POINTS OF STRENGTH

Annual Report of the
SIJ Group and SIJ d.d.
2017

When the world is changing, we remain constant:
as strong and stable as steel, and as innovative as its uses.

We strategically plan new achievements on the solid foundations of past successes.

The metallurgic companies of the SIJ Group will be the leading suppliers of niche steel products. Having reached our goals, we are prepared for the Poultry Division of the SIJ Group to become the regional leader, and a success in other European markets and on other continents.

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Time is a series of points,
which get their true meaning
with our achievements.

2017 HIGHLIGHTS

PERFORMANCE SUMMARY

How we reach the end point depends on the route we take through each year.

Our business in 2017 has produced firm points for our way forward. In every day of every week of every month of the year, we created the conditions necessary to achieve our plans.

The business plans for 2018 predict the spin off*** of the Perutnina Ptuj Group, therefore, the key business figures presented further on display the operations of the SIJ Group sans the Poultry Division in the 2017 income statement, and made comparable to the income statement for 2016. The net profit shows the Perutnina Ptuj Group as discontinued operations, and the statement of financial position shows it at assets and liabilities held for disposal for the period that ended on 31 December 2017.

SIJ Group: Key Operating Figures

	Unit of measure	2015	2016**	2017
Operational data				
Cast steel production	t	442,127	448,497	468,596
Financial data				
Revenues	€ thousand	664,817	631,881	756,062
Exports	%	87.3	85.5	86.2
EBIT[1]	€ thousand	23,341	28,287	25,844
EBIT margin	%	3.5	4.5	3.4
EBITDA[2]	€ thousand	63,509	74,420	75,940
EBITDA margin	%	9.6	11.8	10.0
Profit before taxes	€ thousand	8,973	10,336	6,462
Net profit	€ thousand	10,793	22,913	14,955
Capex	€ thousand	56,886	65,813	53,027
Statement of Financial Position as at 31 Dec.				
Total assets	€ thousand	859,610	1,143,947	1,152,184
Equity	€ thousand	348,718	423,471	415,512
Net financial debt[3]	€ thousand	272,743	367,520	333,806
Metallurgy Division	*€ thousand*	*228,423*	*261,453*	*251,771*
Poultry Division	*€ thousand*	*0*	*35,492*	*0*
*Business combinations**	*€ thousand*	*44,320*	*70,575*	*82,035*
NFD/EBITDA		3.6	3.5	3.3
Employees as at 31 Dec.				
Number of employees		3,126	3,552	3,770

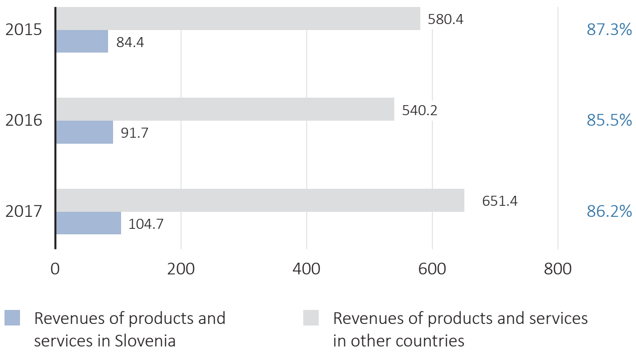
** Purchasing the shares of the PP Group and Holding PMP until 31 December.*
*** In the financial data EBIT, EBITDA, Profit before taxes and Net profit, the one-time effect of the business combination of the Poultry Division in amount of €28,412 thousand is not considered.*
**** For translation purposes, the company hereby explains that in the communication about the future strategy regarding the Perutnina Ptuj investment, it also uses the term "split-off". The use of English name notwithstanding, the process of splitting off the investment shall be performed according to the Slovenian Companies Act, where the terms of a specific name of corporate action as prescribed in the Slovenian language and legislation prevail.*

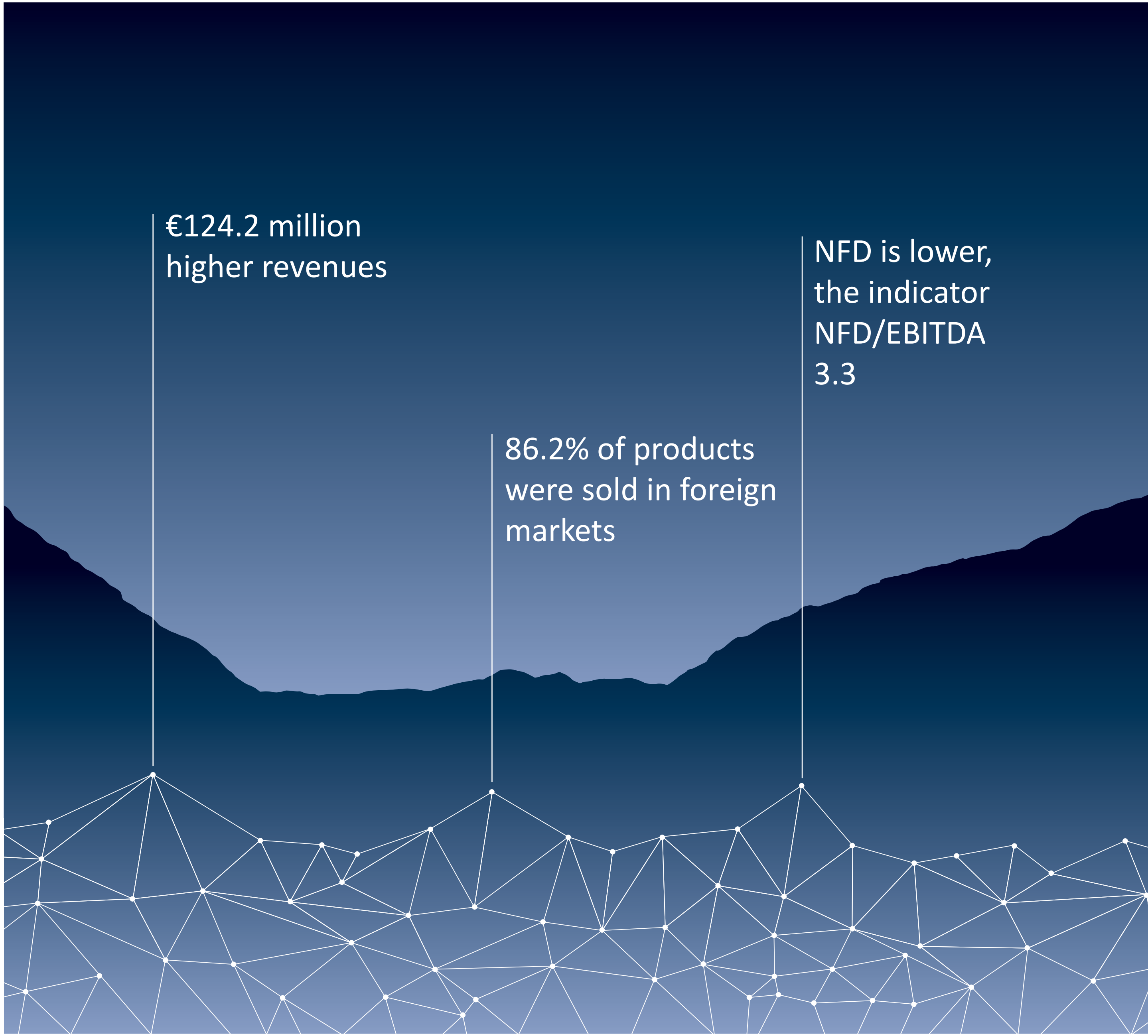
1 EBIT: Operating profit.
2 EBITDA: Operating profit + depreciation and amortisation.
3 Net financial debt (NFD): Principals loans, financial leases and financial instruments – cash and cash equivalents.

Revenues Increased

In 2017, our revenues were higher by €124.2 million, or by one fifth, compared to 2016. The key source of the increase is the growth of the market, while the results were also improved due to our focus on production with a higher added value. A considerable share of high-quality steels, especially premium grades, are being developed in cooperation with the end buyers and according to their requirements.

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



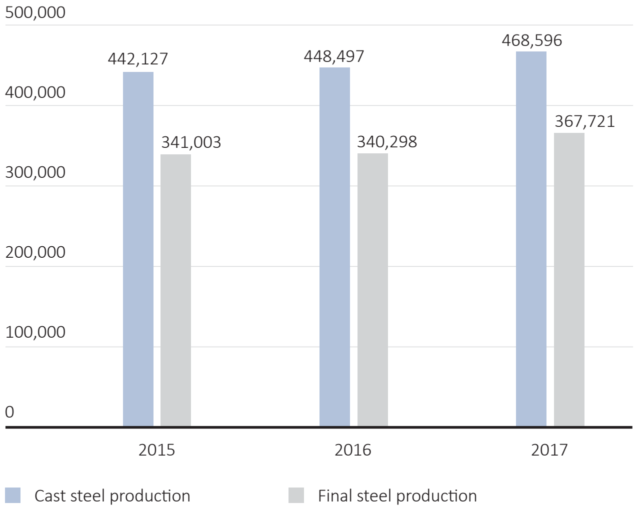


Increasing Sales and Maintaining a Leading Market Position

Total production of cast steel in 2017 was 4.5 percent higher compared to 2016, and we sold 9.2 percent or 54,131 tonnes more finished products than last year.

In times when market conditions encouraged increasing sales, we met the rising demand by increasing our production capabilities, which we have purposefully expanded with investments over recent years. In 2017, we successfully launched a new AOD[4] convertor, which, together with the new HTL line for the heat treatment of stainless steel quarto plates, represents a key part of the additional capabilities in producing stainless and special steels. The demand for these highly profitable products is on the rise. With its 27.8-percent share, the SIJ Group maintained its leading European market position in stainless steel quarto plates in 2017.

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

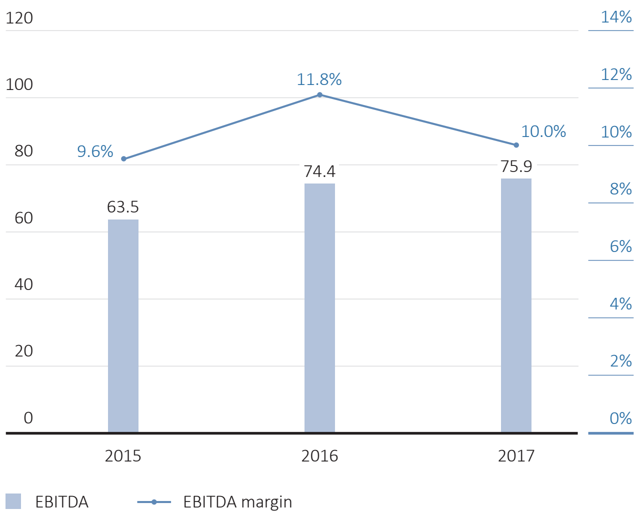


4 AOD – Argon Oxygen Decarburizator.

Profitability has Increased

In 2017, we achieved €75.9 million of EBITDA. The increase of €1.5 million compared to the previous year was achieved owing to the demanding launch of the strategic investment – the AOD convertor, which required a great deal of adaptations in the production process. The launch and testing were successfully concluded in the last quarter of 2017, meaning that, since November, the investment has been contributing to the business results. Its full contribution to the business results is expected in 2018.

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



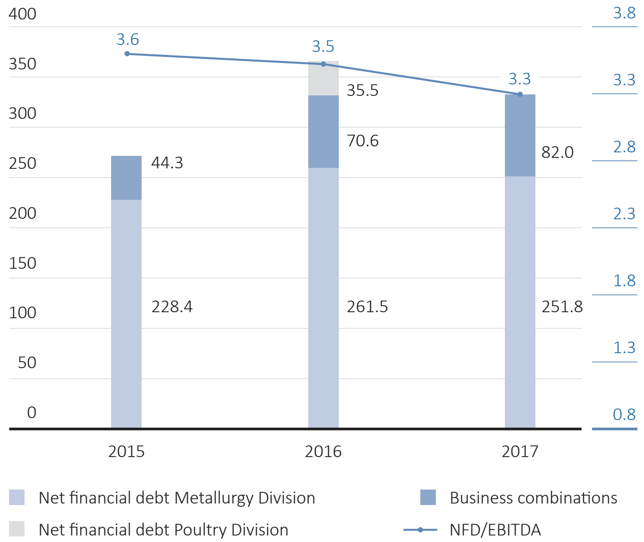
EBITDA Margin is Lower

The EBITDA margin was 10.0 percent in 2017, and is 1.8 percentage points lower than in 2016, however 0.4 percentage points above the margin achieved in 2015. The EBITDA margin is composed of the growth in revenues, and influenced by the fluctuations in materials, goods, and services costs, in keeping with the increased scope of production.

The Debt Ratio Decreased, the Investment Cycle Winds Down

In recent years, the net financial debt of the SIJ Group has been increasing, primarily owing to investments aimed at increasing production capabilities, which enable the production of technologically more advanced products. The investment cycle is slowing down, ergo the net financial debt is no longer increasing. Therefore, the NFD/EBITDA indebtedness indicator, disregarding the effect of acquiring the Poultry Division[5], is decreasing by 0.2 compared to last year, due to the increased EBITDA.

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



A Pillar of Employment

At the end of last year, the SIJ Group employed 3,770 people. In two regions, Gorenjska and Koroška, we are a key employer: in the town Ravne na Koroškem, we employ 38.1 percent of the active working population, and 18.2 percent in Jesenice.

5 The SIJ Group acquired the Poultry Division in 2016, when it gained the controlling share of the Perutnina Ptuj Group.

SIGNIFICANT BUSINESS EVENTS IN 2017

1 January

As part of its objective to **expand its retail network,** Perutnina Ptuj, a Poultry Division company of the SIJ Group, became the 100-percent owner of the trading company Naša d.o.o. with two business units on 1 January.

Due to the resignation for personal reasons of the President of the Management Board Anton Chernykh, the Supervisory Board appointed **a new Management Board of SIJ d.d.** on 18 January. Andrey Zubitskiy, who had until then been the President of the Supervisory Board, was appointed as President of the Management Board. Denis Mancevič, PhD, who had until then been a Member of the Supervisory Board and the Director of Corporate Communications, was appointed as a Member of the Management Board and CEO. The Chief Financial Officer, Igor Malevanov, remained a Member of the Management Board, while Evgeny Zverev was Named the new president of the Supervisory Board.

2 February

The **1st Winter Games of the SIJ Group,** where employees competed in a ski tournament on 4 February, was a new initiative for sports activities and strengthening relations between workers.

3 March

SIJ Acroni cast the 90-thousandth heat and thus marked the **30th anniversary of the start-up of the ”Jeklarna 2” steel mill.** The first heat was cast in the new steel mill on 13 March 1987. The steel mill in Jesenice has since produced around 8.7 million tonnes of steel.

On 14 March, SIJ Acroni and SIJ Metal Ravne signed a long-term agreement for a **five-year syndicated loan** to re-finance existing loans and secure long-term sources for working capital in the total amount of €240 million with a consortium of seven banks headed by UniCredit Group. Part of the consortium is also the European Bank for Reconstruction and Development. The companies secured long-term financial assets for future growth and development.

4 April

On 20 April, the Slovenian Public Relations Society awarded the **comprehensive campaign Working safely, staying healthy** for 2016, aimed at raising the SIJ Group employees’ awareness of health and safety at work, with the highest Slovenian professional award for excellence in public relations. In April, the new phase of the campaign for 2017/2018 began.

On 24 April, SIJ Acroni launched the **AOD convertor – the most important strategic investment** of the SIJ Group. The investment worth €30 million will enable SIJ Acroni to increase its production capacities of stainless steel and special steels as well as reinforce its position in niche steel markets.

5 May

On 17 May, the Supervisory Board appointed a **new Member of the Management Board of SIJ d.d., Dmitrii Bochkarev, for a five-year term.** Members of the Management Board, Denis Mancevič, PhD, and Igor Malevanov conducted routine business as resigning Members of the Management Board.

On 18 May, the International Stainless Steel Forum (ISSF) awarded the SIJ Group with an **international award for sustainable development.** We received it for the project of using waste heat for the remote heating of the town of Ravne na Koroškem. In the global competition of sustainable projects, our project won third place.

On 22 May, the SIJ Group was chosen as one of the **key partners in an international team of researchers and professionals in the industry** to cooperate in the study ETEKINA, carried out as a part of the European call for tenders Horizon 2020, intended for research and innovations. Under this project, we and partners will check the heat pipes an innovative technology for the re-use of waste heat in industrial applications. The SIJ Group is already achieving important results as it strives for better energy and cost efficiency.

6 June

On 1 June, the SIJ Group received **four awards for innovation** in the competition for the best innovations, awarded by the Gorenjska and Koroška Chambers of Commerce. SIJ Acroni received a gold award, and SIJ Metal Ravne won three: gold, silver, and bronze.

One of the biggest recreational cycling events in Slovenia, the **15th Poli Marathon,** taking place on 3 June, was attended by around 4,500 cyclists. The marathon was organized by Perutnina Ptuj Cycling Club and Perutnina Ptuj with the help of over 500 volunteers.

As part of a long-term cooperation, the SIJ Group helped the University Rehabilitation Institute of the Republic of Slovenia Soča (URI Soča) to purchase **two new devices for the rehabilitation of children.** The donation of €42,000 was heralded by the institute on 8 June with the event ″A Day for a Better Step".

On 9 June, the shareholders attended the 30th General Assembly and approved the decision on using the distributable profit of 2016 in the amount of €47,843,066.55. They decided that €9,969,934.96 will be used for the dividend payout. Gross **dividend per share is €10.31** (treasury shares are not included) and was paid out in several installments by the end of 2017. The rest of the distributable profit in the amount of €37,873,313.59 remained undistributed. The shareholders then granted a discharge to the Management Board and the Supervisory Board, and appointed a certified auditor. For the next four-year term, they appointed two **new Members of the Supervisory Board:** Mitja Križaj and Dmitry Davydov.

7 July

At the **strategic conference of the PP Group** taking place from 5 to 7 July, leading decision-makers and key employees of Perutnina Ptuj d.d. and affiliate companies of the Group discussed the future development of the Poultry Division.

The 4th Metallurgists' Day, the largest professional day of Slovenian steelworkers, took place on 16 July and was celebrated by over 3,000 employees of the SIJ Group and their family members. At this event, we expressed special thanks for our top employees, people celebrating work anniversaries, and the best innovators of 2016.

On 18 July, the Supervisory Board appointed **Andrey Zubitskiy** as the President of the Management Board of SIJ d.d. for a full, six-year term.

8 August

Because the term of the Members of the Supervisory Board Anton Chernykh, Igor Malevanov, and Denis Mancevič, PhD, ended, the shareholders of Perutnina Ptuj appointed new **Members of the Supervisory Board of Perutnina Ptuj** at the 24th General Assembly on 30 August. These are Evgeny Zverev, Helena Ploj Lajovic, and Polona Marinko.

At the 56th International Fair of Agriculture and Food (AGRA), held from 25 to 30 August, five products from Perutnina Ptuj were given the title **Champion of Quality.** This title is given to products that receive a gold award at international assessments of quality of meat and meat products three times in a row.

9 September

At the **third SIJ Group Sales Conference,** titled Shaping the Future Together and held from 6 to 8 September, we presented novelties in the Metallurgy Division to more than 160 guests from 29 countries.

On 8 September, SIJ Acroni organized an official event for customers, the financial partners, and other important parties to present **the largest strategic investment of the SIJ Group in the past years – the AOD convertor.** The guest of honor at this formal event was Borut Pahor, the President of the Republic of Slovenia.

At the Innovation Day on 27 September, the Slovenian Chamber of Commerce presented SIJ Acroni with a golden award for the **innovation Fly with SINOXX 4542 Steel.** The silver award went to SIJ Metal Ravne for the innovative **SITHERM S360 R tool steel.**

10 October

As part of the partner project of the SIJ Group, its subsidiary SIJ Acroni, and the Olympic Committee of Slovenia, we **opened the fifth outdoor sports ground.** Outdoor exercising machines, which are already set up in Jesenice, Ravne na Koroškem, Prevalje, and Murska Sobota, are available in Ljubljana from 18 October.

On 29 October at the world's largest wine competition in Vienna, Ptujska Klet, a company of the PP Group, received an award for the best Slovenian wine-producer for the sixth consecutive time and three stars for quality. A blended wine from this winery, Haložan, was the first table wine that received a **gold medal** at a competition with over 1,800 participating wineries from 40 countries.

On 30 October, SIJ d.d. **increased its share in Perutnina Ptuj** to encourage the more efficient implementation of the adopted strategic decisions and influence the stability of Perutnina Ptuj's operations. The 1,394,055 ordinary no-par value registered shares with the ticker symbol PPTG show that the company bought a 12.77-percent share of all the shares issued by Perutnina Ptuj. With the other shares that SIJ d.d. directly or indirectly already owned it now has a 90.69-percent share of all issued shares of Perutnina Ptuj.

11 November

At the unplanned General Assembly of Perutnina Ptuj, shareholders unanimously agreed to **transfer the agricultural activity from Perutnina Ptuj to the acquiring company PP-AGRO, which is a 100-percent subsidiary company of Perutnina Ptuj.** This change will enable the optimization of operations by using assets and resources better, and lowering costs, and it will also increase the transparency of agricultural operations.

The SIJ Group began its activities in the **international partnership project "Demonstration of Comprehensive Energy Management"** (DEUP), which received resources at the call for tenders in June, organized by SPIRIT Slovenia – Public Agency of the Republic of Slovenia for Entrepreneurship, Internationalization, Foreign Investments and Technology. The objectives of the project, which is part of the strategy of smart specialization in Slovenia, are active inclusion of offtake, advanced control of the response of offtake, and energy management among large industrial consumers and water supply systems.

EVENTS AFTER THE REPORTING PERIOD

At the 18th competition of the Finance Business Academy for the best 2016 Annual Report on 14 November, the SIJ Group's annual report received an **award for the best presentation of an analysis of operations and plans.**

On 25 November, the Chamber of Book Publishers and Book Sellers at the Chamber of Commerce and Manager's Association of Slovenia conferred the **Best Business Book of 2017** award to the book Grit by Angela Lee Duckworth, which was published as part of a sustainable long-term publishing cooperation of UMco publishing house and the SIJ Group for publishing world renown books for business and personal growth in Slovene.

12 December

On 15 December, the SIJ Group **successfully completed the fourth consecutive issue of commercial papers** to the value of €27,325,000. At 1.10 percent p.a., the interest rate is the lowest of any achieved for commercial papers issued on the Slovenian capital market. The interest of the largest Slovenian institutional and private investors demonstrates their confidence in thew competitiveness of operations and the stability of the SIJ Group.

1 January

The Managers' Association of Slovenia named Jernej Pavlin, the Managing Director of the SIJ Group's company ORO MET, one of the **top three young managers of 2017.** These are individuals, who leave an important mark on the economic landscape with their work and character, thereby setting an example for young managers. ORO MET is a leading Slovenian producer of standard and non-standard tool plates, CNC-machined plates, and other elements for the tooling industry.

2 February

At the **2nd SIJ Winter Games, a sporting and social gathering** at the "Poseka" ski slope in Ravne na Koroškem, over 200 employees of the SIJ Group came together on 3 February.

On 19 February, the General Assembly of SIJ d.d. appointed **new Members of the Supervisory Board** – Boštjan Napast, Helena Ploj Lajovic, and Polona Marinko. Also, Dmitry Davydov and Evgeny Zverev were reelected. Sergey Frolov and Sergey Cherkaev, who had been Members of the Supervisory Board until then, were recalled, while no changes were made to the terms of Members Janko Jenko and Mitja Križaj on the seven-person Supervisory Board.

On 22 February, the Supervisory Board of SIJ d.d. appointed two new Members of the Management Board – Tibor Šimonka and Igor Malevanov. The Management Board of SIJ d.d. now consists of four Members – alongside Tibor Šimonka and Igor Malevanov, acting Member Dmitrii Bochkarev and the President of the Management Board Andrey Zubitskiy. Tibor Šimonka's term as the President of the Management Board of Perutnina Ptuj d.d. continues unimpeded.

The companies SIJ Metal Ravne and SIJ Ravne Systems donated to the sports, tourism, and youth association (ZKŠTM) Ravne na Korošem, which made the purchase and **assembly of a children's training ski lift** possible, enabling fun on the snow at the "Poseka" ski slope in Ravne na Koroškem. Care and responsibility for people and the environment.

3 March

On 8 March, **the United States passed an order on imposing 25 percent import tariffs on steel** and 10 percent tariffs on aluminum imports to the US. On the 22 March, the United states announced that **the European Union has been temporarily exempt from tariffs.**

The order encompasses all types and forms of steel which the SIJ Group exports across the Atlantic. Working with both Slovenian and US government institutions, the SIJ Group is actively attempting to exclude the European Union in its entirety, as well as excluding certain SIJ Group's products which local producers cannot produce, or produce in limited quantities. The SIJ Group has also launched marketing activities on other markets to make up for the lost sales quantities in the US.

4 April

On 9 April, Members of the Supervisory Board **accepted the resignation of Member of the Management Board Dmitrii Bochkarev,** and appointed a **new Member of the SIJ d.d. Management Board, Viacheslav Korchagin,** for a full six-year term. He has already worked at the SIJ Group and the Management Board of SIJ d.d. between 2007 and 2014. Thus, the SIJ d.d. Management Board again consists of four members; alongside Viacheslav Korchagin, they are Tibor Šimonka, Igor Malevanov, and the President of the Management Board Andrey Zubitsky. Otherwise, Viacheslav Korchagin continues his term as Vice President and member of the Board of Finance, Economic, Controlling and Procurement at Perutnina Ptuj.

On 12 April, The SIJ Metal Ravne Rolling Mill **launched a 4-million Euro steel heat treatment line.** The investment's most critical part – a €2.8 million continuous annealing furnace – will enable the steel producer in Ravne na Koroškem to increase the production in the Section Rolling Mill by over 10 percent – mostly of that tool steels – and also to release special steel production capacities to meet demands by known, highly demanding buyers from the energy, gas and oil sectors.

LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD

Esteemed shareholders, business partners, and colleagues of the SIJ Group,

in 2017, the SIJ Group faced many challenges. Our path through the past year, and all the achievements and changes show how strong our point of entry into 2018 is. Our successful business was marked by numerous changes in the management of the SIJ Group, which required considerable additional effort on the part of all employees. But it was in these troubled times that we proved that the priorities of the SIJ Group were clear, and together made sure that our operations ran smoothly and stably. In the given circumstances and considering the success we have achieved, I may confidently state that, all things considered, we did our job well.

According to the audited business results, the Metallurgy Division of the SIJ Group and the Poultry Division (the Perutnina Ptuj Group) together generated €1.012 billion revenues in 2017, which is a 20.2 percent increase compared to 2016. For the first time, revenues exceeded one billion Euros. Both divisions also maintained their high operational profitability, since the equity before interest, taxes, depreciation and amortisation (EBITDA) surpassed the triple digits for the second time after 2015, and reached €103.8 million, while the EBITDA margin reached 10.2 percent. The total net profit was €15.0 million. The key combined business indicators for the Metallurgy and Poultry Divisions enable the data to be compared to the business report of 2016.

Because the 2018 business plans include the spin-off of the Perutnina Ptuj Group, it is presented in the annual report as discontinued operations. Ergo, we add a short summary of the SIJ Group's operations without the Poultry Division: we created €756.1 million in revenues (a 19.7-percentage point increase compared to 2016), of which over 86.2 percent were made in foreign markets, ranking us among the top five Slovenian exporters. Adding to this, we created an EBITDA of €75.9 million (2 percentage points more compared to 2016), and achieved an EBITDA margin of 10 percent.

The Investment Cycle is Decelerating

Our investment cycle is carefully considered – in keeping with the SIJ Group’s development strategy leading up to 2020, which plans for a deceleration of the investment cycle after 2016, we reduced investments into modernisation and the purchase of new equipment to €53 million in the previous year.

The increase of production capabilities in the Metallurgy Division was rounded off by the strategic investment of €30 million into the AOD convertor at SIJ Acroni. After some initial difficulties surrounding its launch, the new asset became fully operational in November 2017, which enabled the considerable increase of production capabilities and competitiveness in producing stainless steels, especially stainless steel quarto plates, where we are the market leader in the European Union, and the number three producer on a global scale. The new capabilities are the foundation for an even stronger focus on producing stainless and special steels, because demand for these highly profitable products is increasing.

“Our investment cycle is carefully considered. The increase of production capabilities in 2017 are the foundation for an even stronger focus on producing stainless and special steels, because demand for these highly profitable products is increasing.”

At SIJ Metal Ravne, the construction of the heat treatment line worth €4 million, including its most critical part – a continuous annealing furnace costing €2.8 million – went smoothly. This investment will enable us to boost the production of tool steels, while simultaneously freeing up the production capacities for producing special steels, which are already in demand by known and highly demanding clients from the energy sector and oil and gas industry. This will enable us to remain one of the leading European producers of tool steels, a position we already held in 2017.

The Macroeconomic Environment was Favourable

In 2017, the SIJ Group maintained its significant share of steels with a high added value, which has risen from 55 to 70 percent over the last five years. We also took advantage of the favourable 2017 market conditions and increased our production volumes. Despite 2017 beginning with risks connected to the growing protectionism in the USA – which continues through 2018 – electoral uncertainties in the European Union, and the slowed pace of China’s economy, risks decreased dramatically in 2017 and reached their most favourable balance since 2008. In the European Union, steel consumption has increased by 4.2 percent in 2017 and the business conditions in the main steel-consuming sectors were bound to the expansion of economic activity. Developing sustainable mobility has become a leading trend in many industries, in keeping with global sustainable and development trends and the continued growth of oil prices. The SIJ Group has therefore already increased the sales of electric steels, especially to the suppliers of basic components for electric cars.

“Developing sustainable mobility has become a leading trend in many industries, in keeping with global sustainable and development trends. In 2017, the SIJ Group has therefore already increased the sales of electric steels, especially to the suppliers of basic components for electric cars.”

Long-term Financial Assets for Growth and Development

The stability of operations was strengthened in 2017 by managing our resources structure and the corresponding procurement of long-term financial assets for growth and development. The companies SIJ Acroni and SIJ Metal Ravne signed a 5-year syndicated loan contract in the sum of €240 million. Headed by UniCredit Group, the syndicated loan included seven renowned domestic and foreign banks, including the European Bank for Reconstruction and Development (EBRD). This loan is vital for ensuring the development of SIJ Acroni and SIJ Metal Ravne, because it will provide the companies with future financial stability, and enable them further growth and development.

"The stability of operations was strengthened in 2017 by managing our resources structure and the corresponding procurement of long-term financial assets. With the syndicated loan in the sum of €240 million, we ensured financial stability, further growth and development for our two biggest steel companies."

In December 2017, we successfully completed our fourth issue of one-year commercial papers, to the total nominal value of €27.3 million, replacing existing commercial papers, which fell due in December 2017. The new commercial papers were issued with an annual interest rate of 1.1 percent, which is the lowest interest rate in the domestic capital market yet.

For the Well-being of the Employees and the Natural Environment

Steel production is one of the foundations of a so-called circular economy in Slovenia, and is tightly bound to individual local communities as a pillar of regional development. The SIJ Group paid special attention to sustainable development also in 2017. We are one of the key employers in Slovenia, employing over a third of the active population in the municipality Ravne na Koroškem, almost a fifth in Jesenice, and a tenth in Ptuj (the Perutnina Ptuj Group).

The SIJ Group is committed to professional health and safety and increasing the employees' competencies, while at the same time being aware of our role in improving the quality of life in the local and broader environments. We provided various solutions proving our environmental responsibility in 2017. In Jesenice, we set up the co-production of heat and electricity, thereby contributing to the reduction of greenhouse gas emissions. We continue to re-use excess heat generated in Ravne na Koroškem; in 2017, we provided a third of the heat necessary for the heating of Ravne na Koroškem, and part of this energy was donated by the SIJ Group and used to heat the swimming pools of the Ravne na Koroškem sports centre.

In 2017, we were a role model for the steel production community, owing to our exemplary efforts in environmental protection, careful management of sources and employees, and cooperation with the local communities in which we operate.

We also improve the quality of life with sponsorships and donations. At the local level, we support mass sports and cultural events, and education and humanitarian activities, where our employees and their family members are included as well. In 2017, we therefore enabled the construction of a children's ski lift on the Poseka slope in Ravne na Koroškem, and added new outdoor sport grounds in Murska Sobota and Ljubljana to the existent sport grounds, produced by SIJ Acroni. This project is important for us, since it connects steel production and steel as an all-purpose material to mass sports and public sports infrastructure.

I see a solid foundation and a properly set development strategy at the point where the SIJ Group enters 2018, therefore we can be certain that the year will be marked by new business excellence.

Andrey Zubitskiy,
President of the Management Board

REPORT FROM THE PRESIDENT OF THE SUPERVISORY BOARD

Dear shareholders,

due to the entry of the SIJ Group into the poultry industry in 2015, the Supervisory Board of SIJ d.d. faced challenges of increased range of operations and more extensive and responsible checks and management of risks in the business year of 2017. In 2017, these were related to conditions on the markets of the Metallurgy and Poultry Divisions of the group as well as to changes in the management of the group.

Regarding the changes in the Management Board, the priority of the Supervisory Board was to guarantee a continuous, stable management. The Supervisory Board constructively supported the work of the Management Board with new Members and the creation of synergies between their different professional competencies. This enabled the SIJ Group to continue adopting measures for flexibly adjusting to market conditions in 2017.

The Supervisory Board carefully monitored risk management and performed its duties in favour of all parties with which the SIJ Group conducts business. It provided guidance for achieving business objectives and encouraged economic management and sustainable development, as well as operations of SIJ d.d. and the SIJ Group that set an example for other companies. With this kind of work, the Supervisory Board has significantly contributed to the successful results of 2017.

In 2017, the Company continued its implementation of effective mechanisms for risk management related to price pressure, which kept the Metallurgy and Poultry Divisions of the group above the industry average throughout the year. In 2017, revenues already exceeded €1 billion for the first time in our history.

The continued investment cycle for the modernization of the metallurgic part of production to enable the manufacture of technically sophisticated products, increased production capacities, and competitiveness. This is also associated with the obtained long-term financing resources. SIJ Acroni and SIJ Metal Ravne signed a long-term agreement with a consortium of seven banks for a five-year syndicated loan, and after financial restructuring in 2017, the PP Group also significantly improved its financial stability.

The achievements of SIJ d.d. and the SIJ Group in 2017 prove, according to the Supervisory Board's opinion, that the Management Board successfully carried out its activities and continued the implementation of a stable strategy for sustainable growth, which results in the corresponding benefits for the management of new challenges in the coming period.

Operation of the Supervisory Board in 2017

In 2017, the structure of the Supervisory Board changed. For most of the year, SIJ d.d. and the SIJ Group's operations were managed by the following Members:

- Evgeny Zverev, President (from 18 January 2017);[6]
- Janko Jenko, Vice-President;
- Sergey Cherkaev;
- Sergey Frolov;
- Mitja Križaj (from 9 June 2017);[7]
- Dmitry Davydov (from 9 June 2017).

On 19 February 2018, at the 31st shareholders' General Assembly, changes were made to the Supervisory Board. Sergey Frolov and Sergey Cherkaev ended their terms as Members of the Supervisory Board, while Evgeny Zverev, Dmitry Davydov, Boštjan Napast, Helena Ploj Lajovic, and Polona Marinko received four-year terms as Members of the Supervisory Board.

In 2017, the Supervisory Board also had the following Members:

- Denis Mancevič, PhD, until his resignation on 18 January 2017;
- Tomaž Stare, until his resignation on 15 May 2017;
- Andrey Zubitskiy, President of the Supervisory Board until 18 January 2017; with his appointment as the interim President of the Management Board, his function in the Supervisory Board was suspended until 18 July 2017, when he resigned from the Supervisory Board to become the full-term President of the Management Board.

6 The appointment of the new President of the Supervisory Board was required due to the appointment of Andrey Zubitskiy, the then President of the Supervisory Board, to the position of the President of the Management Board of SIJ d.d.
7 The appointment of two new Members of the Supervisory Board was required due to the appointment of Denis Mancevič, PhD, the Member of the Supervisory Board at the time, to the position of a Member of the Management Board, and due to the resignation of Tomaž Stare, the Member of the Supervisory Board at the time.

The supervisory body of SIJ d.d. is composed of Members with different professional qualifications and experience. The structure of the Supervisory Board with new Members, appointed and approved for a vote at the 30th General Assembly in June 2017, was approved by shareholders, which provided a stable interdisciplinary mix of professional competencies of individual Members.

Members of the Supervisory Board will follow their mission with their expertise to work in favour of the Company and the SIJ Group, which comprises almost 50 companies in Slovenia and abroad in two different specific industries. New challenges in supervising operations include the systematic classification and monitoring of different risks in individual divisions of the Group, and the careful adoption of measures for their elimination which differ in individual divisions of the Group.

In 2017, Membersof the Supervisory Board monitored the work of the SIJ d.d. Management Board regularly, efficiently, and among all relevant areas of operations. With their comments, questions, or opinions they regularly highlighted various business risks and drew attention to them.

With its work, the Supervisory Board significantly contributed to economic and effective business decisions of the Management Board. In 2017, it also helped the SIJ Group prevent delays in the decision-making process of the management bodies due to changes in management, as well as to maintain the stable, systematic, and centralized identification, monitoring, and risk management.

Effective Cooperation with the Company's Management Board

In 2017, 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 four regular meetings and three correspondence meetings, while in-between the meetings, the Management Board appropriately and transparently informed the Members about events relevant to business.

The SIJ Group and Members of the Supervisory Board operate in a global international business environment, and use various communication tools provided by the company's outstanding IT equipment. Providing clear and transparent materials, the Management Board ensured active cooperation with the Members of the Supervisory Board, irrespective of their location.

Given the above, the Supervisory Board believes that its cooperation with the Management Board in 2017 was exemplary.

Key Content of Operation

In 2017, 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 Statute, and other applicable regulations.

In 2017, the Supervisory Board focused on the following items of monitoring and verifying:

- **changes in the management of SIJ d.d. and the SIJ Group;**
  In the beginning of the year, Members of the Supervisory Board were notified about the resignation of Anton Chernykh from the position of the President of the Management Board due to personal reasons, and they appointed Andrey Zubitskiy, the President of the Supervisory Board at the time, to the position of the interim President of the Management Board at their meeting in January.
  After the resignation of Denis Mancevič, PhD, and Igor Malevanov as Members of the Management Board, the Supervisory Board appointed Dmitrii Bochkarev as the new Member at its correspondence meeting in May.
  At the correspondence meeting in July, the Supervisory Board appointed Andrey Zubitskiy to the position of the full-term President of the Management Board.

- **elimination of the risk of management instability;**
  With correct and timely measures, the Supervisory Board has successfully eliminated the risk of management instability despite the changes in the Management Board.

- **investing activities in the companies of the SIJ Group;**
  The Supervisory Board was regularly notified about the investing activities, especially in SIJ Acroni and SIJ Metal Ravne, which have the most important influence on the investing cycle as the largest steel companies of the SIJ Group.

- **implementation of the SIJ Group's financial policy;**
  The Management Board regularly notified the Supervisory Board about the structure of financial debt, the management of working capital, and the status of financial debt.

- **issue of commercial papers and reduction of financing costs;**
  With the high trust of financial investing bodies, SIJ d.d. issued a new series of commercial papers in December 2017, with the total nominal amount of €27,325,000. The commercial papers significantly contributed to the reduction of financing costs.

- **operations according to the principles of sustainable development;**
  For the purposes of keeping and improving business excellence towards all shareholders, the Supervisory Board regularly monitored values and operations according to the principles of sustainable development of the SIJ Group, which should become an example for the industry as well as local and broader communities of stakeholders. The Management Board also presented social, humanitarian, sponsoring, and other socially responsible projects to the Supervisory Board.

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 on 13 April 2017, the Supervisory Board adopted the audited annual reports and approved the Management Board's proposal on profit distribution. At the regular General Assembly, the shareholders approved the proposal to earmark for dividends part of the distributable profit from 2016 in the amount of €9,969,934.96. The Supervisory Board authorized the Management Board to carry out the payout by the end of 2017. The Supervisory Board also familiarized itself with the audited report on relations with associated parties and approved it during the approval of the report of the Supervisory Board.

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 2017 be carried out by the company Deloitte Revizija d.o.o. from Ljubljana. Regarding the recommendation on switching auditors in 2018, the shareholders unanimously approved the proposal at the General Assembly.

At their sessions, Members of the Supervisory Board took note of interim business results, and were informed of the activities within individual projects of the Metallurgy and Poultry Divisions, as well as other business events and plans of the SIJ Group.

Starting Points for Operations in 2018

At the Supervisory Board's session held on 22 December 2017, the Members took note of the planned activities until the end of the year and the starting points for operations in 2018. These include the continued implementation of procedures of comprehensive strategic planning, modernization to eliminate bottlenecks, and the upgrade of business models to earn the trust of investors. Special attention will be paid to monitoring the projects that the SIJ Group will begin in sustainable development. The risks that usually arise in operations (e.g. in research and development, quality and environmental friendliness of production processes, etc.) are associated with the Company's concern for sustainable development and the proof of business value with achieved results.

As previously mentioned, the shareholders' General Assembly named new Members of the Supervisory Board on 19 February. The Supervisory Board has always strived for the stable management of SIJ d.d. and the SIJ Group, and named Tibor Šimonka and Igor Malevanov new Members of the Management Board on 22 February, to facilitate the uninterrupted execution of the planned activities. Following 30 March, when Member of the Management Board Dmitrii Bochkarev resigned, the Supervisory Board appointed Viacheslav Korchagin a new Member of the Management Board for a full six-year term on 9 April.

Work of the Supervisory Board's Audit Committee

The audit committee comprising of Sergey Cherkaev, President, Sergey Frolov, Member, and Alan Maher, MsC, external independent Member, met at two sessions held in March.

At its sessions, the Audit Committee discussed material for the Supervisory Board and, as a supporting committee, also discussed other specific issues regarding operations in different areas. The Audit Committee also carried out an interview and consultations with certified auditors about the audit of the Company's operations in comparison to established international practices. Regarding the subject annual report, an interview with the auditor was conducted on the audit and the key findings thereof for the Supervisory Board by the new Members of the Audit Committee Janko Jenko, Boštjan Napast, and Alan Maher, MSc, who were appointed as Members of the Audit Committee in 9 April, due to the changes in the Supervisory Board.

The Supervisory Board evaluates that in 2017, the Management Board maintained the stability and high profitability of operations, and proved that it is a strong partner to employees, shareholders, suppliers, customers, local communities, and the social and natural environment (i.e. all parties in the domestic and international environments in which it operates).

Ljubljana, 25 April 2018

Evgeny Zverev,
President of the Supervisory Board

Cooperation is the carefully considered linking of different points into a new unity.

ORGANIZATION AND CORPORATE GOVERNANCE

ABOUT SIJ D.D.

With smart organisation, carefully considered management, connecting functions, and cooperation, we better our chances of reaching our goals.

Because we operate in different regions of the world, we look for those intersections that enable us a comprehensive view of the world and time in which we operate.

Basic Information About SIJ d.d.

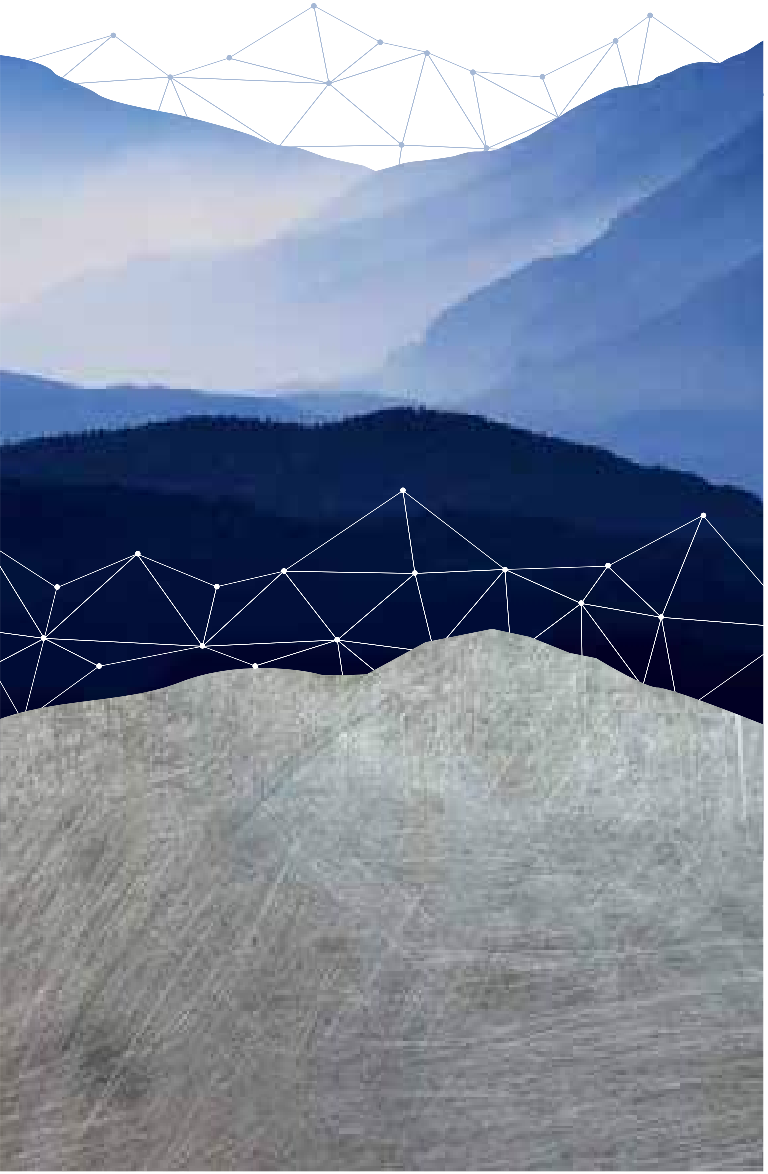
Company name	SIJ – Slovenian Steel Group, d.d.
Abbreviated company name	SIJ d.d.
Registered address	Gerbičeva ulica 98, 1000 Ljubljana, Slovenia
Entry no.	SRG 1/03550/00
Date of entry	22 February 1995
Registered share capital	€145,266,065.75
No. of shares	994,616 ordinary no-par value shares
Ownership	
(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 0.001% – other shareholders
	2.775% – treasury shares
Registration number:	5046432000
Tax number:	SI 51018535
Principal activity	70.100 Activities of head offices

Shares: Holder Rights

The Company's share capital is divided into 994,616 ordinary no-par value shares of one class, which are issued in non-materialized 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. The Company is not aware of any agreements between shareholders that could result in restrictions on the transfer of shares or voting rights.

Besides voting rights shareholders also have the rights

- to a part of the profit (dividends);
- to participate in company management;
- to a proportionate part of the remaining assets after the Company's potential 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.[8]

At the 30th General Assembly of SIJ d.d.'s shareholders held on 9 June 2017, the shareholders extended by 36 months their authorization, first issued in 2014, of the Management Board for the purchase of a total of 27,610 treasury shares. The Management Board has no other powers in relation to the issuance of shares.[9]

Controlling Company: Centralized Services for the Companies in the SIJ Group

SIJ d.d. is the controlling company and founder or direct or indirect owner of subsidiaries of the SIJ Group. It functions according to the principles of a contractual and factual 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 companies of the SIJ Group, both in Slovenia and abroad. SIJ d.d. has no registered branch offices.

The company SIJ d.d. directly manages its investments in the companies of the SIJ Group, the legal basis for which is a management contract subordinating the management of the companies to the controlling company, which also performs centralised services for the SIJ Group. In other companies, the mechanism for making and implementing strategic decisions are the majority shares of the controlling company, based on which the company provides the efficient management of the SIJ Group, as described in the chapter on the integration of the companies of the SIJ Group. These services include performing key business functions and making strategic decisions on the levels of individual companies and the entire SIJ Group.

Since SIJ d.d. and the companies of 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 regulated by law,[10] nor in activities related to logging of rainforests, we are not subject to reporting under the provisions of Article 70.b of the Companies Act (ZGD-1).

8 SIJ d.d. is subject to the provisions of the law governing mergers and acquisitions. As at 31 December 2017, none of the specific positions referred to in item 11 of the sixth paragraph of Article 70 of the Companies Act were fulfilled.

9 Since 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 Companies Act (ZGD-1) as at the last day of the fiscal 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.

10 Article 70.b of the ZGD-1 applies to large companies, whose activities include the research, 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.

OPERATING RESULTS OF SIJ D.D.

SIJ d.d.: Key Operating Figures

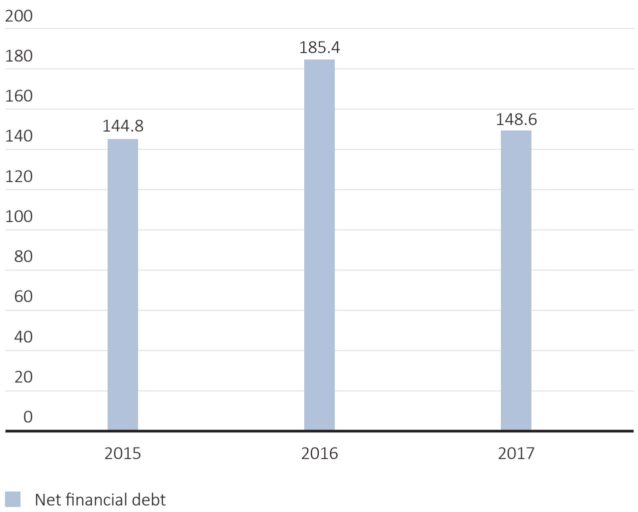
Financial data	Unit of measure	2015	2016	2017
Operating revenues	€ thousand	35,590	40,575	39,213
EBIT	€ thousand	21,269	24,584	14,422
EBITDA	€ thousand	21,643	25,017	14,978
Profit before taxes	€ thousand	20,467	20,130	11,392
Net profit	€ thousand	19,752	19,946	11,392
Investments*	€ thousand	586	786	641
Capex*	€ thousand	604	803	865
Statement of financial position as at 31 Dec.				
Total assets	€ thousand	350,813	405,557	364,088
Equity	€ thousand	191,403	205,532	207,089
Non-current and current liabilities	€ thousand	159,410	200,026	156,999
NFD as at 31 Dec.				
Non-current financial liabilities	€ thousand	122,700	157,433	94,711
Current financial liabilities	€ thousand	31,284	36,261	54,264
Cash and cash equivalents	€ thousand	9,143	8,286	312
Net financial debt	€ thousand	144,840	185,409	148,663
NFD/EBITDA		6.7	7.4	9.9
Employees				
Average number of employees		63	79	96
Financial ratios				
Return on sales (ROS)	%	153.2	131.2	69.9
Return on assets (ROA)	%	6.7	5.3	3.0
Return on equity (ROE)	%	10.6	10.0	5.5
Net profit per employee	€ thousand	314	252	119

**The investment in subsidiaries have been eliminated.*

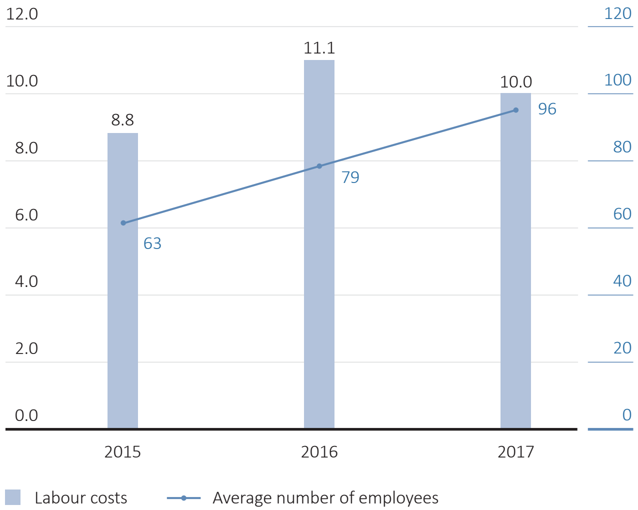
Services for SIJ Group Companies

The main revenue source of SIJ d.d. is revenue from the provision of services for SIJ Group companies and received dividends from 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, planning, analytical monitoring of operations, and corporate communications.

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



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

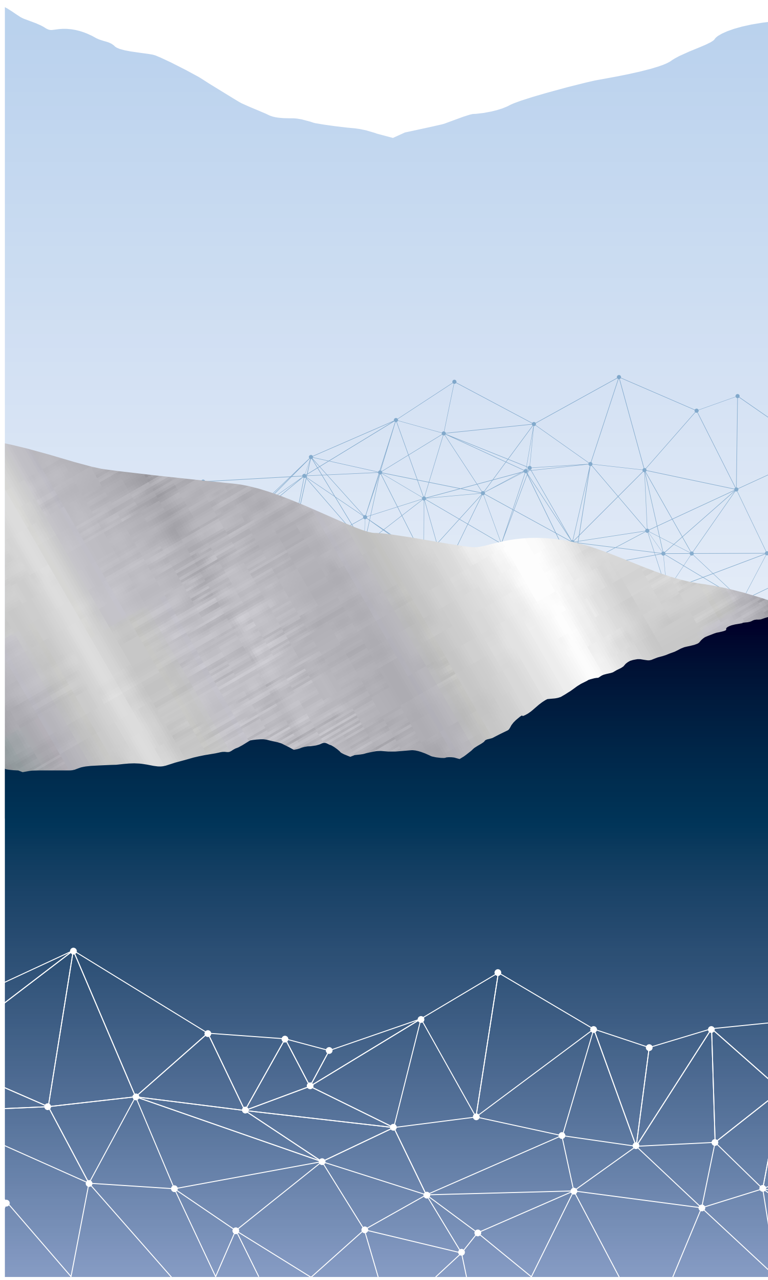


Improvement of Financial Position

In 2017, the NFD of SIJ d.d. decreased in comparison with the previous year, partly due to the contract on a five-year syndicated loan to refinance the existing loan portfolio and ensure long-term funds for working capital. Furthermore, the NFD decreased due to the smaller number of acquisitions. In 2017, SIJ d.d. bought an additional share of Perutnina Ptuj d.d. in the amount of €11.4 million, otherwise, there were no other major purchases of companies or companies' shares in the year.

More Employees without Increased Labour Costs

The majority of costs represent labour costs, as due to its growth and development strategy, the Company strengthens its central functions and the number of employees. Despite the bigger number of employees, the Company effectively manages labour costs and has reduced them in 2017.



PRESENTATION OF THE SIJ GROUP AND CORPORATE GOVERNANCE SYSTEM

Ownership

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

Centralized Business Functions

The operating functions, key to the SIJ Group's performance, are centralized in the SIJ d.d. controlling company.

As the majority shareholder, the SIJ Group strategically manages its companies. The Management Board of SIJ d.d. and its executive management team strategically manage, guide, and supervise the operations of all companies of the SIJ Group, both in Slovenia and abroad, and its duties as part of management also include the assurance of proper control and risk management systems.

Internal Controls and Risk Management in Financial Reporting

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

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

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

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

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

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

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

Integration of the Companies of the SIJ Group

The majority of 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 remains indirectly subject to unified management.

Other subsidiaries are located in Italy, Austria, Germany, Great Britain, Croatia, Bosnia and Herzegovina, Serbia, China, and the USA, while the companies in the Poultry Division are also located in Macedonia and Romania. As a rule, companies are 100 percent owned or under the controlling influence of the parent company SIJ d.d., and are generally limited liability companies.

The Management Board manages and strategically governs the entire SIJ Group through decisions, instructions, and other acts issued in accordance with its powers. It actively and strategically governs and guides all key business processes of the SIJ Group as the management body of the Company and the SIJ Group or as 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.

SIJ Group:
Organizational Structure per Division and Company

SIJ d.d.

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 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)
- Griffon&Romano (IT)
  - Inoxpoint (IT)
- Niro Wenden (DE), 85%
- SIJ Asia (DE)
  - SIJ Steel Shanghai Co. (CN)
- SIJ Polska (PL)

POULTRY DIVISION

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

Metallurgy Division: Program Structure and Geographical Distribution

4 SCRAP

Scrap Division
- Odpad Pivka, Pivka (SI)
- Dankor, Osijek (HR)
- Metal-Eko Sistem, Jagodina (RS)
- TOPMetal, Banja Luka (BA)

2 STEEL

Steel Division
- SIJ Acroni, Jesenice (SI)
- SIJ Metal Ravne, Ravne na Koroškem (SI)

13 DISTRIBUTION

Distribution and Processing Division
- SIJ Ravne Steel Center, Ljubljana (SI)
- Sidertoce, Gravellona Toce (IT)
- Niro Wenden, Wenden (DE)
- Griffon & Romano, Melzo (IT)
- Inoxpoint, Montegalda (IT)
- KOPO International, New Jersey (US)
- SIJ Ravne Systems USA, Delawere (US)
- SIJ Steel Shanghai, Shanghai (CN)
- ORO MET, Košana (SI)
- SIJ MWT, Landsberg am Lech (DE)
- SIJ Polska, Poznan (PL)
- SIJ Asia (DE)

4 MANUFACTURING

Manufacturing Division
- SIJ Ravne Systems, Ravne na Koroškem (SI)
- Noži Ravne, Ravne na Koroškem (SI)
- SIJ Elektrode Jesenice, Jesenice (SI)
- SIJ SUZ, Jesenice (SI)

3 SERVICES

Headquaters and Other Services
- SIJ d.d., Ljubljana (SI)
- SIJ ZIP Center, Ravne na Koroškem (SI)
- Železarna Jesenice, Jesenice (SI)

Metallurgy Division

The Metallurgy Division of the SIJ Group consists of 26 companies, 18 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.

Poultry Division: Program Structure and Geographical Distribution

1 RAW MATERIALS – Energetics	2 RAW MATERIALS – Agriculture	5 FEED PRODUCTION	6 LIVESTOCK PRODUCTION	5 SLAUGHTERHOUSES	4 SALES NETWORK	4 SERVICES	1 WINEMAKING
PP Energija, Ptuj (SI)	PP – Agro, Maribor (SI)	Perutnina Ptuj d.d., Ptuj (SI)	Perutnina Ptuj d.d., Ptuj (SI)	Perutnina Ptuj d.d., Ptuj (SI)	Perutnina Austria, Seiersberg (AT)	Gradbeni remont, Ptuj (SI)	Ptujska klet, Ptuj (SI)
	Perutnina Ptuj d.d., Ptuj (SI)	Perutnina Ptuj – PIPO, Čakovec (HR)	Perutnina Ptuj – PIPO, Čakovec (HR)	Perutnina Ptuj – PIPO, Čakovec (HR)	Perutnina Ptuj DOOEL Skopje, Skopje (MK)	PP Gostinstvo, Ptuj (SI)	
		Perutnina Ptuj – Topiko, Bačka Topola (RS)	Perutnina Ptuj – Topiko, Bačka Topola (RS)	Perutnina Ptuj – Topiko, Bačka Topola (RS)	Perutnina Romania, Brasov (RO)	Veterinarska ambulanta PP, Ptuj (SI)	
		PP – Agro, Maribor (SI)	Perutnina Ptuj S, Srbac (BA)	Perutnina Ptuj BH, Breza (BA)	Naša, Ptuj (SI)	TOP veterina, Bačka Topola (RS)	
			PP BRO ŽIVA, Bačka Topola (RS)	PP MI Zalog, Ljubljana (SI)			
			EKO – energija, Čakovac (HR)	Perutnina Ptuj S, Srbac (BA)			

Poultry Division

The PP Group, presenting the Poultry Division of the SIJ Group, consists of 19 companies, 13 of which are established within the European Union, while the remaining companies operate in the countries of the former Yugoslavia.

CORPORATE GOVERNANCE AND SUPERVISION OF SIJ D.D.

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

The Company's governing bodies are:
• the General Assembly;
• the Supervisory Board;
• the Management Board.

The Management Board and the Supervisory Board changed in 2017, but the shareholders' structure remained unchanged. Due to the changes, functions as at 31 December 2017 are listed, and an explanation of the structure of the Management Board and the Supervisory Board throughout 2017 has been added.

General Assembly: Decision on Dividends for 2016

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 statute.

In 2017, the General Assembly was held on 9 June 2017. The convening of the General Assembly with explanations of the proposed decisions and the content of the decisions adopted was made available to the shareholders and the public on the SEOnet website and the Company's website. At the 30th General Assembly, shareholders were informed of the annual report of SIJ d.d. and the SIJ Group for the 2016 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 General Assembly agreed to the proposal of the Management Board and the Supervisory Board to, of the distributable profit for 2016 in the amount of €47,843,066.55, earmark €9,969,934.96 for the payment of dividends. Excluding treasury shares, the gross dividend per share was €10.31, and the General Assembly authorized the Management Board to independently decide on installments for the payout by the end of 2017. The General Assembly adopted a resolution whereby the rest of the distributable profit in the amount of €37,873,313.59 remains undistributed.

The General Assembly conferred official approval on the Management Board and Supervisory Board for their work in 2016.

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 2017 financial year.

In line with the proposed additions to the agenda, shareholders also approved the updated policy on receipts of the members of the Company's controlling bodies. Shareholders elected two new Members of the Supervisory Board to fill the empty seats in the Supervisory Board until 11 April 2019, in other words, for the same term of office as other Members. The elected Members were Dmitry Davydov and Mitja Križaj. Due to the expiry of the Management Board's authorization on 9 June 2017 for the purchase of own treasury shares, the General Assembly extended its authorization of the Management Board for another 36 months.

Supervisory Board: a Seven Member Body

In accordance with the Company's statute, the SIJ d.d. Supervisory Board comprises seven Members who are appointed by the General Assembly. Proposals for the adoption of decisions 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 statute and other applicable regulations.

Members of the Supervisory Board

Evgeny Zverev
Member of the Supervisory Board since 30 August 2013.
President of the Supervisory Board since 18 January 2017.
After receiving another four-year term at the shareholders' General Assembly on 19 February 2018, Members of the Supervisory Board re-elected him as President of the Supervisory Board at its session on 22 February 2018.

Evgeny Zverev, born in 1981, is a lawyer by profession. He graduated from the Kemerovo State University in Russia. Until 2007, he was employed at IMH – Industrial Metallurgical Holding Management Company in Moscow. After that he joined SIJ d.d., where he is the Director of Legal Affairs, Mergers and Acquisition.

Janko Jenko
Member of the Supervisory Board since 30 August 2013.
Vice-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 working in telecommunications and IT.

Sergey Cherkaev
Member of the Supervisory Board since 26 August 2009. Based on the resolutions passed at the General Assembly held on 19 February 2018, his term as Member of the Supervisory Board was terminated.

Sergey Frolov
Member of the Supervisory Board since 30 August 2010. Based on the resolutions passed at the General Assembly held on 19 February 2018, his term as Member of the Supervisory Board was terminated.

Dmitry Davydov
Member of the Supervisory Board since 9 June 2017.

Dmitry Davydov, born in 1975, graduated in economy, program Accounting, and Auditing at the Novosibirsk State University. After working in the Koks group, he joined IMH – Industrial Metallurgical Holding Management Company in 2003, where he held management functions in the commercial field, sales and logistics. He has been employed in the SIJ Group since 2013.

Mitja Križaj
Member of the Supervisory Board since 9 June 2017.

Mitja Križaj, born in 1971, graduated in economy and focused his career on complex issues in banking, project and real estate financing, sales, insurance, and investments. He founded, managed, and supervised several companies in Slovenia and was also a non-executive Member of the Management Board of DUTB, d.d. He is a voluntary ambassador of the Slovenian organization of the international foundation Red Noses.

In 2017, the Supervisory Board also included Andrey Zubitskiy, who was President of the Supervisory Board until his appointment as President of the Management Board (18 January 2017), and Members Denis Mancevič, PhD, and Tomaž Stare. At the beginning of 2018 (19 February), Boštjan Napast, Helena Ploj Lajovic, and Polona Marinko became new Members of the Supervisory Board. Changes in Membership of the Supervisory Board are explained in detail in the Report from the President of the Supervisory Board, or during the events after the reporting date.

Members of the Audit Committee

The work of the Audit Committee, appointed by the Supervisory Board, is linked to a 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.

In 2017, the Audit Committee consisted of:

- Sergey Cherkaev, President;
- Sergey Frolov, Member;
- Alen Maher MsC, Independent expert;

In 9 April of 2018, the Supervisory Board appointed Janko Jenko, Boštjan Napast and Alan Maher, MsC to the Audit Committee.

Management Board of the Company

The Management Board of SIJ d.d. leads and strategically manages the entire SIJ Group.

Six Year Mandate

In accordance with the statute of SIJ d.d., the Management Board comprises one President and one to three Members. The President and Members of the Management Board are appointed by the Supervisory Board for a term of no more than six years with the possibility of reappointment. The duration of the term is set out in each decision 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.

As of 18 January 2017[11], the Company has a three-member Management Board composed of:

- Andrey Zubitskiy, President of the Management Board (temporary 6-month term of office);
- Denis Mancevič, PhD, Member of the Management Board and CEO (termination of appointment on 10 July 2017);
- Igor Malevanov, Member of the Management Board and CFO (termination of appointment on 25 June 2017).

In the second half of 2017, the Management Board consisted of Andrey Zubitskiy, whom the Supervisory Board appointed for a full term on 18 July 2017, and Dmitrii Bochkarev, who became a Member of the Management Board on 17 May 2017. Changes in the Management Board were also a recurring theme at the beginning of 2018. On 22 February, Tibor Šimonka and Igor Malevanov were named members of the Management Board, and joining them on 9 April 2018 was Viacheslav Korchagin, following the resignation of Dmitrii Bochkarev. Changes are explained in detail in the Report from the President of the Supervisory Board or during the business events after the reporting date.

Participation in Steel Associations

In 2017, the Management Board continued its active participation in the work of international steel associations, while, outside of the SIJ Group, Members of the Management Board did not conduct any significant activities.

11 The changes in management came as the result of the resignation for personal reasons of the then President of the Management Board Anton Chernykh. These changes are presented in greater detail in the 2016 annual report.

Bodies of SIJ d.d. and the SIJ Group: Consideration of a Diversity Policy

In 2017, SIJ d.d. did not adopt any specific diversity policy regarding representation in the Company's management or supervision bodies regarding factors such as gender, age, education, or other circumstances. The Management Board believes that 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. This approach guarantees the efficient work of the management and supervisory bodies, thus improving business results and the reputation of the Group.

STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODES AND NON-FINANCIAL ACTIVITY OF SIJ D.D. AND THE SIJ GROUP

The company SIJ d.d. issues a management statement in accordance with the Corporate Governance Codes, while other relevant information pertaining to the statement of compliance according to Article 70 of the Companies Act are in the business report under the section Organisation and Corporate Governance. The statement refers to the period between 1 January 2017 and 31 December 2017.

The provisions of the revised Slovenian Corporate Governance Code from 27 October 2016, which has been in force since 1 January 2017 and was unanimously formulated by the Ljubljana Stock Exchange and the Slovenian Directors' Association, applied to SIJ d.d. in 2017. It is published on the website of the Ljubljana Stock Exchange www.ljse.si.

Given the Slovenian Government's ownership stake in SIJ d.d., from March 2016 the Company conforms to the Corporate Governance Code for Companies with Capital Assets of the State, which the Management Board of the Slovenian Sovereign Holding (SDH) adopted with the approval of the Supervisory Board and is published on its website www.sdh.si.

Regarding the management of SIJ d.d. and the SIJ Group in 2017, SIJ d.d. observed with its implied actions the provisions of the Slovenian Corporate Governance Code, and applied the Corporate Governance Code for Companies with Capital Assets of the State reasonably and in the part where the content of the provisions of both codes overlaps, thus providing a unified Statement of Compliance with the Corporate Governance Codes.

The main deviations from the Slovenian Corporate Governance Code are explained below.

Corporate Governance Framework

The Company has no special document named Governance Policy (or Communication Strategies within such policy) or Diversity Policy. The Governance Policy is already present in other documents, which guarantee the effective implementation of decisions on governance through the controlling agreement, founding acts, or other acts of the SIJ Group's companies. By transparent notification, the Company announces all strategic or business decisions relevant to the Company's position. Similarly, there is no unified document named Diversity Policy regarding representation in the management and supervisory bodies, while the Company strives towards diversity in the appointment of the management and supervisory bodies by searching for synergies between members regarding their expertise, experience, skills and mutual respect.

Relation Between the Company and Shareholders

Regarding the above and regarding the General Assembly, the Company does not send notifications to shareholders, because it believes that communication or the mutual informing of investors is provided by public releases and organized business meetings, but the Company also respects the independence of shareholders regarding the mutual coordination of relations or the policy on investment management.

According to the shareholders' structure, the provisions of points 8.1 and 8.2 are irrelevant for the Company. The Company would have to observe this policy if shareholders decided on the policy of the Management Board's receipts.

Supervisory Board

The Company primarily complies with the provisions of the Companies Act and the structure of candidates in the Supervisory Board as representatives of shareholders after receiving the electoral proposals, which the Supervisory Board discusses in relation to competencies of the candidates at its sessions, whose appointment it proposes at the General Assembly. The Supervisory Board does not have a special human resources committee and the Company does not collect statements on the candidates' independence. The Members of the Supervisory Board work comprehensively and complement each other with their expertise in specific fields. The Supervisory Board does not evaluate individual Members, because the entire body is evaluated in the report of the Supervisory Board for a specific business year. Because the Company provides administrative, technical, and organizational support, there is no secretary of the Supervisory Board appointed.

Audit and Internal Control System

In 2017, the Company did not follow the recommendation to change auditors, but it intends to observe the recommendation for a regular change of the audit company in the future.

Non-financial Operations

SIJ d.d. is a public interest entity. Other content in the annual report describes all the available and reliable information about the operations of SIJ d.d. and the SIJ Group regarding the environment, and social and human resources, by which the group demonstrates to interested parties (employees, shareholders, suppliers, social environment – communities, natural environment, and customers) its awareness about the group's economic efficiency and sustainable development, as well as the development of the broader environment.

As a major employer with a long tradition in the Metallurgy and Poultry Divisions, the SIJ Group is strongly embedded in local communities, sports, and cultural programs, and in educational and humanitarian projects. The SIJ Group strives to comply with environmental regulations and, through development, it ensures the introduction of environmentally-friendly technologies and efficient energy consumption. It proudly informs the public about received awards and other achievements, and has a connective role within the group through numerous tools for communication with employees. By publishing a wide range of content, it keeps all parties informed and ensures respect for diversity in every employee structure in such a large group, while also showing respect for human rights.

Together with wider social activities, the SIJ Group's business model is based on a vertical integration and cooperation of the supply chain in the development of finished products, thus aiming to enable versatile excellence in supplying products to end customers and increasing business reputation. Regarding the pressure of cost-effective production, the biggest challenge for the SIJ Group in the future will be achieving global market recognizability, not just as having the most affordable prices, but also as a socially responsible producer of high-quality special steels and steel product for various complex applications in different industries, and the main challenge in the Poultry Division will be keeping the same high quality of products.

The SIJ Group did not formally adopt any specific policies for individual fields of non-financial operations. Its attitude and values are reflected in the projects in which the group or its companies participate. The long-term trust of investors in the modern business environment is proven by democratic relations and transparent operations in the international environment, without unfair business practices. All of this is also considered before making any business decisions. Through due diligence when making investments and planning other projects, we form quality control circles and work groups, which first thoroughly study the advantages and disadvantages as well as risks.

The results of the non-financial operations of the SIJ Group are measured by the successful implementation of various projects, positive feedback regarding business events, and by the innovative achievements of employees, awarded also by experts, but mostly by the trust of investors.

Because risks in operations are logically linked to the ability to implement strategic projects in sustainable development, the criteria for risk management in non-financial operations are compared in parallel. In the Metallurgy Division, the company pays special attention to financial and commercial risks due to the importance and probability of fast changes, and in the long term, both divisions of the group are influenced by political, economic, and social risks. These risks are assessed as moderate, since non-financial business projects serve to increase the added value of financial operating parameters, and risks can be effectively managed by careful planning, reporting, and control.

It is essential that future sustainable development projects are compatible with the strategic guidelines for the operations of the entire SIJ Group, so that they will generate positive effects in every aspect of production and the local environments where the Metallurgy and Poultry Divisions are active, and that the effects of sustainable development will result in excellent mutual relations and communication with all parties.

Andrey Zubitskiy,
President of the Management Board

Evgeny Zverev,
President of the Supervisory Board

How far we see depends on the point where we are standing today.

BUSINESS REPORT

STRATEGIC GUIDELINES AND BUSINESS STRATEGY

Metallurgy Division

Higher revenues, high profitability, which we aim to increase by offering a larger share of products with a higher added value, deceleration of the investment cycle and the subsequently lower debt, and a strong focus towards exports will be our points of strength for the way ahead.

Vision: Leading and Niche

The SIJ Group unites leading steel brands with tailor-made solutions. We are a leading provider of stainless steel quarto plates, complex tool steels for the long steel program, and steels with specific requirements for niche markets.

Mission: Working for and with Customers

With our excellence, we provide innovative and integrated tailor-made solutions for our customers.

Values of Business Excellence

We operate ethically, professionally, honestly, and reliably. We encourage and urge our business partners to act economically and work towards sustainable development.

LONG-TERM OBJECTIVE: TO BECOME ONE OF THE MOST PROFITABLE VERTICALLY INTEGRATED STEEL GROUPS IN EUROPE

Through strategically sound and efficient business, steadily increasing the proportion of products with the highest added value and our own brand, through the reduced use of natural resources, and the production of new products, we will become one of the most profitable vertically integrated steel groups in Europe in next decade.

New production technologies will help us increase the added value per employee and achieve a better utilization of production capacities. In a strong, vertically connected chain, the SIJ Group will make use of internal synergies and increase the share of processing steel into our own finished products. We will intensify the development and commitment of employees, who are the basis of our successful operations. We will contribute to the development of the local social environment and strive for the preservation of the natural environment.

Strategy: Efficient Management, Investments, and Capacities

Our focuses are sustainable and long-term. We defined strategic fields, projects, and activities that will help us achieve the bold objectives of the next decade.

In the assessment of the current strategy, we focused particularly on the efficient management of companies, thorough arguments for investments, maintenance optimization, the elimination of bottlenecks, and the use of the available production capacities. These fields are an integral part of the strategy and everyday operations of the SIJ Group.

Priority: Vertical Integration

The SIJ Group is establishing a vertically integrated business model. In the Metallurgy Division, we provide better care for end customers and integrate the chain in the development of finished products. Within the current vertical integration, we keep increasing the possibilities for machine and heat treatment of materials, and the share of processing steel into finished steel products with high added value. Synergies in a strong, connected, and efficient steel group will make us the number one choice of end customers. We will increase the profitability of the SIJ Group.

Market Niches: Products with Higher Added Value

We are increasing the share of products with higher added value that are marketed under our own brands. At the same time, we make optimal use of production capacities and minimize the use of natural resources. This orientation is supported by appropriate strategies of research and development, investments, and marketing. We are consolidating our market position through product certification among end users of steel (OEM)[12] and through our direct approach to end users. We are focused on carefully selected market segments and niches, in which we design, produce, and market a range of customized products and services.

Investments: Into New Products and Sustainable Development

When deciding on new investments we prioritize the production of new products, the increase of capacities for energy efficient and environmentally friendly production, the optimization of production processes, the increase of availability and flow, and the elimination of bottlenecks. We develop new ways for processing waste materials or by-products into useful finished products, and participate in research and development projects to improve energy efficiency. We include our know-how and production possibilities in the implementation of investments as much as possible.

Customers: An Increasing Number of End Users

An increasing share of revenues is obtained through sales of our own finished products and comprehensive solutions, tailor-made directly for end users. In key markets, we are consolidating our market position through our own sales and distribution channels, which enable a direct contact with the end users and thus the obtaining of quick and objective feedback from the market. Due to our own distribution, customers can rely on the high availability of products and shorter delivery times as well as additional services. We are focusing more on a direct contact with the customers who are increasingly becoming the end users of our products. For its customers, the SIJ Group organizes events like sales conferences and workshops in product development. This does not only strengthen partner relations with customers, but also guarantees the right orientation of investments, research, and development.

Business Functions: Centralization and Cost Effectiveness

Achieving synergies and centralizing business functions are the basis for the improved corporate governance of the SIJ Group. Through governance based on the optimal utilization of capacities and synergies within the group, we can manage risks better, consolidate business processes, and optimize costs.

A 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. We will continue to invest into the development of employees' competencies and carry out activities to keep their deep commitment. In the coming years, we will be upgrading our scholarships policy – at the vocational and technical level as well as at the university undergraduate and postgraduate levels.

12 Original Equipment Manafacturers.

Success: Increased Profitability

Our priority objectives are a long-term decrease of our net financial debt and an increase in the profitability of operations. Achieving these objectives is also connected to the appropriate implementation of the investment cycle. This is further supported through continuous cost rationalization, the adjustment of production processes, and increases in the sales of products with higher added value and finished products.

BUSINESS OBJECTIVES FOR 2018

In 2018, we will increase production volume and profitability, and reduce the debt of the group. These objectives will be achieved through cost optimization, the efficient organization of a well-connected group, and the utilization of favorable conditions on the market. We have also set ambitious sustainable development objectives for 2018.

Stainless Steel Plates: Leading Producer in Europe

In 2018, we will keep our leading share in the market of stainless steel quarto plates in Europe, and remain the third-largest producer in global ranking, with a 0.3 percent increase of share. This will be achieved through:

- implemented investments such as the AOD convertor;
- the optimization of production technologies like improving our pickling technology;
- the optimization of processes, such as modernizing the production planning system;
- efficient logistics in the shipping of finished products, where we plan to organize a warehouse to achieve the optimum flow of materials.

Special Steel Plates: Forty Percent Increase

We will increase our sales and production volumes by at least 40 percent in the market of special steel quarto plates, which includes wear-resistant and high-strength micro-alloyed steels. We will achieve this by

- obtaining new certificates from end users;
- actively promoting our own brands SIDUR and SIMAXX at specialized fairs.

The planned growth will also be supported by our plan to be placed on at least 15 new lists of approved suppliers for our products by end users.

Tool Steels: New Products for New Requirements

We will continue to develop new products and optimize production technologies in the field of tool steels and steels with special requirements. Altogether, over 200 improvements of this kind are planned. Demands for new products will be directly obtained at workshops in product development for end users and through cooperation in the field of research and development. Important projects and planned results include:

- the development of new, highly pure, top-quality tool steel for our brand SITHERM, ideal for working in hot environments with high thermal conductivity, for manufacturing tools for die-cast aluminum, drop-forging, and hot stamping. The development is part of the research and development program “Martina”, where we participate as project promoter and which will probably end in the beginning of 2019;
- acquiring two new types of non-oriented electrical steel plates for use in power units of electrical vehicles; the new product will be the result of development projects which we started in 2017 in cooperation with end users.

Sustainable Development: Reduced Consumption of Water, Energy, and Materials

In 2018, we will reduce the consumption of potable water by at least 10 percent through raising awareness among employees and improving production technologies.

Although products are becoming more complex, which increases production costs due to technological processes and heat treatment, we will reduce the specific consumption of total energy[13] by at least one percent.

By carefully choosing input materials and with a few production optimizations. we will reduce the consumption of graphite electrodes in the electric arc furnace (EAF) by at least two percent. In 2017, we had already made better use of refractory materials in the electric arc furnace: we increased the number of cast heats per lining by more than five percent. Improvements regarding the efficiency of the lining of ladles are planned in 2018. Our goal is to increase the number of heats per ladle lining by 60 percent through technological improvements.

Objectives set for the next decade and the business year 2018 are based on completed projects and the achieved objectives of previous years and the business year 2017.

ACHIEVED OBJECTIVES IN 2017: CONSOLIDATED MARKET POSITION

In 2017, we maintained our leading market share in the market of stainless steel quarto plates in the European Union (SIJ Acroni), and our position as the third-largest producer of tool steel in the EU market (SIJ Metal Ravne).

In customized production, we have maintained the competitive advantages offered by short delivery times. In April, SIJ Acroni launched the most important strategic investment of the SIJ Group in 2017 – the AOD convertor. With the new machine, SIJ Acroni is increasing its capacities for the production of stainless and special steels, thus consolidating its position in niche steel markets.

13 The specific consumption of total energy is measured in MWh per ton of production of finished products and in MWh per €1 million of sales.

Through the reorganization of operations and implementation of investment, purchasing, commercial, and other policies, as well as work standards, we laid new foundations in 2017 for the improvement of the group's corporate governance. We have extended the exchange of best practices and introduced regular themed video conferences to connect the group's companies.

Support for Achieving Objectives: Important Achievements and Projects

The fulfillment of key strategic objectives is supported by projects completed in 2017. Our most important achievements include:

- **Investments:** SIJ Acroni in Jesenice launched the most important strategic investment of the SIJ Group (the AOD convertor), and SIJ Metal Ravne completed its investment into a new Ebner furnace for heat treatment;
- **Development of advanced steels:** within the project "Martina", we produced a top-quality tool steel (SITHERM S140 R, SITHERM S142), which has all the usual characteristics (tempered resistance, strength, toughness, wear resis-tance, resistance to thermal fatigue etc.), as well as significantly better thermal conductivity compared to regular hot-work tool steels;
- **New certificates:** we have obtained certificates for the SIJ Group's products from eight renowned manufacturers of industrial equipment;
- **New systems to support efficient operations:** we have set up a documenting system WSS for documenting tasks, minutes, agreements, and other documents;
- **Our own implementation of new production solutions:** SIJ Ravne Systems designed, developed and manufactured a feeding system for SIJ SUZ for its grinding line; SIJ Elektrode Jesenice developed and manufactured a machine for cladding roller tables for SIJ Acroni.

Poultry Division

PERUTNINA PTUJ: INTERNATIONAL GROUP

The main company of the Poultry Division in the SIJ Group is the Perutnina Ptuj Group. The principal activity of this international group is the production of natural, healthy, and tasty food. Companies of the group set themselves the highest standards for quality, traceability, safety, and ecology. They are all committed to perfection.

Mission: Better Life

Perutnina Ptuj contributes to the better life of individuals, the local environment, and society at large with its careful balance between tradition, nature, and state-of-the-art technology.

Vision: Provider of Healthy Food

Perutnina Ptuj is a producer of poultry meat and poultry products in Southeast Europe and strives to become the most important provider of natural, healthy, and tasty food containing poultry in the region. It will expand from this region across Europe under the slogan: "Our premium products are present everywhere where natural flavor is appreciated."

STRATEGIC OBJECTIVES

Competitiveness: Optimization and High Standards

The Poultry Division will upgrade poultry farming as our principal activity in the coming years. We will increase our competitiveness through:

- the reduction of costs;
- the optimization and consolidation of production capacities in the region, while providing local production where necessary;
- the modernization of technology in all production processes;
- maintenance and upgrade of high standards of quality, safety, traceability, and ecology;
- securing additional barn capacities for broiler production at our own farms and in cooperation with new partners;
- the upgrade of our standard of chicken-friendly breeding with more complex forms of breeding (slow-growing, free range, organic);

Market Position: Leader in the Region, Growth in New Markets

Perutnina Ptuj will increase the visibility and strength of its brands POLI and PP. We will consolidate our position as a market leader in Southeast Europe through our own brand products, expansion of sales into different business segments, and growth of market shares in key markets. Growth is also planned in other markets where we are already present with our products, and we will look for new opportunities in new markets outside Europe, mostly with sausages, processed products, and processed meals, as well as high quality meat that takes animal welfare into account. New markets will be conquered through:

- the strategy of filling market niches;
- closer cooperation with existing customers and distributers;
- winning new customers and distributers.

Raw Materials: Fifty Percent Self-Sufficiency

The Poultry Division is supported by our own supply with basic raw materials – grains for poultry feed. To achieve 50-percent self-sufficiency with these raw materials, we are planning new storage facilities for grains, additional cultivation areas, and the purchase of raw materials during harvest, based on long-term contracts with agricultural producers of raw materials near our production facilities.

Sales Structure: Increasing Share of Products and Meals

Regarding the structure of production and sales, we plan to increase the share of poultry products and processed meals. Achieving this objective is connected to investments in research and development, including the tests of concepts and products, in innovative technologies, and the development of innovative products. We will increase customer satisfaction by designing new products and meals, as well as a customized range for consumers.

IMPACTS OF THE EXTERNAL ENVIRONMENT

The long-term and annual objectives of the SIJ Group are achieved in global markets and under the influence of macroeconomic events.

Macroeconomy in 2017: Intensified Global Growth of Economy

Global growth and the growth of countries in the eurozone increased in 2017. In October, the International Monetary Fund (IMF) made a better forecast of growth of global economy for previous and coming year, which shows that economies are becoming stronger than expected. Global growth is expected to pick up even more in 2018, and is predicted to be at 3.7 percent.

This trend is being stimulated by developed countries, especially countries in the Eurozone and Japan, and after several years of recession, the Russian economy is also growing. The growth of the Chinese economy, which had 6.8 percent growth in 2017 and thus stimulated the increase of raw material prices, is expected to be 6.5 percent in 2018. In the USA, the gross domestic product increased by 2.2 percent in 2017, and is expected to grow by 2.3 percent in 2018.

More favorable conditions also influenced the forecasts for the growth of global trade. The IMF predicts that the ratio of global domestic product could exceed the expected growth, if trust in the economy becomes higher and relatively favorable conditions in financial markets continue.

Risks that the growth would be lower than expected are associated with the possibility that the interest rates of the American central banking system (FED)[14] would increase more quickly than expected, with the uncertainty of the United Kingdom's withdrawal from the European Union, the uncertainties of the USA's trade policy, and with the continued fast growth of debt and loans in China.

Forecasts: Impact of Consumption, Investments and Employment

Global growth, increasing throughout 2017, is expected to achieve four percent in the next two years. It will be based on a strong progress of global trade, which is increasing in developed countries as well as developing countries. This growth is also stimulated by increased prices of raw materials, fast growth in China, and the growth of large economies, especially in Brazil and Russia.

According to the forecasts of the European Commission, the gross domestic product growth in the Eurozone is expected to decrease from 2.2 to 2.1 percent in 2018. Private consumption will remain the key growth driver in the European Union. Investments are expected to increase in line with increased demand. These trends will also stimulate employment. The unemployment rate is predicted to reach the level of 9.1 percent, which is lower than the rate before the economic crisis.

Trends: Oil and Electrical Mobility

Reduced production in the OPEC member countries and increased demand for oil and refined products caused a big shortage of inventories. In the last months of 2017, the price of Brent oil significantly increased. At the end of September, its price was USD $59 per barrel, which is the highest price in the last two years. Further price increases can also be expected in the first half of 2018.

***An important point in the future** for many industries is the development of sustainable mobility. The SIJ Group also sees its new opportunity in stronger and lighter steel for the automotive industry. The quality of steel has an influence on a lower consumption of fuel and a longer range of electric cars. The production of these cars is connected to non-oriented electrical steels which are present in every electric motor. Some forecasts claim that the share of electric cars in 2025 will be bigger than the share of hybrid cars, and the costs of their batteries will be lower than the costs for today's drive components in cars. In 2017, the SIJ Group also noticed an increased demand for non-oriented steel plates. We are discussing joint development investments in this field with our biggest consumers.*

14 FED – Federal Reserve System.

Metallurgy Division: New Balance and Moderate Increase of Steel Consumption

Although 2017 started with risks connected to the increasing protectionism in the USA, voting uncertainties in the countries of the European Union, and to the downturn of Chinese economy, the risks decreased significantly throughout the year. Despite the persisting uncertainty due to the tension on the Korean Peninsula, Chinese debt, and imports to the USA and the European Union, risk factors in 2017 were in the most favourable balance since 2008.

Global demand for steel is increasing. In 2018, the consumption of steel is expected to achieve a moderate 1.6 percent growth. If we exclude the decreased demand for steel in China from the prediction, growth could reach 2.8 percent.

In the European Union, steel consumption increased by 4.2 percent in 2017. Due to the expected boost of investments in private companies, the forecasts for growth are positive for 2018. Demand will stimulate consumption and exports will contribute to further growth in the industries that use steel. These industries are expected to achieve 1.9-percent growth in 2018.

In the European Union, business conditions in the main industries that use steel are connected to the growth of the economic activity. Year-on-year growth of production increased by 3.1 percent. The growth intensified in all segments, except in the auto industry and household appliances industry, where the demand for steel was growing at a lower rate than the previous years. This was most evident in Germany and Spain. In the European Union, the year-on-year growth reached 11 percent in the second quarter.

Among various segments in the European Union, the demand grew most in the tube industry, namely by 7.2 percent. The reason for this are big projects like Nord Stream 2. There was also a strong progress in construction, where year-on-year demand grew by 4.2 percent. The growth was stronger in all countries of the European Union, except Italy and the United Kingdom. The decreasing growth was most noticeable in the European auto industry. In 2017, the growth in demand in this industry was 3.2 percent, and is expected to drop to 1.8 percent in 2018.

The main challenge of the steel market in the European Union in 2017 and 2018 remains the import of undervalued steel. Next to excess capacities, there are tendencies towards protectionist and isolating measures. The conditions in the market could be particularly impacted by possible measures of the U.S. Department of Commerce connected to the Section 232 investigation[15], which could cause significant changes in world trade.

The SIJ Group: Consolidation of the Position in the Global Market

In 2017, the SIJ Group consolidated its position and achieved a high, 27.8 percent share in the European market of stainless steel quarto plates. Our future position in both Europe and the USA, one of the key markets that we are already successfully reaching, will mostly depend on the possible implementation of announced protective measures in the following years.

Regarding global trends in sustainability and development as well as the further increase in oil prices, the SIJ Group already increased its sales of electrical steel plates in 2017, especially the sales of electrical steel to suppliers of laminations, the essential components for electric cars. The sales in the energy sector also increased, especially the sales of blades as part of turbines for the production of electrical energy.

15 The investigation of the U.S. Department of Commerce on the effects of steel import on the national security of the American steel industry.

Poultry Division: Moderate Production of Poultry Meat

Besides the predicted growth of the global economy, which was described in the chapter on the Metallurgy Division, other factors are important to achieve the objectives in the Poultry Division: the improvement of the global economic climate, better trade flows, economic growth, and the growth of purchasing power in Slovenia and the countries of former Yugoslavia. The success of the Poultry Division depends on the conditions in sales markets as well as on movements in the market for purchasing grains.

Slovenia: Growth of Wages

Economic growth in Slovenia remains high and balanced, and the economy moved from the recovery phase into the expansion phase. Employment is increasing in the majority of industries. Unemployment is falling, and an increased structural imbalance is arising in the labor market. The number of surplus jobs available is quickly falling and there are also initial signs of a somewhat quicker growth of wages. A year-on-year nominal wage bill increased by 5.6 percent on average, and the growth of the actual wage bill was 3.9 percent. One of the main challenges for keeping high economic growth will be the shortage of skilled workers.

Production: A Decade of Moderate Growth

Forecasts say that the production of poultry will increase in the following decade. In 2017, the production was 118 million tons, and it is expected to exceed 131 million tons in 2026. Researches carried out by FAO[16] and OECD[17] claim that growth will be the consequence of increased demand for protein, and will also be stimulated by lower production costs for poultry compared to red meat.

Production in 2017: Moderate Growth

In the European Union, the production of poultry[18] is increasing, but it is growing more moderately compared to previous years. In the first half of 2017, production growth increased by 0.6 percent compared to the same period last year, and the yearly increase in 2017 was approximately 1.3 percent. In 2018 the production of poultry meat is supposed to be approximately 1.2 percent at the yearly level.

The outbreak of the avian flu epidemic in 2017 affected production and trade in the European Union, although the virus then moved on to other countries. The production in the first half of 2017 decreased in most countries that are the main producers of poultry meat. The production decreased in the Netherlands (-2.8 percent), France (-1.7 percent), Germany (-1.5 percent), Italy (-1.2 percent), and Spain (-0.3 percent), while in Poland it increased in the first half of 2017 by almost four percent. The same applies to Great Britain which also significantly increased its meat production compared to the same period last year.

Purchase Markets: Prices of Grains and Broilers

In 2017, the prices of broilers were higher than in 2016. The price in the European Union was €183 per 100 kilograms. The weekly prices were in line with this rate, which is considerably above the prices in previous years. The gap between prices in the European Union and Brazil remains large, since Brazilian prices are around €89 per 100 kilograms. However, broiler prices in the USA are lower than in Europe and amount to €160 per 100 kilograms.

The events on the grains market[19] have an important impact on the price of broilers. Grains are an important ingredient in feed for poultry husbandry and make up 70 percent of the total price of a live broiler. The optimization of purchasing grains, like corn, wheat, and soy, generates important savings in poultry prices.

16 Food and Agriculture Organization.
17 Organization for Economic Cooperation and Development.
18 Source: Short-term outlook for EU agricultural markets in 2017 and 2018. European Commission. Autumn 2017. Available at: https://ec.europa.eu/agriculture/sites/agriculture/files/markets-and-prices/short-term-outlook/current_en.pdf [12.12.2017].
19 International Grains Council. Five-year global supply and demand projections. December 2017. Available at: https://www.igc.int/en/downloads/grainsupdate/IGC_5year_projections2016.pdf [10.12.2017].

ANALYSIS OF OPERATIONS

Key Figures of the Metallurgy and Poultry Division

Key Operating Figures of the Metallurgy and Poultry Division

	Unit of measure	2015	2016	2017
Revenues	€ thousand	664,817	842,645	1,012,891
Metallurgy Division	*€ thousand*	*664,817*	*631,884*	*756,062*
Poultry Division	*€ thousand*	*0*	*211,350*	*257,113*
Adjustments	*€ thousand*	*0*	*-589*	*-283*
Exports	%	87.3	80.4	81.1
EBIT	€ thousand	23,341	68,636	36,851
EBITDA	€ thousand	63,509	127,057	101,080
Metallurgy Division	*€ thousand*	*63,509*	*74,417*	*75,940*
Poultry Division	*€ thousand*	*0*	*24,229*	*24,418*
Acquisitions and adjustments	*€ thousand*	*0*	*28,411*	*722*
EBITDA margin w/o acquisitions	%	9.6	11.7	10.0
Net profit	€ thousand	10,793	51,325	14,956
Capex*	€ thousand	56,886	70,267	59,920
Net financial debt	€ thousand	272,743	367,520	368,167
Metallurgy Division	*€ thousand*	*228,423*	*261,453*	*251,771*
Poultry Division	*€ thousand*	*0*	*35,492*	*34,371*
Acquisitions and adjustments	*€ thousand*	*44,320*	*70,575*	*82,025*
NFD/EBITDA		3.8 **	2.9	3.6
Metallurgy Division		*3.6*	*3.5*	*3.3*
Poultry Division		*0*	*1.5*	*1.4*
Employees as at 31 Dec.				
Number of employees		3,126	7,239	7,431

** The investment in subsidiaries have been eliminated.*
*** Ratio calculated based on accounting data for special purposes (the PP Group and Holding PMP are considered in the group starting on 1 January 2015).*

The business plans for 2018 predict the spin-off of the Poultry Division (the Perutnina Ptuj Group). Therefore, when analysing the key operating figures of 2017, we show the Metallurgy and Poultry divisions together, which enables the comparison with the data from the 2016 business report.

ANALYSIS OF OPERATIONS OF THE SIJ GROUP

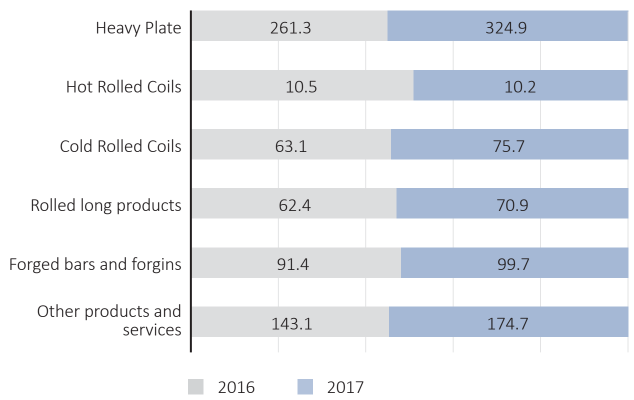
SIJ Group: Key Operational and Financial Indicators

	Unit of measure	2015	2016**	2017
Financial data				
Revenues	€ thousand	664,817	631,881	756,062
EBIT	€ thousand	23,341	28,287	25,844
EBITDA	€ thousand	63,509	74,420	75,940
EBITDA margin	%	9.6	11.8	10.0
EBITDA per employee	€	20,871	22,262	21,183
Profit before taxes	€ thousand	8,973	10,336	6,462
Net profit	€ thousand	10,793	22,913	14,955
Operating cash flow	€ thousand	61,305	111,689	99,375
Capex	€ thousand	56,886	65,813	53,027
Statement of financial position as at 31 Dec.				
Total assets	€ thousand	859,610	1,143,947	1,152,184
Equity	€ thousand	348,718	423,471	415,512
Net financial debt as at 31 Dec.				
Non-current financial liabilities*	€ thousand	221,198	298,410	271,837
Current financial liabilities*	€ thousand	96,058	128,752	96,878
Cash and cash equivalents	€ thousand	44,513	59,643	34,909
Net financial debt	€ thousand	272,743	367,520	333,806
Metallurgy Division	*€ thousand*	*228,423*	*261,452*	*251,771*
Poultry Division	*€ thousand*	*0*	*35,492*	*0*
Business combinations	*€ thousand*	*44,320*	*70,575*	*82,035*
NFD/EBITDA		3.6	3.5	3.3
Employees				
Average number of employees		3,043	3,343	3,585

** In the financial liabilties Principals loans, financial leases and financial instruments are included.*
*** In the financial data EBIT, EBITDA, Profit before taxes and Net profit, the one-time effect of the business combination of the Poultry Division in amount of €28,412 thousand is not considered.*

The business plans for 2018 predict the spin-off of the Poultry Division (the Perutnina Ptuj Group). The analysis of operations therefore shows only the operations of the SIJ Group, without the Poultry Division.

SIJ Group: Sales According to Product Groups (in € million)



Higher Sales: Steels with a High Added Value

In 2017, the SIJ Group made €756.1 million in revenues, which is €124.2 million, or a fifth more than compared to 2016.

The Group has consolidated its position as a specialised producer of steels with a high added value. In stainless steel, our largest production segment, we have additionally strengthened our EU market position by adding 0.3 percentage points, and achieving a share of 27.8 percent.

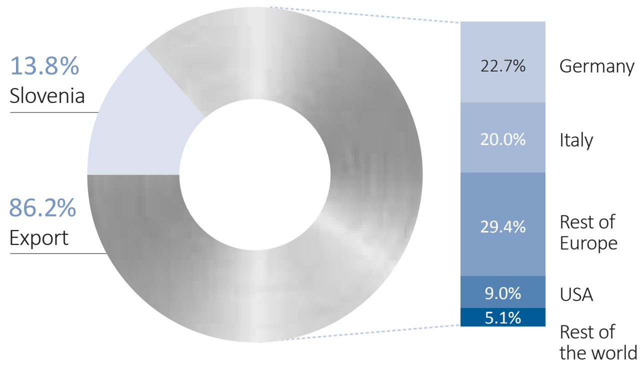
Also, we remain one of the leading producers of tool steels in the European Union, because our EU market share has increased by 0.6 percentage points when compared to the first three quarters of 2016[20], and has reached 11.5 percent.

With investments carried out over recent years, we have created conditions for increasing production, while at the same time, adapting our production portfolio towards more demanding products with the highest added value. The increased sales and profitability are conditioned primarily by stainless, special, and electric steels. It is in these segments specifically that the average sales prices have increased in 2017.

Stable Export: Maintaining Key Markets

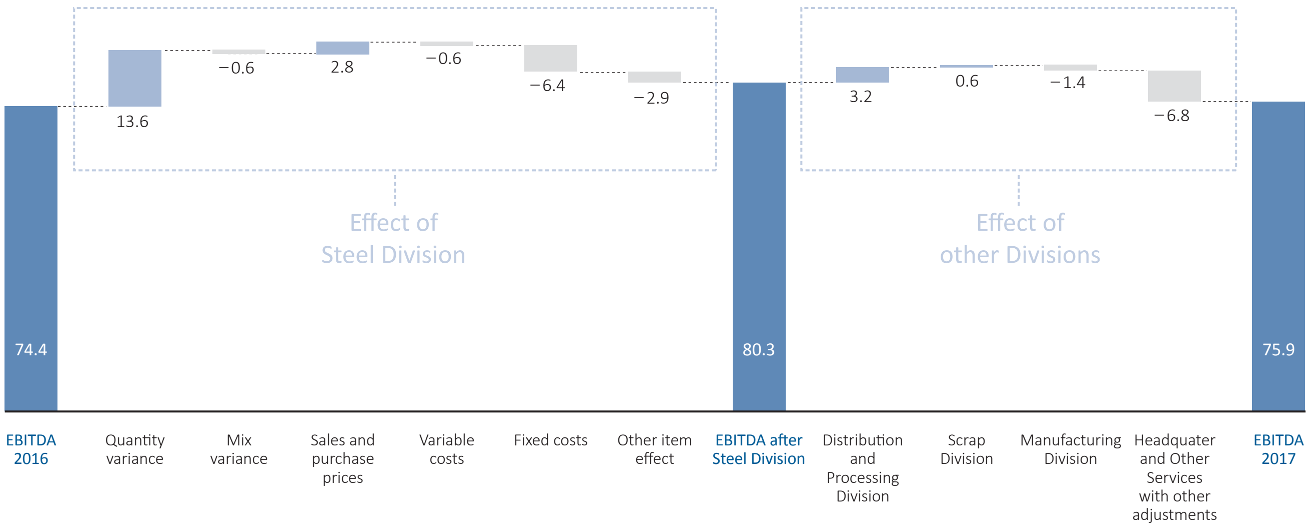
Reaching 86.2 percent of exports, the SIJ Group maintained its position in 2017 as one of Slovenia's top exporters, with Germany, Italy, and other European countries remaining as its most important markets. We have maintained our share of sales in the two largest export markets compared to 2016, while increasing the worth of exports by €27 million and €24.6 million to Germany and Italy, respectively. According to the increased sales of the SIJ Group, we increased sales with our most important export partners in the European Union. Otherwise, the share of exports compared to 2016 has experienced the biggest increase in other European markets and in the USA.

SIJ Group: Sales by Market (in %)



20 As an official source, EUROFER has access to the data for the January-September period of 2017.

SIJ Group: EBITDA Bridge (in € million)



A Steady Growth of EBITDA

EBITDA reached €75.9 million in 2017, and is €1.5 million higher compared to the previous year.

In steel production, which contributes the most to the operational results of the SIJ Group, quantities sold have had the most significant impact on achieving EBITDA. Compared to 2016, this has increased by 9.2 percent.

The growth of sales prices has ameliorated the high prices of strategic raw material. In 2017, especially prices of alloying materials and graphite electrodes have risen considerably. The net result of both influences on EBITDA is positive, amounting to €2.8 million.

Managing fixed costs was a particular challenge, since they are closely related to the increased production. The negative influence of €6.4 million was the result of higher prices for energy resources (€3.1 million), higher transport costs, and labour costs.

Compared to 2016, the negative effect of fixed costs decreased by €2.8 million, while last year, we experienced a negative influence of €9.2 million in this part of our operations.

Considering the changed scope of production and the vastly increased loads on our capabilities, the influence of the variable costs is negligibly negative.

Other influences on operations are linked to the valuation of inventories, transport costs, claims, and client bonuses.

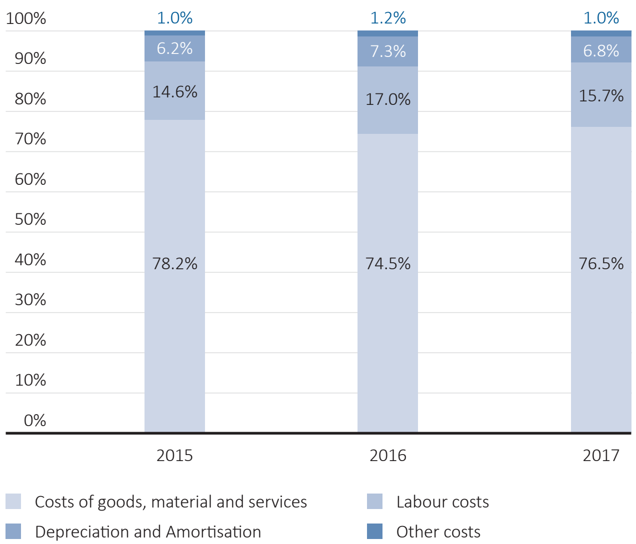
Management of Expenditures: Influences from Energy Resources and Materials Prices

The largest part if the SIJ Group's expenses were material costs, making up a 73.8-percent share. The key raw materials for producing stainless and special steels are steel scrap, on which we have spent 60 percent of all material costs, and alloying elements, the most crucial of which is nickel, and presented 15 percent of the total materials costs. The costs for alloying materials increased due to the production of more demanding steel grades.

The costs for goods, material, and services were in keeping with the scope and structure of the production. The share of strategic raw materials in the total costs is increasing continually.

Energy supply and services took up 10 and 11.5 percent of the total costs, respectively. The prices for electricity increased by 2.6 percent, and the price of natural gas went up by 12.6 percent.

SIJ Group: Structure of Operating Expenses (in %)



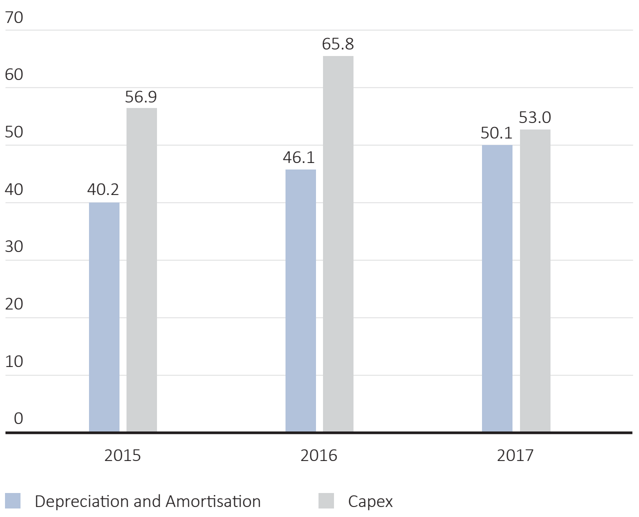
Investment Cycle: a Planned Deceleration

Over the past 10 years, the SIJ Group has invested €583.7 million into new production capabilities, technology, and production modernisation. At the end of 2017, the investment cycle in the SIJ Group has begun to slow down, moving from investments for increased production capacities to investments enabling the production of technologically more demanding products.

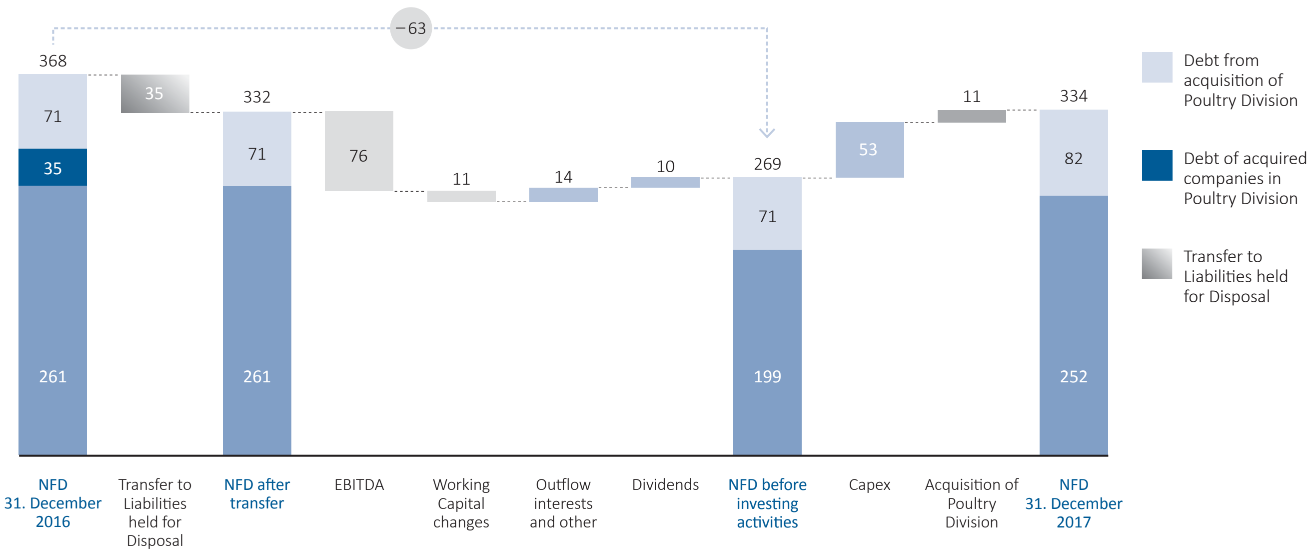
The biggest strategic investment in 2017 was the the AOD converter, costing €30 million, and is a means of more firmly focusing on producing stainless and special steels. The demand for these high-yield products is growing.

The future growth and development of the SIJ Group will therefore be enabled by the already performed investments, and purchasing new and updating existing equipment.

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



SIJ Group: NFD Bridge (in € million)



Strengthening Our Financial Position: Successfully Decreasing of the Net Financial Debt

Even though the investment activity in 2017 was still intensive due to the €30 million AOD convertor investment, the net financial debt of regular operations decreased by €9.7 million. All regular operational activities and the €53 million of investments in 2017 were financed from the EBITDA. In keeping with the long-term strategy, the indebtedness of the group will continue to gradually decrease over the coming years. The scope of investments will already be lower in 2018, in accordance with the planed deceleration of the investment cycle.

Liquidity: Ensured Safety of Operations

The liquidity of the SIJ Group is high. In 2017, owing to the decreased investment activity, the amount of approved investment overdrafts decreased, while long-term revolving capital free overdrafts increased.

The approved long-term revolving lines for managing the SIJ Group's working capital enable the maintaining of high accessible liquidity in 2018. By properly managing liquidity, we ensure the safe business of the SIJ Group and thoughtfully regulate the needs for financing working capital.

SIJ Group: Available Liquidity (in € million)

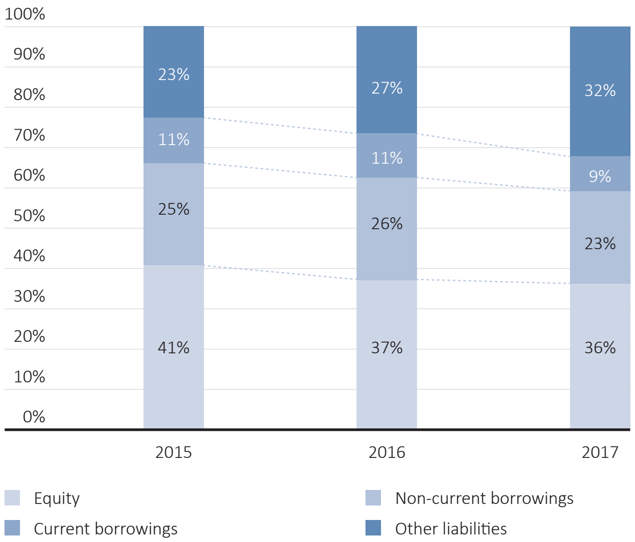
	2015	2016	2017
Available liquidity	186	137	119
Cash and cash equivalents	45	21	35
Approved overdrafts for revolving capital	60	34	57
Approved overdrafts for investments	81	81	27

Financial Stability: Long-term Financial Sources

In 2017, the share of long-term financial sources increased in the debt structure, which was achieved by successfully providing long-term sources of assets and by refinancing shot-term loans with long-term.

In March 2017, the companies SIJ Acroni and SIJ Metal Ravne signed a 5-year contract for a syndicated loan in amount of €240 million with a consortium of seven banks, for refinancing their existing credit portfolios and to ensure long-term working capital sources. This provides the companies with the long-term financial source which will facilitate their future financial stability, growth, and development. The consortium is made up of high-profile domestic and foreign banks, including the European Bank for Reconstruction and Development.

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



Cost Reduction for Financing: The Successful Issue of Commercial Papers

Our own commercial papers also contributed to the decreasing of the financing costs. In December 2017, The SIJ Group completed its fourth consecutive issue of one-year commercial papers with the ticker symbol SIJ04, to the total nominal value of €27.3 million. They replaced existing commercial papers to the value of €30 million, which fell due in December 2017. The new commercial papers were issued with an annual interest rate of 1.1 percent, which is the lowest interest rate in the domestic capital market yet.

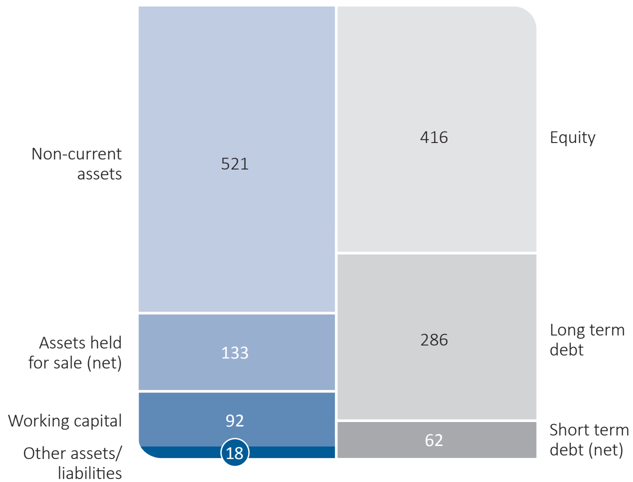
As the issuer of bonds listed on the Ljubljana Stock Exchange, the company SIJ d.d. is obligated to publish the total amount of so-called existing liabilities, which is equal to the total sum of insured liabilities (including free, not yet utilised loans pertaining to concluded contracts). which is equal to the amount of secured liabilities (including unencumbered, undrawn loans under previously concluded agreements). Together with the permitted published exception according to the provisions of the issue of bonds, the amount of secured liabilities was €121,548,316 on 31 December 2017.

A Stable Financial Structure: A High Share of Capital and Long-term Funds

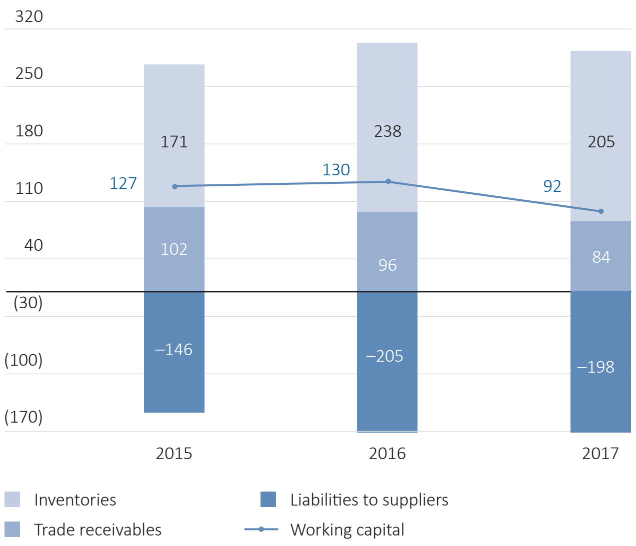
With a high share of capital and providing long-term funds, the SIJ Group will maintain its stable structure of funds and sources in the future. The SIJ Group continues to implement its existing financial policy of executing our investment strategy with long-term funds, and managing seasonal fluctuations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

By reprogramming our debt and acquiring new long-term credit lines, we have further strengthened the share of long-term financial sources in the structure of our financial position.

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



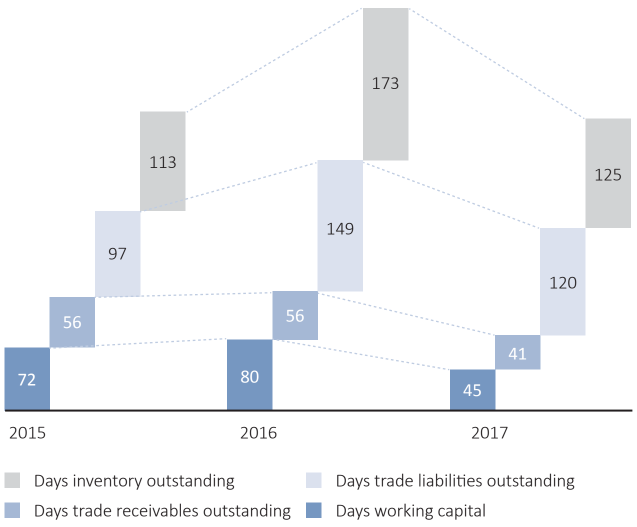
SIJ Group: Working Capital from Operations as at 31 December (in € million)



Working Capital Management

Working capital management is vital for the SIJ Group, because it is crucial for ensuring a positive cash flow, given the high costs of investments. The changes in working capital during the year are managed with the approved credit lines, and receivables and payables are effectively monitored daily. The effective management of trade receivables was aided by the program Securitization of Trade Receivables[21], which was successfully implemented in the SIJ Group at the end of 2016. This and regular monitoring in 2017 enabled us to reduce the level of working capital by €14.5 million, compared to 2016.

SIJ Group: Days Working Capital from Operations as at 31 December



Reducing Inventory Turnover Days

Compared to 2016, days working capital have been reduced by 35 days. Working capital for 2016 also shows the Perutnina Ptuj Group, while excluding it in 2017. When comparing the payable turnover periods without the Perutnina Ptuj Group, we find that the SIJ Group has reduced the payable turnover periods by 21 days, mostly due to efficient inventory management.

Managing Inventories:
Improving the Economics of Operations

By adopting a project approach, we reduced the amounts of inventories by 5 percent on the SIJ Group level. Work-in-progress stocks were reduced by as much as 6 percent, although the cost of inventories increased by €3.6 million, compared to 2016. By keeping appropriate stocks of raw materials purchased on time, we were able to directly improve the economics of our operations.

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

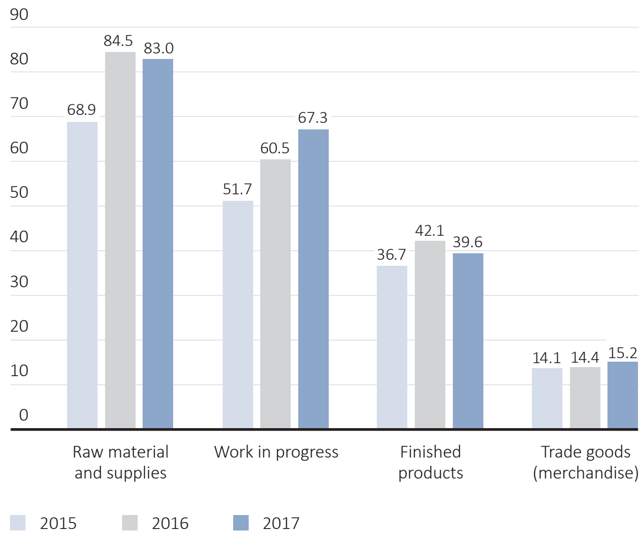
A Comprehensive Approach to Inventories:
Safety in Continuous Production

Due to the cyclical nature of our production and seasonal influences, inventories have a vital impact on business in our industry. The SIJ Group is comprised of steel plants, as well as steel service centers with a sales network, which impacts the way we define safety stocks. It takes fluent processes and no interruptions for such a large system to work, as any unplanned delays resulting from a lack of material, intermediary product, or raw material causes additional expenses.

Because of the newly implemented investments, we paid special attention to maintaining the levels of safety or optimal stocks. The changing technological processes and implementing strategic investments oblige us to carefully monitor the stocks that enable the uninterrupted operations of production capabilities.

The largest increase was in stocks of intermediary products due to the optimisation of safety stocks in December, which were intended for the launch of production in 2018.

SIJ Group: Types of Inventories (in € million)



INVESTMENTS

Investment Integrity in the Metallurgy Division

In 2017, the SIJ Group allocated €53 million for investment. The realized investments increase the efficiency of production processes and the potential scope of production.

Investments in 2017: Launch of Strategic Investments

With the strategic investments that we finalized in 2017, we are gradually finishing an intensive investment cycle, where €584 was invested in renovation between 2008 and 2017.

In April 2017, the AOD convertor started operating **at SIJ Acroni.** This €30 million investment enables a significant increase of production capacities of stainless steel. Since the AOD project was successfully concluded, bottlenecks in production will be handled in the next years and production capacities in all technological processes will be balanced.

SIJ Metal Ravne made an investment in the modernization of the steel mill, leading to the reduced consumption of energy and graphite electrodes, as well as to improvement in the tap-to-tap times; at the same time the new continuous furnace for heat processing with a protective atmosphere in the rolling mill was completely installed.

In its investment program, **SIJ Ravne Systems** focused on the local efficiency of profit centers, and the company also signed several contracts for equipment that will be supplied at the beginning of 2018. The company received quite a lot of special attention as the supplier of equipment, key parts and services for the SIJ Group's investment program (ladle cart, batch tables for mechanical processing machinery, feeding system for the grinding line).

Metallurgy Division: Capex (in € thousand)

Company	
SIJ Acroni	36,194
SIJ Metal Ravne	9,004
Other investments	7,828
Total	53,027

Focus: Investment Effectiveness

After the conclusion of an intensive investment cycle in the past few years, the company focused in 2017 on investments in projects aiming to eliminate bottlenecks in production and contributing to the balance of the technological chain; by optimizing production cycles and optimizing costs, the investments improve the times of production and product supply. The measurable effects of those approaches will be visible in 2018.

By strengthening investment effectiveness, we dedicate special attention to the impact of the modernization of the current production – especially from the aspect of shortfalls caused by emergency termination of processes during installation and roll-out of new equipment. We intend to maximally reduce these shortfalls with new planning methods.

Planning: Now Unified for all Companies

A uniform investment project planning and assessment methodology, including the maintenance planning, was adopted in 2017 for a long-term increase of investment effectiveness. We are no longer evaluating projects individually due to our unified approach to investment planning and related processes, but we are doing this comprehensively and from the aspect of the effect these investments have on the operations of the entire SIJ Group.

Investment projects are evaluated with regard to how they support the achievement of individual key objectives: the increase of production, the reduction of impacts on the environment, the promotion of occupational safety and health, and similar. Because the safety at work and the prevention of reasons for production shortfalls are very important among our strategic objectives, the key criterion for project assessment includes production efficiency and the increase of reliability. By centralizing investment management, we enable an equal and balanced development of production units.

Competent: By Connecting Professions and Companies

The assessment of investment projects is connected to an improved collaboration of companies. Along with the introduction of the new investment planning methodology, we have set up interdisciplinary teams for exchanging experience and competences among experts with different profiles and from different companies. The new investment assessment method is the basis for a more objective assessment of the impact each individual project has on the operations of the Group.

Own Knowledge:
Machine Building in the SIJ Group

When we plan investments in equipment, we seek synergies in the SIJ Group. Some companies also focus on machine building for the needs of the companies in the SIJ Group. In 2017, SIJ Ravne Systems designed, developed, and manufactured the feeding system for the grinding line for SIJ SUZ, and SIJ Elektrode Jesenice developed and manufactured the machine for clad-welding rollers. A more flexible production management is also connected to the maximum development of internal competences and the collaboration within the SIJ Group that diminishes our dependency on external suppliers.

Investments in 2018:
Support to Strategic Objectives

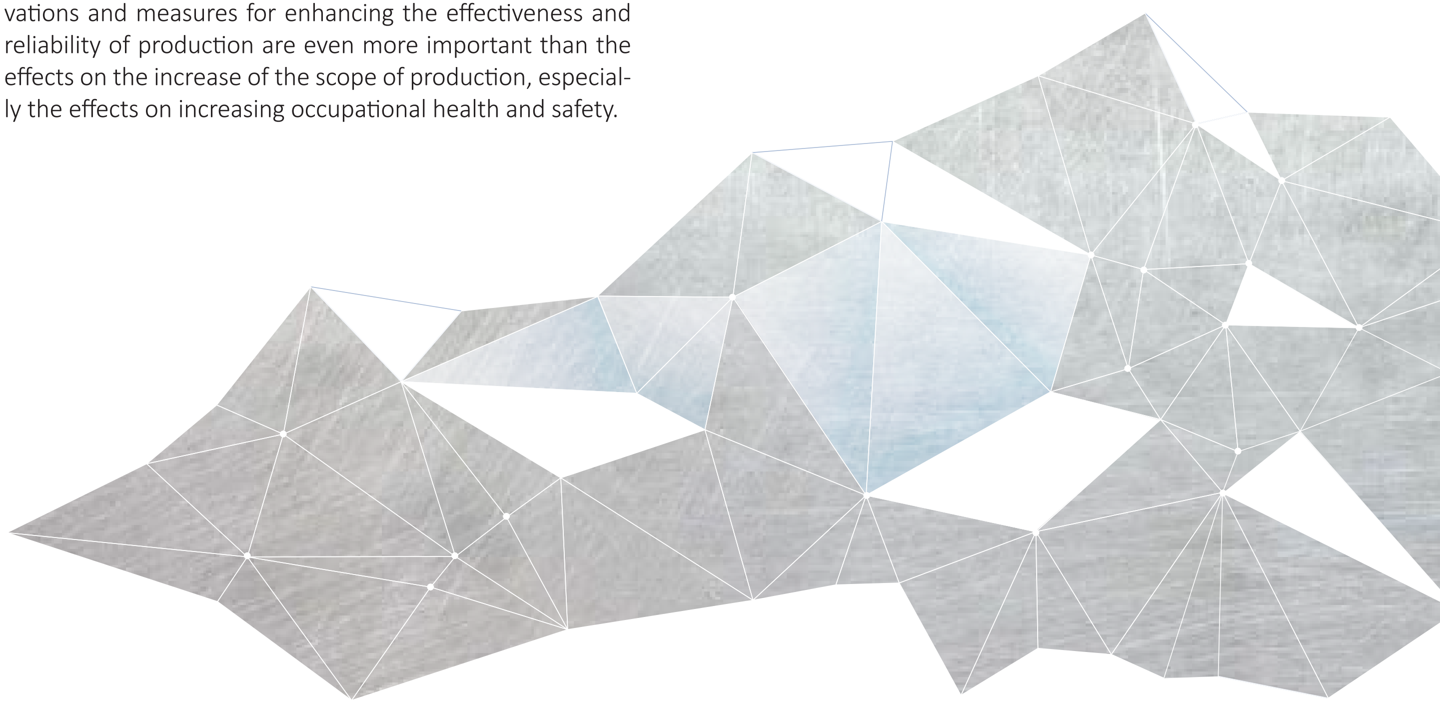
We will use investments and investment projects to support the achievement of key objectives:

- increasing the production of high-quality steel,
- optimizing production costs,
- increasing reliability and improving conditions for maximum occupational safety.

These objectives will be attained with the support of investments and projects such as:

- the optimization of acid pickling stainless steel quarto plates in SIJ Acroni,
- new generators and furnace for the hot rolling mill and additional generators for thermal processing at SIJ Acroni,
- quarto plate cutting division at SIJ Acroni,
- the launch of a new continuous furnace at SIJ Metal Ravne,
- a furnace for electro-slag remelting and vacuum arc remelting with supporting investments in the rolling mill and forge at SIJ Metal Ravne,
- investment projects in SIJ Ravne Systems: the cutting complex and a new CNC lathe.

In the next investment period, the effects of individual innovations and measures for enhancing the effectiveness and reliability of production are even more important than the effects on the increase of the scope of production, especially the effects on increasing occupational health and safety.



Investments for Competitiveness in the Poultry Division

Investments that were made in 2017 in the Poultry Division are worth €6.1 million. Investments that were planned but not utilized in 2017 in the amount of €1.5 million will be earmarked for the set investments and concluded by the end of 2018.

Major investments that were realized in 2017 focus on the development of new products, replacement investments, and investments in increasing capacities. The remaining investments were used to renew individual machines and devices in all production processes and non-production units of individual companies of the PP Group. We replaced the worn-out equipment and increased the efficiency of the existing equipment.

Poultry Division: Capex (in €)

Company	Investments
Perutnina Ptuj d.d.	3,609,809
Other companies in Slovenia*	7,177,402
Perutnina Ptuj – PIPO	244,048
Perutnina Ptuj – BH	133,492
Perutnina Ptuj – S	459,110
Perutnina Ptuj – TOPIKO	489,635
Perutnina Romania	15,815
Perutnina Ptuj DOOEL Skopje	6,195
Skupaj Perutnina Ptuj	6,135,506

**Naša, PP MI Zalog, PP – Agro.*

Group Growth: Shareholders

The majority of investments were in Perutnina Ptuj, where we also purchased shareholdings in Perutnina Ptuj BH and PP Energija in the value of €6.9 million.

New Products: Development and Retail Trade

New opportunities for development were ensured for Mesna industrija Ptuj with an investment in two modern lines for producing skewers. The investment was worth €225,971.

We invested €611,041 in the renewal and modernization of three retail trade units in Slovenia. These investments are a part of a conceptually designed modernization of our own retail trade.

Capacities and Equipment: Modernization for Greater Competitiveness

In Slovenia, we also invested in the purchase and renewal of silos, whereby we increased storage capacities for raw materials for the production of feed. With increased capacities, we are following the strategic objective of self-sufficiency in the supply of raw materials and simplification in a more cost-effective supply of raw materials.

In the organic waste processing division in Mesna industrija Ptuj, we invested €182,000 in upgrading the production line. This modernization ensured quality control and the control of the presence of foreign matter in bone meal, thus fulfilling the demands of the customers.

In three associates, i.e. PP MI Zalog, PP S, and Perutnina Ptuj – Topiko, we invested €179,039 in three packaging machines with weighing lines. This investment was earmarked to enhance competitiveness, since the new machines enable modern packaging, extended expiry dates of chicken and turkey meat, and a better presentation on sales shelves. The modernization helped us unify our corporate image on all markets where we advertise fresh meat.

Due to the adjustment of meat industry facilities to the required veterinary and sanitary conditions, we invested €611,041 in the renewal and additional construction of facilities at our affiliates in Bosnia and Herzegovina, and in Serbia. The modernizations enable us to create appropriate conditions for the registration of these facilities for export to the European Union, and we intend to carry out this registration in 2018.

Infrastructure and Equipment: Logistics and Information System

The Logistics profit-generating center was modernized with six cargo vehicles that were appropriately upgraded to enable the transport of chickens, feed, live animals, meat and products, and one vehicle that is intended to transport day-old chickens for the Perutnina Ptuj – PIPO subsidiary. The value of the investment was €304,451.

With a €816,288 investment, we modernized the central information system in Ptuj, thus increasing the safety of operations at the primary data center.

SUPPLY OF RAW MATERIALS

Strategic Supply in the Metallurgy Division

Key Raw Materials: Contractual Purchasing

The key raw materials for the production of stainless and specialty steel include stainless and alloyed scrap steel, nickel, chromium, molybdenum, vanadium, silicone, and manganese. Due to the collaboration of the companies in the SIJ Group, we can maintain our own steel scrap supply, and all other key raw materials are purchased pursuant to both long- and short-term contracts.

Reliability: Long-Term Relationships with Suppliers

Since procurement activities are impacted by the global dynamics of supply and demand, we establish long-term strategic relationships with key suppliers. Such relationships increase the reliability of supply even during periods of extreme price fluctuations in the market.

Strategic relationships with key suppliers were further strengthened in 2017. 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.

Market Conditions: Risk of Raw Materials Availability

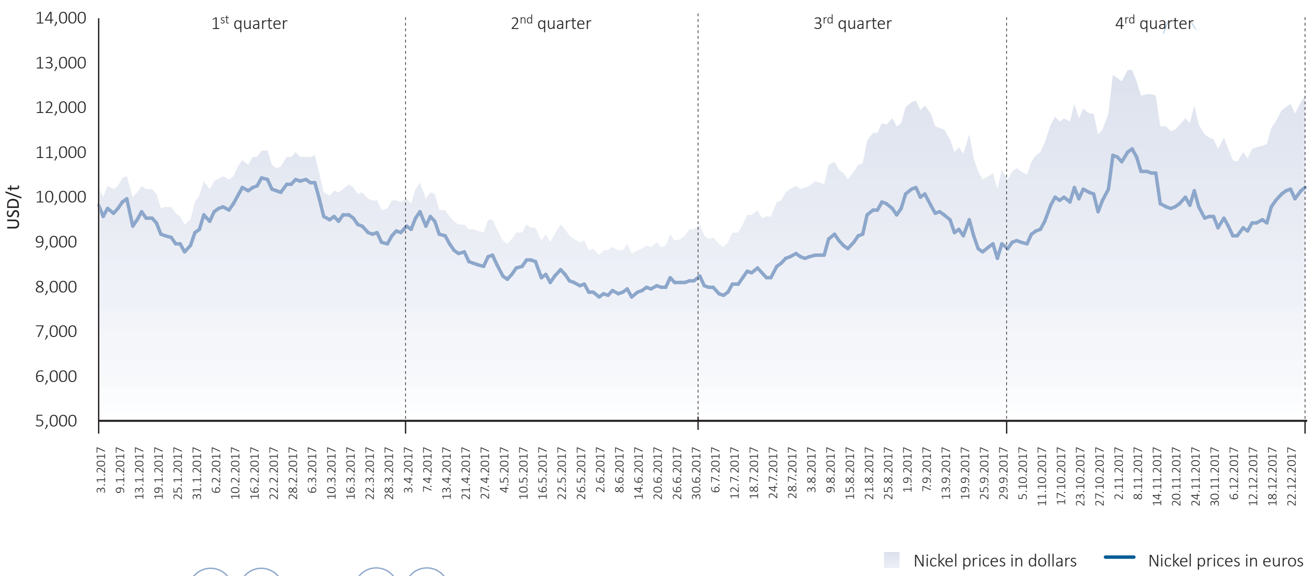
The prices of the majority of the most important raw materials continued to increase in 2017. The increased demand from China and a high production rate elsewhere caused disruption in the availability of nickel, chromium, manganese, and silicone all through the year, which caused price increases, and 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. The importance of the long-term selection of suppliers and the contractual supply of necessary quantities was once again proven.

Besides the fluctuations and the increase of prices of key materials, the challenge in procurement in 2017 was to tackle the growing prices of graphite electrodes, without which it is impossible to carry out the production process in the Metallurgy Division. A long-term price drop led to the closing of electrode production capacities outside China in the previous year, and this year, environmental protection policy in China also became more rigorous. For the same reasons, the production capacities also decreased for the basic raw material for the production of electrodes, i.e. needle coke, which is also a very important raw material in the production of electric car batteries. These factors caused that demand strongly exceeded the supply. The effect of these events was successfully mitigated with two selected long-term partners – suppliers of electrodes for our company's needs.

Business Model: Timely Leases and Additional Payments

Considering 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. This harmonization is managed with the business model, involving additional payments for alloys that are passed through to sales prices. The time delay in the pass-through to sales price is mitigated by effecting timely purchases.

Metallurgy Division: Movements of Nickel Prices



Raw Material Supply in the Poultry Division

We increased the utilization of synergies within the PP Group and the centralization of procurement in the Poultry Division. With regard to joint materials suppliers, this approach enabled us to achieve better conditions and lower prices of raw materials and materials for companies in the group in 2017. We introduced a new information system in the purchasing departments of our subsidiaries in the last quarter of 2017, and this system enables optimized work and is a basis for improved reporting.

Influence on Prices: Safety and Quality Requirements

Raw materials, materials, and services that are used in production for human and animal consumption must comply with the demanding legal regulations. The assurance of safety and traceability are paramount. We also have our own quality system that is used to fulfill the ISO and HACCP standards, BRC and IFS standards, and Halal requirements. The preset high quality influences the prices of purchased materials. In the PP Group, the most important raw materials are those used in the production of feed, and all types of meat and meat product packaging, live animals, medications, and vaccinations also comprise a large part of costs.

Key Costs: Raw Material Mix

In the poultry-rearing companies, the key raw materials are purposed to produce feed. The highest item is the raw material mix that comprises soy beans, corn, wheat, and fats. The raw material mix makes up more than one half of the costs for materials and production services. Due to the fluctuation of raw materials prices and the concentration of recipes for better results in live production, the year 2017 was ended with costs that were slightly higher than planned.

Soy Beans: Forward Purchases

In 2017, we further faced fluctuating prices of raw materials on stock exchanges in the purchase of strategic materials in the raw material mix. The price of soy beans dropped in the first and second quarter, but rapidly grew in the third quarter and then dropped, and in the last quarter it persistently grew. Because the prices were tied to forward purchases, the actual purchase prices fluctuated significantly less than the prices on stock exchanges. We achieved lower prices than planned.

Corn: Local Purchases of Stock

All through to the summer of 2017, we were able to use corn that we had stocked during a favorable time of harvest the year before. The corn that in quantity represents approximately one half of the share in feed was cheaper for the majority of 2017 than the average price in 2016 as a result of this stock. In the third and final quarters, corn prices increased due to drought in the growth period and due to the use of corn for non-food purposes for the production of bio-ethanol in neighboring purchasing markets.

As quantities were limited and logistics more expensive, the purchase of corn from geographically farther markets were less favorable, wherefore we decided for more intensive local purchases during harvest time. We filled up all our storage capacities in Ptuj and mostly also in our new warehouse in Celje. Locally, market prices of corn increased soon after harvest, proving that intensive purchases during harvest were justified.

Wheat: Optimization with Stock

The prices of wheat fluctuated less in the wheat market, but they grew all through the year. The price was optimized with a price-effective stock from 2016. Until harvest in 2017, we had additionally purchased a smaller quantity of wheat. Wheat that was to be used by the end of 2017 and some to be used in 2018 was taken over during harvest, when the prices of wheat increased due to the influences of the spring cold and summer droughts on the produced quantities.

Other Materials: Influence of the Economic Boom

In 2017, we dedicated a lot of attention to reducing costs and we achieved good results in the field of additives for feed production, for the production of various types of packaging materials, agricultural production materials, and production services.

Due to the economic boom in the second half of 2017, the prices of some packaging materials started increasing, i.e. cardboard and plastic packaging, and the prices of live animals also started increasing due to more expensive raw materials for the production of feed. These price increases will influence the increase of prices in 2018 in the PP Group.

ENERGY SUPPLY

Responsible Energy Management in the Metallurgy Division

Due to the nature of its activities, the SIJ Group is a major consumer of energy. We focus on the thoughtful purchase of key energy-generating products throughout the energy management system in the Metallurgy Division. We are searching for appropriate purchasing models with a carefully selected supplier and we constantly increase efficiency and responsible usage. We strive to achieve savings, and to comply with the principles of socially responsible and sustainable development.

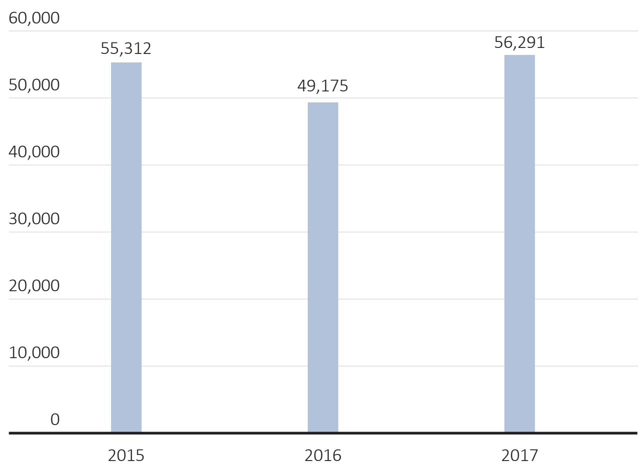
Purchasing: A Centralized System

The main sources of energy used by the SIJ Group are electricity and natural gas. Due to savings, the purchase of these sources of energy is centralized. We are reducing the risks of standard fixed prices with appropriate purchasing approaches and the modification of price formation according to the market situation. The prices of gas have long been based on stock market prices, and since 2016, this type of pricing has also applied to electricity. With the novel approach, we significantly reduced the costs of energy-generating products in the share of operating expenses in 2017.

Costs in 2017: Reduction in the Share of Expenses

In 2017, energy costs accounted for 7.6 percent of the total operating expenses, a decrease of 0.2 percentage points compared to 2016. The largest consumers of energy within the Group were the two steel companies SIJ Acroni and SIJ Metal Ravne, and the manufacturing companies SIJ Ravne Systems, SIJ Noži Ravne, SIJ Elektrode Jesenice, and SIJ SUZ. In 2017, these companies consumed a total of nearly 523,000 MW of electricity, and nearly 78 million cubic metres of natural gas, a 4-percent increase from the previous year. The consumption of various forms of energy is increasing due to the increase of production and new products that relate to more demanding technological processes.

SIJ Group: Energy Costs (in € thousand)



Plans for 2018: Controlled Increase of Consumption

In 2018, the consumption of energy is expected to increase due to the planned increase in production. The total energy costs will be higher due to the expected higher stock prices. We therefore established appropriate conditions and a system that will help mitigate the envisaged price increases with daily assessments and responsiveness with the suppliers of key energy-generating products that were selected in 2017.

Effectiveness: Energy Management System

The efficiency of energy consumption is managed through a unified centralized energy management IT system. In 2016, this system was introduced at SIJ Acroni and SIJ Metal Ravne, while the system was introduced 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.

Rational Energy Consumption in the Poultry Division

The unified energy management system and rational consumption of energy are being introduced in the Poultry Division. The program tool for the active energy management will be initially introduced at Perutnina Ptuj, and then gradually at all companies in the PP Group. The ongoing negotiations with the providers of the appropriate solutions will be concluded in 2018, as foreseen. The basis for the project implementation is a diligent review of energy consumption, which we launched in 2017 and which will also be concluded in 2018.

Investments for Savings: Illumination and Environmentally-Friendly Solutions

In January 2018, we will finish the project of replacing 230 internal lights in the Mesna industrija Ptuj meat packing plant. €75,187 in investment will save more than 491 megawatt-hours of electric power per year.

Within the scope of regular maintenance in processing and the prepared food production plant, we are replacing the old lights with energy-efficient LED lights that enable 50-percent savings due to lower use of electric power.

A steam boiler will be supplied, installed, and rolled out at PP MI Zalog by March 2018. This €108,578 investment will fulfill the environmental requirements and the prescribed border values for smoke emissions.

In 2017, we replaced the old lights with LED lights in Perutnina Ptuj – PIPO; at the end of 2017, we initiated the purchase of a new air compressor with a frequency regulator that will consume 40 percent less electricity than the compressor used so far. The investment increases the company's energy efficiency.

Plans for 2018: Increasing Efficiency

Energy efficiency in the Poultry Division will be increased with investments planned for 2018. The most important projects include using waste heat from cooling systems, the cooling devices' control system, and a disc drier for meat powder in the protein concentrate production plant. We have envisaged projects for Perutnina Ptuj – Topiko that will reduce the consumption of liquefied natural gas; further, thermal insulation and the introduction of efficient heating and cooling systems are planned within the scope of the reconstruction and modernization of chicken farms.

RESEARCH, DEVELOPMENT, AND INNOVATION

Sales Success of Development Achievements in the Metallurgy Division

In the SIJ Group, we do not consider steel only as a traditional main product of the Metallurgy Division, but as the basis for the development of new products, and development activities are actively oriented toward the optimization of technologies and processes.

Although development is a process whose results can be seen in the long term, the success rate of our research, development, and innovation activities is constantly measured by the quantities of products sold in the market. We sold 38,506 tons of steel in the form of newly designed products and generated more than €82 million in revenue, which is €18 million more than in 2016, when we sold 33,752 tonns of steel in the form of newly developed products.

Innovations: The Involvement of all Employees

In the SIJ Group, innovation is a value that concerns all employees. In 2017, one in three employees participated in the system of submitting ideas and proposals. There were 11 percent more innovative proposers than in 2016. These 784 useful proposals and technical improvements were a source of ideas for new product development and technology optimization. With this innovation system, we generated more than €6.987 million in savings in 2017. The amount of directly generated revenue doubled compared to 2016.

The Development of New Products: Tool and Structural Steels

The most important achievements include the new SITHERM steels and structural SIQUAL steels.

In 2017, we were especially focused on producing extremely clean, premium hot-work tool steel, i.e. the SITHERM S360 R and SITHERM S353 R steels for high pressure aluminum casting, which has higher toughness and slightly poorer wear resistance in comparison with the traditional SITHERM 2367 tool steel. We have also developed the alloyed structural steel SIQUAL S142 for improving special production purposes and for further drop-forging. For the SINOXX 4922 steel, we put greater emphasis on micro cleanliness, so we developed flat profiles for turbine blades for two different buyers in the energy sector.

Demanding Products: Special Features

Demanding products for the oil and gas industry must achieve high mechanical features and high toughness at both extremely low temperatures (-50°C) and increased temperatures and pressures. By considering these conditions, we developed the production of improved rolled rods with the demanding combination of strength elongation from SIQUAL 6580 steel, and extended the improved dimension area with the SIQUAL 7218 steel up to 440 mm in diameter, according to the SEW550 technical specification.

For an external client, we also successfully re-forged ingots from SF410 and SF650 steels, made according to the spray forming procedure. This gave us the opportunity to learn about the development of this technology and to research and compare the features of two high-speed steels with the high-speed ESR steels.

Stimulation: National Awards

The developmental projects of the SIJ Group receive important awards every year. In 2017, the Chamber of Commerce and Industry of Slovenia awarded the SIJ Acroni innovation known as "Taking Flight with SINOXX 4542 Steel" with a gold innovation award. SIJ Metal Ravne received a silver award for the SITHERM S360 R innovative tool steel.

Innovation and Research in the Poultry Division

Innovativeness is a value of the entire SIJ Group. We dedicate special attention to it in our Poultry Division as well, where we adopted appropriate rules on stimulating the inclusion of employees in the innovation activity in 2017. We increase our developmental opportunities in collaboration with various research institutions and scientific and research projects.

New Incentives: 300 Proposals in 2018

We plan to receive 300 innovative employee proposals in 2018 for each of the production companies in the PP Group. The achievement of this goal is connected to our new Rules on the Promotion of Innovation. These rules stimulate employees to provide innovative proposals in all areas of production and operating processes, and helps employees realize innovations that are important for the company. The rules specify types of innovative proposals, the method of consideration, and the procedures of making decisions about the eligibility of innovation and the criteria for remuneration, and we ensure authors the protection of their rights.

Research and Projects:
Transfer of Achievements in Industrial Activity

We have registered a research organization within the PP Group, and in 2017, it employed 25 registered researchers and 11 technical associates. Research projects are carried out in collaboration with various institutions, and research funds are acquired via public tenders. Research is focused on completing the challenges in food production and in transferring research ideas from the academic sphere to the industrial environment.

In 2017, we carried out projects that will continue in 2018 and 2019. The most important projects are:

- Planning sustainable and energy self-sufficient processes based on renewable energy sources (duration: 1 March 2016 to 28 February 2019);
- Managing Camplyobacter contamination of chicken carcasses in slaughterhouses (duration: 1 March 2016 to 28 February 2019);
- Welfare in relation to ensuring the health of poultry and pigs in conventional and alternative rearing systems (duration: 1 October 2016 to 30 June 2018).

MARKETING STRATEGY

Marketing of Metallurgy Products

The centralized management of marketing provides important support to the vertical integration of the SIJ Group. Marketing is developed as a key factor of sales growth by acquiring new customers. We consider it important analytical support for the activities of the SIJ Group.

Strategy: Eleven Product Brands

The SIJ Group products and services are managed within the scope of corporate brand architecture and 11 product brands of steel. In 2016, we used branding to introduce a unified classification of a range of steels that are produced by associates of the SIJ Group. An individual brand represents a group of steels and products intended for a specifically determined area of use. Brands are used to strategically increase the recognition and differentiation of our offer. We use them to reinforce our position as the leading provider in select market niches.

Branded Steels: Certified at Suppliers

In 2017, steel products of various brands from the SIJ Group were successfully listed among various approved products due to certification with approved suppliers for major final customers. Certification is also one of the priority goals in 2018. Verified and proven quality is of key importance for strengthening the reputation of products with high added value from the SIJ Group. This value also helps us to promote the recognition of individual product brands and the corporate brand.

Communication: Digital and at Fairs

We dedicate special attention to digital marketing and a presence at trade fairs along with maintaining active direct contacts with customers and partners, for which we also prepare sales conferences, and with end users with whom we collaborate at various product and development workshops.

Digital activities are managed centrally via our parent company. In 2017, we also modernized our mobile application with a steel search engine and extended the range of digital social networks and platforms where the SIJ Group is present. Digital operations are inseparably connected to the continued integration and upgrading of the modern customer relations management system (CRM), which enables us to plan after-sales activities, to implement detailed analytics of all sales process phases, and to improve user experience.

The strategic and systematic entry to new niche markets is supported with our presence at trade fairs. Our steel brands were promoted in 2017 with appearances at 21 fairs in 11 countries on three continents. The 2017 business year was the SIJ Group's most active year at trade fairs in its history.

Marketing and Development of Food Products

In the entire PP Group, we generated more than €2.5 million extra sales with new products in 2017. In the Poultry Division, the development of products and marketing are oriented according to consumer trends in the region, Europe, and the rest of the world. We diligently monitor the fluctuations of our market share and the shares of our competition in Slovenian, Croatian, Bosnian, and Serbian markets. We use marketing, development, and promotional activities to reinforce and improve our market position in the meat and meat products categories in the region; at the same time, we are increasing our activities in traditional exports and new markets.

The Poli Brand: Achieving Above Average Prices

In 2017, we successfully expanded the Poli brand in the hot dog category throughout the region and in the ethnical market in Europe. The Poli hot dog, which generated €1.5 million extra revenue, positively influenced the special sausages category, where we reinforced our market shares and increased them in individual markets by achieving above average prices. This innovation was supported by intensive communication and digital marketing, which is managed centrally from the parent company and implemented with local content.

PP Meat: Successful Product Lines

The PP Natur Premium line is achieving above average prices in its category in Slovenia, where we are intensively communicating this line via traditional and digital channels. In 2017, we presented the benefits of chicken-friendly breeding and our breeders. The OriginTrail application enables customers to check meat traceability to each individual breeder.

By communicating chicken-friendly breeding in 2017, we also supported the sale of pre-seasoned chickens. In 2018, we plan to extend our product range with new products made from boneless chicken meat in the ready-to-cook meat with added value category.

The range of PP Piknik products was extended with new groups of skewers after the investment in the new line that was carried out in June. We reinforced the growth of market shares with promotions, events at sales locations, and by supporting digital activities.

Throughout the region, we developed the category of pre-packaged fresh poultry meat. In Bosnia and in Croatia, we started packing chicken cuts in slice pack packaging, and we plan to do the same in Serbia in 2018. Besides the development of the pre-packed meat category (also in Macedonia, Kosovo and Austria) with a HoReCa partner, we are developing the pre-packed turkey meat category.

PP Products: Export Growth

Our strongest category in the region is special poultry sausages, and we are also entering our export markets, e.g. Dubai, with our PP Slim&Fit line and cold cuts. The children's PePe line is also growing in Romania. In 2018, we are planning to expand the cold cuts category and the modernization of packaging, we will also dedicate more attention to the development of finished food.

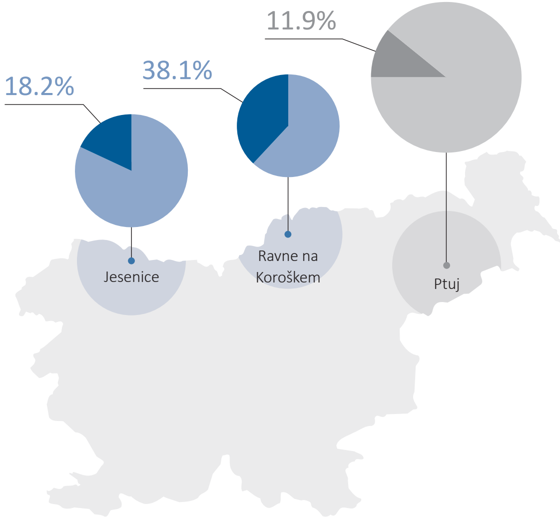
Each point of our operations is connected to the well-being of humanity and the planet.

SUSTAINABLE DEVELOPMENT

RESPONSIBILITY TO EMPLOYEES

In all key areas of operations, the SIJ Group is bound the sustainable production and consumption methods, reducing harmful impact on people and the environment, sustainable industrialization and encouraging innovation, and to the care for the health and well-being of people, and the communities where we live and work.

SIJ Group: The Share of the Active Population in the Municipalities Where the SIJ Group Operates



National Importance: Key Employer

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 Korška region we employ almost eight percent of the working population. In the municipality of Ravne na Koroškem, SIJ Group companies employ more than one third of the working population, almost one fifth in Jesenice and one tenth in Ptuj.

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

	Number of employees in the region	Number of employees at SIJ Group	%
Podravska	106,789	1,601	1.5
Koroška	21,770	1,727	7.9
Gorenjska	65,450	1,583	2.4

SIJ Group: Working Population in the Municipality and Employees at SIJ Group (in %)

	Number of employees in the municipality	Number of employees at SIJ Group	%
Ptuj	12,807	1,529	11.9
Ravne na Koroškem	4,530	1,727	38.1
Jesenice	8,701	1,583	18.2

Priority: Employee Competencies

Employee competencies, which are strategically and systematically recognized and promoted, are of key importance for achieving the SIJ Group's strategic goals. Intensive HR development at all levels belongs among the SIJ Group's priority activities.

We enable the transfer of knowledge among employees and promote part-time study in the Metallurgy and Poultry Divisions via mentorships and internal education and training. We dedicate special attention to the individual development of successors, the development of managerial and social competences among managers, and to introducing a positive organizational culture. We prioritize younger generations who cooperate via internal networking and special projects.

Technical Professions: Promotion of Professions

Because technical professions in Slovenia are in shortage, we take various measures to promote them.

In accordance with the strategy of collaboration with education institutions we collaborate with elementary schools in the presentation of technical professions, with secondary technical schools, general secondary schools and university institutions in the preparation and implementation of technical subjects, practical training, projects and final assignments.

We have successfully introduced the metallurgy technician program with Ravne Secondary School, where the second generation of students enrolled in the 2017/2018 study year. We cooperate in the open curriculum and practical training at the Jesenice Secondary School, i.e. within the mechanical technician program.

We provide scholarships for prospective pupils and students to qualify proper human resources. In 2017 we had a total of 123 scholarship recipients coming from secondary technical and professional schools, as well as short cycle higher education and university institutions.

The Reputation of the SIJ Group as an Employer: Equal Opportunities

We constantly care for reputation of the SIJ Group and its companies as great employers. Employees are guaranteed equal opportunities, irrespective of gender or other personal circumstances, and we are building partnerships with the local social environment. We diligently select new associates and respect legal regulations in all countries where we do business.

Social Dialog

The SIJ Group respects the principles of social dialog between work unions, employees, and employers. We organize meetings with employees several times a year, where the essential information is presented regarding operations and briefed on developments within the SIJ Group.

Trade Unions: Together about Remuneration

We regularly meet with the trade union representatives and constructively communicate with them about all topics. We comply with industry collective agreements, as well as all corporate collective agreements, which were most recently changed in 2015.

In 2017 we defined new criteria for quarterly rewarding and business performance together with joint project groups.

Young People: for Innovative Ideas

In 2017 we put greater emphasis on our dialog with young associates in the SIJ Group. Via a new project entitled the Council of Youth of the SIJ Group they will design their own interests in 2018 and propose ideas to the managements of SIJ companies and the SIJ Group itself, which will aim to resolve the issues and problems of younger generations in the group. The introductory meeting of the new Council of Youth was held in 2017.

Employee Structure

SIJ Group: Key Data on Employees as at 31 December

	2017
Number of employees	7,431
Average age (in years)	43.9
Proportion of women employed (%)	36.1
Number of disabled persons	526
Sick leave (%)	7.7
Number of accidents	305

Metallurgy Division: Key Data on Employees as at 31 December

	2015	2016	2017
Number of employees	3,126	3,552	3,770
Average age (in years)	43.3	43.0	44.5
Proportion of women (%)	17.3	17.1	16.9
Number of disabled persons	320	329	325
Sick leave (%)	6.7	6.6	6.1
Number of accidents	153	174	193
Accidents frequency (F2)	33.7	34.0	31.8

Poultry Division: Key Data on Employees as at 31 December

	2015	2016	2017
Number of employees	3,514	3,687	3,661
Average age (in years)	42.4	42.6	43.3
Proportion of women (%)	50.8	52.1	55.3
Number of disabled persons	183	191	201
Sick leave (%)	3.6	4.4	8.7
Number of accidents	112	111	112
Accidents frequency (F2)	17.9	17.7	17.6

Increasing the Number

Due to the increased production capacities and our own reinforcement of functions that were implemented by contractors in the past, the number of employees is increasing in the Metallurgy and the Poultry Divisions of the SIJ Group.

Due to the specific features of production, the Metallurgy Division mostly employs men, and the proportion of women is gradually increasing in the Poultry Division.

The average age of employees in the SIJ Group is 43.9 years. More than a third of employees are over 50 years old. In the Metallurgy Division the average age of employees is gradually lowering, while in the Poultry Division the average age of employees in the past year slightly increased.

Employment of Disabled People: Two own Companies

Within the SIJ Group there are two companies employing Group employees who, due to some disability, can no longer perform the tasks they used to, while these two companies also employ other disabled persons. At the end of 2017 the SIJ Group employed 526 disabled persons and recruited another 23 disabled persons.

Reduction of Accident Rate, Care for Health

Accidents frequency rate is down in both the Poultry and Metallurgy Divisions. The SIJ Group provides regular training in occupational safety and systematically promotes workplace health.

In 2017 sick leave in the SIJ Group accounted for 7.4 percent of the total hours worked. Expressed as a proportion of the total hours worked in the Metallurgy Division, 58.6 percent of hours of sick leave represents prolonged and therefore refunded sick leave, and 50.1 in the Poultry Division. 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 %)

	2017
3rd cycle – Doctoral degree	1.0
2nd cycle – Master's degree	7.9
1st cycle – Bachelor's degree	8.7
Secondary school	28.1
Upper secondary vocational school	24.7
Secondary vocational school	9.95
Primary School	19.7

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

	2015	2016	2017
3rd cycle – Doctoral degree	1.5	1.6	1.5
2nd cycle – Master's degree	7.6	8.0	8.1
1st cycle – Bachelor's degree	10.8	11.1	11.3
Secondary school	24.9	25.3	25.7
Upper secondary vocational school	27.4	28.4	27.6
Secondary vocational school	11.7	10.7	10.4
Primary School	16.1	14.9	15.4

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

	2015	2016	2017
3rd cycle – Doctoral degree	0.6	0.8	0.5
2nd cycle – Master's degree	7.2	7.3	7.6
1st cycle – Bachelor's degree	5.9	6.0	6.1
Secondary school	15.8	16.9	30.5
Upper secondary vocational school	35.8	35.9	21.8
Secondary vocational school	9.9	8.8	9.5
Primary School	24.8	24.3	24.0

Work Intensity: Influence on Structure

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 gradually on the rise, as is the proportion of employees with a master's or doctoral degree. In both the Metallurgy and the Poultry Division, the educational structure with a higher proportion of employees reflects the work intensity of both divisions.

Investments: Higher by One Third

In 2017 we invested €845,629 in human resources education, training, and development. Compared with 2016, the funds earmarked for strategic development of employee competencies have increased by one-fifth. Most of that sum, more than €585,442, was earmarked for functional education and training, while the rest was spent on part-time studies and scholarships.

Incentives for Knowledge: SIJ Training Center and PP Academy

Since October 2016 the new multi-purpose SIJ Training Centre in Ravne na Koroškem has been 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 training modules, as well as computer training. In the Poultry Division the PP Academy, conducted by several companies of the PP 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. We dedicate special attention in the Poultry Division to professional knowledge regarding safe and healthy food production. Employee competencies are strengthened via collaboration with the Competence Center for HR Development in the Agricultural and Food Industry (KOC Food) – a project within the scope of the Operational Program for the Implementation of the EU Cohesion Policy.

A New Program: Mentorship

With regard to employee competencies development greater emphasis is put on promoting the transfer of knowledge among co-workers and among the companies in the SIJ Group. In 2017 we introduced a uniform mentorship system in the Metallurgy Division, which includes 367 mentors who are onboarding new employees or relocated employees and are practically training pupils and students within for mandatory internships. We have also established internal professional education programs in metallurgy and mechanical engineering, which will be implemented next year by internal lecturers and instructors of the SIJ Group.

Successors: For Managerial Functions from Now On

As part of the training program entitled Potentials and Successors that took place from 2015 to 2017, 46 young promising individuals received the award and title of potential, while 29 experienced employees were awarded the title of successor. In autumn of 2017 we renewed the program that is being implemented in the Metallurgy Division, and we have oriented it in the development of potential successors for important managerial functions. The Management Academy, used to educate potential managerial human resources in the Poultry Division, is organized the same way.

Skills: Supervisors and Negotiators

We held the School of Management for Supervisors in the production companies in Jesenice and Ravne na Koroškem. We included coordinators at production plants, supervisors, and shift managers in social skills, communication, and management training modules. This program was used to develop their managerial skills and skills of working with people. We focused on the method of how to use appearance, work, and management skills to motivate others toward high-quality and result-oriented work, to create a collaborative working environment, and to contribute to increased satisfaction and engagement at the workplace.
We also care for promoting other skills. We held a workshop to increase employees' negotiating competencies in the purchasing departments of the Poultry Division.

Rewarding and Motivation

The SIJ Group uses a rewarding system to promote employee productivity and satisfaction and increase the loyalty of key personnel. The system is designed as a combination of remuneration for measurable goals achieved, promotions and bonuses earned, as well as benefits and subsidies. The system includes:

- variable rewarding of individuals or groups of employees as recognition for work performed well based on measurable objectives throughout the year;
- quarterly rewarding paid to all employees if they exceed the set goals compared to the previous year;
- performance-based rewarding paid to all employees at the end of the year, depending on the fulfillment 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;
- special remuneration and bonuses for the Best Employees in the SIJ Group as chosen by their peers. We are introducing something new in 2018, when we will reward the Best Mentors in the SIJ Group for the first time based on annual assessment of mentorship.
- 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.

Seven SIJ Group companies are included in the supplementary pension scheme. Premiums totaling €1,336,958 were paid in 2017, while the average number of employees included in the scheme was 2,296, giving an average premium paid per employee of €854.

Safety and Health at Work

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

Promotional activities that effectively increase employee awareness about their own roles in ensuring occupational safety and health have been merged in the "Working safely, staying healthy" since 2016.

In 2017, we introduced the accident at work free days meter in two companies, at three sites (Ravne na Koroškem, Jesenice and Ljubljana) we installed defibrillators (AED) that are also available to local communities, and we trained employees at practical workshops about the basic resuscitation procedures.

Safe and Healthy: Our Co-Workers, Ambassadors

We extended our comprehensive communication campaign entitled "Working safely, staying healthy" in 2017 with new activities emphasizing the responsibility of every individual. We actively included co-workers as ambassadors of safety and health at work as well as their true stories about accidents at work and the consequences they carry for their professional and private life.

Twenty-Three Training Modules

This year-round campaign under the slogan Working safely, staying healthy was especially intensive in April, as the World Steel Association has declared April according to the role model of the World Health Organization the month of safety and health at work. The SIJ Group started a new cycle of 23 health promotion training modules in April. Eleven workshops were dedicated to managers, ten to employees, and two lectures were held for the management. A total of 390 people attended the training module, of which 172 were employees, 183 managers, and 35 directors or members of company management.

Results: The Best Production Plants

We regularly monitor and assess the achievement of goals in occupational safety and health. In the beginning of 2018 we will declare the safest production plants without accidents at work.

For a Healthy Relaxation: Own Capacities

As part of the SIJ Group's concern for the health of its employees we also provide the possibility of free or subsidized use of sports and leisure facilities in various locations. These include medical and recreational options in thermal spas.

A Professional Approach to Vulnerable Groups

In the regions where the SIJ Group companies operate, we have a responsible attitude towards meeting the needs of the people around us. SIJ ZIP Center, a company for helping people with disabilities, has a concession for vocational rehabilitation and a social inclusion program. Working with the Koroška Center for Rehabilitating People with Disabilities, SIJ ZIP Center maintains and creates joinery, printing and service jobs. The company employs 67 people with disabilities. Working in productive jobs under the principle of equal opportunities for all, they are able to participate and involve themselves in society.

Transition into the Labour Market: For Young People with Special Needs

As a concession operator for vocational rehabilitation, SIJ ZIP Center concluded a contract with the Ministry of Labour, Family, Social Affairs and Equal Opportunities in December 2017 for a four-year project called Transition into the Labour Market for Young People with Special Needs. This project will help young people under the age of 29 with mental disabilities or mobility impairments, or who are blind or partially sighted, deaf or hard of hearing, and others in need of tailored education and training programs to transition into the labour market with professional support.

ENVIRONMENTAL PROTECTION

Energy: Comprehensive Efficiency

In 2018, we will promote the efficiency of energy consumption with a uniform information system for energy management. With additional incentives for responsible consumption, the system will bring significant savings at the level of the entire SIJ Group. We will continue implementing the system, which we already introduced in 2016 at SIJ Acroni and SIJ Metal Ravne, in all other companies of the SIJ Group. We will also conclude our systematic energy inspections in 2017.

Illumination: Systematically Economical

We replaced the energy-consuming lights with energy-saving LED lights in 2016, which led to 80-percent savings in electric power consumption in 2017. In 2018, the lighting in other companies of the SIJ Group will also be systematically replaced. We obtained a grant under the Decree on energy savings requirements. Grants from this source are included in the project of introducing a uniform information system for energy management.

Locally Effective: Excess Heat Used for Heating

The SIJ Group companies cooperate with local communities on efficient energy use. In the town of Ravne na Koroškem, the waste heat from SIJ Metal Ravne partially covers the energy needs of the district heating system. In 2017, we returned some 6,649 megawatt-hours of thermal energy generated as waste heat in the electric arc furnace process to the local thermal energy supplier in the town of Ravne na Koroškem. This amount comprises about 30.3 percent of all the heat consumed by Ravne na Koroškem. Some of this energy warmed the pools of the Ravne Sports Center as a donation from the SIJ Group. Since the amount of waste heat is one the rise, we expect the amount of heat returned in 2018 will reach 10,000 megawatt-hours, which will be enough to cover about a half of the heating needed in the town of Ravne na Koroškem. Through such cooperation, the thermal energy provided by the SIJ Group will become the preferred source of heating for the town.

Co-Production: Reduction of Greenhouse Gas Emissions

We introduced heat and electric power co-production at SIJ Acroni in Jesenice. Energy efficiency and co-generation contribute to the reduction of greenhouse gas emissions.

A conceptual design for the locally effective use of waste heat was drafted for Jesenice in 2016. Project implementation is connected to the collaboration with the local remote heat distributor and the municipality. We will further put our efforts in starting the waste heat usage project for heating Jesenice and its surroundings as soon as possible. This energy will also heat part of the location of SIJ Acroni.

New Technology: The European Project ETEKINA

Within the scope of the joint application of SIJ Metal Ravne and foreign partners in the European Horizon 2020 tender, we acquired the funds to implement the project for using waste heat from smoke gases with the introduction of a new heat pipes technology. The aim of the project is to implement the innovative technologies in one of the major furnaces at the location of SIJ Metal Ravne. Waste heat will be used to heat the production premises and for reuse in the process. The project will additionally realize our orientation in the rational use of waste heat for heating.

Adjustable Consumption: DEUP Demonstration

In 2017, we, together with partners, acquired funds from the Ministry of Economic Development and Technology and SPIRIT Slovenia (a Public Agency for Entrepreneurship, Internationalization, Foreign Investments and Technology) a public tender for the project entitled The Demonstration of Comprehensive Energy Management (DEUP), which will comprise the conversion, distribution, and management of energy. The active inclusion of consumption, advanced management of consumption response, and energy management will be implemented in projects that will also include major industrial consumers (steel, automotive, and electric industry with ICT) and water pipeline systems.

Due to the specific features of individual groups of consumers and the increase of target applicative implementation, we distributed the work in several sets. The first set will be the Platform for Adjustable Consumption Management. We will implement two pilot demonstrations – the cover platform of adjustable consumption and customized application Steelfles for the steel industry.

SPONSORSHIPS AND DONATIONS

The SIJ Group dedicates sponsorships and donations mostly to sports, culture, educational, and humanitarian activities. We work with organizations, groups and individuals at the national level and in local communities where the SIJ Group companies operate.

Locally: Culture and Sport

At the local level, we support mass sports and culture programs, as well as educational and humanitarian activities, which also involve SIJ Group employees and their family members.

In the Ravne na Koroškem and Jesenice areas, we donate part of these funds to local music schools, museums and other cultural institutions. In 2017, we supported the work of the Gledališče Dela theatre, which is connected to the tradition of the former ironworks in Ravne na Koroškem, and which often features plays related to ironworks topics.

In the environments where the metallurgy companies in the SIJ Group represent an important pillar of the social life we support sports activities such as swimming, hockey, skiing, volleyball, bowling, football, hiking, and other forms of recreation. In 2017, we enabled the construction of a children's ski lift on the Poseka ski slope in Ravne na Koroškem.

Perutnina Ptuj also considers similar principles in awarding its sponsorships and donations. It actively supports the Perutnina Ptuj Cycling Club and the organization of the Poli marathon; it also funds volleyball, handball, football, and table tennis. It also participates in the traditional annual Kurent Festival, the largest ethnographic event in the region, and at renowned festivals in Ptuj.

Infrastructural: Outdoor Steel Sport Grounds with our Knowledge

We also facilitate high-quality leisure time by providing outdoor sports parks, which are manufactured by the company SIJ Acroni. Sport grounds erected in Ravne na Koroškem, Prevalje, and in the Podmežakla Sports Park in Jesenice were followed in 2017 by sport grounds in Murska Sobota and Ljubljana. We plan to, in cooperation with the Slovenian Olympic Committee, have 11 sports grounds for training built and donated to local communities. The project is important for us, because it connects the steel industry and mass sports or public sports infrastructure.

Nationally: Partnership with Top-Level Sport

We continue to strengthen the SIJ corporate brand by continuing the already established sponsorship of the Olympic Committee of Slovenia, the professional HDD SIJ Acroni Jesenice hockey team, the Slovenian biathlon team, and the Swimming Association of Slovenia. The recognition of the corporate SIJ brand in Slovenia, where we are considered as one of the major business systems, is strengthened also through the Athlete of the Year awards. In 2017, winners received awards in the form of sculptures made of premium steel. The cooperation with top athletes is effectively intertwined with activities aimed at SIJ Group employees.

Humanitarian Endeavors: In the Interest of Children

The SIJ Group also supports various humanitarian initiatives, especially those involving the interests of children. We have a long-term cooperation agreement in place with the University Rehabilitation Institute of the Republic of Slovenia, Soča. For a third year in a row, we donated funds in June 2017 for the purchase of devices. We have donated €42,000 for the purchase of the Innowalk Pro Medium device for walking rehabilitation. It enables the rehabilitation of children who have difficulties walking or who cannot walk. With the SIJ Group's donation, children also got a new device for respiratory physical therapy – the portable spirometer.

Children and adults in the broader Ptuj area will be able to rely on better health care due to the construction of the emergency center at the Dr. Jože Potrč General Hospital. Perutnina Ptuj and two other companies initiated the collection of earmarked funds. The campaign that resulted in the raising of €331,518 was supported by 19 municipalities in the Lower Podravje region, where 90 percent of employees are employed in the Slovenian companies of the PP Group.

Educational: Incentives for Reading

The SIJ Group, in cooperation with the UMco publishers, supports the issue of world renowned books on business and personal growth that readers would otherwise not find on the shelves of Slovenian bookstores. The innovative, sustainable model of cooperation in publishing fosters a culture of reading and education among both buyers of books and the employees of the SIJ Group. The ten books that have been published in SIJ's professional library collection include the bestseller Grit by Dr. Angela Lee Duckworth, which received the 2017 Best Business Book in Slovenia award.

In 2017, the SIJ Group also prepared its first own book titled SIJ Group Best Practices, where it presented the best projects and innovations in the Metallurgy Division in the past five years.

We choose the paths we can control
and that lead us safely to our goals.

RISK MANAGEMENT

RISK AND OPPORTUNITIES ASSESSMENT SYSTEM

The SIJ Group manages all business risks. By following the principles of sustainable development, we place ever greater emphasis on managing environmental risks. We are preparing indicators – key points for monitoring our progress.

The SIJ Group has introduced a comprehensive risk management system for business risks that are typical for the Metallurgy Division, as well as for the risks that are typical for the Poultry Division, i.e. with regard to the operations in the interorganizational market and for the operations in the markets with end consumers.

Centralized control measures for the systematic management of opportunities and risks are in place for all companies and both key Divisions.

In 2017, we assessed the influence on SIJ Group stakeholders and on the long-term success of the SIJ Group for all key development areas for the SIJ Group and displayed them in the key area matrix. Risk management was listed among the major areas and will be given special attention within the scope of the SIJ Group's development. In 2018, risk management will be strengthened by spinning-off the business functions of compliance, with proactive risk management, and measures for their constant reduction.

Management: Planning, Coordinating and Reporting

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 improve 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.

Priorities: By Clear Probability Assessments

Risks that arise in operations affect the Group's ability to implement its established strategy and the sustainable development of all SIJ Group companies. The risk exposure is therefore regularly monitored throughout the Group.

The risk management process has been introduced at all levels of business management and decision making. The priorities in risk management are determined according to the assessments of probability for realizing certain risks and regarding the impacts of risks on the assessment process.

Systematically: Monthly Plans and Deviation Analyses

Systematic risk management includes the determination and implementation of impact mitigation measures and the monitoring of risk management success. The systematic planning and reporting process and the supervision of business processes are included in risk management and in capitalizing on opportunities. Individual group companies build the presented opportunities and measures for reducing the established risks into their monthly plans and deviation analyses, which contributes to the simpler assessment of their business results and financial position.

Specific: Two Different Activities

The risks are managed at the level of the entire SIJ Group, and we also consider specific risks for key activities. In the Metallurgy Division, special attention is paid to financial and commercial risks due to the importance and the feasibility of rapid changes, while in the Poultry Division, we pay particular attention to 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. These sales risks can significantly diminish the 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

Area of Risk	Description of Risk	Means of Management	Exposure
Research and Development	Risks related to the realization of our development strategy	Careful planning of development projects, high-quality reporting, and adequate control	Moderate

Risks associated with development are categorized as risks affecting the development of products, 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.

Joint Projects: Permanent Monitoring

Due to our strategic focus on development and adapting our production programs to the needs of customers, we are constantly investing in innovative technology, software, and market improvements. The associated risks are managed through the competence centre, which combines all development departments of the SIJ Group's companies, the Faculty of Natural Sciences and Engineering, and the Institute of Metals and Technology.

We have defined joint projects and we monitor the progress or delays thereof by regular weekly video-conferences.

FINANCIAL RISKS

SIJ Group: Financial Risks

Area of Risk	Description of Risk	Means of Management	Exposure
Foreign exchange risk	The risk related to operating with foreign payment means is connected to the changes of exchange rates.	Internal risk management methods – price policy, matching	Moderate
Credit risk	The risk of failure to fulfill the obligations of the opposite contracting party – default risk.	The active monitoring and management of receivables, a high rate of receivables with premium insurance.	Moderate
Liquidity risk	The risk of insolvency due to a deficit of available financial resources.	Daily monitoring of cash flows, long-term liquidity planning, appropriate liquidity reserve.	Moderate
Interest rate risk	The risk of potential change of cash flows due to the changes in interest rates.	Monitoring financial markets and changes in interest rates.	Low

The most important and the most likely financial risks are foreign exchange, credit, and liquidity risks, to which we dedicate special attention, while we are currently less exposed to interest rate risks.

Foreign Exchange Risk: Methods for Neutralization

We estimate the foreign exchange risk as moderate and appropriately managed. The risk is managed with internal foreign exchange risk management methods, especially with the price policy method via integration of the foreign exchange rate in the difference in price, and by matching or balancing sales and purchases. In balancing, we neutralize the foreign exchange risk by finding a balance between inflows and outflows per individual foreign currency. The foreign exchange risk is managed within financing by taking loans in the local currency. In the future, we will continue implementing the existing foreign exchange risk management policy and try to upgrade it with the aim of reducing the exposure to foreign exchange risk.

Credit Risk: A High Rate of Receivables with Premium Insurance

We estimate the credit risk as moderate and appropriately managed. Receivables are systematically and continuously monitored. The credit risk of portfolio customers is aligned depending on the credit rating of customers provided by third-party credit rating institutions, by using instruments for payment insurance, and a high, 87-percent share of insurance of all claims with a credit insurance company. The exposure to credit risk is additionally mitigated through the daily monitoring of outstanding receivables.

We are especially intensively engaged in the management of receivables against major customers, for which our in-house IT equipment is a valuable tool.

In 2018, we will continue implementing the current receivables monitoring policy in the SIJ Group, and we will additionally upgrade it by introducing centralized limits that will improve and unify the credit risk management.

Liquidity Risk: Appropriate Liquidity Reserve

Liquidity risk or solvency risk is assessed as moderate and appropriately managed. Proper solvency is ensured with the constant harmonization of the maturity of receivables and liabilities, with the consistent recovery of overdue receivables, liquidity reserves, the availability of appropriate credit lines, and possibilities for the permanent generation of operating cash flows.

Liquidity in the group is monitored centrally. Cash flows are monitored consistently and thoroughly.

By signing a long-term contract on a five-year syndicated loan, SIJ Acroni and SIJ Metal Ravne received long-term funds that will enable them further financial stability, growth, and development.

The liquidity risk of the group is significantly reduced with an appropriate liquidity reserve of the group intended for balancing cash flows. This reserve is comprised of non-utilized but approved credit lines and available cash.

In 2018, we will continue to reduce liquidity risks by implementing an intensive liquidity balancing policy and by ensuring appropriate liquidity reserve.

Interest Rate Risk: Low Interest Rate Trend Continues

We estimate the interest rate risk as low and appropriately managed. The exposure to interest rate risk is constantly monitored by monitoring the cash market situation, the movement of interest rates, and the movement of derivative financial instruments prices, as well as with timely proposals for potential measures of interest rate safeguarding.

A total of 45 percent of all borrowings secured by the SIJ Group bear a fixed interest rate. Most of the loans are tied to the EURIBOR flexible interest rate and an interest margin. The EURIBOR is currently at the lowest levels in history, wherefore we estimate that the interest rate risk is low. Thus, in 2017, we did not opt to hedge against variable interest rates, or take out additional interest rate hedges. Interest rate safeguarding would, in the conditions in the monetary market and along the predictions about interest rate movements, additionally increase the financing costs. Interest rate risk is managed by negotiating with banks about the amount of the interest rate margin and by searching for alternative, cheaper sources of financing.

In 2018, the SIJ Group will implement an active interest rate risk management policy that enables the timely detection of changes in the monetary market and timely decisions about potential interest rate safeguarding. We will continue implementing the policy of active negotiations with banks.

COMMERCIAL RISKS

SIJ Group: Commercial Risks

Area of Risk	Description of Risk	Means of Management	Exposure
Purchase risks	Purchase of high-quality and affordable raw materials, the risk of untimely supply, changes in purchasing prices	Careful planning of the supply chain, negotiations, 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 on the markets, innovative market approaches	Moderate
Investment risks	Risk of making the wrong decisions on investments in production and other capacities, and the risk of implementing the investment	Systematic planning of investment implementation, careful selection and choice of potential contractors, constant monitoring of expertise, performance, quality, cost, and agreed schedules 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 assurance of product quality with product liability insurance	Moderate

Purchase Risks: Purchase Models and Timely Purchases

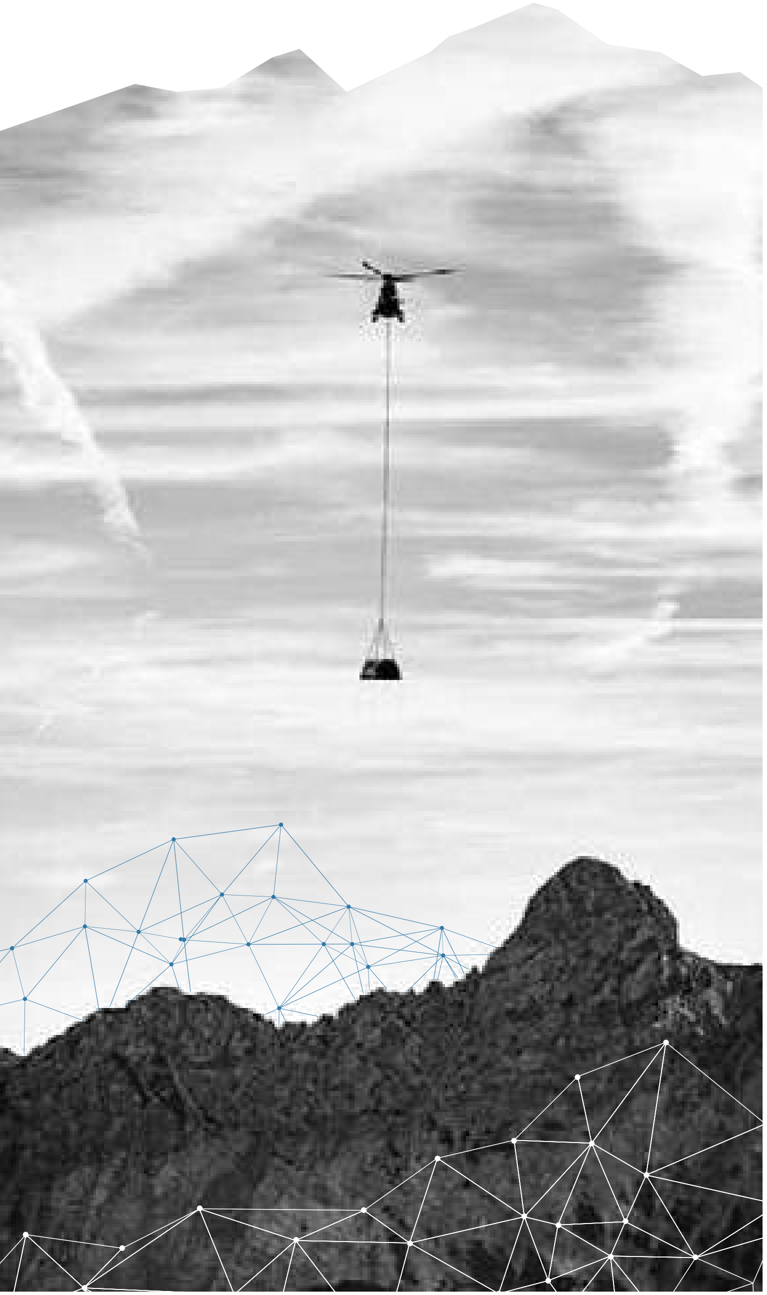
The key source of price risks in purchasing is the time lag between the purchase of raw materials and the sale of products. These risks are mitigated by harmonizing the procurement and sales, and the weekly harmonizing of production plans and procurement plans.

Sharp fluctuations in the prices of key raw materials can lead to the risk of excessive or insufficient inventories, and the risk that the changes in prices will not be passed on to the customer. The key activities are therefore aimed at ensuring timely purchases and correct purchasing models based on coordinated plans.

The risk of untimely supply is generally managed by the selection of suppliers. We have consignment stock agreements concluded with our key suppliers, or their materials are available near our locations, guaranteeing the response we need to service our customers. In the Poultry Division, risks are mitigated through the purchase of raw materials during harvest and by increasing our own storage facilities.

Sales Risks: Brand Reputation

The Group is exposed to different sales risks of varying intensity due to its operations in different geopolitical and macroeconomic conditions, as well as legal and competitive environments. Potentially faced with lower rates of growth of the steel market, surplus supply and increasing pressures on sales prices are an important part of the sales risks management of the SIJ Group: we are focusing on niche products for demanding users who are less sensitive to market fluctuations, focusing on market segments and industries with long-term growth trends, and we are actively manag-



ing our exposure to segments. An important part of sales risk mitigation is the branding of metallurgy products and proper management of brand reputation in the group's Metallurgy and Poultry Divisions.

Investment Risks: Supervision of Times and Costs

Investment risks associated with investments in the development and production of new products, the introduction of innovative 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 harmonized 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 agreed-upon deadlines, and the use of the 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 extension of investment risks, we monitor the management of time and cost implementation of individual investments via the information system and we have regular weekly video conferences for reviewing the progress and potential delays of individual projects.

Quality Assurance: Processes and Certification

Risks associated with quality assurance 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 organizations. We monitor the interim phases of production.

We measure failed production in various stages of the process with the system for measuring the effectiveness (OEE) of individual devices, which gives us a direct insight into the waste generated by individual devices. We have defined the persons responsible for developing and implementing corrective actions in the case of deviations from the defined goals.

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 quality, safety, and traceability is associated with the regular maintenance and validation of various certificates.

ENVIRONMENTAL RISKS

SIJ Group: Environmental Risks

Area of Risk	Description of Risk	Means of Management	Exposure
Air emissions	The reduction of CO_2 emissions, ensuring the minimalization of dust and other emissions into the air, and their compliance with legislation	Monitoring, diligent planning of investment projects, high-quality reporting, introducing innovative technologies	Moderate
Water emissions	Ensuring compliance with legislation	The implementation of monitoring with our own laboratory with accredited methods, diligent planning of investment projects, raising the awareness of employees, supervision over the implementation of technological processes, high-quality reporting	Moderate
Noise pollution	Ensuring compliance with legislation about noise in the workplace and about noise pollution in the surroundings of industrial facilities	Diligent planning of investment projects, supervision over the implementation of technological processes, high-quality reporting	Moderate
Emissions to the ground	The quantity of deposited waste, the quantity of deposited municipal waste	Diligent planning of investment projects, raising the awareness of employees, supervision over the implementation of technological processes, innovation in technological procedures, high-quality reporting	Moderate
Use of input materials	Ensuring high yields of end products compared to input materials, ensuring low specific consumption of auxiliary materials, reducing the consumption of potable water	Diligent planning of investment projects, raising the awareness of employees, supervision over the implementation of technological processes, innovation in technological procedures, high-quality reporting	Low
Consumption of energy-generating products	Risks connected to increasing the specific consumption of electricity and technical gases	Diligent planning of investment projects, raising the awareness of employees, supervision over the implementation of technological processes, innovation in technological procedures, high-quality reporting, diligent production planning	Low
Operational risks with a potentially adverse impact on the environment	Risks associated to equipment failure, technological disturbances, pollution, fire, radioactivity, and other hazardous events	Preventive exercises and internal procedures in extraordinary events, collaboration with external environment protection institutions, raising the awareness of employees for reporting extraordinary events, supervision over the implementation of technological processes, indicator monitoring (the number of extraordinary events/million of working hours carried out), high-quality reporting, planning and implementation of preventive repairs of devices	Moderate
Risks connected with circular economy	Risks of using hazardous materials, reusing waste materials and heat, risks associated with the realization of the sustainable development strategy	Reducing the use of hazardous materials, 100-percent implementation of radioactive control, diligent planning of investment projects, raising the awareness of employees, innovation in technological procedures, high-quality reporting	Low

Comprehensively: Reducing Impacts on all Levels

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 considering impacts on the environment during the planning of investments, and through the transition to new, cleaner technologies and the introduction of closed circuits.

Risks Related to Emissions: Monitoring and Reporting

The risks of air and water emissions and the risks of noise pollution are assessed as moderate. We manage them systematically from investment planning to monitoring and high-quality reporting. The same applies for the risks of emissions into the ground, which are low. Both the Poultry Division and the two largest steel companies in the SIJ Group have for many years been operating in accordance with the ISO 14001 standard.

Risks Related to Materials and Energy Sources: Reducing Specific Consumption

We introduce modernization to reduce risks associated with energy consumption. SIJ Acroni is already operating in accordance with the ISO 50001 standard in the area. At the SIJ Group level, we are introducing a comprehensive system of energy management. A low specific consumption of materials is also achieved with innovation in technological procedures.

Operational Risks: Prevention and Automation

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. Emergencies are considered during daily morning video conferences. SIJ Group companies measure the index of incidents, which monitors the frequency of incidents per million work hours. We are also monitoring the level of research and control the success rate of preventive measures implementation.

OTHER RISKS

SIJ Group: Other Risks

Area of Risk	Description of Risk	Means of Management	Exposure
IT risks	Risk of interference due to faults of IT	Regular maintenance, updating and upgrading of the IT system, regular training of IT employees	Moderate
Human resources risks	Risk related to the provision of qualified staff and staff availability due to the positive economic climate	Systematic work with key staff, system of awards, mentorship programs, continuous education; testing the individual potential and preparation of development plans for key personnel; motivation; the development of new education programs, the promotion of technical professions via close collaboration with education institutions	High
Legal risks	Risk associated with changes in legislation or the interpretation thereof	Monitoring legislation, judicial practice, and preparing measures	Moderate
	Risks associated with the conclusion of commercial agreements	Review of all agreements concluded with suppliers and customers	
	Risks associated with the acquisitions of companies and the restructuring of operations	Active management of the investments portfolio Participation in all phases of projects and processes	
Risk of reputation and goodwill	Risk connected with the quality of services and products, etc. Risk connected to reputation due to negative image.	Active corporate governance and the monitoring of brand management Proactive communication with key stakeholders.	Moderate

IT Risks: Standardized and Central

The risk associated with IT and the safety of internal processes is moderate. The most important risks relate to malfunctions in hardware, the local area network, and the communications and system software.

These risks are managed with appropriate maintenance contracts concluded with suppliers who ensure the operation of the system despite the potential failures of its vital parts, by making redundant the most important parts of the IT system and communication channels, by ensuring access to the internet via two internet services providers, and by implementing changes in the IT systems in accordance with processes determined and defined in advance.

Measures to manage risks associated with IT are an integral part of the daily monitoring of the functioning of IT systems. With assistance and the central logging of errors or defects, we have accelerated the elimination thereof. Wherever possible, we have standardized purchasing and solutions at the SIJ Group level.

Human Resources Risk: Stimulating Work Conditions

Human resources risks are managed by planning the needs for human resources. We are trying to limit fluctuation through good management. We train managers via our managerial programs in the SIJ Group and via communication with and between employees, by ensuring continuous professional growth and motivation, and by ensuring a stimulating work environment. Special attention is given to work with young experts whom we plan to include in the world of proposals via our new project, the Council of Youth of the SIJ Group.

Legal Risks: Supervision and Reporting Systems

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. Subsidiaries minimize the risks at the operational level of their own operations.

Legal risks are mitigated 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 internal policies as unified as possible 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.

Reputation and Goodwill: Proactive Communication

The risks of reputation and goodwill are moderate. The introduction of an integrated brand management system, which allows us to unify our market presence and ensure their greater visibility for end users, has reduced the risk of the 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. Such a classification helps us reduce the risk of low-cost competition and price pressures.

The risk of harmed reputation due to negative image among the stakeholders of the SIJ Group (investors, business partners, customers, suppliers, the public, and others) are balanced with the proactive communication of key events and achievements via our own communication channels, as well as well-established, publicly accessible sources of business information about companies.

We are following consumer habit trends in the food industry, and we safeguard our achieved market shares with high-quality and safe food, and with constant marketing support, where the key tools are television, digital media, and social networks.

sij | Annual Report 2017

FINANCIAL REPORT

SIJ GROUP ›

SIJ D.D. ›

FINANCIAL REPORT OF THE SIJ GROUP

INDEPENDENT AUDITOR'S REPORT

Deloitte.

Deloitte Revizija d.o.o.
Dunajska cesta 165
1000 Ljubljana
Slovenija

Tel: + 386 (0)1 3072 800
Fax: + 386 (0)1 3072 900
www.deloitte.si

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 consolidated financial statements of the company SIJ – Slovenska industrija jekla, d.d.and its subsidiaries (hereinafter 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, and its consolidated financial performance and consolidated cash flow statement for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinon

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	**How our audit addressed the key audit matter**
Carve-out of segment of business	
The Group is planning to carve-out Perutnina Ptuj d.d., its subsidiaries (hereinafter 'Perutnina Ptuj Group') and Holding PMP d.d., representing	We evaluated whether management had appropriately applied the requirements of IFRS 5 by

together poultry business segment of the Group, during 2018 year as disclosed in Note 17 In accordance with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* requirements to presentation and disclosure of discontinued operations, the Group presents the post-tax profit from discontinued operations as a single amount in the statement of comprehensive income Accordingly, the key audit matter in this regard pertains to the appropriate application of IFRS 5, in particular whether Perutnina Ptuj Group and Holding PMP d.d. operations represent a separate major line of business area of operations resulting in the presentation of a discontinued operation.	>> Assessing whether the operations of Perutnina Ptuj Group and Holding PMP represent separate major line of business for the Group and meet the criteria of classification as discontinued operations; >> Ensuring the results presented as discontinued operations fairly present the financial performance of Perutnina Ptuj Group and Holding PMP d.d.; >> Ensuring that information disclosed in the notes to consolidated financial statements is complete and accurate following the requirements of IFRS 5.
Valuation of Goodwill	
As of 31 December 2017, the Group had a goodwill of EUR 18.2 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; >> Use of our internal experts to evaluate whether the valuation approach used by the Management is appropriate, whether the significant assumptions used are adequate for given purposes and whether the results of valuations prepared by management expert are accurate; >> 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 information, included in Annual report, other than the financial statements and our auditor's report thereon. Other information were obtained prior to the date of this auditor's report, except Report from Supervisory Board, which is expected to be made available to us after that date. 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 consolidated financial statements is, in all material respects, consistent with the consolidated 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 Group 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 and Supervisory board 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so

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

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

Other reporting obligations as required by EU Regulation No. 537/2014 of the European Parliament and the Council

In compliance with the Article 10(2) of EU Regulation No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement

We were reappointed as the statutory auditor of the Company by the shareholders on General Shareholders' Meeting held on 9 June 2017. Our total uninterrupted engagement has lasted 13 years.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report issued to the Audit Committee of the Group on 23 April 2018 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings, and which have not been disclosed in the Annual Report.

Report on other legal or regulatory matters

Pursuant to Article 69 of the Companies Act (ZGD-1), the Group is required to disclose the remuneration paid to management bodies in the notes to the financial statements. We draw your attention to insufficient disclosure of remuneration of the members of management and supervisory bodies.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret-Kralj,
Certified auditor

For signature please refer to the original Slovenian version.

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

Ljubljana, 23 April 2018

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

STATEMENT OF THE MANAGEMENT'S RESPONSIBILITY

The Management Board is responsible for drawing up consolidated financial statements for each individual financial year according to the International Financial Reporting (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 to enable it to continue its operations. The consolidated financial statements are therefore based on the premise that the Group will continue its operations without a set time limit.

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

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

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

Anytime within 5 years after the end of the year in which the tax assessment should be made, the tax authorities can inspect the operations of the individual company in the Group. This can result in the occurrence of additional tax liabilities, default interests and fines based on corporate income tax, or other taxes and duties. No circumstance which could result in possible liability of this type is known to the Management Board.

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 23 April 2018.

Andrey Zubitskiy
President of the Management Board

Tibor Šimonka
Member of the Management Board

Igor Malevanov
Member of the Management Board

Viacheslav Korchagin
Member of the Management Board

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in € thousand	Note	2017	2016
Revenue	1	756,062	631,881
Cost of sales	2	(598,883)	(503,749)
Gross profit		157,179	128,132
Distribution costs	2	(42,243)	(40,323)
General and administrative expenses	2	(88,333)	(69,056)
Other operating income	3	6,787	41,245
Other operating expenses	4	(7,546)	(3,300)
Profit from operation		25,844	56,698
Finance income	5	1,467	982
Finance expenses	6	(20,943)	(18,981)
Net finance costs		(19,476)	(17,999)
Share of profit in associates	12	94	49
Profit before tax		6,462	38,748
Income tax expense	7	(1,141)	(885)
Deferred income tax	7	1,030	6,452
Profit for the year from continuing operations		6,351	44,315
Profit from discontinued operations	17	8,604	7,010
Profit for the year		14,955	51,325
Items that will not be reclassified subsequently to profit or loss			
Income tax related to components of comprehensive income		(32)	1
Net actuarial losses on pension programs		(1,201)	(143)

Continuation of the table ▶

Continuation of the table

in € thousand	Note	2017	2016
Items that may be reclassified subsequently to profit or loss			
Change in fair value reserves for available-for-sale financial assets	13	149	(8)
Exchange rate difference on translating foreign operations		(141)	85
Other comprehensive income form discontinued operations		(260)	(81)
Comprehensive income		13,470	51,179
Profit attributed to:		14,955	51,325
Owners of the controlling company	8	13,727	49,905
Non-controlling interest		1,228	1,420
Basic and diluted earnings per share (in €)	8	14.20	51.61
Comprehensive income attributed to:		13,470	51,179
Owners of the controlling company		12,190	49,818
Non-controlling interest		1,280	1,361
Comprehensive income attributed to the owners of the controlling company:		12,190	49,818
Continuing operations		3,832	43,502
Discontinued operations		8,358	6,316

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in € thousand	Note	31 Dec. 2017	31 Dec. 2016
ASSETS			
Non-current assets		520,570	705,791
Intangible assets	9	35,069	47,825
Property, plant and equipment	10	452,508	620,694
Investment property	11	166	4,094
Investments in associates	12	1,716	1,622
Available-for-sale financial assets	13	1,215	1,225
Financial receivables		30	256
Operating receivables	14	198	2,239
Other assets	15	2,287	1,007
Deferred tax assets	16	27,381	26,829
Current assets		631,614	438,156
Assets held for disposal (disposal groups)	17	270,038	4,102
Inventories	18	205,037	238,397
Financial receivables	19	25,848	19,679
Operating receivables	20	92,766	112,099
Income tax assets		1,023	1,384
Cash and cash equivalents	21	34,909	59,443
Other assets	22	1,993	3,052
Total assets		1,152,184	1,143,947
EQUITY AND LIABILITIES			
Equity	23	415,512	423,471
Equity attributed to the owners of the controlling company		*396,877*	*389,042*
Share capital		145,266	145,266
Capital surplus		11,461	11,461
Revenue reserves		811	811
Fair value reserves		(2,366)	(385)
Translation differences		593	149
Retained earnings		241,112	231,740
Non-controlling interest		18,635	34,429
Non-current liabilities		285,766	325,300
Employee benefits	24	14,160	15,763
Other provisions	25	1,148	1,365
Deferred revenues	26	1,925	5,532

Continuation of the table ▶

Continuation of the table

in € thousand	Note	31 Dec. 2017	31 Dec. 2016
Financial liabilities	27	268,115	295,241
Operating liabilities		403	612
Deferred tax liabilities	16	15	6,787
Current liabilities		450,906	395,176
Liabilities directly associated with assets classified as held for sale	17	133,017	0
Financial liabilities	28	97,330	130,156
Operating liabilities	29	217,985	259,237
Income tax liabilities		394	1,333
Other liabilities	30	2,180	4,450
Total equity and liabilities		1,152,184	1,143,947

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated Statement of Changes in Equity in 2017

	Equity attributed to the owners of the controlling company								
in € thousand	Share capital	Capital surplus	Revenue reserves	Fair value reserves	Translation differences	Retained earnings	Total	Non-controlling interest	Total
Balance as at 31 Dec. 2016	145,266	11,461	811	(385)	149	231,740	389,042	34,429	423,471
Acquisitions of non-controlling interest	0	0	0	0	0	5,615	5,615	(17,074)	(11,459)
Dividends paid	0	0	0	0	0	(9,970)	(9,970)	0	(9,970)
Total transactions with owners	0	0	0	0	0	(4,355)	(4,355)	17,074	(21,429)
Profit for the year	0	0	0	0	0	13,727	13,727	1,228	14,955
Other changes in comprehensive income	0	0	0	(1,981)	444	0	(1,537)	51	(1,485)
Total changes in comprehensive income	0	0	0	(1,981)	444	13,727	12,190	1,280	13,470
Balance as at 31 Dec. 2017	145,266	11,461	811	(2,366)	593	241,112	396,877	18,635	415,512

Consolidated Statement of Changes in Equity in 2016

	Equity attributed to the owners of the controlling company								
in € thousand	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	188,206	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	23,575
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)	(146)
Total changes in comprehensive income	0	0	0	(15)	(72)	49,905	49,818	1,361	51,179
Balance as at 31 Dec. 2016	145,266	11,461	811	(385)	149	231,740	389,042	34,429	423,471

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

CONSOLIDATED CASH FLOW STATEMENT

in € thousand	Note	2017	2016
Cash flow from operating activities			
Profit before tax		15,533	48,054
Adjusted for:			
Depreciation and amortisation	9, 10	64,230	58,421
Share of profit in associates	12	(94)	(49)
Negative goodwill	33	0	(29,623)
Interest income	5	(1,878)	(742)
Interest expenses	6	16,138	16,646
Exchange rate differences, net		0	(99)
Loss in investment sales		0	28
Impairment of assets	4	3,020	919
Creation of allowances and provisions		3,218	1,121
Other adjustments		(2,266)	(3,615)
Operating cash flow before changes in working capital		97,901	91,062
Changes in working capital			
Change in operating receivables		(9,755)	29,106
Change in inventories		(6,000)	(35,333)
Change in operating payables		16,268	26,377
Change in taxes other than income tax		553	109
Payments for disposal of provisions		(17)	(32)
Receipts from government grant		4,030	4,068
Payments for loyalty bonuses and severance pay		(1,717)	(885)
Income tax paid		(1,888)	(2,783)
Changes in working capital		*1,474*	*20,627*
Net cash generated from operating activities		99,375	111,689
Cash flow from investing activities			
Payments for investments in subsidiaries		(11,461)	(16,102)
Payments for available-for-sale financial assets		(69)	0
Payments for property, plant and equipment		(53,652)	(58,954)
Receipts from property, plant and equipment		529	801
Payments for intangible assets		(4,588)	(2,291)
Receipts (payments) for other assets		73	(6,576)
Payments for loans issued	19	(5,503)	(15,507)
Receipts from loans issued	19	463	176
Interests received		814	183
Dividends received	13	70	77
Net cash used in investing activities		(73,324)	(98,193)
Cash flow from financing activities			
Receipts from borrowings	27, 29	626,462	892,008
Payments for borrowings	27, 29	(613,654)	(864,699)
Payments for finance lease	27, 29	(2,589)	(2,864)
Interests paid		(16,404)	(17,701)
Dividends paid		(9,970)	(5,811)
Net cash (used) genereted in financing activities		(16,155)	933
Cash and cash equivalents as at 1 Jan.		59,443	44,587
Translation differences		195	427
Increase		9,896	14,429
Cash and cash equivalents as at 31 Dec.		69,534	59,443

Continuation of the table

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

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 at Gerbičeva ulica 98, 1000 Ljubljana. Given below are the consolidated financial statements for the year ending on 31 December 2017.

Consolidated financial statements for a selected group of subsidiaries are compiled by the company 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.

The consolidated financial statements for 2017 have been prepared in accordance with the IFRS as adopted by the European Union. The standards have been applied directly in disclosures and valuation 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 may be insignificant deviations in the sums given in the tables.

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

The 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) The 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 IAS 7 'Statement of Cash Flows' – Disclosure Initiative – adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 12 'Income Taxes' – Recognition of Deferred Tax Assets for Unrealised Losses – adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- 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 adopted by the EU on 8 February 2018 (amendments are MSRP 12 for annual periods beginning on or after 1 January 2017).

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 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),
- Amendments to IFRS 15 'Revenue from Contracts with Customers' – Clarifications to IFRS 15 'Revenue from Contracts with Customers' – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018),
- IFRS 16 'Leases' – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 4 'Insurance Contracts' – Adoption of IFRS 9 'Financial Instruments' together with IFRS 4 'Insurance Contracts' – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018, or at first adoption of IFRS 9 'Financial Instruments').

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.

IFRS 9 introduces a new approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. The rules for the classification and measurement of financial assets will not be changed and will not effect the Group's consolidated financial statements. IFRS 9 introduces a new model for the impairment of financial assets based on estimated expected losses, which demands timely recognition of expected credit losses. The new standard requires from the Group to recognise expected credit losses at the initial recognition of financial asset and to timely recognise lifetime expected credit losses.

In accordance with the new IFRS 9, the Group has formed a new model of impairing trade receivables, where the creation of the impairment is based not only on incurred losses, but also on expected future losses. According to the model, the receivables are impaired based on a classification in 5 classes, where an individual class is formed primarily based on the division of receivables into insured or uninsured, to the receivables of third parties or receivables within the Group, based on their age structure, and based on an assessment of the Management Board (for receivables more than 90 overdue and for individual, critical cases of exposure). The shares of forming the impairments according to individual classes were formed based on the historical data for the past three years.

The Group estimates that the influence on the trade receivables would show as a decrease of the allowances for trade receivables by €967 thousand.

c) New standards and amendments issued by the 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 the 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 23 April 2018 (effective dates given bellow are effective for the entire IFRS):

- 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 17 'Insurance Contracts' (effective for annual periods beginning on or after 1 January 2021),
- 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 9 'Financial Instruments' – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- 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 IAS 28 'Investments in Associates and Joint Ventures' – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- 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),
- Amendments to various standards due to 'Improvements to IFRSs 2015–2017 Cycle' resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23), primarily aimed at removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration ' (effective for annual periods beginning on or after 1 January 2018),
- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 January 2019).

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 hedging instrument in connection with the portfolio of financial assets and liabilities, the principles of which the EU has not yet adopted, is still unregulated. The Group assesses that the accounting of hedging 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 Consolidated Statement of Financial Position.

BASIS OF MEASUREMENT

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

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

FUNCTIONAL AND PRESENTATION CURRENCY

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

APPLICATION OF ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements requires the Management Board to make estimates, judgments and assumptions that influence the disclosed amounts of assets and liabilities, the disclosed contingent assets and liabilities on the day of the preparation of the consolidated financial statements, and the disclosed amounts of income and expenses during the reporting period.

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 realisable value of inventories;
- estimate of the collectible amount of receivables;
- estimate of the created provisions;
- estimate of the possibility for realisation of deferred tax assets.

Since estimates are subject to subjective judgments and a level of uncertainty, the subsequent actual results can differ from those estimated. Estimates are reviewed on an ongoing basis. Amendments to the accounting estimates are recognised during the period in which the estimates were revised if the amendment only applies to this period, or during the period of the amendment and future periods if the amendment applies to future periods.

COMPOSITION OF THE GROUP OF RELATED PARTIES

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

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

in € thousand	Activity	% of voting rights	Value of assets as at 31 Dec. 2017	Value of equity as at 31 Dec. 2017	Net profit 2017
Controlling company of the Group					
SIJ – Slovenska industrija jekla, d.d., Gerbičeva ulica 98, Ljubljana, Slovenia	Activities of head offices		364,088	207,089	11,392
SIJ – subsidiaries					
SIJ ACRONI d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	Steel production	100	454,244	171,648	1,722
SIJ METAL RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Steel production	100	223,811	80,962	5,601
NOŽI RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Industrial knives production	100	9,978	4,742	(757)
SIJ ELEKTRODE JESENICE d.o.o., Cesta železarjev 8, Jesenice, Slovenia	Welding materials production	100	10,945	3,693	(772)
SIJ SUZ d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	Drawn wires production	100	5,497	2,302	544
SIJ ZIP CENTER d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Education and training of the disabled	100	2,347	657	122
ODPAD d.o.o. Pivka, Velika Pristava 23, Pivka, Slovenia	Recovery of secondary raw materials from scrap	74.90	28,157	7,497	256
NIRO Wenden GmbH, Glück-Auf-Weg 2, Wenden, Germany	Steel cutting, engineering and trade	85	15,562	(1,185)	(886)
SIJ RAVNE STEEL CENTER d.o.o., Litostrojska cesta 60, Ljubljana, Slovenia	Trade	77.28	33,163	17,378	1,542

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in € thousand	Activity	% of voting rights	Value of assets as at 31 Dec. 2017	Value of equity as at 31 Dec. 2017	Net profit 2017
GRIFFON & ROMANO S.P.A., Via Dossetti 11, Loc. Casinello de Dosso, Italy	Heat processing and special steel trade	100	27,286	277	(87)
SIJ Asia GmbH, Berger Str. 2, 40213 Düsseldorf, Germany	Trade	100	1,016	431	126
SIJ RAVNE SYSTEMS d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Metallurgic machines production	100	44,061	8,169	603
SIJ POLSKA Sp. Z.o.o., ul. Zamkowa 7 lok.11, Poznan, Poland	Trade	100	1	1	-
PERUTNINA PTUJ d. d., Potrčeva cesta 10, Ptuj, Slovenia	Processing and preserving of poultry meat	90.69	189,050	105,364	7,805
HOLDING PMP d. d., Vinarski trg 1, Ptuj, Slovenia	Financial service activities	100	8,332	8,096	(4)
PERUTNINA PTUJ – subsidiaries					
PP ENERGIJA, d.o.o., Potrčeva cesta 10, Ptuj, Slovenia	Production of electricity	100	5,105	545	194
Perutnina Ptuj-Topiko d. o. o., Petefi Brigade 2, Bačka Topola, Serbia	Processing and preserving of poultry meat	100	27,575	17,170	777
PP MI ZALOG d. o. o., Hladilniška pot 37, Ljubljana, Slovenia	Processing and preserving of poultry meat	100	19,996	12,620	(43)
Perutnina Ptuj – Pipo Čakovec d. o. o., Rudolfa Steinerja 7, Čakovec, Croatia	Processing and preserving of poultry meat	99.66	25,024	14,607	1,091
Perutnina Ptuj-BH d. o. o., Potkrajska bb, Breza, Bosnia and Herzegovina	Processing and preserving of poultry meat	100	20,672	9,289	934
Ptujska klet d. o. o., Vinarski trg 1, Ptuj, Slovenia	Growing of grapes	100	6,128	2,589	(214)
Perutnina Romania S. r. l., Str. 13 Decembrie Nr. 96, Brasov, Romania	Trade	100	963	128	64
Perutnina Ptuj S d. o. o., Povelić b. b., Srbac, Bosnia and Herzegovina	Processing and preserving of poultry meat	100	14,058	1,984	530
PP Gostinstvo d. o. o., Dravska ulica 9, Ptuj, Slovenia	Restaurants and inns	100	437	(452)	(82)
Gradbeni remont d. o. o., Žnidaričevo nabrežje 10, Ptuj, Slovenia	Construction	100	726	512	1
PP BRO ŽIVA d. o. o., Petefi Brigade 2, Bačka Topola, Serbia	Processing and preserving of poultry meat	60	850	90	(94)
Perutnina Ptuj dooel Skopje, Ul. Pero Nakov 108-A, Skopje, Macedonia	Trade	100	2,249	538	101
Veterinarska ambulanta PP d. o. o., Potrčeva 6, Ptuj, Slovenia	Veterinary activities	45	928	358	46
Perutnina Austria GmbH, Haushammerstrasse 1, Seiesberg, Austria	Trade	100	1,703	873	287
PP - Agro d. o. o., Tržaška cesta 41A, Maribor, Slovenia	Mixed farming	100	15,390	11,336	349
Naša d.o.o., Potrčeva cesta 10, Ptuj, Slovenia	Trade	100	603	(357)	(293)
Perutnina Ptuj – Pipo Čakovec – subsidiaries					
Eko ENERGIJA d.o.o., Rudolfa Steinerja 7, Čakovec, Croatia	Production of electricity	100	169	148	49

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in € thousand	Activity	% of voting rights	Value of assets as at 31 Dec. 2017	Value of equity as at 31 Dec. 2017	Net profit 2017
Perutnina Ptuj-Topiko – subsidiaries					
TOP-VETERINA d. o. o., Dušana Popivode b.b., Bačka Topola, Serbia	Veterinary activities	100	290	91	20
SIJ ACRONI – subsidiaries					
ŽELEZARNA JESENICE, d.o.o., Cesta železarjev 8, Jesenice, Slovenia	Trading with own real estate	100	10,180	9,697	76
SIJ METAL RAVNE – subsidiaries					
KOPO International Inc., 100 Village Court, Suite # 202, Hazlet, New Jersey 07730, USA	Trade	100	26,686	1,816	147
ODPAD – subsidiaries					
DANKOR, d.o.o., Vukovarska 436, Osijek, Croatia	Recovery of secondary raw materials from scrap	91	1,509	359	129
METAL-EKO SISTEM DOO JAGODINA, Put Kneza Mihaila 107, Jagodina, Serbia	Recovery of secondary raw materials from scrap	70	3,901	1,751	248
"TOPMETAL" d.o.o. Karađorđeva 69 Laktaši, Bosnia and Herzegovina	Recovery of secondary raw materials from scrap	51	1,507	574	(315)
SIJ Ravne Steel Center – subsidiaries					
SIDERTOCE S. p. A., Via XX. Settembre 198, C. P. 34, Gravellona Toce, Italy	Trade	100	12,368	3,954	564
SIJ MWT GmbH, Celsiusstrasse 17, Germany	Trade	100	3,462	254	(60)
ORO MET d.o.o., Neverke 56, Košana, Slovenia	Manufacture of other tools	51	10,788	5,071	1,154
NOŽI RAVNE– subsidiaries					
SIJ Ravne Systems (UK) Limited, 12 Conqueror Court, Sittingbourne, Kent, ME10 5BN, Great Britain	Trade	100	505	37	26
SIJ Ravne Systems USA Inc., 2711 Centerville Road, Suite 400, Wilmington, Country of New Castle, Delaware 19808, USA	Trade	100	477	(203)	(18)
SIJ Asia – subsidiaries					
SIJ Steel (Shanghai) Co., Ltd., Rm.320, 2449 Gonghexin Road, Zhabei District, Shanghai 200072, China	Trade	100	27	23	(25)

In May 2017, the controlling company established SIJ POLSKA Sp. Z.o.o., which has not began to operate yet.

In August 2017, the Group winded up Ravne Knives UK (North) Limited. The liquidation of this company had no significant influence on the Group.

In 2017, the controlling company was acquiring shares of Perutnina Ptuj d. d., namely 12.9 percent until 31 December 2017. Together with shares of Holding PMP d. d., it now owns 90.6 percent of Perutnina Ptuj d. d.

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 to operate by the reporting date. These are SIJ MWT GmbH, SIJ Asia GmbH, Steel (Shanghai) Co., Ravne Knives (UK) Limited, Ravne Knives USA, SIJ POLSKA Sp. Z.o.o., 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 that 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 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.

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

Investments in Associates

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

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

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 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. Exchange rate differences are recognised in profit or loss.

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

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

Revenues

Sales revenues are recognised at fair value of 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. Revenues from services are recognised according to the level of the transaction's completeness on the reporting date, specifically, proportionally based on the completed man-hours and the included direct purchase costs. Revenue from dividends is recognised when the shareholder's right to pay-out is established.

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. Financial income from financial guarantees is equally recognised during the period of validity of the guarantee.

Expenses

Expenses are recognised if a decrease in economic benefits during the reporting period is associated with a decrease in assets or an increase in debts, and if this decrease can be reliably measured. Operating expenses are recognised when the costs are no longer held in inventories, finished and unfinished products, or when goods are sold. 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 financial position for temporary differences, arising from the tax values of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is calculated by using the tax rates (and laws) applicable on the date of the statement of financial position, which are expected to be used when the deferred tax asset is 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.

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. Amortisation 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.

Amortisation 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 company'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 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, biological assets are measured at fair value, less cost of sale and accumulated impairment losses. The fair value model is used for any subsequent measuring of biological assets.

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	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 items of property, plant and equipment 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 a price that would be achieved by selling an asset or paid by transferring a liability in an orderly transaction between market participants at the date of measurement.

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 are used to assess the fair value of the financial instrument.

Non-Derivative Financial Assets
Non-derivative financial assets include cash and cash equivalents, loans and receivables, and investments. Receivables, loans 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 receivables 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 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). 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 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 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 financial position) or non-current financial liabilities (maturities exceeding 12 months after the date of the statement of financial position).

Inventories

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

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

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

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 the sale is very probable, are classified as assets held for disposal. Assets or disposal groups are re-measured directly before their classification as assets held for disposal. Accordingly, non-current assets or a disposal group are recognised at their carrying amount or fair value less cost of sale, whichever is 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 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 Issued

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

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

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

Determination of Fair Value

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

Fair value is a price that would be achieved by selling an asset or paid by transferring a liability in an orderly transaction between market participants at the date of measurement.

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. The fair value of biological assets is their market value. The market value is based on the approach using quoted market price for same animals. If there is no quoted market price, the method of discounted cash flows which are expected to arise from use and possible disposal of the assets is used.

Investment Property

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

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 fair value of financial instruments. If the fair value cannot be reliably measured, because the wide range of estimates of reasonable fair values is important, and the probability of different estimates is hard to assess, the Group measures the financial asset at cost.

Receivables and Loans

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

Inventories

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

Non-Derivative Financial Liabilities

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 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 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.

Fair Value Reserves

Fair value reserves include effect of property, plant and equipment, available-for-sale financial instruments at fair value, actuarial gains or losses from post-employment benefits and other non-current employee benefits revaluation at fair value.

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 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 retirements benefits.

The provisions are formed in the amount of estimated future payments for loyalty bonuses and severance pay, discounted at the end of the financial year. The calculation is made for each individual employee and includes the costs of severance pay upon retirement and the costs of all expected loyalty bonuses up to retirement. The calculation is prepared by an actuary, selected at the 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 covering of expenses are consistently recognised as revenues in periods of 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 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: the Group's business segment that consists from production of steel plates and strips of different dimensions and grades from stainless, structural, electrical and special steels, and production of steel profiles from alloyed, non-alloyed, special, tool and structural steels;
- Distribution and Processing Division: a business segment, representing the Group's downstream vertical integration, which allows the Group to have direct contact with end-customers, provide them with fast delivery of steels of required dimensions and quality, as well as with other services and after-sales support;
- Scrap Division: collection, processing and sortation of scrap metal, and its further preparation for transportation and basic processing by the Steel Division;
- Manufacturing Division: production of finished and semi-finished products from steel, exploiting the synergy with Steel Division production processes;
- Headquarter and Other Services: business, financial and other consulting for companies in the Group, as well as various concessionary services and social assistance services linked to the employment of disabled person.

NOTES TO INDIVIDUAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1. Revenue

in € thousand	2017	2016
In Slovenia	104,690	91,638
In other countries:	651,371	540,241
- Germany	*171,404*	*144,390*
- Italy	*151,120*	*126,495*
- USA	*67,787*	*53,735*
- Croatia	*12,980*	*12,496*
- Austria	*19,984*	*17,123*
- other countries	*228,095*	*186,004*
Revenue	756,062	631,881

2. Operating expenses

in € thousand	2017	2016
Costs of goods, materials and services	562,608	471,041
Labour costs	115,906	107,111
- wages and salaries	*87,184*	*80,187*
- social security costs	*15,727*	*14,197*
- other labour costs	*12,995*	*12,727*
Depreciation and amortisation	50,097	46,133
Other costs	7,563	7,414
Changes in the value of inventories	(6,716)	(18,572)
Operating expenses	729,458	613,127

Review of Costs by Type in 2017

in € thousand	Cost of sales	Distribution costs	General and administrative expenses	Total
Costs of goods, materials and services	498,404	34,825	29,379	562,608
Labour costs	60,071	6,780	49,055	115,906
Depreciation and amortisation	43,328	587	6,182	50,097
Other costs	3,795	51	3,717	7,563
Changes in the value of inventories	(6,716)	0	0	(6,716)
Operating expenses	598,883	42,243	88,333	729,458

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	415,097	33,197	22,746	471,041
Labour costs	61,896	6,575	38,640	107,111
Depreciation and amortisation	41,517	498	4,118	46,133
Other costs	3,811	52	3,551	7,414
Changes in the value of inventories	(18,572)	0	0	(18,572)
Operating expenses	503,749	40,323	69,056	613,127

In 2017, the costs of annual reports auditing amounted to €228 thousand. In 2017, the costs for audit related services amounted to €8 thousand. The costs for other authorised services charged by Deloitte revizija d.o.o amounted to €12 thousand.

Average Number of Employees by Level of Education

	2017	2016
Primary school	536	498
2.5-year vocational school	376	365
Secondary vocational school	1,014	942
Secondary general school	919	846
1st cycle degree – Bachelor's degree	396	367
2nd cycle degree – Master's degree	287	270
3rd cycle degree – Doctoral degree	57	54
Total	3,585	3,342

3. Other Operating Income

in € thousand	2017	2016
Reversal of allowances for inventories	2,491	0
Revenues from received subsidies	1,893	1,891
Received compensations	1,190	1,206
Reversal of provisions	245	88
Write-off of liabilities	96	6,907
Revenues from business combinations	0	29,623
Profit from sale of property, plant and equipment	0	605
Other income	872	927
Other operating income	6,787	41,245

4. Other Operating Expenses

in € thousand	2017	2016
Allowances for receivables	2,439	890
Impairment of goodwill	2,313	870
Expenses for donations and sponsorships	752	531
Impairment of inventories	264	217
Other expenses	1,778	792
Other operating expenses	7,546	3,300

5. Finance Income

in € thousand	2017	2016
Interest income	1,190	636
Exchange rate differences	179	278
Other income	98	68
Finance income	1,467	982

6. Finance Expenses

in € thousand	2017	2016
Interest expenses	13,808	14,192
Exchange rate differences	265	206
Other expenses	6,870	4,584
Finance expenses	20,943	18,981

Other finance expenses refer to expenses for finance discounts, expenses for receivables management, expenses connected with borrowings, and financial services tax.

7. Taxes

in € thousand	2017	2016
Income tax expense	(1,141)	(885)
Deferred income tax	1,030	6,452
Taxes	(111)	5,567

in € thousand	2017	2016
Profit before tax	6,462	38,748
Tax at effective tax rate	1,228	6,587
Tax effects from:		
- non-taxable income	*(20)*	*(5,139)*
- tax non-deductible expenses	*1,931*	*446*
- tax relief	*(3,055)*	*(7,817)*
- tax losses for which no deferred tax assets were recognised	*262*	*(369)*
- change in tax rates	*(234)*	*724*
Taxes	111	(5,567)
Effective tax rate	1.71 %	-

The tax relief of the Group comprises tax relief realised from the charging of corporate tax and unused tax reliefs for which deferred tax assets were recorded. The Group's companies can realise unused tax reliefs over the following years according to the legislation of the countries in which they operate.

8. Net Earnings per Share

	2017	2016
Profit or loss attributed to the owners of the controlling company in € thousand	13,727	49,905
Weighted number of issued ordinary shares	967,016	967,016
Basic and diluted earnings per share in €	14.20	51.61

Net earnings per share are calculated by dividing the net profit or loss of the financial year, allocated to 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 2017

in € thousand	Non-current property rights	Goodwill	Assets under construction	Total
Cost as at 31 Dec. 2016	31,921	20,599	1,352	53,872
Acquisition of company	7	72	0	79
New additions	0	0	4,147	4,147
Transfer from assets under construction	3,720	0	(3,720)	0
Disposals	(1,759)	0	0	(1,759)
Translation differences	(5)	0	0	(5)
Transfer from property, plant and equipment	4	0	0	4
Impairment	0	(2,313)	0	(2,313)
Transfer to assets held for disposal (disposal groups)	(11,333)	(72)	0	(11,405)
Cost as at 31 Dec. 2017	22,555	18,286	1,779	42,620
Accumulated amortisation as at 31 Dec. 2016	(6,047)	-	-	(6,047)
Amortisation	(3,008)	-	-	(3,008)
Disposals	1,475	-	-	1,475
Translation differences	4	-	-	4
Transfer from property, plant and equipment	(4)	-	-	(4)
Transfer to assets held for disposal (disposal groups)	29	-	-	29
Accumulated amortisation as at 31 Dec. 2017	(7,551)	-	-	(7,551)
Present value as at 31 Dec. 2016	25,874	20,599	1,352	47,825
Present value as at 31 Dec. 2017	15,004	18,286	1,779	35,069

Intangible assets comprise computer software and licences. Increases in intangible assets represent the modernisation of information systems and the costs for 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 2017, the goodwill was tested for potential impairment. For NIRO Wenden, the Group established that the recoverable value of the acquired net assets on 31 December 2017 exceeded their carrying amount, including goodwill. For estimating the recoverable value, income rates between 8.23 and 9.23 percent, and annual growth levels of free cash flow ranging from 1.5 to 2.5 percent were used. The Group impaired goodwill to a value within the scope of levels valued at €2,313 thousand, and now amounts to €873 thousand. A reasonable change in the yield rate or annual growth rate of the free cash flow would not cause an additional impairment of goodwill.

With other goodwill, the Group did not establish any signs of impairment. Based on the test performed, the Board of Directors assesses that on 31 December 2017 the recoverable value of investments in interests of the companies in which goodwill arose was higher than their purchase value at the time of the business combination. Therefore, impairment of goodwill which arose from business combinations is not necessary. The recoverable value of investments which corresponds to the value of investments in use was assessed by the method of present value of the estimated cash flows. All assumptions used for calculating cash flow are based on past experience of the companies' operations and reasonable expectations of future operations.

On 31 December 2017, the Group's unsettled liabilities to suppliers for the purchase of intangible assets amounted to €517 thousand (2016: €186 thousand). In 2017, there was no contractual obligations to purchase known in advance (2016: €5 thousand). Intangible assets whose present value on 31 December 2017 amounts to €42 thousand (2016: €681 thousand) are pledged as security for liabilities. On 31 December 2017, the present value of intangible assets under finance lease is €42 thousand (2016: €0 thousand).

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 2016

in € thousand	Non-current property rights	Goodwill	Assets under construction	Total
Cost as at 31 Dec. 2015	16,418	15,061	314	31,793
Acquisition of company	12,570	5,682	0	18,252
New additions	13	0	4,022	4,035
Transfer from assets under construction	2,984	0	(2,984)	0
Disposals	(67)	0	0	(67)
Translation differences	1	0	0	1
Other changes	2	0	0	2
Reversal	0	(144)	0	(144)
Cost as at 31 Dec. 2016	31,921	20,599	1,352	53,872
Accumulated amortisation as at 31 Dec. 2015	(3,718)	-	-	(3,718)
Amortisation	(2,426)	-	-	(2,426)
Disposals	65	-	-	65
Translation differences	(1)	-	-	(1)
Other changes	33	-	-	33
Accumulated amortisation as at 31 Dec. 2016	(6,047)	-	-	(6,047)
Present value as at 31 Dec. 2015	12,700	15,061	314	28,075
Present value as at 31 Dec. 2016	25,874	20,599	1,352	47,825

10. Property, Plant and Equipment

Movement of Property, Plant and Equipment in 2017

in € thousand	Land	Buildings	Equipment	Other	Assets under con-struction	Total
Cost as at 31 Dec. 2016	59,821	378,839	913,194	43,569	36,009	1,431,432
Acquisition of company	0	0	65	0	0	65
New additions	0	0	0	0	40,298	40,298
Transfer from assets under construction	368	2,844	55,554	2,790	(61,556)	0
Disposals	(276)	(9,770)	(17,960)	(1,702)	(7)	(29,714)
Translation differences	146	333	369	47	26	921
Other changes	0	4,449	(8,178)	3,736	0	7
Transfer to intangible assets	0	0	0	(4)	0	(4)
Transfer from assets held for disposal (disposal groups)	4,061	0	0	0	0	4,061
Transfer to investment property	(314)	(862)	0	0	0	(1,176)
Transfer to assets held for disposal (disposal groups)	(29,767)	(85,338)	(46,959)	(4,004)	(5,049)	(171,117)
Cost as at 31 Dec. 2017	34,038	290,495	896,085	44,432	9,721	1,274,771
Accumulated depreciation as at 31 Dec. 2016	-	(190,495)	(590,355)	(30,328)	-	(810,737)
Depreciation	-	(8,293)	(49,573)	(3,356)	-	(61,222)
Disposals	-	7,938	15,011	1,267	-	24,216
Translation differences	-	(23)	(107)	3	-	(127)
Other changes	-	(3,484)	6,920	(3,439)	-	(3)
Transfer to intangible assets	-	0	0	4	-	4
Transfer to investment property	-	743	0	0	-	743
Transfer to assets held for disposal (disposal groups)	-	5,130	19,102	631	-	24,863
Accumulated depreciation as at 31 Dec. 2017	-	(188,043)	(599,002)	(35,218)	-	(822,263)
Present value as at 31 Dec. 2016	59,821	188,785	322,838	13,241	36,009	620,694
Present value as at 31 Dec. 2017	34,038	102,452	297,083	9,214	9,721	452,508

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	188,785	322,838	13,241	36,009	620,694

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

- AOD (argon-oxygen decarburization) converter in the steel plant;
- grinding machine;
- steel plant modernisation;
- heat treatment furnace;
- current upgrades (repairs);
- renovation of buildings.

Disposals of property, plant and equipment mostly refer to the sale and write-off of equipment connected with the renovation of basic production capacities and the write-off of unusable and out-dated equipment.

Property, plant and equipment with the current value on 31 December 2017 amount to €5,685 thousand (2016: €283,298 thousand) are pledged as security for liabilities. On 31 December 2017, the Group's unsettled liabilities to suppliers for the purchase of property, plant and equipment amounted to €11,858 thousand (2016: €26,949 thousand). Its contractual liabilities for the purchase of property, plant and equipment amounted to €7,815 thousand (2016: €17,082). The present value of property, plant and equipment under finance lease is €4,507 thousand (2016: €9,923 thousand). The Group capitalised €175 thousand of borrowing costs (2016: €396 thousand), for which the interest rates were 1.18 percent.

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

11. Investment Property

in € thousand	2017	2016
Cost as at 1 Jan.	4,850	834
Acquisition of company	0	4,032
New additions	9	(20)
Disposals	0	(2)
Translation differences	80	6
Transfer from property, plant and equipment	1,176	0
Transfer to assets held for disposal (disposal groups)	(5,280)	0
Cost as at 31 Dec	836	4,850
Accumulated depreciation as at 1 Jan.	(756)	(642)
Depreciation	(182)	(139)
Disposals	0	2
Translation differences	(11)	23
Transfer from property, plant and equipment	(743)	0
Transfer to assets held for disposal (disposal groups)	1,022	0
Accumulated depreciation as at 31 Dec	(671)	(756)
Present value as at 1 Jan.	4,094	192
Present value as at 31 Dec	166	4,094

In 2017, the Group generated €238,336 thousand of income in investment properties (2016: €577 thousand) and €14 thousand of expenses from investment property (2016: €391 thousand). Investment property is not pledged as security for liabilities.

The present amount of investment property does not exceed its fair value.

12. Investments in Associates

in € thousand	31 Dec. 2017	31 Dec. 2016
Razvojni center Jesenice, Cesta Franceta Prešerna 61, Jesenice, Slovenia	1,716	1,622
Investments in associates	1,716	1,622

in € thousand	Activity	% of voting rights	Value of assets as at 31 Dec. 2017	Value of equity as at 31 Dec. 2017	Revenues 2017	Net profit 2017
Razvojni center Jesenice	Development	24.95	9,413	6,747	2,977	377

The investment in associates is valued on the basis of the equity method. In 2017, the Group attributed a corresponding share of 2017 profit which amounted to €94 thousand (2016: €49 thousand).

The company's principal activity is 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. 2017	31 Dec. 2016
Available-for-sale financial assets at cost	460	619
Available-for-sale financial assets at fair value	755	606
Available-for-sale financial assets	1,215	1,225

Available-for-sale financial assets carried at cost refer to shares and interests in companies that are traded on the regulated market and whose fair value can be measured reliably.

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. They increased due to revaluation at fair value in the amount of €148 thousand charged to the comprehensive income.

Received dividends in 2017 amounted to €70 thousand (2016: €77 thousand).

14. Non-Current Operating Receivables

in € thousand	31 Dec. 2017	31 Dec. 2016
Operating receivables	551	5,223
Allowances for trade and other receivables	(353)	(2,984)
Non-current operating receivables	198	2,239

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

15. Other Non-Current Assets

in € thousand	31 Dec. 2017	31 Dec. 2016
Other assets	2,287	1,007
Other non-current assets	2,287	1,007

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

16. Deferred Tax Assets and Liabilities

in € thousand	31 Dec. 2017	31 Dec. 2016
Deferred tax assets	27,381	26,829
Deferred tax liabilities	(15)	(6,787)
Deferred tax assets (liabilities), net	27,366	20,042

Movement of Deferred Tax Assets and Liabilities in 2017

in € thousand	31 Dec. 2016	Translation differences	Changes in the income statement	Changes in the comprehensive income	Transfer to assets held for disposal (disposal groups)	31 Dec. 2017
Property, plant and equipment	(6,836)	(5)	539	0	6,239	(63)
Other	49	0	(1)	0	0	48
Deferred tax liabilities	(6,787)	(5)	538	0	6,239	(15)
Other provisions	56	0	(19)	(76)	76	37
Unused tax losses	10,426	(7)	732	0	0	11,151
Inventories	631	(6)	(351)	0	0	274
Operating receivables	759	3	(234)	0	(9)	519
Employee benefits	2,069	3	232	0	(467)	1,837
Property, plant and equipment	1,040	1	(120)	0	0	921
Available-for-sale financial assets	(33)	0	73	(32)	(73)	(65)
Unused tax reliefs	11,881	(1)	829	0	(2)	12,707
Deferred tax assets	26,829	(7)	1,142	(108)	(475)	27,381
Deferred tax assets (liabilities), net	20,042	(12)	1,681	(108)	5,763	27,366

The value of unused tax losses for which deferred tax assets are recognised amounted to €59,684 thousand on 31 December 2017 (2016: €49,717 thousand). The value of unused tax losses for which deferred tax assets are not recognised amounted to €63,870 thousand (2016: €71,457 thousand), while unrecognised deferred tax assets amounted to €12,093 thousand (2016: €13,219 thousand).

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	55
Unused tax losses	8,379	1,581	1	466	0	10,427
Inventories	119	0	7	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	(34)	0	0	0	1	(33)
Unused tax reliefs	7,549	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	(4,417)	4	5,520	1	20,041

17. Assets Held for Disposal (Disposal Groups)

in € thousand	31 Dec. 2017	31 Dec. 2016
Assets held for sale	31	4,102
Assets of Perutnina Ptuj Group and Holding PMP – discontinued operations	270,007	0
Assets held for disposal (disposal groups)	270,038	4,102
Liabilities of Perutnina Ptuj Group and Holding PMP – discontinued operations	(133,017)	0
Liabilities directly associated with assets classified as held for sale	(133,017)	0

Under assets held for sale, the Group has buildings in Celje, which are intended for sale. Sales activities are constantly under way. In 2017, the Group reclassified land and buildings (outbuildings and apartments) in Jesenice to property, plant and equipment, since it is looking for an option to use them within the Group. 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.

In 2018, spin-off activities of the investments in Perutnina Ptuj Group and Holding PMP are under way. The Management Board estimates that the spin-off will be concluded in 2018, therefore it presents their assets and liabilities as assets and liabilities held for disposal, and their profit as discontinued operations. Profit for 2016 is included from 1 March 2016, when the Group acquired the controlling interest. Profit for 2017 is included for the whole financial year.

The Income Statement and Statement of Financial Position are presented below:

in € thousand	2017	2016
Revenue	256,830	210,764
Operating expenses	(252,423)	(204,456)
Other operating income (expenses), net	6,600	5,629
Operating profit	11,007	11,937
Net finance costs	(1,936)	(2,631)
Taxes	(467)	(2,296)
Profit for the year	8,604	7,010

in € thousand	31 Dec. 2017	31 Dec. 2016
Non-current assets	162,740	169,720
Intangible assets	11,375	11,896
Property, plant and equipment	146,255	152,761
Other assets	5,110	5,063
Current assets	107,267	104,792
Inventories	39,039	36,917
Operating receivables	29,916	28,930
Cash and cash equivalents	34,625	38,181
Other assets	3,687	764
TOTAL ASSETS	270,007	274,512
Non-current liabilities	64,401	71,202
Financial liabilities	51,017	58,303
Other liabilities	13,384	12,899
Current liabilities	68,616	69,244
Financial liabilities	18,070	15,760
Other liabilities	50,546	53,484
TOTAL LIABILITIES	133,017	140,446
NET ASSETS	136,990	134,066

18. Inventories

in € thousand	31 Dec. 2017	31 Dec. 2016
Raw material	82,973	94,439
Work in progress	67,272	76,102
Finished products	39,561	51,118
Trade goods	15,231	16,738
Inventories	205,037	238,397

On 31 December 2017, inventories are not pledged as security for liabilities (2016: €26,582 thousand). On 31 December 2017, the Group checked the value of its inventories. It found that the net realizable value of finished products is lower than their production value, and made the impairment of the inventories in the amount of €264 thousand (2016: €616 thousand).

Movement of Allowances for Inventories

in € thousand	2017	2016
Balance as at 1 Jan.	5,841	4,788
Acquisition of company	0	387
Allowance changes with influence on profit or loss	(2,492)	1,148
Allowance changes without influence on profit or loss	(368)	(382)
Translation differences	0	(2)
Sale of subsidiary	0	(98)
Balance as at 31 Dec	2,981	5,841

19. Current Financial Receivables

in € thousand	31 Dec. 2017	31 Dec. 2016
Loans issued	24,103	18,969
Interest receivables	1,659	652
Other	86	58
Current financial receivables	25,848	19,679

Loans issued include a loan issued to the controlling company in the amount of €24,103 thousand (2016: €18,849 thousand). The interest rate for loans issued is mainly fixed.

Movement of Current Loans Issued

in € thousand	2017	2016
Balance as at 1 Jan.	18,969	3,151
Acquisition of company	0	276
Loans issued	5,503	15,507
Repayment of loans issued	(463)	(176)
Transfer from non-current loans issued	170	214
Write-off of loans issued	(15)	0
Translation differences	7	0
Exchange rate differences	0	(3)
Transfer to assets held for disposal (disposal groups)	(68)	0
Balance as at 31 Dec	24,103	18,969

20. Current Operating Receivables

in € thousand	31 Dec. 2017	31 Dec. 2016
Trade receivables	89,011	104,288
Allowances for trade receivables	(4,651)	(8,074)
VAT receivables	3,494	6,406
Issued advance payments and cautions	3,111	3,120
Other operating receivables	1,801	6,359
Current operating receivables	92,766	112,099

The majority of the Group's trade receivables are insured against commercial risks with an insurance company. Trade receivables in the amount of €15,643 thousand (2016: €13,650 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. 2017	31 Dec. 2016
Cash in national currency	30,415	49,337
Cash in foreign currency	4,494	10,106
Cash and cash equivalents	34,909	59,443

Cash in national currency includes deposits in the amount of €76 thousand with maturity of up to three months (2016: €13,174 thousand). The interest rate for deposits is fixed.

22. Other Current Assets

in € thousand	31 Dec. 2017	31 Dec. 2016
Current deferred expenses	1,993	3,052
Other current assets	1,993	3,052

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

23. Equity

in € thousand	31 Dec. 2017	31 Dec. 2016
Equity attributed to the owners of the controlling company	*396,877*	*389,042*
Share capital	145,266	145,266
Capital surplus	11,461	11,461
Revenue reserves	811	811
Fair value reserves	(2,366)	(385)
Translation differences	593	149
Retained earnings	241,112	231,740
Non-controlling interest	*18,635*	*34,429*
Equity	415,512	423,471

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 2017.

Ownership Structure of the Controlling Company

Shareholder	Number of shares 31 Dec. 2017	Number of shares 31 Dec. 2016
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 2017.

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. 2017	31 Dec. 2016
Legal reserves	3,066	3,066
Treasury shares	(6,009)	(6,009)
Reserves for treasury shares	3,754	3,754
Revenue reserves	811	811

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 Privatization of Slovenske železarne Act (Official Gazette of the RS, nr. 13/1998). Treasury shares were acquired by exchanging interests in subsidiaries for shares of the controlling company, owned by authorised companies. The shares were acquired ex lege and not in line with the Companies Act, which is why the controlling company did not establish a treasury shares fund. Shares are recognised at cost.

In 2017, the controlling company did not create legal reserves from its profit.

Distributable profit

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

24. Employee Benefits

in € thousand	31 Dec. 2017	31 Dec. 2016
Provisions for severance pay	11,837	12,785
Provisions for loyalty bonuses	2,115	2,757
Provisions for post-employment benefits	208	221
Employee benefits	14,160	15,763

In 2017, the actuarial calculation was made on the basis of the actuarial model and assumptions, derived from the life tables, the growth of wages in the Republic of Slovenia and companies of 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 discount rate considered in the calculations ranged between 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 an actuarial profit which effects comprehensive income.

The Group did not carry out an actuarial calculation in 2016, because the assumptions used to determine the amount of provisions for the year 2015 did not change significantly.

Movement of Employee Benefits in 2017

in € thousand	31 Dec. 2016	Creation	Reversal	Utilization	Translation differences	Transfer to liabilities associated with held for sale assets	31 Dec. 2017
Provisions for severance pay	12,785	3,043	(626)	(314)	4	(3,055)	11,837
Provisions for loyalty bonuses	2,757	450	(237)	0	2	(857)	2,115
Provisions for post-employment benefits	221	2	0	(15)	0	0	208
Employee benefits	15,763	3,495	(863)	(329)	6	(3,912)	14,160

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)	0	12,785
Provisions for loyalty bonuses	1,958	802	190	(96)	(98)	1	2,757
Provisions for post-employment benefits	177	0	58	0	(14)	0	221
Employee benefits	12,260	3,607	831	(623)	(313)	1	15,763

25. Other Provisions

in € thousand	31 Dec. 2017	31 Dec. 2016
Provisions for environmental rehabilitation	200	200
Provisions for law suits	636	683
Provisions for complaints	312	482
Other provisions	1,148	1,365

Movement of Other Provisions in 2017

in € thousand	31 Dec. 2016	Creation	Reversal and utilization	Translation differences	Transfer to liabilities associated with held for sale assets	31 Dec. 2017
Provisions for environmental rehabilitation	200	0	0	0	0	200
Provisions for law suits	683	37	(17)	2	(69)	636
Provisions for complaints	482	24	(195)	1	0	312
Other provisions	1,365	61	(212)	3	(69)	1,148

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	53	(142)	482
Other provisions	1,445	34	64	(178)	1,365

26. Non-Current Deferred Revenues

in € thousand	31 Dec. 2017	31 Dec. 2016
Assigned contributions	1,052	989
Subsidies for property, plant and equipment	873	4,489
Other deferred revenues	0	54
Non-current deferred revenues	1,925	5,532

Movement of Non-Current Deferred Revenues in 2017

in € thousand	31 Dec. 2016	Creation	Reversal and utilization	Translation differences	Transfer to liabilities associated with held for sale assets	31 Dec. 2017
Assigned contributions	989	1,396	(459)	0	(874)	1,052
Subsidies for property, plant and equipment	4,489	15	(1,385)	5	(2,251)	873
Other deferred revenues	54	3,763	(3,783)	0	(34)	0
Non-current deferred revenues	5,532	5,174	(5,627)	5	(3,159)	1,925

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	4,962	0	(533)	4,489
Other deferred revenues	0	77	434	(457)	54
Non-current deferred revenues	927	5,039	1,859	(2,293)	5,532

27. Non-Current Financial Liabilities

in € thousand	31 Dec. 2017	31 Dec. 2016
Borrowings	172,184	196,928
Liabilities for bonds issued	93,802	93,696
Liabilities arising from finance lease	2,129	4,614
Interest liabilities	0	3
Non-current financial liabilities	268,115	295,241

Borrowings include loans from domestic and foreign banks. Borrowings in the amount of €21,037 thousand (2016: €126,649 thousand) are secured with real estate, movable property, 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	2017	2016
Balance as at 1 Jan.	196,928	124,296
Acquisition of company	0	64,139
New borrowings	379,902	557,715
Repayments for borrowings	(44)	(61,566)
Reclassification to current borrowings	(353,988)	(484,897)
Exchange rate differences	(56)	(16)
Translation differences	39	11
Amortisation of origination fee	(851)	(2,754)
Transfer to liabilities associated with assets classified as held for sale	(49,746)	0
Balance as at 31 Dec	172,184	196,928

Liabilities for Bonds Issued

Liabilities for bonds issued refer to the bonds issued with the ticker symbol 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. 4.5 percent per annum. Interest is accrued annually in arrears. The nominal value of the principal falls due, in full and in a single amount, on the maturity of the bond. The bonds are traded on the Ljubljana Stock Exchange.

Liabilities for bonds issued refer to the bonds issued with the ticker symbol 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. 4.0 percent per annum. Interest is accrued annually in arrears. The nominal value of the principal falls due, in full and in a single amount, on the maturity of the bond. The bonds are traded on the Ljubljana Stock Exchange.

Movement of Non-Current Liabilities Arising from Finance Lease

in € thousand	2017	2016
Balance as at 1 Jan.	4,614	2,787
Acquisition of company	0	1,993
New financial lease	1,048	2,630
Transfer to current liabilities arising from finance lease	(2,273)	(2,796)
Exchange rate differences	(3)	(4)
Translation differences	14	4
Transfer to liabilities associated with assets classified as held for sale	(1,271)	0
Balance as at 31 Dec	2,129	4,614

The lowest sum of future leases due for payment in the next financial year amounts to €2,239 thousand on 31 December 2017,€1,831 thousand in the next 1 to 5 years, and to €408 after 5 years.

The net present value of future leases due for payment in the next financial year amounts to €2,129 thousand on 31 December 2017, €1,743 thousand in the next 1 to 5 years, and €386 thousand after 5 years.

28. Current Financial Liabilities

in € thousand	31 Dec. 2017	31 Dec. 2016
Borrowings	67,347	95,820
Liabilities for commercial papers issued	26,993	29,642
Liabilities arising from finance lease	1,307	2,253
Interest liabilities	1,602	2,441
Other financial liabilities	81	0
Current financial liabilities	97,330	130,156

Borrowings include loans from domestic and foreign banks. Borrowings in the amount of €8,282 thousand (2016: €32,090 thousand) are secured with real estate, movable property, 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	2017	2016
Balance as at 1 Jan.	95,820	77,195
Acquisition of company	86	15,349
New borrowings	219,235	304,293
Repayments for borrowings	(583,610)	(785,471)
Reclassification from non-current borrowings	353,987	484,897
Exchange rate differences	(15)	(5)
Translation differences	(803)	238
Amortisation of origination fee	(268)	(676)
Transfer to liabilities associated with assets classified as held for sale	(17,085)	0
Balance as at 31 Dec	67,347	95,820

Liabilities for Commercial Papers Issued

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

Movement of Current Liabilities Arising from Finance Lease

in € thousand	2017	2016
Balance as at 1 Jan.	2,253	1,201
Acquisition of company	0	1,130
Repayments of liabilities arising from finance lease	(2,589)	(2,864)
Transfer from non-current liabilities arising from finance lease	2,273	2,796
Exchange rate differences	(1)	(8)
Translation differences	10	1
Amortisation of origination fee	3	(3)
Transfer to liabilities associated with assets classified as held for sale	(642)	0
Balance as at 31 Dec	1,307	2,253

The lowest sum of future leases due for payment in the next financial year amounted to €1,367 thousand on 31 December 2017, and the net present value of future leases amounted to €1,307 on the same date.

29. Current Operating Liabilities

in € thousand	31 Dec. 2017	31 Dec. 2016
Liabilities to suppliers	204,507	232,179
Liabilities to employees	5,266	9,101
Received advance payments	1,841	2,030
Tax liabilities	4,950	6,414
Other liabilities	1,421	9,513
Current operating liabilities	217,985	259,237

30. Other Current Liabilities

in € thousand	31 Dec. 2017	31 Dec. 2016
Accrued expenses for unused annual leave	540	1,327
Accrued expenses for subcontractors	14	633
Accrued customer fees	113	471
Accrued expenses for law suits	216	141
Other liabilities	1,115	1,707
Deferred revenue	182	171
Other current liabilities	2,180	4,450

31. Segment Reporting

Segment reporting for 2017

in € thousand	Steel Division	Distribution & Processing Division	Scrap Division	Manufacturing Division	Headquarter and Other Services	Transactions between segments	Total	Consolidated Financial Statements
Revenues	586,083	186,799	97,283	70,126	19,637	-	959,928	-
Eliminations	(3,625)	(10,648)	(4,890)	(6,152)	(148)	(178,403)	(203,866)	-
Revenues	582,458	176,151	92,393	63,974	19,489	(178,403)	756,062	756,062
Operating expenses	566,837	182,401	95,378	69,838	18,870	-	933,324	-
Eliminations	(3,625)	(10,648)	(4,890)	(6,152)	(148)	(178,403)	(203,866)	-
Expenses	563,212	171,753	90,488	63,686	18,722	(178,403)	729,458	729,458
Other operating income (expenses)	1,762	(30)	(649)	(212)	13,366	(14,997)	(759)	(759)
Profit (loss) from operation	21,008	4,368	1,256	76	14,133	(14,997)	25,844	25,844
Net finance income (costs)	(13,600)	(1,552)	(745)	(1,000)	(2,871)	292	(19,476)	(19,476)
Share of profit in associates	94	0	0	0	0	-	94	94
Taxes	(86)	(333)	(194)	542	(40)	-	(111)	(111)
Net profit (loss) for the year	7,416	2,483	317	(382)	11,222	(14,705)	6,351	6,351
Assets	677,194	127,791	32,265	67,297	370,717	(123,080)	1,152,184	1,152,184
Liabilities	424,585	99,936	22,084	48,391	153,273	(11,597)	736,672	736,672

Segment reporting for 2016

in € thousand	Steel Division	Distribution & Processing Division	Scrap Division	Manufacturing Division	Headquarter and Other Services	Transactions between Segments	Total	Consolidated Financial Statements
Revenues	494,668	142,347	71,127	69,585	18,350	-	796,077	-
Eliminations	(2,836)	(5,743)	(5,301)	(5,136)	(155)	(145,025)	(164,196)	-
Revenues	491,832	136,604	65,826	64,449	18,195	(145,025)	631,881	631,881
Operating expenses	478,839	140,822	69,989	68,636	19,037	-	777,323	-
Eliminations	(2,836)	(5,743)	(5,301)	(5,136)	(155)	(145,025)	(164,196)	-
Expenses	476,003	135,079	64,688	63,500	18,882	(145,025)	613,127	613,127
Other operating income (expenses)	3,047	223	(494)	910	25,723	8,535	37,945	37,945
Profit (loss) from operation	18,876	1,748	644	1,859	25,036	8,535	56,698	56,698
Net finance income (costs)	(10,968)	(1,620)	(855)	(682)	(4,286)	412	(17,999)	(17,999)
Share of profit in associates	49	0	0	0	0	-	49	49
Taxes	5,319	104	(46)	357	(156)	(11)	5,567	5,567
Net profit (loss) for the year	13,276	232	(257)	1,534	20,594	8,936	44,315	44,315
Assets	651,973	120,067	29,850	58,424	411,924	(128,291)	1,143,947	1,143,947
Liabilities	384,583	100,463	22,295	38,864	196,306	(22,035)	720,476	720,476

32. Contingent Assets and Liabilities

Contingent assets amounted to €10,386 thousand on 31 December 2017 (2016: €37,725 thousand) and refer to received guarantees for the elimination of errors in the warranty period. The Group expects no inflows from received guarantees.

Contingent liabilities amounted to €7,802 thousand on 31 December 2017 (2016: €9,195) and refer to guarantees for the good work performance, law suits, and issued guarantees. The Group expects no outflows from the law suits, issued securities, and guarantees.

33. Statement of Comprehensive Income and Statement of Financial Position for Special Purpose

Presented below are the Statement of Comprehensive Income and the Statement of Financial Position for Special Purpose. They represent consolidated statements without discontinued operations. The purpose of preparation of these statements is the presentation of the statements under the same assumptions, as they were disclosed in the 2016 annual report.

The Statement of Comprehensive Income for Special Purpose as at 31 December 2017 represents the consolidated statement of the SIJ Group, the Perutnina Ptuj Group, and Holding PMP, from which the intercompany transactions are eliminated. The Statement of Financial Position for Special Purpose as at 31 December 2017 represents the consolidated statement of the SIJ Group, the Perutnina Ptuj Group, and Holding PMP, from which the intercompany investments, equity, and transactions are eliminated.

Statement of Comprehensive Income

in € thousand	2017	2016
Revenue	1,012,891	842,645
Cost of sales	(784,964)	(659,622)
Gross profit	227,927	183,023
Distribution costs	(90,309)	(74,560)
General and administrative expenses	(106,608)	(82,704)
Other operating income	15,194	48,224
Other operating expenses	(9,353)	(5,347)
Operating profit	36,851	68,636
Finance income	2,330	1,206
Finance expenses	(23,742)	(21,836)
Net finance income (costs)	(21,412)	(20,630)
Share of profit in associates	94	49
Profit before tax	15,533	48,054
Income tax expense	(2,258)	(2,249)
Deferred income tax	1,681	5,520
Profit for the year	14,955	51,325
Items that will not be reclassified subsequently to profit or loss		
Income tax related to components of comprehensive income	(108)	1
Net actuarial losses on pension programs	(2,059)	(52)
Items that may be reclassified subsequently to profit or loss		
Change in fair value reserves for available-for-sale financial assets	149	(8)
Exchange rate difference on translating foreign operations	533	(88)
Comprehensive income	13,470	51,178
Profit attributed to:	14,955	51,325
Owners of the controlling company	13,727	49,905
Non-controlling interest	1,228	1,420
Comprehensive income attributed to:	13,470	51,178
Owners of the controlling company	12,190	49,818
Non-controlling interest	1,280	1,360

Statement of Financial Position

in € thousand	31 Dec. 2017	31 Dec. 2016
ASSETS		
Non-current assets	683,311	705,791
Intangible assets	46,445	47,825
Property, plant and equipment	598,763	620,694
Investment property	4,422	4,094
Investments in associates	1,716	1,622
Available-for-sale financial assets	1,453	1,225
Financial receivables	87	256
Operating receivables	198	2,239
Other assets	2,370	1,007
Deferred tax assets	27,857	26,829
Current assets	468,873	438,156
Assets held for disposal (disposal groups)	30	4,102
Inventories	244,076	238,397
Financial receivables	25,987	19,679
Operating receivables	122,682	112,099
Income tax assets	1,359	1,384
Cash and cash equivalents	69,534	59,443
Other assets	5,205	3,053
Total assets	1,152,184	1,143,947
EQUITY AND LIABILITIES		
Equity	415,512	423,472
Equity attributed to the owners of the controlling company	*396,877*	*389,043*
Share capital	145,266	145,266
Capital surplus	11,461	11,461
Revenue reserves	811	811
Fair value reserves	(2,366)	(385)
Translation differences	593	149
Retained earnings	241,112	231,741
Non-controlling interest	18,635	34,429
Non-current liabilities	350,166	325,299
Employee benefits	18,071	15,763
Other provisions	1,217	1,365
Deferred revenues	5,083	5,532
Financial liabilities	319,132	295,240
Operating liabilities	409	612
Deferred tax liabilities	6,254	6,787
Current liabilities	386,506	395,176
Financial liabilities	115,400	130,156
Operating liabilities	265,018	259,237
Income tax liabilities	755	1,333
Other liabilities	5,333	4,450
Total equity and liabilities	1,152,184	1,143,947

Continuation of the table

RELATED PARTIES

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

Related Party Transactions Excluded from Consolidated Financial Statements

in € thousand	2017	2016
Revenues/expenses	203,866	164,196

in € thousand	31 Dec. 2017	31 Dec. 2016
Operating receivables/liabilities	65,588	101,918
Financial receivables/liabilities	81,721	105,577
Investments in subsidiaries	196,198	318,422

Transactions with the Controlling Company

in € thousand	2017	2016
Revenues	1,112	528

in € thousand	31 Dec. 2017	31 Dec. 2016
Receivables	25,505	19,042

Transactions with those Charged with Governance

This is the total amount of receipts based on 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 the collective agreement does not apply, and members of the Supervisory Board.

in € thousand	2017
Management and employees with service contract	14,666
Members of the Supervisory Board	91

The receipts include gross salaries, paid reimbursements related to work in accordance with the regulation (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 2017.

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. 2017	Not-overdue	Up to 3 months	3 months to 1 year	1 year to 3 years	Over 3 years	Total
Trade receivables	74,214	8,722	1,849	2,647	2,127	89,560
Financial receivables and deposits	25,735	1	2	159	0	25,897
Total	99,949	8,723	1,851	2,806	2,127	115,456

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

Movement of Allowances for Financial Assets

in € thousand	Allowance as at 31 Dec. 2016	Changes with influence on profit or loss	Changes without influence on profit or loss	Transfer to assets held for disposal (disposal groups)	Allowance as at 31 Dec. 2017
Trade receivables	8,074	2,329	(4,394)	(1,005)	5,004
Financial receivables and deposits	1	0	17	0	18
Total	8,075	2,329	(4,377)	(1,005)	5,022

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	2,762	956	(492)	(6)	8,074
Financial receivables and deposits	1	0	0	0	0	1
Total	4,855	2,762	956	(492)	(6)	8,075

Liquidity Risk

The Group is managing liquidity risk with the appropriate planning of cash flow and current credit lines from banks agreed in advance, which ensures that the Group is capable of settling any overdue liabilities at any time.

The Group assesses its exposure to financial markets and banks as moderate. The Group fully complies with the liabilities and covenants in loan contracts.

in € thousand 31 Dec. 2017	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities to suppliers	194,131	10,347	29	0	204,507
Financial liabilities with future interest	28,609	77,824	285,609	9,028	401,070
Other liabilities	671	750	403	0	1,824
Total	223,411	88,921	286,041	9,028	607,401

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

Foreign Exchange Risk

The consolidated financial statements are based on the following exchange rates.

	Exchange rate as at 31 Dec. 2017
EUR/USD	1.20
EUR/GBP	0.89
EUR/RUB	69.39
EUR/HRK	7.44
EUR/CZK	25.54

Net exposure (assets – liabilities) in foreign currencies, expressed in euros, is presented in the following table.

in € thousand	Exposure
USD	(22,104)
GBP	(1)
RUB	(3,055)
HRK	0
CZK	14
EUR	194

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 2016 was prepared in the same manner.

in € thousand	2017	2016
Change in profit/loss if increased by 100 bp	(2,010)	(2,722)
Change in profit/loss if increased by 50 bp	(1,005)	(1,361)
Change in profit/loss if decreased by 50 bp	38	506
Change in profit/loss if decreased by 100 bp	75	1,011

Equity Management

The Group monitors the status of overdue receivables on a daily basis, and prepares 3-month plans twice a month with the aim of achieving optimum debt. Larger investments are financed by non-current assets.

in € thousand	2017	Debt increase by 10 %	Debt decrease by 10 %
Level of debt on equity	87.95	96.75	79.16
Equity	415,512	415,512	415,512
Financial liabilities	365,445	401,990	328,901

Carrying Amounts and Fair Values of Financial Instruments

in € thousand	31 Dec. 2017		31 Dec. 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Available-for-sale financial assets	1,215	1,215	1,225	1,225
Financial receivables	25,878	25,878	19,936	19,936
Operating receivables	92,964	92,964	114,338	114,338
Cash and cash equivalents	34,909	34,909	59,443	59,443
Financial liabilities	(365,445)	(370,407)	(425,396)	(431,309)
Operating liabilities	(218,388)	(218,388)	(259,849)	(259,849)
Total	(428,867)	(433,829)	(490,303)	(496,216)

Based on the test of the fair value of financial instruments, the Group assesses that there is 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 accounting policies, the Group divides fair values of financial instruments into three levels:

in € thousand	31 Dec. 2017	31 Dec. 2016
Financial assets at fair value of first level	754	606
Financial assets at fair value of third level	154,212	194,336
Financial liabilities at fair value of first level	(120,795)	(124,115)
Financial liabilities at fair value of third level	(463,038)	(565,341)

EVENTS AFTER THE REPORTING DATE

On 19 February 2018, at the 31st shareholders' General Assembly of SIJ d.d., new Members of the Supervisory Board were named: Boštjan Napast, Helena Ploj Lajovic, and Polona Marinko; Evgeny Zverev and Dmitry Davydov were re-elected. Sergey Frolov and Sergey Cherkaev, the then Members of the Supervisory Board, were removed from their positions, while no changes were made to the terms of Janko Jenko and Mitja Križaj on the 7-person Supervisory Board.

On 22 February 2018, the Supervisory Board appointed new Members of the Management Board: Tibor Šimonka and Igor Malevanov. The Management Board of SIJ d.d. now consists of four members – alongside Mr. Šimonka and Igor Malevanov, acting member Dmitrii Bochkarev and the President of the Management Board Andrey Zubitskiy. Tibor Šimonka's term as the President of the Management Board of Perutnina Ptuj d.d. continues unimpeded.

On 8 March 2018, the United States passed an order on imposing 25% import tariffs on steel and 10% tariffs on aluminium imports to the US. The order encompassed all types and forms of steel that the SIJ Group exports across the Atlantic. On 22 March 2018, the US made the European Union a temporary exception to the import levies. Working with Slovenian and US government institutions, the SIJ Group actively attempted to exclude the European Union in its entirety, as well as excluding certain SIJ Group's products which local producers cannot produce, or produce in limited quantities. The SIJ Group has also launched marketing activities on other markets to make up for the lost sales quantities in the US.

On 9 April 2018, the Supervisory Board received the letter of resignation from Member of the Management Board of SIJ d.d. Dmitriy Bochkarev, and named Viacheslav Korchagin Member of the Management Board for a full six-year term. Mr. Korchagin has already been with the SIJ Group and SIJ d.d. between 2007 and 2014. The Management Board of SIJ d.d. is composed of four Members – alongside Mr. Korchagin, acting Members Tibor Šimonka and Igor Malevanov, and the President of the Management Board Andrey Zubitskiy. Otherwise, Mr. Korchagin continues his term as the Vice President and member of the Board of Finance, Economic, Controlling and Procurement at Perutnina Ptuj d.d. unimpeded.

On 12 April 2018, the rolling mill of SIJ Metal Ravne launched a new steel heat treatment line worth €4 million. The most important part of the investment – a €2.8-million continuous annealing furnace – will enable the increase of the production capacity for steel products by over 10 percent, especially for tool steels, thereby freeing up the production capabilities for special steels, which are already in demand by the most demanding return customers from the energy and petroleum industries.

FINANCIAL REPORT OF SIJ D.D.

INDEPENDENT AUDITOR'S REPORT

Deloitte.

Deloitte Revizija d.o.o.
Dunajska cesta 165
1000 Ljubljana
Slovenija

Tel: + 386 (0)1 3072 800
Fax: + 386 (0)1 3072 900
www.deloitte.si

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 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 2017, 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 2017, and its financial performance and cash flow statement for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinon

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 160 mln as of 31 December 2017 in the Company's separate financial statements.	Our audit procedures comprised • Evaluation whether the model used by management to calculate the value in use of

Impairment in the amount of EUR 9.7 mln was recognized as of reporting date As disclosed in Note 11 *Investments in subsidiaries* 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.	individual investments comply with the requirements of IAS 36 *Impairment of assets* and IFRS 13 *Fair value* and whether assumptions used are reasonable and supportable given the current macroeconomic climate and expected future performance; • Use of our internal experts to evaluate whether the valuation approach used by the Management is appropriate, whether the significant assumptions used are adequate for given purposes and whether the results of valuations prepared by management expert are accurate • 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 information, included in Annual report, other than the financial statements and our auditor's report thereon. Other information were obtained prior to the date of this auditor's report, except Report from Supervisory Board, which is expected to be made available to us after that date. 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 and Supervisory board for the Financial Statements

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

In preparing the financial statements, 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 is 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 skepticism 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 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 with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.

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

Other reporting obligations as required by EU Regulation No. 537/2014 of the European Parliament and the Council

In compliance with the Article 10(2) of EU Regulation No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement

We were reappointed as the statutory auditor of the Company by the shareholders on General Shareholders' Meeting held on 9 June 2017. Our total uninterrupted engagement has lasted 13 years.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report issued to the Audit Committee of the Company on 23 April 2018 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings, and which have not been disclosed in the Annual Report.

Report on other legal or regulatory matters

Pursuant to Article 69 of the Companies Act (ZGD-1), the Company is required to disclose the remuneration paid to management bodies in the notes to the financial statements. We draw your attention to insufficient disclosure of remuneration of the members of management and supervisory bodies.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret-Kralj,
Certified auditor

For signature please refer to the original Slovenian version.

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

Ljubljana, 23 April 2018

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

STATEMENT OF THE MANAGEMENT'S RESPONSIBILITY

The Management Board is responsible for drawing up financial statements for each individual 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 Company's operations.

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

The responsibility of the Management Board in drawing upthe 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 of this type 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 23 April 2018.

Andrey Zubitskiy
President of the Management Board

Tibor Šimonka
Member of the Management Board

Igor Malevanov
Member of the Management Board

Viacheslav Korchagin
Member of the Management Board

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

in € thousand	Note	2017	2016
Revenue	1	16,306	15,205
Gross profit		**16,306**	**15,205**
General and administrative expenses	2	(14,512)	(15,655)
Other operating income	3	22,907	25,370
Other operating expenses	4	(10,279)	(336)
Profit from operation		**14,422**	**24,584**
Finance income	5	4,769	4,847
Finance expenses	6	(7,799)	(9,301)
Net finance (costs)		**(3,030)**	**(4,454)**
Profit before tax		**11,392**	**20,130**
Income tax expense	7	0	(309)
Deferred income tax	7	0	125
Profit for the year		**11,392**	**19,946**
Items that will not be reclassified subsequently to profit or loss			
Income tax related to components of comprehensive income		(32)	1
Net actuarial profit on pension programs		19	0
Items that may be reclassified subsequently to profit or loss			
Change in fair value reserves for available-for-sale financial assets		149	(8)
Comprehensive income		**11,528**	**19,939**
Profit for the year		**11,392**	**19,946**
Basic and diluted earnings per share in €	8	11.78	20.63

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. 2017	31 Dec. 2016
ASSETS			
Non-current assets		184,416	283,627
Intangible assets	9	695	740
Property, plant and equipment	10	6,109	6,041
Investment property		2	2
Investments in subsidiaries	11	159,959	240,272
Available-for-sale financial assets	12	1,193	975
Financial receivables	13	15,154	33,787
Operating receivables		0	29
Other assets		182	626
Deferred tax assets	14	1,122	1,155
Current assets		179,672	121,930
Assets held for disposal (disposal groups)	15	82,065	35
Financial receivables	16	75,790	72,963
Operating receivables	17	20,159	39,362
Income tax assets		323	357
Cash and cash equivalents	18	312	8,286
Other assets	19	1,023	927
Total assets		364,088	405,557
EQUITY AND LIABILITIES			
Equity	20	207,089	205,532
Share capital		145,266	145,266
Capital surplus		11,461	11,461
Revenue reserves		811	811
Fair value reserves		286	150
Retained earnings		49,265	47,844
Non-current liabilities		95,016	157,824
Employee benefits	21	305	391
Financial liabilities	22	94,711	157,433
Current liabilities		61,983	42,201
Liabilities directly associated with assets classified as held for sale	15	3,290	0
Financial liabilities	23	55,496	38,017
Operating liabilities	24	3,013	4,002
Other liabilities		184	182
Total equity and liabilities		364,088	405,557

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 2017

in € thousand	Share capital	Capital surplus	Revenue reserves	Fair value reserves	Retained earnings	Total
Balance as at 31 Dec. 2016	145,266	11,461	811	150	47,844	205,532
Dividends paid	0	0	0	0	(9,970)	(9,970)
Creation of legal reserves	0	0	0	0	0	0
Total transactions with owners	0	0	0	0	(9,970)	(9,970)
Profit for the period	0	0	0	0	11,392	11,392
Other changes in comprehensive income	0	0	0	136	0	136
Total changes in comprehensive income	0	0	0	136	11,392	11,528
Balance as at 31 Dec. 2017	145,266	11,461	811	286	49,265	207,089

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

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

CASH FLOW STATEMENT

in € thousand	Note	2017	2016
Cash flow from operating activities			
Profit before tax		11,392	20,130
Adjusted for:			
Depreciation and amortisation	9, 10	556	433
Interest income	5	(3,084)	(3,369)
Interest expenses	6	6,278	7,804
Impairment of assets		9,739	0
Creation of allowances		41	0
Dividends	3	(22,710)	(18,579)
Other adjustments		1,585	(7,587)
Operating cash flow before changes in working capital		3,797	(1,168)
Changes in working capital			
Change in operating receivables		11,340	(5,773)
Change in operating payables		(3,505)	742
Change in taxes other than income tax		(742)	605
Income tax paid		472	(1,252)
Changes in working capital		7,565	*(5,678)*
Net cash generated (used) in operating activities		11,362	(6,846)
Cash flow from investing activities			
Payments for investments in subsidiaries		(1)	(32,756)
Payments for available-for-sale financial assets		(69)	(105)
Payments for property, plant and equipment		(307)	(213)
Receipts from property, plant and equipment		68	51
Payments for intangible assets		(94)	(71)
Payments for other assets		(11,410)	0
Payments for loans issued		(32,998)	(133,166)
Receipts from loans issued		48,784	126,149
Interests received		2,267	2,617
Dividends received		30,910	17,579
Net cash generated (used) in investing activities		37,150	(19,915)

Continuation of the table

Continuation of the table

in € thousand	Note	2017	2016
Cash flow from financing activities			
Receipts from borrowings		207,225	309,050
Payments for borrowings		(248,440)	(270,382)
Receipts for finance lease	16	726	162
Payments for finance lease	23	(464)	(201)
Receipts from financial services		1,022	745
Interests paid		(6,585)	(7,734)
Dividends paid		(9,970)	(5,811)
Net cash (used) generated from financing activities		(56,486)	25,829
Cash and cash equivalents as at 1 Jan.		8,286	9,217
Decrease		(7,974)	(931)
Cash and cash equivalents as at 31 Dec.		312	8,286

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

NOTES TO THE FINANCIAL STATEMENTS

REPORTING ENTITY

SIJ – Slovenska industrija jekla, d.d. (hereinafter: company SIJ or the Company) is 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 2017.

The consolidated financial statements for a selected group of subsidiaries are compiled by the company SIJ. The consolidated annual report for the SIJ Group is an integral part of this annual report. 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 2017 have been prepared in accordance with the IFRS as adopted by the European Union. The standards have been applied directly in disclosures and valuation 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 may be insignificant deviations to the sums given in tables.

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

The financial statements have been prepared in compliance with the IFRS, adopted by the International Accounting Standards Board (hereinafter: IASB), and with the interpretations issued by the International Financial Reporting Interpretations Committee (hereinafter: IFRIC), as adopted by the European Union (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 IAS 7 'Statement of Cash Flows' – Disclosure Initiative – adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 12 'Income Taxes' – Recognition of Deferred Tax Assets for Unrealised Losses – adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- 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 adopted by the EU on 8 February 2018 (amendments ti IFRS 12 are effective for annual periods beginning on or after 1 January 2017).

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),
- Amendments to IFRS 15 'Revenue from Contracts with Customers' – Clarifications to IFRS 15 'Revenue from Contracts with Customers' – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018),
- IFRS 16 'Leases' – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 4 'Insurance Contracts' – Adoption of IFRS 9 'Financial Instruments' together with IFRS 4 'Insurance Contracts' – adopted by the EU on 3 November

2017 (effective for annual periods beginning on or after 1 January 2018, or at first adoption of IFRS 9 'Financial Instruments').

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.

IFRS 9 introduces new approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. The classification and measurement rules will not change and will not have impact on our financial statements.

IFRS 9 has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

The Company has developed a new model for impairment for trade receivables, whereby the impairment is not based only on past losses but also on expected future losses. The Company's model impairs the receivables based on the segmentation of receivables in five categories: whereby the categories are mainly formed on the basis of insured or uninsured receivables, external or intercompany receivables, age structure and upon management judgment (for over 90 days due receivables and individually important exposures). The parameter in % per categories were set based on historical data of the last three business years.

The Company has estimated the impact for trade receivables would be the increase of the allowances for trade receivables for € 24 thousand.

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 EU on 23 April 2018:

- 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 17 'Insurance Contracts' (effective for annual periods beginning on or after 1 January 2021),
- 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 9 'Financial Instruments' – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- 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 IAS 28 'Investments in Associates and Joint Ventures' – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- 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),
- Amendments to various standards due to 'Improvements to IFRSs 2015–2017 Cycle' resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23), primarily aimed at removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration ' (effective for annual periods beginning on or after 1 January 2018).
- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 January 2019).

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 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 Management Board to make estimates, judgments and assumptions that influence the disclosed amounts of assets and liabilities, the disclosed contingent assets and liabilities on the day of the preparation of the financial statements, and the disclosed amounts of income and expenses during the reporting period.

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 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 recognized during the period in which the estimates were revised if the amendment only applies to this period, or during the period of the amendment and future periods if the amendment applies to future periods.

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 recognized in profit or loss.

Revenues

Sales revenues are recognized at fair value of received repayments or receivables, decreased by repayments and discounts. Revenues are recognized when the buyer assumes all significant risks and benefits connected to the asset’s ownership, and it is certain that compensation and related costs will be repaid. Revenues from dividends are recognized when the shareholder's right to payment is established.

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

Expenses

Expenses are recognized if a decrease in economic benefits during the reporting period is associated with a decrease in assets or an increase in debts, and if this decrease can be reliably measured.

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

Taxation

Taxes comprise current income tax liabilities and deferred tax. Current income tax is recognized in the income statement, except to the extent that 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 recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilized.

A deferred tax liability is recognized for all taxable temporary differences, unless they come from initial goodwill 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 Company recognizes 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 recognized at cost, less any accumulated amortisation and accumulated impairment losses. The purchase value includes costs that can be directly attributed to the acquisition of each individual item. Borrowing costs directly attributable to the purchase or production of a qualifying asset are recognized as part of the cost of such 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. Amortisation 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.

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

Property, plant and equipment

At the initial recognition tangible assets (property, plant and equipment) are carried at cost, less any accumulated depreciation and accumulated impairment losses, except for land and other assets that are not depreciated; these are shown at their cost, reduced by all relative impairments. The purchase value includes costs that can be directly attributed to the acquisition of each individual item of property, plant or equipment. Parts of property, plant and equipment with different useful lives are accounted as separate items of property, plant and equipment. Borrowing costs directly attributable to the purchase, production or construction of a qualifying asset are recognized as part of the cost of each such asset. The cost model is used for any subsequent 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	2-10 years

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

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

Investment Property

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

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

Investments in Subsidiaries

Investments in subsidiaries are recognized at cost. The company recognizes revenues from financial investments in the amount arising from the distribution of the accumulated profit after the date of the acquired financial investment.

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 a price that would be achieved by selling an asset or paid by transferring a liability in an orderly transaction between market participants at the date of measurement.

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 are used to assess the fair value of the financial instrument.

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

Available-for-Sale Financial Assets
Available-for-sale financial assets are those non-derivative financial assets designated as available for sale, or those not included in the category of loans and receivables or financial assets at fair value through profit or loss. Available-for-sale financial assets are measured at fair value, whereas the amount of change is recognized in the 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 recognized at fair value increased by costs directly attributable to the business transaction. Subsequent to their initial recognition, borrowings and liabilities are measured at amortised cost using the effective interest rate method less accumulated impairment loss.

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

Non-Derivative Financial Liabilities
Non-derivative financial liabilities include operating, financial and other liabilities. Financial liabilities are initially recognized on the trade date on which the Company becomes a contracting party in relation to the instrument. The company de-recognizes a 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 the sale is very probable, are classified as assets held for disposal. Assets or disposal groups are re-measured directly before their classification as assets held for disposal. Accordingly, non-current assets or a disposal group are recognized at their carrying amount or fair value less cost of sale, whichever is the lower. Impairment losses on the reclassification of assets as assets held for disposal, and subsequent losses and gains on re-measurement, are recognized in profit or loss. Gains are not recognized in the amount exceeding possible accumulated impairment losses.

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

Impairment of Assets

Financial Assets
A financial asset is impaired if objective 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 Issued
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 recognized in the profit or loss.

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

Non-Financial Assets
At each reporting date, the company 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, 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 recognized if their carrying amount exceeds their recoverable value. The impairment is given in the income statement.

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

Determination of Fair Value

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

Fair value is a price that would be achieved by selling an asset or paid by transferring a liability in an orderly transaction between market participants at the date of measurement.

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. If there is no quoted market price, the method of discounted cash flows which are expected to arise from use and possible disposal of the assets is used.

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

Available-for-Sale Financial Assets
The fair value of financial assets is determined according to preliminarily defined hierarchy levels of determining fair value of financial instruments. If the fair value cannot be reliably measured, because the wide range of estimates of reasonable fair values is important, and the probability of different estimates is hard to assess, the Company measures the financial asset at cost.

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

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

Equity

Share Capital

The 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 paid by the owners.

Capital Surplus

Capital surplus consists of the amounts from payments exceeding the lowest issue price per share that exceeds the carrying amount upon the disposal of previously-acquired own shares; the amounts on the basis of simplified decrease of share capital; and the amounts on the basis of 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 recognized by the body responsible for the preparation of the Annual Report, or by the decision of the said body.

Fair value reserves

Fair value reserves include effects from fair value determination of available-for-sale financial assets and actuarial profit or loss from post-employment and other non-current employee benefits.

Treasury Shares

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

Dividends

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

Provisions

Provisions are recognized if the 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 retirements benefits.

The provisions are formed in the amount of estimated future payments for loyalty bonuses and severance pay, discounted at the end of the financial year. The calculation is made for each individual employee and includes the costs of severance pay upon retirement and the costs of all expected loyalty bonuses up to retirement. The calculation is prepared 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.

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

Company's activity is activity of head offices. The Management Board does not monitor Company's operations by segments since activity of head offices represents a part of the segment Headquarter and other Services. The SIJ 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	2017	2016
In Slovenia	16,294	15,198
In other countries	12	7
Revenue	16,306	15,205

2. Operating Expenses

in € thousand	2017	2016
Costs of goods, materials and services	3,764	3,941
Labour costs	9,980	11,083
– wages and salaries	*7,996*	*9,306*
– social security costs	*1,315*	*1,130*
– other labour costs	*669*	*647*
Depreciation and amortisation	556	433
Other costs	212	198
Operating expenses	14,512	15,655

The auditing costs for the 2017 Annual Report amounted to €14 thousand (2016: €14 thousand).

Average Number of Employees by Level of Education

	2017	2016
Primary school	0.00	1.00
Secondary vocational school	2.00	2.00
Secondary general school	6.20	6.81
1st cycle degree – Bachelor's degree	6.70	6.33
2nd cycle degree – Master's degree	64.90	49.66
3rd cycle degree – Doctoral degree	15.92	12.94
Total	95.72	78.74

3. Other Operating Income

in € thousand	2017	2016
Dividends	22,710	18,579
Liabilities write-off	75	6,725
Other income	122	66
Other operating income	22,907	25,370

4. Other Operating Expenses

in € thousand	2017	2016
Expenses for donations and sponsorships	499	335
Allowances for receivables	41	0
Impairment of assets (note 11)	9,739	0
Other expenses	0	1
Other operating expenses	10,279	336

5. Finance Income

in € thousand	2017	2016
Interest income	3,084	3,369
Revenues from issued guarantees	1,684	1,475
Exchange rate differences	1	3
Finance income	4,769	4,847

6. Finance Expenses

in € thousand	2017	2016
Interest expenses	6,278	7,804
Exchange rate differences	8	3
Other expenses	1,513	1,494
Finance expenses	7,799	9,301

7. Taxes

in € thousand	2017	2016
Income tax expense	0	309
Deferred income tax	0	(125)
Taxes	0	184

in € thousand	2017	2016
Profit before tax	11,392	20,130
Tax at applicable tax rate	2,164	3,422
Tax effects from:		
- non-taxable income	*(5,539)*	*(2,798)*
- tax non-deductible expenses	*1,952*	*112*
- tax relief	*1,423*	*(427)*
- change in tax rates	*0*	*(125)*
Taxes	0	184
Effective tax rate	0.00%	0.91%

8. Net Earnings per Share

in € thousand	2017	2016
Profit for the year in € thousand	11,392	19,946
Weighted number of issued ordinary shares	967,016	967,016
Basic and diluted earnings per share in €	11.78	20.63

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 where the number of treasury shares is excluded.

9. Intangible Assets

Movement of Intangible Assets in 2017

in € thousand	Non-current property rights	Assets under construction	Total
Cost as at 31 Dec. 2016	1,187	5	1,192
New additions	0	94	94
Transfer from assets under construction	70	(70)	0
Cost as at 31 Dec. 2017	1,257	29	1,286
Accumulated amortisation as at 31 Dec. 2016	(452)	-	(452)
Amortisation	(138)	-	(138)
Accumulated amortisation as at 31 Dec. 2017	(591)	-	(591)
Present value as at 31 Dec. 2016	735	5	740
Present value as at 31 Dec. 2017	666	29	695

On 31 December 2017, the Company has no unsettled liabilities arising from the purchase of intangible assets (2016: €0). The intangible assets are not pledged as security for liabilities.

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

Movement of Intangible Assets in 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

10. Property, Plant and Equipment

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

Items of property, plant and equipment are not pledged as security for liabilities. On 31 December 2017, the Company's unsettled liabilities to suppliers for the purchase of property, plant and equipment amounted to €34 thousand (2016: €129 thousand). The present value of property, plant and equipment under finance lease is €9,923 thousand (2016: €595 thousand). The Company did not capitalise borrowing costs in 2017 and 2016.

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 2017

in € thousand	Land	Buildings	Equipment	Assets under construction	Total
Cost as at 31 Dec. 2016	717	5,142	1,976	1	7,836
New additions	0	0	0	547	547
Transfer from assets under construction	0	0	548	(548)	0
Disposals	0	0	(177)	0	(177)
Cost as at 31 Dec. 2017	717	5,142	2,347	0	8,206
Accumulated depreciation as at 31 Dec. 2016	-	(967)	(829)	-	(1,796)
Depreciation	-	(145)	(273)	-	(418)
Disposals	-	0	117	-	117
Accumulated depreciation as at 31 Dec. 2017	-	(1,112)	(985)	-	(2,097)
Present value as at 31 Dec. 2016	717	4,175	1,148	1	6,041
Present value as at 31 Dec. 2017	717	4,030	1,362	0	6,109

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

11. Investments in Subsidiaries

Due to the expected spin-off in 2018, investments in Perutnina Ptuj d. d. and Holding PMP d. d. were reclassified from investments in subsidiaries to assets held for disposal (disposal groups).

Based on checking the signs of impairment, the Company estimated that the recoverable value of investments in the companies Griffon & Romano S.P.S., Niro Wenden GmbH, and Noži Ravne fell below their carrying amount, estimated their fair value, and appropriately impaired the investments in these companies in amount of €9,739 thousand.

The fair value estimates are made on the going concern assumption, considering all available data on the companies' operations, which were available at the time of making the valuation – on 31 December 2017. Due to the nature of the companies, noticeable data on their market values do not exist.

For the companies Griffon & Romano and Niro Wenden, the method of the present value of future free cash flows, which is based on five-year financial plans, was used. All assumptions used in calculating free cash flows are based on the past operations of the companies and justifiably expected future operations. The required rate of return is adapted to the specific conditions of each individual company and its business environment.

For the company Griffon & Romano, the estimated value of the investment, considering indebtedness, ranges from €5,094 thousand to €9,784 thousand. Rates of return ranging from 8.47 to 9.47 percent and annual free cash flow growth rates between 1.5 and 2.5 percent were used.

For the company Niro Wenden, the estimated value of the investment, considering indebtedness, ranges from €2,288 thousand to €5,547 thousand. Rates of return ranging from 8.23 to 9.23 percent and annual free cash flow growth rates between 1.5 and 2.5 percent were used.

For the company Noži Ravne, there is neither any noticeable data on market values, nor any data on its future business, so the fair value was based on the best information available, specifically calculated in amount which the company could receive from the sale of assets according to the statement of financial position.

in € thousand	31 Dec. 2017	31 Dec. 2016
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	9,784	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	5,121	5,738
NOŽI RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	2,142	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	6,025
SIJ POLSKA Sp. Z.o.o., ul. Zamkowa 7 lok. 11, Poznan, Poland	1	0
PERUTNINA PTUJ d. d., Potrčeva cesta 10, Ptuj, Slovenia	0	62,888
HOLDING PMP d. d., Vinarski trg 1, Ptuj, Slovenia	0	7,687
Investments in Subsidiaries	159,959	240,272

Information on Subsidiaries as at 31 December 2017

in € thousand	Activity	% of voting rights	Value of equity as at 31 Dec. 2017	Net profit 2017
SIJ ACRONI d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	Steel production	100	171,648	1,722
SIJ METAL RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Steel production	100	80,962	5,601
NOŽI RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Industrial knives production	100	4,742	(757)
SIJ ELEKTRODE JESENICE d.o.o., Cesta železarjev 8, Jesenice, Slovenia	Welding materials production	100	3,693	(772)
SIJ SUZ d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	Drawn wires production	100	2,302	544
SIJ ZIP CENTER d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Education and training of the disabled	100	657	122
ODPAD d.o.o. Pivka, Velika Pristava 23, Pivka, Slovenia	Recovery of secondary raw materials from scrap	74.90	7,497	256
NIRO Wenden GmbH, Glück-Auf-Weg 2, Wenden, Germany	Steel cutting, engineering and trade	85	(1,185)	(886)
SIJ RAVNE STEEL CENTER d.o.o., Litostrojska cesta 60, Ljubljana, Slovenia	Trade	77.28	17,378	1,542
GRIFFON & ROMANO S.P.A., Via Dossetti 11, Loc. Casinello de Dosso, Italy	Heat processing and special steel trade	100	277	(87)
SIJ Asia GmbH, Berger Str. 2, 40213 Düsseldorf, Germany	Trade	100	431	126
SIJ RAVNE SYSTEMS d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Metallurgic machines production	100	8,169	603
SIJ POLSKA Sp. Z.o.o., ul. Zamkowa 7 lok. 11, Poznan, Poland	Trade	100	1	-

12. Available-for-Sale Financial Assets

in € thousand	31 Dec. 2017	31 Dec. 2016
Available-for-sale financial assets at cost	439	369
Available-for-sale financial assets at fair value	754	606
Available-for-sale financial assets	1,193	975

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 increased due to revaluation at fair value in the amount of €148 thousand (2016: €8 thousand) charged to the comprehensive income.
Received dividends in 2017 amounted to €70 thousand (2016: €65 thousand).

13. Non-Current Financial Receivables

in € thousand	31 Dec. 2017	31 Dec. 2016
Loans issued	15,154	33,354
Receivables arising from finance lease	0	433
Non-current financial receivables	15,154	33,787

Movement of Non-Current Loans Issued

in € thousand	2017	2016
Balance as at 1 Jan.	33,354	65,249
Loans issued	11,848	116,465
Reclassification to current loans issued	(30,048)	(148,360)
Balance as at 31 Dec.	15,154	33,354

The interest rates on the majority of loans issued are fixed. The disclosed value of loans issued does not exceed their realisable value. The loans issued fall due in 2021. The loans issued are not pledged as security for liabilities. The majority of loans issued is secured with bills.

Movement of Non-Current Receivables Arising from Finance Lease

in € thousand	2017	2016
Balance as at 1 Jan.	433	54
Receivables arising from finance lease	0	731
Transfer to current receivables arising form finance lease	(433)	(352)
Balance as at 31 Dec.	0	433

14. Deferred Tax Assets and Liabilities

in € thousand	31 Dec. 2017	31 Dec. 2016
Deferred tax assets	1,188	1,188
Deferred tax liabilities	(66)	(33)
Deferred tax assets (liabilities), net	1,122	1,155

Movement of Deferred Tax Assets and Liabilities in 2017

in € thousand	31 Dec. 2016	Changes in the income statement	Changes in the comprehensive income	31 Dec. 2017
Available-for-sale financial assets	(33)	0	(33)	(66)
Deferred tax liabilities	(33)	0	(33)	(66)
Unused tax losses	1,118	0	0	1,118
Employee benefits	70	0	0	70
Deferred tax assets	1,188	0	0	1,188
Deferred tax assets (liabilities), net	1,155	0	(33)	1,122

The total unused tax loss on 31 December 2017 amounted to €69,532 thousand (2016: €62,041 thousand). The value of unused tax losses for which deferred tax assets are not recognised amounted to €63,650 thousand (2016: €56,159 thousand), while unrecognised deferred tax assets amounted to €12,093 thousand (2016: €10,670 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

15. Assets Held for Disposal (Disposal Groups)

in € thousand	31 Dec. 2017	31 Dec. 2016
Investments in Subsidiaries	82,035	0
Other assets held for disposal	30	35
Assets held for disposal (disposal groups)	82,065	35
Financial liabilities	(3,290)	0
Liabilities directly associated with assets classified as held for sale	(3,290)	0

In 2018, Perutnina Ptuj Group and Holding PMP d.d. spin-off activities are under way. The Management Board assesses that the spin-off will be finished in 2018, which is why the investments were reclassified from investments in subsidiaries to assets held for disposal (disposal groups). At the same time, liabilities connected to assets held for sale were reclassified to liabilities associated with assets classified as held for sale.

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.

16. Current Financial Receivables

in € thousand	31 Dec. 2017	31 Dec. 2016
Loans issued	73,462	71,048
Receivables arising from finance lease	0	293
Interest receivables	1,864	1,047
Other	464	575
Current financial receivables	75,790	72,963

Movement of Current Loans Issued

in € thousand	2017	2016
Balance as at 1 Jan.	71,048	24,937
Loans issued	21,150	23,900
Repayments of loans issued	(48,784)	(126,149)
Transfer from non-current loans issued	30,048	148,360
Balance as at 31 Dec.	73,462	71,048

The interest rate for loans issued is fixed. The disclosed value of loans issued does not exceed their realizable value. The loans issued are not pledged as security for liabilities. The majority of loans issued is secured with bills.

Movement of Current Receivables Arising from Finance Lease

in € thousand	2017	2016
Balance as at 1 Jan.	293	89
Repayments of liabilities arising from finance lease	(726)	(162)
Transfer from non-current receivables arising from finance lease	433	366
Balance as at 31 Dec.	0	293

17. Current Operating Receivables

in € thousand	31 Dec. 2017	31 Dec. 2016
Trade receivables	8,606	19,710
VAT receivables	132	16
Issued advance payments and cautions	89	124
Dividends receivables	11,296	19,496
Other operating receivables	36	16
Current operating receivables	20,159	39,362

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

18. Cash and Cash Equivalents

in € thousand	31 Dec. 2017	31 Dec. 2016
Cash in national currency	312	8,200
Cash in foreign currency	0	86
Cash and cash equivalents	312	8,286

19. Other Current Assets

in € thousand	31 Dec. 2017	31 Dec. 2016
Deferred expenses	1,023	894
Accrued revenues	0	33
Other current assets	1,023	927

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

20. Equity

in € thousand	31 Dec. 2017	31 Dec. 2016
Share capital	145,266	145,266
Capital surplus	11,461	11,461
Revenue reserves	811	811
Fair value reserves	286	150
Retained earnings	49,265	47,844
Equity	207,089	205,532

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 2017.

Ownership Structure

Shareholder	Number of shares 31 Dec. 2017	Number of shares 31 Dec. 2016
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. 2017	31 Dec. 2016
Legal reserves	3,066	3,066
Treasury shares	(6,009)	(6,009)
Reserves for treasury shares	3,754	3,754
Revenue reserves	811	811

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 the Slovene Steelworks Act (Official Gazette of the RS, nr. 13/1998). Treasury shares were acquired by exchanging interests in subsidiaries for shares of the Company, owned by authorised companies. The shares were acquired ex lege and not in line with the Companies Act, which is why the controlling company did not establish a treasury shares fund. Shares are recognised at cost.

In 2017, the Company did not create legal reserves (2016: €682 thousand).

Fair Value Reserves

in € thousand	31 Dec. 2017	31 Dec. 2016
Fair value reserves due to available-for-sale financial assets	344	184
Deferred tax liabilities	(66)	(34)
Net actuarial profit on pension programs	8	0
Fair value reserves	286	150

Distributable Profit

in € thousand	31 Dec. 2017	31 Dec. 2016
Retained earnings	37,873	28,580
Profit for the year	11,392	19,946
Creation of legal reserves	0	(682)
Distributable profit	49,265	47,844

21. Employee Benefits

in € thousand	31 Dec. 2017	31 Dec. 2016
Provisions for severance pay	267	368
Provisions for loyalty bonuses	38	23
Employee benefits	305	391

In 2017, 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 1.2 and 1.7 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 an actuarial profit which effects comprehensive income.

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.

Movement of Employee Benefits in 2017

in € thousand	31 Dec. 2016	Creation	Reversal	31 Dec. 2017
Provisions for severance pay	368	0	(101)	267
Provisions for loyalty bonuses	23	15	0	38
Employee benefits	391	15	(101)	305

22. Non-Current Financial Liabilities

in € thousand	31 Dec. 2017	31 Dec. 2016
Borrowings	0	62,500
Liabilities for bonds issued	94,115	94,115
Liabilities arising from finance lease	596	818
Non-current financial liabilities	94,711	157,433

Borrowings include loans from domestic and foreign banks. Borrowings are secured with subsidiaries' guaranties. The interest rate for borrowings is flexible and based on EURIBOR. The interest rate for the majority of liabilities arising from finance lease is fixed.

Movement of Non-Current Borrowings

in € thousand	2017	2016
Balance as at 1 Jan.	62,500	28,500
New borrowings	86,500	248,800
Reclassification to current borrowings	(149,000)	(214,800)
Balance as at 31 Dec.	0	62,500

Liabilities for Bonds Issued

Liabilities for bonds issued refer to the bonds issued with the ticker symbol 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. 4.5 percent per annum. Interest is accrued annually in arrears. The nominal value of the principal falls due, in full and in a single amount, on the maturity of the bond. The bonds are traded on the Ljubljana Stock Exchange.

Liabilities for bonds issued refer to the bonds issued with the ticker symbol 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. 4.0 percent per annum. Interest is accrued annually in arrears. The nominal value of the principal falls due, in full and in a single amount, on the maturity of the bond. The bonds are traded on the Ljubljana Stock Exchange.

Movement of Non-Current Liabilities Arising from Finance Lease

in € thousand	2017	2016
Balance as at 1 Jan.	818	85
New financial lease	219	1,244
Reclassification to current liabilities arising form finance lease	(441)	(511)
Balance as at 31 Dec.	596	818

The lowest sum of future leases due for payment in the next financial year amounts to €423 thousand on 31 December 2017, and €613 thousand in next 1 to 5 years.

The net present value of future leases due for payment in the next financial year amounts to €403 thousand on 31 December 2016, and €818 thousand in next 1 to 5 years.

23. Current Financial Liabilities

in € thousand	31 Dec. 2017	31 Dec. 2016
Borrowings	26,536	5,836
Liabilities for commercial papers issued	27,325	30,000
Liabilities arising from finance lease	403	426
Interest liabilities	1,232	1,557
Other current financial liabilities	0	198
Current financial liabilities	55,496	38,017

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	2017	2016
Balance as at 1 Jan.	5,836	13,506
New borrowings	93,400	30,250
Repayments for borrowings	(218,440)	(252,720)
Reclassification from non-current borrowings	149,000	214,800
Reclassification to liabilities associated with assets classified as held for sale	(3,260)	0
Balance as at 31 Dec.	26,536	5,836

Liabilities for Commercial Papers Issued

Liabilities for commercial papers amounting to €27,325 thousand refer to 12-month commercial papers with the ticker symbol SIK04, issued by the Company on 15 December 2017 as a 4th issue. The total nominal value of the commercial papers is €27,325 thousand, and covers denominations of €1 thousand. The interest rate for a commercial paper is 1.1 percent per annum. Commercial papers are a discounted security. Interest is charged in advance and deducted on payment of a commercial paper in the form of a discount from the nominal value of the commercial paper. Liabilities from commercial papers are payable on 14 December 2018. Commercial papers are traded on the Ljubljana Stock Exchange. The Company repaid the 3rd issue of commercial papers with the ticker symbol SIK03 on the maturity day.

Movement of Current Liabilities Arising from Finance Lease

in € thousand	2017	2016
Balance as at 1 Jan.	426	116
Repayments of liabilities arising from finance lease	(464)	(201)
Reclassification from non-current liabilities arising from finance lease	441	511
Balance as at 31 Dec.	403	426

The lowest sum of future leases due for payment in the next financial year amounts to €423 thousand on 31 December 2017, and the net present value of leases amounts to €403 thousand on the same date.

24. Current Operating Liabilities

in € thousand	31 Dec. 2017	31 Dec. 2016
Liabilities to suppliers	1,883	1,604
Liabilities to employees	336	678
Received advance payments	0	1
Tax liabilities	784	1,527
Other liabilities	10	192
Current operating liabilities	3,013	4,002

25. Contingent Assets and Liabilities

Contingent liabilities for issued guarantees amount to €213,778 thousand on 31 December 2017 (2016: €105,936 thousand). The Company expects no outflows from the issued guarantees.

The Company has no contingent assets on 31 December 2017.

RELATED PARTIES

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

Transactions with the Controlling Company

in € thousand	2017	2016
Revenues	1,115	528

in € thousand	31 Dec. 2017	31 Dec. 2016
Receivables	25,505	19,042

Transactions with Subsidiaries

in € thousand	2017	2016
Revenues	40,020	38,073
Expenses	991	1,550

in € thousand	31 Dec. 2017	31 Dec. 2016
Receivables	84,285	124,430
Liabilities	7,121	341

Transactions with Other Related Companies

in € thousand	2017	2016
Revenues	2,753	70
Expenses	609	167

in € thousand	31 Dec. 2017	31 Dec. 2016
Receivables	1,031	2,456
Liabilities	9,293	5,851

Transactions with those Charged with Governance

This is the total amount of receipts based on 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 the collective agreement does not apply, and members of the Supervisory Board.

in € thousand	2017
Management and employees with service contract	5,870
Members of the Supervisory Board	91

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 2017.

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 collectibility of financial assets in 2017 and created an allowance for financial assets in the amount of €41 thousand (2016: € 0) charged to the profit or loss.

Age Structure of Financial Assets

in € thousand		Overdue				
31 Dec. 2017	Not-overdue	Up to 3 months	3 months to 1 year	1 year to 3 years	Over 3 years	Total
Trade receivables	5,106	1,582	1,614	304	0	8,606
Financial receivables and deposits	90,561	35	348	0	0	90,944
Total	95,667	1,617	1,962	304	0	99,550

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

Liquidity Risk

The Company is managing its liquidity risk with the appropriate planning of cash flow and current credit lines from banks agreed in advance, which ensures that the Company is capable of settling any overdue liabilities at any time.

in € thousand 31 Dec. 2017	Up to 3 months	3 months to 1 year	1 year to 5 years	Total
Liabilities to suppliers	1,883	0	0	1,883
Financial liabilities with future interest	5,955	55,927	100,745	162,627
Other liabilities	10	0	0	10
Total	7,848	55,927	100,745	164,520

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

Exposure to financial markets and banks is assessed as moderate. The Company fully complies with the liabilities and covenants stated in loan contracts.

Foreign Exchange Risk

The Company mostly operates in the 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 remain unchanged. The analysis for 2016 was prepared in the same manner.

in € thousand	2017	2016
Change in profit/loss if increased by 100 bp	(12)	(625)
Change in profit/loss if increased by 50 bp	(6)	(313)
Change in profit/loss if increased by 50 bp	0	0
Change in profit/loss if increased by 100 bp	0	0

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	2017	Debt increase by 10 %	Debt decrease by 10 %
Level of debt on equity	70.06	77.06	63.05
Equity	214,404	214,404	214,404
Financial liabilities	150,207	165,228	135,186

Carrying Amounts and Fair Values of Financial Instruments

in € thousand	31 Dec. 2017		31 Dec. 2016	
Type of financial instrument	Carrying amount	Fair value	Carrying amount	Fair value
Available-for-sale financial assets	1,193	1,193	975	975
Financial receivables	90,944	90,944	106,750	106,750
Operating receivables	20,159	20,159	39,392	39,392
Cash and cash equivalents	312	312	8,286	8,286
Financial liabilities	(150,207)	(155,169)	(195,451)	(201,363)
Operating liabilities	(3,013)	(3,013)	(4,002)	(4,002)
Total	(40,613)	(45,574)	(44,051)	(49,962)

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:

000 EUR	31. 12. 2017	31. 12. 2016
Financial assets at fair value of first level	754	606
Financial assets at fair value of third level	111,854	154,798
Financial liabilities at fair value of first level	(121,440)	(124,115)
Financial liabilities at fair value of third level	(31,780)	(75,338)

EVENTS AFTER THE REPORTING DATE

On 19 February 2018, at the 31st shareholders' General Assembly of SIJ d.d., new Members of the Supervisory Board were named: Boštjan Napast, Helena Ploj Lajovic, and Polona Marinko; Evgeny Zverev and Dmitry Davydov were re-elected. Sergey Frolov and Sergey Cherkaev, the then Members of the Supervisory Board, were removed from their positions, while no changes were made to the terms of Janko Jenko and Mitja Križaj on the 7-person Supervisory Board.

On 22 February 2018, the Supervisory Board appointed new Members of the Management Board: Tibor Šimonka and Igor Malevanov. The Management Board of SIJ d.d. now consists of four members – alongside Mr. Šimonka and Igor Malevanov, acting member Dmitrii Bochkarev and the President of the Management Board Andrey Zubitskiy. Tibor Šimonka's term as the President of the Management Board of Perutnina Ptuj d.d. continues unimpeded.

On 9 April 2018, the Supervisory Board receive the letter of resignation from Member of the Management Board of SIJ d.d. Dmitriy Bochkarev, and named Viacheslav Korchagin Member of the Management Board for a full six-year term. Mr Korchagin has already been with the SIJ Group and SIJ d.d. between 2007 and 2014. The Management Board of SIJ d.d. is composed of four Members – alongside Mr. Korchagin, acting Members Tibor Šimonka and Igor Malevanov, and the President of the Management Board Andrey Zubitskiy. Otherwise, Mr. Korchagin continues his term as the Vice President and member of the Board of Finance, Economic, Controlling and Procurement at Perutnina Ptuj d.d. unimpeded.

On a point looking at Triglav, Slovenia's highest mountain, sits the Bivak II bivouac. The safe shelter is mounted on a steel frame donated by the SIJ Group. The Bivak II is a point of strength and provides shelter for people aiming high. The strength of steel amidst the mountains is another testament to the cooperation of the SIJ Group to the environment where we live and work.

SIJ – Slovenska industrija jekla, d.d.
Gerbičeva 98, 1000 Ljubljana, Slovenia
www.sij.si
T: +386 (0)1 242 98 00
E: info@sij.si

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April, 2018