



STEEL FOUNDATIONS OF THE FUTURE WORLD

The Annual Report
of the SIJ Group
and SIJ d.d. for
2018



THE FUTURE OF THE WORLD IS MADE OF STEEL

With new and advanced characteristics, steel allows changes to be made.

More reliable means of transport with new speed drives, structural steelwork with better characteristics, the more effective use of energy from more environmentally-friendly resources, more accurate and reliable tools, innovations that today we cannot even imagine, are all becoming possible with the help of high-quality steel.

The SIJ Group is part of the future “made of steel”.

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2018. SIJ Group in Brief

LEADERS IN NICHE STEEL MARKETS



SIJ GROUP IN FIGURES*

802.8

Revenues (EUR mio.)

3,922

Employees

480

Cast steel (thousand t)

50.2

EBITDA (EUR mio.)

84.6%

Share of export

Ljubljana,
Slovenija

Headquarters

** Business plans of the SIJ Group envisage the disposal of the SIJ Group Poultry Division until the end of 2018. The process was finalized on 21 February 2019. Therefore, the key operating figures present the operations of SIJ Group excluding the Poultry Division.*

THE FUTURE IS BUILT ON SOLID FOUNDATIONS OF THE PAST

14th – 20th century
Development of ironworks and iron working plants on the territory of Slovenia

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

1991
Slovenian independence and restructuring of the Slovenian steel industry

1993
Privatisation of Slovenian Steel Group finalised

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

2015–2018
Strengthening of the market position – also through the introduction of steel brands and the development, innovation, and strengthening of sustainable operation principles

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

1992
Foundation of Acroni and Metal Ravne – now SIJ Acroni, the largest steel company in SIJ Group, and SIJ Metal Ravne, now the second largest steel producer in the Group; Slovenian Steelworks system renamed to SIJ – Slovenian Steel Group

2007–2017
A period of intensive investments in production modernisation, increase of production capacities and the orientation towards programmes of higher added value products for niche steel markets

VERTICALLY INTEGRATED BUSINESS MODEL

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

STEEL DIVISION: THE GENERATOR OF THE SIJ GROUP DEVELOPMENT



92.4%

Share of EBITDA

52.8%

Share of investments

62.1%

Share of revenues

69

Markets

SIJ Group Companies Operate in Five Business Divisions:

Scrap Division	Steel Division	Manufacturing Division	Distribution and Processing Division	Headquarters and Other Services
The companies within this division collect, process, and sort metal scrap and prepare it for transport and basic processing in the Steel Division;	Steel companies produce steel for further processing of the flat and long programme and develop new types of steel tailor-made for customers;	Utilising the synergy with the Steel Division production processes, companies produce finished products and semi-finished products such as industrial knives, rolls, welding materials and drawn, ground and peeled steel bars.	In key markets, companies use distribution and other services to develop and strengthen direct contact with end customers;	SIJ d.d. as controlling company provides management and consultancy services. Other companies implement various concession services and social assistance services linked to the employment of persons with disabilities.

MISSION AND VALUES

Our mission is to create steel products for current and future needs of our customers, with whom we collaborate in the development of new products. We combine our own steel brands with tailor-made solutions for customers.

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

2018 HIGHLIGHTS

AT A TIME OF NEW CHALLENGES

We're all familiar with steel. We see it everywhere. And yet, it's constantly changing. At the global level, **75 percent** of the types of steel used today did not even exist 20 years ago.

In the development of new steel types whose characteristics correspond to the demands of emerging industries and the range of applications, every year counts. With what we create today, new knowledge and cooperation, renewed processes and updated technologies, **we are promoting new developments in other industries and in our everyday lives.**

2018 Performance Summary

The future of the SIJ Group is the Metallurgy Division. In 2018, we steadily increased steel production and maintained a high share of steels with a higher added value, which occupy leading positions in niche steel markets. We increased the value of sales and generated most of our revenue in foreign markets, remaining one of the largest Slovenian exporters.

Operating profitability ratios in 2018 were lower primarily due to one-off events that caused major disruptions in the production process and due to higher costs of energy. Without the aforementioned one-off events and incidents, the performance of the SIJ Group in 2018 would have been comparable to that of the previous year.

The operations of the SIJ Group are stable, and in 2018 it reduced its debt.

At the beginning of 2019, we also successfully concluded the disposal of the Poultry Division (PP Group) in line with our business plans. The key operating figures below therefore present the operations of the SIJ Group excluding the Poultry Division. The comparability of the data with the annual report for 2017 and other annual reports is enabled by the analysis of key operating figures for the Metallurgy and Poultry Divisions.

[More >> Key Figures for the Metallurgy and Poultry Division](#)



SIJ Group: Key Operating Figures

	Unit of measure	2016*	2017	2018
Physical ratios				
Cast steel production	t	448,497	468,596	479,805
Financial data				
Revenues	EUR thousand	631,884	754,870	802,766
Share of exports	%	85.5	86.1	84.6
EBIT ¹	EUR thousand	28,287	24,652	1,774
EBITDA LMA ²	EUR thousand	76,397	77,273	62,430
EBITDA ³	EUR thousand	74,420	74,749	50,239
EBITDA margin	%	11.8	9.9	6.3
Net profit	EUR thousand	22,913	14,406	14,655
Net financial debt as at 31 Dec				
Net financial debt ⁴	EUR thousand	367,520	333,806	320,046
Metallurgy Division**	EUR thousand	261,453	251,771	238,010
Poultry Division	EUR thousand	35,492	0	0
Business combinations	EUR thousand	70,575	82,035	82,036
NFD**/EBITDA LMA		3.4	3.3	3.8
Employees as at 31 Dec				
Number of employees		3,552	3,770	3,922

1 EBIT: operating profit or loss.

2 EBITDA LMA: operating profit or loss + depreciation and amortisation + impairments and write-offs of value + elimination of impairments and write-offs of value.

3 EBITDA: operating profit or loss + depreciation and amortisation.

4 Net financial debt (NFD): principal of loans, finance leases and financial instruments – cash and cash equivalents.

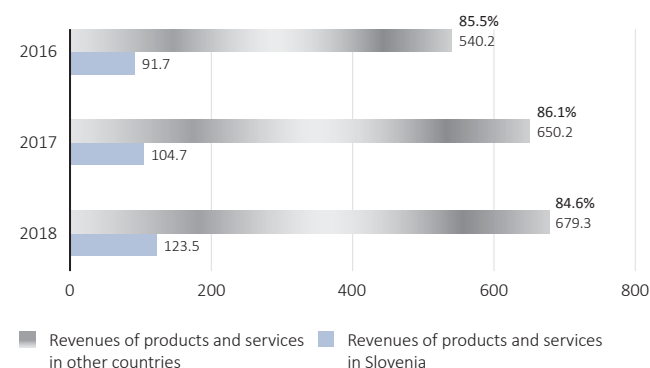
* The EBIT, EBITDA LMA, EBITDA, profit or loss before taxes, and net profit or loss do not take into account the one-off effect from the business combination of the Poultry Division in the amount of EUR 28,412 thousand.

** The NFD in the Metallurgy Division excludes business combinations (purchase of PP Group and Holding PMP shares until 31 December).

INCREASE IN THE VALUE OF SALES AND EXPORTS

In 2018, the SIJ Group generated a sales revenue of EUR 802.8 million, which is EUR 47.9 million more than in 2017. As a strongly export-oriented company, we sold EUR 679.3 million of products in foreign markets, primarily our higher added value programmes. A stable export portfolio has always been the core of the operations of the SIJ Group. Exports increased by EUR 29.1 million compared to 2017.

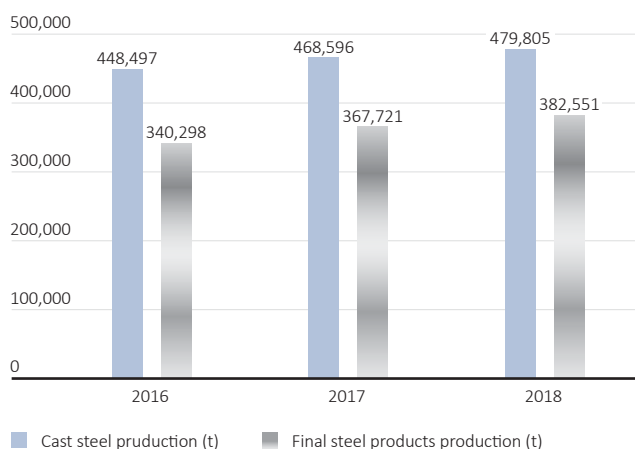
SIJ Group: Revenues (in EUR Million) and Share of Exports (in Percent)



STEADY INCREASE IN PRODUCTION

We have been steadily increasing the quantities of cast steel and finished steel products for many years. Due to investments and thus increasing production capacities in recent years and due to thoughtful approaches to increasing the efficiency of these capacities, we increased the production of cast steel in 2018 by 2.4 percent compared to the previous year. We also increased the quantities of finished steel products. In 2018, we produced 14,830 tonnes of them or 4 percent more than in 2017. We maintained leading market shares in niche steel markets: we have a leading market share in the production of stainless steel quarto plates in the European Union, and we rank third among producers of tool steel, also in the European Union. We are also among the ten largest producers of industrial knives in the world.

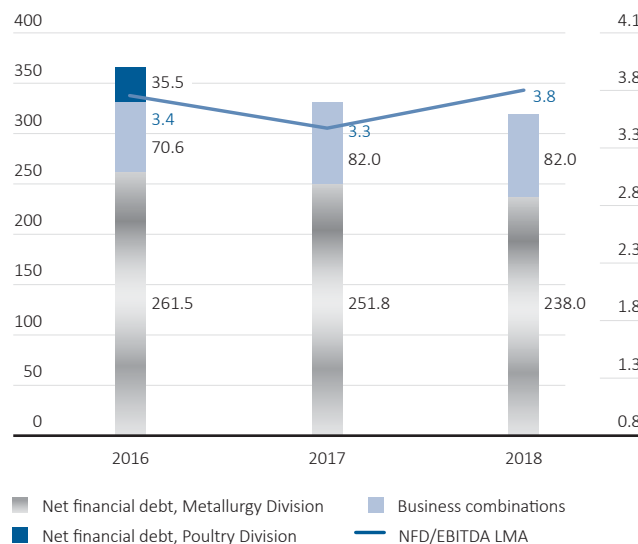
SIJ Group: Cast Steel and Final Steel Products Production (in tonnes)



VALUE REDUCTION OF DEBT

With the completion of large-scale investment projects within the intensive investment cycle that was completed in 2017, the SIJ Group reduced its investments and directed them towards the production of technologically more advanced products and the productivity of production. With the slowdown in the investment cycle, the debt of the SIJ Group has been decreasing as well. The debt ratio, which amounted to 3.8 in 2018, was higher than the year before due to the lower operating profit, but the value of the debt of the SIJ Group was lower by EUR 13.8 million compared to 2017.

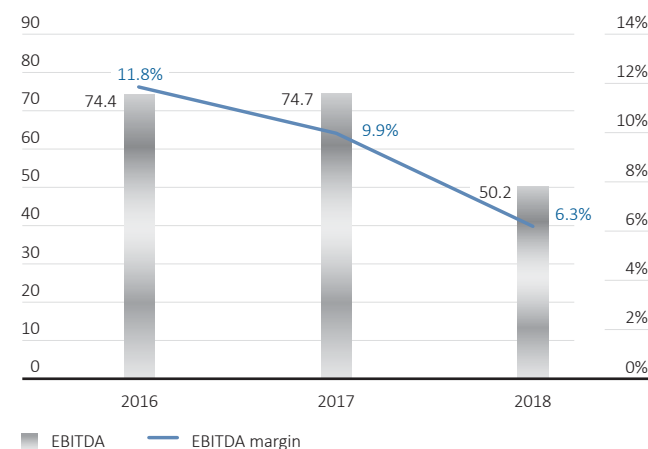
SIJ Group: Net Financial Debt as at 31 December (in EUR Million) and NFD/EBITDA LMA



IMPACT ON PROFITABILITY

In 2018, the ratio of operational profitability was significantly influenced by high energy prices, as we were no longer able to optimise the costs of leased energy products on the market when concluding agreements. We also faced extraordinary events that required a number of activities to ensure production stability. Among them, it was the two longer stoppages in both steel companies that contributed the most to the lower operational profitability. Since the Steel Division contributes 92.4-percent share to the operating result of the SIJ Group, the impacts are strongly reflected in the EBITDA value, which decreased by one third, and the EBITDA margin, which decreased by 3.6 percentage points, when compared to the year before. We were not able to fully compensate for the loss of production by the end of 2018.

SIJ Group: EBITDA (in EUR Million) and EBITDA margin (in Percent)



Significant Business Events in 2018

JANUARY

Jernej Pavlin, director of ORO MET, a SIJ Group company, was named **one of the three best young managers** in 2017 by the Managers' Association of Slovenia. The Association awards the title to individuals whose work and personality have left a significant mark on the Slovenian economy. The company he manages is the leading Slovenian producer of standard and non-standard tool plates and CNC-treated tool plates, as well as other items for the tool industry.



2nd SIJ Winter Games

FEBRUARY

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

On 19 February, at the 31st General Assembly of SIJ d.d., the following **new Members of the Supervisory Board** were appointed: Boštjan Napast, Helena Ploj Lajovic, and Polona Marinko. Evgeny Zverev and Dmitry Davydov were reappointed as Members of the Supervisory Board. The existing Members of the Supervisory Board, Sergey Frolov and Sergey Cherkaev were recalled from their positions as Members of the Supervisory Board, while there were no changes in the mandates of Janko Jenko and Mitja Križaj.

On 22 February, the Supervisory Board of SIJ d.d. appointed **two new Members of the Management Board**: Tibor Šimonka and Igor Malevanov. Together with the existing members Dmitrii Bochkarev and the President of the Management Board, Andrey Zubitskiy, the Management Board of SIJ d.d. consisted of four members. Tibor Šimonka continues to be the President of the Management Board of Perutnina Ptuj d.d.

MARCH

At the 10th anniversary of Perutnina Ptuj's operations in Bosnia and Herzegovina, the company opened a **new distribution centre** with warehouses in Breza, and modernised the slaughterhouse in Srbac. These investments totalling around EUR 3 million are an important step in the process of registering these facilities for export to European Union markets.



New steel heat treatment line,
SIJ Metal Ravne

APRIL

On 9 April, the Supervisory Board took note of the resignation of Member of the Management Board of SIJ d.d. Dmitrii Bochkarev and appointed Viacheslav Korchagin as **a new Member of the Management Board** for the full term of office of six years. The new Member of the Management Board of SIJ d.d. remains also the Vice-President and the Member of the Management Board for Finance, Economics, Controlling and Procurement in Perutnina Ptuj.

On 12 April, a **steel heat treatment line** was launched in the SIJ Metal Ravne rolling mill, representing a EUR 4 million investment. The most important part of the investment, a continuous furnace costing EUR 2.8 million, allowed the company to increase the production of steel products, in particular tool steels, by more than ten percent. The new furnace that enables low specific consumption is also connected to the new closed adiabatic cooling system that operates practically without the emission of water into the environment.

MAY

At the 32nd General Assembly of SIJ d.d. on 21 May, where 100 percent of all shareholders with voting rights were present, the General Assembly has taken note of the SIJ Group and SIJ d.d. Annual Report for 2017, granted **discharge to the Management Board and the Supervisory Board** for 2017 and adopted the **resolution on the allocation of distributable profit** as follows: part of the distributable profit for 2017 in the amount of EUR 5,695,724.24 shall be used for payment of dividends, while the rest of distributable profit in the amount of EUR 43,569,343.75 shall remain undistributed.

On 1 June, the **USA adopted 25 percent import duties on steel** and 10 percent import duties on aluminium. The SIJ Group along with other organisations and institutions has been striving for an exemption of the European Union as well as individual SIJ Group products from this measure since the duties were announced in March, while simultaneously launching activities on other markets for replacing a potential loss of quantities sold in the USA.

SIJ Metal Ravne together with the Jožef Stefan Institute and international partners received assets from the HORIZON 2020 programme for their innovative **waste heat recovery project ETEKINA**. The demonstration project on the efficiency of recovering waste heat resulting from steel production is related to the introduction of an innovative heat exchanger technology in an energy-intensive industry and to achieving at least 40-percent efficiency of excess heat.

On 15 June 2018, the Management Board of the SIJ Group **appointed Branko Žerdoner, MSc**, a manager with longstanding experience in managing large companies, as Managing Director of SIJ Acroni.

JUNE

Perutnina Ptuj together with the Perutnina Ptuj Cycling Club organised one of the most popular and largest recreational cycling events in Slovenia for the 16th year in a row: **Poli Marathon**, which was attended by more than five thousand recreational cyclists.



ETEKINA - new waste heat recovery project

JULY

At the 33rd General Assembly of SIJ d.d., held on 5 July, where 100 percent of all shareholders with voting rights were present, **KPMG Slovenija was appointed as the certified auditor** of SIJ d.d. for the 2018 business year.

On 15 July 2018 at the **5th SIJ Day** (formerly Metallurgist's Day), 3,500 employees of the SIJ Group and their family members gathered in Ravne na Koroškem. At the sporting and social event, the best employees, best innovators, awards were given to employees celebrating work anniversaries, and families that worked for generations for the SIJ Group.



5th SIJ Day

AUGUST

On 1 August, in accordance with the vertical integration strategy of the SIJ Group, SIJ Acroni **took over the operations, equipment and employees of Harsco Minerali, a slag processing company.** As result, SIJ Acroni can now process slag, which is used to be a waste product, into by-product that is mainly used in the company's production process and is partially marketed for construction, road construction and environmental remediation needs. Slag processing significantly contributes to the company's operations according to the principles of circular economy.

At the 25th regular annual General Assembly of Perutnina Ptuj d.d. on 30 August, where 98.68 percent of shareholders with voting rights were present, shareholders took note of the 2017 Annual Report of Perutnina Ptuj d.d. and the PP Group. The counter proposal of SIJ d.d. shareholder on the use and **allocation of distributable profit** in the amount of EUR 14,650,455 was adopted with 94.45 percent majority, while the profit in the amount of 4 percent of the share equity or EUR 1,821,482.20 was intended for the payment of dividends, and the remaining part of the distributable profit in the amount of EUR 12,828,972.80

remained undistributed. The General Assembly unanimously granted **discharge to the Management Board and the Supervisory Board** for the 2017 business year.

Basketball superstar **Luka Dončić** signed a contract and became the **ambassador of the Poli brand.** This endorsement will contribute to further strengthening of the recognition, popularity and market position of the brand, which the Poultry Division intends to use to enter the American market.



Take over of slag processing operations

SEPTEMBER

SIJ further strengthened its cooperation with local communities by donating steel outdoor sport grounds. **The new outdoor sport ground in Grosuplje** joined the existing four steel outdoor sport grounds, produced by SIJ Acroni and installed in several places in Slovenia. At the opening, **SIJ Group and the Olympic Committee of Slovenia also extended the sponsorship cooperation** for the Olympic cycle until 2022.

On 10 September, the **SIJ Group Management Board met with the delegation of the European Bank for Reconstruction and Development (EBRD)**, led by Charlotte Ruhe, Managing Director of EBRD for Central and South Eastern Europe. On their working visit to Slovenia, they discussed the current and future cooperation between the EBRD and SIJ Group at the head office of the largest Slovenian metallurgical group.

On 12 September, as part of the "Steel Bonds Between Us" campaign, the SIJ Group employees prepared the 1st Community Partnership Day and performed **over 300 hours of volunteer work.** 154 SIJ Group employees and athletes supported by the SIJ Group from Ravne na Koroškem, Jesenice, and Ljubljana, renovated children's

playgrounds, worked on the city park and a hiking hut, socialised with the residents of the retirement home and spent the afternoon with the children from the special education school.

On 18 September, the Management Board of the SIJ Group named Viljem Pečnik, formerly Sales and Marketing Director of SIJ Ravne Systems, **as the company's Managing Director.**

At the **Innovation Day 2018**, organised by the Chamber of Commerce and Industry of Slovenia on 26 September, SIJ Group received **three silver recognition awards**, solidifying its position among the most innovative Slovenian companies.

The Partners Summit Conference, organised by the SIJ Group between 26 and 28 September, was attended by 109 representatives of key customers from 36 countries. The topic of the fourth conference was the challenges of global trade.

OCTOBER

Since 23 October, the SIJ Group's existing best practices in energy efficiency have been further enhanced with the **heating of the covered outdoor pool in Ravne na Koroškem**, where excess industrial heat has been incorporated in district heating of the city and the indoor pool for quite some time. The advanced and environmentally-friendly system uses energy that originates from the cooling of the electric arc furnace at the SIJ Metal Ravne steel plant.

71 steel companies of global significance, including the SIJ Group, signed the **Sustainable Development Charter¹** with the World Steel Association. By signing this charter, we have committed ourselves to operate in accordance with the seven sustainable development principles of the steel industry, which have been harmonised with 17 general objectives of the United Nations Organisation on sustainable development.

On 14 November, SIJ Group and the Olympic Committee of Slovenia opened the **sixth steel outdoor sport ground** on the outskirts of Nova Gorica. By 2019, there will be 11 outdoor training sport grounds in Slovenia, donated by the SIJ Group to local communities. This project supports a healthy lifestyle and promotes steel as a sustainable and multi-purpose material.

On 20 November, in accordance with the intention on the **disposal of shares of Perutnina Ptuj d.d.**, which was made public in September, SIJ d.d. announced that it has concluded a sales contract for a total of 9,896,842 shares, or 90.69 percent of Perutnina Ptuj d.d., which were under its

The Sustainable Development Charter has been published on the World Steel Association's website, Access through [link](#) (30 November 2018).

NOVEMBER

direct or indirect ownership. **The buyer is the MHP Group**, one of the leading international agro-industrial groups and the leading producer of poultry in Ukraine.

On 20 November, at the Gornjesavski muzej, the SIJ Group and HDD SIJ Acroni Jesenice commemorated **70 years of hockey in Jesenice** and seven decades of joint cooperation. The activities of SIJ Acroni Jesenice, the long-term sponsor of the club, positively impact the development of the home town of the legendary hockey club.



Donation of steel outdoor sport ground

DECEMBER

150 employees attended the **SIJ Group Strategic Conference**, which took place on 5 and 6 December. The main topic of this traditional meeting concerned the Developmental Growth Axes: harmonising processes and people.

On 14 December, the SIJ Group completed the **fifth consecutive issue of commercial papers** in the value of EUR 30 million with one percent interest rate per annum, which was the lowest interest rate so far. A successful issue of commercial papers is a significant contribution to the reduction of the financing costs of SIJ Group.

At the extraordinary General Assembly of Perutnina Ptuj d.d., where 98.72 percent of shareholders with voting rights were present, the company's shareholders discussed and decided on the **distribution of profit** for the 2017 business year and modified the resolution on the profit distribution adopted at the General Assembly on 30 August 2018. As at 31 December 2017, the distributable profit amounted to EUR 14,650,455. The counter proposal of SIJ d.d. shareholders, according to which a part of the distributable profit in the amount of EUR 5,650,455 would remain undistributed, and a part in the amount of EUR 9 million would be distributed for the payment of dividends to shareholders, was adopted with 94.4 percent majority. Dividend per share amounts to gross EUR 0.84.

Important Events after the Reporting Period

FEBRUAR

On 1 February 2019 the **European Commission implemented additional safeguard measures for the EU market** against the increase of imports from third countries as a result of the introduction of import duties by the USA. These safeguard measures cover 98.9 percent of SIJ Acroni products and 74.8 percent of SIJ Metal Ravne products.

On 14 February the **Slovenian Competition Protection Agency adopted a decision stating that the acquisition of Perutnina Ptuj by MHP is compliant with competition rules**. SIJ Group and MHP were therefore able to implement the procedures to finalise the transaction allowing MHP to enter the ownership structure of Perutnina Ptuj.

The Ukrainian MHP Group, one of the leading companies in the international agricultural and food processing industry **gained a slightly more than 90-percent share in Perutnina Ptuj on 24 February**. This means that Perutnina Ptuj is no longer a part of the SIJ Group. **The mandates of the existing President of the Management Board of Perutnina Ptuj Tibor Šimonka and the Member of the Management Board Vyacheslav Korchagin in Perutnina Ptuj have been terminated, but both will continue their mandates as Members of the Management Board of the SIJ Group.**

APRIL

On 9 April, at the 34th meeting of the General Assembly of SIJ d.d., the following **new Members of the Supervisory Board** were appointed: **Štefan Belingar and Richard Pochon**. On 11 April, Janko Jenko's term of office as Member of the Supervisory Board expired, while Polona Marinko resigned. There were no changes in the terms of office of other Members of the Supervisory Board.

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

On 25 April, MHP Group announced to **increase the acquisition share price** for the purchase of a 90.69 percent share of Perutnina Ptuj, which, in compliance with the sales contract, closed between MHP Group and SIJ d.d. in November 2018, **makes the final sales price EUR 22.34 per share**.

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

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

The steel industry is one of the foundations of the economic growth and development of Europe, and the SIJ Group, the largest metallurgical group in Slovenia, is an integral part of the European steel industry in niche markets. Our journey in the past year was exciting – full of defining moments recorded in the achievements and challenges that emerged both within the SIJ Group as well as on the broader business environment.

According to audited business results, the Metallurgy Division of the SIJ Group generated revenues of EUR 802.8 million, 84.6 per cent of them in foreign markets, which makes us one of the largest Slovenian exporters. We also generated an EBITDA of EUR 50.2 million and 6.3 percent EBITDA margin, as well as a net profit of EUR 4.9 million. We cannot be satisfied with our business results – the incidents that caused major disruptions in the production process, the costs of energy and graphite electrodes, the warehouses stocked with hard-to-sell products, as well as the uncertainties in international markets are the key factors that affected the decline in performance. **Without the impact of the aforementioned one-off events and incidents, the performance of the SIJ Group in 2018 would have been comparable to that of the previous year.**



THE FUTURE OF THE SIJ GROUP IS 'MADE OF STEEL'

In accordance with the business plans of the SIJ Group, a large part of our attention and efforts in the past year was devoted to the disposal of the Poultry Division, i.e. the PP Group. **On 21 November 2018, the SIJ Group concluded an agreement for the sale of Perutnina Ptuj to the MHP Group**, one of the leading international agri-food groups and the leading poultry producer in Ukraine. We will use the assets that we acquired in the sale to reduce the debt of the SIJ Group and further develop the primary activity of the Group – the production of high-tech steel and finished steel products.

Key operating ratios of the Poultry Division in 2018 are disclosed in the chapter Performance Analysis.

NEW CHALLENGES EVERY YEAR

The most significant external challenge the SIJ Group faced in 2018 was the increased protectionism in the USA. **In terms of the steel industry, it reached its peak on 1 June, when the US adopted a 25 percent steel import duty.** In cooperation with various organisations and institutions, the SIJ Group had been advocating for the exclusion of both the European Union and the individual products of the SIJ Group from this measure since the forecast of duties in March. We were largely successful in getting our requests approved, which we had expected based on our niche market orientation. At the same time, we launched activities in other markets to replace the potential loss of sales volumes in the USA. All European producers that could not carry out sales with a 25 per cent customs duty on the US market strived to

sell their products in their domestic, European market. On 1 February 2019, the European Commission implemented additional safeguard measures for the EU market against the increase of imports from third countries as a result of the introduction of protectionist measures by the USA. These EU safeguard measures cover 98.9 percent of SIJ Acroni products and 74.8 percent of SIJ Metal Ravne products.

We also faced challenges within the SIJ Group. **Several incidents happened in 2018, requiring a number of activities to ensure production stability.** The performance was particularly strongly affected by two one-off negative events. Two technical defects in the Steel Division halted individual production processes for a longer period and thus caused a lower production than planned.

In 2018, we also faced an increase in the prices of both key sources of energy. We concluded the contracts for natural gas and electricity at the last minute, which meant that we could not optimise the costs of energy products in 2018.

In the area of human resources, we updated the management teams in some of the companies of the group, namely SIJ d.d., SIJ Ravne Systems, SIJ Acroni, as well as in Griffon&Romano and Niro Wenden, which are also the customers of SIJ Acroni in line with the vertical integration of the SIJ Group. We launched various activities to improve internal logistics, production stability and the purchase of energy. I am convinced that our activities and good work will soon be reflected in our business results.

The favourable economic climate in the European Union and Slovenia had encouraged trade unions to strive for raised salaries throughout the year, also with different forms

of escalation, such as the two-hour warning strike in the SIJ Group companies of the Koroška region in November. We respect the principles of social dialogue and conduct regular communication activities with social partners. During the escalation, we managed the social dialogue in a particularly **diligent and proactive manner.** In accordance with the capabilities of individual companies in the SIJ Group for the convergence of views with trade unions, we found common ground at the end of the year and restored social peace.

PARTNERS IN THE CURRENT AND FUTURE WORLD

The planned reduction of environmental impacts along with the introduction of solutions for sustainable development and the circular economy are among the most critical investment areas of the SIJ Group. **Last year, 71 steel companies of global significance, including the SIJ Group, signed the Sustainable Development Charter with the World Steel Association.** By signing this charter, the SIJ Group has committed itself to operate in accordance with the seven sustainable development principles of the steel industry, which have been harmonised with 17 general objectives of the United Nations Organisation on sustainable development.

In the past year, the SIJ Group took over the slag processing division and equipment of Harsco Minerali in accordance with its vertical integration strategy. The production of steel inevitably creates slag – once it was waste, but now the SIJ Group can turn it into one of the most interesting steel by-products, which we mostly use in our own production processes but also market it for the needs of construction, road construction, and environmental rehabilitation. Slag processing significantly contributes to the operations

of the SIJ Group according to the principles of the circular economy.

In 2018, we devoted EUR 37 million to investment activities, which is less than in previous years but in line with our strategy. **From the large and demanding investment projects that we had been carrying out up to and including 2017, we have now shifted towards projects that are extensions of large investments from previous years in accordance with the moderation of the investment cycle.** Thus, we rounded off investments in 2018 by launching a line for the heat treatment of steel in the rolling mill of SIJ Metal Ravne worth EUR 4 million. The most important part of the investment is a continuous furnace costing EUR 2.8 million. It has enabled the company to increase its production of tool steels. In 2018, we retained our third place among tool steel producers in the European Union.

We also maintained a leading market position in the EU market of stainless steel quarto plates, and in terms of finished products that are made from our steel, we are among the ten largest producers of industrial knives in the world.

The stability of our operations in 2018 was achieved through the adequate provision of financial assets. **In December 2018, we successfully issued one-year commercial papers with a total nominal value of EUR 30 million for the fifth time, and they replaced the commercial papers that were also due in December.** The interest rate of one per cent per year is the lowest interest rate that has so far been achieved on the domestic capital market and significantly contributes to lowering the costs of financing the SIJ Group. It is also a reflection of its strong reputation and the confidence it enjoys in financial markets.

THINKING ABOUT THE QUALITY OF LIFE

In Slovenia, the steel industry is strongly integrated into individual local environments, where it is a pillar of regional development. **Key areas of operation thus also include non-financial operations and the responsible management of relations with employees and local communities.**

In 2018, we designed uniform guidelines for sponsorships and donations, which apply to the SIJ Group and associated companies in the Group. The guidelines also note that **we support humanitarian initiatives and especially activities that employees can also join as volunteers.** In 2018, as part of the Steel Bonds Between Us campaign, we thus prepared the first Community Partnership Day; 154 employees of the SIJ Group and athletes supported by the SIJ Group performed over 300 hours of volunteer work.

In the area of sport, the SIJ Group also decided in 2018 to continue supporting top-level sporting achievements. We have concluded a cooperation agreement with the Olympic Committee of Slovenia for a new Olympic cycle lasting until 2022. The year 2018 was also a turning point for our cooperation with the HDD SIJ Acroni Jesenice hockey club as we celebrated 70 years of hockey in Jesenice, which has been supported from the very beginning by the SIJ Group and its predecessors. At the local level, we traditionally support mass sport programmes, which also include SIJ Group employees and their family members. We encourage quality leisure time in local environments in an innovative way by contributing to the sports and recreational infrastructure with so-called steel outdoor sport grounds, which also raise people's awareness about the usefulness of steel, the most widely used material in the world.

Steel is the backbone of modern society. The SIJ Group is a pillar of the steel industry in Slovenia and is one of the leading producers of steel in niche steel markets. This is the foundation from which we enter the year 2019.

Andrey Zubitskiy,
President of the Management Board



Report of the President of the Supervisory Board

Dear Shareholders,

The Supervisory Board welcomes the efforts of the SIJ Group Management Board to preserve its position among the largest business groups in Slovenia, the largest Slovenian exporters and the most important employers, which includes paying special attention to all stakeholders involved in its financial and non-financial processes.

In 2018, the Supervisory Board closely monitored the management of the Group, warned about risks, and supported the Management Board so that SIJ d.d. and the SIJ Group could improve their operations, pursue sustainable development and remain a **good example for other companies**. The Supervisory Board believes that this contributed to the results achieved in 2018, while it will be necessary in the future to focus even more on optimising production processes and monitoring developments in international markets, both in terms of the prices of raw materials, energy, technological solutions, as well as geopolitical events, so that the SIJ Group will be able to achieve excellent business performance.

In the beginning of 2018, as in 2017, the Supervisory Board continued to face the challenges of managing the risks of uncertainties in management. When the Management Board was reinstalled in the beginning of 2018 with the appointment of additional Members who were already famil-

iar with operations of the SIJ Group, we assessed that management consolidation would eliminate these risks. We note with great satisfaction that over the course of the year, **the management of SIJ Group has stabilised**, enabling close monitoring of events on the steel market and **responsible operations in all Business Divisions, also from the point of view of sustainable development principles**.

In 2018, we generated EUR 802.8 million revenues, which is 6.3 percent more than in the year before. **The EBITDA amounted to EUR 50.2 million, and without the extraordinary events we had faced, it would have been comparable to 2017**. A comparison of other performance ratios shows a weaker performance than in 2017. Nevertheless, in 2018, the SIJ Group remained among the largest business groups and one of the largest exporters in the Slovenian economy. **A stable export share** significantly above 80 percent has been maintained for the past decade.

According to the opinion of the Supervisory Board, the achievements of SIJ d.d. and SIJ Group in 2018 prove that the Management Board has successfully carried out its activities and continued to **implement a stable strategy for sustainable growth** which will in the future represent an advantage in managing new challenges and setting an example for the competition.

OPERATION OF THE SUPERVISORY BOARD IN 2018

The composition of the Supervisory Board changed on 19 February 2018, when the General Assembly recalled the former members Sergey Cherkaev and Sergey Frolov from their positions, and appointed Boštjan Napast, Helena Ploj

Lajovic and Polona Marinko as new members. SIJ d.d. and SIJ Group operations were supervised in 2018 by the following members:

- Evgeny Zverev, President,
- Janko Jenko, Vice-President,
- Mitja Križaj,
- Dmitry Davydov,
- Helena Ploj Lajovic,
- Polona Marinko and
- Boštjan Napast.

Appointment of the President of the Supervisory Board and the Members of the Management Board

At their first session on 22 February 2018, the Members appointed Evgeny Zverev as the President of the Supervisory Board and Janko Jenko as his deputy. On appointment, the new Supervisory Board also faced the urgent need to ensure the strengthening of management by appointing additional Members to the Management Board in the extensive SIJ Group system, which in 2018 still included the Poultry Division (the PP Group). The Supervisory Board appointed Tibor Šimonka and Igor Malevanov as additional Members of the Management Board. Viacheslav Korchagin was additionally appointed on 9 April.

Appointment of the Audit Committee

Due to the changes in the Supervisory Board, the members also appointed the Audit Committee at their April session. They appointed Janko Jenko, Boštjan Napast and mag. Alan Maher, to the Audit Committee.

Expert Interdisciplinary Work

The Supervisory Board of SIJ d.d. comprises members with

various levels of professional education and experience, ensuring a stable and interdisciplinary interaction of professional competences of individual members. During their terms of office, the Members of Supervisory Board will continue to tackle new challenges and follow the mission to work for the benefit of the Company and the Group, which will focus primarily on the steel market and sustainable development after the announced disposal of the Poultry Division.

Impact on Risk Management

In 2018, the Members of the Supervisory Board monitored the work of the Management Board of SIJ d.d. in all relevant Business Divisions regularly, effectively and in a interdisciplinary way. Their comments, questions or opinions regularly emphasized and drew attention to various business risks. The activities of the Supervisory Board contributed significantly to ensuring the Management Board made **cost-effective and efficient business decisions** and that in 2018, the SIJ Group **was able to prevent delays in the decision making** of management bodies due to the changes in their composition, while simultaneously maintaining a stable, systemic and **centralised recognition, monitoring and management of risks**.

EFFECTIVE COOPERATION WITH COMPANY MANAGEMENT

In 2018, the Management Board regularly informed the Supervisory Board of all activities related to the operations of SIJ d.d. and the SIJ Group. The Members of the Supervisory Board met at **three regular sessions and one meeting by correspondence**, and the Management Board kept them **transparently informed on business events** in the interim

period. The SIJ Group and the Members of its Supervisory Board operate in a global international business environment, and in their supervisory role use various communication tools that the excellently-equipped Company offers alongside IT tools. The Management Board ensured active cooperation with the Members of the Supervisory Board irrespective of their location, and provided transparent and clear materials. Given the above, the Supervisory Board believes that the **cooperation with the Management Board in 2018 was of high quality**.

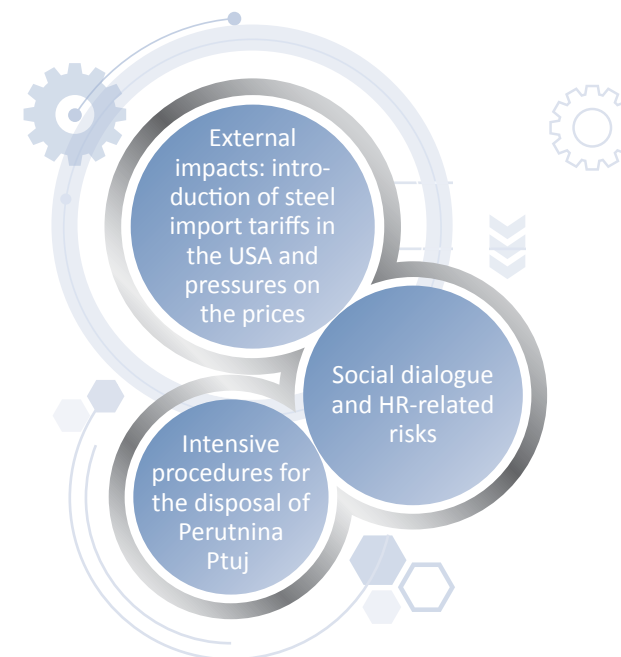
Key Contents of Operation

In 2018, the Supervisory Board monitored and verified the operations of SIJ d.d. and the SIJ Group, and adopted decisions in accordance with the powers set out in the Companies Act, the Financial Operations of Companies Act, the Company's Memorandum of Association, and other applicable regulations.

Following the Supervisory Board changes, adopted at the General Assembly on 19 February 2018, the Supervisory Board adopted resolutions, based on which it implements its supervising function over the four current Members of the Management Board. The Supervisory Board has established that **the risk, related to the changes in management in the past two years, has stabilised in 2018** and that it was therefore possible for them to focus on other important business issues. The operations of the Supervisory Board were – in addition to the **verification of financial and non-financial reports** on the activities and operations of the companies in SIJ Group – focused especially on detailed **consideration of the annual report** of the SIJ Group and SIJ d.d. together with the report of the certified auditor.

In 2018, the Supervisory Board **followed the recommendations of the Codes and the shareholders** to replace the certified auditors. With the help of the Audit Committee, the Supervisory Board reviewed the offers that should, with regard to the scope and complexity of the SIJ Group, satisfy the criteria of quality and qualification for auditing such a large group. The Supervisory Board proposed to the General Assembly that the 2018 audit should be performed by KPMG Slovenija d.o.o. from Ljubljana. The shareholders unanimously confirmed the proposal at the General Assembly on 5 July 2018.

Key Challenges in 2018



At the session on 25 April 2018, the Supervisory Board adopted the audited annual reports for the 2017 business year and approved the proposal of the Management Board on profit distribution. At the annual General Assembly, the shareholders approved the proposal to earmark part of the profit for 2017 in the amount of EUR 5,695,724.24 for dividends and authorised the Management Board to carry out the payment by the end of 2018. The Supervisory Board also took note of the audited report on relations with associated entities and confirmed it as part of Supervisory Board report approval.

At their sessions, the Members of the Supervisory Board took note of the interim business results, were informed of the activities of individual projects of the Metallurgy and Poultry Division of the Group, and other business events and plans relevant to the operations of the industry-separated system of companies of the SIJ Group. The Supervisory Board finds that mutual cooperation and exchange of standpoints at sessions held between the Supervisory Board and the Management Board were of key importance for the **success of the Supervisory Board in cooperation and guidance of the achievements of the Management Board in challenges they faced in 2018.**

STARTING POINTS FOR OPERATIONS IN 2019

Following the conclusion of the contract for the sale of Perutnina Ptuj d.d. shares at the end of 2018, the Management Board explained the conditions and other information on further potential development of the transaction in 2019 to the Supervisory Board. The Members of the Supervisory Board also took note of the activities planned until the end of the year and the starting points for operations in 2019.

After the disposal of the Poultry Division the coming business period will allow for an even greater focus on **pursuing the viability of the Metallurgy Division**, whose cyclicity will demand **the continuation of strategic planning, the introduction of modernisation by optimising processes, and the upgrading of business models.**

SIJ Group will be able to focus on **sustainable development and circular economy**, typical for the Metallurgy Division. In comparison, the Poultry Division, which was still part of the SIJ Group in 2018, has different demands for environmental suitability of production processes. The SIJ Group has also made new important steps towards an effective utilisation of by-products. In 2019, the Supervisory Board will continue to dedicate **more attention to financial and non-financial activities of the Management Board.**

WORK OF THE SUPERVISORY BOARD'S AUDIT COMMITTEE

The Members of the Audit Committee – Janko Jenko (President), Boštjan Napast (Member) and Alan Maher, MSc (independent expert) – have met at **three sessions** since their appointment in April 2018. Two sessions held by the Audit Committee focused on the annual report and the **formation of standpoints for the certified auditor**, and at the third session in December 2018, the Committee as the supporting body of the Supervisory Board also considered **specific questions regarding operations**, including the intended disposal of Perutnina Ptuj d.d.

The Audit Committee actively participated in consultation interviews with certified auditors regarding the findings of the audit of the Company's operations compared to estab-

lished international practices, which importantly contributed to the decisions of the Supervisory Board.

EVALUATION: SOLID

The Supervisory Board believes that the Management Board has followed the guidelines for operation and risk management, which were provided by the Supervisory Board, and that its responsible work has introduced solid and reliable foundations for the challenges in operations in the domestic and international environment for 2019.

Evgeny Zverev,
President of the Supervisory Board of SIJ d.d.

ORGANISATION AND CORPORATE GOVERNANCE

STEEL IS EVERYWHERE

Our lives are connected and intertwined with steel, which is the most extensively-used material in the world. It follows us wherever we go: in the automotive industry, transport, infrastructural projects, domestic appliances, machinery and work equipment, medical equipment, and much more.

With our new partners and with collaboration, appropriate organisation and new approaches we improve our operations and the all-round usage of steel with enhanced properties.

Steel is the backbone of the modern society. The SIJ Group is the mainstay of the steel industry in Slovenia.

About SIJ d.d.

SIJ d.d. is the controlling company and founder or direct or indirect **owner of subsidiaries of the SIJ Group**, which functions according to the principles of a contractual concern.

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

SIJ d.d. directly functions as the manager of its investments in the companies of the SIJ Group, a legal basis for which was established in the management contract. This contract is also the basis for **the implementation of centralised services for the companies in SIJ Group**, used to manage the key business functions and adopt strategic decisions on the level of each individual company and the entire Group.

[More on this >> Management System in the SIJ Group](#)

COMPANY'S SHARE CAPITAL

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

Company name	SIJ – Slovenska industrija jekla, d.d.
Abbreviated company name	SIJ d.d.
Registered address	Gerbičeva ulica 98, 1000 Ljubljana, Slovenia
Entry no.	SRG 1/03550/00
Date of entry	6 February 1990
Registered share capital	EUR 145,266,065.75
No. of shares	994,616 ordinary no-par-value shares 2.775 percent Treasury shares
Registration number	5046432000
Tax number	SI 51018535
Principal activity	70.100 Activities of head offices

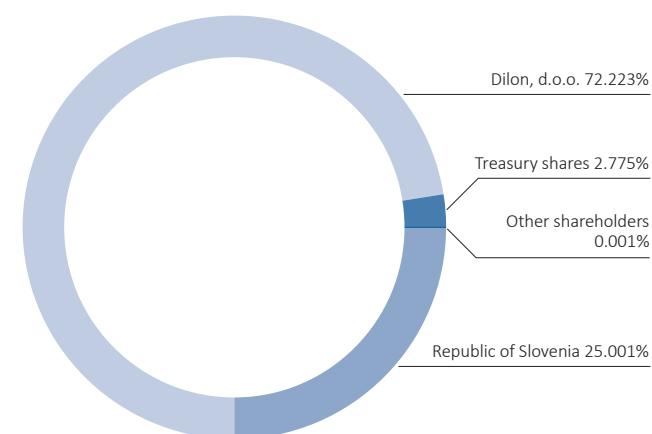
- to a proportionate part of the remaining assets in the event of liquidation or bankruptcy of the Company.

All company shares are freely transferable, while the Company 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.²

At the 32nd General Assembly of Shareholders of SIJ d.d. that took place on 21 June 2018, the shareholders adopted a new authorisation to purchase a total of 27,610 treasury shares valid for the next 36 months. Other than that, the Management Board has no additional powers in relation to the issuance of shares.

Since SIJ d.d. and the SIJ Group companies are not subject to reporting under the provisions of Article 70.b of the Companies Act (ZGD-1).

Ownership Structure as at 31 December 2018



² SIJ d.d. is subject to the provisions of the law governing mergers and acquisitions, and 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.

Operating Results of SIJ d.d.

SIJ d.d.: Key Operating Figures

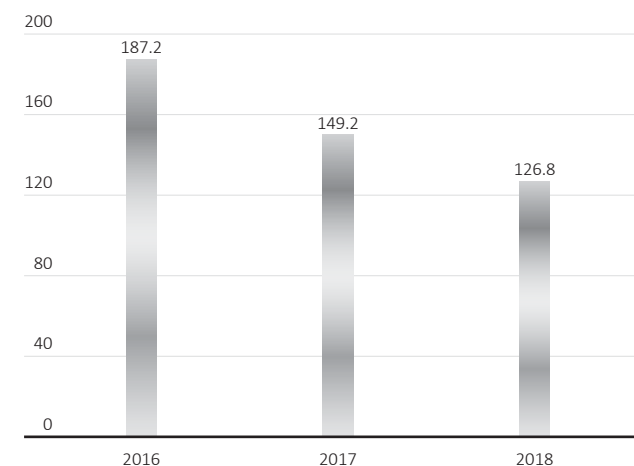
Financial data	Unit of measure	2016	2017	2018
Operating revenues	EUR thousand	40,575	39,213	23,822
EBIT	EUR thousand	24,584	14,422	-4,409
EBITDA	EUR thousand	25,017	14,978	-3,849
Profit before taxes	EUR thousand	20,130	11,392	-4,857
Net profit	EUR thousand	19,946	11,392	1,440
Capex*	EUR thousand	803	865	573
Statement of financial position as at 31 Dec.				
Total assets	EUR thousand	405,557	363,438	384,474
Equity	EUR thousand	205,532	207,089	202,797
Non-current and current liabilities	EUR thousand	200,026	156,349	181,677
Net financial debt as at 31 Dec.				
Non-current financial liabilities	EUR thousand	157,433	94,398	71,499
Current financial liabilities	EUR thousand	38,017	55,159	83,944
Cash and cash equivalents	EUR thousand	8,286	312	28,672
Net financial debt	EUR thousand	187,165	149,245	126,771
Employees				
Labour costs	EUR thousand	11,083	9,979	11,200
Average number of employees		79	96	102
Financial ratios				
Return on sales (ROS)	%	131.2	69.9	11.1
Return on assets (ROA)	%	5.3	3.0	0.4
Return on equity (ROE)	%	10.0	5.5	0.7
Net profit per employee	EUR thousand	252	119	14

* Investments in subsidiaries are excluded.

IMPROVEMENT IN FINANCIAL POSITION

According to our goals for 2018, the financial debt of SIJ d.d. decreased compared to the previous year. It decreased in part due to a lower number of company purchases, since in 2018 SIJ d.d. did not buy any companies or shares in companies. Other operations also remained unchanged; therefore, net financial debt is 15 per cent lower compared to the previous year, and 32 per cent lower than in 2016.

SIJ d.d.: Net Financial Debt as at 31 December (in EUR million)



Corporate Governance and Supervision of SIJ d.d.

CORPORATE GOVERNANCE

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

The company's governing bodies are:

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

While the shareholder structure remained unchanged in 2018, changes took place in the Management and Supervisory Boards, which is why the functions of individual management and supervisory bodies that have been in force since 31 December 2018 are listed below. The Management Board and Supervisory Board structure throughout 2018 will also be explained.

GENERAL ASSEMBLY

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

In 2018, the General Assembly of Shareholders was held three times: on 19 February, 21 May, and 5 June. Due to the shareholders structure, all General Assemblies were uni-

versal and summoned by direct invitation to shareholders. Adopted resolutions are available on SEOnet and the Company's website, and the key topics of the General Assemblies for 2018 are presented in the relevant months under key operation highlights.

[More on this >> Significant Business Events in 2018](#)

SUPERVISORY BOARD

In accordance with the Company's Memorandum of Association, SIJ d.d.'s Supervisory Board comprises seven members who are appointed by the General Assembly. Proposals for the adoption of resolutions on the election of Members of the Supervisory Board, which are decided on by the General Assembly, must be made exclusively by the Supervisory Board in the published agenda of the General Assembly, except for those items that are proposed by shareholders in accordance with the second paragraph of Article 296 of the Companies Act. The Supervisory Board monitors operations in accordance with the powers set out in the Companies Act, the Financial Operations of Companies Act, the Company's Memorandum of Association and other valid regulations. The seven Members of the Supervisory Board of SIJ d.d. include the representatives of the majority owner, Dilon, d.o.o., and two representatives of the Republic of Slovenia as a minority shareholder.

SUPERVISORY BOARD'S AUDIT COMMITTEE

The work of the Audit Committee is linked to the better and more efficient control of the Company's operations, especially risk management. The Committee's powers are set out in Article 280 of the Companies Act.

The Members of the Supervisory Board and the Audit Committee of SIJ d.d. in 2018

Continuation of the table →

Name and surname	Evgeny Zverev	Janko Jenko
Function	President of the Supervisory Board; Representative of the Majority Shareholder	Vice-President of the Supervisory Board and President of the Audit Committee; Representative of the Republic of Slovenia
Gender	M	M
First appointment to term of office	30 August 2013	30 August 2013
Current term of office	19 February 2018 - 19 February 2022	11 April 2015 - 11 April 2019
Professional profile	Legal Affairs, Mergers and Acquisitions	Mechanical Engineering, Telecommunications, IT
References/Membership in supervisory bodies of other companies	Managerial functions in SIJ Group and Member of the Supervisory Board of Perutnina Ptuj d.d.	Entrepreneurship in international companies, especially in the fields of telecommunications and IT.

The Members of the Supervisory Board and the Audit Committee of SIJ d.d. in 2018

Continuation of the table

Name and surname	Mitja Križaj	Boštjan Napast	Dmitry Davydov	Helena Ploj Lajovic	Polona Marinko	Alan Maher
Function	Member of the Supervisory Board; Representative of the Republic of Slovenia	Member of the Supervisory Board and Member of the Audit Committee; Representative of the Majority Shareholder	Member of the Supervisory Board; Representative of the Majority Shareholder	Member of the Supervisory Board; Representative of the Majority Shareholder	Member of the Supervisory Board; Representative of the Majority Shareholder	Member of the Audit Committee; Independent Expert
Gender	M	M	M	F	F	M
First appointment to term of office	9 June 2017	19 February 2018	9 June 2017	19 February 2018	19 February 2018	18 April 2016
Current term of office	9 June 2017 - 9 June 2021	19 February 2018 - 19 February 2022	19 February 2018 - 19 February 2022	19 February 2018 - 19 February 2022	19 February 2018 - 19 February 2022	9 April 2016 - 19 February 2022
Professional profile	Economy, Banking, Investments	Mechanical Engineering, Energetics	Accounting, Logistics	Civil and Commercial Law	Civil and Commercial Law	Economy, Taxes
References/Membership in supervisory bodies of other companies	Managerial and supervisory functions in various companies, Member of the Management Board of DUTB d.d. and Member of the Supervisory Board of Slovenske železnice, d.o.o.	Managerial and supervisory functions in various companies in the energy sector, President of the Management Board of Geoplin d.o.o. Ljubljana	Managerial Functions in IMH Group from the Russian Federation	Managerial functions in SIJ Group and Member of the Supervisory Board of Perutnina Ptuj d.d.	Vice-President of the Supervisory Board of Perutnina Ptuj d.d.	Managerial experience and participation in major international business restructuring projects

Sergey Cherkaev, Member of the Supervisory Board and President of the Audit Committee until 19 February 2018

Sergey Frolov, Member of the Supervisory Board and Member of the Audit Committee until 19 February 2018

MANAGEMENT BOARD

The Management Board leads and strategically governs the entire SIJ Group through the adoption of resolutions, instructions and other acts that it issues in accordance with its powers. As the Company's management and the management of the SIJ Group or as the owner of subsidiaries, it actively and strategically governs and guides all key business processes of the Group. 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.

In accordance with the Memorandum of Association of SIJ d.d., the Management Board comprises a president and one to three members. The president and the members are appointed by the Supervisory Board. They can be appointed for a term of office of no more than six years with the possibility of reappointment. The duration of a term of office is set out in each resolution on appointment. The President of the Management Board represents the Company individually and without limitation, while Members of the Management Board represent the Company together with the President.

The Company's Management Board comprised two members at the end of the previous business year: Andrey Zubitskiy and Dmitrii Bochkarev. On 22 February 2018, the Supervisory Board appointed two new members, Tibor Šimonka and Igor Malevanov, making the Supervisory Board a four-member body. After the resignation of Dmitrii Bochkarev, the Supervisory Board appointed Viacheslav Korchagin to the Management Board.

[More on this >> Report of the President of the Supervisory Board](#)

Cooperation in International Associations

In 2018, the Management Board continued to actively participate in the work of international steel associations, while outside of the SIJ Group, Members of the Management Board did not conduct any activities which could be considered significant in relation to their position within the SIJ Group.

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

In 2018, SIJ d.d. did not adopt any specific diversity policy regarding representation in the management or supervision bodies of the Company related to gender, age, education, or other circumstances. Democratic principles of diversity in management and supervisory bodies are 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 for achieving effective work of the management and supervisory bodies. Through diversity, the members of management and supervisory bodies supplement the business results and the Group's reputation.

Members of the Management Board in 2018



Name and surname	Andrey Zubitskiy	Tibor Šimonka	Viacheslav Korchagin	Igor Malevanov
Function	President of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board
Representation	Independent representation	Joint representation with the President of the Management Board	Joint representation with the President of the Management Board	Joint representation with the President of the Management Board
Term of office	18 July 2017 - 18 July 2023	22 February 2018 - 22 February 2024	9 April 2018 - 9 April 2024	22 February 2018 - 22 February 2024
Professional profile	Technology, Metallurgy, Economics	Finance and Economy	Mechanical Engineering, Metallurgy, Sales, Economics	Finance, Insurance and Economics
References	Managerial functions at IMH Russia, Dilon Cooperatief Netherlands and the Honorary Consul of the Russian Federation in the Republic of Slovenia	Managerial functions in various companies, President of the Management Board of SIJ d.d. from 2002 to 2014 and President of the Management Board of Perutnina Ptuj d.d. from 2016 until February 2019	Managerial functions in various companies in the Russian Federation, Member of the Management Board of SIJ d.d. from 2007 to 2014, and Member of the Management Board of Perutnina Ptuj d.d. from 2016 until February 2019	Managerial functions in various companies in the Russian Federation, CFO of SIJ d.d. between 2007 and 2017 and also Member of the Management Board of SIJ d.d. from 2014 to 2017

Dmitrii Bochkarev, Member of the Management Board until 30 March 2018

Presentation of the SIJ Group and the Corporate Governance System

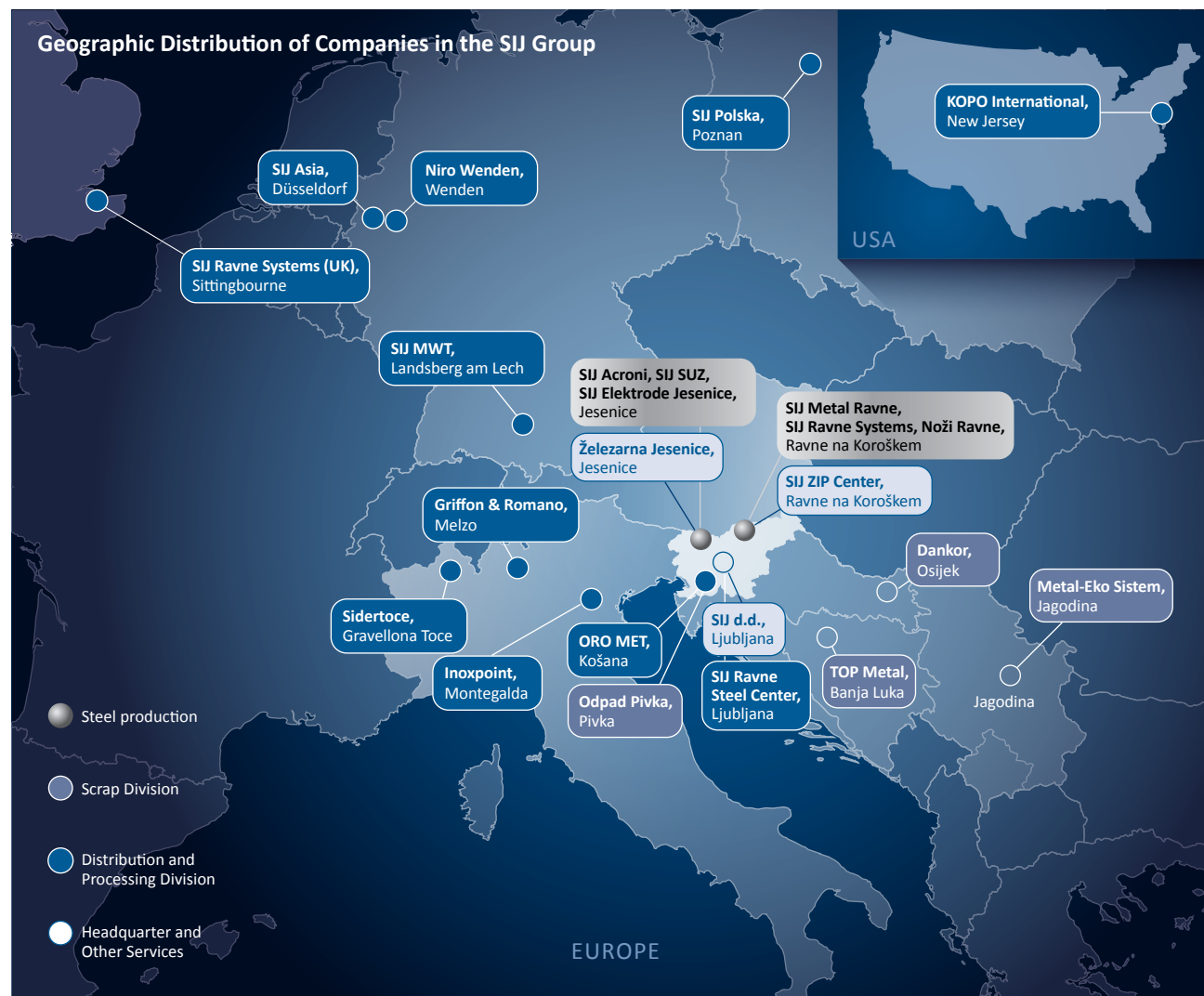
As the majority shareholder, the SIJ Group strategically manages its subsidiaries. The Management Board of SIJ d.d. and its executive management team strategically manage, guide and supervise the operations of all Group companies, both in Slovenia and abroad.

INTEGRATION OF THE COMPANIES OF THE SIJ GROUP

According to the controlling agreement, concluded between SIJ d.d. as the parent company and six direct Metallurgy Division subsidiaries in Slovenia (SIJ Acroni, SIJ Metal Ravne, Noži Ravne, SIJ Elektrode Jesenice, SIJ SUZ and SIJ ZIP Center), the subsidiaries are managed by the parent company. In 2007, the Železarna Jesenice company also concluded the agreement, and the former remains indirectly subject to unified management.

The Metallurgy Division of the SIJ Group therefore consists of **24 companies**, of which 18 are established within the European Union, two in countries of the former Yugoslavia, while the remaining companies operate in Eastern Europe and the USA. As a rule, companies are 100-percent owned or under the influence of the parent company SIJ d.d. For the most part they are organised as limited liability companies.

The PP Group, which represents the **Poultry Division of the SIJ Group**, has **19 companies**, of which 13 are located in the European Union, and the rest are in countries of the former Yugoslavia.



Metallurgy Division: Programme Scheme

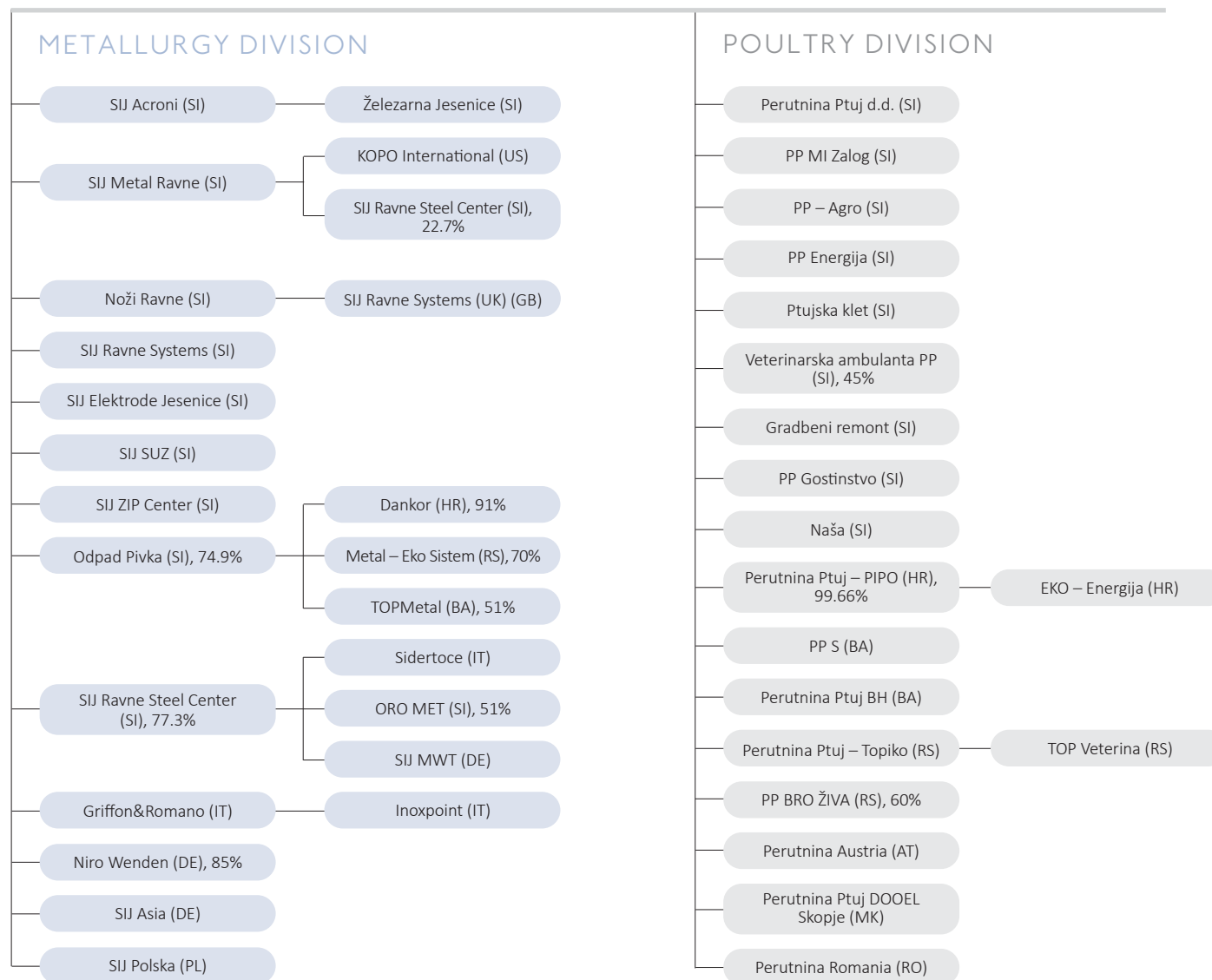
SCRAP	STEEL PRODUCTION	DISTRIBUTION		MANUFACTURING	SERVICES
Scrap Division	Steel Division	Distribution and Processing Division		Manufacturing Division	Headquarters and Other Services
Odpad Pivka, Pivka (SI)	SIJ Acroni, Jesenice (SI)	SIJ Ravne Steel Center, Ljubljana (SI)	ORO MET, Košana (SI)	SIJ Ravne Systems, Ravne na Koroškem (SI)	SIJ d.d., Ljubljana (SI)
Dankor, Osijek (HR)	SIJ Metal Ravne, Ravne na Koroškem (SI)	Sidertoce, Gravellona Toce (IT)	SIJ MWT, Landsberg am Lech (DE)	Noži Ravne, Ravne na Koroškem (SI)	SIJ ZIP Center, Ravne na Koroškem (SI)
Metal-Eko Sistem, Jagodina (RS)		Niro Wenden, Wenden (DE)	SIJ Polska, Poznan (PL)	SIJ Elektrode Jesenice, Jesenice (SI)	Železarna Jesenice, Jesenice (SI)
TOPMetal, Banja Luka (BA)		Griffon & Romano, Melzo (IT)	SIJ Asia, Düsseldorf (DE)	SIJ SUZ, Jesenice (SI)	
		Inoxpoint, Montegaldà (IT)	SIJ Ravne Systems (UK), Sittingbourne (GB)		
		KOPO International, New Jersey (US)			

Poultry Division: Programme Scheme

RAW MATERIALS	RAW MATERIALS	FEED PRODUCTION	LIVESTOCK PRODUCTION	SLAUGHTERHOUSES	SALES NETWORK	SERVICES	WINEMAKING
Energetics	Agriculture	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)
PP Energija, Ptuj (SI)	PP – Agro, Maribor (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 d.d., 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)			

SIJ d.d.

Organisational Structure per Activity and Company



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

Statement of Compliance with the Corporate Governance Codes

In accordance with the provision of the fifth paragraph of Article 70 of the Companies Act, SIJ d.d. hereby provides a Statement of Compliance relating to the period between 1 January 2018 and 31 December 2018.

The **provisions of the Slovenian Corporate Governance Code**, which has been in force since 1 January 2017 and was consensually drafted by the Ljubljana Stock Exchange and the Slovenian Director's Association in amended form, applied to SIJ d.d. for 2018. It is published on the Ljubljana Stock Exchange website www.ljse.si.

Given the Slovenian government's ownership stake in SIJ d.d., the **Corporate Governance Code for Companies with Capital Assets of the State** has applied to the Company since March 2016, which the Management Board of SDH adopted, with the approval of the Supervisory Board, and which is published on the SDH website www.sdh.si.

As in the previous years, SIJ d.d. continued to implicitly follow the provisions of the Slovenian Corporate Governance Code with regard to the management of SIJ d.d. and the SIJ Group in 2018. The Corporate Governance Code for Companies with Capital Assets of the State was followed mutatis mutandis, using the part where the content of provisions of both Codes overlaps, as a result of which the Company is issuing a uniform statement.

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

CORPORATE GOVERNANCE FRAMEWORK

The Company has not adopted a specific document as its

Governance Policy (or Communication Strategies as a part of such policy) or Diversity Policy.

The Governance Policy is already contained in other documents that guarantee the effective implementation of management decisions along with the controlling agreement, the founding acts, or other acts of the SIJ Group's companies, and transparent communication is used to announce all strategic or business decisions relevant to the Company's position.

Similarly, no **diversity policy** was adopted as a unified document regarding representation in the management and supervisory bodies. In the appointment of the management and supervisory bodies, the Company strives towards diversity and complementarity between the Members regarding their expertise, experience, skills and mutual respect.

RELATIONSHIP BETWEEN THE COMPANY AND THE SHAREHOLDERS

The Company believes that the mutual communication and exchange of information with the investors works well through public announcements or organised business meetings, and the independence and good direct cooperation of shareholders in the harmonisation of relationships is being respected.

Considering the shareholders structure, the provisions on authorised persons (items 8.1. and 8.2. of the Slovenian Corporate Governance Code in connection with organised collection of authorisations) are not relevant for the Company. The Company would be bound by this policy only if the shareholders decided about the Management Board income policy.

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 the shareholders, who primarily follow the received electoral proposals. The Supervisory Board does not have a special human resources committee of other work committees created for this purpose, nor does the Company collect statements on the candidates' independence.

Because the Members of the Supervisory Board work comprehensively and their fields of expertise are complementary, the Supervisory Board does not evaluate individual Members. The work of 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, no secretary of the Supervisory Board is appointed.

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

Andrey Zubitskiy,
President of the
Management Board



Evgeny Zverev,
President of the
Supervisory Board



BUSINESS REPORT

PARTNERS IN THE CURRENT AND FUTURE WORLD

According to the World Steel Association's estimations, the steel use is projected to be 1.5 times higher than present level by 2050. Steel and its multiple applications, as well as its exceptional features, will be part of ensuring the quality of life of the growing global population. Currently, there are more than 3,500 types of steel in the world.

Steel and steel products, produced by the companies of the SIJ Group, are connected with the energy sector, the automobile, shipbuilding and aeronautical industries, the production of domestic appliances, the furniture and packaging industry. We create more solutions and products for new emerging industries.

We create new kinds of steel. We are the partner of new industries.

Business Strategy

Operations of the SIJ Group are strategically sound and viable. We preserve a high share of higher added value products and a share of products from our own brands. We create new products while reducing the use of natural resources. New production technologies increase added value per employee and achieve better utilisation of production capacities. By utilising synergies in a strong vertically connected chain, we are increasing the share of steel being processed into our own finished products. We strengthen the development and engagement of employees, who are fundamental to our successful operation. We contribute to the development of the local social environment and contribute to the preservation of the natural environment.

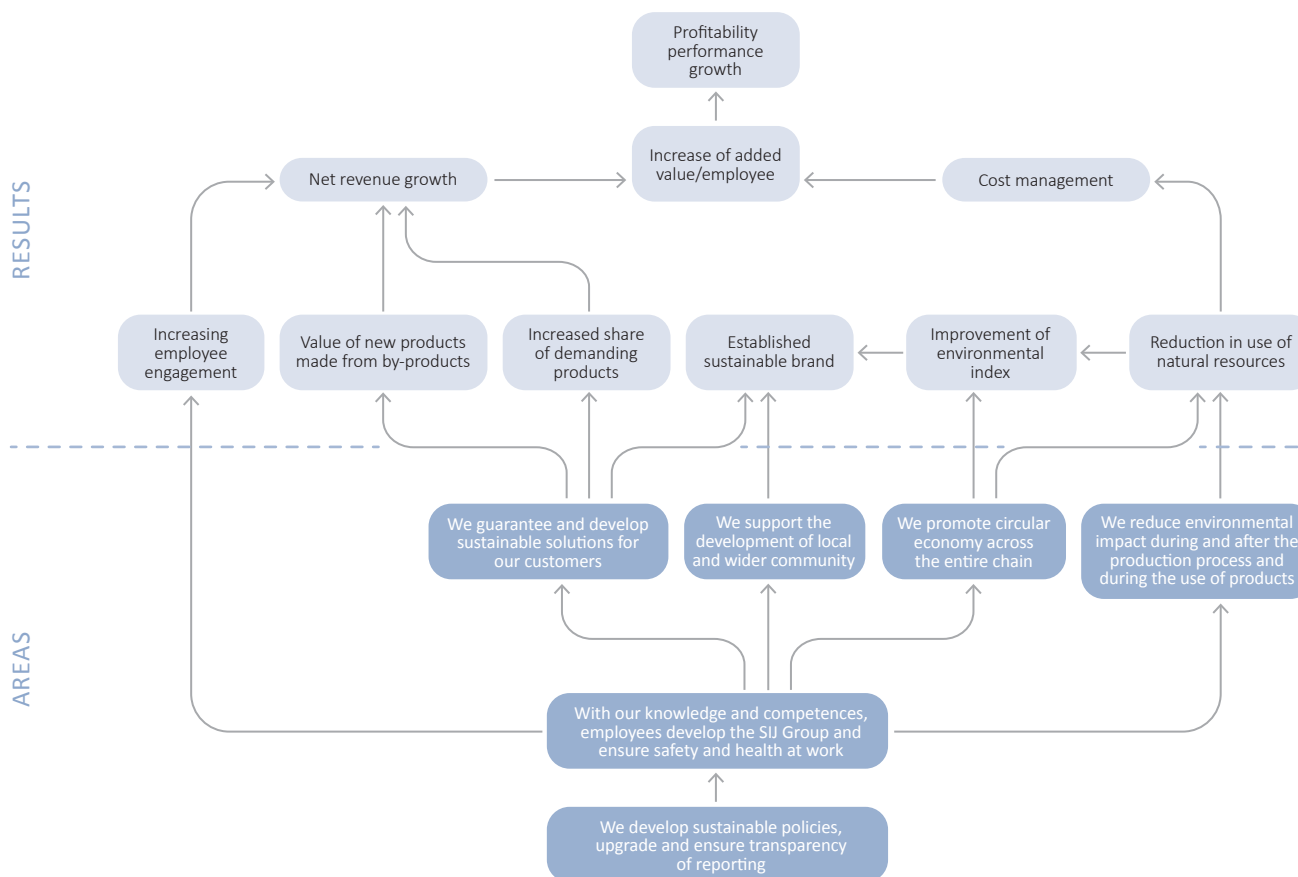
KEY MEDIUM-TERM GUIDELINES

We will continue modifying the structure of production in favour of more demanding products with higher added value, optimising production processes and **ensuring a high production capacity utilisation**.

The improvement of corporate governance, group consolidation and the centralisation of selected business processes will enhance our performance, enable the realisation of numerous synergies and significantly impact the **profitability of operations**.

At the same time, we will upgrade the existing vertical integration of the Group, especially by increasing the possibilities for mechanical and heat processing of materials and by increasing the share of steel being processed into finished **steel products with high added value**. This guideline also concerns **product certification** with end users of steel products (OEMs). Together with the production of increasingly

Connection between Strategic Areas of Operation and the Planned Results



demanding types of steel, this will enable us to enter new market segments with higher added value, including the segments of finished steel products and comprehensive solutions.

Some achievements in the area of certification in 2018:

- introduction of a central monitoring system for certification processes,
- acquisition of five **final manufacturer certificates in the energy sector for special requirement steels**,
- SIJ Ravne Systems has obtained 70 new customers for their products and solutions; with industrial knives produced by this company, we rank among the ten largest producers in the world.

In 2019 we plan to obtain the **AS9100 Certificate** which is well established among the suppliers of **critical materials and components in the aviation industry**.



PLANNED ACTIVITIES

Optimisation of the production structure and an increase of production capacities for the production of high-tech steel with high added value

The SIJ Group is already among the leading providers of special steels on selected niche markets. The leading position is achieved with stainless steel quarto plates and with tool steels. The increasing demand for more demanding types of steel in advanced industrial branches such as the energy sector, mechanical engineering and aviation industry, and on high-growth markets enables us to **strengthen the position for special and high-alloy tool steels**, which will remain the main focus of the SIJ Group in the future.

The adaptation of the production structure in favour of more demanding products with higher added value, the optimisation of production processes and a high production capacity utilisation will ensure **long-term EBITDA growth**.

Therefore, these activities will be supported with investments:

- **in special production technologies** of Vacuum Induction Melting – VIM and Vacuum Arc Remelting – VAR for new products (nickel alloys, special requirement steels etc.) and for a higher level of heat and mechanical product processing;
- **in the optimisation of production processes**, increasing availability, improving the flow of products, eliminating bottlenecks and reducing the use of natural resources;
- **in increasing the capacities for energy efficient and environmentally friendly production** of high added value products under our own brand.

Entering new markets, increasing market shares in prospective niches and preserving the leading market shares in key market segments

Forming new partnerships will allow us to enter new, high-growth markets with our selected product portfolio. Market shares in new niche segments, such as special quarto plates and steels with special requirements will be increased **through direct collaboration with major end users of steels** (OEMs), by acquiring their certificates, forming new partnerships and by vertical integration that impacts the improved supply to customers.

Market shares in key market segments in Europe (stainless steel quarto plates, tool steels) will be preserved **through joint investments with selected customers**, through investments to improve production efficiency, and to increase the share of steel processing into half-finished products and finished products.

We will strengthen the Manufacturing Division, which uses steels made in the SIJ Group as input material, increasing the share of steel that is processed within the Group into half-finished products or finished products. By expanding the production portfolio of finished steel products, we are becoming a comprehensive provider of end steel solutions in selected market niches.

Research and development, new products, new technologies and synergies will help us enter new markets with custom-made solutions and services

We are also connecting the **development of own steel brands** with upgrading the research and development of

new types of steel, production technologies and setting market trends in premium segments.

Our companies are exceptionally innovative, which is proven by the awards for best innovations in the Slovenian economic sphere we receive every year. Top experts in research and development departments are developing new types of steel, using the Group's assets and knowledge to gain advantage over global competitors. We develop **new methods of processing by-products into useful finished products** and participate in research and development projects for energy efficiency.

We focus on developing direct contacts with customers, who are also increasingly becoming end users. Events such as sales conferences, product and development workshops and similar events are organised to strengthen partnerships, while also enabling **customers to impact the focus of research, development and investments**.

We will continue to strengthen the importance of our own service and sales network as well as expand our range with finished steel products and comprehensive solutions with high added value that are based on our own steel brands.

The improvements to corporate management, the consolidation of the Group, further centralisation of core business processes and intensive development of competences on all levels

By reorganising operations and introducing certain new policies (e.g. investment, purchase and commercial) and standards (committees, minutes, video conference calls etc.) we are improving the corporate governance of the Group. This

promotes better **risk management, consolidation of business processes and cost optimisation.**

We plan to invest in the development of employee competences on all levels and to implement activities for the preservation of their engagement. In the future, we will be upgrading our scholarship policy on the vocational, technical, university and post-graduate levels.

The long-term reduction of net financial debt and increasing the profitability of operations

In the recent years, the SIJ Group significantly changed its loan portfolio in favour of long-term uninsured sources of financing. We intend to continue to be active on the capital market. We have identified the commercially unnecessary property in long-term assets, which we intend to sell in the coming years. In the beginning of 2019 also the disposal of poultry Division (PP Group) was finalized. In the future, we will continue reducing the ratio between net financial debt and EBITDA, which we will achieve by increasing the profitability of operations.

ACHIEVING THE STRATEGIC GOALS IN 2018

In 2018, we maintained our leading market share in the stainless steel quarto plates market in Europe.

We have achieved this with investments implemented in the previous years (AOD converter), by optimising production technologies (improving leaching technology) and processes (modernisation of the production planning system) and with effective logistics in the dispatch of finished products (warehouses for optimum material flow).

In the stainless steel quarto plates (wear resistant and high-strength micro alloy steel) segment, SIJ Acroni acquired nine end user certificates for the supply of steels of aforementioned quality levels (customer assessment, test order, or regular delivery) by the end 2018.

We attended specialised exhibitions with our own brands (SIDUR, SIMAXX) and increased the production and sales quantities of the wear resistant and high-strength quarto plates segment by 27 percent, while the value of sales increased by 35 percent.

In the steel development segment, we developed new products and optimised production technologies.

The SIJ Group completed over 200 development tasks, developed 11 new steel types and over 100 new products. Numerous optimisations of technological processes helped us achieve a higher quality of finished products and lower production costs.

The incentives for new steels and new products emerged in direct cooperation with end users (visits at customer sites, customer assessments, product and development workshops) and as a result of research and development.

A new SITHERM S355R steel for producing high pressure die casting tools for non-iron metals and drop forging and extrusion was added to the existing range of hot work tool steels. Compared to classical tool steel, the new steel contains less molybdenum and is cheaper and more environmentally friendly while preserving the same features.

SIJ Acroni successfully produced the first heat of super duplex steel SINOXX 4410 via the AOD converter enabling a significantly shorter production time as well as reducing the carbon footprint. By changing the technological process of heat processing for this steel to the steel heat treatment line (HTL), we reduced the total heat time by a quarter.

[More on this >> Marketing Strategy and Brand Management](#)

By improving production technologies we can reduce water and energy consumption as well as the consumption of certain materials.

In 2018, we reduced the consumption of drinking water by 54 percent. Despite the increase in the complexity of the products, we managed to decrease the specific use of total energy, measured in MWh, by 2.17 percent per ton of finished product production and by 7.5 percent per one million euro in sales.

[More on this >> Diligent Operations with Regard to the Environment and Natural Resources](#)

We focus on responsible use of graphite electrodes in the electric arc furnace (EAF). More appropriate selection of input material and certain production optimisations have allowed us to reduce their consumption in the SIJ Group by 6.8 percent. We have also achieved significant improvements in the lining of ladles. In the largest steel company, the number of heats per ladle lining increased by almost 20 percent.

Impacts of the External Environment and Opportunities for the SIJ Group



In addition to global economic trends, the operations of the companies and SIJ Group in 2018 and 2019 will be also influenced by new trends in steel demand and occurrences of global protectionism. In these changing conditions, the SIJ Group is searching for and is successfully exploiting the opportunities for realising its strategic goals.

1. Eurofer. October 2018. *Economic and Steel Market Outlook 2018-2019, Fourth Quarter 2018*. Access through [link](#) (25 October 2018).

2. World Bank Group. Oktober 2018. *Commodity Markets Outlook*. Access through [link](#) (25 October 2018).

3. European Commission November 2018. *European Economic Forecast, Autumn 2018*. Access through [link](#) (8 November 2018).

4. International Monetary Fund. Oktober 2018. *World Economic Outlook*. Access through [link](#) (25 October 2018).

Analysis of Operations

KEY FIGURES OF THE METALLURGY AND POULTRY DIVISION

Key Operating Figures of the Metallurgy and Poultry Division

	Unit of measure	1–12 2016 ⁵	1–12 2017	1–12 2018
Revenues	EUR thousand	842,645	1,011,462	1,072,751
<i>Metallurgy Division</i>	<i>EUR thousand</i>	<i>631,884</i>	<i>754,870</i>	<i>802,766</i>
<i>Poultry Division</i>	<i>EUR thousand</i>	<i>211,350</i>	<i>256,900</i>	<i>270,574</i>
<i>Adjustments</i>	<i>EUR thousand</i>	<i>–589</i>	<i>–308</i>	<i>–589</i>
Share of exports	%	80.4	81.0	80.4
EBIT	EUR thousand	68,636	34,984	18,402
EBITDA LMA	EUR thousand	130,080	102,620	92,707
<i>Metallurgy Division</i>	<i>EUR thousand</i>	<i>76,397</i>	<i>77,273</i>	<i>62,430</i>
<i>Poultry Division</i> ⁵	<i>EUR thousand</i>	<i>23,863</i>	<i>25,463</i>	<i>31,012</i>
<i>Business combinations and adjustments</i>	<i>EUR thousand</i>	<i>29,819</i>	<i>–115</i>	<i>–735</i>
EBITDA	EUR thousand	127,057	98,532	78,984
<i>Metallurgy Division</i>	<i>EUR thousand</i>	<i>74,420</i>	<i>74,749</i>	<i>50,239</i>
<i>Poultry Division</i> ⁵	<i>EUR thousand</i>	<i>24,229</i>	<i>23,084</i>	<i>29,182</i>
<i>Business combinations and adjustments</i>	<i>EUR thousand</i>	<i>28,408</i>	<i>698</i>	<i>–437</i>
EBITDA margin without business combinations	%	11.7	9.7	7.4
Net profit	EUR thousand	51,325	14,406	4,869
Capex ⁶	EUR thousand	70,267	59,920	43,637
Net financial debt as at 31 Dec	EUR thousand	367,520	368,167	355,389
<i>Metallurgy Division</i>	<i>EUR thousand</i>	<i>261,453</i>	<i>251,771</i>	<i>238,010</i>
<i>Poultry Division</i>	<i>EUR thousand</i>	<i>35,492</i>	<i>34,128</i>	<i>35,166</i>
<i>Business combinations and adjustments</i>	<i>EUR thousand</i>	<i>70,575</i>	<i>82,268</i>	<i>82,212</i>
NFD/EBITDA LMA as at 31 Dec		3.6	3.6	3.8
<i>Metallurgy Division</i>		<i>3.4</i>	<i>3.3</i>	<i>3.8</i>
<i>Poultry Division</i>		<i>1.3</i>	<i>1.3</i>	<i>1.1</i>
Employees as at 31 Dec		7,239	7,431	7,599
<i>Metallurgy Division</i>		<i>3,552</i>	<i>3,770</i>	<i>3,922</i>
<i>Poultry Division</i>		<i>3,687</i>	<i>3,661</i>	<i>3,677</i>

At the beginning of 2019, we successfully concluded the disposal of the Poultry Division (PP Group) in line with our business plans. An insight into results that would be valid before the disposal of the Poultry Division enables the comparison of key operating figures from previous years.

⁵ Poultry Division: revenues, EBITDA LMA and EBITDA cover ten month results, which include the takeover period.

⁶ Investments in subsidiaries are excluded.

ANALYSIS OF THE SIJ GROUP'S OPERATIONS

SIJ Group: Key Operating Figures

	Unit of measure	2016*	2017	2018
Financial data				
Revenues	EUR thousand	631,884	754,870	802,766
EBIT	EUR thousand	28,287	24,652	1,774
EBIT margin	%	4.5	3.3	0.2
Depreciation and Amortisation	EUR thousand	46,133	50,097	48,466
EBITDA LMA	EUR thousand	76,397	77,273	62,430
EBITDA	EUR thousand	74,420	74,749	50,239
EBITDA margin	%	11.8	9.9	6.3
EBITDA per employee	EUR	22,262	20,850	13,137
Profit/loss before taxes	EUR thousand	10,336	6,462	-13,904
Net profit	EUR thousand	22,913	14,406	14,655
Operating cash flow	EUR thousand	111,689	99,375	79,224
Capex	EUR thousand	65,813	53,027	36,959
Statement of financial position as at 31 Dec				
Total assets	000 EUR	1,143,947	1,139,736	1,151,985
Equity	000 EUR	423,471	402,937	407,410
Net financial debt as at 31 Dec				
Non-current financial liabilities**	000 EUR	298,410	271,837	233,808
Current financial liabilities**	000 EUR	128,752	96,878	149,707
Cash and cash equivalents	000 EUR	59,643	34,909	63,469
Net financial debt (NFD)	000 EUR	367,520	333,806	320,046
<i>Metallurgy Division***</i>	<i>000 EUR</i>	<i>261,453</i>	<i>251,771</i>	<i>238,010</i>
<i>Poultry Division</i>	<i>000 EUR</i>	<i>35,492</i>	<i>0</i>	<i>0</i>
<i>Business combinations</i>	<i>000 EUR</i>	<i>70,575</i>	<i>82,035</i>	<i>82,036</i>
NFD***/EBITDA LMA		3.4	3.3	3.8
Employees				
Average number of employees		3,343	3,585	3,824

The future of the SIJ Group is the Metallurgy Division, since we completed the disposal of the Poultry Division (PP Group) at the beginning of 2019 in accordance with our business plans. The key operating figures below, therefore, present the operations of the SIJ Group excluding the Poultry Division. The comparability of the data with the annual report for 2017 and other annual reports is enabled by the analysis of key operating figures of the Metallurgy and Poultry Divisions.

[More >> Key Figures for the Metallurgy and Poultry Division](#)

* In the financial data EBIT, EBITDA LMA, EBITDA, profit before tax and net profit, the one-time effect from the business combination of the Poultry Division in the amount of EUR 28,412 thousand was not considered.

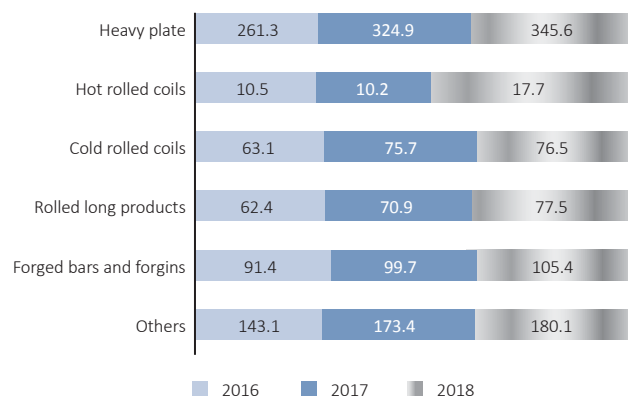
** Financial liabilities include the principal of loans, financial leases, and financial instruments.

*** The NFD in the Metallurgy Division is without business combinations (purchase of shares of PP Group and Holding PMP until 31 December).

HIGHER REVENUES

In 2018, the SIJ Group generated EUR 802.8 million in revenues, which is 6.3 percent more than in 2017. Compared to 2017, the largest increase was recorded in the sale of stainless steel quarto plates, one of the most profitable programmes of the SIJ Group, and hot-rolled coils. Sales of other products that we produce within the Manufacturing Division were also higher. These include industrial knives, welding materials with electrodes, welding wire, and welding powders.

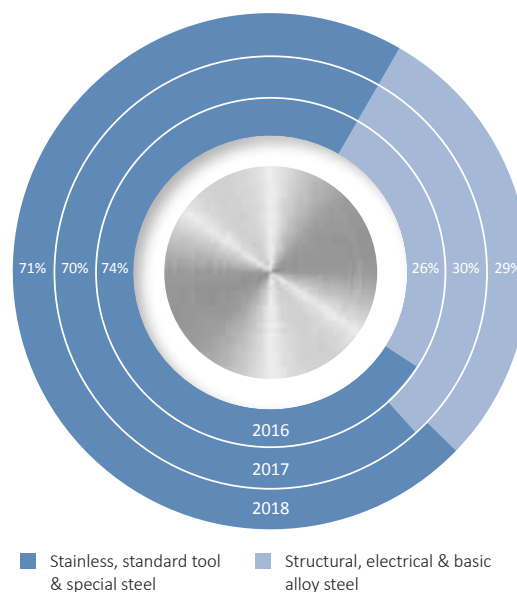
SIJ Group: Sales by Product Groups (in EUR Million)



SPECIALISTS IN STEEL WITH HIGHER ADDED VALUE

The SIJ Group has established itself primarily as a specialist provider of stainless, tool, and special steels. Our high-quality products with a higher added value focus on niche steel markets, which provide a more stable demand and generate higher sales prices, and are at the same time less exposed to imports from third countries. We maintain a leading market position in many individual segments. We develop high-quality finished products in cooperation with customers and according to their requirements. Investments carried out in the past allow us to remain competitive.

SIJ Group: Proportion of Sales Volume of Certain Types of Steel (in Percent)



HIGHER VALUE OF SALES IN KEY FOREIGN MARKETS

With 84.6 percent of exports, the SIJ Group remained one of the largest Slovenian exporters in 2018. Germany, Italy, and other European countries continued to be our main export markets.

Although the quantities of products sold were comparable with the previous year, we increased the value of exports to European countries. The value of sales to the German market was higher by EUR 9.4 million compared to the year before, but it was comparable with regards to product quantities. The value of sales to Italy was higher as well, even though we exported 0.8 percentage points fewer products than in 2017. The volume of products sold to other European countries was lower by 1.1 percentage points, but the sales value was higher.

In a year of uncertain trade conditions on the market, particularly due to US protectionism and the implemented 25 percent duty on steel imports, the SIJ Group succeeded in maintaining exports to the US market on about the same level as the year before through various activities.

Sales to other countries increased by 0.7 percentage points or by EUR 8.4 million.

SIJ Group: Proportion of Revenues by Market (in Percent)



CONTROLLING COSTS WITH SALES PRICES

In 2018, the SIJ Group generated an EBITDA of EUR 50.2 million. The ratio between costs and sales prices had a crucial impact on the lower operating profitability ratio.

Impact of the Steel Division on EBITDA

In 2018, the total costs increased by EUR 22 million. The highest growth was recorded in variable costs, which increased by EUR 15.8 million. This was primarily due to the cost of energy, refractory materials, and alloys (the costs for graphite electrodes increased significantly), as well as transport costs.

The negative impact of fixed costs remained the same as in the year before, when it had amounted to EUR 6.3 million and had been EUR 0.2 million lower than in 2017. The fixed costs per unit of product decreased with the increase in production, while their value increased due to labour costs.

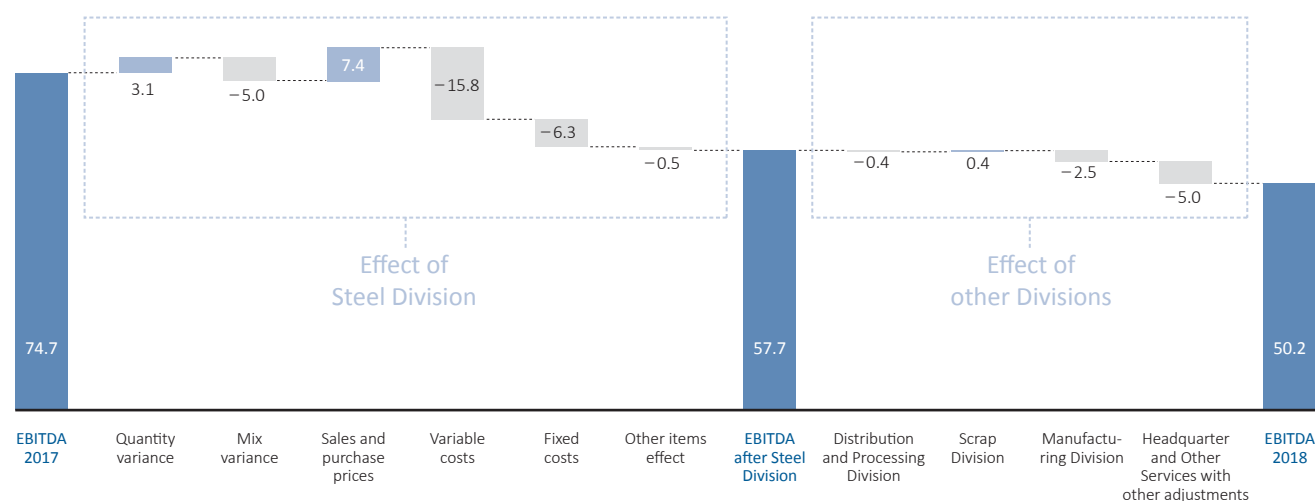
The cost growth hampered all other areas that affect the EBITDA performance indicator.

The positive impact of the sales prices amounted to EUR 47.1 million. However, since the negative impact of purchase prices was EUR 39.7 million, the net impact of EUR 7.4 million was not enough to bridge the gap that arose due to increased costs.

The impact of quantities was positive. EUR 3.1 million stems from production volumes, which rose by 4 percent.

Other impacts are arising from the valuation of inventories,

SIJ Group: EBITDA bridge (in EUR Million)



the costs of transporting goods to customers, customer complaints, and bonuses.

Impact of other business divisions

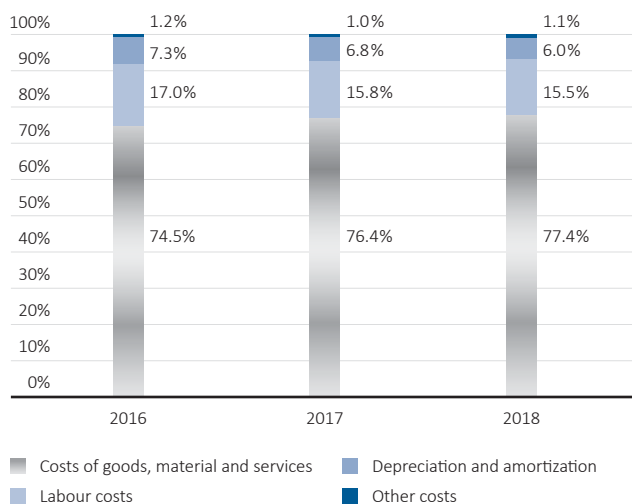
Other business divisions in the SIJ Group are closely related to the operations of the Steel Division. The business condition and optimal operation of both steel plants significantly influence the operation of the Distribution and Processing Division. In 2018, the Manufacturing Division was at a competitive disadvantage due to materials and welding accessories, especially welding electrodes. Their share in sales is declining as they are being replaced by modern automatic welding techniques.

COSTS AFFECTED BY ENERGY AND RAW MATERIAL COSTS

The structure of operating costs varied according to changes in the production volumes and the price trends of strategic raw materials.

In the SIJ Group, material costs constitute the largest share. In 2018, they accounted for 77.4 percent share. Key raw materials for the production of stainless and special steel are steel waste and alloys. In the first half of 2018, the prices of raw materials were relatively stable, but towards the second half of the year, there was a trend upwards, especially in the case of alloys. Only the price of ferrovanadium continued to noticeably increase until the end of the year.

SIJ Group: Structure of Operating Costs (in Percent)



The reduced operating result of the Steel Division was negatively affected by energy costs, which we failed to optimise in 2018.

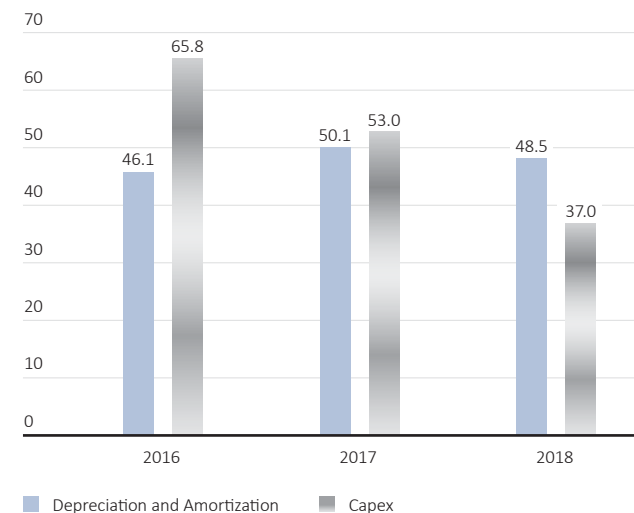
Labour costs, which are one of the key cost items, had a higher value due to the increase in average wages, but their structural share decreased by 0.3 percentage points.

INVESTMENTS IN LINE WITH THE STRATEGY

During the intensive investment cycle, the value of investments in the SIJ Group significantly exceeded the amortisation cost. In 2017, after the completion of large-scale investment projects, the ratio started to change, and in 2018 amortisation was higher for the first time. In 2018, it exceeded the value of investments by EUR 11.5 million.

Unlike the period of intensive investment projects, the investments are now focused on support projects that conclude investments from recent years and ensure modernisations for the production of technologically more advanced products. In 2018, we allocated EUR 37 million to these projects and other investments.

SIJ Group: Depreciation and Amortisation and Capex (in EUR Million)



REDUCTION OF DEBT

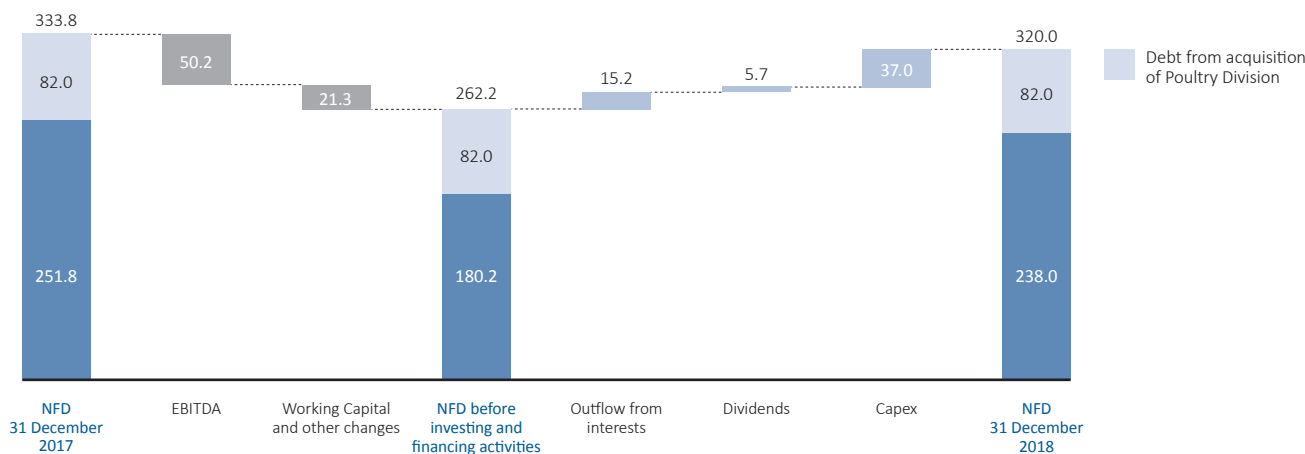
The debt of the SIJ Group, which was reduced considerably in 2018, will continue to gradually decrease in the following years. In 2018, the net financial debt of the Group decreased by EUR 14 million. If we disregard the investment in PP Group, the net financial debt fell to EUR 238 million at the end of 2018.

The borrowing in recent years has been in line with directions of strategic development and necessary for the reali-

sation of high-tech projects within the intensive investment cycle. This cycle stabilised in 2018.

Due to the financial stability of the SIJ Group, all regular operational activities and investments (amounting to EUR 37 million) in 2018 were financed from EBITDA.

SIJ Group: Net Financial Debt as at 31 December (in EUR Million)



INCREASED AVAILABLE LIQUIDITY

The liquidity in the SIJ Group is high, and in 2018 it increased by EUR 23 million compared to the year before.

After the completed investments in 2018, we exhausted the approved free lines for investments and increased the approved limits for the working capital, compared to the year before. By properly managing the liquidity, we carefully regulate the needs for financing working capital. Approved long-term revolving lines enable us to maintain a high level of available liquidity in the long term, which increases the security of our operations.

SIJ Group: Available Liquidity as at 31 December (in EUR Million)

	2016	2017	2018
Cash and cash equivalents	21	35	64
Approved overdrafts for revolving capital	34	57	78
Approved overdrafts for investments	81	27	0
Available liquidity	136	119	142

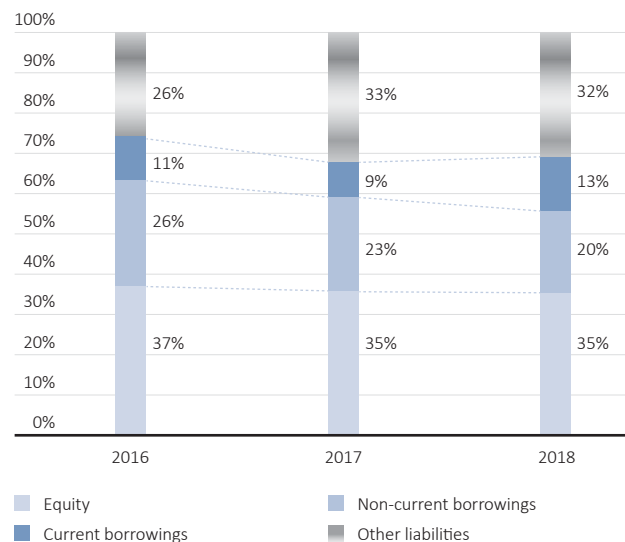
FINANCIAL SOUNDNESS AND LONG-TERM SOURCES OF FINANCING

The share of equity in the debt structure remains at a high level. The share of current financial liabilities increased slightly, the share of non-current financial liabilities decreased slightly, and the share of long-term sources of financing remains high.

In December 2018, for the fifth time, the SIJ Group issued one-year commercial papers (ticker symbol: SIK05) with a total nominal value of EUR 30 million. With them, we replaced the existing commercial papers in the amount of EUR 27.3 million that were due in December 2018. The new issue of commercial notes with an annual interest rate of one per cent has the lowest interest rate so far and significantly contributes to lowering the cost of financing.

SIJ d.d. is also the issuer of bonds listed on the Ljubljana Stock Exchange, so it is obligated to publish the total amount of the so-called existing liabilities. This amount is equal to the amount of secured liabilities (including unencumbered, undrawn loans under previously concluded agreements). Together with the published permissible exceptions under the terms of the bond issue, the amount of secured liabilities on 31 December 2018 amounted to EUR 84,016,207, having decreased compared to 2017 due to the repayment of the principal of loans.

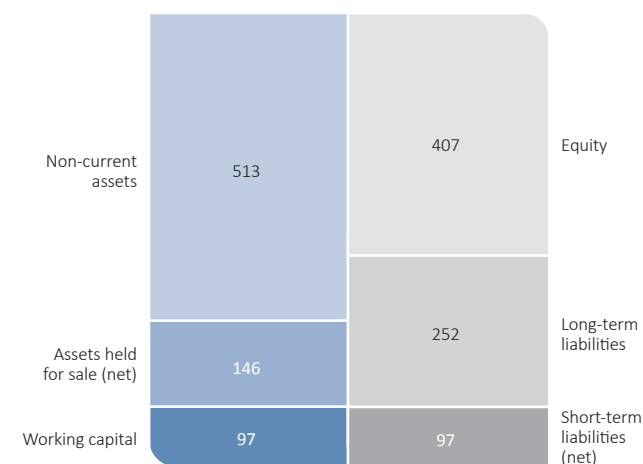
SIJ Group: Debt Structure as at 31 December (in Percent)



STABLE FINANCIAL STRUCTURE

The statement of financial position continues to be stable and adequately structured. Long-term sources cover all long-term assets. The SIJ Group continues implementing the existing financial policy, namely to use long-term financing to enable long-term development, while short-term sources of financing are used to balance seasonal fluctuations in working capital.

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

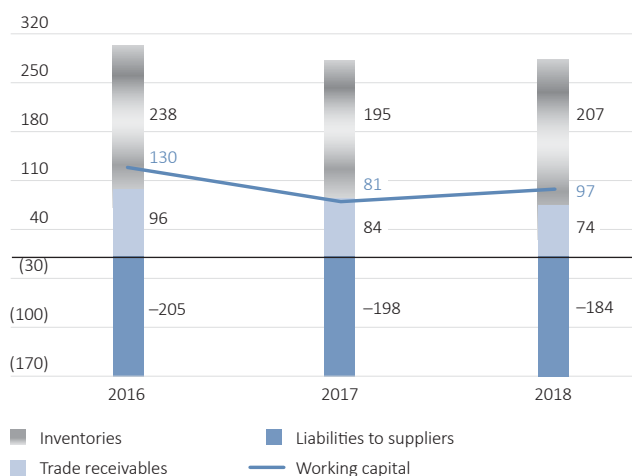


WORKING CAPITAL MANAGEMENT

Through the successful management of working capital, we have generated positive financial effects for liquidity and performance. Yearly changes in working capital are managed with approved credit lines, while receivables and liabilities are actively and effectively monitored on a daily basis.

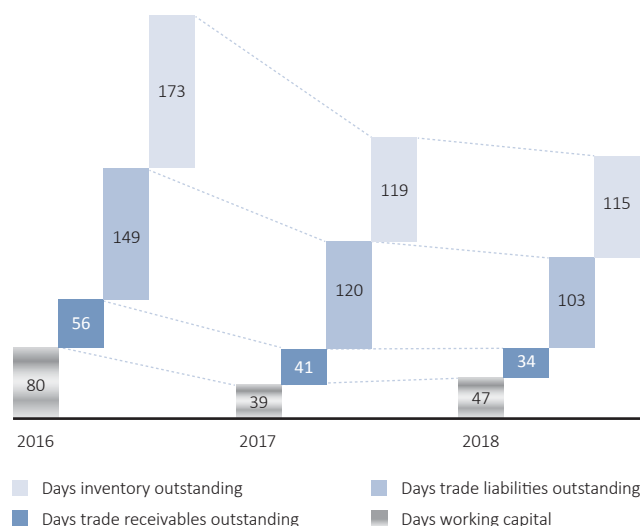
The effective management of receivables is also carried out with the special programme Securitisation of trade receivables,⁹ which was successfully implemented in the SIJ Group at the end of 2016. With such activities and the consistent collection of receivables, we have further improved the turnover of receivables. We also pay special attention to the management of liabilities to suppliers and inventory trends, whose turnover periods we successfully shortened in 2018.

SIJ Group: Working Capital from Operations as at 31 December (in EUR Million)



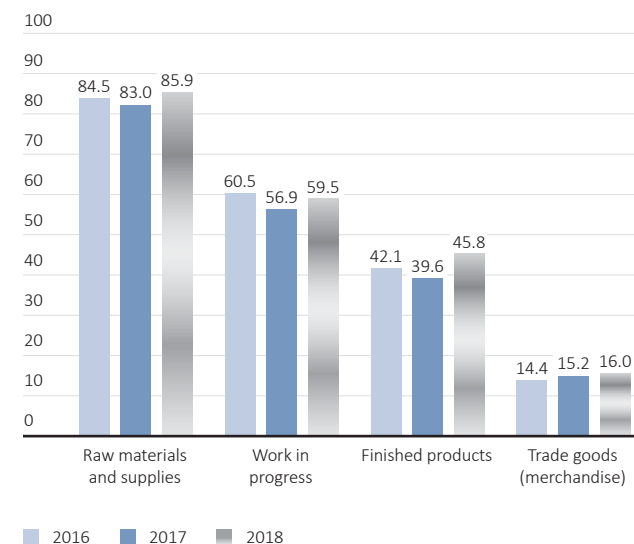
The efficient management of inventories in the Metallurgy Division is a particular challenge. We need optimal inventories for unimpeded work, but at the same time, a considerable share of assets is tied to them, which burdens the working capital.

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



Due to higher raw material prices, the value of inventories on 31 December 2018 was 6 percent higher compared to inventories the year before, but we achieved a better turnover of inventories measured in days.

SIJ Group: Inventories by Type as at 31 December (in EUR Million)



Key Investments

After years of strategic investments focused on increase of production capacities and the modernisation of production, the intensive investment cycle was completed in 2017. In 2018 the investments were focused on increasing the efficiency of production acquisitions from previous years, more efficient use of energy and reducing the impacts on the environment.

Investments amounted to EUR 37.0 million. The most important objectives we achieved through investments were:

- product finalisation (cutting centres, processing capacities, finished products);
- elimination of bottlenecks and an increase in production efficiency;
- reduction of noise emissions into the environment;
- reduction of energy consumption.

We earmarked the remaining funds for investment maintenance.

The planned reduction of environmental impacts along with the introduction of solutions for sustainable development and circular economy are among the most important investment areas. Investments that help us fulfil our commitment to sustainable development are:

- investment in our line for processing slag into new products (takeover of activities from Harsco Minerals)
- investments in reducing noise emissions which will continue until 2020;

The most prominent investments of 2018

Investment
in the circular
economy

*SIJ Acroni's
investment into its
own line for processing
slag into new products (taking
over the activities of Harsco Minerals)*

Investment
in upgrades for
the production of
more technologically
advanced
products

*New heat treatment line
in SIJ Metal Ravne*

SIJ Group: Capex (in EUR million)

Company	2018
SIJ Acroni	20.0
SIJ Metal Ravne	8.2
SIJ Ravne Systems	2.5
ORO MET	1.9
Other investments	4.4
Total	37.0

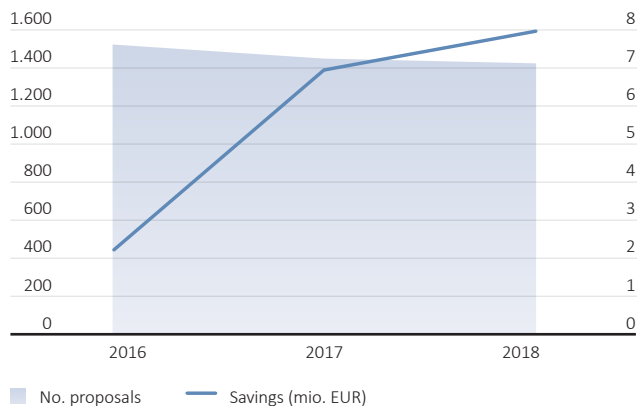
Research, Development and Innovation

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

INNOVATION IS A PART OF THE CORPORATE CULTURE

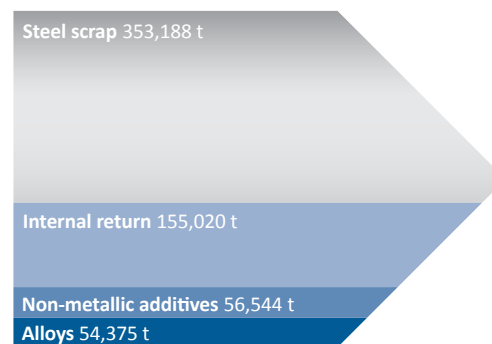
In the companies in the SIJ Group, all employees participate in innovation activities. Approximately one in three employees submitted a proposal for an improvement or innovation in 2018 as part of a systematic collection of ideas and proposals. A higher quality of ideas means more savings, achieved through the introduction of innovations. In 2018, the realised innovation projects resulted in **savings and economic benefits in the value of more than EUR 8 million.**

Savings Achieved Through Innovation Proposals

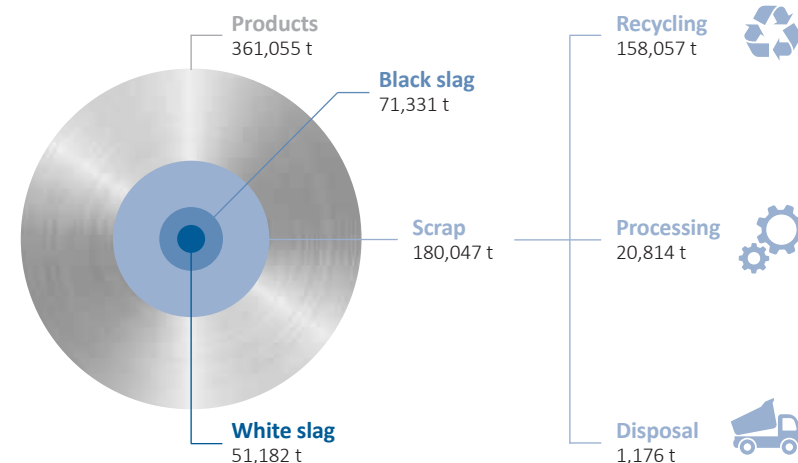


Raw Material Cycle in Steel Companies of the SIJ Group

INPUT MATERIALS



OUTPUT MATERIALS



INNOVATION FOR THE SUSTAINABLE USE OF BY-PRODUCTS

Application of principles of sustainable development and circular economy remains among the most important commitments of the SIJ Group. The Steel Division promotes and realises this by re-using by-products from steel production or as a source for new products that are produced from by-products. Considering the quantity of starting materials and exit scrap, the Steel Division has an almost completely closed raw material cycle.

In 2018, we introduced a cost-effective innovation in dust processing, started processing slag, and dedicated special attention to researching additional possibilities for its use. We want to also prove our responsible conduct through Environmental Product Declaration (EPD).

Use of Waste Blasting Dust

In the process of sheet blasting, up to 115 tons of waste blasting dust are generated each month. The dust, which is made of iron in metal or oxide form as well as a considerable share of chromium and nickel, has until now been disposed at a partner deposit site. In 2018, we started using some of the dust in our own production, while the remaining quantities, which have an appropriate content of iron oxide, are used to dilute melted material. Each individual heat contains around a thousand kilograms of our own material and the entire quantity can be used up in less than one half of produced regular heats. By using the dust we reduce the costs of alloys and the costs of dust disposal.

Use of Slag and Researching of Alternative Usage Options

We started processing slag, one of the most interesting and useful by-products in the Steel Division, with our own line since 2018. Some of it is used in our own production, and a portion is used by other companies in construction and road building. We continue to explore new possibilities for its use. In 2018, SIJ Group and our partners researched the possibilities of producing slag insulation wool and acquired the means for a research project involving the production of an environmentally-friendly binder.

Slag wool and its applications, produced from stainless and refined slag, successfully passed laboratory tests, computer simulations and the industrial test. In our laboratory, we made fibres from refined slag and mixtures of scrap, rich in aluminium and silicon, and proved that slag wool can be made from secondary waste materials.

We made slag wool on an industrial level from approximately 40 percent of unprocessed slag and natural additives, proving that the mechanical properties of such wool are appropriate. By using slag, we can reduce the consumption of melting energy and reduce the cost of raw materials.

The ALiCE Project, which we are conducting together with the Slovenian National Building and Civil Engineering Institute, is financed by European funds³, and intended for the preparation of a new binder which could act as an alternative to the so-called Portland clinker or cement. This sustainable project will study the use of mineral waste in processing of furnace stainless steel slag and refined slag, as well as other waste containing aluminium. The new binder should enable lower carbon dioxide emissions, the possibility for the re-use of raw materials and scrap as well as better environment protection and lower consumption of energy needed for binder preparation.

RESEARCH PROJECTS AND PROGRAMMES

The companies in the SIJ Group implement their own research projects and programmes, and obtain funds for development projects at various tenders independently and with partners. The results of the Martina Project will be significantly for 2019, and the new ČMRLJ Project will provide innovations in steel development.

MARTINA (materials and technologies for innovative application) a research and development programme, as part of which we have developed a super pure tool steel

SITHERM S140R, will be concluded in the first quarter of 2019. Hot-work tool steel with high heat conductivity, important for the production of tools for aluminium high pressure die casting, drop forging and thermo-mechanical stamping, advanced to industrial production from laboratory level in 2018. A patent application is also planned for 2019. The project is implemented in cooperation with the Institute of Metals and Technology and the Faculty of Natural Sciences.

ČMRLJ, a new project for achieving the purity and new characteristics through micro alloying of steel, which was obtained at the tender published by the Ministry of Science and Sport, will enable the development of a new fine-grain and welding micro alloy steel in improved condition in the coming two years. Ultra high-strength steel will be used in areas requiring extreme reduction of movable components (e.g. cranes, lifts and other). Weight reduction is one of the features used by steel providers to allow for a reduced consumption of fuel during movement, resulting in a reduction of emissions.

Total project value, involving the Institute of Metals and Technology, SIJ Metal Ravne, Štore Steel and the Jesenice Centre for Development, exceeds EUR 3 million.

³ The RIS-ALiCE Project (Alrich industrial residues for mineral binders in ESEE region) is co-financed by the EIT Raw Materials programme.

AWARDS FOR RESEARCH ACHIEVEMENTS

Development engineers at the SIJ Group annually participate at regional competitions in innovation and rank on the national level in receiving awards from the Chamber of Commerce and Industry of Slovenia.

The members of the research and development teams of the SIJ Group in 2018 published several papers and presented their achievements at scientific and expert conferences. The Association for Iron & Steel Technology gave an award for the best technical paper in 2018, published in the January edition of Iron Steel Technology Journal, to the researchers of SIJ Metal Ravne for their paper entitled Application of EAF Wall Injectors for High-Alloy Steel Production.

INSPIRATIONS FROM OTHER AREAS

When iron is combined with carbon, recycled steel and other selected raw materials, it is transformed into steel – a material that can, in various applications, be even up to a thousand times stronger than iron.

For connoisseurs, researchers and innovators the steel industry is an endless source of inspiration to improve processes and re-use steel, as well as to use by-products in new areas.

Selected Awards in 2018

Award	Company	Project	Effect/Advantage
National Silver Award of the Chamber of Commerce and Industry of Slovenia	SIJ Metal Ravne	Optimisation of the production of ledeburitic steels for cold-work	Total innovation effect in 2017 amounted to EUR 1.2 million in savings.
National Silver Award of the Chamber of Commerce and Industry of Slovenia	SIJ Acroni and the Jesenice development centre RCJ	Quarto plates of hot-work tool steel SITHERM 2343	Carefully planned production process enables the achievement of micro purity and the homogeneity of material, comparable with the most demanding procedures of classical production without additional technological steps (electro slag remelting – ESR).
National Silver Award of the Chamber of Commerce and Industry of Slovenia	SIJ Ravne Systems	A unique system for automatic manipulation of round rods	A system with autonomous operation methods reduces the possibilities of injuries of operators, the occurrence of standstills and injuries.
Regional Silver Award of the Chamber of Commerce and Industry of Slovenia	SIJ Metal Ravne	Small cylinder forging optimisation	By eliminating the bottleneck, this optimisation contributed to a 60-percent increase in the sale of cylinders in 2017.
Regional Bronze Award of the Chamber of Commerce and Industry of Slovenia	SIJ Metal Ravne	Ingot stripping pin	This innovation enables a better generation of ingots, easier cleaning and maintenance, as well as safer work.



Marketing Strategy and Brand Management

The SIJ Group has a high share of higher added value products of our own brands. The SIJ corporate brand has been included among the names of metallurgy companies since 2016, and it is the starting point for a comprehensive system of **11 product brands of steels** into which our product range is arranged. In addition to steels with specific characteristics for individual purposes, which technologically demanding, newly emerging and rapidly changing industrial sectors need in their development, the brands provide an additional assurance of quality – from the selection of raw materials to technologically advanced production and service solutions.

Special attention is dedicated to the development of new types of steels, where we use modifications to achieve exceptional features. These steels **enable customers greater efficiency and savings**, related also to reducing the consumption of energy and environmental emissions.

NEW STEELS IN 2018

In 2018, we have developed among others:

- The new hot-work tool steel **SITHERM S355R**, intended for producing high pressure die casting tools for non-iron metals, drop forging and extrusion, which, compared to classical tool steels, contains less molybdenum and is more environmentally friendly.
- The new tool steel for cylinder production **SIHARD 352** and new ledeburitic cold-work tool steel **S671** that contain less chromium and preserve comparable strength, as a result of which they are more wear-resistant and the edges are more resistant to breaking. Cylinders and other products



are made from improved steels and have longer lifespans, contributing to sustainable operations of customers.

- We related the development of new stainless steels such as **SINOXX E790**, **SINOXX 4922** and **SINOXX 4906** with different properties for intended uses with improved production technology, which enables the fulfilment of greater demands for mechanical features in the core of improved rolled flat sections and achieving the micro purity and low content of harmful elements in round sections.

- The development of new martensitic stainless steels such as **SINOXX 4021**, **SINOXX 4016**, **SINOXX 4028**, was supplemented by the first heat of super duplex steel **SINOXX 4410** via the AOD converter enabling a significantly shorter production time as well as reduced carbon footprint. By changing the technological process of heat processing of this steel to the new steel heat treatment line, we reduced the entire heating time by a quarter. We also started using the AOD technology for **SINOXX 4767** steel where we have changed the method of alloying and achieved the best customer assessment grade. We acquired an A grade for production and process.

By improving the properties and quality of products, we are fulfilling the expectations of customers even in the most demanding projects that include electrical steel, structural, and special carbon steels.

SIJ Group: The Most Important Novelties in Own Steel Brands in 2018

Type of steel	Brand	Flat programme	Long programme	Novelties
Stainless	SINOXX ...	SINOXX 4021 SINOXX 4016 SINOXX 4028 SINOXX 4410		Optimised technological path, shorter production and heat treatment time
			SINOXX E790 SINOXX 4922	Improved production technology, improved mechanical characteristics and micro purity
			SINOXX 4906	New alloying method that has acquired the highest possible customer assessment grade
Special	SIQUAL ...	SIQUAL 6926	SIQUAL 6546 SIQUAL 6310 SIQUAL M244	Alloy structural steels for special purposes
	SIMAXX ...	SIMAXX 1100		Exceptionally high strength
Tool	SITHERM ...		SITHERM S355R	Smaller molybdenum content
			SITHERM 2343	Silver award of the Chamber of Commerce and Industry of Slovenia for innovation
			SITHERM S140R SITHERM S145	Hot-work tool steels with increased thermal conductivity
	SIHARD ...		SIHARD 352 SIHARD S671 SIHARD K561	Smaller chromium content, greater wear resistance and resistance of the edge to breaking

MARKETING ACTIVITIES

The innovations, developed in cooperation with customers, are presented at special events such as the **Partners Summit**, a traditional sales conference attended by the representatives of key customers from all parts of the world, and selected trade fairs. In 2019, we intend to present our products and knowledge at 19 **trade fairs** all around the world.

We will strengthen our cooperation with customers through **planned marketing digitalisation** that will significantly contribute to further strategic brand management. In the coming years, we plan to expand our range of brands.

PREPARED FOR GREEN PROCUREMENT DEMANDS

Because we are conscious of sustainable development principles in the development of new products, we can apply for projects within the scope of green procurement which additionally motivates producers and suppliers in individual countries to verify and submit relevant environmental information. This information is additionally confirmed by appropriate labels, declarations, and certificates.

SIJ Acroni already implements activities for the acquisition of the **Environmental Product Declaration (EPD)**, which discloses emissions related to products in their entire life cycles.

Certification procedures conducted by various customers prove that we meet the highest demands.

[More on this >> Business Strategy: Key Mid-Term Guidelines](#)

SIJ Group: Trade Fairs in 2018

	Fair	Location	Industry
1	Intermat	Paris, France	Construction
2	Wire & Tube	Düsseldorf, Germany	Piping, wiring production
3	IFAT	Munich, Germany	Environment protection, waste management, recycling
4	DMC	Shanghai, China	Tooling
5	Achema	Frankfurt, Germany	Chemical industry, biotechnology, environment protection
6	Eurosatory	Paris, France	Defence
7	CWIEME	Berlin, Germany	Electric motor and transformer industry
8	Aluminium China	Shanghai, China	Aluminium production
9	Coiltech	Pordenone, Italy	Electric motor and transformer industry
10	Fakuma	Friedrichshafen, Germany	Plastics
11	Aluminium 2018	Düsseldorf, Germany	Aluminium production
12	Ecomondo	Rimini, Italy	Environment protection, circular economy

SUSTAINABLE DEVELOPMENT

CREATORS OF CLOSED MATERIAL CYCLES

Steel has a closed cycle of use, and it can be reused without limits. Steel is a material that can be completely recycled. Endlessly. Without degrading its quality.

All types of steel can be reused for new steels with various hardnesses, strengths, toughnesses, corrosion resistance and other properties. Steel that forms part of an oil platform today can be the basis for the key elements of tomorrow's e-vehicles and aeroplanes.

The companies of the SIJ Group rely on secondary resources to produce steel and on the environmentally-friendly reuse of waste energy products that are generated in our production process.

Statement on Non-financial Operations of SIJ d.d. and the SIJ Group

Non-financial operations of SIJ d.d. and the SIJ Group were integrated in the foundations of our operations even before the public interest entities were obliged to disclose non-financial information in a special statement in the annual report⁴. The SIJ Group is aware that all financial and non-financial success is based on engagement and **responsible work with regard to all stakeholders**.

Our successful operations and active presence on the global market are of key importance **for preserving long-term investor trust**. We establish, preserve and prove this trust in the modern business environment with democratic relations, mutual respect, and transparent operations in the international environment, **excluding all unfair business practices**.

Non-financial business projects of the SIJ Group present the upgrading of added value of our vertical integration business model, which is shown by more than financial indicators. We are aware that the operations of the SIJ Group depends on each part of the production process and on the local environment in which we operate.

The commitment to responsible conduct is also proven through due diligence before the initiation of new projects and by enabling **due diligence performed by business partners**. By planning, reporting, managing risks, and controlling individual non-financial operations projects, we are able to ensure their effective management.

The expectations of stakeholders are fulfilled by working according to sustainable development principles. In 2018, we also signed the **World Steel Association's Sustainable Development Charter**. The key areas of non-financial operations, such as **responsible management of relationships with human resources, the environment and local communities**, are further presented in the chapter Operating According to the Principles of Sustainable Development. **Responsible customer relationship** is shown in various sections of the Business Report, and the **supplier relationship** is explained in the description of responsible procurement policy which is, as other areas of our operations, linked with sustainable principles.

The concern for socially responsible conduct and for non-financial aspects of our operations are constantly linked to business success and achieving synergies between the companies in the SIJ Group and the local, national and global environment.

Andrey Zubitskiy,
President of the Management Board



*The concern
for socially responsible
conduct and for non-
financial aspects of our
operations are constantly
linked to business
success.*

⁴ The special statement on non-financial operations is published in accordance with the amended Companies Act ZGD-11; data on environmental, social and HR issues, respecting human rights and other required disclosures are stated in all chapters of the annual report.

Operating According to the Principles of Sustainable Development

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

Our operations are based on social responsibility and we are signatories to the Sustainable Development Charter of the World Steel Association. We respect the 7 commitments with which the world's leading steel producers contribute to the realisation of the UN's 17 Sustainable Development Goals.

Stakeholders of Sustainable Development of the SIJ Group

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

Customers
We guarantee and develop sustainable solutions for our customers.

Shareholders

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

Suppliers

We promote circular economy across the entire purchase chain.

Social and natural environment

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

Commitments of Global Steel Producers and the SIJ Group

- 1 Improving health and safety at work.
- 2 Respecting and cooperating with local communities.
- 3 Conducting our business according to high ethical standards.

- 4 Strengthening the cooperation with the most important stakeholders and creating value for them.
- 5 Developing our production and products by reducing impacts on the environment.
- 6 Transparent operations.
- 7 Expanding the sustainability of operations in sales and procurement.

Diligent Operations with regard to the Environment and Natural Resources

STRATEGIC MANAGEMENT OF RAW MATERIALS

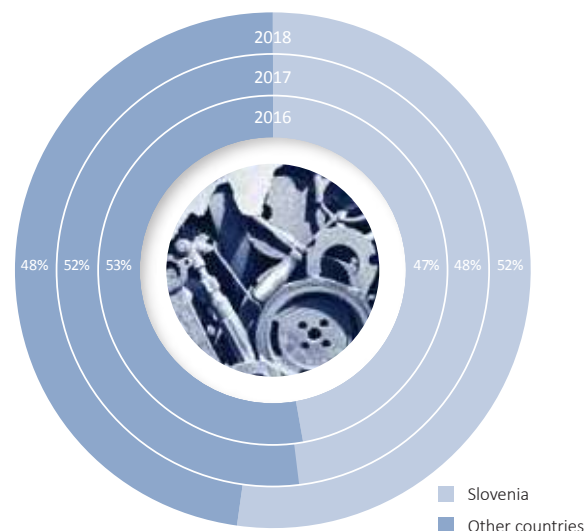
Steel Scrap Recycling

Steel production in the companies of the SIJ Group is based on technologies used for material recycling. **The main raw material is steel scrap.** In addition to the stainless and non-alloy steel scrap that we purchase, we also use own steel production scrap as a resource, which is returned to the production process after appropriate separation and preparation. A similar procedure is also applied for other resources (e.g. for metals from own processing, from slag recycling, etc.). We are continuously increasing the share of used secondary raw materials, which in stainless steels already exceeds 83 percent. Such use is environmentally-friendly and reduces the need for using primary natural resources in steel production.

Due to the vertical integration of the SIJ group, we are partially supplied with steel scrap from own resources, purchasing all other key raw materials based on long- and short-term contracts. By increasing the share of Slovenian steel scrap we also shorten the transport routes for the supply of this raw material.

[More on this >> Research, Development and Innovation](#)

SIJ Group: Share of Steel Scrap from Slovenia and Other Countries



Certified Suppliers

To achieve exceptional properties of special alloy steels of the highest grade, such as high-speed steels, we need materials that cannot be replaced with substitutes. Materials, such as ferrotungsten, which is a component of SIRAPID tool steels, are produced according to the supply chain due diligence principles as stipulated by the Regulation (EU) No. 2017/821 on the import of natural mineral resources from conflict areas. This raw material is purchased solely **from providers that have obtained appropriate certification** and the RMI_CMRT report. Among the 118 suppliers integrated in the procurement chain of metallurgical companies

of the SIJ Group, six of them supplied wolfram and ferrotungsten in 2018. The aforementioned certificate proves their suitability.

Reliability of Global Raw Materials Providers

In the supply of raw materials, as in other areas, we achieve viability by considering the socially responsible aspects of our operations. Due to the impacts of the global dynamics of supply and demand our focus is on long-term strategic relationships with key suppliers. This is the basis of the SIJ Group's procurement policy, which **increases the reliability of supply even during periods of extreme price fluctuations** on the market. The global providers of nickel, molybdenum, vanadium and other important raw materials for high-quality steels link their operations with sustainably suitable practices.

Responsible Consumption and Re-Use of Raw Materials

The commitments to recycling and circular economy are realised through processing and the use of by-products. In 2018, we devoted special attention to **reducing the use of refractories and graphite electrodes.** The price of electrodes in 2018 tripled compared to the average in the previous year. By repairing and reusing the electrodes, we generated savings while reducing the impact on the environment. The worn out refractory bricks are crushed and reused for furnace protection.

Despite the optimisation and responsible consumption, operating costs increased. The availability of these materials on the market improved in the second half of the year; we

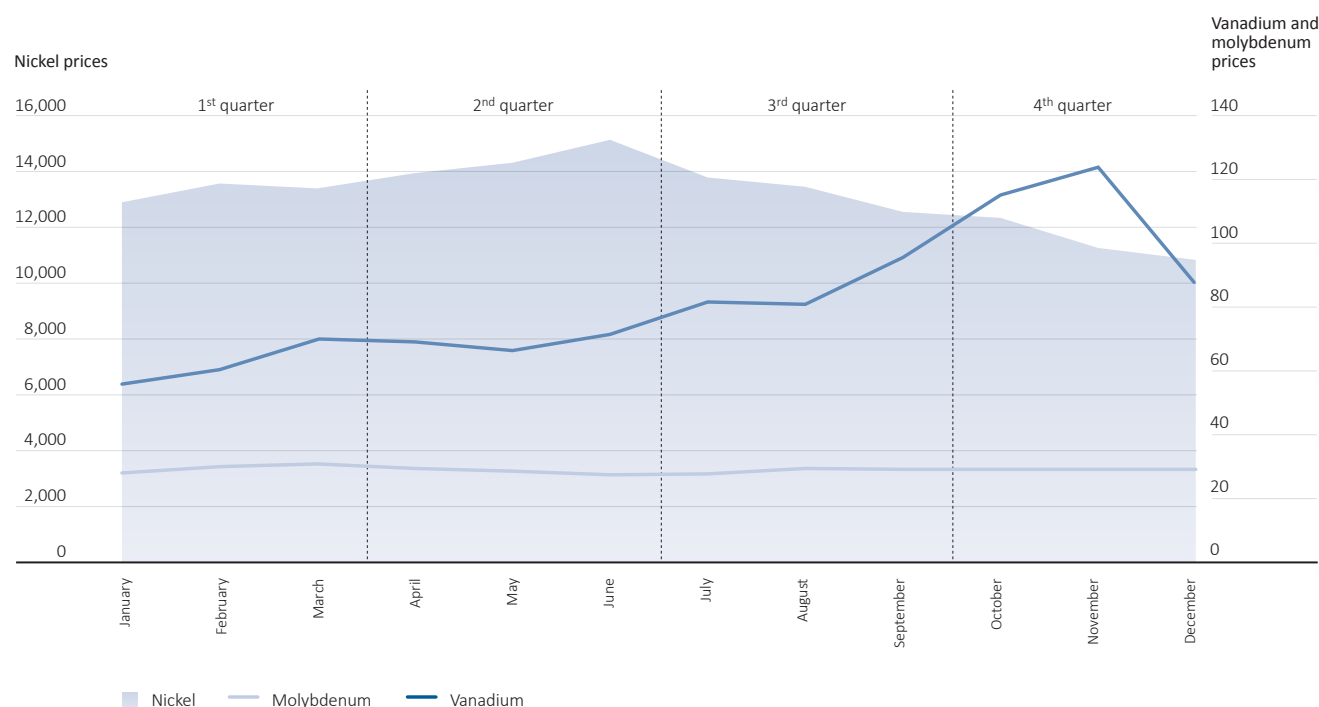
manage the high risk related to the possible lack of basic raw materials for graphite electrodes and refractory bricks by maintaining sufficient inventories.

Movement of Raw Material Prices in 2018

In addition to secondary raw materials (stainless and non-alloy steel scrap), the key raw materials for the production of stainless and special steels are nickel, chromium, molybdenum, vanadium, silicone, and manganese. In the first half of 2018, the prices of raw materials remained relatively stable. The trend mostly reversed until the end of the year, when only the price of ferrovanadium continued to noticeably increase. The rise in prices of raw materials was caused by an increased consumption in China, the changes in steel production specifications and the reduction of produced quantities of steels due to the environmental protection measures in China. Nickel prices, which were the highest in the middle of the year, increased due to the demand of stainless steel plate producers and due to positive macro-economic operating conditions in the first half of the year. Following the introduction of 25-percent steel import tariffs import to the USA, the trend reversed. During the course of the year, nickel stocks on the London Stock Exchange dropped by 41 percent and decreased by 66 percent on the Shanghai Stock Exchange. Nevertheless, the nickel market remains in deficit.

The demand and supply of molybdenum remained stable throughout the year, because its market is balanced.

SIJ Group: Movement of Key Raw Material Prices for the Production of Stainless and Tool Steels in 2018 (in USD per tonne)



Business Model for Harmonising Purchases and Sales

The prices of raw materials have a significant impact on the performance of the SIJ Group. Alongside the changing conditions on raw materials markets, the continuous coordination of purchases and sales is a key performance factor for the Metallurgy Division. The SIJ Group manages this

with a business model involving additional payments for alloys, which are passed-through to sales prices (the so-called pass-through model). The time delay in the pass-through to sales price is mitigated by effecting timely purchases.

EFFICIENT ENERGY MANAGEMENT

The companies in the SIJ Group use natural gas, which is a low-carbon fuel, and electric power, where the share of production from renewable energy sources is increased. Due to the nature of its principal activity, the SIJ Group is among the major consumers of energy in Slovenia. We consume almost 17 percent of all natural gas in the country, and 9 percent of all the electricity consumed in the Slovenian industrial sector. We are the second largest consumer of electricity in Slovenia.

Therefore, we pay special attention to economical and environmentally-responsible purchase and consumption of energy. We use various projects to increase responsible consumption and develop projects to use the excess heat energy from steel production in local communities. Our focus is also on projects for modern active consumption.

Selection of Suppliers

The SIJ Group regulates the supply of energy in a centralised manner and by introducing the best purchasing model. At the end of 2017 following the expiry of existing contracts we extended our cooperation with our current supplier of natural gas and selected a new electricity supplier.

Due to the quantities of the required energy products and because we operate in an open energy market, we **build partnerships with suppliers** that enable us to jointly achieve optimal energy prices. Both suppliers who work with the SIJ Group are geared towards sustainable and responsible conduct, and are focused on generating electricity from renewable sources.

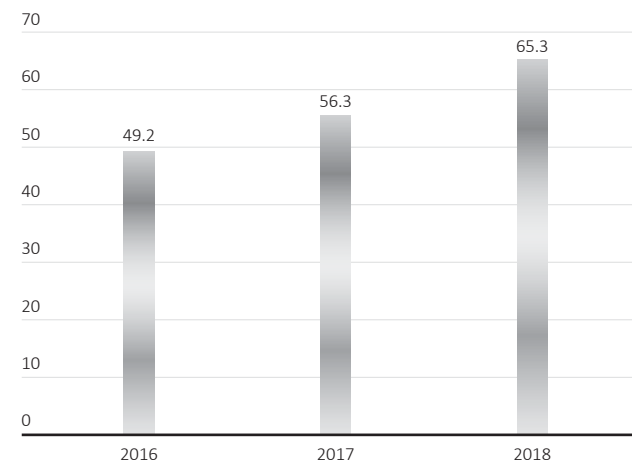
Managing Energy Costs

In 2018, we faced an increase in the prices of both key sources of energy. The contracts concluded with the suppliers of natural gas and electricity did not enable us to optimise the prices of these sources.

The costs of the energy were 16 percent higher than in 2017 and amounted to 10.4 percent in the share of all goods, material, and service costs, which is 0.4 percentage points more than in the year before. The largest consumers of energy are the Steel Division and the Manufacturing Division. In 2018, these two divisions consumed a total of nearly 524,000 MWh of electricity and nearly 82 million cubic metres of natural gas, a 5 percent increase compared to the previous year.

In 2019, consumption is expected to increase due to the planned increase in production; therefore, we are expecting higher total energy purchasing costs. At the same time, we expect the prices of energy products to remain on the same level as in 2018.

SIJ Group: Energy costs (in EUR thousand)



Systematic Consumption Management

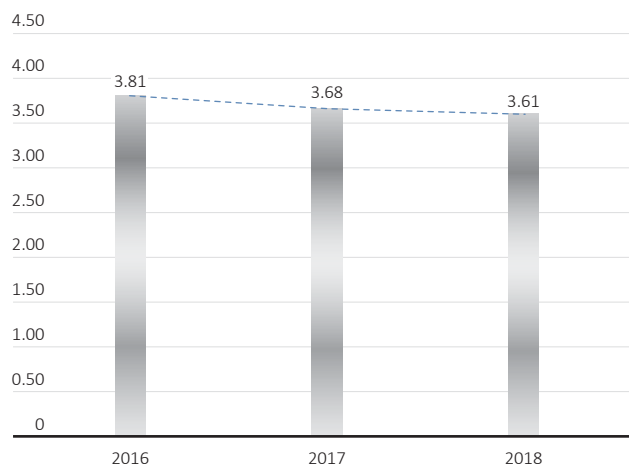
Increased reliability in energy supplies and the reduction of environmental impacts are achieved with the centralisation of the SIJ Group energy sector, by introducing energy management and by sharing good practices for efficient energy consumption among the companies in the Group. We are reducing specific energy consumption with well-considered approaches.

Reducing Specific Energy Consumption

The efficiency of energy consumption is monitored and managed through a unified centralized energy management IT system. The system, which enables **uniform continuous monitoring of energy consumption and energy efficiency by individual technological processes**, was especially intensively organised and applied in steel companies in 2018.

In 2019, the implementation of measures, which the performed energy inspections designated as a priority, will be facilitated by the final adoption of a suitable energy structure and energy management IT system. The uniform system will contribute to the efficient and responsible energy consumption throughout the entire SIJ Group, and will **increase savings**.

SIJ Group: Reducing Specific Energy Consumption (MWh/t)



Economical use of lighting

We are successfully using all co-financing opportunities in the realisation of investments in improving the energy sector. Under the Decree on energy savings requirements, we have obtained a subsidy for our investment in the energy management IT system as well as for the replacement of energy-wasting lighting. In 2018, we installed **energy-saving LED lights** in most factory halls of SIJ Ravne Systems. By systematically replacing the lighting, which we will implement in other companies in 2019, we can improve working conditions and achieve substantial savings in the consumption of electricity.

Actively and Self-Sufficiently

The planned **integration in active consumption**, which will enable us as consumers to contribute to the balancing of

the electricity market and increasing the reliability of the grid, is among the important innovations that we are intensively pursuing. In this, the role of major consumers, such as the SIJ Group, will be especially important.

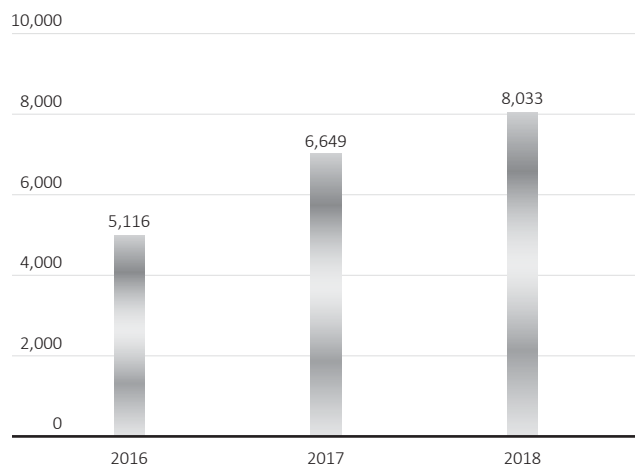
In 2018, we started planning our **own electricity storage facility**. The start of the project is envisaged for 2019. We have also initiated studies of **the possibilities for self-supply with alternative energy sources** and the construction of our own energy facility for the utilisation of such sources. We will continue conducting more detailed feasibility studies in 2019.

Re-Use of Excess Heat

In cooperation with the local communities, the companies of the SIJ Group increase the use of excess heat from metallurgical production processes.

Excess heat that is generated in the steel production process in SIJ Metal Ravne in **Ravne na Koroškem** partially covers the needs of the town for district heating. In 2018, we handed over some 8,033 megawatt-hours of thermal energy generated as waste heat in the electric arc furnace process to the local heating provider in the town of Ravne na Koroškem. This amount comprises about 41 percent of all the heat required by Ravne na Koroškem. We expect the amount of emitted heat to reach 10,000 megawatt hours in 2019, which will be enough to cover about half of all heating requirements of Ravne na Koroškem. In addition to heating the indoor pool of the Ravne na Koroškem Sport Centre, the SIJ Group also started donating waste heat for the heating of the outdoor pool in 2018. Through such cooperation, the thermal energy provided by the SIJ Group will become the preferred source of heating for the town.

SIJ Group: Increasing the Use of Waste Heat (MWh) Ravne na Koroškem



In **Jesenice**, the waste heat recovery project for the heating of the town and its surrounding area will also include SIJ Acroni, where partial self-supply of this steel company is already realised through the **co-generation of heat and electricity**. In 2018, it helped us produce 3,004 megawatt-hours of electricity and 4,327 megawatt-hours of thermal energy. Energy efficiency and co-generation contributes to the reduction of greenhouse gas emissions.

Major Partnership Projects

In the energy sector we acquire funds in cooperation with partners for sustainable projects which introduce new or improved approaches to efficient and environmentally-friendly energy consumption.

The **ETEKINA project**, for which SIJ Metal Ravne together with foreign partners acquired funds under the Horizon 2020 European Union Research and Innovation programme tender in 2017, will enable the implementation of a project for the recovery of waste heat from smoke emissions using the new "heat pipe" technology utilised in one of the major furnaces in the steel company in Ravne. Excess heat will be used for heating the premises and for re-use in the production process. We have conducted measurements in 2018 and started designing the technical solution; in 2019, we plan to carry out the installation of the selected technology and start monitoring results. The new technology would help us obtain 3,576 megawatt hours of energy per year and achieve **more than 40-percent utilisation of excess heat from smoke emissions**.

Together with our partners we acquired funds under the public tender published by the Ministry of Economic Development and Technology and SPIRIT Slovenia for the project entitled The Demonstration of Comprehensive Energy Management (**DEUP**), which is focused on the conversion, distribution and management of energy as part of the Smart Specialisation Strategy of Slovenia. **The active inclusion of consumption, advanced management of consumption response, and energy management** will be implemented in pilot and demonstration projects that include major industrial consumers and water supply systems. The project, which is separated into 3 content sets due to the specific features of individual groups of consumers and the increasingly targeted applicative implementation, includes the pilot demonstration of the cover platform for adjustable consumption and the **application Steelfleks, targeted to the steel industry**.

CIRCULAR ECONOMY

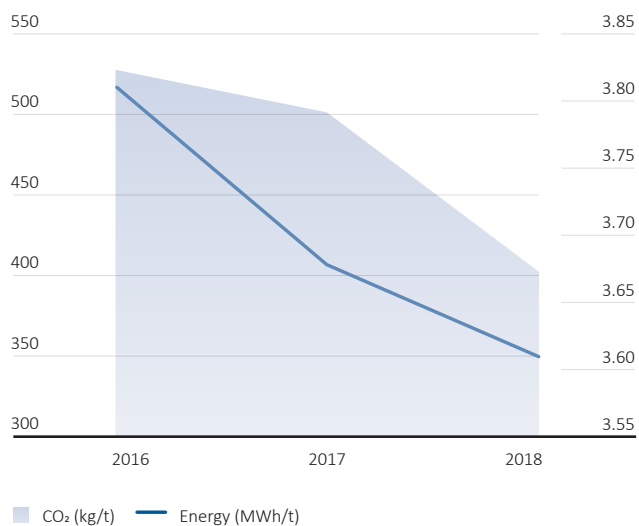
Reducing the carbon footprint, water consumption and energy per ton of produced steel, reducing the quantity of municipal waste per employee, diligent assessment of environmental impacts in project planning, and other aspects of responsible conduct show the sustainable orientation of the SIJ Group. The use of secondary raw materials and sound inclusion of by-products in own production and in the use in other industries, integration between the companies of the Group and with other companies place the SIJ Group among the stakeholders that realise and promote circular economy. **Finalising the cycles of materials, half-finished products and finished products** is one of the important principles of the industries of the future.

Re-Use of Steel Scrap and a Smaller Carbon Footprint

Compared to global ironworks and steel factories that, according to data of the World Steel Association, emitted on average 1830 kilograms of carbon dioxide per ton of produced steel in 2018, our emissions amounted to 401 kilograms per ton and are comparable with modern recycling steel factories. The World Steel Association report⁵ on CO₂ emissions shows that our emissions of 401 kg/t place us among the top companies on a global scale. Unlike the so-called integral ironworks, where the basic starting raw material is ore and the energy-generating product is coke, the basic raw material in steel plants, including the steel companies of the SIJ Group, **is steel scrap, and the energy products are more environmentally friendly**.

5 Source: World Steel Organisation. December 2018. CO₂ Data Collection Report 2017, page 32.

SIJ Group: Energy and Carbon Footprint



We also reduce carbon footprint by using new technologies (AOD), modern heating lines, and aggregates. Although we continue to increase the share of special steels that are usually heat-treated, we are also reducing total specific energy consumption.

[More on this >> Efficient Energy Management](#)

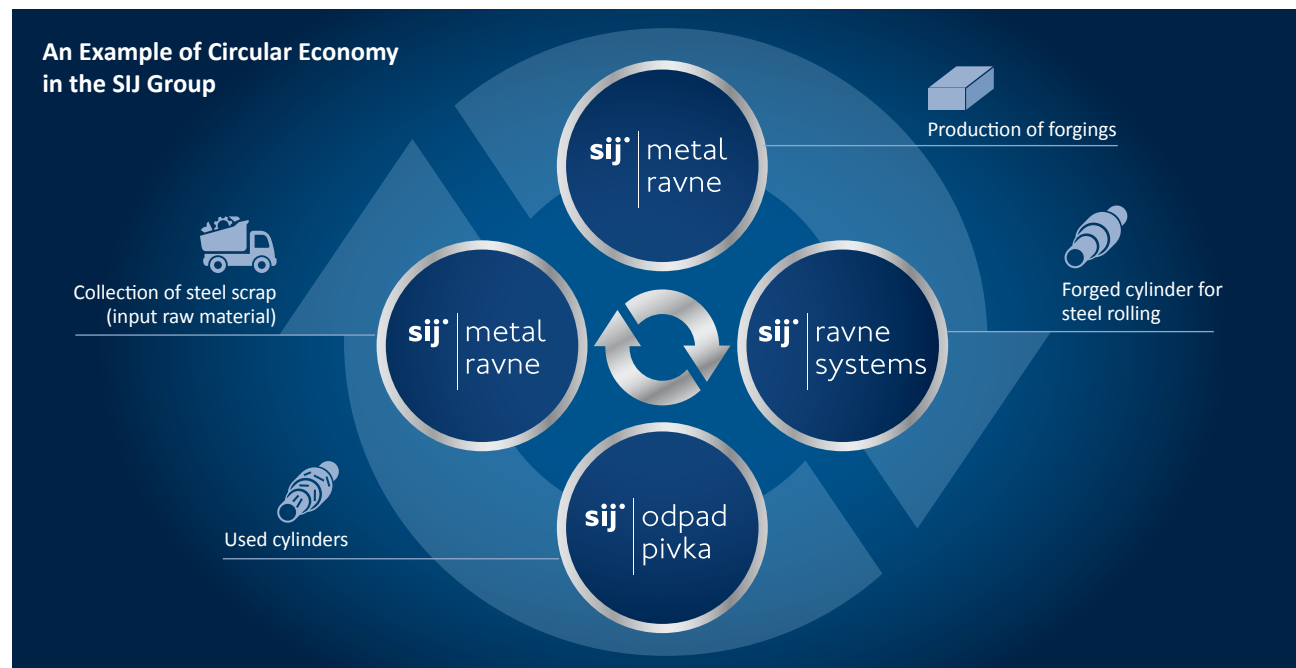
Circular Economy in the Companies of the Group

The basic raw material, steel scrap, is collected in our own collecting warehouses in Serbia, Croatia, Bosnia and Herzegovina, and Slovenia. We use these secondary raw materials in the production in Slovenia, close to our customers. We also have distribution and cutting centres in selected locations in Europe, where we trim, cut and additionally treat the steel with heat or adjust it to the needs of the customers. Cuttings and **our own scrap are returned directly to the steel plant**, which helps us efficiently utilise

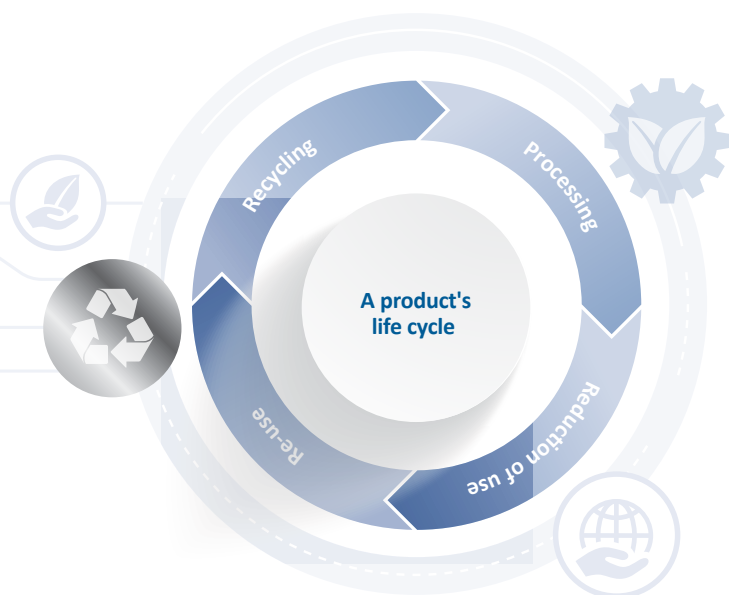
alloy elements (nickel, chromium, vanadium etc.). This also applies to all metal scrap.

The vertical integration of the companies of the SIJ Group allows us to fulfil the needs of customers comprehensively, and from the aspect of steel processes, such vertical integration can be understood as a **closed cycle of economic conduct between companies focused on raw materials, steel production, processing, and distribution**, including returning the scrap back to production.

[More on this >> SIJ Group in Brief](#)



CIRCULAR ECONOMY



Steel can be infinitely 100-percent recycled and processed into new types of steel as well as continually reused. New types of steel developed in the SIJ Group are usually characterised by a longer useful period resulting in more sustainable use or a smaller need to purchase a new product.

By-Products for Other Industries

The SIJ Group is systematically closing mass circuits and, with the exception of municipal waste that cannot be disposed of otherwise, we do not dump materials in landfills. What used to be scrap, is now considered as a by-product that can be **re-used in our own production processes or sold to other industries as a new product**. Customers use the slag that we do not use in the Group as a raw material in construction. Black slag is used for asphalt covers and road buffers, and white slag is used to build dams. New useful methods for using by-products are studied within the scope of various own and partner developmental and research projects.

[More on this >> Research, Development and Innovation](#)

Responsible Water Management

With our steel recycling activities, which are the foundation of the SIJ Group, along with respecting all regulations and controls, we do not endanger water resources, and we diligently assess all possible impacts on water, as well as other natural resources and assets.

Our steel plants use water mainly as a cooling element. In the steel plant in Jesenice we maintain a **completely closed industrial water circuit**, and in the steel plant in Ravne na Koroškem, where the circuits are now semi-closed, we have installed a new adiabatic cooling system in the new annealing furnace, which releases almost no water into the environment, because it operates completely independently. By closing the cooling systems, water consumption is sub-

stantially reduced. The introduction of contact-free cooling enables the return of water into the environment without depleting its quality.

Where technological processes still do not allow for closed systems, we actively reduce consumption. In comparison with 2017, we reduced the consumption of industrial water in 2018 by 6.3 percent. By raising employee awareness and improving processes, we reduced the consumption of drinking water in 2018 by 54 percent.

Economically Efficient Focus on the Future

Through circular management within the SIJ Group and by promoting circular economy from raw materials, to production and the use of our products, we act responsibly with regard to the environment and the future, while simultaneously choosing the forms of operations that enable us to **initiate long-term partnerships, efficiently manage risks, and generate value for our shareholders**. Our products, their quality and longer lifespan, as well as new customised solutions allow our customers to act sustainably, and access new closed cycles through cooperation with our Group.

Responsibility to the Employees

The SIJ Group and its companies are one of **the most important employers in Slovenia**. In both activities the Group employs more than 7,500 people. In a country with around 888 thousand active people, we represent a significant pillar not only in employment but also in the quality of life in local communities, where we operate.

REGIONAL PILLAR OF EMPLOYMENT

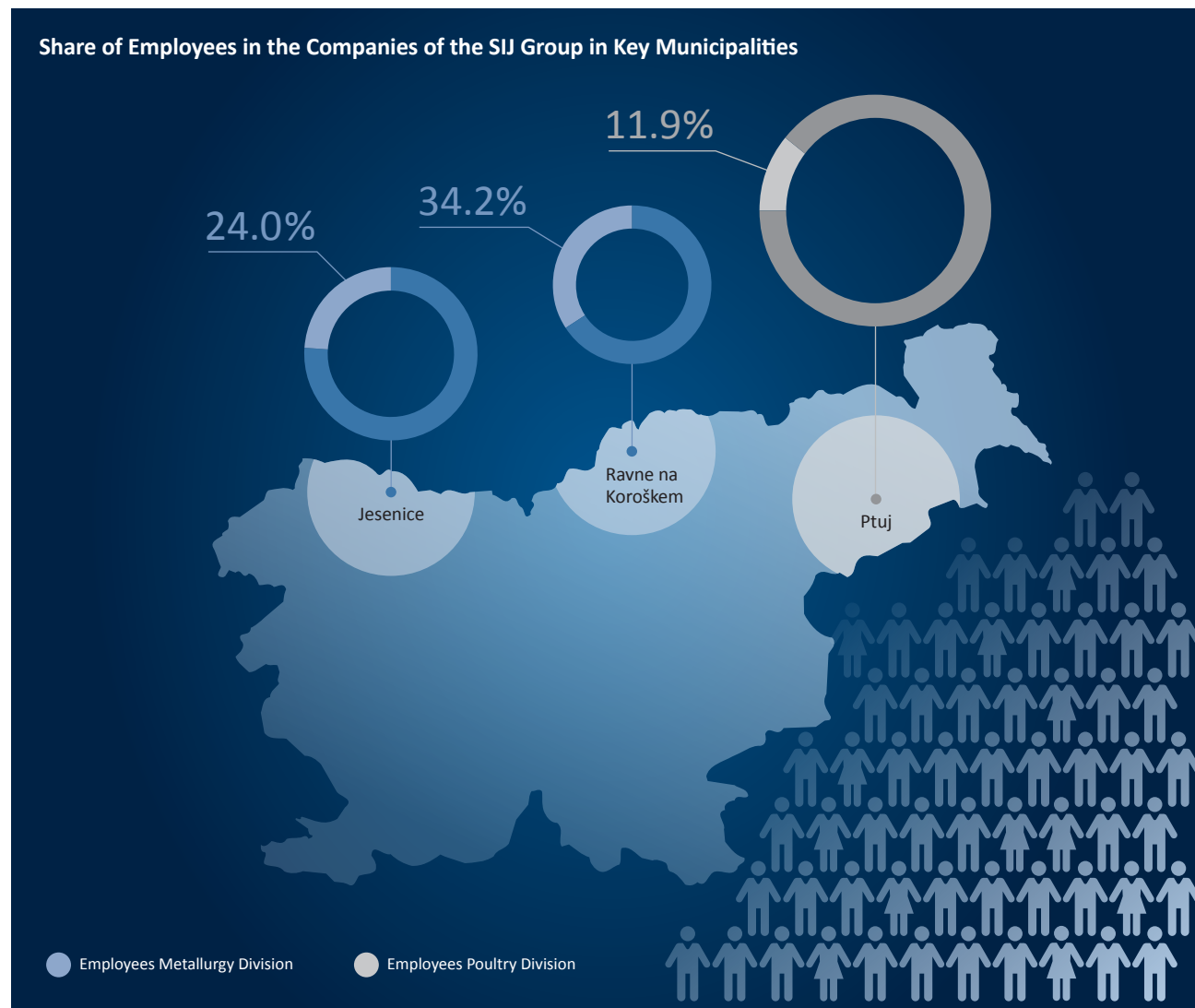
Employment possibilities in companies that are part of the SIJ Group are especially important in the Gorenjska and Koroška regions where our Metallurgy Division is located, and in the Podravje region, where the Poultry Division is located. We have an exceptionally important impact and responsibility in municipalities that are home to companies operating in both divisions. We employ over a third of the working population in Ravne na Koroškem, almost a fifth of the working population in Jesenice, and slightly more than a tenth of the working population in Ptuj.

Working Population in the Municipality and Employees in the Companies of the SIJ Group

	Number of employees in the municipality	The number of employees in the SIJ Group	%
Ravne na Koroškem	5,106	1,746	34.2
Jesenice	7,029	1,690	24.0
Ptuj	12,943	1,546	11.9

Source: Statistical Office of the Republic of Slovenia. 2018. Working population according to the statistical regions of domicile, employment status, achieved education, and gender, Slovenia, annually. Access through [link](#) (20 December 2018).

Share of Employees in the Companies of the SIJ Group in Key Municipalities



EMPLOYEE STRUCTURE

We increased the number of employees in 2018 through systematic employment, related to the realisation of strategic and ambitious annual business plans, which includes an increased production volume. As a result of the updating of processes and developmental guidelines of the companies and the SIJ Group, we are slowly **increasing the share of employees with a higher level of education**. The average age of employees is decreasing but there is still more than a third of our employees that are over 50 years old. This is also related to the **increased number of long-term sick leaves**, creating the need for additional employees to replace the absentees and to train their successors.

In the future, we plan to manage the need for new employees less by increasing employment and more by **increasing productivity per employee**, which we will achieve through professional trainings and further process optimisations.

Due to the specificities of work in the Metallurgy Division, the share of women among employees remains relatively small.

Metallurgy Division: Key Data on Employees as at 31 December

	2016	2017	2018
Number of employees	3,552	3,770	3,922
Average age (in years)	42.97	44.5	42.4
Share of women (percent)	17.1	16.9	16.3
Number of disabled persons	329	325	335
Sick leave (%)	6.6	6.1	6.5
Number of accidents	174	193	143
Accidents frequency (F2)	33.96	31.8	26.04

Poultry Division: Key Data on Employees as at 31 December

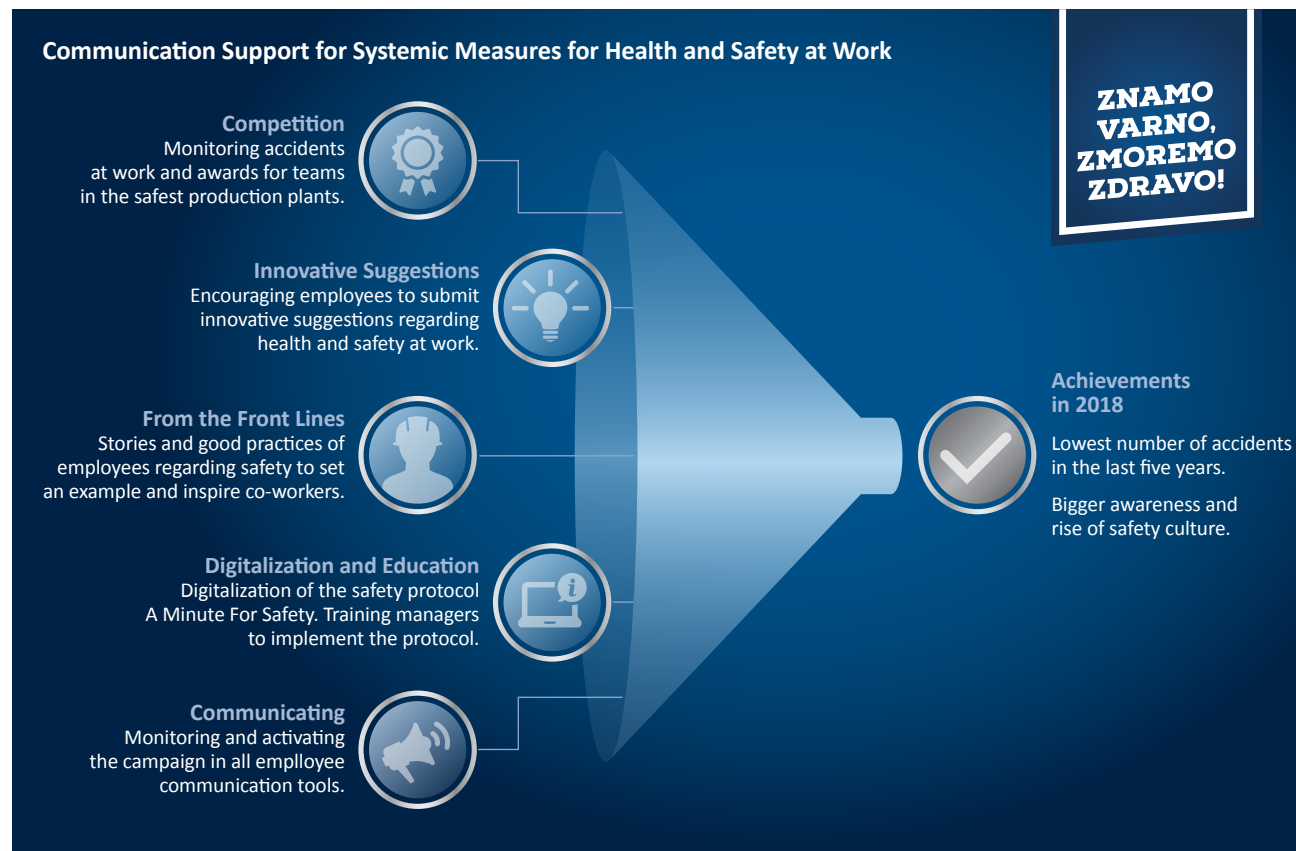
	2016	2017	2018
Number of employees	3,687	3,661	3,677
Average age (in years)	42.6	43.3	43.4
Share of women (percent)	52.1	55.3	55.4
Number of disabled persons	191	201	213
Sick leave (%)	4.4	8.7	8.5
Number of accidents	111	112	107
Accidents frequency (F2)	17.7	17.6	14.3

HEALTH AND SAFETY AT WORK

Due to high average age of employees, the labour intensity in the industry in which we operate, and the management of sick leave and work-related accidents, special attention is paid to measures to ensure safety at work and the protection of health. We systematically promote a healthy lifestyle and raise awareness among our employees regarding their own role in ensuring health and safety at work.

The **"Working Safely, Staying Healthy" campaign**, through which we communicate and support system measures for ensuring safety at work and which has been active since 2016, was supplemented in 2018 with the uniform electronic **application for carrying out the safety protocol "A Minute for Safety"**. The protocol is performed before the start of each shift in six production companies of the SIJ Group. We also carried out appropriate training for the users, which was attended by 320 employees. The application enables us to better monitor and analyse the situation, to motivate employees to provide proposals for enhancing safety, and to prepare appropriate measures. In 2018, we used various means and internal communication channels to not only emphasise the personal responsibility of employees, and the responsibility of managers, but also to promote our employees – ambassadors whose actions serve as an example of health and safety at work.

We regularly monitor and assess the achievement of goals in health and safety at work according to sound criteria. We strive to achieve the set objective to have zero work accidents and **we award plants with the least accidents**. Based on the results, we announced the two safest production plants at the beginning of 2019. The concern for health and



safety at work is reflected in **improving the work accident indicators**.

The concern for health and well-being of employees and their families also extends outside the working hours. Employees in the companies of the SIJ Group have the **option**

for free or subsidised use of sport facilities and leisure facilities at different locations. These include medical and recreational options in thermal resorts.

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

	2016	2017	2018
3rd cycle degree - Doctoral degree	1.6	1.5	1.5
2nd cycle degree - Master's degree	8.0	8.1	7.8
1st cycle degree - Bachelor's degree	11.1	11.3	11.2
Secondary general school	25.3	25.7	25.8
Secondary vocational school	28.4	27.6	28.2
2.5-year vocational school	10.7	10.4	10.0
Primary school	14.9	15.4	15.5

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

	2016	2017	2018
3rd cycle degree - Doctoral degree	0.8	0.5	0.6
2nd cycle degree - Master's degree	7.3	7.6	7.9
1st cycle degree - Bachelor's degree	6.0	6.1	6.0
Secondary general school	16.9	30.5	30.5
Secondary vocational school	35.9	21.8	20.7
2.5-year vocational school	8.8	9.5	10.1
Primary school	24.3	24.0	24.2

Metallurgy Division: Mentors

Number of active mentors with professional qualifications and experience	464
Number of mentors with pedagogical and andragogical qualifications	128

EDUCATION AND INCREASING EMPLOYEE COMPETENCES

Planned development, identification and advancement of the knowledge, qualifications and competences of employees are understood as one of the key areas to ensure the performance and sustainable development of the SIJ Group. In 2018, **we invested EUR 539,008 in the education and training of employees.**

As part of the Strategic Developmental and Innovation Partnership Materials as Finished Products (SRIP MATPRO), which functions under the Chamber of Commerce and Industry of Slovenia, we and our partners acquired the funds for **establishing the Competence Centre for the Development of Materials as Finished Products.** The Centre's operations are focused on the development of competences of employees. The implementation of the competence model for six key employee profiles enabled us to determine the needs for additional education, which we co-financed with acquired funds.

The knowledge and competences of employees are enhanced with mentorship programmes and metallurgy education classes. With planned **mentorship management** we provide for the transfer of specific knowledge to new employees, mentors with appropriate pedagogical and andragogical qualifications transfer their knowledge to secondary school and university students, who are enabled practical training during their schooling. We regularly analyse the work of mentors and enable additional trainings for them.

Professional education in metallurgy and mechanical engineering is carried out at the **Metallurgy School and internal**

professional school. The programmes are carried out by the lecturers and tutors of the SIJ Group. In 2018, the Metallurgy School conducted ten educational modules intended for employees without proper education and knowledge in the field of metallurgy. In 2018, 45 employees attended the courses to acquire better knowledge and the understanding of metallurgy.

We motivate employees to attend **part-time education studies** that we co-finance in accordance with internal calls for applications. In 2018, 90 employees from the metallurgy companies of the SIJ Group attended part-time secondary school and university programmes.

CO-CREATING THE PROFESSIONS OF THE FUTURE

Technical professions which have been in shortage in Slovenia for a long time are of key importance for the activities of the SIJ Group, which is also related to fulfilling the needs of the changing and newly developing industries of the future. For several years now we have been systematically presenting technical professions in the Metallurgy Division in primary and secondary schools, and cooperating with higher vocational colleges in the preparation and **implementation of specialised classes, practical education, projects, and final tasks.** We attend information days, open door days, vocational fairs and other events that enable the younger generations to make an easier and better informed choice of vocations and education.

We continue implementing the **education programme for metallurgical technicians** in cooperation with the Ravne Secondary General School, a programme that has been

re-introduced in cooperation with the SIJ Group. In the 2018/2019 school year, the third generation of secondary school students enrolled in the programme. At the Jesenice Secondary General School we cooperate in the **mechanical technician programme.** We have an open curriculum, and in the third and fourth years we carry out the elective subject Metallurgical Processes.

We **provide scholarships and practical trainings** to perspective secondary school and higher school students during their schooling. In 2018, we granted scholarships to 143 young people enrolled in the secondary vocational and professional education programmes and higher and university study programmes. In 2018, 185 secondary school and higher education students attended practical trainings implemented in the metallurgy companies under the mentorship of professionally qualified employees.

REWARDING AND MOTIVATION

Employee engagement is supported with systematic rewarding of individuals contributing to the Company's success. Following a thorough study of various current rewarding systems, in 2018, we combined the best practices into **a new monthly employee rewarding model.** The uniform model increases the impartiality and equality of rewards for all employees. Employees are additionally rewarded **for achieved business performance at the end of the year,** based on the fulfilment of criteria relating to the operating results achieved by an individual company.

Special rewards and **bonuses are given to top employees** of the companies of the SIJ Group, chosen by employees. **Rewards are also given to employees with key anniversaries,**

who remained loyal to the companies of the SIJ Group. In 2018, we rewarded the loyalty of 766 employees who have been employed at the SIJ Group for more than thirty years.

Bonuses, awarded to employees for their proposals for the improvement of processes, present an additional motivation for an engaged search for innovative solutions.

[More on this >> Research, Development, and Innovation](#)

In 2018 we recognised and rewarded symbolic bonuses under the **"From Generation to Generation"** project to eight families who have been co-creating the steel tradition of the SIJ Group for several generations.

LONG-TERM SOCIAL SECURITY OF EMPLOYEES

We improve the social security of employees at the SIJ Group by paying **supplementary pension insurance.** In 2018, we paid supplementary pension insurance for 2,401 employees. The average paid premium amounted to EUR 911,29, the total amount of paid premiums was EUR 1,617,113.

ENSURING EQUAL OPPORTUNITIES

The companies of the SIJ Group maintain employer reputation by respecting employee rights and through various additional benefits. Employees are guaranteed equal opportunities, irrespective of gender or other personal characteristics, and by considering the families and the environment of the employees, we are building partnerships with the local social environment. We select new employees carefully and comply with the legal regulations in all countries where we operate.

RESPECTING SOCIAL DIALOGUE

We respect the principles of social dialogue between trade unions, employees and employers. We organise **meetings with employees** several times a year, where they are presented the most important information regarding operations and briefed on developments within the SIJ Group. We also communicate with employees via other formal communication channels, including the internal magazine SIJ, newspapers of individual companies, the intranet, Yammer social network, info boards, internal television, and other forms of digital and personal communication. We hold regular monthly formal meetings with the representatives of trade unions and continually communicate via informal communication channels.

Due to many changes in the Group management and management bodies of individual companies as well as beneficial economic circumstances that caused increased activities of trade unions all over the European Union and in Slovenia, we had to engage more intensively in social dialogue in 2018. Especially in the second half of the year we carried out activities and **negotiations with trade unions**, mainly in Ravne na Koroškem. In November unions organized two hour warning strike in production companies in Ravne na Koroškem. In December we came to an agreement in SIJ Ravne Systems, and negotiate on our standpoints until the end of the year at SIJ Metal Ravne and SIJ ZIP Center. We finalised our agreements in the beginning of 2019 and establish social peace.

The SIJ Group complies with the industry collective agreements as well as all corporate collective agreements.

PROFESSIONAL CONDUCT WITH VULNERABLE GROUPS

We dedicate special attention to disabled persons and individuals with special needs in accordance with the ethical operation values and sustainable development principles that consider the needs of the community where we operate.

We provide employment to disabled persons in our subsidiary SIJ ZIP Center, which is entirely integrated in the corporate management of the SIJ Group. We **preserve and create new workplaces for disabled persons** in joinery, printing and services programmes. By employing disabled persons at productive workplaces, we provide them full and efficient participation and inclusion in the society in accordance with the equal opportunities principle.

We provide appropriate employment to employees who can potentially no longer perform their primary work tasks due to disability. At the end of 2018, the companies of the SIJ Group employed 335 disabled persons and newly employed 25 disabled persons.

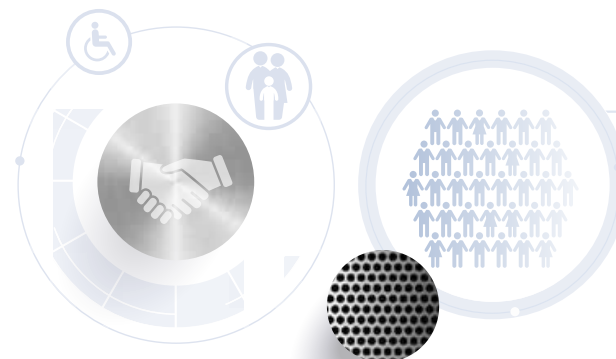
Since December 2017, SIJ ZIP Center as the concessionaire for employment rehabilitation has been carrying out the four-year project entitled **Transition into The Labour Market for Young People with Disabilities**. Under the contract concluded with the Ministry of Labour, Family, Social Affairs and Equal Opportunities, this project enables people under 29 years of age with mental disorders, the blind and people with visual impairments, the deaf and hard of hearing, people with motor disorders and other people who need adapted implementation of training and education programmes,

the inclusion in work with special professional assistance. After the project was presented at various schools in the Koroška region, 14 young people with special needs entered the programme.

THINKING ABOUT THE QUALITY OF LIFE

Beside the systematic improvement of safety at work, the companies in the SIJ Group protect the health of their employees, help to improve their competences, and create opportunities for an active and creative life for employees, their family members, and the local communities where we work.

SIJ Group companies are not only important employers. We are socially-responsible co-creators of the quality of life of the local community in the present and the future.



Socially Relevant Cooperation with Communities

Sponsorships and donations which we dedicate to selected projects in local communities where we operate and with which we are establishing, preserving and strengthening long-term partnerships for mutual progress and development, are an important part of the sustainable operations of the SIJ Group.

In 2018, we designed uniform guidelines for sponsorships and donations, which apply for the SIJ Group and associated companies in the Group. Sponsorship and donation projects are integrated **under the new umbrella brand "Mind of Steel"**. Together with our partners, ambassadors, and employees we use various activities to spread the message that in order to earn achievements in various fields, we need a strong will; as if we were made of steel.

Cooperation Guidelines for Socially Important Projects



EDUCATION INCENTIVES

The SIJ Group in cooperation with the UMco publishers has since 2015 supported the **publication of world-renowned books** on business and personal growth, which readers would otherwise not find on the shelves of Slovenian bookstores. In 2018, we supported individual learning with two books; Pre-Suasion by Dr. Robert Cialdini and Black Box Thinking by Matthew Syed.

By supporting professional conferences, with sponsorships, and donations to **educational establishments** in technical professions, as well as with various competitions for young people we are promoting the development of metallurgy and steel production, and the developmental opportunities of the wider steel industry.

CONCERN FOR HUMANITARIAN INITIATIVES

The SIJ Group also supports humanitarian initiatives and especially activities that employees can join as volunteers. Volunteering enables an effective and sustainable creation of ties among employees and the people in the community. In 2018, we organised the **1st Community Partnership Day**. Under the slogan "Steel Bonds Between Us" 117 employees from the SIJ Group and 37 athletes from associations and clubs sponsored by the SIJ Group performed more than **300 hours of volunteer work**. In Jesenice, Ravne na Koroškem and Ljubljana, they renovated children's playgrounds, worked on the city park and a hiking hut, socialised with the residents of the retirement home, and spent the afternoon with the children from the special education school.

CULTURAL PROJECTS FOR THE PRESERVATION OF STEEL HERITAGE

We support activities in culture and art. We dedicate special attention to partnerships for the preservation of steel cultural heritage.

In the Gorenjska region, an important part of this heritage is the **small Pelton wheel** that was renovated by the employees of SIJ Acroni in 2018. Weighing 38 tonnes and spanning 4.5 metres in diameter, the wheel at the time of its creation was considered one of the largest single castings in the world. Since 1902, it has driven the production lines of the then new rolling plant, the Kranjska industrijska družba in Javornik. It was in use until 1979.

In the Koroška region, the SIJ Group is a part of an organising committee for the **commemoration of the 400th anniversary of steel industry in the Mežica Valley**, which operates under the aegis of the Municipality of Ravne na Koroškem. This major jubilee, which is inseparably connected to the operations of the SIJ Group steel plant in Ravne na Koroškem, will be held in 2020.

INTEGRATION WITH SPORTS

The SIJ Group supports top-class sport achievements **at the national level**. We have concluded a cooperation agreement with the Olympic Committee of Slovenia for a new Olympic cycle lasting until 2022. In 2019, we will manufacture a new steel **Slovenian Olympic torch**, which will bring the Mind of steel values to the 2020 Olympic Games.

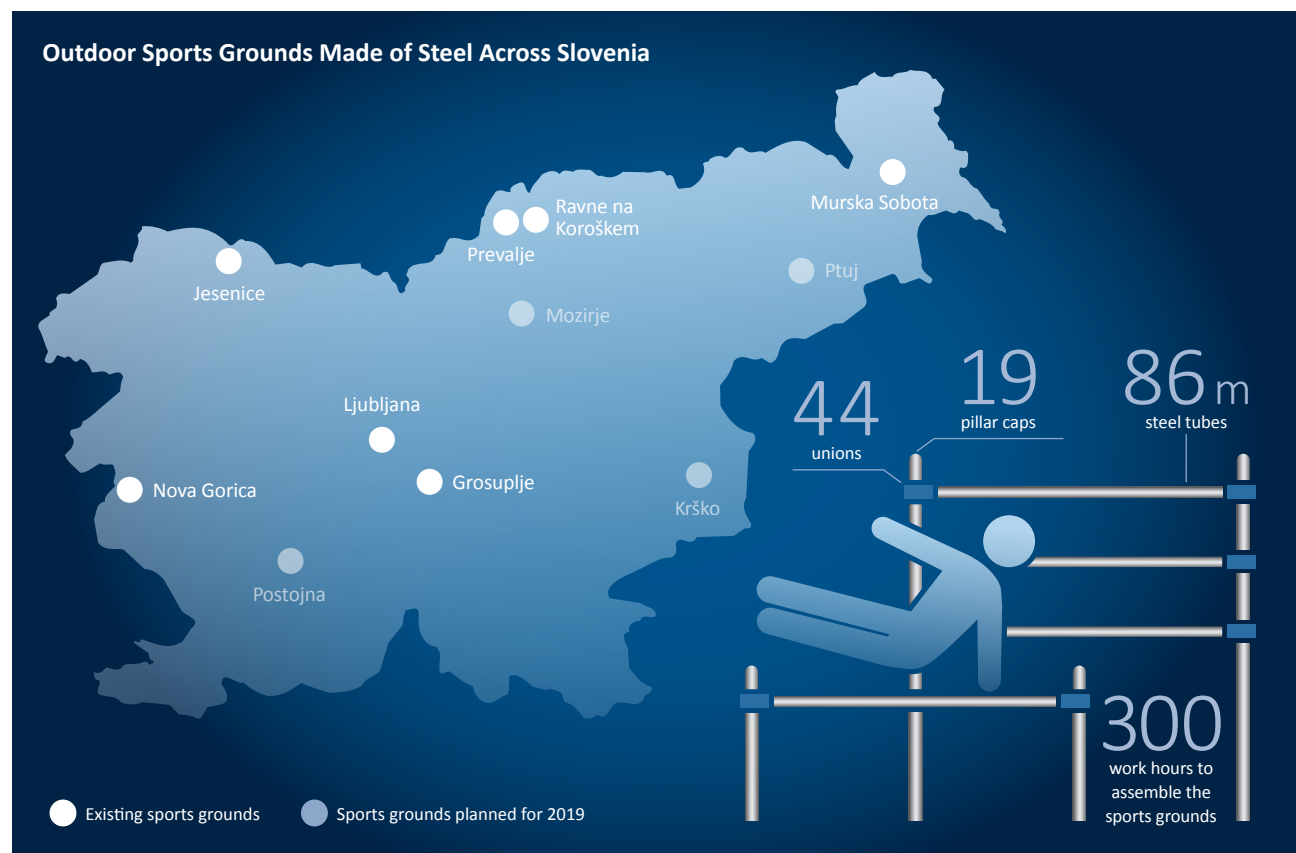
In 2018, the winners of the Slovenian competition **Athlete of the Year 2017**, organised by the Sport Journalists Association of Slovenia, have already encountered the usefulness and beauty of steel from the companies of the SIJ Group. Their awards were designed in the form of steel sculptures made by the companies of the SIJ Group.

National recognition is also related to the operations of the HDD SIJ Acroni Jesenice hockey club, which has been supported by the largest metallurgy company of the SIJ Group since its foundation. In 2018, we commemorated **70 years of hockey in Jesenice**.

At the local level, we support mass sports programmes, which also include SIJ Group employees and their family members. We promote and support activities such as swimming, volleyball, bowling, football, hiking, and other forms of recreation. Socialisation among employees also takes place in the SIJ Sports Club. Its activities are related to the participation of employees at the Poli Cycling Marathon, the Ljubljana Marathon, where SIJ Group runners also carried out a humanitarian campaign, as well as at numerous other sports and recreational events that are attended by the members of the cycling, running, and hiking divisions of the Club.

We innovatively support quality leisure time activities in the local environment with new sports and recreational infrastructure that also showcases the usefulness of steel. By the end of 2019, we will, in collaboration with the Olympic Committee of Slovenia, install and donate **11 steel outdoor sport grounds** to local communities. In 2018, two outdoor

gyms in Grosuplje and Nova Gorica joined the existing sport grounds, installed in Ravne na Koroškem, Prevalje, and at the Podmežakla Sports Park in Jesenice, in Murska Sobota and in Ljubljana. In the following year, we plan to install them in Ptuj, Mozirje, Postojna, and Krško. The outdoor sport grounds have all been produced at SIJ Acroni.



RISK MANAGEMENT

SPECIALISED IN FINDING THE RIGHT SOLUTIONS

Stainless steels have a longer lifespan and prevent the risks caused by increased temperatures, a humid atmosphere, and contact with aggressive elements. Tool steels reduces the risk of tool breakages and a number of other risks. Electrical steels prevent the unnecessary loss of electrical energy.

By selecting the appropriate special steels, our customers enhance the safety, reliability and efficiency of various tasks, procedures and products.

By managing business risks, we guarantee stakeholders that their expectations are fulfilled, and we ensure that the companies and the SIJ Group operate successfully and achieve strategic goals.

Risk Assessment System and Guiding Strategic Decisions

The SIJ Group has established a comprehensive risk management system, covering both business risks specific to the Metallurgy Division and risks specific to the Poultry Division as well the operations in the markets with end consumers. The measures for a systematic management of opportunities and risks are carried out in a centralised way at the level of the entire SIJ Group.

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

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

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

Risks are managed at the level of the entire SIJ Group, considering also the specific risks for both divisions. Due to the

significance and high probability of rapid changes in the Metallurgy Division, **special attention is paid to financial and commercial risks**, while in the Poultry Division, we pay particular attention to the risks associated with quality and food safety, as well as sales risks, which on the consumer market for food products vary depending on the competitiveness and the purchasing power of the population in different markets. Reputation and good name, as well as well-established, trusted brands of products with proven safety, quality and traceability, significantly mitigate sales risks.

Individual risks, their management and the assessment of exposure to each individual risks are presented below.

Opportunities and Risks Management System at the SIJ Group



Review of Typical Risks and Management Methods

COMMERCIAL RISKS

Area of risk	Description of risk	Method of management	Exposure 2018
Purchase risks	Purchasing quality and suitably affordable raw materials, the risk of timely supply, changes in purchasing prices	Careful planning of the supply chain, negotiation and searching for suitable suppliers, long-term framework agreements with suppliers.	High
Sales risks	Decreased amount of orders and loss of customers due to the bad economic situation, a weaker purchasing power of companies, and the introduction of import restrictions in individual countries	Proactively responding to changes in operating conditions by adapting marketing models, finding new markets, adjusting our sales and market activities, innovative market approaches, the concern for quality customer portfolios and their suitable distribution, and the distribution of risks by concluding short- and long-term contracts with customers	Moderate
Investment risks	The risk of incorrect decisions to invest in manufacturing and other facilities, risks related to the investment implementation process	Systematic planning of investment implementation, market study to ensure the products from the investment project will be sold, careful selection and choice of potential contractors; constant monitoring of the expertise, performance, quality, cost and agreed schedule within the unified IT project management system. We have introduced a system of monthly control over the achievement of planned investment effects.	Moderate
Quality-related risks	Inappropriate quality of input materials for the production process, inappropriate implementation of development and production processes; inappropriate quality of finished products.	Upgrading certified management systems and following changes in the quality system, careful implementation of quality control in all development and production processes, additional insurance of adequate product quality through product responsibility insurance policies. We have introduced a daily monitoring system for the quantity of non-compliant products. Analysing and preparing measures are a regular topic of daily video conferences.	Moderate

RESEARCH AND DEVELOPMENT RISKS

Area of risk	Description of risk	Method of management	Exposure 2018
Research and development	Risks, connected with the achievement and guaranteeing of safety and technical standards, and risks, connected with the process of new products development.	Constant investments in new technological, software, and market improvement. Careful planning of development projects, quality reporting, adequate control	Moderate

ENVIRONMENTAL RISKS

Area of risk	Description of risk	Method of management	Exposure 2018
Emissions to air	The reduction of CO ₂ emissions, ensuring the minimalisation of dust and other emissions into the air, and their compliance with legislation	Monitoring, diligent planning of investment projects, high-quality reporting	Moderate
Emissions into water	Ensuring compliance with legislation	Monitoring done by our own laboratory using accredited methods, diligent planning of investment projects, raising the awareness of employees, supervision over the implementation of technological processes, high-quality reporting	Moderate
Noise emissions	Ensuring compliance with legislation about noise in the workplace and about noise pollution in the surroundings of industrial facilities	Diligent planning of investment projects, supervision over the implementation of technological processes, high-quality reporting	Moderate
Emissions to the ground	The quantity of deposited waste, the quantity of dumped 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	Low
Use of starting materials	Ensuring high yields of finished products compared to starting materials, ensuring low specific consumption of auxiliary materials, reducing the consumption of drinking water	Diligent planning of investment projects, raising the awareness of employees, supervision over the implementation of technological processes, innovation in technological procedures, high-quality reporting	Low
Energy consumption	Risks related to increasing the specific consumption of electricity and technical gases	Diligent planning of investment projects, raising the awareness of employees, supervision over the implementation of technological processes, innovation in technological procedures, high-quality reporting	Low
Operational risks with a potentially adverse impact on the environment	Risks associated with mechanic damages, technological disturbances, pollution, fire, radioactivity, and other hazardous events	Preventive exercises and internal procedures in emergencies, collaboration with external environment protection institutions, raising the awareness of employees for reporting emergencies, supervision over the implementation of technological processes, indicator monitoring (the number of emergencies/million of working hours carried out), high-quality reporting	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

FINANCIAL RISKS

Area of risk	Description of risk	Method of management	Exposure 2018
Foreign exchange risk	Risks, connected to operations with foreign means of payment means, related to the changes in exchange rates.	Price policy method of integrating the foreign currency into the price difference, matching or balancing sales, and purchasing and balancing the outflows and inflows by currencies.	Moderate
Credit risk	The risk of failure to fulfil the obligations of the counterparty – risk of default.	Active and systematic monitoring of receivables with regard to customers' credit ratings, daily verification of due receivables, and a high coverage of receivables with premium insurance.	Moderate
Liquidity risk	The risk of insolvency due to a deficit in available financial resources.	Daily monitoring of cash flows, long-term liquidity planning, appropriate liquidity reserves, and liquidity monitoring on the Group level.	Moderate
Interest Rate Risk	The risk of potential changes of cash flows due to the changes in interest rates	Monitoring financial markets and interest rates movements, preserving an appropriate share of fixed interest rate loans, and active market monitoring.	Low

OTHER RISKS

Area of risk	Description of risk	Method of management	Exposure 2018
IT risks	Risk of interference due to faults of IT	Regular maintenance, updating and upgrading of the IT system, regular provision of IT training to employees	Moderate
Human resources risk	Risk related to the provision of qualified staff and staff availability and to the preservation of social dialogue due to the positive economic climate	Systematic work with key staff, system of awards, mentorship programmes, continuous education; promotion of technical professions through close collaboration with education institutions	High
Legal risks	Risk associated with changes in legislation or the interpretation thereof.	Monitoring legislation and case law and preparing measures	Moderate
	Risks associated with the conclusion of commercial agreements	Review of all agreements concluded with suppliers and customers	
	Risks associated with acquisitions of companies and the restructuring of operations	Active management of the portfolio of investments Participation in all phases of projects and processes	
Risk of reputation and goodwill	Risk associated with the quality of services and products, unethical business practices, etc.	Active implementation of corporate governance and monitoring the management of our brands	Moderate

Key Risks in 2018

PURCHASE RISKS

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

The source of price risks in procurement is the time delay between the purchase of raw materials and the sale of the product, because higher or lower prices of raw materials are passed-through to the prices of products. These risks are **mitigated by harmonizing procurement and sales**, and by weekly harmonising of production plans with procurement plans.

Because the prices of the main raw materials increased in the second half of the year, increasing the risk that the changes in prices could not be entirely or timely passed-through to sales prices, these risks were assessed as high. The pass-through to sales prices was **managed with a business model involving additional payments for alloys**, and the key activity focused on timely leases and proper procurement models based on harmonised sales plans. Despite the fact that the risk is assessed as high, we are able to manage it.

SALES RISKS

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

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

We systematically monitor the changes in the consumer industry and on the market, and **proactively adjust the marketing models** and objectives with the purpose of achieving a stable long-term growth in sales in recognised key market segments.

We were forced to manage the risk resulting from the **2018 introduction of 25-percent steel import tariffs in the USA**, because a large share of our portfolio in the US market cannot be substituted locally. We consequently submitted claims at the American Ministry of Trade to exempt our products and successfully passed the increased prices to customers. At the same time, we continue close **cooperation with the European steel organisation Eurofer, the Government of the Republic of Slovenia, and the European Commission for the introduction of protective measures of the European Union market**, working against an increa-

se in import from third countries. As a result, the risk is assessed as moderate despite the fact that in 2018, 9 percent of our sales were realised on the US market.

HUMAN RESOURCES RISK

In 2018, the economic climate in Slovenia and the European Union was beneficial, which intensified the activities of trade unions that strive to improve the rights and employees and raise salaries.

In 2018, the HR risks at the SIJ Group arose from **trade unions demands for an increase in salaries** of employees and **intensified situations in the form of strikes** if the demands of trade unions were not met. This risk was managed through **engaged and proactive management of the social dialogue**, including negotiations with trade unions. In Jesenice, this risk was managed effectively. In the second part of the year, when the companies held a warning strike, we triggered additional activities in Ravne na Koroškem for negotiations with the Trade Union of Electronics and Steel Sectors of Slovenia (SKEI) and the Confederation of New Trade Unions of Slovenia (KNSS). We concluded an agreement with KNSS and in the beginning of 2019 also an agreement with SKEI, to **re-establish social peace** and undisturbed operations of the companies of the SIJ Group.

FINANCIAL REPORT OF THE SIJ GROUP

VERIFIABLE FACTS ABOUT THE STEEL WORLD

Around 500 steel production sites in 24 EU member countries generate more than EUR 120 billion of revenue annually and produce around 170 million tons of steel. The European steel industry employs more than 320,000 people and indirectly provides work for as many as 2.2 million people. With knowledge, solutions and products the **steel industry is one of the foundations for the economic growth and development of Europe.**

The largest metallurgy group in Slovenia significantly contributes to the European steel industry. **By revenue, the SIJ Group is one of the 10 largest business groups in Slovenia.**

Independent Auditor's Report



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Independent Auditors' Report

To the Shareholders of SIJ d.d.

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

We have audited the consolidated financial statements of SIJ d.d. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU").

Basis for Qualified Opinion

IAS 36 *Impairment of Assets* (IAS 36) requires that impairment testing is performed at each reporting date for an asset or cash-generating unit (CGU) when there is an indication of possible impairment, and annually, among other things, for the CGUs to which goodwill has been allocated. As at 31 December 2018, there were indications that the carrying amount of certain of the Group's CGUs might be impaired due to their weaker than budgeted financial performance and also some of the Company's CGUs included goodwill resulting from prior years' acquisitions. As consequence, management performed an assessment of the recoverable amounts of the CGUs, and used it to conclude that no additional impairment loss was required in respect of the underlying assets. Based on our evidence, including, but not limited to, the assessment of the quality of the Company's past cash flow projections, in our view, certain of the assumptions applied in the Company's impairment testing could not be supported by available evidence. We requested management to quantify the extent to which the consolidated financial statements were misstated as a result of the above matter. However, no such quantification was provided to us and it was impracticable for us to quantify the financial effects of the adjustments to goodwill, intangible assets, property, plant and equipment, and deferred income taxes as at 31 December 2018 and to net profit for the year then ended, which would have resulted had management applied supportable assumptions and accounted for the impairment in accordance with the requirements of the above Standard.

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z omejeno odgovornostjo in članica KPMG mreže neodvisnih družb
Slovenije, ki so povezane s švicarskim združenjem KPMG International
Cooperative ("KPMG International")

TRR: SI 96 2309 0000 1851 102
vpiš v sodni register: Občinsko sodišče v Ljubljani
šl. reg. št.: 061712082100
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ID za DDV: SI03437140
matična št.: 5648556



In addition, in the consolidated financial statements, the Company failed to disclose certain key assumptions on which management has based its determination of the recoverable amounts of the CGUs including goodwill. The disclosure of those key assumptions is required by IAS 36. It is impracticable for us to provide this information.

We conducted our audit in accordance with International Standards on Auditing (ISAs) and EU Regulation (EU) No 537/2014. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with both the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in Slovenia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified 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. In addition to the matter described in the *Basis for Qualified Opinion* section we have determined the matter described below to be the key audit matter to be communicated in our report.

Recognition of revenue	
Revenue in 2018: EUR 802.766 thousand (2017: EUR 754.870 thousand)	
We refer to the financial statements: Note e. Significant accounting policies, Revenue (accounting policies), Note 1. Revenue (notes to the financial statements).	
Key audit matter	Our response
The Group's revenue is generated primarily from the production and sales of steel products, such as stainless steels, tool steels in the form of rolled and forged products, special quarto steels and alloyed tool steels. We focused on this area due to the multitude of contractual arrangements to be analysed coupled with the magnitude of the amounts involved. In addition, the new revenue standard, IFRS 15 <i>Revenue from Contracts with Customers</i>, which became effective on 1 January 2018, introduced a revised revenue recognition model whose accounting ramification required our assessment as part of the current year's audit.	Our audit procedures in the area included, among others: - Obtaining an understanding of the revenue process, and testing the design and implementation of the Group's internal controls in the area of revenue recognition. This included, among other things: - assessing the compliance of the revenue recognition policies applied against the relevant financial reporting standards; - testing the design and implementation of controls related to the approval of sales contracts and customer orders, and recognizing of related revenue;

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The Group recognizes revenue once related performance obligations are satisfied, which generally occurs when the customer assumes control over products in accordance with the terms defined in the purchase agreement or purchase order verification. In bill-and-hold arrangements the control is transferred if all the criteria required by the Standard are met. Discounts granted in accordance with the purchase agreements and sales documents issued to the customer are accounted for as revenue reduction.

In view of the above-mentioned factors, as well as the fact that we considered revenue recognition to be a specific fraud risk in our audit, revenue recognition was an area of our increased audit risk and attention, and as such was considered by us to be a key audit matter.

- Assessing the initial implementation of IFRS 15, including assessment of its effects on the opening retained earnings. Also, evaluating the Group's changes to procedures, accounting guidelines and disclosures. As part of the above, we made inquiries of the Management Board and the financial reporting personnel;
- For a sample of transactions throughout the year, testing, among other things, accuracy and existence of the revenue recognized, based on inspection of customer acceptance certificates, shipping documents and delivery notes. Particular attention was placed on assessing of any bill-and-hold arrangements against the revenue recognition criteria of the new revenue standard;
- Performing an independent reconciliation of cash received during the year to revenue recognised;
- For a sample of accounts receivable balances as at 31 December 2018, independently obtaining customer confirmations, and seeking explanations for any differences between the amounts confirmed and those recognized by the Group;
- Inspecting a sample of credit notes issued in the reporting period and after the reporting date through the date of our report, in order to assess whether the related revenues were recognized in the appropriate accounting period with any discounts properly recorded as revenue reduction;
- Inspecting the revenue-related manual journal entries throughout the year and after the reporting date, including the supporting documentation in order to assess the rationale for the above entries as well as their accuracy.
- Assessing the adequacy and appropriateness of Group's disclosures related to revenue.

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Emphasis of Matter - comparative information

We draw attention to Note 31 to the consolidated financial statements which describes that the comparative information as at and for the year ended 31 December 2017 has been restated. Our opinion is not modified in respect of this matter.

Other Matter relating to comparative information

The consolidated financial statements of the Group as at and for the years ended 31 December 2017 and 31 December 2016, from which the consolidated statement of financial position as at 1 January 2017 has been derived, excluding the retrospective adjustments described in Note 31, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 23 April 2018.

As part of our audit of the consolidated financial statements as at and for the year 31 December 2018, we also audited the retrospective adjustments described in Note 31 that were applied to restate the comparative information.

We were not engaged to audit, review, or apply any procedures to the comparative information, other than with respect to the retrospective adjustments described in Note 31 to the consolidated financial statements. Accordingly, we do not express an opinion or any other form of assurance on comparative information. However, in our opinion, the retrospective adjustments described in Note 31 are appropriate and have been properly applied.

Other Information

Management is responsible for other information. The other information comprises the *2018 Highlights (including the Report of the Supervisory Board), Organization and Corporate Governance, Business Report and Sustainable development and risk management report* which are constituent parts of the annual report but does not include the consolidated financial statements and our auditor's report thereon. We obtained other information before the date of issuance of the auditor's report, except for the Report of the Supervisory Board, which is to become available at a later date.

Our opinion on the consolidated financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Qualified Opinion* section above, in its impairment testing of certain of its CGUs, the Group applied a number of assumptions that could not be supported by available evidence. We have concluded that the other information is materially misstated for the same reason with respect to the items in the Business report affected by the failure to apply appropriate assumptions and to account for impairment in accordance with IAS 36.

In addition, our responsibility is to consider whether information included in the Group's Business Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements and whether the Business Report includes the disclosures required by the Companies Act (hereafter referred to as "the applicable legal requirements").

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Based solely on the work required to be undertaken in the course of the audit of the consolidated financial statements and the procedures above, in our opinion:

- the information given in the Business Report for the financial year for which the consolidated financial statements are prepared, is consistent, in all material respect, with the consolidated financial statements; and
- the Business Report has been prepared in accordance with the applicable legal requirements.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS as adopted by EU and for such internal control as management determines is necessary to enable the preparation of the 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, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' 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 auditors' 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 and EU Regulation (EU) No 537/2014 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 control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group 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 regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.

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Report on Other Legal and Regulatory Requirements

Management and Supervisory Board Remuneration

Management is responsible for disclosure, within the notes to financial statements, of the information about the remuneration for each member of the management and supervisory board separately in a manner prescribed by fifth paragraph of 294 Article of the Companies Act. Our responsibility is to consider whether the above information is disclosed in line with Companies Act.

Management did not disclose the above information as required by Companies Act.

Other Legal and Regulatory Requirements

We were appointed by the shareholder of SIJ d.d. at the shareholders meeting dated on 5 July 2018 to audit the consolidated financial statements of SIJ d.d. and its subsidiaries for the year ended 31 December 2018. Our total uninterrupted period of engagement is one year, covering the year ending 31 December 2018.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 14 June 2019;
- we have not provided any prohibited non-audit services (NASs) referred in Article 5 of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

For the period to which our statutory audit relates, in addition to the audit, we have not provided any other services to the Group.

On behalf of the audit company

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Helena Kobal
Certified Auditor

Dušan Hartman
Certified Auditor
Director

Ljubljana, 14 June 2019

KPMG Slovenija, d.o.o.
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Statement of the Management's Responsibility

The Group's Management Board is responsible for the preparation of the consolidated financial statements, together with accounting policies and notes, for the year 2018, which give, to the best of its knowledge and belief, a fair view of the development and results of the Group's operations and its financial position, including the description of material risks that the Group is exposed to.

The Management Board confirms that appropriate accounting policies have been applied consistently in the preparation of the consolidated financial statements, that accounting estimates were prepared based on the principles of fair value, prudence and sound management, and that the consolidated financial statements give a true and fair view of the Group's financial position and the results of its operations in the year 2018.

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

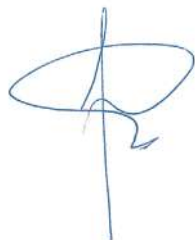
Anytime within 5 years after the end of the year in which the tax assessment should be made, the tax authorities can inspect the operations of the Group. This can result in the occurrence of additional tax liabilities, default interests, and fines based on corporate income tax or other taxes and duties.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

Ljubljana, 24 May 2019

Andrey Zubitskiy
President of the Management Board



Tibor Šimonka
Member of the Management Board



Igor Malevanov
Member of the Management Board



Viacheslav Korchagin
Member of the Management Board



Consolidated Financial Statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in EUR thousand	Note	2018	2017 Restated
Revenue	1	802,766	754,870
Cost of sales	2	(655,082)	(598,883)
Gross profit		147,684	155,987
Distribution costs	2	(44,828)	(42,243)
General and administrative expenses	2	(92,794)	(88,333)
Other operating income	3	6,348	6,787
Other operating expenses	4	(15,101)	(5,107)
Impairment of trade receivables (gains/losses)		465	(2,439)
Operating profit		1,774	24,652
Finance income	5	1,868	1,467
Finance expenses	6	(17,645)	(19,751)
Net finance costs		(15,777)	(18,284)
Share of profit in associates	11	99	94
Profit (loss) before tax		(13,904)	6,462
Income tax expense	7	(1,036)	(1,141)
Deferred income tax	7	6,978	1,030
Operating profit for the year from continuing operations		(7,962)	6,351
Profit from discontinued operations	15	22,617	8,055
Profit for the year		14,655	14,406

Continuation of the table →

Continuation of the table

in EUR thousand	Note	2018	2017 Restated
Items that will not be reclassified subsequently to profit or loss			
Income tax related to components of comprehensive income		(9)	(32)
Net actuarial losses on pension programs		39	(1,201)
Items that may be reclassified subsequently to profit or loss			
Change in other reserves due to changes of financial assets at fair value	12	48	149
Exchange rate difference on translating foreign operations		150	(141)
Other comprehensive income from discontinued operations	15	262	598
Comprehensive income		15,145	13,779
Profit, attributed to:		14,655	14,406
Owners of the controlling company		11,880	13,229
Non-controlling interest		2,775	1,177
Comprehensive income attributed to:		15,145	13,779
Owners of the controlling company		12,226	12,470
Non-controlling interest		2,919	1,309
Comprehensive income attributed to the owners of the controlling company:		12,226	12,470
Continuing operations		(8,828)	3,832
Discontinued operations		21,054	8,638

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in EUR thousand	Note	31 Dec. 2018	31 Dec. 2017 Restated	1 Jan. 2017 Restated
ASSETS				
Non-current assets		512,544	521,086	706,383
Intangible assets	8	31,135	35,069	47,825
Property, plant and equipment	9	440,555	452,508	618,554
Biological assets		0	0	390
Investment property	10	65	166	4,094
Investments in associates	11	1,815	1,716	1,622
Financial assets at fair value through other comprehensive income	12	1,273	1,215	1,225
Financial receivables		30	30	256
Trade receivables		75	198	2,239
Other assets	13	330	503	1,007
Deferred tax assets	14	37,266	29,681	29,171
Current assets		639,441	618,650	425,817
Assets held for disposal (disposal groups)	15	259,972	267,392	4,102
Biological assets		0	0	6,794
Inventories	16	207,135	194,720	221,276
Financial receivables	17	24,767	25,848	19,679
Trade receivables	18	79,877	92,766	111,870
Income tax assets		976	1,023	1,384
Cash and cash equivalents	19	64,080	34,909	59,443
Other assets	20	2,634	1,992	1,269
Total assets		1,151,985	1,139,736	1,132,200
EQUITY AND LIABILITIES				
Equity	21	407,410	402,937	410,588
<i>Equity attributed to the owners of the controlling company</i>		<i>387,468</i>	<i>384,561</i>	<i>376,446</i>
Share capital		145,266	145,266	145,266
Capital surplus		11,461	11,461	11,461
Reserves		340	(77)	112
Retained earnings		230,401	227,911	219,607
Non-controlling interest		19,942	18,376	34,142

Continuation of the table →

Continuation of the table

in EUR thousand	Note	31 Dec. 2018	31 Dec. 2017 Restated	1 Jan. 2017 Restated
Non-current liabilities		252,013	285,766	326,351
Employee benefits	22	14,120	14,160	16,815
Other provisions	23	4,310	1,148	1,365
Deferred revenues	24	1,838	1,925	5,532
Financial liabilities	25	231,095	268,115	295,240
Trade payables		633	403	612
Deferred tax liabilities	14	17	15	6,787
Current liabilities		492,562	451,033	395,261
Liabilities included in disposal groups	15	113,582	133,145	0
Financial liabilities	26	150,303	97,330	130,156
Trade payables	27	222,656	217,985	259,237
Income tax liabilities		273	393	1,333
Other liabilities	28	5,748	2,180	4,535
Total equity and liabilities		1,151,985	1,139,736	1,132,200

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated Statement of Changes in Equity in 2018

in EUR thousand	Equity attributed to the owners of the controlling company							Non-controlling interest	Total
	Share capital	Capital surplus	Revenue reserves	Fair value reserves	Actuarial gains (losses)	Translation differences	Retained earnings		
Balance as at 31 Dec. 2017	145,266	11,461	1,696	278	(2,645)	593	227,911	18,376	402,937
Changes from first application of IFRS 9 (page 88 and 89)	0	0	0	0	0	0	(3,544)	(323)	(3,867)
Balance as at 1 Jan. 2018	145,266	11,461	1,696	278	(2,645)	593	224,367	18,053	399,070
Dividends paid	0	0	0	0	0	0	(5,696)	(1,061)	(6,757)
Purchase of subsidiaries	0	0	0	0	0	0	(78)	30	(48)
Creation of legal reserves	0	0	72	0	0	0	(72)	0	0
Total transactions with owners	0	0	72	0	0	0	(5,846)	(1,031)	(6,805)
Profit for the year	0	0	0	0	0	0	11,880	2,775	14,655
Other changes in comprehensive income	0	0	0	39	43	264	0	144	490
Total changes in comprehensive income	0	0	0	39	43	264	11,880	2,919	15,145
Balance as at 31 Dec. 2018	145,266	11,461	1,768	317	(2,602)	857	230,401	19,942	407,410

Consolidated Statement of Changes in Equity in 2017 – Restated

in EUR thousand	Equity attributed to the owners of the controlling company							Non-controlling interest	Total
	Share capital	Capital surplus	Revenue reserves	Fair value reserves	Actuarial gains (losses)	Translation differences	Retained earnings		
Balance as at 31 Dec. 2016	145,266	11,461	810	162	(547)	149	231,741	34,429	423,472
Correction of a prior periods error (note 31)	0	0	316	0	(778)	0	(12,134)	(287)	(12,883)
Balance as at 1 Jan. 2017	145,266	11,461	1,126	162	(1,325)	149	219,607	34,142	410,589
Purchase of non-controlling interest	0	0	0	0	0	0	5,614	(17,074)	(11,460)
Dividends paid	0	0	0	0	0	0	(9,970)	0	(9,970)
Creation of legal reserves	0	0	570	0	0	0	(570)	0	0
Total transactions with owners	0	0	570	0	0	0	(4,925)	(17,074)	(21,430)
Profit for the year	0	0	0	0	0	0	13,229	1,177	14,406
Other changes in comprehensive income	0	0	0	117	(1,320)	444	0	131	(628)
Total changes in comprehensive income	0	0	0	117	(1,320)	444	13,229	1,308	13,778
Balance as at 31 Dec. 2017	145,266	11,461	1,696	279	(2,645)	593	227,911	18,376	402,937

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

CONSOLIDATED CASH FLOW STATEMENT*

in EUR thousand	2018	2017 Adjusted
Cash flow from operating activities		
Profit before tax	12,379	14,881
Adjusted for:		
Depreciation and amortisation	48,465	63,548
Share of profit in associates	(99)	(94)
Interest income	(1,680)	(1,878)
Interest expenses	17,142	18,903
Impairment of assets	11,101	3,554
Creation of allowances and provisions	5,181	3,218
Change in fair value of biological assets	297	238
Operating cash flow before changes in working capital	92,786	102,370
Changes in working capital		
Change in trade receivables	(3,433)	(13,161)
Change in inventories	(19,364)	(5,318)
Change in trade payables	9,361	14,523
Change in taxes other than income tax	(226)	553
Payments for disposal of provisions	(50)	(17)
Receipts from government grant	4,219	4,030
Payments for loyalty bonuses and severance pay	(1,511)	(1,717)
Income tax paid	(2,558)	(1,888)
Changes in working capital	(13,562)	(2,995)
Net cash generated from operating activities	79,224	99,375
Cash flow from investing activities		
Payments for investments in subsidiaries	(48)	(11,461)
Payments for financial assets at fair value through other comprehensive income	(26)	(69)
Payments for property, plant and equipment	(40,535)	(53,652)
Receipts from property, plant and equipment	1,196	529
Payments for intangible assets	(1,716)	(4,588)

Continuation of the table →

Continuation of the table

in EUR thousand	2018	2017 Adjusted
Receipts from other assets	0	73
Payments for loans issued	(15,268)	(5,503)
Receipts from loans issued	18,211	463
Interests received	88	814
Dividends received	103	70
Net cash used in investing activities	(37,995)	(73,324)
Cash flow from financing activities		
Receipts from borrowings	677,144	626,462
Payments for borrowings	(679,679)	(613,654)
Payments for finance lease	(2,392)	(2,589)
Interests paid	(15,247)	(16,404)
Dividends paid	(6,757)	(9,970)
Net cash used in financing activities	(26,931)	(16,155)
Cash and cash equivalents as at 1 Jan.	69,534	59,443
Translation differences	(4)	195
Net change in cash and cash equivalents	14,298	9,896
Cash and cash equivalents as at 31 Dec.	83,828	69,534

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

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

Notes to the Consolidated Financial Statements

REPORTING ENTITY

SIJ – Slovenska industrija jekla, d. d. (hereinafter: company SIJ 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 2018.

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.

BASIS OF PREPARATION

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 to the sums given in tables.

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

The Management Board approved the consolidated financial statements on 24 May 2019.

a. Statement of Compliance

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

First Application of New Amendments to the Existing Standards Which are Effective for Current Annual Period.

- 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).

Transition to IFRS 9 and IFRS 15

The Group initially applied standards IFRS 9 and IFRS 15 on 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's consolidated financial statements. The Group has also taken advantage of the exemption in paragraph 7.2.15 of IFRS 9 from restating prior periods in respect of IFRS 9's classification and measurement (including impairment) requirements, which allows that the comparative information is not restated. The Group has applied IFRS 15 using the cumulative effect method, under which the comparative information is not restated.

IFRS 9 'Financial Instruments'

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities, and some contracts to buy or sell non-financial items. This standard replaces IAS 39 'Financial Instruments': Recognition and Measurement. IFRS 9 introduces a new approach for the classification of financial assets on the basis of contractual cash flows characteristics and the Group's business model for financial assets management. Rules of classification and measurement of financial assets will not be changed. IFRS 9 introduces a new model for the impairment of financial assets based on estimated expected losses, which demands timely recognition of expected 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.

IFRS 9 to a large extent maintains the IAS 39 requirements for recognising and measuring financial assets. Nevertheless, it eliminates former IAS 39 categories which refer to held-to-maturity financial assets, loans, receivables, and financial assets available-for-sale. The adoption of IFRS 9 did not have a significant effect on the Group's accounting policies which refer to financial liabilities. Under IFRS 9, at initial recognition a financial asset is classified as measured at amortised cost, at fair value through other comprehensive income, or at fair value through profit or loss.

The following table and accompanying notes below explain the original measurement categories according to IAS 39 and the new measurement categories according to IFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Available-for-sale equity securities	Available-for-sale financial assets	Equity securities at fair value through other comprehensive income	1,215	1,215
Available-for-sale equity securities	Financial assets formed at fair value through profit or loss	Financial assets measured at fair value through profit or loss	0	0
Trade and financial receivables	Loans issued, interests and trade receivables	Amortised cost	112,152	108,366
Cash and cash equivalents	Loans issued	Amortised cost	76	76

Under IFRS 9, trade and financial receivables that were classified as loans and receivables are now classified at amortised cost. On 1 January 2018, on transition to IFRS 9, an increase of EUR 3,867 thousand in the allowance for impairment over these receivables was recognised in opening retained earnings.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of retained earnings which results in an additional impairment allowance as follows:

in EUR thousand	Impact of adopting IFRS 9 on opening balance
Retained earnings	
Recognition of expected credit losses under IFRS 9 from continuing operations	(3,786)
Recognition of expected credit losses under IFRS 9 from discontinued operations	(808)
Tax effect from continuing operations	582
Tax effect from discontinued operations	145
Impact as at 1. 1. 2018	(3,867)
Of which the non-controlling interest	
Recognition of expected credit losses under IFRS 9	(375)
Tax effect	52
Impact as at 1. 1. 2018	(323)

The Group has determined that the application of IFRS 9's impairment requirements at 1. January 2018 results in additional impairment allowance as follows:

in EUR thousand	Balance as at 31 Dec. 2017 under IAS 39	Additional impairment under IFRS 9	Balance as at 1 Jan. 2018 under IFRS 9
Allowance for trade receivables	5,004	3,001	8,005
Allowance for other receivables	326	779	1,105
Allowance for loans issued	0	6	6
Allowance for interest receivables	18	0	18

According to IFRS 9, the Group formed a new model for the impairment of financial assets under which the creation of an impairment is based not only on incurred losses, but also on expected future losses. The impairment levels are formed on the basis of historical data on receivables recoverability or historical data on actual losses. According to the model, individual classes are formed primarily based on the division of receivables into groups with similar risk characteristics: insured or uninsured, receivables from third parties or receivables within the group and based on their age structure. The impairment levels formed on the basis of historical data are adjusted for management judgment as to whether the actual losses due to future commercial and economic factors could be higher or lower than the actual losses formed on the basis of historical data.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 establishes a comprehensive framework for determining whether, how much, and when a revenue is recognised. It replaces IAS 18 'Revenue', IAS 11 'Construction Contracts', and related interpretations. Under IFRS 15, a revenue is recognised when a performance obligation is satisfied by transferring a promised good or service to a customer. A good or a service is transferred when the customer obtains control of that good or service. Determining the satisfaction of a performance obligation – at a point in time or over time – requires judgment. The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented as previously reported, under IAS 18, IAS 11 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

Sales program	Characteristics and timely fulfillment of performance obligations, significant payment terms	Clarification of a change in the accounting policies
Sale of metallic raw materials	Control over raw materials is transferred to a customer, when raw materials are delivered to and have been accepted at their premises or when customer collects raw materials at seller's premises. Revenue is recognised when control over raw materials is transferred to customer. In case discounts are agreed, revenue is reduced for amounts of discount. Customers do not have right to return raw materials. Invoices are usually payable within 60 days.	Revenue is recognised when raw materials are delivered to and have been accepted at customer premises or when customer collects raw materials at seller's premises. IFRS 15 adoption did not have significant impact on the Group accounting policies.
Sale of flat rolled steel products	Control over flat rolled steel products is transferred to a customer, when goods are delivered to and have been accepted at their premises or when customer collects goods at seller's premises. Revenue is recognised when control over raw materials is transferred to customer. In case discounts are agreed, revenue is reduced for amounts of discount. Customers do not have right to return goods. Invoices are usually payable within 90 days.	Revenue is recognised when goods are delivered to and have been accepted at customer premises or when customer collects goods at seller's premises. IFRS 15 adoption did not have significant impact on the Group accounting policies.
Sale of raw and other materials	Control over raw and other materials is transferred to a customer, when raw and other materials are delivered to and have been accepted at their premises or when customer collects goods at seller's premises. Revenue is recognised when control over raw materials is transferred to customer. In case discounts are agreed, revenue is reduced for amounts of discount. Customers do not have right to return material. Invoices are usually payable within 30 to 90 days.	Revenue is recognised when materials are delivered to and have been accepted at customer premises or when customer collects raw materials at seller's premises. IFRS 15 adoption did not have significant impact on the Group accounting policies.

Sales program	Characteristics and timely fulfillment of performance obligations, significant payment terms	Clarification of a change in the accounting policies
Sale of rolled products	Control over rolled products is transferred to a customer, when goods are delivered to and have been accepted based on Incoterms rules agreed by sale contract (order confirmation). Revenue is recognised when goods are received. In case discounts are agreed, revenue is reduced for amounts of discount. Customers do not have right to reject rendered services unless discrepancy from sale contract is identified. Discrepancies have to be confirmed and have to be in line with general sale terms. Payment term is agreed in sale contract.	Revenue is recognised when goods are delivered to and have been accepted at customer premises or when customer collects goods at seller's premises. IFRS 15 adoption did not have significant impact on the Group accounting policies.
Sale of forged products	Control over rolled products is transferred to a customer, when goods are delivered to and have been accepted based on Incoterms rules agreed by sale contract (order confirmation). Revenue is recognised when goods are received. In case discounts are agreed, revenue is reduced for amounts of discount. Customers do not have right to reject rendered services unless discrepancy from sale contract is identified. Discrepancies have to be confirmed and have to be in line with general sale terms. Payment term is agreed in sale contract.	Revenue is recognised when goods are delivered to and have been accepted at customer premises or when customer collects goods at seller's premises. IFRS 15 adoption did not have significant impact on the Group accounting policies.
Remelting, rolling and forging services	Control over services is transferred to a customer, when customer benefits from services rendered. Revenue is recognised when services are received. In case discounts are agreed, revenue is reduced for amounts of discount. Customers do not have right to reject rendered services unless discrepancy from sale contract is identified. Discrepancies have to be confirmed and have to be in line with general sale terms. Payment term is agreed in sale contract.	Revenue is recognised when goods are delivered to and have been accepted at customer premises or when customer collects goods at seller's premises. IFRS 15 adoption did not have significant impact on the Group accounting policies.
Cut steel resale	Control over cut steel products is transferred to a customer, when goods are delivered to and have been accepted at their premises or when customer collects goods at seller's premises. Revenue is recognised when control over raw materials is transferred to customer. In case discounts are agreed verbally, revenue is reduced for amounts of discount. Customers do not have right to return goods. Invoices are usually payable within 30 to 90 days.	Revenue is recognised when goods are delivered to and have been accepted at customer premises or when customer collects goods at seller's premises. IFRS 15 adoption did not have significant impact on the Group accounting policies.

Upon initial application of IFRS 15, the Group used a simplified transitional approach. Nevertheless, it assessed contracts with customers based on the types of products, services, and sales and established that there were no impacts on the consolidated financial statements.

The Group assesses that the adoption of IFRS 15 had no significant impact either on its accounting policies, or on its assets and connected liabilities. The Group has no customer loyalty programs and does not enter into any contracts on consignment, repurchase or progress supplies billed in advance.

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

- IFRS 16 'Leases' – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019);
- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 January 2019).

IFRS 16 'Leases'

IFRS 16 scope of application includes leases of all assets, with some exceptions. Lessees must, in accordance with the standard, account all leases using a harmonised model within the statement of financial position, similarly to how financial leases are accounted for under IFRS 17. IFRS 16 applies to annual periods beginning on or after 1 January 2019. The lessee can decide to retrospectively apply the standard either in part or in whole.

The Group decided not to apply these standards, amendments, and interpretations before their entry into force. The Group will start applying IFRS 16 on the date of its entry into force, i. e. on 1 January 2019. The Group will use the simplified transition approach for the introduction of IFRS 16 and will therefore not restate comparative information. The Group has evaluated the possible effects of IFRS 16 upon its first introduction, which are set out and described below. The actual effects of the introduction of IFRS 16 vary as could vary up as the Group has not yet completed testing and evaluated the related IT control procedures, and because the new accounting policies could vary up to the presentation of the first consolidated financial statements produced using IFRS 16.

The lease contract grants, in compliance with IFRS 16, the right to use specific assets for a specified period in exchange for payment. The new model for such contracts stipulates that the lessee recognises lease liabilities and the right to use the assets. The Group depreciates the right to use assets, and attributes interests to the lease liabilities. The lessee standard

also implements exceptions, namely for short-term leases with a lease term not exceeding 12 months and with no option to purchase, and for lower-valued leases, where the Group took into account new assets which do not individually exceed EUR 5 thousand. Lessor lease accounting will not undergo any significant changes. The lessor has to define the lease, based on its nature, either as operational or financial. A lease is classified as financial if it includes the transfer of all significant risks and rewards incidental to ownership. Otherwise, the lease is considered to be operational.

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

Leases with the Group as Lessee

The Group will recognise new assets and operating lease liabilities for company vehicles, warehouse vehicles, buildings, other equipment, and land. The costs associated with such leases will be modified as the Group will recognise the depreciation costs for the right to use assets and the interest expenses for lease liabilities. Up to the adoption of the standard, the Group had recognised operating lease costs evenly throughout the entire lease period and recognised assets and liabilities based on the time difference between actual payments and recognised costs and expenses.

The Group reviewed and analysed its closed lease contracts with a duration period of more than one year, on 31 December 2018. The Group has, in compliance with IFRS 16 and based on the lease values and lease contract duration periods, evaluated the value of lease liabilities and assets using rights, which will be disclosed in the statement of financial position. Cash flows are discounted by the interest rates the Group has applied during long-term lease financing. The Group has, based on the reviewed contracts, evaluated that it will recognise EUR 1,135 thousand of additional financial liabilities arising from the lease upon the first introduction of the standard on 1 January 2019.

Leases with the Group as Lessor

The Group has, based on the currently available information, established that it has no sub-leasing relationships with Group as lessor. Therefore, there will be no impacts on the consolidated financial statements in relation to this.

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

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

- IFRS 17 'Insurance Contracts' (effective for annual periods beginning on or after 1 January 2021);
- 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 IFRS 1 and IAS 28 (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);
- Amendments to IAS 19 'Employee Benefits' (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 3 'Business Combinations' (effective for annual periods beginning on or after 1 January 2020).

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

b. Basis of Measurement

The consolidated financial statements have been prepared based on historical cost, except for the biological assets at fair value and financial instruments at fair value or amortised cost.

c. Functional and Presentation Currency

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

d. Application of Estimates and Judgments

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

Since estimates are subject to subjective judgments and a 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.

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

Estimate of the useful life of assets subject to depreciation (Notes 8 and 9, and Policies h and i)

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

Asset Impairment Testing

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

- investment property (Note 10);
- investments in subsidiaries (Note 11);
- goodwill (Note 8);
- financial assets at fair value at fair value through other comprehensive income (Note 12);
- financial receivables (Note 17).

Estimate of the Fair Value of Assets (Note 12, Policies k and o)

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

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

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

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

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

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

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

A provision is recognised when the Group, due to a past event, has a legal or indirect obligation which can be reliably measured, and if there is a probability that settling the obligation will require an outflow of resources, enabling economic benefits. Probable obligations are not recognised in the consolidated financial statements, as their actual existence will only be confirmed when events will or will not occur in an unpredictable future, which is something the Group cannot influence. The management is regularly checking whether the settling of the probable obligation will require an outflow of resources enabling economic benefits. If such an outflow becomes probable, the possible obligation is reclassified when a degree of probability has changed by creating in the consolidated financial statements a provision for it.

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

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

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

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

On the day the consolidated financial statements are completed, the Group verifies the amount of disclosed deferred tax assets and liabilities. Deferred tax assets are recognised if it is probable that future taxable net profits will be available against which deferred tax assets can be utilised in the future. Deferred taxes are decreased by the amount for which it is no longer probable that tax breaks associated with the asset can be utilised.

e. Prior Periods Error

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

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

COMPOSITION OF THE CONSOLIDATED GROUP

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

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

in EUR thousand	Activity	% of voting rights 2017 & 2018	Value of assets as at 31 Dec. 2018	Value of equity as at 31 Dec. 2018	Net profit (loss) for 2018
Controlling company of the Group					
SIJ – Slovenska industrija jekla, d. d., Gerbičeva ulica 98, Ljubljana, Slovenia	Activities of head offices		384,474	202,797	1,440
SIJ – subsidiaries					
SIJ ACRONI d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	Steel production	100	425,023	162,009	(7,851)
SIJ METAL RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Steel production	100	213,828	85,108	1,567
NOŽI RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Industrial knives production	100	8,725	656	(3,945)
SIJ ELEKTRODE JESENICE d.o.o., Cesta železarjev 8, Jesenice, Slovenia	Welding materials production	100	10,790	3,270	(419)
SIJ SUZ d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	Drawn wires production	100	5,448	2,691	391
SIJ ZIP CENTER d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Education and training of the disabled	100	2,194	712	119
ODPAD d.o.o. Pivka, Velika Pristava 23, Pivka, Slovenia	Recovery of secondary raw materials from scrap	74.90	28,675	7,350	460
NIRO Wenden GmbH, Glück-Auf-Weg 2, Wenden, Germany	Steel cutting, engineering and trade	85	13,691	(2,150)	(978)
SIJ RAVNE STEEL CENTER d.o.o., Litostrojska cesta 60, Ljubljana, Slovenia	Trade	77.28*	33,008	17,319	1,986

Continuation of the table →

Continuation of the table

in EUR thousand	Activity	% of voting rights 2017 & 2018	Value of assets as at 31 Dec. 2018	Value of equity as at 31 Dec. 2018	Net profit (loss) for 2018
GRIFFON & ROMANO S.P.A., Via Dossetti 11, Loc. Casinello de Dosso, Italy	Heat processing and special steel trade	100	23,821	268	(1,834)
SIJ Asia GmbH, Berger Str. 2, 40213 Düsseldorf, Germany	Trade	100	210	161	(234)
SIJ RAVNE SYSTEMS d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Metallurgic machines production	100	41,987	5,777	(2,256)
SIJ POLSKA Sp. Z.o.o., ul. Zamkowa 7 lok.11, Poznan, Poland	Trade	100	1	1	0
PERUTNINA PTUJ d. d., Potrčeva cesta 10, Ptuj, Slovenia	Processing and preserving of poultry meat	90.69	175,103	99,155	6,512
HOLDING PMP d. d., Vinarski trg 1, Ptuj, Slovenia	Financial service activities	100	8,739	8,727	631
PERUTNINA PTUJ – subsidiaries					
PP ENERGIJA, d.o.o., Potrčeva cesta 10, Ptuj, Slovenia	Production of electricity	100	5,816	1,465	187
Perutnina Ptuj-Topiko d. o. o., Petefi Brigade 2, Bačka Topola, Serbia	Processing and preserving of poultry meat	100	26,244	18,093	989
PP MI ZALOG d. o. o., Hladilniška pot 37, Ljubljana, Slovenia	Processing and preserving of poultry meat	100	20,470	13,924	1,054
Perutnina Ptuj – Pipa Čakovec d. o. o., Rudolfa Steinerja 7, Čakovec, Croatia	Processing and preserving of poultry meat	99.66	24,642	17,044	2,397
Perutnina Ptuj-BH d. o. o., Potkrajaska bb, Breza, Bosnia and Herzegovina	Processing and preserving of poultry meat	100	18,941	12,169	2,909

Continuation of the table →

Continuation of the table

in EUR thousand	Activity	% of voting rights 2017 & 2018	Value of assets as at 31 Dec. 2018	Value of equity as at 31 Dec. 2018	Net profit (loss) for 2018
Ptujška klet d. o. o., Vinarski trg 1, Ptuj, Slovenia	Growing of grapes	100	6,278	2,720	342
Perutnina Romania S. r. l., Str. 13 Decembrie Nr. 96, Brasov, Romania	Trade	100	1,272	237	115
Perutnina Ptuj S d. o. o., Povelic b. b., Srbac, Bosnia and Herzegovina	Processing and preserving of poultry meat	100	12,576	2,533	671
PP Gostinstvo d. o. o., Dravska ulica 9, Ptuj, Slovenia	Restaurants and inns	100	365	(560)	(107)
Gradbeni remont d. o. o., Žnidaričevo nabrežje 10, Ptuj, Slovenia	Construction	100	364	505	(4)
PP BRO ŽIVA d. o. o., Petefi Brigade 2, Bačka Topola, Serbia	Processing and preserving of poultry meat	89.77	605	486	(63)
Perutnina Ptuj dool Skopje, Ul. Pero Nakov 108-A, Skopje, Macedonia	Trade	100	2,341	172	204
Veterinarska ambulanta PP d. o. o., Potrčeva 6, Ptuj, Slovenia	Veterinary activities	45	867	395	37
Perutnina Austria GmbH, Haushammerstrasse 1, Seiesberg, Austria	Trade	100	2,135	657	286
PP - Agro d. o. o., Tržaška cesta 41A, Maribor, Slovenia	Mixed farming	100	16,502	12,143	1,256
Naša d.o.o., Potrčeva cesta 10, Ptuj, Slovenia	Trade	100	156	(654)	(297)
Perutnina Ptuj – Pipo Čakovec – subsidiaries					
Eko ENERGIJA d.o.o., Rudolfa Steinerja 7, Čakovec, Croatia	Production of electricity	100	207	184	35
Perutnina Ptuj-Topiko – odvisne družbe					
TOP-VETERINA d. o. o., Dušana Popivode b.b., Bačka Topola, Serbia	Veterinary activities	100	187	96	5

Continuation of the table →

Continuation of the table

in EUR thousand	Activity	% of voting rights 2017 & 2018	Value of assets as at 31 Dec. 2018	Value of equity as at 31 Dec. 2018	Net profit (loss) for 2018
SIJ ACRONI – subsidiaries					
ŽELEZARNA JESENICE, d.o.o., Cesta železarjev 8, Jesenice, Slovenia	Trading with own real estate	100	10,269	9,787	91
SIJ METAL RAVNE – subsidiaries					
KOPO International Inc., 100 Village Court, Suite # 202, Hazlet, New Jersey 07730, USA	Trade	100	25,436	2,014	201
ODPAD – subsidiaries					
DANKOR, d.o.o., Vukovarska 436, Osijek, Croatia	Recovery of secondary raw materials from scrap	91	1,502	511	160
METAL-EKO SISTEM DOO JAGODINA, Put Kneza Mihaila 107, Jagodina, Serbia	Recovery of secondary raw materials from scrap	70	3,220	1,547	(25)
"TOPMETAL" d.o.o. Karađorđeva 69 Laktaši, Bosnia and Herzegovina	Recovery of secondary raw materials from scrap	51	1,306	462	(102)
SIJ Ravne Steel Center – subsidiaries					
SIDERTOCE S. p. A., Via XX. Settembre 198, C. P. 34, Gravellona Toce, Italy	Trade	100	12,895	4,614	677
SIJ MWT GmbH, Celsiusstrasse 17, Germany	Trade	100	3,853	135	(119)
ORO MET d.o.o., Neverke 56, Košana, Slovenia	Manufacture of other tools	51	12,718	6,375	1,335
NOŽI RAVNE – subsidiaries					
SIJ Ravne Systems (UK) Limited, 12 Conqueror Court, Sittingbourne, Kent, ME10 5BN, Great Britain	Trade	100	623	63	27

* SIJ Metal Ravne owns an investment in SIJ Ravne Steel Center in the amount of 22,72 percent. In total, the Group owns 100 percent of SIJ Ravne Steel Center.

In November 2018, the Group liquidated SIJ Steel Shanghai Co, and in December 2018 – Ravne Knives USA Inc.

The minority interests in equity do not have material relevance, representing only 4,8 percent of total equity. The table below discloses shares attributed to minority shareholders based on net profit or loss for 2017 and 2018.

Net profit or loss attributed to minority shareholders

in EUR thousand	2018	2017
NIRO Wenden	(147)	(133)
ORO MET	654	565
ODPAD	116	(11)
DANKOR	51	41
METAL-EKO SISTEM	(12)	118
TOPMETAL	(63)	(195)
Discontinued operations	2,176	791
Net profit or loss attributed to minority shareholders	2,775	1,177

SIGNIFICANT ACCOUNTING POLICIES

a. 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.

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

b. Investments in Associates

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.

c. 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 impact 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, is recognised in equity.

d. Foreign Currency Conversion

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

Income statements and cash flow statements of individual companies of the Group abroad, where the company's functional currency is not the 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.

e. Revenues

Sales revenues are recognised at transaction price which is allocated to performance obligation. The transaction price is a consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The transaction price is 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. Revenues from dividends are recognised when the shareholder's right to payment is established.

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

f. 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.

g. Taxation

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

Current income tax liabilities are based on the taxable profit for the financial year. Taxable profit differs from net profit, reported in the income statement, because it excludes items of income or expenses that are taxable or deductible in other years, as well as items that are never taxable or deductible. The 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 utilised. If in the future the available taxable profit is insufficient to create the deferred tax assets for the full amount of unused tax

relief, they are created based on maturity of tax relief utilisation possibilities in accordance with the legislation.

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

Tax loss in a tax period can be covered by reducing the tax base in the subsequent tax periods. In reducing the tax base due to tax losses from preceding tax periods, the tax base shall first be reduced by the oldest tax loss. A reduction of the tax base due to tax losses from preceding tax periods may only be allowed to a maximum of 50% of the tax base for the tax period.

The tax base may be reduced by a legally prescribed percentage of the amount invested in equipment, intangible assets, and for the amount invested in research and development, but not exceeding the amount of the tax base. For the unused part of the tax relief in the tax period, the Group can reduce the tax base in the subsequent five tax periods. In reducing the tax base due to the unused portion of the tax relief from preceding tax periods, the tax base shall first be reduced by the oldest unused portion of the tax relief.

h. Intangible Assets

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

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

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

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

i. Property, Plant and Equipment

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

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

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

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

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

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

j. 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.

k. Financial Instruments

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

k.1. Non-Derivative Financial Assets

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

Financial Assets at Fair Value Through Other Comprehensive Income

Financial assets at fair value through other comprehensive income that have the nature of a debt instrument are the financial assets held by the Group under its business model for

collecting contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, and for sale. For debt instruments at fair value through other comprehensive income, interest income, foreign exchange differences and impairment losses or reversals are recognised in the statement of profit or loss and accounted for in the same manner as financial assets at amortised cost. The remaining fair value changes are recognised in the statement of other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

Financial assets at fair value through other comprehensive income that have the nature of an equity instrument are the financial assets that meet the definition of equity under IAS 32 'Financial Instruments' for which the Group elected to classify them irrevocably as equity instruments designated at fair value through other comprehensive income and which are not held for trading. The classification is determined on an instrument-by-instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other revenue in the statement of profit or loss when the Group's right of payment has been established.

Financial Assets at Amortised Cost

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

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

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.

k.2. Non-Derivative Financial Liabilities

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

Non-derivative liabilities are initially disclosed at fair value, increased by transaction costs directly attributable to the business transaction. Subsequent to their initial recognition they are measured at amortised cost. Depending on their maturity they are classified as current 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).

l. 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 lowest. 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.

Biological assets are animals intended for the production of agricultural crops. At its initial recognition, biological assets are measured at fair value, less the cost of sale and accumulated impairment losses. The fair value model is used for any subsequent measuring of biological assets.

m. Inventories

Inventories are measured at cost or net realisable value, whichever is the lowest. The cost

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

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

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

n. Impairment of Assets

n.1. Financial Assets

According to IFRS 9, the Group shifted from the incurred loss model to the expected future loss model. According to this model, the Group recognises not only incurred losses, but also losses which are expected to incur in the future. 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. Loss allowances for financial assets measured at cost are deducted from the gross carrying amount of assets.

The gross carrying amount of an asset is written-off if the Group has no reasonable expectations to collect a part or total financial asset. For individual clients, the Group applies a policy for the write-off of the gross carrying amount when a financial asset is overdue based on previous experience in collection of similar assets. For legal entities, the Group assesses the time and the amount of a write-off individually, depending on whether there is a legitimate expectation of a repayment. The Group doesn't expect significant repayment of the

amount written-off. Nevertheless, the written-off financial assets are a subject of enforcement activities to keep them in accordance with the Groups procedures for the collection of overdue amounts.

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 profit or loss. Loss for financial assets at fair value through comprehensive income is recognised in profit or loss.

Loss for financial assets at fair value through comprehensive income is recognised by transferring the potential accumulated loss, previously recognised in the comprehensive income of the period and included in the fair value reserve 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.

n.2. 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.

o. Determination of Fair Value

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

Fair value is the amount for which an asset can be exchanged or the liability can be settled between two well-informed and willing parties in an arm's length business transaction. The Group determines the fair value of financial instruments by taking into account the following fair value hierarchy:

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

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

Intangible Assets

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

Property, Plant and Equipment

The fair value of property, plant and equipment is their market value. The market value of property is equal to the estimated value at which the property could be sold on the date of valuation and after proper marketing. The market value of equipment is based on the approach using quoted market price for similar items. If there is no quoted market price,

the method of discounted cash flows which are expected to arise from use and possible disposal of the assets is used.

Investment Property

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

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

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

Receivables and Loans

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 net realizable 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.

p. 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.

Reserves

Reserves include: legal reserves, other revenue reserves, fair value reserves, actuarial gains and losses. Legal reserves are amounts of purposefully 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.

r. 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.

s. Employee Benefits

In accordance with legal regulations and the Collective Agreement, the Group is obliged to make payments arising from loyalty bonuses and severance pay upon retirement, for which 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 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.

t. Deferred Revenues

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

State and other subsidies received for covering 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.

u. 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.

v. Segment Reporting (Note 29)

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses which 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 of the production of steel plates and strips of different dimensions and grades from stainless, structural, electrical and special steels, and the production of steel profiles from alloyed, non-alloyed, special, tool and structural steels;
- Distribution and Processing Division is 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 the required dimensions and quality, as well as with other services and after-sales support;
- Scrap Division: collecting, processing, and sorting scrap metal, and its preparation for transportation and basic processing by the Steel Division;
- Manufacturing Division: the 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;
- Poultry Division – discontinued operations: the raising of poultry, production of crops, poultry meat and products.

NOTES TO INDIVIDUAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1. REVENUE

in EUR thousand	2018	2017 Restated
In Slovenia	123,483	104,690
In other countries:	679,283	650,180
- Germany	180,821	170,214
- Italy	154,371	151,120
- USA	69,804	67,787
- Croatia	11,440	12,980
- Austria	21,628	19,984
- other countries	241,219	228,095
Revenue	802,766	754,870

Revenue by Products and Segments for 2018

in EUR thousand	Steel Division	Distribution & Processing Division	Scrap Division	Manufacturing Division	Poultry Division (discontinued operations)	Total segments	Headquarter and Other Services	Total	Elimination of discontinued operations	Revenue
Quarto plates	284,478	61,098	0	0	0	345,576	0	345,576	0	345,576
Hot rolled steels	11,537	6,122	0	0	0	17,659	0	17,659	0	17,659
Cold rolled steels	73,838	2,617	0	0	0	76,455	0	76,455	0	76,455
Rolled products	72,700	4,817	0	0	0	77,517	0	77,517	0	77,517
Forged products	54,328	51,102	0	0	0	105,430	0	105,430	0	105,430
Other products and services	6,047	40,285	70,991	61,130	269,985	448,438	1,676	450,114	(269,985)	180,129
Revenue	502,928	166,041	70,991	61,130	269,985	1,071,075	1,676	1,072,751	(269,985)	802,766

Revenue by Products and Segments for 2017

in EUR thousand	Steel Division	Distribution & Processing Division	Scrap Division	Manufacturing Division	Poultry Division (discontinued operations)	Total segments	Headquarter and Other Services	Total	Elimination of discontinued operations	Revenue
Quarto plates	253,302	70,423	0	0	0	323,290	0	323,290	0	323,275
Hot rolled steels	5,077	5,104	0	0	0	10,181	0	10,181	0	10,181
Cold rolled steels	72,748	2,941	0	0	0	75,689	0	75,689	0	75,690
Rolled products	64,900	6,013	0	0	0	70,913	0	70,913	0	70,913
Forged products	50,223	49,490	0	0	0	99,713	0	99,713	0	99,713
Other products	6,585	40,089	70,580	55,817	256,592	429,663	1,578	431,241	(256,592)	174,648
Revenue	452,835	174,060	70,580	55,817	256,592	1,009,884	1,578	1,011,462	(256,592)	754,870

2. OPERATING EXPENSES

in EUR thousand	2018	2017 Restated
Costs of goods, materials and services	625,715	562,608
Labour costs	125,197	115,906
- <i>wages and salaries</i>	93,807	87,184
- <i>social security costs</i>	16,760	15,727
- <i>other labour costs</i>	14,630	12,995
Depreciation and amortisation costs	48,465	50,097
Other costs	8,674	7,563
Changes in the value of inventories	(15,347)	(6,716)
Operating expenses	792,704	729,458

Review of Costs by Type in 2018

in EUR thousand	Cost of sales	Distribution costs	General and administrative expenses	Total
Costs of goods, materials and services	558,647	37,948	29,120	625,715
Labour costs	66,143	6,361	52,693	125,197
Depreciation and amortisation costs	41,441	445	6,579	48,465
Other costs	4,198	74	4,402	8,674
Changes in the value of inventories	(15,347)	0	0	(15,347)
Discontinued operations	180,430	46,434	17,029	243,893
Operating expenses	835,512	91,262	109,823	1,036,597
Elimination of discontinued operations	(180,430)	(46,434)	(17,029)	(243,893)
Operating expenses	655,082	44,828	92,794	792,704

Review of Costs by Type in 2017

in EUR 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 costs	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)
Discontinued operations	185,944	48,066	18,292	252,302
Operating expenses	784,827	90,309	106,625	981,760
Elimination of discontinued operations	(185,944)	(48,066)	(18,292)	(252,302)
Operating expenses	598,883	42,243	88,333	729,458

In 2018, the costs of annual reports auditing amounted to EUR 229 thousand. In 2018, the costs for audit related services amounted to EUR 21 thousand. The cost for other authorised services charged by KPMG d.o.o amounted to EUR 3 thousand.

Average Number of Employees by Level of Education

	2018	2017
Primary school	582	536
2.5-year vocational school	382	376
Secondary vocational school	1,081	1,014
Secondary general school	1,002	919
1st cycle degree – Bachelor's degree	423	396
2nd cycle degree – Master's degree	300	287
3rd cycle degree – Doctoral degree	55	57
Total	3,825	3,585

3. OTHER OPERATING INCOME

in EUR thousand	2018	2017
Reversal of allowances for inventories	0	2,491
Revenues from received subsidies (Note 24)	1,970	1,893
Received compensations	3,019	1,190
Reversal of provisions	0	245
Write-off of liabilities	0	96
Other income	1,359	872
Other operating income	6,348	6,787

4. OTHER OPERATING EXPENSES

in EUR thousand	2018	2017
Impairment of goodwill (Note 8)	2,819	2,313
Expenses for donations and sponsorships	472	752
Impairment of inventories (Note 16)	6,723	264
Impairment of property, plant and equipment	334	0
Creation of provisions (Note 23)	3,169	44
Other expenses	1,584	1,734
Other operating expenses	15,101	5,107

5. FINANCE INCOME

in EUR thousand	2018	2017
Interest income	1,594	1,190
Exchange rate differences	190	179
Other income	84	98
Finance income	1,868	1,467

6. FINANCE EXPENSES

in EUR thousand	2018	2017 Restated
Interest expenses	15,217	16,506
Exchange rate differences	86	265
Other expenses	2,342	2,980
Finance expenses	17,645	19,751

7. TAXES

in EUR thousand	2018	2017
Income tax expense	(1,036)	(1,141)
Deferred income tax	6,978	1,030
Taxes	5,942	(111)

in EUR thousand	2018	2017
Profit (loss) before tax	(13,904)	6,462
Tax at effective tax rate	(2,642)	1,228
Tax effects from:		
- non-taxable income	(92)	(20)
- tax non-deductible expenses	723	1,931
- tax relief	(3,338)	(3,055)
- tax losses for which no deferred tax assets were recognised	(727)	262
- change in tax rates	134	(234)
Taxes	(5,942)	111
Effective tax rate	0 %	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 companies of the Group can realise unused tax relief in the following years in accordance with the legislation of the state where they operate.

8. INTANGIBLE ASSETS

Movement of Intangible Assets in 2018

in EUR thousand	Software	Goodwill	Assets under construction	Total
Cost as at 31 Dec. 2017	22,555	20,599	1,779	44,933
New additions	0	0	1,412	1,412
Transfer from assets under construction	2,080	0	(2,080)	0
Translation differences	1	0	0	1
Cost as at 31 Dec. 2018	24,636	20,599	1,111	46,346
Accumulated amortisation as at 31 Dec. 2017	(7,551)	(2,313)	0	(9,864)
Amortisation	(2,527)	0	0	(2,527)
Translation differences	(1)	0	0	(1)
Impairments	0	(2,819)	0	(2,819)
Accumulated amortisation as at 31 Dec. 2018	(10,079)	(5,131)	0	(15,211)
Present value as at 31 Dec. 2017	15,004	18,286	1,779	35,069
Present value as at 31 Dec. 2018	14,557	15,467	1,111	31,135

On 31 December 2018, the Group's unsettled liabilities to suppliers for the purchase of intangible assets amounted to EUR 234 thousand (2017: EUR 517 thousand). In 2018, contractual obligations to purchase known in advance amounted to EUR 15 thousand (2017: EUR 0 thousand). On 31 December 2018, any items of intangible assets are pledged as security for liabilities (2017: EUR 42 thousand). On 31 December 2018, the Group has no intangible assets under finance lease (2017: EUR 42 thousand).

Impairment Test for Goodwill

in EUR thousand	31 Dec. 2018	31 Dec. 2017
ODPAD d.o.o. Pivka	1,397	1,397
RAVNE STEEL CENTER d.o.o.	758	758
DANKOR, d.o.o.	154	154
NIRO Wenden GmbH	872	872
SIDERTOCE S. p. A.	2,503	3,557
GRIFFON & ROMANO S.P.A.	3,242	5,007
METAL-EKO SISTEM DOO	1,003	1,003
ORO MET d.o.o.	5,538	5,538
Carrying amount of goodwill	15,467	18,286

Goodwill as at 31 December 2018 was tested for impairment and it was determined that there is a need to impair the goodwill of Griffon & Romano by EUR 1,765 thousand and the goodwill of Sidertoce by EUR 1,054 thousand. In the calculation, the rate of return used for Griffon & Romano was 9.02 percent, and rate of return used for Sidertoce was 9.19 percent. In 2017, goodwill was not impaired.

In testing for potential impairment of all goodwill, the method of present value of the estimated cash flows based on future financial plans of a cash-generating unit was applied. The free cash flow projection for the period of 5 years and normalised cash flow after that period were used. The recoverable amount of the acquired assets was assessed at the aggregate level of the acquired companies. Assumptions used for calculating net cash flows are based on past experience of the companies' operations and reasonable expectations of future operations. Valuation techniques take into account the required rates of return ranging from 7.76 to 9.19 percent. The annual growth rate of remaining free cash flows (the residual value) is 1.5 percent. As the estimated value determined using the above assumptions exceeded the carrying amount, there was no need for impairment, except for the goodwill of Griffon & Romano and Sidertoce.

Movement of Intangible Assets in 2017

in EUR thousand	Software	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
Transfer to assets held for disposal (disposal groups)	(11,333)	(72)	0	(11,405)
Cost as at 31 Dec. 2017	22,555	20,599	1,779	44,933
Accumulated amortisation as at 31 Dec. 2016	(6,047)	0	0	(6,047)
Amortisation	(3,008)	0	0	(3,008)
Disposals	1,475	0	0	1,475
Translation differences	4	0	0	4
Transfer from property, plant and equipment	(4)	0	0	(4)
Transfer to assets held for disposal (disposal groups)	29	0	0	29
Impairment	0	(2,313)	0	(2,313)
Accumulated amortisation as at 31 Dec. 2017	(7,551)	(2,313)	0	(9,864)
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

9. PROPERTY, PLANT AND EQUIPMENT

Movement of Property, Plant and Equipment in 2018

in EUR thousand	Land	Buildings	Equipment	Other	Assets under construction	Total
Cost as at 31 Dec. 2017	34,038	290,495	896,085	44,432	9,721	1,274,771
Business acquisition (Note 32)	0	239	1,710	89	0	2,038
New additions	0	0	0	0	32,704	32,704
Transfer from assets under construction	1,571	4,432	25,617	2,424	(34,044)	0
Disposals	(178)	(2,572)	(16,262)	(1,207)	(254)	(20,472)
Translation differences	5	2	5	5	0	17
Transfer from investment property	93	395	0	0	0	488
Other changes in purchase value	(164)	0	0	0	0	(164)
Cost as at 31 Dec. 2018	35,365	292,991	907,155	45,743	8,127	1,289,381
Accumulated depreciation as at 31 Dec. 2017	0	(188,043)	(599,002)	(35,218)	0	(822,263)
Depreciation	0	(4,880)	(38,210)	(2,841)	0	(45,931)
Disposals	0	2,572	16,086	1,113	0	19,771
Translation differences	0	(1)	(3)	(4)	0	(8)
Transfer from investment property	0	(395)	0	0	0	(395)
Accumulated depreciation as at 31 Dec. 2018	0	(190,747)	(621,129)	(36,950)	0	(848,826)
Present value as at 31 Dec. 2017	34,038	102,452	297,083	9,214	9,721	452,508
Present value as at 31 Dec. 2018	35,365	102,244	286,026	8,793	8,127	440,555

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

- steel plant modernisation;
- heat treatment line;
- current upgrades (repairs);
- band saws;
- purchase of real estate;
- renovation of buildings;
- load carriers and passenger vehicles.

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

Property, plant and equipment with the present value of EUR 6,236 thousand on 31 December 2018 (2017: EUR 5,685 thousand) are pledged as security for liabilities. On 31 December 2018, the Group's unsettled liabilities to suppliers for the purchase of property, plant and equipment amount to EUR 8,352 thousand (2017: 11,858 thousand). Its contractual liabilities for the purchase of property, plant and equipment amount to EUR 5,105 thousand (2017: EUR 7,815 thousand). The present value of property, plant and equipment under finance lease amounts to EUR 6,077 thousand (2017: EUR 4,507 thousand). The Group did not capitalise borrowing costs in 2018 (2017: EUR 175 thousand), since the investments were shorter than six months.

Movement of Property, Plant and Equipment in 2017 – Restated

in EUR thousand	Land	Buildings	Equip- ment	Other	Assets under construc- tion	Total
Cost as at 31 Dec. 2016	59,821	378,839	913,194	43,569	36,009	1,431,432
Error correction (Note 31)	0	0	0	(2,975)	0	(2,975)
Cost as at 1 Jan. 2017	59,821	378,839	913,194	40,594	36,009	1,428,457
Acquisition of company	0	0	65	0	0	65
New additions	0	0	0	0	39,497	39,497
Transfer from assets under construction	368	2,844	55,554	1,989	(60,755)	0
Disposals	(276)	(9,770)	(17,960)	(1,453)	(7)	(29,466)
Translation differences	146	333	369	(2)	26	872
Other changes	0	4,449	(8,178)	3,736	0	7
Transfer to intangible assets	0	0	0	(4)	0	(4)
Transfer from assets (disposal groups) classified as held for sale	4,061	0	0	0	0	4,061
Transfer to investment property	(314)	(862)	0	0	0	(1,176)
Transfer to assets (disposal groups) classified as held for sale	(29,767)	(85,338)	(46,959)	(428)	(5,049)	(167,541)
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	0	(190,054)	(590,355)	(30,328)	0	(810,737)
Error correction (Note 31)	0	0	0	834	0	834
Accumulated depreciation as at 1 Jan. 2017	0	(190,054)	(590,355)	(29,493)	0	(809,903)
Depreciation	0	(8,293)	(49,573)	(2,973)	0	(60,839)

Continuation of the table →

Continuation of the table

in EUR thousand	Land	Buildings	Equip- ment	Other	Assets under construc- tion	Total
Disposals	0	7,938	15,011	1,371	0	24,320
Translation differences	0	(23)	(107)	3	0	(127)
Other changes	0	(3,484)	7,920	(4,439)	0	(3)
Transfer to intangible assets	0	0	0	4	0	4
Transfer to investment property	0	743	0	0	0	743
Transfer to assets (disposal groups) classified as held for sale	0	5,130	18,102	310	0	23,542
Accumulated depreciation as at 31 Dec. 2017	0	(188,043)	(599,002)	(35,218)	0	(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 1 Jan. 2017	59,821	188,785	322,838	11,101	36,009	618,554
Present value as at 31 Dec. 2017	34,038	102,452	297,083	9,214	9,721	452,508

10. INVESTMENT PROPERTY

In 2018, the Group generated EUR 47 thousand of income in investment properties (2017: EUR 49 thousand) and EUR 8 thousand of expenses (2017: EUR 14 thousand). Investment property is not pledged as security for liabilities.

11. INVESTMENTS IN ASSOCIATES

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Razvojni center Jesenice, Cesta Franceta Prešerna 61, Jesenice, Slovenia	1,815	1,716
Investments in associates	1,815	1,716

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

in EUR 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 (loss) for 2017	Profit for 2017 attributed to the Group
Razvojni center Jesenice	Develop-ment	24.95	9,413	6,747	2,977	377	94

The investment in associates is valued on the basis of the equity method. In 2018, the Group attributed a corresponding share of 2018 profit which amounted to EUR 99 thousand (2017 EUR 94 thousand).

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

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Investments in companies	1,273	1,215
Financial assets at fair value through other comprehensive income	1,273	1,215

Financial assets 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 a revaluation at fair value in the amount of EUR 48 thousand charged to the comprehensive income.

Received dividends in 2018 amounted to EUR 96 thousand (2017: EUR 70 thousand).

13. OTHER NON-CURRENT ASSETS

in EUR thousand	31 Dec. 2018	31 Dec. 2017 Restated
Other assets	330	503
Other non-current assets	330	503

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

14. DEFERRED TAX ASSETS AND LIABILITIES

in EUR thousand	31 Dec. 2018	31 Dec. 2017 Restated
Deferred tax assets	37,266	29,681
Deferred tax liabilities	(17)	(15)
Deferred tax assets (liabilities), net	37,249	29,666

Movement of Deferred Tax Assets and Liabilities in 2018

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

On 31 December 2018, the value of unused tax losses for which deferred tax assets are recognised amounts to EUR 95,147 thousand (2017: EUR 59,684 thousand). The value of unused tax losses for which deferred tax assets are not recognised amounts to EUR 33,671 thousand (2017: EUR 63,870 thousand), while unrecognised deferred tax assets amount to EUR 6,397 thousand (2017: EUR 12,093 thousand).

In 2018, the deferred tax assets for unused tax losses increased, since the controlling company expects positive effects from the disposal of the investments in Perutnina Ptuj Group and Holding PMP d.d. and will be able to use the relief from unused tax losses.

Movement of Deferred Tax Assets and Liabilities in 2017

in EUR thousand	31 Dec. 2016	Error correction (Note 31)	1 Jan. 2017 Restated	Translation differences	Changes in profit and loss	Changes from other comprehensive income	Transfer to assets (groups) held for disposal	31 Dec. 2017 Restated
Property, plant and equipment	(6,836)	0	(6,836)	(5)	539	0	6,239	(63)
Other	49	0	49	0	(1)	0	0	48
Deferred tax liabilities	(6,787)	0	(6,787)	(5)	538	0	6,239	(15)
Other provisions	56	0	56	0	(19)	(76)	76	37
Unused tax losses	10,426	0	10,426	(7)	732	0	0	11,151
Inventories	631	1,960	2,591	(5)	(351)	0	0	2,235
Trade receivables	759	382	1,141	3	(234)	0	(52)	858
Employee benefits	2,069	0	2,069	3	232	0	(467)	1,837
Property, plant and equipment	1,040	0	1,040	1	(120)	0	0	921
Financial assets at fair value through other comprehensive income	(33)	0	(33)	0	73	(32)	(73)	(65)
Unused tax reliefs	11,881	0	11,881	(1)	829	0	(2)	12,707
Deferred tax assets	26,829	2,342	29,171	(6)	1,142	(108)	(519)	29,681
Deferred tax assets (liabilities), net	20,042	2,342	22,383	(11)	1,681	(108)	5,720	29,666

15. ASSETS HELD FOR DISPOSAL (DISPOSAL GROUPS)

in EUR thousand	31 Dec. 2018	31 Dec. 2017 Restated
Assets held for sale	31	31
Assets of Perutnina Ptuj Group and Holding PMP – discontinued operations	259,941	267,361
Assets held for disposal (disposal groups)	259,972	267,392
Liabilities of Perutnina Ptuj Group and Holding PMP – discontinued operations	(113,582)	(133,145)
Liabilities included in disposal groups	(113,582)	(133,145)

In 2018, disposal activities of the investments in Perutnina Ptuj Group and Holding PMP were under way, which is why the investments are reclassified from investments in subsidiaries to assets (group) held for disposal. At the same time, financial liabilities and trade payables, connected to assets held for sale, were reclassified to liabilities included in disposal groups.

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

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

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

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

Statement of Comprehensive Income

in EUR thousand	2018	2017 Restated
Revenue	269,985	256,592
Operating expenses	(243,893)	(252,302)
Other operating income (expenses), net	2,579	6,066
Operating profit	28,671	10,356
Net finance costs	(2,388)	(1,936)
Taxes	(3,666)	(365)
Profit for the year	22,617	8,055
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Actuarial loss, net	0	(107)
Income tax related to components of comprehensive income	0	(76)
<i>Items that may be reclassified subsequently to profit or loss</i>		
Change in fair value reserves for available-for-sale financial assets	6	68
Exchange rate difference on translating foreign operations	256	713
Other comprehensive income	262	598
Comprehensive income	22,879	8,653

Statement of Financial Position

in EUR thousand	31. 12. 2018	31. 12. 2017 Restated
Non-current assets	166,961	161,002
Intangible assets	11,375	11,375
Property, plant and equipment	149,220	144,000
Other assets	6,366	5,627
Current assets	92,980	106,359
Inventories	31,196	32,571
Trade receivables	31,671	28,472
Cash and cash equivalents	19,748	34,625
Other assets	10,365	10,691
TOTAL ASSETS	259,941	267,361
Non-current liabilities	59,526	64,427
Financial liabilities	44,717	51,017
Other liabilities	14,809	13,410
Current liabilities	54,056	68,718
Financial liabilities	10,495	18,070
Other liabilities	43,561	50,648
TOTAL LIABILITIES	113,582	133,145
NET ASSETS	146,358	134,216

Cash Flow from Discontinued Operations

in EUR thousand	2018	2017 Adjusted
Net cash generated from operating activities	18,406	15,356
Net cash used in investing activities	(5,753)	(11,461)
Net cash used in financing activities	(27,555)	(7,660)
Translation differences	16	199
Cash and cash equivalents net decrease	(14,902)	(3,765)

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

16. INVENTORIES

in EUR thousand	31 Dec. 2018	31 Dec. 2017 Restated
Raw material	85,864	82,973
Work in progress	59,482	56,955
Finished products	45,832	39,561
Trade goods	15,957	15,231
Inventories	207,135	194,720

On 31 December 2018, no items of inventories are pledged as security for liabilities (2017: EUR 0 thousand). On 31 December 2018, the Group checked the value of the inventories. It found that the net realisable value of finished products is lower than their production value, and impaired the inventories by EUR 6,723 thousand (2017: EUR 264 thousand).

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

17. CURRENT FINANCIAL RECEIVABLES

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Loans issued	21,223	24,103
Interest receivables	3,214	1,659
Other	330	86
Current financial receivables	24,767	25,848

Loans issued include a loan issued to the controlling company in the amount of EUR 20,990 thousand (2017: EUR 23,850 thousand). The interest rate for loan issued is fixed and is 5 percent. The loan will be repaid according to contractual provisions. Purpose of the loan is sensible use of the Group's liquidity surpluses.

Movement of Current Loans Issued

in EUR thousand	2018	2017
Balance as at 1 Jan.	24,103	18,969
Loans issued	15,268	5,503
Allowances for loans issued	(5)	0
Repayment of loans issued	(18,143)	(463)
Transfer from non-current loans issued	0	170
Write-offs of loans issued	0	(15)
Translation differences	0	7
Transfer to assets held for disposal (disposal groups)	0	(68)
Balance as at 31 Dec.	21,223	24,103

18. CURRENT TRADE RECEIVABLES

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Trade receivables	80,524	89,011
Allowances for trade receivables	(6,444)	(4,651)
VAT receivables	3,240	3,494
Issued advance payments and cautions	1,741	3,111
Allowances for advance payments	(204)	0
Other receivables	1,281	2,063
Allowances for other receivables	(261)	(262)
Current trade receivables	79,877	92,766

The majority of the Group's trade receivables are insured against commercial risks with an insurance company. Trade receivables whose present value on 31 December 2018 amounts to EUR 10,600 thousand (2017: EUR 15,643 thousand) are pledged as security for liabilities.

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

19. CASH AND CASH EQUIVALENTS

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Cash in national currency	57,265	30,415
Cash in foreign currency	6,204	4,494
Restricted cash	611	0
Cash and cash equivalents	64,080	34,909

Deposits in the amount of EUR 73 thousand are in the national currency and have a maturity of up to three months (2017: EUR 76 thousand). The interest rate for deposits is fixed.

20. OTHER CURRENT ASSETS

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Current deferred expenses	2,634	1,992
Other current assets	2,634	1,992

Current deferred expenses refer to advance payments of costs, which will debit against profit or loss in 2019.

21. EQUITY

in EUR thousand	31 Dec. 2018	31 Dec. 2017 Restated
Equity attributed to the owners of the controlling company	387,468	384,561
Share capital	145,266	145,266
Capital surplus	11,461	11,461
Revenue reserves	340	(77)
Retained earnings	230,401	227,911
Non-controlling interest	19,942	18,376
Equity	417,410	402,937

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

Ownership Structure of the Controlling Company

Shareholder	Number of shares 31 Dec. 2018	Number of shares 31 Dec. 2017
DILON, d. o. o., Gerbičeva ulica 98, Ljubljana, Slovenia	718,351	718,351
Republika Slovenija, 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 2018.

Capital Surplus

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

Reserves

in EUR thousand	31 Dec. 2018	31 Dec. 2017 Restated
<i>Legal reserves</i>	4,023	3,951
<i>Treasury shares</i>	(6,009)	(6,009)
<i>Reserves for treasury shares</i>	3,754	3,754
Revenue reserves	1,768	1,696
<i>Fair value reserve due to financial assets at fair value through other comprehensive income</i>	392	344
<i>Deferred tax liabilities</i>	(75)	(65)
Fair value reserves	317	279
Net actuarial gains on pension programs	(2,602)	(2,645)
Translation differences	856	593
Reserves	340	(77)

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

In 2018, the controlling company created legal reserves from net profit in the amount of EUR 72 thousand (2017: EUR 570 thousand). The controlling company corrected a prior period error, namely it created additional legal reserves in the amount of EUR 316 thousand. A more detailed explanation of the error correction is disclosed in Note 31.

Distributable Profit

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

22. EMPLOYEE BENEFITS

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Provisions for severance pay	11,817	11,837
Provisions for loyalty bonuses	2,116	2,115
Provisions for post-employment benefits	187	208
Employee benefits	14,120	14,160

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

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 Company, and the yield curve, which represents the relationship between market yields on government bonds in the Eurozone and the time remaining to maturity. The discount rate considered in the calculations ranged between 0.0 and 2.3 percent, depending on maturity. The calculation considers a 0.1 to 0.4 percent mortality, a 0.7 to 3.5 percent fluctuation and a 3.6 percent nominal annual growth rate of average monthly salaries.

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

Movement of Employee Benefits in 2018

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

Movement of Employee Benefits in 2017

in EUR thousand	31 Dec. 2016	Creation	Reversal	Utilization	Translation differences	Transfer to liabilities held for disposal	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

Sensitivity Analysis of Actuarial Assumptions for 2017

in EUR thousand	31 Dec. 2017		
	Change in assumption (percentage points)	Post-employment benefits on retirement	Jubilee benefits
Actuarial assumption			
	+0.5	(483)	(79)
Yield	-0.5	463	71
	+0.5	520	84
Salary growth	-0.5	(496)	(76)
	+0.5	(499)	(82)
Fluctuation	-0.5	537	88

23. OTHER PROVISIONS

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Provisions for arbitral procedure	3,115	0
Provisions for lawsuits	678	836
Provisions for complaints	518	312
Other provisions	4,311	1,148

The claimant ASKO BV an initiated arbitral procedure against subsidiary Noži Ravne d.o.o. due to alleged breaches of a manufacturing agreement, at the Netherlands Arbitration Institute in Amsterdam. The Netherlands Arbitration Institute issued the arbitral award NAI 4202 dated 4 April 2016, where the claimant's claim was partially granted. The subsidiary filed a setting aside procedure in court in Amsterdam due to material and procedural breaches in the course of arbitration proceedings, aiming to annul the arbitral award. The setting aside proposal was rejected by the 1st instance court. The setting aside procedure is not yet finally resolved, the subsidiary is currently awaiting the decision of the supreme court in Amsterdam. On 17 October 2018, the district court in Ljubljana, based only on written statements of the parties, issued a resolution in which the arbitral award was recognised. The subsidiary appealed against the decision. The supreme court is yet to decide on the matter, a favourable outcome is expected. Based on new facts about the matter initiated by the claimer against the subsidiary, the Group created a provision for the arbitral procedure based on arbitral award NAI 4202 issued by the Netherlands Arbitration Institute.

Movement of Other Provisions in 2018

in EUR thousand	31 Dec. 2017	Creation and reversal	Utilization	31 Dec. 2018
Provisions for arbitral procedure	0	3,115	0	3,115
Provisions for lawsuits	836	(152)	(6)	678
Provisions for complaints	312	206	0	518
Other provisions	1,148	3,169	(6)	4,311

Movement of Other Provisions in 2017

in EUR thousand	31 Dec. 2016	Creation and reversal	Utilization	Translation differences	Transfer to liabilities held for disposal	31 Dec. 2017
Provisions for lawsuits	883	37	(17)	2	(69)	836
Provisions for complaints	482	7	(178)	1	0	312
Other provisions	1,365	44	(195)	3	(69)	1,148

24. NON-CURRENT DEFERRED REVENUES

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Assigned contributions	1,077	1,052
Subsidies for property, plant and equipment	761	873
Non-current deferred revenues	1,838	1,925

Movement of Non-Current Deferred Revenues in 2018

in EUR thousand	31 Dec. 2017	Creation	Reversal and utilization	Translation differences	Transfer to liabilities held for disposal	31 Dec. 2018
Assigned contributions	1,052	1,425	(1,400)	0	0	1,077
Subsidies for property, plant and equipment	873	0	(112)	0	0	761
Other deferred revenues	0	458	(458)	0	0	0
Non-current deferred revenues	1,925	1,883	(1,970)	0	0	1,838

Movement of Non-Current Deferred Revenues in 2017

in EUR thousand	31 Dec. 2016	Creation	Reversal and utilization	Translation differences	Transfer to liabilities held for disposal	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

25. NON-CURRENT FINANCIAL LIABILITIES

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Borrowings	177,172	172,184
Liabilities for bonds issued	51,076	93,802
Liabilities arising from finance lease	2,847	2,129
Non-current financial liabilities	231,095	268,115

Borrowings include loans from domestic and foreign banks. Borrowings in the amount of EUR 13,588 thousand (2017: EUR 21,037 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 EUR thousand	2018	2017
Balance as at 1 Jan.	172,184	196,928
New borrowings	73,541	379,902
Repayments for borrowings	0	(44)
Transfer to current borrowings	(69,389)	(353,988)
Exchange rate differences	(1)	(56)
Translation differences	0	39
Amortisation of origination fee	837	(851)
Transfer to liabilities included in disposal groups	0	(49,746)
Balance as at 31 Dec.	177,172	172,184

Liabilities for Bonds Issued

Liabilities for bonds issued refer to the bonds issued with the ticker symbol SIJ5. The Group issued bonds with the total nominal value of EUR 51,218 thousand in July 2015. The entire bond issue contains 51,218 denominations of EUR 1 thousand. The bond maturity date is 21 July 2020. The interest rate for the bonds is fixed, i.e. 4.0 percent per annum. Interest is accrued annually in arrears. The nominal value of the principal falls due, in full and in a single amount, on the maturity of the bond. The bonds are traded on the Ljubljana Stock Exchange. The Ljubljana Stock Exchange closing quotation as at 31 December 2018 was 104.00, and was used for fair value calculation on the same date. Liabilities for bonds issued with the ticker symbol SIJ4 fall due on 24 November 2019 and were therefore transferred to current financial liabilities.

Movement of Non-Current Liabilities Arising from Finance Lease

in EUR thousand	2018	2017
Balance as at 1 Jan.	2,129	4,614
New finance leases	2,493	1,048
Transfer to current liabilities arising from finance lease	(1,776)	(2,273)
Exchange rate differences	0	(3)
Translation differences	0	14
Transfer to liabilities included in disposal groups	0	(1,271)
Balance as at 31 Dec.	2,846	2,129

The lowest sum of future leases due for payment in next 1 to 5 years amounts to EUR 2,642 thousand (2017: EUR 1,831 thousand). After 5 years it amounts to EUR 340 thousand (2017: EUR 408 thousand).

The net present value of future leases due for payment in next 1 to 5 years amounts to EUR 2,521 thousand (2017: EUR 1,743 thousand). After 5 years it amounts to EUR 325 thousand (2017: EUR 386 thousand).

26. CURRENT FINANCIAL LIABILITIES

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Borrowings	74,359	67,347
Liabilities for bonds issued	42,859	0
Liabilities for commercial papers issued	29,723	26,993
Liabilities arising from finance lease	1,487	1,307
Interest liabilities	1,542	1,602
Other financial liabilities	333	81
Current financial liabilities	150,303	97,330

Borrowings include loans from domestic and foreign banks. Borrowings in the amount of EUR 15,074 thousand (2017: EUR 8,282 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 EUR thousand	2018	2017
Balance as at 1 Jan.	67,347	95,820
Acquisition of company	0	86
New borrowings	563,160	219,235
Repayments for borrowings	(625,769)	(583,610)
Transfer from non-current borrowings	69,389	353,987
Exchange rate differences	(1)	(15)
Translation differences	299	(803)
Amortisation of origination fee	(65)	(268)
Transfer to liabilities included in disposal groups	0	(17,085)
Balance as at 31 Dec.	74,359	67,347

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 EUR 42,897 thousand in November 2014. The entire bond issue contains 42,897 denominations of EUR 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. The Ljubljana Stock Exchange closing quotation as at 31 December 2018 was 104.24, and was used for fair value calculation on the same date.

Liabilities for Commercial Papers Issued

Liabilities for commercial papers amounting to EUR 30,000 thousand refer to 12-month commercial papers with the ticker symbol SIK05, issued by the controlling company on 14 December 2018 as a 5th consecutive issue. The total nominal value of the commercial papers is EUR 30,000 thousand, and covers 30,000 denominations of EUR 1 thousand. The interest rate for a commercial paper is 1.0 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 13 December 2019. Commercial papers are traded on the Ljubljana Stock Exchange. The Ljubljana Stock Exchange closing quotation as at 31 December 2018 was 100.00, and was used for fair value calculation on the same date. The controlling company repaid the forth issue of commercial papers with the ticker symbol SIK04 in the amount of EUR 27,325 thousand on the maturity day.

Movement of Current Liabilities Arising from Finance Lease

in EUR thousand	2018	2017
Balance as at 1 Jan.	1,307	2,253
New finance leases	5	0
Repayments of liabilities arising from finance lease	(1,601)	(2,589)
Transfer from non-current liabilities arising from finance lease	1,776	2,273
Exchange rate differences	0	(1)
Translation differences	0	10
Amortisation of origination fee	0	3
Transfer to liabilities included in disposal groups	0	(642)
Balance as at 31 Dec.	1,487	1,307

The lowest sum of future leases, due for payment in the next financial year, amounts to EUR 1,576 thousand on 31 December 2018 (2017: EUR 1,367 thousand). The net present value of future leases amounts to EUR 1,488 thousand on the same date (2017: EUR 1,307 thousand).

27. CURRENT TRADE PAYABLES

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Payables to suppliers	187,478	204,507
Liabilities to employees	5,969	5,266
Received advance payments	22,927	1,841
Tax liabilities	5,066	4,950
Other liabilities	1,216	1,421
Current trade payables	222,656	217,985

In November 2018, the controlling company received EUR 20,000 thousand as a caution for a binding offer for a disposal of an investment in a subsidiary. The disposal procedure was concluded in February 2019. The received advance payment will be set off in disposal effects. A more detailed explanation of the transaction is disclosed in Note 15.

28. OTHER CURRENT LIABILITIES

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Accrued expenses for unused annual leave	1,149	540
Accrued expenses for subcontractors	232	14
Accrued customer fees	110	113
Accrued expenses for lawsuits	281	216
Accrued expenses for emission coupons	770	510
Other liabilities	2,996	605
Deferred revenue	210	182
Other current liabilities	5,748	2,180



29. SEGMENT REPORTING

Segment Reporting for 2018

in EUR thousand	Steel Division	Distribution & Processing Division	Scrap Division	Manufacturing Division	Poultry Division (discontinued operations)	Total segments	Headquarter and Other Services	Total	Eliminations	Elimination of discontinued operations	Consolidated financial statements
Operating income (external)	502,928	166,041	70,991	61,130	269,985	1,071,075	1,676	1,072,751	0	(269,985)	802,766
Operating income (between segments)	117,279	2,546	26,264	8,467	0	154,556	14,598	169,154	(169,154)	0	0
Revenues	620,207	168,586	97,255	69,596	269,985	1,225,630	16,274	1,241,905	(169,154)	(269,985)	802,766
Profit (loss) before tax	(5,938)	2,292	1,128	(6,884)	18,951	9,549	(4,502)	5,047	0	(18,951)	(13,904)
Interest income	184	17	122	22	86	431	3,525	3,956	(2,276)	(86)	1,594
Interest expenses	9,761	1,375	612	739	1,868	14,355	5,243	19,598	(2,513)	(1,868)	15,217
Amortisation and depreciation	41,220	3,023	628	2,875	0	47,746	720	48,466	0	0	48,466
Share of profit in associates	99	0	0	0	0	0	0	99	0	0	99
Assets	622,244	107,919	29,487	58,867	259,941	1,078,458	73,527	1,151,985			1,151,985
Liabilities	397,745	93,661	22,330	46,658	113,582	673,976	70,599	744,575			744,575

Segment Reporting for 2017

in EUR thousand	Steel Division	Distribution & Processing Division	Scrap Division	Manufacturing Division	Poultry Division (discontinued operations)	Total segments	Headquarter and Other Services	Total	Eliminations	Elimination of discontinued operations	Consolidated financial statements
Operating income (external)	452,835	174,060	70,580	55,817	256,592	1,009,884	1,578	1,011,462	0	(256,592)	754,870
Operating income (between segments)	128,431	2,091	21,813	8,157	0	160,492	17,911	178,403	(178,403)	0	0
Revenues	581,266	176,151	92,393	63,974	256,592	1,170,376	19,489	1,189,865	(178,403)	(256,592)	754,870
Profit (loss) before tax	6,801	504	763	(913)	9,070	16,225	(693)	15,532	0	(9,070)	6,462
Interest income	181	24	127	26	687	1,045	3,253	4,298	(2,421)	(687)	1,190
Interest expenses	8,444	1,413	916	742	2,330	13,845	6,688	20,533	(1,697)	(2,330)	16,506
Amortisation and depreciation	42,430	3,289	661	3,008	14,133	63,521	709	64,230	0	(14,133)	50,097
Share of profit in associates	94	0	0	0	0	0	0	94	0	0	94
Assets	643,504	112,748	28,876	67,106	267,361	1,119,595	20,140	1,139,736			1,139,736
Liabilities	409,698	99,936	22,084	48,391	133,145	713,254	23,546	736,800			736,800

30. CONTINGENT ASSETS AND LIABILITIES

On 31 December 2018, the contingent assets amount to EUR 43,175 thousand (2017: EUR 10,386 thousand) and refer to received guarantees for the elimination of errors in the warranty period. The Group expects no inflows from received guarantees.

On 31 December 2018, the contingent liabilities amount to EUR 4,390 thousand (2017: EUR 7,802 thousand) and refer to guarantees for the good work performance, lawsuits, and issued guarantees. The Group expects no outflows from lawsuits, issued securities, and guarantees.

31. CORRECTION OF MATERIAL PRIOR PERIODS ERRORS

Note Regarding Balances Adjustments in the Consolidated Statement of Financial Position as at 31. December 2016

in EUR thousand	Note	31 Dec. 2016 Reported	Adjustment	1 Jan. 2017 Restated
ASSETS				
Non-current assets		705,791	592	706,383
Intangible assets		47,825	0	47,825
Property, plant and equipment	A	620,694	(2,141)	618,554
Biological assets	B	0	390	390
Investment property		4,094	0	4,094
Investments in associates		1,622	0	1,622
Financial assets at fair value through other comprehensive income		1,225	0	1,225
Financial receivables		256	0	256
Trade receivables		2,239	0	2,239
Other assets		1,007	0	1,007
Deferred tax assets	C	26,829	2,343	29,171
Current assets		438,156	(12,340)	425,816
Assets held for disposal (disposal groups)		4,102	0	4,102
Biological assets	B	0	6,794	6,794
Inventories	D	238,397	(17,121)	221,276
Financial receivables		19,679	0	19,679
Trade receivables	E	112,099	(229)	111,870
Income tax assets		1,384	0	1,384
Cash and cash equivalents		59,443	0	59,443
Other assets	F	3,053	(1,784)	1,269
Total assets		1,143,947	(11,747)	1,132,200
EQUITY AND LIABILITIES				
Equity	I	423,471	(12,884)	410,588
Equity attributed to the owners of the controlling company		389,043	(12,597)	376,446
Non-controlling interest		34,429	(287)	34,142
Non-current liabilities		325,300	1,051	326,351

Continuation of the table →

Continuation of the table

in EUR thousand	Note	31 Dec. 2016 Reported	Adjustment	1 Jan. 2017 Restated
Employee benefits	G	15,763	1,051	16,814
Other provisions		1,365	0	1,365
Deferred revenues		5,532	0	5,532
Financial liabilities		295,240	0	295,240
Trade payables		612	0	612
Deferred tax liabilities		6,787	0	6,787
Current liabilities		395,176	85	395,261
Financial liabilities		130,156	0	130,156
Trade payables		259,237	0	259,237
Income tax liabilities		1,333	0	1,333
Other liabilities	H	4,450	85	4,535
Total equity and liabilities		1,143,947	(11,747)	1,132,200

Note A: Represents current biological assets in the amount of EUR 2,141, of which EUR 1,841 thousand were transferred from property, plant and equipment, and EUR 300 thousand were transferred from inventories.

Note B: Represents non-current biological assets in the amount of EUR 390 thousand, of which assets in the amount of EUR 300 thousand were transferred from property, plant and equipment and assets in the amount of EUR 90 thousand were transferred from inventories, and current biological assets in the amount of EUR 6,794 thousand, of which assets in the amount of EUR 6,713 thousand were transferred from inventories with a negative allowance for fair value of biological assets in the amount of EUR 1,760 thousand, and assets in the amount of EUR 1,841 thousand were transferred from property, plant and equipment.

Note C: Represents additionally created deferred tax due to a correction of a prior period error.

Note D: Represents EUR 6,713 thousand which were transferred from inventories to current biological assets, EUR 91 thousand which were transferred from inventories to non-current biological assets, and EUR 10,317 thousand of reversed retained deviations from prior periods.

Note E: Represents EUR 229 thousand of adjustment for allowances for trade receivables.

Note F: Represents EUR 1,784 thousand of adjustment for allowances for current deferred costs.

Note G: Represents the adjustment of provisions for severance pay for employees with service contracts in the amount of EUR 1,051 thousand.

Note H: Represents the adjustment of provisions for unused annual leave for employees with service contracts in the amount of EUR 85 thousand.

Note I: Represents the total amount of adjustments of retained earnings from the end of 2016.

Note Regarding Balances Adjustments in the Consolidated Statement of Financial Position as at 31. December 2017

in EUR thousand	Note	31 Dec. 2017 Reported	Adjustment	31 Dec. 2017 Restated
ASSETS				
Non-current assets		520,570	516	521,086
Intangible assets		35,069	0	35,069
Property, plant and equipment		452,508	0	452,508
Investment property		166	0	166
Investments in associates		1,716	0	1,716
Financial assets at fair value through other comprehensive income		1,215	0	1,215
Financial receivables		30	0	30
Trade receivables		198	0	198
Other assets	A	2,286	(1,784)	503
Deferred tax assets	B	27,381	2,299	29,681
Current assets		631,613	(12,963)	618,650
Assets held for disposal (disposal groups)	C	270,038	(2,646)	267,392
Inventories	D	205,037	(10,317)	194,720
Financial receivables		25,848	0	25,848
Trade receivables		92,766	0	92,766
Income tax assets		1,023	0	1,023
Cash and cash equivalents		34,909	0	34,909

Continuation of the table →

Continuation of the table

in EUR thousand	Note	31 Dec. 2017 Reported	Adjustment	31 Dec. 2017 Restated
Other assets		1,992	0	1,992
Total assets		1,152,184	(12,447)	1,139,736

EQUITY AND LIABILITIES				
Equity	E	415,512	(12,575)	402,937
Equity attributed to the owners of the controlling company		396,877	(12,317)	384,560
Non-controlling interest		18,635	(258)	18,376
Non-current liabilities		285,766	0	285,766
Employee benefits		14,160	0	14,160
Other provisions		1,148	0	1,148
Deferred revenues		1,925	0	1,925
Financial liabilities		268,115	0	268,115
Trade payables		403	0	403
Deferred tax liabilities		16	0	16
Current liabilities		450,906	128	451,034
Liabilities held for disposal	C	133,017	128	133,145
Financial liabilities		97,330	0	97,330
Trade payables		217,985	0	217,985
Income tax liabilities		394	0	394
Other liabilities		2,180	0	2,180
Total equity and liabilities		1,152,184	(12,447)	1,139,736

Note A: Represents EUR 1,784 thousand of adjustment for allowances for deferred costs.

Note B: Represents additionally created deferred tax due to a correction of a prior period error.

Note C: Represents a correction of a prior period error in a subsidiary transferred, as discontinued operations, to assets and liabilities held for disposal. An error correction in assets held for disposal by EUR 2,646 thousand refers to a correction of an error in biological assets, the creation of allowances for receivables, and related deferred tax assets. An error correction in liabilities held for disposal by EUR 128 thousand refers to the correction of

provisions for severance pay for employees with service contracts and to the correction of current deferred costs.

Note D: Represents EUR 10,317 thousand of reversed retained deviations from prior periods.

Note E: Represents the total amount of adjustments of retained earnings from the end of 2017.

Note Regarding Movements in Comprehensive Income for 2017

in EUR thousand	Note	2017 Reported	Adjustment	2017 Restated
Revenue	A	756,062	(1,192)	754,870
Cost of sales		(598,883)	0	(598,883)
Gross profit		157,179	(1,192)	155,987
Distribution costs		(42,243)	0	(42,243)
General and administrative expenses		(88,333)	0	(88,333)
Other operating income		6,787	0	6,787
Other operating expenses		(5,107)	0	(5,107)
Impairment of trade receivables (gains/losses)		(2,439)	0	(2,439)
Operating profit		25,844	(1,192)	24,652
Finance income		1,467	0	1,467
Finance expenses	A	(20,943)	1,192	(19,751)
Net finance income (costs)		(19,476)	1,192	(18,284)
Share of profit in associates		94	0	94
Profit before tax		6,462	0	6,462
Income tax expense		(1,141)	0	(1,141)
Deferred income tax		1,030	0	1,030
Operating profit for the year from continuing operations		6,351	0	6,351
Profit from discontinued operations	B	8,604	(549)	8,055
Profit (loss) for the year		14,955	(549)	14,406

Continuation of the table →

Continuation of the table

in EUR thousand	Note	2017 Reported	Adjustment	2017 Restated
Items that will not be reclassified subsequently to profit or loss				
Income tax related to components of comprehensive income		(32)	0	(32)
Net actuarial losses on pension programs		(1,201)	0	(1,201)
Items that may be reclassified subsequently to profit or loss				
Change in other reserves due to changes of financial assets at fair value		149	0	149
Exchange rate difference on translating foreign operations		(141)	0	(141)
Other comprehensive income from discontinued operations	C	(260)	858	598
Comprehensive income		13,470	308	13,778

Note A: Represents the reclassification of recognised financial discounts in the amount of EUR 1,192 thousand as a decrease in revenue.

Note B: Represents a correction of errors in discontinued operations, namely adjustments in the amount of EUR 763 thousand due to created allowances for receivables owed by external buyers and the creation of related deferred tax assets. In 2017, it represents an impact on the increase in other operating expenses by EUR 534 thousand and an adjustment on 1 January 2017 in the amount of EUR 229 thousand which refers to the adjustment of annual turnover from biological assets at harvest, according to IAS 41, allowances for unused annual leave for employees with service contracts and retained earnings on 1 January 2017 in the amount of EUR 85 thousand, and an impact on profit or loss in the amount of EUR 17 thousand.

Note C represents a correction of actuarial losses by EUR 858 thousand recorded in 2017 rather than on 31 December 2016.

32. BUSINESS COMBINATION

On 1 August, the Group acquired a business – processing of waste material – from Harsco Minerali d.o.o. By acquiring the business, the Group itself will process waste material into side-product which can be used in further production process or sold as input material in construction, road construction and environmental upgrading.

In 2018, the Group assessed the fair value of assets of the acquired business, taking it into account in the initial accounting of business combination:

in EUR thousand	Fair value as at 1 Aug. 2018
Property, plant and equipment	2,038
Inventories	383
Net value of assets of the acquired business	2,421
Acquisition price	2,000
NEGATIVE DIFFERENCE AT ACQUISITION	421

RELATED PARTIES

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

Transactions with the Controlling Company

in EUR thousand	2018	2017
Revenues	1,560	1,112

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Financial receivables	24,207	25,505
Liabilities	95	0

Transactions with Management

The total amount of the receipts of the Supervisory Board members and the receipts of the Group's key management personnel for the performance of functions or tasks based on the business management contracts:

in EUR thousand	2018	2017
Management and employees with service contract	13,879	14,666
Members of the Supervisory Board	50	91

The receipts include gross salaries and payment for annual leave. Travel expenses, accommodation costs, and daily allowances are not shown, since they do not represent a payment to key management personnel by their nature.

The Group did not grant any loans, issue any guarantees nor make any advance payments to the key management personnel or the members of the Supervisory Board in 2018. On 31 December 2018, the Group has no receivables or liabilities towards the key management personnel, except for liabilities for December salaries paid in January 2019.

FINANCIAL INSTRUMENTS AND RISKS

Credit Risk

The Group assesses its credit risk as moderate and accordingly managed. It monitors its receivables systematically and regularly. The Group controls the credit risk represented by clients in its portfolio based on the clients' credit rating received from external credit assessment institutions, by using payments hedging instruments, and by insuring a high portion of all receivables at credit insurance companies. The Group additionally reduces its exposure to credit risks by monitoring the overdue receivables on a daily basis. It pays maximum attention to control trade receivables from big customers, using, as a material instrument, its own IT equipment. The largest exposure on the reporting date arises from trade receivables, financial receivables, and deposits.

Age Structure of Financial Assets

in EUR thousand 31 Dec. 2018	Not-overdue	Overdue				Total
		Up to 3 months	3 months to 1 year	1 year to 3 years	Over 3 years	
Trade receivables	59,269	14,678	3,768	2,097	1,216	81,028
Financial receivables and deposits	24,801	0	2	19	0	24,822
Total	84,070	14,678	3,770	2,116	1,216	105,850

in EUR thousand 31 Dec. 2017	Not-overdue	Overdue				Total
		Up to 3 months	3 months to 1 year	1 year to 3 years	Over 3 years	
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

Movement of Allowances for Financial Assets

in EUR thousand	Allowance as at 31 Dec. 2017	Changes from first application of IFRS 9	Changes with impact on profit or loss	Changes without impact on profit or loss	Transfer to assets held for disposal (disposal groups)	Allowance as at 31 Dec. 2018
Trade receivables	5,004	3,001	(425)	(707)	0	6,873
Financial receivables and deposits	18	7		(1)	0	25
Total	5,022	3,008	(425)	(708)	0	6,898

in EUR thousand	Allowance as at 31 Dec. 2016	Changes with impact on profit or loss	Changes without impact 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

Liquidity Risk

The Group 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 Group is capable of settling any overdue liabilities at any time.

in EUR thousand 31 Dec. 2018	Carrying amount	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Payables to suppliers	187,478	174,374	12,973	129	2	187,478
Financial liabilities with future interest	381,398	31,306	130,637	202,481	26,570	390,994
Other liabilities	1,849	1,215	1	633	0	1,849
Total	570,725	206,895	143,611	203,243	26,572	580,319

in EUR thousand						
31 Dec. 2017	Carrying amount	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Payables to suppliers	204,507	194,131	10,347	29	0	204,507
Financial liabilities with future interest	365,445	28,609	77,824	285,609	9,028	401,070
Other liabilities	1,824	671	750	403	0	1,824
Total	571,766	223,411	88,921	286,041	9,028	607,401

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

Foreign Exchange Risk

The Group assesses its foreign exchange risk as moderate and accordingly managed. The Group is exposed to changes in exchange rates, especially due to the volatility of the US dollar and due to currency fluctuations on some local markets with lower exposure. The amounts in tables are expressed in EUR thousand.

31 Dec. 2018	EUR	USD	GBP	CHF	RUB	CZK
Cash and cash equivalents	42	8,747	0	0	0	0
Trade receivables	128	9,592	0	0	0	0
Financial receivables	0	702	0	0	0	0
Trade payables	(22)	(32,847)	(1)	(2)	0	(4)
Financial liabilities	(104)	0	0	0	0	0
Exposure	44	(13,806)	(1)	(2)	0	(4)

31 Dec. 2017	EUR	USD	GBP	CHF	RUB	CZK
Cash and cash equivalents	210	5,008	0	0	0	0
Trade receivables	180	4,293	5	0	0	18
Financial receivables	0	0	0	0	0	0
Trade payables	(22)	(31,405)	(6)	0	(3,055)	(4)
Financial liabilities	(173)	0	0	0	0	0
Exposure	195	(22,104)	(1)	0	(3,055)	14

The euro is the functional currency and does not represent exposure to exchange rate change risk.

The Group manages the risk with internal methods of exchange rate risk management, notably through the price policy method by integrating the exchange rate into a price difference, and by balancing sales and purchasing. In balancing, the Group seeks to neutralise foreign exchange risk by using natural protection or seeking a balance between inflows and outflows by currency. The Group is not using derivative financial instruments to protect exchange rates. The value of the US dollar expressed in euro increased by 4.5 percent compared to 31 December 2017. Its average value was 4.4 percent lower than in 2017. A sensitivity analysis is prepared for the US dollar.

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

in EUR thousand	2018		2017	
Change of exchange rate by	10%	-10%	10%	-10%
US dollar (USD)	(1,206)	1,206	(1,843)	1,843

The change in the value of the US dollar by 10 percent compared to the euro on 31 December 2018 compared to 31 December 2017 would result in a change of profit or loss before tax by the amounts stated below. In the calculation of the change of the US dollar exchange rate impact, the Group included a balance of cash and cash equivalents, receivables, liabilities, and loans nominated in local currencies. Exposure to other currencies is low and does not represent material risk.

In 2018 and 2017 the following exchange rates were material for the Group:

Currency	31 Dec. 2018	31 Dec. 2017	Average exchange rate in 2018	Average exchange rate in 2017
EUR/USD	1.1450	1.1993	1.1810	1.1297
EUR/GBP	0.89453	0.88723	0.88471	0.87667
EUR/CHF	1.1269	1.1702	1.1550	1.1117
EUR/HRK	7.4125	7.4400	7.4182	7.4637
EUR/RUB	79.7153	69.3920	74.0416	65.9383
EUR/CZK	25.724	25.535	25.647	26.326

Exchange rates used to translate the balance items as at 31 December are equal to the ECB reference exchange rate as at the same date.

Interest Rate Risk

The Group assesses its interest rate risk as low and accordingly managed. The Group regularly monitors its exposure to interest rate risk by monitoring developments in money markets, changes to the interest rates and changes to the prices of derivative financial instruments, and by proposing in a due time measures of interest rate hedging.

A portion of fixed rate loans represents 41 percent of all Group's financial loans. Variable interest rates consist of variable interest rate EURIBOR and an interest margin. In the majority of loan contracts, the interest rate floor by EURIBOR cannot be lower than zero, so there can be no positive impact on profit or loss.

A change in interest rate by 100 or 50 basis points on the reporting date would result in a decrease of profit or loss by the amounts stated below. The analysis assumes that all other variables remain unchanged.

The analysis for 2017 was prepared in the same manner.

in EUR thousand	2018	2017
Change in profit/loss if increased by 100 bp	(2,225)	(2,010)
Change in profit/loss if increased by 50 bp	(1,113)	(1,005)
Change in profit/loss if decreased by 50 bp	36	38
Change in profit/loss if decreased by 100 bp	73	75

Equity Management

The Group's main purpose of equity management is to achieve an adequate volume of capital to ensure the confidence of its creditors, financial stability, and long-term solvency, as well as the proper dividends to its owners. On 31 December 2018, the controlling company owns 27,600 treasury shares.

In the structure of total indebtedness, the share of equity value remains at a high level, as the Group continues to implement the current financial policy to ensure long-term development through long-term sources.

The level of debt on equity represents the ratio between equity and financial liabilities.

in EUR thousand	2018	Debt increase by 10%	Debt decrease by 10%
Level of debt on equity	93.62	102.98	84.25
Equity	407,410	407,410	407,410
Financial liabilities	381,398	419,538	343,258

Carrying Amounts and Fair Values of Financial Instruments

The table shows carrying amounts and fair values of financial assets and financial liabilities. Fair values of financial and trade receivables, cash and cash equivalents, and trade payables are not shown, since their carrying amount is an adequate approximation of their fair value.

in EUR thousand	31 Dec. 2018		31 Dec. 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets at fair value through other comprehensive income	1,273	1,273	1,215	1,215
Financial receivables	24,797		25,878	
Trade receivables	79,952		92,964	
Cash and cash equivalents	64,080		34,909	
Financial liabilities	(381,398)	(385,270)	(365,445)	(370,407)
Trade payables	(223,290)		(218,388)	

Based on the test of the fair value of financial instruments, the Group assesses that there is no significant deviation from their carrying amount.

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

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Financial assets at fair value through other comprehensive income	791	754
Financial assets at fair value of first level	791	754
Financial assets at fair value through other comprehensive income	482	460
Financial assets at fair value of third level	482	460
Bonds and commercial papers	(127,529)	(125,757)
Financial liabilities at fair value of first level	(127,529)	(125,757)
Borrowings	(251,531)	(239,531)
Finance lease	(4,334)	(3,437)
Interest liabilities	(1,542)	(1,602)
Other financial liabilities	(334)	(80)
Financial liabilities at fair value of second level	(257,741)	(244,650)

Second level of liabilities at fair value include secured loans issued, finance leases, and interest liabilities, representing, according to the valuation technique, carrying amounts of discounted expected future payments with adjusted risk level.

In 2018, there was no transfers of financial instruments between different levels.

EVENTS AFTER THE REPORTING DATE

On 14 February 2019, the Slovenian Competition Protection Agency adopted a decision stating that the acquisition of Perutnina Ptuj by MHP is compliant with competition rules. The SIJ Group and MHP were, therefore, able to implement the procedures to finalise the transaction allowing MHP to enter the ownership structure of Perutnina Ptuj.

The Ukrainian MHP Group, one of the leading companies in the international agricultural and food processing industry, gained a slightly more than 90-percent share in Perutnina Ptuj on 24 February 2019. This means that Perutnina Ptuj is no longer a part of the SIJ Group. The term of the existing President of the Management Board of Perutnina Ptuj Tibor Šimonka and the Member of the Management Board Viacheslav Korchagin in Perutnina Ptuj have been terminated, but both will continue their mandates as Members of the Management Board of the SIJ Group.

On 9 April 2019, the 34th General Assembly of SIJ d.d. appointed new Members of the Supervisory Board: Štefan Belingar and Richard Pochon. Janko Jenko's term, who had been Member of the Supervisory Board until then, expired on 11 April 2019, while Polona Marinko, a Member of the Supervisory Board, resigned from the Supervisory Board on the same day. No changes were made to the terms of the other Members of the Supervisory Board.

On 12 April 2019, the Štefan Belingar was appointed the new Vice-President of the Supervisory Board and the new Member and the President of Audit Commission.

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

FINANCIAL REPORT OF SIJ d.d.

Independent Auditor's Report



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Independent Auditors' Report

To the Shareholders of SIJ d.d.

Report on the Audit of the Separate Financial Statements

Qualified Opinion

We have audited the separate financial statements of SIJ d.d. ("the Company"), which comprise the separate statement of financial position as at 31 December 2018, the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2018, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU").

Basis for Qualified Opinion

As at 31 December 2018, there were indications that the carrying amount of certain investments in subsidiaries and of the amounts due from those entities might be impaired due, primarily, to their weaker than budgeted financial performance and liquidity issues. As a consequence, management performed an assessment of the recoverable amounts of the assets in question, and concluded that no additional impairment loss was required in their respect. Based on our audit, however, certain of the assumptions applied by the Company in arriving at the recoverable amounts could not be supported by available evidence, with material favorable effect on the said recoverable amounts. We requested management to quantify the extent to which the separate financial statements were misstated as a result of the above matter. However, no such quantification was provided to us and it was impracticable for us to quantify the financial effects of the adjustments to investments in subsidiaries, receivables from subsidiaries and deferred income taxes as at 31 December 2018, and to the net profit for the year then ended, which would have resulted had management applied supportable assumptions and accounted for the impairment in accordance with the relevant requirements of IFRS as adopted by the EU.

We conducted our audit in accordance with International Standards on Auditing (ISAs) and EU Regulation (EU) No 537/2014. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with both the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the separate financial statements in Slovenia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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upis v sodni register: Skladno sodišče v Ljubljani
SI, reg. št.: 181512052100
osnovni kapital: 54.892,00 EUR
ID za DDV: SI02617145
matična št.: 5648556



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section we have not determined any other matters to be the key audit matters to be communicated in our report.

Emphasis of Matter - comparative information

We draw attention to Note 26 to the separate financial statements which describes that the comparative information as at and for the year ended 31 December 2017 has been restated. Our opinion is not modified in respect of this matter.

Other Matter relating to comparative information

The separate financial statements of the Company as at and for the years ended 31 December 2017 and 31 December 2016, from which the consolidated statement of financial position as at 1 January 2017 has been derived, excluding the retrospective adjustments described in Note 26, were audited by another auditor who expressed an unmodified opinion on those separate financial statements on 23 April 2018.

As part of our audit of the separate financial statements as at and for the year 31 December 2018, we also audited the retrospective adjustments described in Note 26 that were applied to restate the comparative information.

We were not engaged to audit, review, or apply any procedures to the comparative information, other than with respect to the retrospective adjustments described in Note 26 to the separate financial statements. Accordingly, we do not express an opinion or any other form of assurance on comparative information. However, in our opinion, the retrospective adjustments described in Note 26 are appropriate and have been properly applied.

Other Information

Management is responsible for other information. The other information comprises the *2018 Highlights (including the Report of the Supervisory Board), Organization and Corporate Governance, Business Report and Sustainable development and risk management report* which are constituent parts of the annual report but does not include the separate financial statements and our auditor's report thereon. We obtained other information before the date of issuance of the auditor's report, except for the Report of the Supervisory Board, which is to become available at a later date.

Our opinion on the separate financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Qualified Opinion* section above, in its impairment testing of certain of its investments in subsidiaries and related receivables, the Company applied a number of assumptions that could not be supported by available evidence. We have concluded that the other information is materially misstated for the same reason with respect to the items in the Business Report affected by the failure to apply appropriate assumptions and to account for impairment in accordance with IFRS as adopted by the EU.

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In addition, our responsibility is to consider whether information included in the Company's Business Report for the financial year for which the separate financial statements are prepared is consistent with the separate financial statements and whether the Business Report includes the disclosures required by the Companies Act (hereafter referred to as "the applicable legal requirements").

Based solely on the work required to be undertaken in the course of the audit of the separate financial statements and the procedures above, in our opinion:

- the information given in the Business Report for the financial year for which the separate financial statements are prepared, is consistent, in all material respect, with the separate financial statements; and
- the Business Report has been prepared in accordance with the applicable legal requirements.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation of the separate financial statements that give a true and fair view in accordance with IFRS as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of the separate financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 and EU Regulation (EU) No 537/2014 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 separate 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 separate 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 control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

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- 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 auditors' report to the related disclosures in the separate 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.

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Report on Other Legal and Regulatory Requirements

Management and Supervisory Board Remuneration

Management is responsible for disclosure, within the notes to the financial statements, of the information about the remuneration for each member of the management and supervisory board separately in a way prescribed by fifth paragraph of 294. Article of the Companies Act. Our responsibility is to consider whether the above information is disclosed in line with the Companies Act.

Management did not disclose the above information as required by the Companies Act.

Other Legal and Regulatory Requirements

We were appointed by the shareholder of SIJ d.d. at the shareholders meeting dated on 5 July 2018 to audit the separate financial statements of SIJ d.d. for the year ended 31 December 2018. Our total uninterrupted period of engagement is one year, covering the year ending 31 December 2018.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 14 June 2019;
- we have not provided any prohibited non-audit services (NASs) referred in Article 5 of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

For the period to which our statutory audit relates, in addition to the audit, we have not provided any other services to the Company.

On behalf of the audit company

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Helena Kobal
Certified Auditor

Dušan Hartman
Certified Auditor
Director

Ljubljana, 14 June 2019

KPMG Slovenija, d.o.o.
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Statement of the Management's Responsibility

The Company's Management Board is responsible for the preparation of the financial statements, together with accounting policies and notes, for the year 2018, which give, to the best of its knowledge and belief, a fair view of the development and results of the Company's operations and its financial position, including the description of material risks that the Company is exposed to.

The Management Board confirms that appropriate accounting policies have been applied consistently in the preparation of the financial statements, that accounting estimates were prepared based on the principles of fair value, prudence and sound management, and that the financial statements give a true and fair view of the Company's financial position and the results of its operations in the year 2018.

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

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

Ljubljana, 24 May 2019

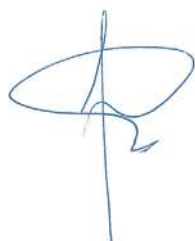
Andrey Zubitskiy

President of the Management Board



Tibor Šimonka

Member of the Management Board



Igor Malevanov

Member of the Management Board



Viacheslav Korchagin

Member of the Management Board



Financial Statements

STATEMENT OF COMPREHENSIVE INCOME

in EUR thousand	Note	2018	2017
Revenue	1	13,001	16,306
Gross profit		13,001	16,306
General and administrative expenses	2	(15,252)	(14,512)
Other operating income	3	10,821	22,907
Other operating expenses	4	(12,841)	(10,238)
Losses from impairment of trade and other receivables		(138)	(41)
Operating profit (loss)		(4,409)	14,422
Finance income	5	5,001	4,769
Finance expenses	6	(5,449)	(7,799)
Net finance (costs)		(448)	(3,030)
Profit (loss) before tax		(4,857)	11,392
Income tax expense	7	(53)	0
Deferred income tax	7	6,350	0
Profit for the year		1,440	11,392
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Income tax related to components of comprehensive income		(9)	(32)
Net actuarial gains on pension programs		0	19
<i>Items that may be reclassified subsequently to profit or loss</i>			
Change in other reserves due to change in financial assets at fair value		48	149
Comprehensive income		1,479	11,528

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

STATEMENT OF FINANCIAL POSITION

in EUR thousand	Note	31 Dec. 2018	31 Dec. 2017 Restated	1 Jan. 2017 Restated
ASSETS				
Non-current assets		205,141	195,531	283,002
Intangible assets	8	610	695	740
Property, plant and equipment	9	6,014	6,109	6,041
Investment property		1	2	2
Investments in subsidiaries	10	161,343	159,959	240,272
Financial assets at fair value through other comprehensive income	11	1,256	1,193	975
Financial receivables	12	17,139	15,154	33,787
Trade and other receivables	13	11,296	11,296	29
Other assets		0	1	1
Deferred tax assets	14	7,482	1,122	1,155
Current assets		179,333	167,907	121,743
Assets held for disposal (disposal groups)	15	82,067	82,065	35
Financial receivables	16	63,135	75,790	72,963
Operating receivables	17	5,381	8,863	39,362
Income tax assets		0	323	357
Cash and cash equivalents	18	28,672	312	8,286
Other assets	19	78	554	740
Total assets		384,474	363,438	404,745
EQUITY AND LIABILITIES				
Equity	20	202,797	207,090	205,532
Share capital		145,266	145,266	145,266
Capital surplus		11,461	11,461	11,461
Reserves		2,093	1,982	1,276
Retained earnings		43,977	48,381	47,529
Non-current liabilities		71,804	94,703	157,093
Employee benefits	21	305	305	391
Financial liabilities	22	71,499	94,398	156,702
Current liabilities		109,873	61,645	42,120
Liabilities included in disposal groups	15	3,907	3,290	0
Financial liabilities	23	83,944	55,159	37,936
Operating liabilities	24	21,750	3,013	4,002
Income tax liabilities		53	0	0
Other liabilities		219	183	182
Total equity and liabilities		384,474	363,438	404,745

The notes to the financial statements are an integral part of the financial statements and should be read in conjunction with them. A more detailed explanation of the error correction is disclosed in Note 26.

STATEMENT OF CHANGES IN EQUITY

Statement of Changes in Equity in 2018

in EUR thousand	Share capital	Capital surplus	Revenue reserves	Fair value reserves	Actuarial gains (losses)	Retained earnings	Total
Balance as at 31 Dec 2017	145,266	11,461	1,696	278	8	48,381	207,090
Changes from first application of IFRS 9 (pages 137 and 138)	0	0	0	0	0	(76)	(76)
Balance as at 1 Jan. 2018	145,266	11,461	1,696	278	8	48,305	207,014
Dividends paid	0	0	0	0	0	(5,696)	(5,696)
Creation of legal reserves	0	0	72	0	0	(72)	0
Total transactions with owners	0	0	72	0	0	(5,768)	(5,696)
Profit for the period	0	0	0	0	0	1,440	1,440
Other changes in comprehensive income	0	0	0	39	0	0	39
Total changes in comprehensive income	0	0	0	39	0	1,440	1,479
Balance as at 31 Dec 2018	145,266	11,461	1,768	317	8	43,977	202,797

Statement of Changes in Equity in 2017 – Restated

in EUR thousand	Share capital	Capital surplus	Revenue reserves	Fair value reserves	Actuarial gains (losses)	Retained earnings	Total
Balance as at 31 Dec 2016	145,266	11,461	810	161	(11)	47,845	205,532
Error correction – creation of legal reserves (Note 26)	0	0	316	0	0	(316)	0
Balance as at 1 Jan. 2017	145,266	11,461	1,126	161	(11)	47,529	205,532
Dividends paid	0	0	0	0	0	(9,970)	(9,970)
Creation of legal reserves	0	0	570	0	0	(570)	0
Total transactions with owners	0	0	570	0	0	(10,540)	(9,970)
Profit for the period	0	0	0	0	0	11,392	11,392
Other changes in comprehensive income	0	0	0	117	19	0	136
Total changes in comprehensive income	0	0	0	117	19	11,392	11,528
Balance as at 31 Dec 2017	145,266	11,461	1,696	278	8	48,381	207,090

The notes to the financial statements are an integral part of the financial statements and should be read in conjunction with them. A more detailed explanation of the error correction is disclosed in Note 26.

CASH FLOW STATEMENT

in EUR thousand	Note	2018	2017
Cash flow from operating activities			
Profit (loss) before tax		(4,857)	11,392
Adjusted for:			
Depreciation and amortisation	8, 9	560	556
Interest income	5	(3,358)	(3,084)
Interest expenses	6	5,431	7,240
Impairment of assets	10	12,551	9,739
Creation of allowances		138	41
Dividends	3	(10,793)	(22,710)
Net other finance (income) expenses		(1,613)	(1,126)
Operating cash flow before changes in working capital		(1,941)	2,048
Changes in working capital			
Change in trade receivables		4,290	11,340
Change in trade payables		19,035	(1,756)
Change in taxes other than income tax		(232)	(742)
Income tax receipts		323	472
Changes in working capital		23,416	9,314
Net cash generated from operating activities		21,475	11,362
Cash flow from investing activities			
Payments for investments in subsidiaries		(1)	(1)
Payments for financial assets at fair value through other comprehensive income		(26)	(69)
Payments for property, plant and equipment		(148)	(307)
Receipts from property, plant and equipment		44	68
Payments for intangible assets		(6)	(94)
Payments for other assets		0	(11,410)
Payments for loans issued		(42,555)	(32,998)
Receipts from loans issued		40,844	48,784
Interests received		1,716	2,267
Dividends received		10,793	30,910
Net cash used in investing activities		10,661	37,150

Continuation of the table →

Continuation of the table

in EUR thousand	Note	2018	2017
Cash flow from financing activities			
Receipts from borrowings		131,500	207,225
Payments for borrowings		(125,525)	(248,440)
Receipts for finance lease	16	0	726
Payments for finance lease	23	(419)	(464)
Receipts from financial services		1,624	1,022
Interests paid		(5,260)	(6,585)
Dividends paid		(5,696)	(9,970)
Net cash used in financing activities		(3,776)	(56,486)
Cash and cash equivalents as at 1 Jan.			
		312	8,286
Net change in cash and cash equivalents		28,360	(7,974)
Cash and cash equivalents as at 31 Dec.		28,672	312

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 2018.

The consolidated financial statements for a selected group of subsidiaries are compiled by the company SIJ. The consolidated annual report of 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, Herik-erbergweg 238, 1101 CM Amsterdam Zuidoost, Amsterdam, the Netherlands.

BASIS OF PREPARATION

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 Board of Directors approved the financial statements on 24 May 2019.

a. Statement of Compliance

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

First Application of New Amendments to the Existing Standards Which are Effective for Current Annual Period.

- 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).

Transition to IFRS 9 and IFRS 15

The Company initially applied standards IFRS 9 and IFRS 15 on 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Company's financial statements. The Company has also taken advantage of the exemption in paragraph 7.2.15 of IFRS 9 from restating prior periods in respect of IFRS 9's classification and measurement (including impairment) requirements, which allows that the comparative information is not restated. The Company has applied IFRS 15 using the cumulative effect method, under which the comparative information is not restated.

IFRS 9 'Financial Instruments'

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities, and some contracts to buy or sell non-financial items. This standard replaces IAS 39 'Financial Instruments': Recognition and Measurement. IFRS 9 introduces a new approach for the classification of financial assets on the basis of contractual cash flows characteristics and the Company's business model for financial assets management. Rules of classification and measurement of financial assets will not be changed. IFRS 9 introduces a new model for the impairment of financial assets based on estimated expected losses, which demands timely recognition of expected losses. The new standard requires from the Company to recognise expected credit losses at the initial recognition of financial asset and to timely recognise lifetime expected credit losses.

IFRS 9 to a large extent maintains the IAS 39 requirements for recognising and measuring financial assets. Nevertheless, it eliminates former IAS 39 categories which refer to held-to-maturity financial assets, loans, receivables, and financial assets available-for-sale. The adoption of IFRS 9 did not effect the Company's accounting policies which refer to financial liabilities Under IFRS 9, at initial recognition a financial asset is classified as measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss.

The following table and accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets as at 1 January 2018:

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Available-for-sale equity securities	Available-for-sale financial assets	Equity securities at fair value through other comprehensive income	1,193	1,193
Available-for-sale equity securities	Financial assets formed at fair value through profit or loss	Financial assets measured at fair value through profit or loss	0	0
Trade and financial receivables	Loans issued, interests and trade receivables	Amortised cost	110,639	110,545
Cash and cash equivalents	Loans issued	Amortised cost	0	0

In accordance with IFRS 9, trade and financial receivables that were classified as loans and receivables are now classified at amortised cost. On 1 January 2018, on transition to IFRS 9, an increase of EUR 76 thousand in the allowance for impairment over these receivables was recognised in opening retained earnings.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of retained earnings which results in an additional impairment allowance as follows:

in EUR thousand	Impact of adopting IFRS 9 on opening balance
Retained earnings	
Recognition of expected credit losses under IFRS 9	(94)
Tax effect	18
Impact as at 1 Jan. 2018	(76)

The Company has determined that the application of IFRS 9's impairment requirements at 1. January 2018 results in additional impairment allowance as follows:

in EUR thousand	Balance as at 31 Dec. 2017 Under IAS 39	Additional impairment under IFRS 9	Balance as at 1 Jan. 2018 under IFRS 9
Allowance for trade receivables	53	22	75
Allowance for loans issued	0	71	71
Allowance for interest receivables	0	1	1

According to IFRS 9, the Company formed a new model for the impairment of financial assets under which the creation of an impairment is based not only on incurred losses, but also on expected future losses. The impairment levels are formed on the basis of historical data on receivables recoverability or historical data on actual losses. According to the model, individual classes are formed primarily based on the division of receivables into groups with similar risk characteristics: insured or uninsured, receivables from third parties or receivables within the group and based on their age structure. The impairment levels formed on the basis of historical data are adjusted for management judgment as to whether the actual losses due to future commercial and economic factors could be higher or lower than the actual losses formed on the basis of historical data.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 establishes a comprehensive framework for determining whether, how much, and when a revenue is recognised. It replaces IAS 18 'Revenue', IAS 11 'Construction Contracts', and related interpretations. Under IFRS 15, a revenue is recognised when a performance obligation is satisfied by transferring a promised good or service to a customer. A good or a service is transferred when the customer obtains control of that good or service. Determining the satisfaction of a performance obligation – at a point in time or over time – requires judgment. The Company has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative Information.

Upon initial IFRS 15 the Company used simplified transitional approach. Nevertheless it assessed contracts with customers based on type of services and sale and established that there were no impacts on the financial statements. Majority of revenues refer to commissions charged to subsidiaries based on control-transfer agreement.

The Company assesses that the adoption of IFRS 15 had no significant effect either on its accounting policies, or on its assets and connected liabilities. The Company has no customer loyalty programs and does not enter into any contracts on consignment, repurchase or progress supplies billed in advance.

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

- IFRS 16 'Leases' – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019);
- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 January 2019).

IFRS 16 'Leases'

IFRS 16 scope of application includes leases of all assets, with some exceptions. Lessees must, in accordance with the standard, account all leases using a harmonised model within the statement of financial position, similarly to how financial leases are accounted for under IFRS 17. IFRS 16 applies to annual periods beginning on or after 1 January 2019. The lessee can decide to retrospectively apply the standard either in part or in whole.

The Company decided not to apply these standards, amendments and interpretations before their entry into force. The Company will start applying the IFRS 16 on the date of its entry into force, i. e. on 1 January 2019. The Company will use the simplified transition approach for the introduction of the IFRS 16 and, therefore, will not restate comparative information. The Company has evaluated the possible effects of IFRS 16 upon its first introduction, which are set out and described below. The actual effects of introduction of IFRS 16 vary as could vary up as the Company has not yet completed testing and evaluated the related IT control procedures, and because the new accounting policies could vary up to the presentation of the first financial statements produced using IFRS 16.

The lease contract grants, in compliance with IFRS 16, the right to use specific assets for a specified period in exchange for payment. The new model for such contracts stipulates that the lessee recognises lease liabilities and the right to use the assets. The Company depreciates the right to use assets, and attributes interests to the lease liabilities. The lessee standard also implements exceptions, namely for short-term leases with a lease term not exceeding 12 months and with no option to purchase, and for lower-valued leases, where the Company took into account new assets which do not individually exceed EUR 5 thousand. Lessor lease accounting will not undergo any significant changes. The lessor has to define the lease, based on its nature, either as operational or financial. A lease is classified as

financial if it includes the transfer of all significant risks and rewards incidental to ownership. Otherwise, the lease is considered to be operational.

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

Leases with Company as Lessee

The Company will recognise new assets and operating lease liabilities for company vehicles. The costs associated with such leases will be modified as the Company will recognise the depreciation costs for the right to use assets and the interest expenses for lease liabilities. Up to the adoption of the standard, the Company had recognised operating lease costs evenly throughout the entire lease period and recognised assets and liabilities based on the time difference between actual payments and recognised costs and expenses.

The Company reviewed and analysed its closed lease contracts with a duration period of more than one year, on 31 December 2018. The Company has, in compliance with IFRS 16 and based on the lease values and lease contract duration periods, evaluated the value of lease liabilities and assets using rights, which will be disclosed in the statement of financial position. Cash flows are discounted by the interest rates the Company has applied during long-term lease financing. The Company has, based on the reviewed contracts, evaluated that it will recognise EUR 157 thousand of additional financial liabilities and asset using rights arising from the lease upon the first introduction of the standard on 1 January 2019.

Leases with Company as Lessor

The Company has, based on the currently available information, established that it has no sub-leasing relationships with companies as lessors. Therefore, there will be no effects on the financial statements in relation to this.

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

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

- IFRS 17 'Insurance Contracts' (effective for annual periods beginning on or after 1 January 2021);
- 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 IFRS 1 and IAS 28 (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);
- Amendments to IAS 19 'Employee Benefits' (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 3 'Business Combinations' (effective for annual periods beginning on or after 1 January 2020).

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

b. Basis of Measurement

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

c. Functional and Presentation Currency

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

d. Application of Estimates and Judgments

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

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.

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

Estimate of the Useful Life of Assets Subject to Depreciation (Notes 8 and 9, and Policies e and f)

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

Asset Impairment Testing

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

- investments in subsidiaries (Note 10);
- financial assets at fair value at fair value through other comprehensive income (Note 11);
- financial receivables (Notes 12 and 16).

Estimation of the Fair Value of Assets (Note 11, Policies h and k)

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

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

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

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

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

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

Estimate of Provisions for Employee Post-Employment and Other Long-Term Benefits (Note 21 and Policy m)

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

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

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

On the day the financial statements are completed, the Company verifies the amount of disclosed deferred tax assets and liabilities. Deferred tax assets are recognised if it is probable that future taxable net profits will be available against which deferred tax assets can be utilised in the future. Deferred taxes are decreased by the amount for which it is no longer probable that tax breaks associated with the asset can be utilised.

e. Prior Periods Error

The Company corrects prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery. The Company corrects errors by restating the comparative amounts for the prior period(s) presented in which the error occurred; and if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities, and equity for the earliest prior period presented. A more detailed explanation of the correction is disclosed in Note 26.

SIGNIFICANT ACCOUNTING POLICIES

a. Foreign Currency Conversion

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

b. Revenues

Sales revenues are recognised at transaction price which is allocated to performance obligation. The transaction price is a consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The transaction price is 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. Revenues from dividends are recognised when the shareholder's right to payment is established.

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

c. Expenses

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

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

d. Taxation

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

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

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

A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised. If in the future the available taxable profit is insufficient to create the deferred tax assets for the full amount of unused tax relief, they are created based on maturity of tax relief utilisation possibilities in accordance with the legislation.

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

Tax loss in a tax period can be covered by reducing the tax base in the subsequent tax periods. In reducing the tax base due to tax losses from preceding tax periods, the tax base shall first be reduced by the oldest tax loss. A reduction of the tax base due to tax losses from preceding tax periods may only be allowed to a maximum of 50% of the tax base for the tax period.

The tax base may be reduced by a legally prescribed percentage of the amount invested in equipment, intangible assets, and for the amount invested in research and development, but not exceeding the amount of the tax base. For the unused part of the tax relief in the tax period, the Company can reduce the tax base in the subsequent five tax periods. In reducing

the tax base due to the unused portion of the tax relief from preceding tax periods, the tax base shall first be reduced by the oldest unused portion of the tax relief.

e. Intangible Assets

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

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

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

f. Property, Plant and Equipment

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

Depreciation is calculated on a straight-line basis over the estimated useful life of each individual part (component) of the tangible asset and the residual value. Leased assets are de-

preciated over the estimated period of lease and useful life, depending on which is shorter. Land and unfinished construction is not depreciated. Depreciation is accounted when an asset becomes available for use.

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

	Useful life
Real estate	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 intangible assets are recognised in the carrying amount of each asset, if it is probable that the future economic benefits embodied within this asset will flow to the Company, and the cost of the asset can be measured reliably. All other costs (for example, maintenance costs) are recognised in the income statement as expenses as soon as they are incurred.

g. Investments in Subsidiaries

Investments in subsidiaries are recognised at cost. The Company recognises revenues from financial investments in the amount arising from the distribution of the accumulated profit after the date of the acquired financial investment.

If a loss made by a subsidiary requires the investment to be impaired, the impairment loss is measured as the difference between the investment's carrying amount and recoverable value.

h. Financial Instruments

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

h.1. Non-Derivative Financial Assets

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

Financial Assets at Fair Value Through Other Comprehensive Income

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

Financial assets at fair value through other comprehensive income that have the nature of an equity instrument are the financial assets that meet the definition of equity under IAS 32 'Financial Instruments' for which the Company elected to classify them irrevocably as equity instruments designated at fair value through other comprehensive income and which are not held for trading. The classification is determined on an instrument-by-instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other revenue in the statement of profit or loss when the Company's right of payment has been established.

Financial Assets at Amortised Cost

The Company's financial assets at amortised cost include financial assets held under its business model in order to collect contractual cash flows when the cash flows are solely payments of principal and interest on the principal amount outstanding. The Company's financial assets at amortised cost include loans and receivables. Depending on their maturity, they are classified as current financial assets (maturity of up to 12 months from the

date of the statement of financial position) or non-current financial assets (maturity of more than 12 months from the date of the statement of financial position). Financial assets measured at amortised cost are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less any impairment losses. Gains and losses are recognised in profit or loss when reversed, changed or impaired.

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.

h.2. Non-Derivative Financial Liabilities

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

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

i. 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 lowest. 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.

j. Impairment of Assets

j.1. Financial Assets

Under IFRS 9, the Company shifted from the incurred loss model to the expected future loss model. According to this model the Company recognises not only incurred losses, but also losses which are expected to incur in the future. 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. Loss allowance for financial assets measured at cost are deducted from the gross carrying amount of assets.

The gross carrying amount of an asset is written-off if the Company has no reasonable expectations to collect a part or total financial asset. For individual clients, the Company applies a policy for the write-off of the gross carrying amount when a financial asset is overdue based on previous experience in collection of similar assets. For legal entities, the Company assesses the time and the amount of a write-off individually, depending on whether there is a legitimate expectation of a repayment. The Company doesn't expect significant repayment of the amount written-off. Nevertheless, the written-off financial assets are a subject of enforcement activities to keep them in accordance with the Company's procedures for the collection of overdue amounts.

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 profit or loss. Loss for financial assets at fair value through comprehensive income is recognised in profit or loss.

Loss for financial assets at fair value through comprehensive income is recognised by transferring the potential accumulated loss, previously recognised in the comprehensive income of the period and included in the fair value reserve 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.

j.2. Non-Financial Assets

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

k. Determination of Fair Value

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

Fair value is the amount for which an asset can be exchanged or the liability can be settled between two well-informed and willing parties in an arm's length business transaction. The Company determines the fair value of financial instruments by taking into account the following fair value hierarchy:

- Level 1 comprises market prices in active markets for identical assets or liabilities; the fair value of intangible assets is based on the discountedthe first level includes quoted prices on active markets for the same assets or liabilities;

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

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

Intangible Assets

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

Property, Plant and Equipment

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

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

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

Receivables and Loans

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.

I. 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.

Reserves

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

Treasury Shares

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

Dividends

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

m. Employee Benefits

In accordance with legal regulations and the Collective Agreement, the Company is obliged to make payments arising from loyalty bonuses and severance pay upon retirement, for which 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.

n. 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.

NOTES TO INDIVIDUAL ITEMS IN THE FINANCIAL STATEMENTS

1. REVENUE

in EUR thousand	2018	2017
In Slovenia	12,994	16,294
In other countries	7	12
Revenue	13,001	16,306

2. OPERATING EXPENSES

in EUR thousand	2018	2017
Costs of goods, materials and services	3,249	3,764
Labour costs	11,200	9,980
- <i>wages and salaries</i>	<i>9,059</i>	<i>7,996</i>
- <i>social security costs</i>	<i>1,510</i>	<i>1,315</i>
- <i>other labour costs</i>	<i>631</i>	<i>669</i>
Depreciation and amortisation costs	560	556
Other costs	243	212
Operating expenses	15,252	14,512

The auditing costs for the 2018 Annual Report amounted to EUR 19 thousand (2017: EUR 14 thousand).

Average Number of Employees by Level of Education

	2018	2017
Secondary vocational school	2.92	2.00
Secondary general school	6.25	6.20
1st cycle degree – Bachelor's degree	9.33	6.70
2nd cycle degree – Master's degree	68.71	64.90
3rd cycle degree – Doctoral degree	13.75	15.92
Total	100.96	95.72

3. OTHER OPERATING INCOME

in EUR thousand	2018	2017
Revenues from dividends (Notes 10, 11 and 15)	10,793	22,710
Write-off of liabilities	0	75
Revenues from received subsidies	18	0
Other income	10	122
Other operating income	10,821	22,907

4. OTHER OPERATING EXPENSES

in EUR thousand	2018	2017
Expenses for donations and sponsorships	218	499
Impairment of property, plant and equipment (Note 10)	12,551	9,739
Other expenses	72	0
Other operating expenses	12,841	10,238

5. FINANCE INCOME

in EUR thousand	2018	2017
Interest income	3,357	3,084
Revenues from issued guarantees	1,633	1,684
Exchange rate differences	0	1
Other finance income	11	0
Finance income	5,001	4,769

6. FINANCE EXPENSES

in EUR thousand	2018	2017
Interest expenses	5,431	7,240
Exchange rate differences	0	8
Other expenses	18	551
Finance expenses	5,449	7,799

7. TAXES

in EUR thousand	2018	2017
Income tax expense	(53)	0
Deferred income tax	6,350	0
Taxes	6,297	0

in EUR thousand	2018	2017
Profit before tax	(4,857)	11,392
Tax at effective tax rate 19 %	(923)	2,164
Tax effects from:		
- <i>non-taxable income</i>	(1,323)	(5,539)
- <i>tax non-deductible expenses</i>	2,507	1,952
- <i>utilisation of previously recognised tax losses</i>	(131)	0
- <i>tax relief</i>	(77)	1,423
- <i>tax losses for which no deferred tax assets were recognised (Note 14)</i>	(6,350)	0
Taxes	(6,297)	0
Effective tax rate	0.00 %	0.00 %

8. INTANGIBLE ASSETS

Movement of Intangible Assets in 2018

in EUR thousand	Software	Assets under construction	Total
Cost as at 31 Dec. 2017	1,257	29	1,286
New additions	0	23	23
Transfer from assets under construction	29	(29)	0
Cost as at 31 Dec. 2018	1,286	23	1,309
Accumulated amortisation as at 31 Dec. 2017	(591)	0	(591)
Amortisation	(108)	0	(108)
Accumulated amortisation as at 31 Dec. 2018	(699)	0	(699)
Present value as at 31 Dec. 2017	666	29	695
Present value as at 31 Dec. 2018	587	23	610

On 31 December 2018, the Company has EUR 19 thousand of unsettled liabilities arising from the purchase of intangible assets (2017: EUR 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 2017

in EUR thousand	Software	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)	0	(452)
Amortisation	(138)	0	(138)
Accumulated amortisation as at 31 Dec. 2017	(591)	0	(591)
Present value as at 31 Dec. 2016	735	5	740
Present value as at 31 Dec. 2017	666	29	695



9. PROPERTY, PLANT AND EQUIPMENT

Movement of Property, Plant and Equipment in 2018

in EUR thousand	Land	Buildings	Equipment	Assets under construction	Skupaj
Cost as at 31 Dec. 2017	717	5,142	2,347	0	8,206
New additions	0	0	0	401	401
Transfer from assets under construction	0	14	388	(401)	0
Disposals	0	0	(207)	0	(207)
Cost as at 31 Dec. 2018	717	5,156	2,528	0	8,401
Accumulated depreciation as at 31 Dec. 2017	0	(1,112)	(985)	0	(2,097)
Depreciation	0	(144)	(308)	0	(452)
Disposals	0	0	162	0	162
Accumulated depreciation as at 31 Dec. 2018	0	(1,256)	(1,131)	0	(2,387)
Present value as at 31 Dec. 2017	717	4,030	1,362	0	6,109
Present value as at 31 Dec. 2018	717	3,900	1,397	0	6,014

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 2018, the Company's unsettled liabilities to suppliers for the purchase of property, plant and equipment amount to EUR 6 thousand (2017: EUR 34 thousand). The present value of property, plant and equipment under finance lease is EUR 868 thousand (2017: EUR 721 thousand). The Company did not capitalise borrowing costs in 2018 and 2017.

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 EUR thousand	Land	Buildings	Equipment	Assets under construction	Skupaj
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	0	(967)	(829)	0	(1,796)
Depreciation	0	(145)	(273)	0	(418)
Disposals	0	0	117	0	117
Accumulated depreciation as at 31 Dec. 2017	0	(1,112)	(985)	0	(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

10. INVESTMENTS IN SUBSIDIARIES

in EUR thousand	31 Dec. 2018	31 Dec. 2017
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	43,714	31,714
GRIFFON & ROMANO S.P.A., Via Dossetti 11, Loc. Casinello de Dosso, Italy	4,017	9,784
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	1,758	5,121
NOŽI RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	656	2,142
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	1
Investments in subsidiaries	161,343	159,959

At the end of 2018, the Company provided an additional payment to its subsidiaries SIJ Metal Ravne in the amount of EUR 12,000 thousand and Griffon & Romano in the amount of EUR 1,935 thousand, namely by transferring to the subsidiaries a claim against the subsidiaries from a current loan. Despite the additional payment, neither the registered capital of the subsidiaries nor the existing share of the shareholder increased.

The Company made an impairment test of its investments in the subsidiaries Griffon & Romano, Niro Wenden and Noži Ravne and assessed that the recoverable value of the investments is lower than their carrying amount. It impaired the investment in Niro Wenden by EUR 3,363 thousand, the investment in Griffon & Romano by EUR 7,702 thousand, and the investment in Noži Ravne by EUR 1,486 thousand.

The fair value estimations of the investments were prepared on the going concern assumption, considering all information about the operation of the subsidiaries available on 31 December 2018. Due to the nature of the subsidiaries, no relevant information about their market value could be obtained.

The estimation of Griffon & Romano and Niro Wenden was made by using the method of present value of the estimated cash flows based on a 5-year financing plan, and normalised cash flow after that period. All assumptions used for calculating net cash flows are based on past experience of the companies' operations and reasonable expectations of future operations.

The estimated value of the investment in Griffon & Romano, considering indebtedness, ranges from EUR 3,353 thousand to EUR 4,017 thousand. For the impairment, the upper limit of the range is considered. As a range, income rates between 8.52 and 9.52 percent and growth levels of residual free cash flow ranging from 1.25 to 1.75 percent were used. The estimated value of the investment in Niro Wenden considering indebtedness, ranges from EUR 1,438 thousand to EUR 1,758 thousand. For the impairment, the upper limit of the range is respected. As a range, income rates between 7.56 and 7.96 percent and growth levels of residual free cash flow ranging from 1.30 to 1.70 percent were used.

For Noži Ravne, the aggregation method (adjusted carrying amounts method) was used. The amount was set based on net assets as at 31 December 2018.

The Company provided an assurance to its subsidiaries Griffon & Romano, Niro Wenden in Ravne System that: i) it does not plan or intend to liquidate or sell or dispose (in whole or in part) the subsidiary; ii) it will, with a view to assuring continuous operation, provide appropriate financial support to the subsidiary for a period not shorter than 12 months after the adoption of financial statements as at 31 December 2018; and iii) it is its policy to ensure within the existing legislation that the subsidiary's financial situation allows it to fulfill its legal obligations.

Received dividends in 2018 amount to EUR 1,546 thousand (2017: EUR 20,000 thousand).

Information about Subsidiaries as at 31 December 2018

in EUR thousand	Activity	% of voting rights	Value of equity as at 31 Dec. 2018	Net profit (loss) for 2018
SIJ ACRONI d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	Steel production	100	162,009	(7,851)
SIJ METAL RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Steel production	100	85,109	1,567
NOŽI RAVNE d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Industrial knives production	100	656	(3,945)
SIJ ELEKTRODE JESENICE d.o.o., Cesta železarjev 8, Jesenice, Slovenia	Welding materials production	100	3,270	(419)
SIJ SUZ d.o.o., Cesta Borisa Kidriča 44, Jesenice, Slovenia	Drawn wires production	100	2,691	391
SIJ ZIP CENTER d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Education and training of the disabled	100	712	119
ODPAD d.o.o. Pivka, Velika Pristava 23, Pivka, Slovenia	Recovery of secondary raw materials from scrap	74.90	7,350	460
NIRO Wenden GmbH, Glück-Auf-Weg 2, Wenden, Germany	Steel cutting, engineering and trade	85	(2,150)	(978)
SIJ RAVNE STEEL CENTER d.o.o., Litostrojska cesta 60, Ljubljana, Slovenia	Trade	77.28	17,319	1,986
GRIFFON & ROMANO S.P.A., Via Dossetti 11, Loc. Casinello de Dosso, Italy	Heat processing and special steel trade	100	268	(1,834)
SIJ Asia GmbH, Berger Str. 2, 40213 Düsseldorf, Germany	Trade	100	161	(234)
SIJ RAVNE SYSTEMS d.o.o., Koroška cesta 14, Ravne na Koroškem, Slovenia	Metallurgic machines production	100	5,777	(2,256)
SIJ POLSKA Sp. Z.o.o., ul. Zamkowa 7 lok. 11, Poznan, Poland	Trade	100	1	0

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Investments in companies	1,256	1,193
Financial assets at fair value through other comprehensive income	1,256	1,193

Financial assets 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 a revaluation to fair value in the amount of EUR 36 thousand (2017: EUR 148 thousand) charged to the comprehensive income.

Received dividends in 2018 amount to EUR 96 thousand (2017: EUR 70 thousand).

12. NON-CURRENT FINANCIAL RECEIVABLES

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Loans issued	17,139	15,154
Non-current financial receivables	17,139	15,154

Movement of Non-Current Loans Issued

in EUR thousand	2018	2017
Balance as at 1 Jan.	15,154	33,354
Loans issued	4,860	11,848
Allowances for loans issued	(6)	0
Reclassification to current loans issued	(2,869)	(30,048)
Balance as at 31 Dec.	17,139	15,154

The loans issued refer to loans issued to subsidiaries and approved for their liquidity needs. The interest rates for loans issued are flexible and varies between 3.95 and 4.50 percent. 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 EUR thousand	2018	2017
Balance as at 1 Jan.	0	433
Transfer to current receivables arising from finance lease	0	(433)
Balance as at 31 Dec.	0	0

13. NON-CURRENT TRADE RECEIVABLES

in EUR thousand	31 Dec. 2018	31 Dec. 2017 Restated
Dividends receivables	11,296	11,296
Non-current trade receivables	11,296	11,296

In 2018, the Company corrected a prior period error and reclassified receivables from dividends from current trade receivables to non-current trade receivables.

A more detailed explanation of the error correction is disclosed in Note 26.

14. DEFERRED TAX ASSETS AND LIABILITIES

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Deferred tax assets	7,556	1,188
Deferred tax liabilities	(74)	(66)
Deferred tax assets (liabilities), net	7,482	1,122

Movement of Deferred Tax Assets and Liabilities in 2018

in EUR thousand	31 Dec. 2017	Changes from first application of IFRS 9	Changes in the income statement	Changes in the com- prehensive income	31 Dec. 2018
Financial assets at fair value through other comprehensive income	(66)	0	0	(8)	(74)
Deferred tax liabilities	(66)	0	0	(8)	(74)
Unused tax losses	1,118	0	6,330	0	7,448
Employee benefits	70	0	0	0	70
Trade receivables	0	18	20		38
Deferred tax assets	1,188	18	6,350	0	7,556
Deferred tax assets (liabilities), net	1,122	18	6,350	(8)	7,482

The total unused tax loss on 31 December 2018 amounts to EUR 68,844 thousand (2017: EUR 69,532 thousand). The value of unused tax losses for which deferred tax assets are not recognised amounts to EUR 29,644 thousand (2017: EUR 63,650 thousand), while unrecognised deferred tax assets amount to EUR 5,632 thousand (2017: EUR 12,093 thousand).

In 2018, the deferred tax assets for unused tax losses increased, since the Company expects positive effects from the disposal of its investments in Perutnina Ptuj Group and Holding PMP d.d. and will be able to use the relief from unused tax losses.

Movement of Deferred Tax Assets and Liabilities in 2017

in EUR thousand	31 Dec. 2016	Changes in the income statement	Changes in the com- prehensive income	31 Dec. 2017
Financial assets at fair value through other comprehensive income	(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

15. ASSETS HELD FOR DISPOSAL (DISPOSAL GROUPS)

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Investments in subsidiaries	82,036	82,034
Other assets held for disposal	31	31
Assets held for disposal (disposal groups)	82,067	82,065
Financial liabilities and trade payables	(3,907)	(3,290)
Liabilities included in disposal groups	(3,907)	(3,290)

In 2018, disposal activities of the investments in Perutnina Ptuj Group and Holding PMP were under way, which is why the investments are reclassified from investments in subsidiaries to assets (group) held for disposal. At the same time, financial liabilities and trade payables, connected to assets held for sale, were reclassified to liabilities included in disposal groups.

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

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

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

Dividends received from investments in subsidiaries and reclassified due to a spin-off to assets held for disposal amounted to EUR 9,151 thousand in 2018 (2017: EUR 2,640 thousand). The assets are not pledged as security for liabilities. The present value of assets classified as held for sale does not exceed their realisable value.

16. CURRENT FINANCIAL RECEIVABLES

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Loans issued	59,194	73,462
Interest receivables	3,504	1,864
Other	437	464
Current financial receivables	63,135	75,790

Movement of Current Loans Issued

in EUR thousand	2018	2017
Balance as at 1 Jan.	73,462	71,048
Loans issued	37,695	21,150
Repayment of loans issued	(40,844)	(48,784)
Allowances for loans issued	(53)	0
Transfer from non-current loans issued	2,869	30,048
Capital increase of subsidiary	(13,935)	0
Balance as at 31 Dec.	59,194	73,462

The loans issued refer to loans issued to the controlling company and the subsidiaries. Purpose of a loan issued to the controlling company is sensible use of liquidity surpluses. Loans issued to subsidiaries were approved for their liquidity needs. The interest rates for loans issued are flexible and variable and varies between 1.65 and 5.00 percent. The disclosed value of loans issued does not exceed their realisable 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 EUR thousand	2018	2017
Balance as at 1 Jan.	0	293
Repayments of liabilities arising from finance lease	0	(726)
Transfer from non-current receivables arising from finance lease	0	433
Balance as at 31 Dec.	0	0

17. CURRENT TRADE RECEIVABLES

in EUR thousand	31 Dec. 2018	31 Dec. 2017 Restated
Trade receivables	4,893	8,606
Allowances for trade receivables	(140)	0
VAT receivables	568	132
Issued advance payments and cautions	23	89
Other receivables	37	89
Allowance for other receivables	0	(53)
Current trade receivables	5,381	8,863

The current trade receivables are not secured nor pledged as security for liabilities. The disclosed value of trade receivables does not exceed their realisable value.

A more detailed explanation of the error correction is disclosed in Note 26.

18. CASH AND CASH EQUIVALENTS

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Cash in national currency	28,672	312
Cash and cash equivalents	28,672	312

19. OTHER CURRENT ASSETS

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Deferred expenses	78	554
Other current assets	78	554

Current deferred expenses refer to advance payments of costs, which in 2019 will debit against profit or loss.

20. EQUITY

in EUR thousand	31 Dec. 2018	31 Dec. 2017 Restated
Share capital	145,266	145,266
Capital surplus	11,461	11,461
Reserves	2,093	1,982
Retained earnings	43,977	48,381
Equity	202,797	207,090

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

Ownership Structure

Shareholder	Number of shares 31 Dec. 2018	Number of shares 31 Dec. 2017
DILON, d. o. o., Gerbičeva ulica 98, Ljubljana, Slovenia	718,351	718,351
Republic of Slovenia, Gregorčičeva ulica 20, Ljubljana, Slovenia	248,655	248,655
SIJ d.d., Gerbičeva ulica 98, Ljubljana, Slovenia	27,600	27,600
UNIOR, d. d., Kovaška cesta 10, Zreče, Slovenia	10	10
Total	994,616	994,616

Capital Surplus

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

Reserves

in EUR thousand	31 Dec. 2018	31 Dec. 2017 Restated
<i>Legal reserves</i>	4,023	3,951
<i>Treasury shares</i>	(6,009)	(6,009)
<i>Reserves for treasury shares</i>	3,754	3,754
Revenue reserves	1,768	1,696
<i>Fair value reserve due to financial assets at fair value through comprehensive income</i>	391	344
<i>Deferred tax liabilities</i>	(74)	(66)
Fair value reserves	317	278
Net actuarial gains on pension programs	8	8
Reserves	2,093	1,982

The Company acquired treasury shares in the amount of EUR 2,255 thousand on the basis of the Acceptance of and Method of Meeting Liabilities of Slovene Ironworks in Connection with the Restructuring Programme Act (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 controlling company, owned by authorised companies. The shares were acquired ex lege and not in line with the Companies Act, which is why the company did not establish a treasury shares fund. Shares are recognised at cost.

A more detailed explanation of the error correction is disclosed in Note 26.

Distributable Profit

in EUR thousand	31 Dec. 2018	31 Dec. 2017 Restated
Retained earnings	42,608	37,558
Profit for the year	1,440	11,392
Creation of legal reserves	(72)	(570)
Distributable profit	43,976	48,380

21. EMPLOYEE BENEFITS

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Provisions for severance pay	267	267
Provisions for loyalty bonuses	38	38
Employee benefits	305	305

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

In 2017, the actuarial calculation was made on the basis of the actuarial model and assumptions, derived from the life tables of Slovenian population from 2017, separately for men and women, decreased by 10 percent (active population), growth of wages in the Republic of Slovenia and the Company, and the yield curve, which represents the relationship between market yields on government bonds in the Eurozone and the time remaining to maturity. The 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 actuarial gains which effects comprehensive income.

Movement of Employee Benefits in 2017

in EUR 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

Sensitivity Analysis of Actuarial Assumptions for 2017

in EUR thousand	31 Dec. 2017		
	Change in assumption (percentage points)	Post-employment benefits on retirement	Jubilee benefits
	+0.5	(20)	(1)
Yield	-0.5	22	1
	+0.5	22	1
Salary growth	-0.5	(20)	(1)
	+0.5	(21)	(1)
Fluctuation	-0.5	23	2

22. NON-CURRENT FINANCIAL LIABILITIES

in EUR thousand	31 Dec. 2018	31 Dec. 2017 Restated
Borrowings	19,977	0
Liabilities for bonds issued	51,076	93,802
Liabilities arising from finance lease	446	596
Non-Current Financial Liabilities	71,499	94,398

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.

A more detailed explanation of the error correction is disclosed in Note 26.

Movement of Non-Current Borrowings

in EUR thousand	2018	2017 Restated
Balance as at 1 Jan.	0	62,188
New borrowings	47,000	86,500
Transfer to current borrowings	(27,000)	(149,000)
Amortisation of origination fee	(23)	312
Balance as at 31 Dec.	19,977	0

Liabilities for Bonds Issued

Liabilities for bonds issued refer to the bonds issued with the ticker symbol SIJ5. The Company issued bonds with the total nominal value of EUR 51,218 thousand in July 2015. The entire bond issue contains 51,218 denominations of EUR 1 thousand. The bond maturity date is 21 July 2020. The interest rate for the bonds is fixed, i.e. 4.0 percent per annum. Interest is accrued annually in arrears. The nominal value of the principal falls due, in full and in a single amount, on the maturity of the bond. The bonds are traded on the Ljubljana Stock Exchange. The Ljubljana Stock Exchange closing quotation as at 31 December 2018 was 104.00 and was used for fair value calculation on the same date. Liabilities for bonds issued with the ticker symbol SIJ4 fall due on 24 November 2019 and were therefore transferred to current financial liabilities.

Movement of Non-Current Liabilities Arising from Finance Lease

in EUR thousand	2018	2017
Balance as at 1 Jan.	596	818
New financial lease	275	219
Transfer to current liabilities arising from finance lease	(425)	(441)
Balance as at 31 Dec.	446	596

The lowest sum of future leases due for payment in next 1 to 5 years amounts to EUR 460 thousand (2017: EUR 613 thousand).

The net present value of future leases due for payment in next 1 to 5 years amounts to EUR 446 thousand (2017: EUR 596 thousand).

23. CURRENT FINANCIAL LIABILITIES

in EUR thousand	31 Dec. 2018	31 Dec. 2017 Restated
Borrowings	9,797	26,531
Liabilities for bonds issued	42,859	0
Liabilities for commercial papers issued	29,723	26,993
Liabilities arising from finance lease	409	403
Interest liabilities	1,154	1,232
Other current financial liabilities	2	0
Current financial liabilities	83,944	55,159

Current borrowings include loans from companies in the group. Borrowings are secured with bills. The interest rate for borrowings and finance leases is fixed.

A more detailed explanation of the error correction is disclosed in Note 26.

Movement of Current Borrowings

in EUR thousand	2018	2017 Restated
Balance as at 1 Jan.	26,531	5,755
New borrowings	54,500	93,400
Repayments for borrowings	(98,200)	(218,440)
Transfer from non-current borrowings	27,000	149,000
Amortisation of origination fee	(34)	76
Reclassification to liabilities included in disposal groups	0	(3,260)
Balance as at 31 Dec.	9,797	26,531

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 EUR 42,897 thousand in November 2014. The entire bond issue contains 42,897 denominations of EUR 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. The Ljubljana Stock Exchange closing quotation as at 31 December 2018 was 104.24 and was used for fair value calculation on the same date.

Liabilities for Commercial Papers Issued

Liabilities for commercial papers amounting to EUR 30,000 thousand refer to 12-month commercial papers with the ticker symbol SIK05, issued by the Company on 14 December 2018 as a 5th consecutive issue. The total nominal value of the commercial papers is EUR 30,000 thousand, and covers 30,000 denominations of EUR 1 thousand. The interest rate for a commercial paper is 1.0 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 13 December 2019. Commercial papers are traded on the Ljubljana Stock Exchange. The Ljubljana Stock Exchange closing quotation as at 31 December 2018 was 100.00 and was used for fair value calculation on the same date. The Company repaid the forth issue of commercial papers with the ticker symbol SIK04 in the amount of EUR 27,325 thousand on the maturity day.

Movement of Current Liabilities Arising from Finance Lease

in EUR thousand	2018	2017
Balance as at 1 Jan.	403	426
Repayments of liabilities arising from finance lease	(419)	(464)
Transfer from non-current liabilities arising from finance lease	425	441
Balance as at 31 Dec.	409	403

The lowest sum of future leases due for payment in the next financial year amounts to EUR 425 thousand on 31 December 2018 (2017: EUR 423 thousand), and the net present value of future leases amounts to EUR 409 thousand on the same date (2017: EUR 403 thousand).

24. CURRENT TRADE PAYABLES

in EUR thousand	2018	2017
Payables to suppliers	839	1,883
Liabilities to employees	355	336
Received advance payments	20,000	0
Tax liabilities	552	784
Other liabilities	4	10
Current trade payables	21,750	3,013

In November 2018, the Company received EUR 20,000 thousand as a caution for a binding offer for a disposal of an investment in a subsidiary. The disposal procedure was concluded in February 2019. The received advance payment will be set off in the disposal effects. A more detailed explanation of the transaction is disclosed in Note 15.

25. CONTINGENT ASSETS AND LIABILITIES

On 31 December 2018, the contingent liabilities for issued guarantees amount to EUR 221,402 thousand (2017: EUR 213,778 thousand). Total amount of guarantees was issued to companies in the group. The Company expects no outflows from the issued guarantees.

The Company has no contingent assets on 31 December 2018.

26. CORRECTION OF A PRIOR PERIODS ERROR

Note regarding balances adjustments in the statement of financial position as at 31 December 2016

In 2018, the Company corrected a prior period error, creating additional legal reserves. In 2016, the Company generated profit and was therefore obliged to create legal reserves in the amount of the entire 5 percent of generated net profit, as the legal reserves had not yet reached 10 percent of share capital at that time. The capital surplus was formed during the simplified decrease of the Company's capital and therefore, according to legislation, cannot be included in the calculation of the necessary amount of legal reserves. The Company reclassified the amortisation of origination fee as an increase in financial liabilities and does not state it among deferred expenses, as it did in 2017.

in EUR thousand	31 Dec. 2016 Reported	Adjustment	1 Jan. 2017 Restated
ASSETS			
Non-current assets	283,627	(625)	283,002
Other assets	283,001	0	283,001
Other assets	626	(625)	1
Current assets	121,930	(187)	121,743
Other assets	121,003	0	121,003
Other assets	927	(187)	740
Total assets	405,557	(812)	404,745
EQUITY AND LIABILITIES			
Equity	205,532	0	205,532
Share capital	145,266	0	145,266
Capital surplus	11,461	0	11,461
Reserves	960	316	1,276
Retained earnings	47,845	(316)	47,529
Non-current liabilities	157,824	(731)	157,093
Financial liabilities	157,433	(731)	156,702
Other liabilities	391	0	391
Current liabilities	42,201	(81)	42,120
Financial liabilities	38,017	(81)	37,936
Other liabilities	4,184	0	4,184
Total equity and liabilities	405,557	(812)	404,745

Note Regarding Balances Adjustments in the Statement of Financial Position as at 31 December 2017

In 2018, the Company corrected a prior period error and reclassified receivables from dividends in the amount of EUR 11,296 thousand from current trade receivables to non-current trade receivables. In the subsidiaries' loan contracts, some limitations regarding dividend payout are defined. The companies operated within the limits from loan contracts but did not achieve operating results in 2017 and 2018 in the amount which would allow them to payout the dividends for prior years.

It formed legal reserves in the amount of EUR 570 thousand, which represent 5 percent of the generated net profit, as the legal reserves had not yet reached 10 percent of share capital. An adjustment in the amount of EUR 316 thousand was also made for reserves created in 2016. The Company reclassified the amortisation of origination fee as a decrease in financial liabilities and does not state it among deferred expenses, as it did in 2017.

in EUR thousand	31 Dec. 2017 Reported	Adjustment	31 Dec. 2017 Restated
ASSETS			
Non-current assets	184,416	11,115	195,531
Trade receivables	0	11,296	11,296
Other assets	184,416	(179)	184,235
Current assets	179,672	(11,765)	167,907
Trade receivables	20,159	(11,296)	8,863
Other assets	159,513	(469)	159,044
Total assets	364,088	(650)	363,438
EQUITY AND LIABILITIES			
Equity	207,089	0	207,089
Share capital	145,266	0	145,266
Capital surplus	11,461	0	11,461
Reserves	1,097	885	1,982
Retained earnings	49,265	(885)	48,380
Non-current liabilities	95,016	(313)	94,703
Current liabilities	61,983	(337)	61,646
Total equity and liabilities	364,088	(650)	363,438

RELATED PARTIES

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

Transactions with the Controlling Company

in EUR thousand	2018	2017
Revenues	1,560	1,115

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Receivables	24,207	25,505
Liabilities	95	0

Transactions with Subsidiaries

in EUR thousand	2018	2017
Revenues	27,156	40,020
Expenses	852	991

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Receivables	71,143	84,285
Liabilities	4,011	7,121

Transactions with Other Related Companies

in EUR thousand	2018	2017
Revenues	62	2,735
Expenses	168	609

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Receivables	1,007	1,031
Liabilities	5,851	9,293

Transactions with Management

The total amount of the receipts of the Supervisory Board members and the receipts of the Company's key management personnel for the performance of functions or tasks based on the business management contracts:

in EUR thousand	2018	2017
Key management personnel	3,871	5,870
Members of the Supervisory Board	50	91

The receipts include gross salaries and payment for annual leave. Travel expenses, accommodation costs, and daily allowances are not shown, since they do not represent a payment to key management personnel by their nature.

The Company did not grant any loans, issue any guarantees, or make any advance payments to the key management personnel or the members of the Supervisory Board in 2018. On 31 December 2018, the Company has no receivables or liabilities towards the key management personnel, except for liabilities for December salaries paid in January 2019.

The key management personnel represents the Company's management.

FINANCIAL INSTRUMENTS AND RISKS

CREDIT RISK

The largest exposure on the reporting date arises from trade receivables, other trade receivables, and deposits. The Company reviewed the recoverability of financial assets in 2018 and created an allowance for financial assets in the amount of EUR 87 thousand (2017: EUR 11 thousand) charged to the profit or loss.

Age Structure of Financial Assets

in EUR thousand	Overdue					Total
31 Dec. 2018	Not-overdue	Up to 3 months	3 months to 1 year	1 year to 3 years	Over 3 years	
Trade receivables	2,889	4	1,420	579	0	4,892
Financial receivables and deposits	80,055	34	87	1	0	80,177
Total	82,944	38	1,507	580	0	85,069

in EUR thousand	Overdue					Total
31 Dec. 2017	Not-overdue	Up to 3 months	3 months to 1 year	1 year to 3 years	Over 3 years	
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

Movement of Allowance for Current Trade Receivables in 2018

in EUR thousand	
Balance as at 31 Dec. 2017	(53)
Creation of allowance due to first application of IFRS 9 as at 1 Jan. 2018	(22)
Balance as at 1 Jan. 2018 after transition to IFRS 9	(75)
Creation of allowances in 2018	(139)
Reversal of allowances in 2018	74
Balance as at 31 Dec. 2018	(140)

Movement of Allowance for Current Trade Receivables in 2017

in EUR thousand	
Balance as at 31 Dec. 2016	(53)
Creation of allowances in 2017	(11)
Reversal of allowances in 2017	11
Balance as at 31 Dec. 2017	(53)

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 EUR thousand					
31 Dec. 2018	Present value	Up to 3 months	3 months to 1 year	1 year to 5 years	Total
Payables to suppliers	839	691	85	63	839
Financial liabilities with future interest	155,443	20,216	87,077	53,727	161,020
Other liabilities	3	3	0	0	3
Total	156,285	20,910	87,162	53,790	161,862

in EUR thousand					
31 Dec. 2017	Present value	Up to 3 months	3 months to 1 year	1 year to 5 years	Total
Payables to suppliers	1,883	1,883	0	0	1,883
Financial liabilities with future interest	149,557	5,955	55,927	100,745	162,627
Other liabilities	10	10	0	0	10
Total	151,450	7,848	55,927	100,745	164,520

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

FOREIGN EXCHANGE RISK

Since the majority of inflows and outflows are in the national currency – the euro, the Company assesses its foreign exchange risk as low and accordingly managed. Other currencies are represented to a lesser extent, therefore a change in exchange rates would not have a material influence on the Company's profit or loss. Consequently, the Company does not prepare a sensitivity analysis on foreign exchange risk.

INTEREST RATE RISK

The Company assesses its interest rate risk as low and accordingly managed. The Company regularly monitors its exposure to interest rate risk by monitoring developments in money markets, changes to the interest rates and changes to the prices of derivative financial instruments, and by proposing in a due time measures of interest rate hedging.

A portion of fixed rate borrowings represents 87 percent of all Company's financial borrowings. Variable interest rates consist of the variable interest rate EURIBOR and an interest margin. In the majority of loan contracts, the interest rate floor by EURIBOR cannot be lower than zero, so there can be no positive effect on profit or loss.

A change in interest rate by 100 or 50 basis points on the reporting date would result in a decrease of profit or loss by the amounts stated below. The analysis assumes that all other variables remain unchanged.

The analysis for 2017 was prepared in the same manner.

in EUR thousand	2018	2017
Change in profit/loss if increased by 100 bp	(200)	(12)
Change in profit/loss if increased by 50 bp	(100)	(6)

EQUITY MANAGEMENT

The Company's main purpose of equity management is to achieve an adequate volume of capital to ensure the confidence of its creditors, financial stability, and long-term solvency, as well as the proper dividends to its owners. On 31 December 2018, the controlling company owns 27,600 treasury shares.

In the structure of total indebtedness, the share of equity value remains at a high level, as the Group continues to implement the current financial policy to ensure long-term development through long-term sources.

in EUR thousand	2018	Debt increase by 10 %	Debt decrease by 10 %
Level of debt on equity	76.65	84.31	68.98
Equity	202,797	202,797	202,797
Financial liabilities	155,443	170,987	139,899

CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The table shows carrying amounts and fair values of financial assets and financial liabilities. Fair values of financial and trade receivables, cash and cash equivalents, and trade payables are not shown, since their carrying amount is an adequate approximation of their fair value.

in EUR thousand Type of financial instrument	31 Dec. 2018		31 Dec. 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets at fair value through other comprehensive income	1,256	1,256	1,193	1,193
Financial receivables	80,273		90,944	
Trade receivables	16,677		20,159	
Cash and cash equivalents	28,672		312	
Financial liabilities	(155,443)	(159,315)	(149,557)	(154,520)
Trade payables	(21,750)		(3,013)	

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

in EUR thousand	31 Dec. 2018	31 Dec. 2017
Financial assets at fair value through other comprehensive income	791	754
Financial assets at fair value of first level	791	754
Financial assets at fair value through other comprehensive income	465	439
Financial assets at fair value of third level	465	439
Bonds and commercial papers	(127,529)	(125,757)
Financial liabilities at fair value of first level	(127,529)	(125,757)
Borrowings	(29,774)	(26,531)
Finance lease	(855)	(999)
Interest liabilities	(1,154)	(1,232)
Other financial liabilities	(3)	(1)
Financial liabilities at fair value of second level	(31,786)	(28,763)

Second level liabilities at fair value include secured loans granted, finance leases, and interest liabilities, representing, according to the valuation model, carrying amounts of discounted expected future payments with adjusted risk level.

In 2018, there were no transfers of financial instruments between different levels.

EVENTS AFTER THE REPORTING DATE

On 14 February 2019, the Slovenian Competition Protection Agency adopted a decision stating that the acquisition of Perutnina Ptuj by MHP is compliant with competition rules. The SIJ Group and MHP were, therefore, able to implement the procedures to finalise the transaction allowing MHP to enter the ownership structure of Perutnina Ptuj.

The Ukrainian MHP Group, one of the leading companies in the international agricultural and food processing industry, gained a slightly more than 90-percent share in Perutnina Ptuj on 24 February 2019. This means that Perutnina Ptuj is no longer a part of the SIJ Group. The terms of the existing President of the Management Board of Perutnina Ptuj Tibor Šimonka and the Member of the Management Board Viacheslav Korchagin in Perutnina Ptuj have been terminated, but both will continue their mandates as Members of the Management Board of the SIJ Group.

On 9 April 2019, the 34th General Assembly of SIJ d.d. appointed new Members of the Supervisory Board: Štefan Belingar and Richard Pochon. Janko Jenko's term, who had been Member of the Supervisory Board until then, expired on 11 April 2019, while Polona Marinko, a Member of the Supervisory Board, resigned from the Supervisory Board on the same day. No changes were made to the terms of the other Members of the Supervisory Board.

On 12 April 2019, Štefan Belingar was appointed the new Vice-President of the Supervisory Board and the new Member and the President of the Audit Commission.

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



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