopted by the EU

Currently there is no significant difference between the IFRS adopted by the EU, and the regulations adopted by IASB, with the exception of the following new standards, amendments to the existing standards, and new interpretations, which had not yet been approved for use in the EU on 3 March 2017:

- FRS 14 'Regulatory Deferral Accounts' (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- IFRS 16 'Leases' (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 2 'Share-based Payment' – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4 'Insurance Contracts' – Adoption of IFRS 9 'Financial Instruments' together with IFRS 4 'Insurance Contracts' (effective for annual periods beginning on or after 1 January 2018, or at first adoption of IFRS 9 'Financial Instruments');
- Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IFRS 15 'Revenue from Contracts with Customers' – IFRS 15 interpretations 'Revenue from Contracts with Customers' (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IAS 7 'Statement of Cash Flows' – Disclosure Initiative (affective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 12 'Income Taxes' – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 40 'Investment Property' – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- Amendments to various standards 'Improvements to IFRSs (cycle 2014–2016)' resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are effective for annual periods beginning on or after 1 January 2017, while amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018);
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration ' (effective for annual periods beginning on or after 1 January 2018).

The Group assesses that the adoption of these new standards and amendments will not have any significant effect on the consolidated financial statement at their first application. At the same time the accounting of the hedging instruments in connection with the portfolio of financial assets and liabilities, the principles of which the EU has not yet adopted, is still unregulated. The Group assesses that the accounting of the hedging instruments in connection with financial assets and liabilities in accordance with the requirements of IAS 39: 'Financial Instruments: Recognition and Measurement' would not have a significant influence on the consolidated financial statements of the Group, if it was used on the date of the Statement of the financial position.

BASIS OF MEASUREMENT

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

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APPLICATION OF ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements requires the Board of Directors to make estimates, judgments and assumptions that influence the disclosed amounts of assets and liabilities, the disclosed contingent assets and liabilities on the day of the preparation of the consolidated financial statements, 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;
- estimate of the fair value of biological assets;
- impairment test of assets;
- estimate of the fair value of available-for-sale financial assets;
- estimate of the fair value of financial assets measured at fair value through profit or loss;
- estimate of the net realizable value of inventories;
- estimate of the collectible amount of receivables;
- estimate of the created provisions;

- estimate of the possibility for realization of deferred tax assets.

Since estimates are subject to subjective judgments and a level of uncertainty, the subsequent actual results can differ from those estimated. Estimates are reviewed on an ongoing basis. Amendments to the accounting estimates are 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 31 Dec. 2016	Value of equity as at 31 Dec. 2016	Net profit 2016
Controlling company of the Group					
SIJ – Slovenska industrija jekla, d.d., Gerbičeva ulica 98, Ljubljana, Slovenia	Activities of head offices		405,557	205,532	19,946
SIJ – subsidiaries					
SIJ ACRONI d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	Steel production	100	431,530	175,326	5,970
SIJ METAL RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Steel production	100	219,991	90,730	7,258
NOŽI RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Industrial knives production	100	17,598	5,480	(246)
SIJ ELEKTRODE JESENICE d.o.o., Cesta železarjev 8, Jesenice, Slovenia	Welding materials production	100	10,576	4,517	523
SIJ SUZ d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	Drawn wires production	100	4,405	1,819	406
SIJ ZIP CENTER d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Education and training of the disabled	100	2,194	536	147
ODPAD d.o.o. Pivka, Velika Pristava 23, Pivka, Slovenia	Recovery of secondary raw materials from scrap	74.90	28,004	7,243	260
NIRO Wenden GmbH, Glück-Auf-Weg 2, Wenden, Germany	Steel cutting, engineering and trade	85	13,457	(303)	(1,477)
SIJ RAVNE STEEL CENTER d.o.o., Litostrojska cesta 60, Ljubljana, Slovenia	Trade	77.28	32,411	15,841	1,194
GRIFFON & ROMANO S.P.A., Via Dossetti 11, Loc. Casinello de Dosso, Italy	Heat processing and special steel trade	100	31,739	346	(465)
SIJ Asia GmbH, Berger Str. 2, 40213 Düsseldorf, Germany	Trade	100	471	305	116
SIJ RAVNE SYSTEMS d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Metallurgic machines production	100	27,465	7,960	580
PERUTNINA PTUJ d. d., Potrčeva cesta 10, Ptuj, Slovenia	Processing and preserving of poultry meat	77,56	197.255	98.476	6.700
HOLDING PMP d. d., Vinarski trg 1, Ptuj, Slovenia	Financial services activities	100	11,626	10,740	6,104

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Continuation of the table

in € thousand	Activity	% of voting rights	Value of assets as at 31 Dec. 2016	Value of equity as at 31 Dec. 2016	Net profit 2016
PERUTNINA PTUJ – subsidiaries					
PP ENERGIJA, d.o.o., Potrčeva cesta 10, Ptuj, Slovenia	Production of electricity	100	5,675	340	311
Perutnina Ptuj-Topiko d. o. o., Petefi Brigade 2, Bačka Topola, Serbia	Processing and preserving of poultry meat	100	24,943	15,724	2,085
PP MI ZALOG d. o. o., Hladilniška pot 37, Ljubljana, Slovenia	Processing and preserving of poultry meat	100	19,783	12,729	757
Perutnina Ptuj – Pipo Čakovec d. o. o., Rudolfa Steinerja 7, Čakovec, Croatia	Processing and preserving of poultry meat	99.66	22,975	13,316	(1,045)
Perutnina Ptuj-BH d. o. o., Potkrajska bb, Breza, Bosnia and Herzegovina	Processing and preserving of poultry meat	100	20,180	8,355	1,079
Ptujska klet d. o. o., Vinarski trg 1, Ptuj, Slovenia	Growing of grapes	100	6,193	2,803	86
Perutnina Romania S. r. l., Str. 13 Decembrie Nr. 96, Brasov, Romania	Trade	100	1,007	(145)	25
Perutnina Ptuj S d. o. o., Povelić b. b., Srbac, Bosnia and Herzegovina	Processing and preserving of poultry meat	100	14,652	1,455	137
PP Gostinstvo d. o. o., Dravska ulica 9, Ptuj, Slovenia	Restaurants and inns	100	518	(370)	(93)
Gradbeni remont d. o. o., Žnidaričevo nabrežje 10, Ptuj, Slovenia	Construction	100	657	512	47
PP BRO ŽIVA d. o. o., Petefi Brigade 2, Bačka Topola, Serbia	Processing and preserving of poultry meat	60	1,079	178	2
Perutnina Ptuj dooel Skopje, Ul. Belasica št. 2, Skopje, Macedonia	Trade	100	2,391	432	160
Veterinarska ambulanta PP d. o. o., Potrčeva 6, Ptuj, Slovenia	Veterinary activities	45	992	311	36
Perutnina Austria GmbH, Haushammerstrasse 1, Seiesberg, Austria	Trade	100	1,438	586	204
PP - Agro d. o. o., Tržaška cesta 41A, Maribor, Slovenia	Agriculture	100	11,159	7,121	692
PERUTNINA PTUJ – PIPO ČAKOVEC – subsidiaries					
Eko ENERGIJA d.o.o., Rudolfa Steinerja 7, Čakovec, Croatia	Production of electricity	100	114	97	32
PERUTNINA PTUJ-TOPIKO – subsidiaries					
TOP-VETERINA d. o. o., Dušana Popivode b.b., Bačka Topola, Serbia	Veterinary activities	100	255	68	10
SIJ ACRONI – subsidiaries					
ŽELEZARNA JESENICE, d.o.o., Cesta železarjev 8, Jesenice, Slovenia	Trading with own real estate	100	10,120	9,617	71
SIJ METAL RAVNE – subsidiaries					
KOPO International Inc., 100 Village Court, Suite # 202, Hazlet, New Jersey 07730, USA	Trade	100	24,780	1,908	83
ODPAD – subsidiaries					
DANKOR, d.o.o., Europske avenije 22, Osijek, Croatia	Recovery of secondary raw materials from scrap	51	1,455	217	(78)
METAL-EKO SISTEM DOO JAGODINA, Put Kneza Mihaila 107, Jagodina, Serbia	Recovery of secondary raw materials from scrap	70	3,617	1,438	(456)
"TOPMETAL" d.o.o. Laktaši, Karađorđeva 69, 78250 Laktaši, Bosnia and Herzegovina	Recovery of secondary raw materials from scrap	51	1,929	890	17
SIJ RAVNE STEEL CENTER – subsidiaries					
SIDERTOCE S. p. A., Via XX. Settembre 198, C. P. 34, Gravellona Toce, Italy	Trade	100	12,495	3,390	462
SIJ MWT GmbH, Celsiusstrasse 17, Germany	Trade	100	3,214	314	(85)
ORO MET d.o.o., Neverke 56, Košana, Slovenia	Manufacture of other tools	51	9,650	3,897	508
NOŽI RAVNE – subsidiaries					
SIJ Ravne Systems (UK) Limited, 12 Conqueror Court, Sittingbourne, Kent, ME10 5BH, Great Britain	Trade	100	455	13	55
SIJ Ravne Systems UK (North) Limited, 12 Conqueror Court, Sittingbourne, Kent, ME10 5BH, Great Britain	Trade	100	4	3	(2)
SIJ Ravne Systems USA Inc., 2711 Centerville Road, Suite 400, Wilmington, Country of New Castle, Delaware 19808, USA	Trade	100	257	(212)	(111)
SIJ ASIA – subsidiaries					
SIJ Steel (Shanghai) Co., Ltd., Rm.320, 2449 Gonghexin Road, Zhabei District, Shanghai 200072, China	Trade	100	65	52	(46)

In January 2016 the controlling company acquired the company SISTEMSKA TEHNIKA d.o.o. and changed its name to SIJ RAVNE SYSTEMS d. o.o.. The Group consolidates the company from January 2016.

In February the controlling company acquired PERUTNINA PTUJ d. d. and Holding PMP d. d.. The Group consolidates the controlling companies and their subsidiaries from 1 March 2016.

In June the company SIJ Ravne Steel Center d. o. o. acquired a 51% share of ORO MET d.o.o., which owns a 100 percent share in SIJ MWT GmbH. The Group consolidates the companies from 1 July 2016.

Effects of all the acquisitions of the Group are disclosed in the chapter Business Combination.

In June 2016 the Group liquidated Serpa d. o. o. after a spin-off of its business activity. Liquidation of this company had no effect on the Group.

In September 2016 SIJ MWT GmbH merged Ravne Steel Deutschland GmbH. This merger had no effect on the Group.

In January 2016 the controlling company acquired ARMAS d. o. o. The company was sold in December of the same year. Effect on the Group amounted to €33 thousand, and is shown in the operating expenses.

The financial statements of the companies included in the consolidated financial statements are audited, except for the financial statements of those companies which are not obliged to be audited according to local legislation or had not begun operations by the reporting date. These are: SIJ MWT GmbH, SIJ Asia GmbH, Steel (Shanghai) Co., Ravne Knives (UK) Limited, Ravne Knives UK (North) Limited, Ravne Knives USA, Holding PMP d. d., PP ENERGIJA, d. o. o., Ptujska klet d. o. o., Perutnina Romania S.r.l., PP Gostinstvo d. o. o., Gradbeni remont d. o. o., PP BRO Živa d. o. o., Perutnina Ptuj dooel, Veterinarska ambulanta PP d. o. o., Perutnina Austria GmbH, Eko ENERGIJA d. o. o. and TOP-VETERINA d. o. o..

SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

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

Investments in Associates

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

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

Transactions with Non-Controlling Interests

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

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

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

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

Foreign Currency Conversion

Transactions in foreign currencies are translated into the functional currency at the exchange rate on the date of the transaction. Cash assets and liabilities denominated in a foreign currency at the end of the period are translated into the functional currency at the then valid exchange rate. Positive or negative exchange rate differences are the differences between the amortised cost in functional currency at the beginning of the period, adjusted for the amount of the effective interest rate and the payments during the period, and the amortised cost in foreign currency, calculated at the exchange rate at the end of the period. Non-cash assets and liabilities, denominated in a foreign currency and measured at fair value are translated to the functional currency at the exchange rate on the date when the fair value is set. Exchange rate differences are recognised in profit or loss.

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

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

Revenues

Sales revenues are recognised at the fair value of the received repayments or receivables, decreased by repayments, discounts, rebates for further sales and quantity discounts. Revenues are recognised when the buyer assumes all significant risks and benefits connected to the asset's ownership, and it is certain that compensation and related costs will be repaid or there is a possibility of returning products, and when the Group ceases to make decisions about sold products.

Financial income comprises interest income and positive exchange rate differences resulting from financing and investing. Interest income is recognised upon its occurrence, using the effective interest rate method.

Expenses

Expenses are recognised if a decrease in economic benefits during the reporting period is associated with a decrease in assets or an increase in debts, and if this decrease can be reliably measured. Operating expenses are recognised when the costs are no longer held in inventories, finished and unfinished products, or when the goods are sold. The costs that cannot be held in inventories of finished and unfinished products are recognised as operating expenses when they appear.

Financial expenses include borrowing costs (if not capitalised), exchange rate losses resulting from financing and investing, changes in the fair value of financial assets at fair value through profit or loss, and losses from the value impairment of financial assets. Borrowing costs are recognised in the income statement using the effective interest rate method.

Taxation

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

Current income tax liabilities are based on the taxable profit for the financial year. Taxable profit differs from net profit, reported in the income statement, because it excludes items of income or expenses that are taxable or deductible in other years, as well as items that are never taxable or deductible. The Group's current income tax liability is calculated using the tax rates applicable on the reporting date.

Deferred tax is shown in total by applying the method of obligations after the statement of the financial position for temporary differences, arising from the tax values of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is calculated by using the tax rates (and laws) applicable on the date of the statement of the financial position, which are expected to be used when the deferred tax asset is realized or the deferred tax liability is recovered.

A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilized.

A deferred tax liability is recognised for all taxable temporary differences, unless they come from initial goodwill recognition, or the initial recognition of an asset or liability in a business transaction which is not a business combination and which does not affect the accounting or taxable profits (tax loss) during the transaction.

Net Earnings per Share

The Group recognises basic and diluted earnings per share for ordinary shares. Basic earnings per share are calculated by dividing profit or loss allocated to ordinary shareholders by the weighted average number of ordinary shares in the financial year, net of the average number of treasury shares. Diluted earnings per share are calculated by adjusting profit or loss allocated to ordinary shareholders and the weighted average number of ordinary shares in the financial year, net of the average number of treasury shares, for the effect of all potential ordinary shares representing convertible bonds and share options for employees.

Intangible Assets

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

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

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

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

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

Further costs related to intangible asset are recognised in the carrying amount of each asset, if it is probable that the future economic benefits embodied within the asset will flow to the Group and the cost of the asset can be measured reliably. All other costs are recognised in the income statement as expenses as soon as they are incurred.

Goodwill arising on consolidation represents the excess of the purchase value over the fair value of the group's interest of acquired identifiable assets, liabilities, and contingent liabilities of a subsidiary on the date of acquisition. Negative goodwill is immediately recognised in the consolidated income statement at the date of acquisition. Goodwill is recognised as an asset and is tested at least once a year for impairment. Each impairment is immediately recognised in the consolidated income statement and is not subsequently reversed. On the disposal of the subsidiary the relevant goodwill amount is included in the determination of profit or loss.

Property, Plant and Equipment

At the initial recognition the tangible assets (property, plant and equipment) are carried at cost, less any accumulated depreciation and accumulated impairment losses, except for land and other assets that are not depreciated; these are shown at their cost, reduced by all relative impairments. The purchase value includes costs that can be directly attributed to the acquisition of each individual item of property, plant or equipment. Parts of property, plant and equipment with different useful lives are accounted as separate items of property, plant and equipment. Borrowing costs directly attributable to the purchase, production or construction of a qualifying asset are recognised as part of the cost of each such asset. The cost model is used for any subsequent measuring of property, plant and equipment.

Biological assets are animals intended for the production of agricultural crops. At its initial recognition and at the end of each reporting period, the biological assets are measured at fair value, less cost of sale.

Depreciation is calculated on a straight-line basis over the estimated useful life of each individual part (component) of

the tangible asset and the residual value. Leased assets are depreciated over the estimated period of lease and useful life. Land and unfinished construction are not depreciated. Depreciation is accounted when an asset becomes available for use.

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

	Useful life
Real estate	10-60 years
Production equipment	1-25 years
Computer equipment	2-10 years
Motor vehicles	2-10 years
Biological assets	1-4 years
Other equipment	1-10 years

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

The replacement costs of items of property, plant and equipment and further costs related to intangible assets are recognised in the carrying amount of each asset, if it is probable that the future economic benefits embodied within this asset will flow to the Group, and the cost of the asset can be measured reliably. All other costs (for example maintenance costs) are recognised in the income statement as expenses as soon as they are incurred.

Investment Property

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

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

Financial Instruments

Financial instruments include the following items:

- non-derivative financial assets;
- non-derivative financial liabilities.

Financial instruments are carried at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For determining the fair value of financial instruments, the following hierarchy levels of determining fair value are considered:

- Level 1 includes financial instruments whose fair value is fully determined on the basis of prices quoted in an active market (quoted prices);
- Level 2 includes financial instruments whose fair value is determined on the basis of valuation models which take into account variables that are derived on the basis of publicly available market data (such as market interest rates);
- Level 3 includes financial instruments whose fair value is determined on the basis of valuation models which take into account subjective variables, which are not publicly available on the market.

Quoted prices are used as a basis for determining the fair value of financial instruments. If a financial instrument is not quoted on the organized market or the market is deemed non-active, input data at the second or third level is used to assess the fair value of the financial instrument.

Non-Derivative Financial Assets

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

Financial Assets at Fair Value through Profit or Loss

A financial asset is classified at fair value through profit or loss if it is meant for trading or is determined as such after the initial recognition. Financial assets are determined at fair value through profit or loss under the condition that such assets are manageable, and that the sale or purchase of these assets can be decided on the basis of fair value. After the initial recognition the pertained costs of the business transaction are recognised in profit or loss upon their occurrence. Financial assets at fair value through profit or loss are measured at fair value, whereas the amount of change in the fair value is recognised in the income statement.

Available-for-Sale Financial Assets

Available-for-sale financial assets are those non-derivative financial assets designated as available for sale, or those not included in the category of receivables and loans, or financial assets at fair value through profit or loss. Available-for-sale financial assets are measured at fair value, whereas the amount of change is recognised in the statement of comprehensive income.

Receivables and Loans

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

Cash and Cash Equivalents

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

Non-Derivative Financial Liabilities

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

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

Inventories

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

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

The net realizable value is estimated on the basis of the selling price in the ordinary course of business, less the estimated costs of completion and estimated distribution costs. Write-offs of damaged, expired and useless inventories are regularly performed during the year on individual items.

Assets Held for Disposal (Disposal Groups)

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

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

Impairment of Assets

Financial Assets

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

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

Impairment of Receivables and Loans

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

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

The Group evaluates the evidence of impairment for each significant loan individually.

An impairment loss related to a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the estimated future cash flows, discounted at an original effective interest rate. The loss is recognised in the profit or loss.

Available-for-Sale Financial Assets

Impairment losses of available-for-sale financial assets are recognised so that the potential accumulated loss, previously recognised in the comprehensive income of the period, and included in the fair value reserve, is transferred into profit or loss. Any subsequent increase in the fair value of an impaired available-for-sale equity security is recognised in the comprehensive income for the period or in the fair value reserve.

Non-Financial Assets

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

The recoverable value of assets or cash-generating units is their value in use or fair value, less cost to sell, whichever is greater. In assessing value in use, estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of cash and the risks specific to the asset. In order to test the impairment, assets which cannot be tested individually are joined into the smallest possible groups of assets, which create cash flows from further use and which are largely independent of the inflow of other assets or groups of assets (cash-generating units).

The impairment of an asset or cash-generating unit is recognised if their carrying amount exceeds their recoverable value. The impairment is given in the income statement.

The Group evaluates the impairment losses of the previous periods at the end of the reporting period and thus determines whether the loss was reduced or even eliminated. An impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable value. An impairment loss is reversed only to such an extent that the asset's carrying amount does not exceed the carrying amount that would have been determined after deducting the depreciation write-off, if no impairment loss has been recognised for the asset in the previous years.

At least once a year, namely on the date of the drawing up of the consolidated financial statements, the Group evaluates the evidence on the impairment of inventories. The impairment of inventories is assessed for each individual type of inventory. Individual types of inventories are allocated to groups of inventories with similar characteristics on the basis of the time components of changes in inventories. The estimate of impairment for each individual group includes an expert assessment of the possibility of further use or sale.

Determination of Fair Value

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

Intangible Assets

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

Property, Plant and Equipment

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

Investment Property

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

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

The fair value of available-for-sale financial assets and financial assets at fair value through profit or loss is determined according to preliminarily defined hierarchy levels of determining the fair value of financial instruments. If the fair value cannot be reliably measured, because the wide range of estimates of reasonable fair values is important, and the probability of different estimates is hard to assess, the Group measures the financial asset at cost.

Receivables and Loans

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

Inventories

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

Non-Derivative Financial Liabilities

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

Equity

Share Capital

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

Capital Surplus

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

Legal and Other Reserves

Legal and other reserves are amounts of retained earnings from the previous years, which are mostly used to compensate for potential future losses. On their occurrence they are recognised by the body responsible for the preparation of the Annual Report, or by the decision of the said body.

Treasury Shares

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

Dividends

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

Provisions

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

Employee Benefits

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

The provisions are formed in the amount of estimated future payments for loyalty bonuses and severance pay, discounted at the end of the financial year. The calculation is made for each individual employee and includes the costs of severance pay upon retirement and the costs of all expected loyalty bonuses up to retirement. The calculation is prepared by an actuary, selected at group level, on the basis of a projected unit. The provisions are reviewed periodically or when the assumptions used to determine the amount of provision change significantly.

Deferred Revenues

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

State and other subsidies received for the covering of expenses are consistently recognised as revenues in periods of the occurrence of expenses that the subsidies should cover.

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

Cash Flow Statement

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

Segment Reporting

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

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

- Steel Division: Group's activity that consists of the production of steel plates and strips of different dimensions and grades from stainless, structural, electrical and special steels, and the production of steel profiles from alloyed, non-alloyed, special, tool, and structural steels.
- The Distribution and Processing Division is a division representing a downstream vertical integration of the Group. It allows the Group to have direct contact with end-customers, provide them with fast delivery of steel of required dimensions and quality, as well as with other services and after-sales support.
- Scrap Division companies collect, process and sort scrap metal, and prepare it for transportation and basic processing by the Steel Division.
- Manufacturing Division: production of finished and semi-finished products from steel, exploiting the synergy with Steel Division production processes.
- Headquarters and Other Services: business, financial and other consulting for the companies in the Group, as well as various concessionary services and social assistance services linked to the employment of disabled persons.
- Poultry Division: raising of poultry, production of crops, poultry meat and products.

NOTES TO INDIVIDUAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1. Revenue

in € thousand	2016	2015
In Slovenia	164,752	84,378
In other countries:	677,893	580,438
- Germany	145,211	156,737
- Italy	130,315	144,329
- USA	53,823	61,969
- Croatia	42,709	7,546
- Austria	32,954	18,486
- Other countries	272,881	191,371
Revenue	842,645	664,817

2. Operating Expenses

in € thousand	2016	2015
Costs of goods, materials and services	626,139	509,196
Labour costs	150,817	95,352
- wages and salaries	112,494	71,325
- social security costs	19,450	12,557
- other labour costs	18,873	11,470
Depreciation and amortisation costs	58,421	40,168
Other costs	8,462	6,694
Changes in the value of inventories	(21,211)	(4,075)
Operating Expenses	822,628	647,335

Review of Costs by Type in 2016

in € thousand	Cost of sales	Distribution costs	General and administrative expenses	Total
Costs of goods, materials and services	541,878	56,975	27,287	626,139
Labour costs	90,288	15,269	45,260	150,817
Depreciation and amortisation costs	50,047	1,946	6,429	58,421
Other costs	4,363	370	3,728	8,462
Changes in the value of inventories	(21,211)	0	0	(21,211)
Operating Expenses	665,364	74,560	82,704	822,628

Review of Costs by Type in 2015

in € thousand	Cost of sales	Distribution costs	General and administrative expenses	Total
Costs of goods, materials and services	459,227	32,591	17,378	509,196
Labour costs	56,248	6,377	32,727	95,352
Depreciation and amortisation costs	36,627	503	3,038	40,168
Other costs	3,411	71	3,212	6,694
Changes in the value of inventories	(4,075)	0	0	(4,075)
Operating Expenses	551,438	39,542	56,355	647,335

The auditing costs for the 2016 annual reports amounted to €329 thousand (2015: €251 thousand).

Average Number of Employees by Level of Education

	2016	2015
Primary school	1,196	503
2.5-year vocational school	656	360
Secondary vocational school	2,083	818
Secondary general school	1,232	768
1st cycle degree – Bachelor's degree	549	328
2nd cycle degree – Master's degree	482	227
3rd cycle degree – Doctoral degree	70	39
Total	6,268	3,043

3. Other Operating Income

in € thousand	2016	2015
Revenues from business combinations	29,623	0
Write-off of liabilities	7,097	107
Revenues from received subsidies	6,511	1,708
Capitalized own products	5,742	3,266
Received compensations	1,237	2,179
Reversals of provisions	459	226
Profit from sale of property, plant and equipment	562	36
Other income	2,735	651
Other operating income	53,966	8,173

Revenue from business combinations are presented in the disclosure of Business Combinations.

4. Other Operating Expenses

in € thousand	2016	2015
Allowances for receivables	956	698
Allowances for inventories	1,148	0
Impairments of inventories	616	533
Impairments of property, plant and equipment	303	0
Expenses for donations and sponsorships	563	368
Other expenses	1,761	715
Other operating expenses	5,347	2,314

5. Finance Income

in € thousand	2016	2015
Interest income	742	232
Exchange rate differences	406	353
Other income	58	87
Finance income	1,206	672

6. Finance Expenses

in € thousand	2016	2015
Interest expenses	16,646	11,355
Exchange rate differences	224	113
Other expenses	4,966	3,597
Finance expenses	21,836	15,065

Other financial expenses represent expenses for financial discounts, expenses related to the management of receivables, expenses related to borrowings and a tax on financial services.

7. Taxes

in € thousand	2016	2015
Income tax expense	(2,249)	(1,431)
Deferred income tax	5,520	3,251
Taxes	3,271	1,820

in € thousand	2016	2015
Profit before taxation	48,054	8,973
Tax at applicable tax rate	8,169	1,525
Tax effects from:		
- non-taxable income	(4,224)	(461)
- tax non-deductible expenses	775	703
- tax relief	(8,363)	(6,314)
- tax losses for which no deferred tax asset were recognised	(579)	(775)
- changes in tax rates	951	3,502
Taxes	(3,271)	(1,820)
Effective tax rate	-	-

The tax relief of the Group comprises the tax relief realized from the charging of corporate tax and unused tax reliefs for which the deferred tax assets were recorded. The Group can realize unused tax reliefs in the following years in accordance with the legislation of the state where the Group has tax losses. The tax effects from the changes in tax rates comprise the effect of different tax rates in countries where the Group operates, and in 2016 also the effect of the readjustment of deferred tax assets and liabilities to the new tax rate of 19 percent, which will apply in Slovenia from 2017.

8. Net Earnings per Share

	2016	2015
Profit or loss, attributed to the owners of the controlling company in € thousand	49,905	11,283
Weighted number of issued ordinary shares	967,016	970,979
Basic and diluted earnings per share in €	51.61	11.62

Net earnings per share are calculated by dividing the net profit or loss 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.

9. Intangible Assets

Movement of Intangible Assets in 2016

in € thousand	Non-current property rights	Goodwill	Assets under construction	Total
Cost as at 31 Dec. 2014	16,418	15,061	314	31,793
Acquisition of company	12,570	5,682	0	18,253
New additions	13	0	4,022	4,035
Transfer from assets under construction	2,984	0	(2,984)	0
Translation differences	1	0	0	1
Other changes	2	0	0	2
Reversal	0	(145)	0	(145)
Cost as at 31 Dec. 2015	31,921	20,599	1,353	53,872
Accumulated amortisation as at 31 Dec. 2014	(3,718)	-	-	(3,718)
Amortisation	(2,426)	-	-	(2,426)
Translation differences	(1)	-	-	(1)
Other changes	32	-	-	32
Accumulated amortisation as at 31 Dec. 2015	(6,047)	-	-	(6,047)
Present value as at 31 Dec. 2014	12,700	15,061	314	28,075
Present value as at 31 Dec. 2015	25,873	20,599	1,353	47,825

Intangible assets comprise computer software and licences. Increases in intangible assets represent modernisation of information systems and costs of the development of new products.

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

On 31 December 2016 the goodwill was tested for potential impairment and the Group determined no signs of impairment. Based on the test performed, the Management Board assesses that on 31 December 2016 the recoverable value of investments in interests of the companies in which goodwill arose was higher than their purchase value at the time of the business combination. Therefore the impairment of goodwill which arose from business combinations is not necessary. The recoverable value of investments which corresponds to the value of investments in use was assessed by the method of present value of the estimated cash flows. All assumptions used for calculating cash flow are based on past experiences of the companies' operations and reasonable expectations for future operations.

Goodwill increased in 2016 due to the acquisitions of ORO MET d. o. o. and SIJ MWT GmbH. Their influence on the Group is presented in the chapter Business Combination. The Group recognised goodwill from the acquisition of SIJ MWT GmbH directly in profit or loss.

On 31 December 2016 the Group's unsettled liabilities to suppliers for the purchases of intangible assets amounted to €186 thousand (2015: €357 thousand). Its contractual liabilities for the purchase of intangible assets amounted to €5 thousand (2015: €611 thousand). Intangible assets, whose present value on 31 December 2016 amounted to €681 thousand (2015: €68 thousand), are pledged as securities for liabilities.

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

Movement of Intangible Assets in 2015

in € thousand	Non-current property rights	Goodwill	Assets under construction	Total
Cost as at 31 Dec. 2014	6,909	15,061	6,130	28,100
Acquisition of company	0	190	0	190
New additions	0	0	4,751	4,751
Transfer from assets under construction	10,567	0	(10,567)	0
Translation differences	2	0	0	2
Transfer to property, plant and equipment	(1,061)	0	0	(1,061)
Reversals	0	(190)	0	(190)
Cost as at 31 Dec. 2015	16,418	15,061	314	31,793
Accumulated amortisation as at 31 Dec. 2014	(3,294)	-	-	(3,294)
Amortisation	(1,225)	-	-	(1,225)
Translation differences	(2)	-	-	(2)
Transfer to property, plant and equipment	802	-	-	802
Accumulated amortisation as at 31 Dec. 2015	(3,718)	-	-	(3,718)
Present value as at 31 Dec. 2014	3,615	15,061	6,130	24,806
Present value as at 31 Dec. 2015	12,700	15,061	314	28,075

10. Property, Plant and Equipment

Movement of Property, Plant and Equipment in 2016

in € thousand	Land	Buildings	Equipment	Other	Assets under construction	Total
Cost as at 31 Dec. 2015	28,457	278,023	833,094	38,578	28,705	1,206,857
Acquisition of company	31,163	90,034	49,911	3,078	4,952	179,137
New additions	0	0	0	0	75,549	75,549
Transfer from assets under construction	251	11,030	57,632	4,201	(73,114)	0
Disposals	0	(243)	(27,418)	(1,706)	(15)	(29,382)
Translation differences	(13)	(5)	(15)	(1)	0	(33)
Impairment	0	0	0	(303)	0	(303)
Other changes	(38)	0	(10)	(279)	(66)	(393)
Cost as at 31 Dec. 2016	59,821	378,839	913,194	43,569	36,009	1,431,432
Accumulated depreciation as at 31 Dec. 2015	-	(182,311)	(571,372)	(29,120)	-	(782,803)
Depreciation	-	(7,847)	(45,665)	(2,483)	-	(55,995)
Disposals	-	104	26,670	1,275	-	28,049
Translation differences	-	0	8	1	-	8
Other changes	-	0	4	0	-	4
Accumulated depreciation as at 31 Dec. 2016	-	(190,054)	(590,355)	(30,327)	-	(810,737)
Present value as at 31 Dec. 2015	28,457	95,712	261,722	9,458	28,705	424,054
Present value as at 31 Dec. 2016	59,821	188,784	322,838	13,241	36,009	620,694

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

- a heat treatment line;
- a vacuum ladle furnace;
- steel plant modernisation;
- forging machine GFM;
- AOD (argon-oxygen decarburization) in the steel plant;
- current upgrades (repairs);
- renovation of buildings.

Disposals of property, plant and equipment mostly refer to the sales and write-offs of the equipment connected with the renovation of basic production capacities and write-offs of unusable and outdated equipment.

Other assets include biological assets in the amount of €2,397 thousand. Biological assets include dairy cows and flock breeding hens. Other changes include value adjustments due to the yield and mortality.

Property, plant and equipment, whose present value on 31 December 2016 amounts to €283,298 thousand (2015: €234,973 thousand) are pledged as security for liabilities. On 31 December 2016 the Group's unsettled liabilities to suppliers for the purchase of property, plant and equipment amounted to €26,949 thousand (2015: €19,589 thousand). Its contractual liabilities for the purchase of property, plant and equipment amounted to €17,082 thousand (2015: €43,798 thousand). The present value of property, plant and equipment under finance lease is €9,923 thousand (2015: €5,171 thousand). The Group capitalized €396 thousand (2015: €860 thousand) of borrowing costs, for which the interest rates were between 2.5 and 4.2 percent.

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

Movement of Property, Plant and Equipment in 2015

in € thousand	Land	Buildings	Equipment	Other	Assets under construction	Total
Cost as at 31 Dec. 2014	25,490	274,189	807,039	23,873	27,598	1,158,189
New additions	0	0	0	0	64,939	64,939
Transfer from assets under construction	900	9,478	49,581	3,874	(63,832)	0
Disposals	(1)	(4,535)	(10,864)	(1,932)	0	(17,333)
Translation differences	(3)	1	(4)	7	0	0
Redistribution	2,072	(1,110)	(13,675)	12,713	0	0
Transfer from intangible assets	0	0	1,018	43	0	1,061
Cost as at 31 Dec. 2015	28,457	278,023	833,094	38,578	28,705	1,206,857
Accumulated depreciation as at 31 Dec. 2014	-	(180,899)	(560,548)	(18,660)	-	(760,107)
Depreciation	-	(4,852)	(31,827)	(2,265)	-	(38,944)
Disposals	-	4,517	10,696	1,841	-	17,054
Translation differences	-	0	1	(5)	-	(4)
Redistribution	-	(1,076)	11,067	(9,991)	-	0
Transfer from intangible assets	-	0	(762)	(40)	-	(802)
Accumulated depreciation as at 31 Dec. 2015	-	(182,311)	(571,372)	(29,120)	-	(782,803)
Present value as at 31 Dec. 2014	25,490	93,289	246,492	5,213	27,598	398,082
Present value as at 31 Dec. 2015	28,457	95,712	261,722	9,458	28,705	424,054

11. Investment Properties

in € thousand	2016	2015
Cost as at 1 Jan.	834	834
Acquisition of company	4,032	0
New additions	(20)	0
Disposals	(2)	0
Translation differences	6	0
Cost as at 31 Dec.	4,850	834
Accumulated depreciation as at 1 Jan.	(642)	(627)
Depreciation	(139)	(15)
Disposals	2	0
Translation differences	23	0
Accumulated depreciation as at 31 Dec.	(757)	(642)
Present value as at 1 Jan.	192	207
Present value as at 31 Dec.	4,094	192

In 2016 the Group generated €577 thousand of income and €391 thousand of expenses from investment properties. The investment properties in the amount of €2,003 thousand are pledged as security for liabilities.

The present value of investment properties does not exceed their fair value.

12. Investments in Associates

in € thousand	31 Dec. 2016	31 Dec. 2015
Razvojni center Jesenice, Cesta Franceta Prešerna 61, Jesenice, Slovenia	1,622	1,573
Investments in associates	1,622	1,573

in € thousand	Activity	% of voting rights	Value of assets as at 31 Dec. 2016	Value of equity as at 31 Dec. 2016	Revenues 2016	Net profit 2016
Razvojni center Jesenice	Development	24.95	8,807	6,320	2,271	196

The investment in associates is valued based on the equity method. In 2016 the Group attributed a corresponding share of 2016 profit which amounted to €49 thousand (2015: €25 thousand).

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

13. Available-for-Sale Financial Assets

in € thousand	31 Dec. 2016	31 Dec. 2015
Available-for-sale financial assets at cost	619	44,606
Available-for-sale financial assets at fair value	606	614
Available-for-sale financial assets	1,225	45,219

By the end of February 2016 the Group acquired control of the companies PERUTNINA PTUJ d.d. and Holding PMP d.d.. Companies PERUTNINA PTUJ d.d. and Holding PMP d.d. are included in the consolidated financial statements of the SIJ Group from 1 March 2016. Due to this reason the available-for-sale financial assets at cost decreased by €44,060 thousand. Additionaly they decreased by €66 thousand due to impairment and sale, and increased by €139 thousand due to new additions.

Available-for-sale financial assets, carried at fair value, refer to shares and interests in the companies that are traded on the regulated market and whose fair value can be measured reliably. These assets decreased due to the revaluation at fair value in the amount of €8 thousand charged to the comprehensive income.

Received dividends in 2016 amounted to €77 thousand (2015: €87 thousand).

14. Non-Current Operating Receivables

in € thousand	31 Dec. 2016	31 Dec. 2015
Operating receivables	5,223	5,056
Allowances for trade and other receivables	(2,984)	(2,984)
Non-current operating receivables	2,239	2,072

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

15. Other Non-Current Assets

in € thousand	31 Dec. 2016	31 Dec. 2015
Other assets	4,073	2,932
Other non-current assets	4,073	2,932

Other assets include non-current accrued costs of arrangement fees, emission coupons, and cautions. The increase mostly refers to non-current deferred costs of borrowings.

16. Deferred Tax Assets and Liabilities

in € thousand	31 Dec. 2016	31 Dec. 2015
Deferred tax assets	26,829	18,967
Deferred tax liabilities	(6,787)	(35)
Deferred tax assets (liabilities), net	20,041	18,932

Movement of Deferred Tax Assets and Liabilities in 2016

in € thousand	31 Dec. 2015	Acquisition of company	Translation differences	Changes in the income statement	Changes in the comprehensive income	31 Dec. 2016
Property, plant and equipment	(81)	(6,643)	0	(113)	0	(6,837)
Other	45	0	0	4	0	49
Deferred tax liabilities	(36)	(6,643)	0	(109)	0	(6,787)
Other provisions	55	0	0	0	0	56
Unused tax losses	8,379	1,581	1	466	0	10,427
Inventories	119	0	8	505	0	631
Operating receivables	830	193	(2)	(263)	0	759
Employee Benefits	1,442	417	0	211	0	2,069
Property, plant and equipment	630	0	0	411	0	1,041
Available-for-sale financial assets	(35)	0	0	0	1	(33)
Unused tax reliefs	7,548	35	(2)	4,299	0	11,881
Deferred tax assets	18,968	2,226	4	5,629	1	26,829
Deferred tax assets (liabilities), net	18,932	(4,424)	4	5,520	1	20,041

The value of unused tax losses for which the deferred tax assets are recognised amounted to €49,717 thousand (2015: €43,610 thousand) on 31 December 2016. The value of unused tax losses for which the deferred tax assets are not recognized amounted to €71,457 thousand (2015: €58,324 thousand), while unrecognised deferred tax assets amounted to €13,219 thousand (2015: €9,915 thousand).

Movement of Deferred Tax Assets and Liabilities in 2015

in € thousand	31 Dec. 2014	Translation differences	Changes in the income statement	Changes in the comprehensive income	31 Dec. 2015
Property, plant and equipment	(148)	0	67	0	(81)
Other	97	0	(52)	0	45
Deferred tax liabilities	(50)	0	16	0	(36)
Other provisions	56	0	(1)	0	55
Unused tax losses	7,141	0	1,238	0	8,379
Inventories	(18)	8	129	0	119
Operating receivables	969	0	(139)	0	830
Employee Benefits	1,295	0	147	0	1,442
Property, plant and equipment	116	0	514	0	630
Available-for-sale financial assets	(35)	0	0	0	(35)
Unused tax reliefs	6,173	0	28	1,348	7,548
Deferred tax assets	15,696	8	1,915	0	18,969
Deferred tax assets (liabilities), net	15,646	8	1,931	0	18,932

17. Assets Held for Disposal (Disposal Groups)

in € thousand	31 Dec. 2016	31 Dec. 2015
Assets held for sale	4,102	4,142
Assets held for disposal (disposal groups)	4,102	4,142

Under assets held for sale, the Group owns lands and buildings (outbuildings and apartments) in Jesenice and Celje. Sales activities are constantly under way. In 2016, the Group generated €35 thousand (2015: €1 thousand) in profit from the sale of assets.

The assets are not pledged as security for liabilities.

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

18. Inventories

in € thousand	31 Dec. 2016	31 Dec. 2015
Raw material	94,439	68,883
Work in progress	76,102	51,687
Finished products	51,118	36,655
Trade goods	16,738	14,117
Inventories	238,397	171,342

Inventories, whose present value on 31 December 2016 amounts to €26,582 thousand (2015: €13,638 thousand), are pledged as security for liabilities. On 31 December 2016 the Group checked the value of the inventories. It found that the net realizable value of the finished products was lower that their production value, and made the impairment of the inventories in the amount of €616 thousand (2015: €533 thousand).

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Movement of Allowances for Inventories

in € thousand	2016	2015
Balance as at 1 Jan.	4,789	4,788
Acquisition of company	387	0
Allowance changes with influence on profit or loss	1,148	(12)
Allowance changes without influence on profit or loss	(382)	(2)
Translation differences	(2)	15
Sale of subsidiary	(98)	0
Balance as at 31 Dec.	5,842	4,789

19. Current Financial Receivables

in € thousand	31 Dec. 2016	31 Dec. 2015
Loans issued	18,969	3,151
Interest receivables	652	37
Other	58	0
Current Financial Receivables	19,679	3,188

Loans issued include a loan issued to the controlling company in the amount of €18,500 thousand (2015: €3,000 thousand). The interest rate for the loans issued is mainly fixed.

Movement of Current Loans Issued

in € thousand	2016	2015
Balance as at 1 Jan.	3,151	47
Acquisition of company	276	0
Loans issued	15,507	3,224
Repayments of loans issued	(176)	(99)
Transfer from non-current loans issued	214	0
Translation differences	0	(1)
Exchange rate differences	(3)	0
Other	0	(20)
Balance as at 31 Dec.	18,969	3,151

20. Current Operating Receivables

in € thousand	31 Dec. 2016	31 Dec. 2015
Trade receivables	104,288	106,763
Allowances for trade receivables	(8,074)	(4,853)
VAT receivables	6,406	5,963
Issued advance payments and cautions	3,120	4,812
Other operating receivables	6,359	1,595
Current Operating Receivables	112,099	114,281

The majority of the Group's trade receivables are insured against commercial risks with our insurance company. Trade receivables, whose present value on 31 December 2015 amounts to € 13,650 thousand (2015: €43,672 thousand), are pledged as security for liabilities.

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

21. Cash and Cash Equivalents

in € thousand	31 Dec. 2016	31 Dec. 2015
Cash in national currency	49,337	36,391
Cash in foreign currency	10,106	8,122
Restricted cash	0	74
Cash and Cash Equivalents	59,443	44,587

Deposits in the amount of €13,174 thousand (2015: €230 thousand) are in the national currency and have a maturity of up to three months. The interest rate for deposits is fixed.

22. Other Current Assets

in € thousand	31 Dec. 2016	31 Dec. 2015
Current deferred expenses	4,196	2,277
Other Current Assets	4,196	2,277

Current deferred expenses refer to the advance payments of costs, which in 2017 will debit against profit or loss.

23. Equity

in € thousand	31 Dec. 2016	31 Dec. 2015
Equity attributed to the owners of the controlling company	*389,043*	*344,915*
Share capital	145,266	145,266
Capital surplus	11,461	11,461
Revenue reserves	811	129
Fair value reserves	(385)	(369)
Translation differences	149	221
Retained earnings	231,741	188,207
Non-controlling interest	*34,429*	*3,802*
Equity	423,471	348,717

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 2016.

Ownership Structure of the Controlling Company

Shareholder	Number of shares 31 Dec. 2016	Number of shares 31 Dec. 2015
DILON, d. o. o., Gerbičeva ulica 98, Ljubljana, Slovenia	718,351	718,351
Republic of Slovenia, Gregorčičeva ulica 20, Ljubljana, Slovenia	248,655	248,655
SIJ d.d., Gerbičeva ulica 98, Ljubljana, Slovenia	27,600	27,600
UNIOR, d. d., Kovaška cesta 10, Zreče, Slovenia	10	10
Total	994,616	994,616

The ownership structure of the controlling company did not change in 2016.

Capital Surplus

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

Revenue Reserves

in € thousand	31 Dec. 2016	31 Dec. 2015
Legal reserves	3,065	2,384
Treasury shares	(6,009)	(6,009)
Reserves for treasury shares	3,754	3,754
Revenue reserves	811	129

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 Programme (Official Gazette of the RS, nr. 111/2001) and in line with the Privatisation 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 2016, the controlling company created legal reserves in the amount of €682 thousand from net profit.

Distributable Profit

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

24. Employee Benefits

in € thousand	31 Dec. 2016	31 Dec. 2015
Provisions for severance pay	12,785	10,125
Provisions for loyalty bonuses	2,758	1,958
Provisions for post-employment benefits	221	177
Employee benefits	15,763	12,260

The Group did not perform an actuarial calculation in 2016 because the assumptions used to determine the amount of provisions did not change significantly.

The actuarial calculation was made on the basis of the actuarial model and assumptions, derived from the life tables, growth of wages in the Republic of Slovenia and the companies in the Group, and the yield curve, which represents the relationship between market yields on government bonds in the Eurozone and the time remaining to maturity. The observed discounted rate was between 0% and 2.3%, depending on maturity.

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

Movement of Employee Benefits in 2016

in € thousand	31 Dec. 2015	Acquisition of company	Creation	Reversal	Utilization	Translation differences	31 Dec. 2016
Provisions for severance pay	10,125	2,805	583	(527)	(201)	(1)	12,785
Provisions for loyalty bonuses	1,958	802	190	(96)	(98)	1	2,758
Provisions for post-employment benefits	177	0	58	0	(14)	0	221
Employee benefits	12,260	3,607	831	(623)	(313)	0	15,763

Movement of Employee Benefits in 2015

in € thousand	31 Dec. 2014	Creation	Reversal	Utilization	31 Dec. 2015
Provisions for severance pay	8,319	1,984	(178)	0	10,125
Provisions for loyalty bonuses	1,995	32	(69)	0	1,958
Provisions for post-employment benefits	125	84	(18)	(14)	177
Employee benefits	10,438	2,100	(264)	(14)	12,260

25. Other Provisions

in € thousand	31 Dec. 2016	31 Dec. 2015
Provisions for environmental rehabilitation	200	200
Provisions for law suits	683	674
Provisions for complaints	483	571
Other provisions	1,365	1,445

Movement of Other Provisions in 2016

in € thousand	31 Dec. 2015	Acquisition of company	Creation	Reversal and utilization	31 Dec. 2016
Provisions for environmental rehabilitation	200	0	0	0	200
Provisions for law suits	674	34	11	(36)	683
Provisions for complaints	571	0	54	(142)	483
Other provisions	1,445	34	65	(178)	1,365

Movement of Other Provisions in 2015

in € thousand	31 Dec. 2014	Creation	Reversal and utilization	31 Dec. 2015
Provisions for environmental rehabilitation	200	0	0	200
Provisions for law suits	902	25	(252)	674
Provisions for complaints	575	0	(5)	570
Other provisions	1,677	25	(257)	1,445

26. Non-Current Deferred Revenues

in € thousand	31 Dec. 2016	31 Dec. 2015
Assigned contributions	989	867
Subsidies for property, plant and equipment	4,489	60
Other deferred revenues	54	0
Non-current deferred revenues	5,532	927

Movement of Non-Current Deferred Revenues in 2016

in € thousand	31 Dec. 2015	Acquisition of company	Creation	Reversal and utilization	31 Dec. 2016
Assigned contributions	867	0	1,425	(1,303)	989
Subsidies for property, plant and equipment	60	4,963	0	(533)	4,490
Other deferred revenues	0	77	434	(458)	53
Non-current deferred revenues	927	5,040	1,859	(2,294)	5,532

Subsidies for property, plant and equipment also include approved assets for the environmental rehabilitation in the amount of €987 thousand. Assets for the environmental rehabilitation were approved in accordance with the decision of the Ministry of Environment and Spatial Planning based on the ownership transformation of the company, and were disclosed in the Company's financial statements as at 1. January 1993, prepared in accordance with the Law on the ownership transformation of companies. In 2016, non-current deferred revenues decreased by the depreciation cost in the amount of €110 thousand.

Movement of Non-Current Deferred Revenues in 2015

in € thousand	31 Dec. 2014	Creation	Reversal and utilization	31 Dec. 2015
Assigned contributions	866	1,366	(1,365)	867
Subsidies for property, plant and equipment	0	65	(5)	60
Other deferred revenues	0	338	(338)	0
Non-current deferred revenues	866	1,769	(1,708)	927

27. Non-Current Financial Liabilities

in € thousand	31 Dec. 2016	31 Dec. 2015
Borrowings	199,682	124,296
Liabilities for bonds issued	94,115	94,115
Liabilities arising from finance lease	4,614	2,787
Interest liabilities	3	0
Non-current financial liabilities	298,414	221,198

Borrowings include loans from domestic and foreign banks. Borrowings in the amount of €126,649 thousand (2015: €95,531 thousand) are secured with properties, receivables and inventories. Other borrowings are not secured. The interest rate for the majority of borrowings and liabilities arising from finance lease is flexible and based on EURIBOR.

Movement of Non-Current Borrowings

in € thousand	2016	2015
Balance as at 1 Jan.	124,296	138,072
Acquisition of company	64,139	0
New borrowings	557,715	165,604
Repayments for borrowings	(61,566)	(4,144)
Reclassification to current borrowings	(484,897)	(175,236)
Exchange rate differences	(16)	(1)
Translation differences	11	1
Balance as at 31 Dec.	199,682	124,296

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 2019. 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.

Movement of Non-Current Liabilities Arising from Finance Lease

in € thousand	2016	2015
Balance as at 1 Jan.	2,787	2,413
Acquisition of company	1,993	0
New financial lease	2,630	2,109
Repayments of liabilities arising from finance lease	0	(15)
Reclassification to current liabilities arising form finance lease	(2,796)	(1,720)
Exchange rate differences	(5)	0
Translation differences	4	0
Balance as at 31 Dec.	4,614	2,787

The lowest sum of future leases due for payment in the next financial year amounts to €4,832 thousand on 31 December 2016; to €4,357 thousand in the next 1 to 5 years; and to €475 after 5 years. The net present value of future leases due for payment in the next financial year amounts to €4,614 thousand on 31 December 2015, to €4,168 thousand in the next 1 to 5 years, and to €446 thousand after 5 years.

28. Current Financial Liabilities

in € thousand	31 Dec. 2016	31 Dec. 2015
Borrowings	96,496	77,195
Liabilities for commercial papers issued	30,000	17,662
Liabilities arising from finance lease	2,256	1,201
Interest liabilities	2,441	2,173
Current Financial Liabilities	131,193	98,231

Borrowings include loans from domestic and foreign banks. Borrowings in the amount of €32,090 thousand (2015: €27,834 thousand) are secured with properties, receivables and inventories. Other borrowings are not secured. The interest rate for the majority of borrowings and liabilities arising from finance lease is flexible and based on EURIBOR.

Movement of Current Borrowings

in € thousand	2016	2015
Balance as at 1 Jan.	77,195	70,412
Acquisition of company	15,349	0
New borrowings	304,293	298,908
Repayments for borrowings	(785,471)	(468,013)
Reclassification from non-current borrowings	484,897	175,236
Exchange rate differences	(5)	5
Translation differences	238	646
Balance as at 31 Dec.	96,496	77,195

Liabilities for Commercial Papers Issued

Liabilities for commercial papers amounting to €30,000 thousand refer to 12-month commercial papers with the ticker symbol SIK03, issued as a 3rd issue by the controlling company on 16 December 2016. The total nominal value of the commercial papers is €30,000 thousand, and covers denominations of €1 thousand. The interest rate for a commercial paper is 1.20 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 16 December 2017. Commercial papers trading takes place at the Ljubljana Stock Exchange. The controlling company repaid the second issue of commercial papers with the ticker symbol SIK02 on the maturity day.

Movement of Current Liabilities Arising from Finance Lease

in € thousand	2016	2015
Balance as at 1 Jan.	1,201	1,737
Acquisition of company	1,130	0
Repayments of liabilities arising from finance lease	(2,864)	(2,256)
Transfer from non-current liabilities arising from finance lease	2,796	1,720
Exchange rate differences	(8)	0
Translation differences	2	0
Balance as at 31 Dec.	2,256	1,201

The lowest sum of future leases, due for payment in the next financial year, amounts to €2,425 thousand on 31 December 2016, and the net present value of leases amount to € 2,256 thousand on the same date.

29. Current Operating Liabilities

in € thousand	31 Dec. 2016	31 Dec. 2015
Liabilities to suppliers	232,179	166,434
Liabilities to employees	9,101	3,877
Received advance payments	2,029	1,309
Tax liabilities	6,414	4,702
Other liabilities	9,513	1,401
Current operating liabilities	259,237	177,722

30. Other Current Liabilities

in € thousand	31 Dec. 2016	31 Dec. 2015
Accrued expenses for unused annual leave	1,327	564
Accrued expenses for subcontractors	633	0
Accrued customer fees	471	277
Accrued expenses for law suits	141	133
Other liabilities	1,707	444
Deferred revenue	171	156
Other current liabilities	4,450	1,575

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31. Segment Reporting

Segment Reporting for 2016

in € thousand	Steel Division	Distribution & Processing Division	Scrap Division	Manu-facturing Division	Head-quarters and Other Services	Poultry Division	Transactions between segments	Total	Consolidated financial statements
Revenues	494,668	142,347	71,127	69,585	18,350	290,553	-	1,086,630	-
Eliminations	(2,836)	(5,744)	(5,301)	(5,136)	(155)	(79,789)	(145,025)	(243,985)	-
Revenues	491,832	136,603	65,826	64,449	18,196	210,764	(145,025)	842,645	842,645
Operating Expenses	483,695	140,823	69,989	68,825	19,468	283,814	-	1,066,613	-
Eliminations	(2,836)	(5,744)	(5,301)	(5,136)	(155)	(79,789)	(145,025)	(243,985)	-
Expenses	480,859	135,079	64,688	63,689	19,313	204,026	(145,025)	822,628	822,628
Other operating income (expenses)	7,903	223	(494)	1,099	25,723	5,629	8,535	48,619	48,619
Profit (loss) from operation	18,876	1,748	644	1,859	24,606	12,368	8,535	68,636	68,636
Net finance income (costs)	(10,968)	(1,620)	(855)	(683)	(4,286)	2,342	(4,561)	(20,630)	(20,630)
Share of profit in associates	49	0	0	0	0	0	0	49	49
Taxes	5,319	105	(46)	357	(156)	(2,297)	(11)	3,271	3,271
Net profit (loss) for the year	13,276	233	(257)	1,534	20,163	12,412	3,963	51,325	51,325
Assets	651,973	120,067	29,850	58,424	411,924	281,355	(405,436)	1,148,157	1,148,157
Liabilities	384,583	100,463	22,294	38,864	196,306	140,397	(158,223)	724,685	724,685

Segment Reporting for 2015

in € thousand	Steel Division	Distribution & Processing Division	Scrap Division	Manufactur-ing Division	Headquarters and Other Services	Transactions between segments	Total	Consolidated financial statements
Revenues	542,212	133,929	76,030	47,242	15,625	-	815,038	-
Eliminations	(571)	(1,655)	(9,128)	(397)	(116)	(138,354)	(150,221)	-
Revenues	541,641	132,274	66,902	46,845	15,508	(138,354)	664,817	664,817
Operating Expenses	524,547	135,715	75,358	46,024	15,912	-	797,556	-
Eliminations	(571)	(1,655)	(9,128)	(397)	(116)	(138,354)	(150,221)	-
Expenses	523,976	134,060	66,230	45,627	15,796	(138,354)	647,335	647,335
Other operating income (expenses)	6,944	(14)	34	829	21,766	(23,700)	5,859	5,859
Profit (loss) from operation	24,609	(1,799)	707	2,046	21,478	(23,700)	23,341	23,341
Net finance income (costs)	(11,280)	(1,542)	(965)	28	(641)	8	(14,392)	(14,393)
Share of profit in associates	25	0	0	0	0	0	25	25
Taxes	1,905	735	22	(120)	(722)	0	1,820	1,820
Net profit (loss) for the year	15,259	(2,607)	(236)	1,954	20,114	(23,692)	10,793	10,793
Assets	659,235	98,287	29,025	40,432	356,691	(319,975)	863,695	863,695
Liabilities	391,122	80,268	21,175	22,588	155,419	(155,594)	514,977	514,979

32. Contingent Assets and Liabilities

Contingent assets amounted to €37,725 thousand (2015: €1,736 thousand) on 31 December 2016 and refer to financial receivables and investments that were already impaired by the Group, and to the received guarantees for the elimination of errors in the warranty period. The Group expects no inflows from the received guarantees.

Contingent liabilities amounted to €9,195 thousand (2015: €48,119 thousand) on 31 December 2016 and refer to the guarantees for the good work performance and issued guarantees. The Group expects no outflows from the issued securities and guarantees.

33. Business Combinations

SIJ RAVNE SYSTEMS d. o. o.

On 1 January the Group acquired a 100 percent share and control in the company SIJ RAVNE SYSTEMS d. o. o. (called SISTEMSKA TEHNIKA d. o. o. on the day of acquisition). Acquisition of this company is a strategic and long-term investment, allowing the Group to continue the implementation of vertical integration towards the end-costumers, and expand its product range by higher processed products with, consequently, a higher added value.

Carrying amounts of assets and liabilities of the acquired company do not deviate significantly from the fair values, and were included as such in the first consolidation.

The statement of the financial position of SIJ RAVNE SYSTEMS d.o.o. on the date when the Group acquired control is given below:

in € thousand	Fair value as at 1 Jan. 2016	Carrying amount as at 1 Jan. 2016
ASSETS		
Cash and Cash Equivalents	132	132
Property, plant and equipment, intangible assets	13,252	13,252
Inventories	3,453	3,453
Operating receivables	3,412	3,412
Other assets	1,001	1,001
EQUITY AND LIABILITIES		
Operating liabilities	4,677	4,677
Financial liabilities	13,369	13,369
Other liabilities	1,847	1,847
ACQUIRED NET ASSETS	1,355	1,355
Acquisition price	0	
Carrying amount of acquired net assets	1,355	
NEGATIVE GOODWILL	(1,355)	

In the year following the acquisition of the company the Group generated €21,569 thousand of revenue and €580 thousand of profit for the year in this title.

PERUTNINA PTUJ d. d. and Holding PMP d. d.

On 29 February the Group acquired control of the company PERUTNINA PTUJ d. d.. It acquired 77.42 percent by capital increase (new issue of shares), purchase of shares based on takeover bid and, indirectly, by purchase of a 100 percent share in Holding PMP d. d., which owned shares of PERUTNINA PTUJ d. d. The acquisition was made to diversify the investments of the Group and was mainly financed with bank loans.

In 2016, the Group estimated the fair values of assets, liabilities and potential liabilities of both groups and considered it at the initial accounting for the business combination.

By the end of the financial year the Group additionally acquired a 0,13 percent share in PERUTNINA PTUJ d. d., and recognised the difference between consideration paid and acquired net assets in equity as a decrease of non-controlling interest.

The statement of the financial position of PERTUNINA PTUJ d. d. and Holding PMP d. d. on the date, when the Group acquired control, is given below:

in € thousand	Fair value as at 1 Mar. 2016	Carrying value on 1 Mar. 2016	Difference
ASSETS			
Cash and Cash Equivalents	17,948	17,948	0
Property, plant and equipment, intangible assets	177,505	140,188	37,318
Inventories	33,966	33,966	0
Operating receivables	36,530	36,530	0
Financial receivables	556	556	0
Other assets	2,098	2,098	0
EQUITY AND LIABILITIES			
Operating liabilities	45,672	45,672	0
Financial liabilities	79,700	79,700	0
Other liabilities	16,557	9,914	6,643
NET ASSETS	126,676	96,001	30,675
Non-controlling interest	27,797		
ACQUIRED NET ASSETS	98,879		
Acquisition price	70,467		
Carrying amount of acquired net assets	98,879		
NEGATIVE GOODWILL	(28,412)		

In the 10 months following the acquisition of the company the Group generated €211,350 thousand of revenue and €11,059 thousand of profit for the year in this title. If the acquisition were made on 1 January 2016, the revenue of the Group would have increased by €35,859 thousand, and the profit for the year would have decreased by €73 thousand.

ORO MET d. o. o

On 1 July the Group acquired control of ORO MET d.o.o. by acquisition of a 51 percent share. Acquisition of this company is a strategic and long-term investment, allowing the Group to continue the implementation of vertical integration towards the end-costumers, and expand its product range by higher processed products with, consequently, a higher added value.

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

The statement of the financial position of ORO MET d.o.o. on the date when the Group acquired control is given below:

in € thousand	Temporary fair value as at 1 Jul. 2016	Carrying amount as at 1 Jul. 2016
ASSETS		
Cash and Cash Equivalents	95	95
Property, plant and equipment, intangible assets	4,312	4,312
Inventories	398	398
Operating receivables	3,846	3,846
Financial receivables	238	238
Other assets	333	333
EQUITY AND LIABILITIES		
Operating liabilities	2,854	2,854
Financial liabilities	2,590	2,590
Other liabilities	389	389
NET ASSETS	3,389	3,389
Non-controlling interest	1,661	
ACQUIRED NET ASSETS	1,728	
Acquisition price	7,266	
Carrying amount of acquired net assets	1,728	
GOODWILL	5,538	

In the 6 months following the acquisition of the company the Group generated €7,461 thousand of revenue and €508 thousand of profit for the year in this title. If the acquisition were made on 1 January 2016 the revenue of the Group would have increased by €6,557 thousand, and the profit for the year would have increased by €506 thousand.

SIJ MWT GmbH

On 1 July the Group acquired control of SIJ MWT GmbH (called MWT GmbH at the moment of acquisition) by the acquisition of a 70 percent share. In 2016 the Group considered the temporary fair values of acquired assets as fair for the initial accounting for the business combination of purchasing the company.

The statement of the financial position of SIJ MWT GmbH on the date, when the Group acquired the controlling interest, is given below:

in € thousand	Temporary fair value as at 1 Jul. 2016	Carrying amount as at 1 Jul. 2016
ASSETS		
Cash and Cash Equivalents	154	154
Property, plant and equipment, intangible assets	670	670
Inventories	1,339	1,339
Operating receivables	1,594	1,594
Financial receivables	59	59
Other assets	72	72
EQUITY AND LIABILITIES		
Operating liabilities	2,206	2,206
Financial liabilities	1,036	1,036
Other liabilities	137	137
NET ASSETS	508	508
Non-controlling interest	152	
ACQUIRED NET ASSETS	355	
Acquisition price	500	
Carrying amount of acquired net assets	355	
GOODWILL	145	

In the 6 months following the acquisition of a company the Group generated €5,296 thousand of revenue and €85 thousand of profit for the year in this title. If the acquisition were made on 1 January 2016 the revenue of the Group would have increased by €4,673 thousand, and the profit for the year would have increased by €148 thousand.

RELATED PARTIES

Related parties are the controlling company (including it's conrolling 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	2016	2015
Revenues/expenses	257,007	150,220

in € thousand	31 Dec. 2016	31 Dec. 2015
Operating receivables/liabilities	101,918	61,831
Financial receivables/liabilities	105,577	101,741
Investments in subsidiaries	318,422	173,096

Transactions with the Controlling Company

in € thousand	2016	2015
Revenues	528	20

in € thousand	31 Dec. 2016	31 Dec. 2015
Receivables	19,042	3,022

Transactions with those Charged with Governance

This is the total amount of receipts on the basis of the business management contract, received in the financial year for the performance of functions or tasks in the company by the members of the Management Board, other workers employed on contracts for which the tariff part of collective agreement does not apply, and the members of the Supervisory Board.

	2016
Management and employees with service contracts	23,146
Members of the Supervisory Board	198

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

The Group did not grant any loans, issue any guarantees nor make any advance payments to the management of the Group or the members of the Supervisory Board in 2016.

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

FINANCIAL INSTRUMENTS AND RISKS

Credit Risk

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

Age Structure of Financial Assets

in € thousand		Overdue				
31 Dec. 2016	Not-overdue	Up to 3 months	3 months to 1 year	1 year to 3 years	Over 3 years	Total
Trade receivables	80,380	13,283	3,372	3,365	3,889	104,288
Financial receivables and deposits	32,975	135	0	0	0	33,110
Total	113,354	13,419	3,372	3,365	3,889	137,398

in € thousand		Overdue				
31 Dec. 2015	Not-overdue	Up to 3 months	3 months to 1 year	1 year to 3 years	Over 3 years	Total
Trade receivables	88,125	10,067	3,822	2,813	1,937	106,763
Financial receivables and deposits	3,503	0	0	0	0	3,503
Total	91,628	10,067	3,822	2,813	1,937	110,266

Movement of Allowances for Financial Assets

in € thousand	Allowance as at 31 Dec. 2015	Acquisition of company	Changes with influence on profit or loss	Changes without influence on profit or loss	Disposal of company	Allowance as at 31 Dec. 2016
Trade receivables	4,854	2,763	956	(492)	(6)	8,074
Financial receivables and deposits	1	0	0	0	0	1
Total	4,855	2,763	956	(492)	(6)	8,075

in € thousand	Allowance as at 31 Dec. 2014	Changes with influence on profit or loss	Changes without influence on profit or loss	Allowance as at 31 Dec. 2015
Trade receivables	4,134	698	20	4,854
Financial receivables and deposits	1	0	0	1
Total	4,135	698	20	4,855

Liquidity Risk

The Group is managing liquidity risk with the appropriate planning of cash flow and current credit lines from banks agreed in advance, which ensures that the Group is capable of settling any overdue liabilities at any time.

in € thousand 31 Dec. 2016	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities to suppliers	221,926	10,253	0	0	232,179
Financial liabilities with future interest	24,772	116,520	343,212	5,953	490,457
Other liabilities	16,068	0	612	0	16,680
Total	262,766	126,773	343,824	5,953	739,316

in € thousand 31 Dec. 2015	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities to suppliers	160,064	6,142	228	0	166,434
Financial liabilities with future interest	39,063	69,411	241,675	9,751	359,901
Other liabilities	1,545	84	590	0	2,219
Total	200,673	75,636	242,494	9,751	528,554

Exposure to banks is assessed as moderate. The Group fully complies with the conditions stated in the loan contracts in the section defining the disclosure of data, payment of interest and repaying the principal value.

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Foreign Exchange Risk

The consolidated financial statements are based on the following exchange rates.

	Exchange rate as at 31 Dec. 2016
EUR/USD	1.05
EUR/GBP	0.86
EUR/CHF	1.07
EUR/HRK	7.56
EUR/RSD	123.60

Net exposure (assets – liabilities) in foreign currencies, expressed in euros is presented in the below table.

in € thousand	Exposure
USD	(25,222)
GBP	3
CHF	72
HRK	(0)
EUR	(2,695)

Interest Rate Risk

A change in interest rate by 100 or 50 basis points on the reporting date would result in an increase (decrease) of profit or loss by the amounts stated below. The analysis assumes that all other variables, in particular the exchange rates, remain unchanged. The analysis for 2015 was prepared in the same manner.

in € thousand	2016	2015
Change in profit/loss if increased by 100 bp	(2,282)	(1,478)
Change in profit/loss if increased by 50 bp	(1,141)	(739)
Change in profit/loss if decreased by 50 bp	1,141	739
Change in profit/loss if decreased by 100 bp	2,282	1,478

Equity Management

The Group monitors the status of the overdue receivables on a daily basis and prepares 3-month plans twice a month with the aim of achieving optimal debt. Larger investments are financed by non-current assets.

in € thousand	2016	Debt increase by 10 %	Debt decrease by 10 %
Level of debt on equity	102.88	113.16	92.59
Equity	417,280	417,280	417,280
Financial liabilities	429,279	472,206	386,351

Carrying Amounts and Fair Values of Financial Instruments

in € thousand	31 Dec. 2016		31 Dec. 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Available-for-sale financial assets	1,225	1,225	45,219	45,219
Financial receivables	19,936	19,936	3,291	3,291
Operating receivables	114,338	114,338	116,353	116,353
Cash and Cash Equivalents	59,443	59,443	44,587	44,587
Financial liabilities	(429,606)	(435,519)	(319,429)	(319,429)
Operating liabilities	(259,849)	(259,849)	(178,541)	(178,541)
Total	(494,514)	(500,427)	(288,519)	(288,519)

Based on the test of the fair value of financial instruments the Group assesses that there are no significant deviations from their carrying amount.

Fair Value Measurements

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

in € thousand	31 Dec. 2016	31 Dec. 2015
Financial assets at fair value of first level	606	614
Financial assets at fair value of third level	194,336	208,837
Financial liabilities at fair value of first level	(124,115)	(111,777)
Financial liabilities at fair value of third level	(565,341)	(386,193)

EVENTS AFTER THE REPORTING DATE

On 18 January 2017, the Supervisory Board of SIJ d.d. appointed two new members of the Management Board of SIJ d.d.

Andrey Zubitskiy, until then the President of the Supervisory Board of SIJ d.d., was appointed interim President of the Management Board for a term not exceeding six months. Dr Denis Mancevič, until then member of the Supervisory Board and Director of Corporate Communications of SIJ d.d., was appointed member of the Management Board and CEO for a period of five years. The term of office of Igor Malevanov, already then member of the Management Board and CFO of SIJ d.d., continues. The new three-member Management Board was appointed following the resignation of the President of Management Board Anton Chernykh, who resigned due to personal reasons.

Evgeny Zverev is the new President of the Supervisory Board of SIJ d.d.

In March 2017, SIJ Acroni and SIJ Metal Ravne signed a long-term contract on a five-year syndicated loan to refinance the existing loan portfolio and ensure long-term funds for working capital totalling € 240 million with a syndicate of seven banks. This loan ensures both companies long-term funding, which will allow them further financial strength, growth and development. The consortium of banks is comprised of reputable domestic and foreign banks, including the European Bank for Reconstruction and Development.

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Financial Report SIJ d.d.

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INDEPENDENT AUDITOR'S REPORT
to the owners of SIJ - Slovenska industrija jekla, d.d.

Report on the Audit of Financial Statements

Opinion

We have audited the accompanying financial statements of the company SIJ - Slovenska industrija jekla, d.d. (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and cash flow statement for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of investments in subsidiaries in separate financial statements	
Investments in subsidiaries amount to EUR 240 mln as of 31 December 2016 in the Company's separate financial statements. There is no impairment recognized. As required by the applicable accounting standards – IAS 36 *Impairment of assets*, Management conducts annual impairment tests to assess the recoverability of the carrying value of investments. The recoverable amount of investments is determined in accordance with IAS 36 as value in use and is assessed as present value of expected future cash flows to be generated by the subsidiary. Significant management judgment is involved in determination of critical assumptions and design of expected cash flows, accordingly, the impairment test of these assets is considered to be a key audit matter.	Our audit procedures comprised >> Evaluation whether the model used by management to calculate the value in use l of individual investments comply with the requirements of IAS 36 and IFRS 13 *Fair value* and whether assumptions used are reasonable and supportable given the current macroeconomic climate and expected future performance; >> Assessment whether recoverable amount is appropriately determined as value in use in accordance with IAS 36 requirements, including the assessment of historic accuracy of management estimates, assessment of appropriateness of methodologies and assumptions used for discount rate determination and calculation, review of relative data produced by the Company used in the calculations, analysis of the sensitivity of impairment test outcomes to the changes of the key parameters; >> Assessment whether information disclosed in the notes to the financial statements is complete and accurate and meets the requirements of applicable financial reporting standards.

Other information

The other information comprises the Business Report, which is an integral part of the Annual Report of the Company, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

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

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

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

Supervisory Board and Audit Committee are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

With Supervisory Board and Audit Committee we communicate the planned scope and timing of the audit and significant findings from the audit, including significant deficiencies in internal control we have identified during our audit.

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

Among the matters we communicate with Supervisory Board and Audit Committee, we select those matters that were of most significance in our audit of the financial statements of the current period, and, therefore, represent key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter, or, in extremely rare circumstances, we determine that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal or regulatory matters

Pursuant to Article 294 of the Companies Act (ZGD-1), the Company is required to disclose the remuneration of each member of management and supervisory bodies in the notes to the financial statements, as well as the management and supervisory board remuneration policy when approved by shareholders at a general meeting. We draw your attention to insufficient disclosure of remuneration of the members of management and supervisory bodies. In Note *Related Parties*, the Company discloses only the aggregate amount of the remuneration paid to the management bodies as per Article 69 of ZGD-1.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc
Certified auditor

Ljubljana, 21 March 2017

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

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Statement of Management's Responsibility

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

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

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

- Properly selected and consistently applied accounting policies;
- Reasonable and rational assessments and estimates;
- The financial statements have been compiled in accordance with the IFRS adopted by the European Union.

The Management Board is responsible for keeping corresponding records, which give a clear and accurate picture of the Company's financial position at any given time, and for making sure that the financial statements of the Company are in accordance with the IFRS, adopted by the European Union. The Management Board is also responsible for protecting the Company'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 Company. This can result in the occurrence of additional tax liabilities, default interests, and fines based on corporate income tax or other taxes and duties. No circumstance which could result in possible liability in this title is known to the Management Board.

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

The Management Board approved the financial statements, accounting policies, and notes on 3 March 2017.

Andrey Zubitskiy
President of the Management Board

dr. Denis Mancevič
Member of the Management Board and CEO

Igor Malevanov
Member of the Management Board and CFO

Financial Statements

STATEMENT OF COMPREHENSIVE INCOME

in € thousand	Note	2016	2015
Revenue	1	15,205	12,892
Gross profit		**15,205**	**12,892**
General and administrative expenses	2	(15,655)	(12,558)
Other operating income	3	25,370	22,698
Other operating expenses	4	(336)	(1,763)
Profit from operation		**24,584**	**21,269**
Finance income	5	4,847	3,779
Finance expenses	6	(9,301)	(4,581)
Net finance costs		**(4,454)**	**(802)**
Profit before tax		**20,130**	**20,467**
Income tax expense	7	(309)	(715)
Deferred income tax	7	125	0
Profit for the year		**19,946**	**19,752**
Items that will not be reclassified subsequently to profit or loss			
Income tax related to components of comprehensive income		1	1
Net actuarial losses on pension programs		0	(12)
Items that may be reclassified subsequently to profit or loss			
Change in fair value reserves for available-for-sale financial assets		(8)	(3)
Comprehensive income		**19,939**	**19,738**
Profit for the year		**19,946**	**19,752**
Basic and diluted earnings per share (in €)	8	20.63	20.34

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	31 Dec. 2016	31 Dec. 2015
ASSETS			
Non-current assets		283,627	282,284
Intangible Assets	9	740	812
Property, plant and equipment	10	6,041	5,627
Investment property		2	0
Investments in subsidiaries	11	240,272	163,672
Available-for-sale financial assets	12	975	45,198
Financial receivables	13	33,787	65,302
Operating receivables		29	29
Other assets	14	626	616
Deferred tax assets	15	1,155	1,028
Current assets		121,930	68,529
Assets held for disposal (disposal groups)		35	35
Financial receivables	16	72,963	25,761
Operating receivables	17	39,362	32,451
Income tax assets		357	0
Cash and cash equivalents	18	8,286	9,217
Other assets	19	927	1,065
Total assets		405,557	350,813
EQUITY AND LIABILITIES			
Equity	20	205,532	191,403
Share capital		145,266	145,266
Capital surplus		11,461	11,461
Revenue reserves		811	129
Fair value reserves		150	157
Retained earnings		47,844	34,390
Non-current liabilities		157,824	123,092
Employee benefits	21	391	391
Financial liabilities	22	157,433	122,700
Operating liabilities		0	1
Current liabilities		42,201	36,318
Financial liabilities	23	38,017	32,907
Operating liabilities	24	4,002	2,689
Income tax liabilities		0	586
Other liabilities		182	136
Total equity and liabilities		405,557	350,813

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

STATEMENT OF CHANGES IN EQUITY

Statement of Changes in Equity in 2016

in € thousand	Share capital	Capital surplus	Revenue reserves	Fair value reserves	Retained earnings	Total
Balance as at 31 Dec. 2015	145,266	11,461	129	157	34,390	191,403
Dividends paid	0	0	0	0	(5,810)	(5,810)
Creation of legal reserves	0	0	682	0	(682)	0
Total transactions with owners	0	0	682	0	(6,492)	(5,810)
Profit for the period	0	0	0	0	19,946	19,946
Other changes in comprehensive income	0	0	0	(7)	0	(7)
Total changes in comprehensive income	0	0	0	(7)	19,946	19,939
Balance as at 31 Dec. 2016	145,266	11,461	811	150	47,844	205,532

Statement of Changes in Equity in 2015

in € thousand	Share capital	Capital surplus	Revenue reserves	Fair value reserves	Retained earnings	Total
Balance as at 31 Dec. 2014	145,266	11,461	(859)	171	25,188	181,227
Purchase of treasury shares	0	0	(3,752)	0	0	(3,752)
Dividends paid	0	0	0	0	(5,810)	(5,810)
Creation of legal reserves	0	0	988	0	(988)	0
Total transactions with owners	0	0	(2,764)	0	(6,798)	(9,562)
Profit for the year	0	0	0	0	19,752	19,752
Other changes in comprehensive income	0	0	0	(14)	0	(14)
Total changes in comprehensive income	0	0	0	(14)	19,752	19,738
Creation of reserves for treasury shares	0	0	3,752	0	(3,752)	0
Total changes in equity	0	0	3,752	0	(3,752)	0
Balance as at 31 Dec. 2015	145,266	11,461	129	157	34,390	191,403

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

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CASH FLOW STATEMENT

in € thousand	Note	2016	2015
Cash flow from operating activities			
Profit before tax		20,130	20,467
Adjusted for:			
Depreciation and amortisation	9, 10	433	374
Interest income	5	(3,369)	(2,426)
Interest expenses	6	7,804	3,915
Impairment of assets		0	1,460
Reversal of allowances		0	(96)
Dividends	3	(18,579)	(22,582)
Other adjustments		(7,587)	(1,049)
Operating cash flow before changes in working capital		(1,168)	63
Changes in working capital			
Change in operating receivables		(5,773)	(5,676)
Change in operating payables		742	(1,419)
Change in taxes other than income tax		605	(227)
Income tax paid		(1,252)	(255)
Changes in working capital		(5,678)	(7,577)
Net cash used in operating activities		(6,846)	(7,514)
Cash flow from investing activities			
Payments for investments in subsidiaries		(32,756)	(75)
Payments for available-for-sale financial assets		(105)	(44,320)
Payments for property, plant and equipment		(213)	(143)
Receipts from property, plant and equipment		51	9
Payments for intangible assets		(71)	(282)
Payments for other assets		0	(3,748)
Payments for loans issued		(133,166)	(181,967)
Receipts from loans issued		126,149	120,622
Interests received		2,617	2,307
Dividends received		17,579	14,086
Net cash used in investing activities		(19,915)	(93,511)
Cash flow from financing activities			
Receipts from borrowings		309,050	135,980
Payments for borrowings		(270,382)	(36,495)
Receipts for finance lease	16	162	480
Payments for finance lease	23	(201)	(547)
Receipts from financial services		745	1,834
Interests paid		(7,734)	(2,717)
Dividends paid		(5,811)	(5,810)
Net cash generated from financing activities		25,829	92,725
Cash and cash equivalents as at 1 Jan.		9,217	17,517
Decrease		(931)	(8,300)
Cash and cash equivalents as at 31 Dec.		8,286	9,217

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

Notes to the Financial Statements

REPORTING ENTITY

SIJ – Slovenska industrija jekla, d.d. (hereinafter: SIJ d.d. or the Company) is a company with its registered office in Slovenia. Its registered address is at Gerbičeva ulica 98, 1000 Ljubljana. Given below are the financial statements for the period ending on 31 December 2016.

The consolidated financial statements for a selected group of subsidiaries are compiled by the SIJ d.d. The consolidated annual report for the SIJ Group is available at the headquarters of the Company, Gerbičeva ulica 98, 1000 Ljubljana. Consolidated financial statements for a wider group of subsidiaries are compiled by DILON Cooperatief U. A. The consolidated annual report for the Group DILON Cooperatief is available at the registered office of DILON Cooperatief U. A., Luna Arena, Herikerbergweg 238, 1101 CM Amsterdam Zuidoost, Amsterdam, the Netherlands.

BASIS OF PREPARATION

The financial statements for 2016 have been prepared in accordance with the IFRS as adopted by the 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 in the report are expressed in thousands of euros. Due to the rounding off of value amounts, there might be insignificant deviations to the sums given in tables.

In the selection of accounting principles and their application, as well as in the preparation of these financial statements, the Management Board considered the following three requirements: the financial statements are comprehensible if the users can understand them without difficulty; the information is adequate if it helps users make economic decisions; and the information is fundamental, if its exclusion or false presentation could influence users' economic decisions.

The financial statements have been prepared in compliance with the IFRS, adopted by the International Accounting Standards Board (IASB), and with the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union (EU), namely:

a) First application of new amendments to the existing standards, which are effective for current annual period

The following amendments and new interpretations of the existing standards issued by the IASB and adopted by the EU currently apply:

- Amendments to IFRS 10 'Consolidated Financial Statement', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 28 'Investments in Associates and Joint Ventures' – Investment Entities: Applying the Consolidation Exception – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 11 'Joint Arrangements' – Accounting for Acquisitions of Interests in Joint Operations – adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 1 'Presentation of Financial Statements' – Disclosure Initiative – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets' – Clarification of Acceptable Methods of Depreciation and Amortisation – adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16 'Property, Plant and Equipment' and IAS 41 'Agriculture' – Agriculture: Bearer Plants – adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 19 'Employee Benefits' – Defined Benefit Plans: Employee Contributions – adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015);
- Amendments to IAS 27 'Separate Financial Statements' – Equity Method in Separate Financial Statements – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- Amendments to various standards 'Improvements to IFRSs (cycle 2010–2012)' resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015);
- Amendments to various standards 'Improvements to IFRSs (cycle 2012–2014)' resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

Adoption of these amendments to the existing standards had no significant effect on the Company's financial statements.

b) Standards and amendments to the existing standards issued by IASB and adopted by the European Union, but not yet effective

On the date of the adoption of these financial statements the following new standards and amendments to the existing standards, issued by IASB and adopted by the EU, were issued, but not yet effective:

- IFRS 9 'Financial Instruments', adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);
- IFRS 15 'Revenue from Contracts with Customers' and amendments to IFRS 15 'Effective Date of IFRS 15' adopted by the EU on 22 December 2016 (effective for annual periods beginning on or after 1 January 2018).

The Company decided not to apply these standards, amendments and interpretations before their entry into force. The Company assesses that the adoption of these new standards and amendments will not have any significant effect on the financial statement at their first application.

c) New standards and amendments issued by IASB, but not yet adopted by the EU

Currently there is no significant difference between the IFRS adopted by the EU, and the regulations adopted by IASB, with the exception of the following new standards, amendments to the existing standards, and new interpretations, which had not yet been approved for use in the EU on 3 March 2017:

- IFRS 14 'Regulatory Deferral Accounts' (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- IFRS 16 'Leases' (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 2 'Share-based Payment' – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4 'Insurance Contracts' – Adoption of IFRS 9 'Financial Instruments' together with IFRS 4 'Insurance Contracts' (effective for annual periods beginning on or after 1 January 2018, or at first adoption of IFRS 9 'Financial Instruments');
- Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IFRS 15 'Revenue from Contracts with Customers' – IFRS 15 interpretations 'Revenue from Contracts with Customers' (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IAS 7 'Statement of Cash Flows' – Disclosure Initiative (affective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 12 'Income Taxes' – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 40 'Investment Property' – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- Amendments to various standards 'Improvements to IFRSs (cycle 2014–2016)' resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are effective for annual periods beginning on or after 1 January 2017, while amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018);
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after 1 January 2018).

The Company assesses that the adoption of these new standards and amendments will not have any significant effect on the financial statement at their first application. At the same time, the accounting of hedging instrument in connection with the portfolio of financial assets and liabilities, the principles of which the EU has not yet adopted, is still unregulated. The Company assesses that the accounting of hedging instrument in connection with financial assets and liabilities in accordance with the requirements of IAS 39: 'Financial Instruments: Recognition and Measurement' would not have a significant influence on the financial statements, if it was used on the date of the Statement of financial position.

BASIS OF MEASUREMENT

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

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

FUNCTIONAL AND PRESENTATION CURRENCY

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

APPLICATION OF ESTIMATES AND JUDGMENTS

The preparation of financial statements requires the Board of Directors to make estimates, judgments and assumptions that influence the disclosed amounts of assets and liabilities, the disclosed contingent assets and liabilities on the day of the preparation of the 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 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.

SIGNIFICANT ACCOUNTING POLICIES

Foreign Currency Conversion

Transactions in foreign currencies are translated into the adequate functional currency at the exchange rate on the date of the transaction. Cash assets and liabilities denominated in foreign currency at the end of the period are translated into the functional currency at the then-valid exchange rate. Positive or negative exchange rate differences are the differences between the amortised cost in functional currency at the beginning of the period, adjusted by the amount of the effective interest rate and the payments during the period, and the amortised cost in foreign currency, calculated at the exchange rate at the end of the period. Non-cash assets and liabilities, denominated in foreign currency and measured at fair value, are translated to the functional currency at the exchange rate on the date when the fair value is set. Non-cash assets and liabilities, denominated in foreign currency and measured at cost, are translated to the functional currency at the exchange rate on the date of the transaction. Exchange rate differences are recognised in profit or loss.

Revenues

Sales revenues are recognised at fair value of received repayments or receivables, decreased by repayments, discounts. Revenues are recognised when the buyer assumes all significant risks and benefits connected to the asset's ownership, and it is certain that compensation and related costs will be repaid or there is a possibility of returning products.

Financial income comprises interest income and positive exchange rate differences resulting from financing and investing. Interest income is recognised upon its occurrence, using the effective interest rate method.

Expenses

Expenses are recognised if a decrease in economic benefits during the reporting period is associated with a decrease in assets or an increase in debts, and if this decrease can be reliably measured.

Financial expenses include borrowing costs (if not capitalised) and exchange rate losses resulting from financing and investing. Borrowing costs are recognised in the income statement using the effective interest rate method.

Taxation

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

Current income tax liabilities are based on the taxable profit for the financial year. Taxable profit differs from net profit, reported in the income statement, because it excludes items of income or expenses that are taxable or deductible in other years, as well as items that are never taxable or deductible. The Company's current income tax liability is calculated using the tax rates applicable on the reporting date.

Deferred tax is shown in total by applying the method of obligations after the statement of financial position for temporary differences, arising from the tax values of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is calculated by using the tax rates (and laws) applicable on the date of the statement of financial position, which are expected to be used when the deferred tax asset is realised or the deferred tax liability is recovered.

A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available, against which the deferred tax asset can be utilized.

Net Earnings per Share

The Company recognises basic and diluted earnings per share for ordinary shares. Basic earnings per share are calculated by dividing profit or loss allocated to ordinary shareholders by the weighted average number of ordinary shares in the financial year, net of the average number of treasury shares. Diluted earnings per share are calculated by adjusting profit or loss allocated to ordinary shareholders and the weighted average number of ordinary shares in the financial year, net of the average number of treasury shares, for the effect of all potential ordinary shares representing convertible bonds and share options for employees.

Intangible Assets

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

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

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

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

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

Further costs related to intangible assets are recognised in the carrying amount of each asset, if it is probable that the future economic benefits embodied within the asset will flow to the Company and the cost of the asset can be measured reliably. All other costs are recognised in the income statement as expenses as soon as they are incurred.

Property, Plant and Equipment

At the initial recognition tangible assets (property, plant and equipment) are carried at cost, less any accumulated depreciation and accumulated impairment losses, except for land and other assets that are not depreciated; these are shown at their cost, reduced by all relative impairments. The purchase value includes costs that can be directly attributed to the acquisition of each individual item of property, plant or equipment. Parts of property, plant and equipment with different useful lives are accounted as separate items of property, plant and equipment. Borrowing costs directly attributable to the purchase, production or construction of a qualifying asset are recognised as part of the cost of each such asset. The cost model is used for any subsequent measuring of property, plant and equipment.

Depreciation is calculated on a straight-line basis over the estimated useful life of each individual part (component) of the tangible asset and the residual value. Leased assets are depreciated over the estimated period of lease and useful life. Land and unfinished construction is not depreciated. Depreciation is accounted when an asset becomes available for use.

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

	Useful life
Real estate	20–55 years
Computer equipment	2–5 years
Motor vehicles	3–8 years
Other equipment	1–10 years

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

The replacement costs of items of property, plant and equipment and further costs related to intangible assets are recognised in the carrying amount of each asset, if it is probable that the future economic benefits embodied within this asset will flow to the Company, and the cost of the asset can be measured reliably. All other costs (for example, maintenance

costs), are recognised in the income statement as expenses as soon as they are incurred.

Investment Property

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

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

Investments in Subsidiaries

Investments in subsidiaries are recognised at cost. The Company recognises revenues from financial investments in the amount arising from the distribution of the accumulated profit after the date of the acquired financial investment.

Investments in Associates

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

Financial Instruments

Financial instruments include the following items:

- non-derivative financial assets;
- non-derivative financial liabilities.

Financial instruments are carried at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For determining the fair value of financial instruments the following hierarchy of determining fair value is considered:

- Level 1 includes financial instruments whose fair value is fully determined on the basis of prices quoted in an active market (quoted prices);
- Level 2 includes financial instruments whose fair value is determined on the basis of valuation models, which take into account variables that are derived on the basis of publicly available market data (such as market interest rates).
- Level 3 includes financial instruments whose fair value is determined on the basis of valuation models which take into account subjective variables, which are not publicly available on the market.

Quoted prices are used as a basis for determining the fair value of financial instruments. If a financial instrument is not quoted on the organised market or the market is deemed non-active, input data at the second or third level are used to assess the fair value of the financial instrument.

Non-Derivative Financial Assets

Non-derivative financial assets include cash and cash equivalents, receivables and loans, and investments. Liabilities, borrowings, and deposits are initially recognised when they are incurred. Other assets are initially recognised on the trade date on which the Company becomes a contracting party in a contract on the instrument. The recognition of a financial asset is eliminated when the contractual rights of the cash flows from the asset expire, or when the rights of the contractual cash flows are transferred from a financial asset on the basis of a business transaction in which all risks and benefits of ownership of the financial asset are transferred.

Financial Assets at Fair Value through Profit or Loss

A financial asset is classified at fair value through profit or loss, if it is meant for trading or is determined as such after the initial recognition. Financial assets are determined at fair value through profit or loss under the condition that such assets are manageable, and that the sale or purchase of these assets can be decided on the basis of fair value. After the initial recognition the pertained costs of the business transaction are recognised in profit or loss upon their occurrence. Financial assets at fair value through profit or loss are measured at fair value, whereas the amount of change in the fair value is recognised in the income statement.

Available-for-Sale Financial Assets

Available-for-sale financial assets are those non-derivative financial assets designated as available for sale, or those not included in the category of receivables and loans or financial assets at fair value through profit or loss. Available-for-sale financial assets are measured at fair value, whereas the amount of change is recognised in the statement of comprehensive income.

Receivables and Loans

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

Cash and Cash Equivalents

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

Non-Derivative Financial Liabilities

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

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

Assets Held for Disposal (Disposal Groups)

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

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

Impairment of Assets

Financial Assets

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

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

Impairment of Investments in Subsidiaries

If a loss made by a subsidiary requires the investment to be impaired, the impairment loss is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows.

Impairment of Receivables and Loans

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

The Company assesses the evidence of impairment for each important loan individually.

An impairment loss related to a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the estimated future cash flows, discounted at an original effective interest rate. The loss is recognised in the profit or loss.

Impairment of Available-for-Sale Financial Assets

Impairment losses of available-for-sale financial assets are recognised so that the potential accumulated loss, previously recognised in the comprehensive income of the period and included in the fair value reserve, is transferred into profit or loss. Any subsequent increase in the fair value of an impaired available-for-sale equity security is recognised in the comprehensive income for the period or in the fair value reserve.

Non-Financial Assets

At each reporting date, the Company review the carrying value of its important non-financial assets to determine whether there is an indication of impairments. If any such indication exists, the asset's recoverable value is estimated.

The recoverable value of assets or cash-generating units is their value in use or fair value, less cost to sell, or whichever is greater. In assessing value in use, estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of cash and the risks specific to the asset. In order to test the impairment, assets which cannot be tested individually are joined into the smallest possible group of assets, which create cash flows from further use and which are largely independent of the inflow of other assets or groups of assets (cash-generating units).

The impairment of an asset or cash-generating unit is recognised if their carrying amount exceeds their recoverable value. The impairment is given in the income statement.

The Company evaluates the impairment losses of previous periods at the end of the reporting period and thus determines whether the loss was reduced or even eliminated. An impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable value. An impairment loss is reversed only to such an extent that the asset's carrying amount does not exceed the carrying amount that would have been determined after deducting the depreciation write-off, if no impairment loss had been recognised for the asset in previous years.

Determination of Fair Value

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

Intangible Assets

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

Property, Plant and Equipment

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

Non-Derivative Financial Liabilities

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

Equity

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

Share Capital

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

Capital Surplus

Capital surplus consists of the amounts from payments exceeding the lowest issue price per share that exceeds the carrying amount upon the disposal of previously-acquired own shares; the amounts on the basis of simplified decrease of share capital; and the amounts on the basis of reversal of general revaluation adjustment.

Legal and Other Reserves

Legal and other reserves are amounts of retained earnings from previous years, which are mostly used to compensate for potential future losses. On their occurrence they are recognised by the body responsible for the preparation of the Annual Report, or by the decision of the said body.

Treasury Shares

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

Dividends

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

Provisions

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

Employee Benefits

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

The provisions are formed in the amount of estimated future payments for loyalty bonuses and severance pay, discounted at the end of the financial year. The calculation is made for each individual employee and includes the costs of severance pay upon retirement and the costs of all expected loyalty bonuses up to retirement. The calculation is prepared by an actuary, selected at SIJ Group level, on the basis of a projected unit. The provisions are reviewed periodically or when the assumptions used to determine the amount of provision change significantly.

Deferred Revenues

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

Cash Flow Statement

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

Segment Reporting

The Company's activity is "activities of head offices". The Management Board does not monitor the Company's operations by segments, as activities of head offices represents part of the Headquarter and Other Services segment of the Group. The Group's segment reporting is presented in financial report of the SIJ Group.

NOTES TO INDIVIDUAL ITEMS IN THE FINANCIAL STATEMENTS

1. Revenue

in € thousand	2016	2015
In Slovenia	15,198	12,884
In other countries	7	8
Revenue	15,205	12,892

2. Operating Expenses

in € thousand	2016	2015
Costs of goods, materials and services	3,941	3,116
Labour costs	11,083	8,835
- wages and salaries	9,306	7,682
- social security costs	1,130	840
- other labour costs	647	313
Depreciation and amortisation costs	433	374
Other costs	198	233
Operating expenses	15,655	12,558

The auditing costs for the 2016 Annual Report amounted to €14 thousand (2015: €18 thousand).

Average Number of Employees by Level of Education

	2016	2015
Primary school	1.00	1.00
Secondary vocational school	2.00	1.30
Secondary school	6.81	6.81
1st cycle degree – Bachelor's degree	6.33	6.04
2nd cycle degree – Master's degree	49.66	36.48
3rd cycle degree – Doctoral degree	12.94	10.89
Total	78.74	62.52

3. Other Operating Income

in € thousand	2016	2015
Dividends	18,579	22,582
Liabilities write-off	6,725	0
Other income	66	116
Other operating income	25,370	22,698

4. Other Operating Expenses

in € thousand	2016	2015
Expenses for donations and sponsorships	335	219
Impairment of assets	0	1,460
Other expenses	1	84
Other operating expenses	336	1,763

5. Finance Income

in € thousand	2016	2015
Interest income	3,369	2,426
Guarantee fees	1,475	1,338
Exchange rate differences	3	15
Finance income	4,847	3,779

6. Finance Expenses

in € thousand	2016	2015
Interest expenses	7,804	3,915
Exchange rate differences	3	6
Other expenses	1,494	660
Finance expenses	9,301	4,581

7. Taxes

in € thousand	2016	2015
Income tax expense	309	715
Deferred income tax	(125)	0
Taxes	184	715

in € thousand	2016	2015
Profit before tax	20,130	20,467
Tax at applicable tax rate	3,422	3,479
Tax effects from:		
- non-taxable income	(2,798)	(2,253)
- tax non-deductible expenses	112	326
- tax relief	(427)	(837)
- change in tax rates	(125)	0
Taxes	184	715
Effective tax rate	0.91%	3.49%

Tax effect from change in tax rates comprises readjustment of deferred tax assets and liabilities to new tax rate of 19 percent, which will apply in Slovenia since 2017.

8. Net Earnings per Share

	2016	2015
Profit for the year in € thousand	19,946	19,752
Weighted number of issued ordinary shares	967,016	970,979
Basic and diluted earnings per share in €	20.63	20.34

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

9. Intangible Assets

Movement of Intangible Assets in 2016

in € thousand	Non-current property rights	Assets under construction	Total
Cost as at 31 Dec. 2015	1,131	6	1,137
New additions	0	58	58
Transfer from assets under construction	56	(56)	0
Transfer to property, plant and equipment	0	(3)	(3)
Cost as at 31 Dec. 2016	1,187	5	1,192
Accumulated amortisation as at 31 Dec. 2015	(325)	-	(325)
Amortisation	(127)	-	(127)
Accumulated amortisation as at 31 Dec. 2016	(452)	-	(452)
Present value as at 31 Dec. 2015	806	6	812
Present value as at 31 Dec. 2016	735	5	740

On 31 December 2016 the Company had no unsettled liabilities arising from the purchase of intangible assets (2015: €148 thousand). The intangible assets are not pledged as security for liabilities.

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

Movement of Intangible Assets in 2015

in € thousand	Non-current property rights	Assets under construction	Total
Cost as at 31 Dec. 2014	397	466	863
New additions	0	274	274
Transfer from assets under construction	734	(734)	0
Cost as at 31 Dec. 2015	1,131	6	1,137
Accumulated amortisation as at 31 Dec. 2014	(230)	-	(230)
Amortisation	(95)	-	(95)
Accumulated amortisation as at 31 Dec. 2015	(325)	-	(325)
Present value as at 31 Dec. 2014	167	466	633
Present value as at 31 Dec. 2015	806	6	812

10. Property, Plant and Equipment

Movement of Property, Plant and Equipment in 2016

in € thousand	Land	Buildings	Equipment	Assets under construction	Total
Cost as at 31 Dec. 2015	717	5,125	1,439	2	7,283
New additions	0	0	0	728	728
Transfer from assets under construction	0	33	696	(730)	0
Disposals	0	(19)	(156)	0	(175)
Redistribution	0	3	(3)	0	0
Transfer to investment property	0	0	0	(2)	(2)
Transfer from intangible assets	0	0	0	3	3
Cost as at 31 Dec. 2016	717	5,142	1,976	1	7,836
Accumulated depreciation as at 31 Dec. 2015	-	(833)	(823)	-	(1,656)
Depreciation	-	(146)	(160)	-	(306)
Disposals	-	12	154	-	166
Accumulated depreciation as at 31 Dec. 2016	-	(967)	(829)	-	(1,796)
Present value as at 31 Dec. 2015	717	4,292	616	2	5,627
Present value as at 31 Dec. 2016	717	4,175	1,147	1	6,040

Increase in property, plant and equipment represent the purchase of computer equipment, office furniture and purchase of vehicles. Disposals mostly include sales of vehicles and computer equipment.

Property, plant and equipment are not pledged as security for liabilities. On 31 December 2016 the Company's unsettled liabilities to suppliers for the purchase of property, plant and equipment amounted to €192 thousand (2015: €40 thousand). The present value of property, plant and equipment under finance lease is €596 thousand (2015: €141 thousand). The Company did not capitalise borrowing costs in 2016 (2015: €1 thousand).

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

Movement of Property, Plant and Equipment in 2015

in € thousand	Land	Buildings	Equipment	Assets under construction	Total
Cost as at 31 Dec. 2014	717	5,120	1,305	87	7,229
New additions	0	0	0	146	146
Transfer from assets under construction	0	5	227	(231)	0
Disposals	0	0	(93)	0	(93)
Cost as at 31 Dec. 2015	717	5,125	1,439	2	7,283
Accumulated depreciation as at 31 Dec. 2014	-	(693)	(772)	-	(1,465)
Depreciation	-	(140)	(138)	-	(278)
Disposals	-	0	87	-	87
Accumulated depreciation as at 31 Dec. 12. 2015	-	(833)	(823)	-	(1,656)
Present value as at 31 Dec. 2014	717	4,427	533	87	5,764
Present value as at 31 Dec. 2015	717	4,292	616	2	5,627

11. Investments in Subsidiaries

in € thousand	31 Dec. 2016	31 Dec. 2015
SIJ ACRONI d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	91,337	91,337
SIJ METAL RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	31,714	31,714
GRIFFON & ROMANO S.P.A., Via Dossetti 11, Loc. Casinello de Dosso, Italy	15,940	15,940
SIJ RAVNE STEEL CENTER d.o.o., Litostrojska cesta 60, Ljubljana, Slovenia	6,815	6,815
NIRO Wenden GmbH, Glück-Auf-Weg 2, Wenden, Germany	5,738	5,738
NOŽI RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	5,108	5,108
ODPAD d.o.o. Pivka, Velika Pristava 23, Pivka, Slovenia	4,981	4,981
SIJ ELEKTRODE JESENICE d.o.o., Cesta železarjev 8, Jesenice, Slovenia	1,256	1,256
SIJ SUZ d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	616	616
SIJ ZIP CENTER d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	67	67
SIJ Asia GmbH, Berger Str. 2, 40213 Düsseldorf, Germany	100	100
SIJ RAVNE SYSTEMS d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	6,025	0
PERUTNINA PTUJ d. d., Potrčeva cesta 10, Ptuj, Slovenia	62,888	0
HOLDING PMP d. d., Vinarski trg 1, Ptuj, Slovenia	7,687	0
Investments in subsidiaries	240,272	163,672

In January 2016 the Company acquired SISTEMSKA TEHNIKA d.o.o. and changed its name to SIJ RAVNE SYSTEMS d.o.o.

In February 2016 the Company acquired the control of PERUTNINA PTUJ d.d. and Holding PMP d.d. on the basis of a closed takeover bid.

in € thousand	Activity	% of voting rights	Value of equity as at 31 Dec. 2016	Net profit 2016
SIJ ACRONI d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	Steel production	100	175,326	5,970
SIJ METAL RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Steel production	100	90,730	7,258
NOŽI RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Industrial knives production	100	5,480	(246)
SIJ ELEKTRODE JESENICE d.o.o., Cesta železarjev 8, Jesenice, Slovenia	Welding materials production	100	4,517	523
SIJ SUZ d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	Drawn wires production	100	1,819	406
SIJ ZIP CENTER d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Education and training of the disabled	100	536	147
ODPAD d.o.o. Pivka, Velika Pristava 23, Pivka, Slovenia	Recovery of secondary raw materials from scrap	74.90	7,243	260
NIRO Wenden GmbH, Glück-Auf-Weg 2, Wenden, Germany	Steel cutting, engineering and trade	85	(303)	(1,477)
SIJ RAVNE STEEL CENTER d.o.o., Litostrojska cesta 60, Ljubljana, Slovenia	Trade	77.28	15,841	1,194
GRIFFON & ROMANO S.P.A., Via Dossetti 11, Loc. Casinello de Dosso, Italy	Heat processing and special steel trade	100	346	(465)
SIJ Asia GmbH, Berger Str. 2, 40213 Düsseldorf, Germany	Trade	100	305	116
SIJ RAVNE SYSTEMS d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Metallurgic machines production	100	7,960	580
PERUTNINA PTUJ d. d., Potrčeva cesta 10, Ptuj, Slovenia	Processing and preserving of poultry meat	77.56	98,476	6,700
HOLDING PMP d. d., Vinarski trg 1, Ptuj, Slovenia	Financial service activities	100	10,740	6,104

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12. Available-for-Sale Financial Assets

in € thousand	31 Dec. 2016	31 Dec. 2015
Available-for-sale financial assets at cost	369	44,584
Available-for-sale financial assets at fair value	606	614
Available-for-sale financial assets	975	45,198

In February 2016 the Company acquired control of PERUTNINA PTUJ d.d. and Holding PMP d.d. on the basis of a closed takeover bid. Since 1 March the Company treats these companies as subsidiaries.

Available-for-sale financial assets, carried at fair value, refer to shares and interests in companies that are traded on the regulated market and whose fair value can be measured reliably. These assets decreased due to revaluation at fair value in the amount of €8 thousand (2015: €2 thousand) charged to the comprehensive income.

Received dividends in 2016 amounted to €65 thousand (2015: €86 thousand).

13. Non-Current Financial Receivables

in € thousand	31 Dec. 2016	31 Dec. 2015
Loans issued	33,354	65,249
Receivables arising from finance lease	433	54
Non-current financial receivables	33,787	65,303

Movement of Non-Current Loans Issued

in € thousand	2016	2015
Balance as at 1 Jan.	65,249	5,850
Loans issued	116,465	145,710
Reclassification to current loans issued	(148,360)	(86,311)
Balance as at 31 Dec.	33,354	65,249

The interest rate for loans issued is fixed. The disclosed value of loans issued does not exceed their realisable value. The loans issued fall due in 2020. The loans issued are not pledged as security for liabilities. The loans issued are secured with bills.

Movement of Non-Current Receivables Arising from Finance Lease

in € thousand	2016	2015
Balance as at 1 Jan.	54	142
Receivables arising from finance lease	731	0
Reclassification to current receivables arising from finance lease	(352)	(88)
Balance as at 31 Dec.	433	54

The interest rate for receivables arising from finance lease is fixed. The carrying value of the receivables arising from finance lease does not exceed their realisable value. The receivables arising from finance lease fall due in 2019. The receivables arising from finance lease are not pledged as security for liabilities.

14. Other Non-Current Assets

in € thousand	31 Dec. 2016	31 Dec. 2015
Other assets	626	616
Other non-current assets	626	616

15. Deferred Tax Assets and Liabilities

in € thousand	31 Dec. 2016	31 Dec. 2015
Deferred tax assets	1,188	1,063
Deferred tax liabilities	(33)	(35)
Deferred tax assets (liabilities), net	1,155	1,028

The total unused tax loss on 31 December 2016 amounted to €62,041 thousand (2015: €64,206 thousand). The value of unused tax losses for which deferred tax assets are not recognised amounted to €56,159 thousand (2015: €58,324 thousand), while unrecognised deferred tax assets amounted to €10,670 thousand (2015: €9,915 thousand).

Movement of Deferred Tax Assets and Liabilities in 2016

in € thousand	31 Dec. 2015	Changes in the income statement	Changes in the comprehensive income	31 Dec. 2016
Available-for-sale financial assets	(35)	0	2	(33)
Deferred tax liabilities	(35)	0	2	(33)
Unused tax losses	1,000	118	0	1,118
Employee Benefits	63	7	0	70
Deferred tax assets	1,063	125	0	1,188
Deferred tax assets (liabilities), net	1,028	125	2	1,155

There was no movement of deferred tax assets and liabilities in 2015.

16. Current Financial Receivables

in € thousand	31 Dec. 2016	31 Dec. 2015
Loans issued	71,048	24,937
Receivables arising from finance lease	293	89
Interest receivables	1,047	296
Other	575	439
Current financial receivables	72,963	25,761

Movement of Current Loans Issued

in € thousand	2016	2015
Balance as at 1 Jan.	24,937	24,541
Loans issued	23,900	36,257
Repayments of loans issued	(126,149)	(120,622)
Reclassification from non-current loans issued	148,360	86,311
Capital increase of subsidiary	0	(1,550)
Balance as at 31 Dec.	71,048	24,937

The interest rate for loans issued is fixed. The disclosed value of loans issued does not exceed their realisable value. The loans issued are not pledged as security for liabilities. The loans issued are secured with bills.

Movement of Current Receivables Arising from Finance Lease

in € thousand	2016	2015
Balance as at 1 Jan.	89	480
Repayments of receivables arising from finance lease	(162)	(479)
Reclassification from non-current receivables arising from finance lease	366	88
Balance as at 31 Dec.	293	89

The interest rate for receivables arising from finance lease is fixed. The carrying value of the receivables arising from finance lease does not exceed their realisable value. The receivables arising from finance lease are not pledged as security for liabilities.

17. Current Operating Receivables

in € thousand	31 Dec. 2016	31 Dec. 2015
Trade receivables	19,710	13,772
VAT receivables	16	7
Issued advance payments and cautions	124	167
Dividends receivables	19,496	18,496
Other operating receivables	17	9
Current operating receivables	39,363	32,451

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

18. Cash and Cash Equivalents

in € thousand	31 Dec. 2016	31 Dec. 2015
Cash in national currency	8,200	9,058
Cash in foreign currency	86	85
Restricted cash	0	74
Cash and cash equivalents	8,286	9,217

19. Other Current Assets

in € thousand	31 Dec. 2016	31 Dec. 2015
Deferred expenses	894	1,065
Accrued revenues	33	0
Other current assets	927	1,065

Current deferred expenses refer to advance payments of costs, which in 2017 will debit against profit or loss.

20. Equity

in € thousand	31 Dec. 2016	31 Dec. 2015
Share capital	145,266	145,266
Capital surplus	11,461	11,461
Revenue reserves	811	129
Fair value reserves	150	157
Retained earnings	47,844	34,390
Equity	205,532	191,403

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 2016.

Ownership Structure

Shareholder	Number of shares 31 Dec. 2016	Number of shares 31 Dec. 2015
DILON, d. o. o., Gerbičeva ulica 98, Ljubljana, Slovenia	718.351	718.351
Republic of Slovenia, Gregorčičeva ulica 20, Ljubljana, Slovenia	248.655	248.655
SIJ d.d., Gerbičeva ulica 98, Ljubljana, Slovenia	27.600	27.600
UNIOR, d. d., Kovaška cesta 10, Zreče, Slovenia	10	10
Total	994.616	994.616

Capital Surplus

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

Revenue reserves

in € thousand	31 Dec. 2016	31 Dec. 2015
Legal reserves	3,066	2,384
Treasury shares	(6,009)	(6,009)
Reserves for treasury shares	3,754	3,754
Revenue reserves	811	129

The 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 Programme (Official Gazette of the RS, nr. 111/2001), and in line with the Privatisation 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 the authorised companies. The shares were acquired ex lege and not in line with the Companies Act, which is why the controlling company did not establish a treasury shares fund. Shares are recognised at cost.

In 2016, the Company created legal reserves in the amount of €682 thousand from profit for the year.

Fair Value Reserves

in € thousand	31 Dec. 2016	31 Dec. 2015
Fair value reserves due to available-for-sale financial assets	184	203
Deferred tax liabilities	(34)	(35)
Net actuarial losses on pension programs	0	(11)
Fair value reserves	150	157

Distributable Profit

in € thousand	31 Dec. 2016	31 Dec. 2015
Retained earnings	28,580	15,625
Profit for the year	19,946	19,752
Creation of legal reserves	(682)	(987)
Distributable profit	47,844	34,390

21. Employee Benefits

in € thousand	31 Dec. 2016	31 Dec. 2015
Provisions for severance pay	368	368
Provisions for loyalty bonuses	23	23
Employee benefits	391	391

The Company did not carry out an actuarial calculation in 2016, because the assumptions used to determine the amount of provisions did not change significantly.

The actuarial calculation was made on the basis of the actuarial model and assumptions, derived from the life tables, growth of wages in the Republic of Slovenia, and the yield curve, which represents the relationship between market yields on government bonds in the Eurozone and the time remaining to maturity. The discount rate considered in the calculations ranged between 0.0 and 2.3 percent, depending on maturity.

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

Movement of Employee Benefits in 2015

in € thousand	31 Dec. 2014	Creation	Reversal	31 Dec. 2015
Provisions for severance pay	445	0	(77)	368
Provisions for loyalty bonuses	17	6	0	23
Employee benefits	462	6	(77)	391

22. Non-current Financial Liabilities

in € thousand	31 Dec. 2016	31 Dec. 2015
Borrowings	62,500	28,500
Liabilities for bonds issued	94,115	94,115
Liabilities arising from finance lease	818	85
Non-current financial liabilities	157,433	122,700

Borrowings include loans from domestic and foreign banks. Borrowings are secured with subsidiaries' guarantees. The interest rate for borrowings is flexible and based on EURIBOR.

The interest rate for majority of liabilities arising from finance lease is fixed.

Movement of Non-Current Borrowings

in € thousand	2016	2015
Balance as at 1 Jan.	28,500	0
New borrowings	248,800	44,500
Reclassification from non-current borrowings	(214,800)	(16,000)
Balance as at 31 Dec.	62,500	28,500

Liabilities for Bonds Issued

Liabilities for bonds issued refer to the bonds issued with the ticker symbol of SIJ4. The 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 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.

Movement of Non-Current Liabilities Arising from Finance Lease

in € thousand	2016	2015
Balance as at 1 Jan.	85	201
New financial lease	1,244	0
Reclassification to current liabilities arising from finance lease	(511)	(116)
Balance as at 31 Dec.	818	85

The lowest sum of future leases, due for payment in the next financial year, amounts to €452 thousand on 31 December 2016, and €846 thousand in next 1 to 5 years.

The net present value of future leases, due for payment in the next financial year, amounts to €426 thousand on 31 December 2016, and €818 thousand in next 1 to 5 years.

23. Current Financial Liabilities

in € thousand	31 Dec. 2016	31 Dec. 2015
Borrowings	5,836	13,506
Liabilities for commercial papers issued	30,000	17,662
Liabilities arising from finance lease	426	116
Interest liabilities	1,557	1,487
Other current financial liabilities	198	136
Current financial liabilities	38,017	32,907

Current borrowings include loans from companies in the SIJ Group. Borrowings are secured with bills. The interest rate for borrowings and finance leases is fixed.

Movement of Current Borrowings

in € thousand	2016	2015
Balance as at 1 Jan.	13,506	11,401
New borrowings	30,250	2,600
Repayments for borrowings	(252,720)	(16,495)
Reclassification from non-current borrowings	214,800	16,000
Balance as at 31 Dec.	5,836	13,506

Liabilities for Commercial Papers Issued

Liabilities for commercial papers amounting to €30,000 thousand refer to 12-month commercial papers with the ticker symbol SIK03, issued by the Company on 16 December 2016. The total nominal value of the commercial papers is €30,000 thousand, and covers denominations of €1 thousand. The interest rate for a commercial paper is 1.20 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 16 December 2017. Commercial papers trading takes place at Ljubljana Stock Exchange. The Company repaid second issue of commercial papers with the ticker symbol SIK02 on the maturity day.

Movement of Current Liabilities Arising from Finance Lease

in € thousand	2016	2015
Balance as at 1 Jan.	116	547
Repayments of liabilities arising from finance lease	(201)	(547)
Reclassification from non-current liabilities arising from finance lease	511	116
Balance as at 31 Dec.	426	116

The lowest sum of future leases, due for payment in the next financial year, amounts to €452 thousand on 31 December 2016, and the net present value of leases amount to €87 thousand on the same date.

24. Current Operating Liabilities

in € thousand	31 Dec. 2016	31 Dec. 2015
Liabilities to suppliers	1,604	1,408
Liabilities to employees	678	278
Received advance payments	1	5
Tax liabilities	1,527	922
Other liabilities	192	76
Current operating liabilities	4,002	2,689

25. Contingent Assets and Liabilities

Contingent liabilities for issued guarantees amount to €105,936 thousand (2015: €158,098 thousand) on 31 December 2016. The Company expects no outflows from the issued guarantees.

The Company has no contingent assets on 31 December 2016.

RELATED PARTIES

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

Transactions with the Controlling Company

in € thousand	2016	2015
Revenues	528	20

in € thousand	31 Dec. 2016	31 Dec. 2015
Receivables	19,042	3,022

Transactions with Subsidiaries

in € thousand	2016	2015
Revenues	38,073	39,129
Expenses	1,475	1,015

in € thousand	31 Dec. 2016	31 Dec. 2015
Receivables	124,430	120,230
Liabilities	6,192	11,719

Transactions with those Charged with Governance

This is the total amount of receipts on the basis of the business management contract, received in the financial year for the performance of functions or tasks in the Company by members of the Management Board, other workers, employed on contracts for which the tariff part of collective agreement does not apply, and members of the Supervisory Board.

	2016
Management and employees with service contract	7,380
Members of the Supervisory Board	102

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

The Company did not grant any loans, issue any guarantees nor make any advance payments to the management of the Company or the members of the Supervisory Board in 2016.

FINANCIAL INSTRUMENTS AND RISKS

Credit Risk

The largest exposure on the reporting date arises from trade receivables, other operating receivables, financial receivables and deposits. The Company reviewed the collectability of financial assets and established that there is no need to create allowances for financial assets in 2016.

Age Structure of Financial Assets

in € thousand		Overdue				
31 Dec. 2016	Not-overdue	Up to 3 months	3 months to 1 year	1 year to 3 years	Over 3 years	Total
Trade receivables	5.367	4,918	9,205	250	38	19.778
Financial receivables and deposits	106.625	125	0	0	0	106.750
Total	111.992	5,043	9,205	250	38	126.528

in € thousand		Overdue			
31. Dec. 2015	Not-overdue	Up to 3 months	3 months to 1 year	1 year to 3 years	Total
Trade receivables	6.105	4.768	2.781	118	13.772
Financial receivables and deposits	91.208	5	0	0	91.213
Total	97.313	4.773	2.781	118	104.985

Liquidity Risk

The Company is managing liquidity risk with appropriate planning of cash flow and current credit lines from banks agreed in advance, which ensures that the Company is capable of settling any overdue liabilities at any time.

in € thousand 31 Dec. 2016	Up to 3 months	3 months to 1 year	1 year to 5 years	Total
Liabilities to suppliers	1,581	23	0	1,604
Financial liabilities with future interest	2,717	43,138	177,820	223,675
Other liabilities	192	0	0	192
Total	4,490	43,161	177,820	225,471

in € thousand 31 Dec. 2015	Up to 3 months	3 months to 1 year	1 year to 5 years	Total
Liabilities to suppliers	1,291	117	0	1,408
Financial liabilities with future interest	6,192	32,791	142,305	181,288
Other liabilities	0	75	1	76
Total	7,483	32,983	142,306	182,772

Exposure to banks is assessed as moderate. The Company fully complies with the conditions stated in loan contracts in the section defining the disclosure of data, payment of interest and repaying the principal value.

Foreign Exchange Risk

The Company mostly operates in the domestic territory and Eurozone and therefore estimates the exposure to foreign exchange risk to be minimal.

Interest Rate Risk

A change in interest rate by 100 or 50 basis points on the reporting date would result in an increase (decrease) of profit or loss by the amounts stated below. The analysis assumes that all other variables, in particular exchange rates, remain unchanged. The analysis for 2015 was prepared in the same manner.

in € thousand	2016	2015
Change in profit/loss if increased by 100 bp	(625)	(285)
Change in profit/loss if increased by 50 bp	(313)	(143)
Change in profit/loss if decreased by 50 bp	313	143
Change in profit/loss if decreased by 100 bp	625	285

Equity Management

The Company monitors the status of overdue receivables on a daily basis, and prepares 3-month plans twice per month with the aim of achieving optimum debt. Larger investments are financed by non-current assets.

in € thousand	2016	Debt increase by 10%	Debt decrease by 10%
Level of debt on equity	95.10	104.60	85.59
Equity	205,532	205,532	205,532
Financial liabilities	195,450	214,994	175,905

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Carrying Amounts and Fair Values of Financial Instruments

in € thousand	31. Dec. 2016		31. Dec. 2015	
Type of financial instrument	Carrying amount	Fair value	Carrying amount	Fair value
Available-for-sale financial assets	975	975	45,198	45,198
Financial receivables	106,750	106,750	91,063	91,063
Operating receivables	39,392	39,392	32,480	32,480
Cash and Cash Equivalents	8,286	8,286	9,217	9,217
Financial liabilities	(195,451)	(201,363)	(155,607)	(155,607)
Operating liabilities	(4,002)	(4,002)	(2,690)	(2,690)
Total	(44,051)	(49,962)	19,661	19,661

Fair Value Measurements

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

in € thousand	31 Dec. 2016	31 Dec. 2015
Financial assets at fair value of first level	606	614
Financial assets at fair value of third level	154,798	177,344
Financial liabilities at fair value of first level	(124,115)	(111,777)
Financial liabilities at fair value of third level	(75,338)	(46,520)

EVENTS AFTER THE REPORTING DATE

On 18 January 2017, the Supervisory Board of SIJ d.d. appointed two new members of the Management Board of SIJ d.d.

Andrey Zubitskiy, until then the President of the Supervisory Board of SIJ d.d., was appointed interim President of the Management Board for a term not exceeding six months. Dr Denis Mancevič, until then member of the Supervisory Board and Director of Corporate Communications of SIJ d.d., was appointed member of the Management Board and CEO for a period of five years. The term of office of Igor Malevanov, already then member of the Management Board and CFO of SIJ d.d., continues. The new three-member Management Board was appointed following the resignation of the President of Management Board Anton Chernykh, who resigned due to personal reasons.

Evgeny Zverev is the new President of the Supervisory Board of SIJ d.d.

In March 2017, SIJ Acroni and SIJ Metal Ravne signed a long-term contract on a five-year syndicated loan to refinance the existing loan portfolio and ensure long-term funds for working capital totalling € 240 million with a syndicate of seven banks. This loan ensures both companies long-term funding, which will allow them further financial strength, growth and development. The consortium of banks is comprised of reputable domestic and foreign banks, including the European Bank for Reconstruction and Development.

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