

Summary of the 2023 Business Plan with 2022 Business Estimate

Celje, 30 November 2022

2023 Business Plan

The accounting and financial pre-accounting, which forms the key elements of the plan presented below, is carried out taking into account the basic qualitative characteristics of business information: understandability, relevance, reliability (prudence) and comparability. The following account is an estimate of future operating conditions and performance based on the currently available set of external and internal information and should therefore be understood as a forecast with a logical and expected degree of uncertainty associated with it. In making the forecast, we have taken into account the recommendations and guidance in IFRS.

The 2022 financial year was once again marked by a departure from normality due to the global epidemiological situation and the energy crisis. We minimised the impact on our business by taking swift and effective action. Factors where our influence is limited continue to be present in global trade, namely the expansion of pigment capacity in China. The current demand for pigment in that market is at lower levels and, combined with lower transport costs, creates an attractive environment for exports to the European market. The year 2022 was marked by rising selling prices for pigment. Prices peaked in the third quarter, followed by a sharp fall in prices in China and a downward correction also in Europe. Based on our experience, we estimate that the pigment industry reached the peak of the cycle in the year under review. During the year, the raw material and energy markets rebounded and the volatility stemming from the latter will have a significant impact on the sell and buy side of the industrial products and along the chain also on the final consumers. On the upstream side, we expect the high price levels of titanium-bearing raw materials to be maintained. The lower demand for pigment from different industrial segments, the expected need for further adjustment of selling prices and the high level of procurement prices for key energy-intensive raw materials will lead to a higher erosion of operating margins. Based on the excellent nine-month results and the much tougher operating conditions in the last quarter and the corresponding projections for the rest of the year, we conclude that the company will exceed the profit target for 2022. Cross-industry comparisons also clearly show that Cinkarna Celje d.d. is one of the best-performing companies in the titanium dioxide pigment industry at the end of 2022.

Based on the above description of the situation in the core industry, the company enters 2023 with caution. The profitability plan for 2023 does not meet the forecasts in the medium-term development strategy for the period. The cycle has shifted in recent years due to the circumstances in the global economy and we have exceeded our medium-term plans in all years up to 2022. We estimate that the 2019-2023 medium-term plan will be exceeded on average across all major financial indicators, despite a projected weaker year in 2023.

Taking into account the current market conditions, the outlook for the titanium dioxide industry and projections of macroeconomic conditions in the global economy, we have set a plan for 2023 that we believe is realistic. The most important highlights of the business policy embedded in the plan are as follows:

- Margins will stabilise at a lower level, and with uncertain macroeconomic conditions and lower pigment demand, we anticipate that production capacity will not be fully utilised in 2023.

Notwithstanding the difficult market conditions, our focus remains on maximising capacity utilisation and improving our sales structure. In titanium dioxide pigment, we will reallocate a flexible part of our sales volumes to the most profitable markets on an ongoing basis. We will pursue a similar strategy, with an additional focus on maintaining our volume ramp and protecting our sales margins, in our other carrier products, in particular copper fungicides, powder varnishes and masterbatches.

- We will continue with our strategy of allocating potential or resources to the most profitable and promising areas and programmes. In the coming year, we will make the majority of our investments in the areas of quality improvement, operational safety and increasing the production capacity of titanium dioxide pigment. We will place particular emphasis on sustainable development and energy efficiency in our investments.
- Achieving a lower average selling price level for pigment and a lower level of volume sales are taken into account. The pigment market is considered to be rather volatile.
- In the Metallurgy programme, we continue to further adjust our selling prices and reduce operating costs. If we are unable to ensure continued positive performance in this way, we will discontinue the programme.
- Given the situation in energy markets, we expect a sharp increase in energy costs in 2023.
- The sourcing of key raw materials remains extremely important in 2023. We expect titanium-bearing raw material procurement prices to stabilise at high levels. Bargaining power of suppliers remains extremely high, mainly due to low competition or a low number of suppliers in the titanium-bearing raw material markets. We will continuously develop solutions that are optimal from an operational safety and cost perspective. Activities relate to the search (testing and validation) for new raw material sources, optimising the raw material mix, developing cooperation with existing suppliers and developing new sourcing routes.
- Traditionally, we will be conservative in the areas of financing and cash management. In 2023, we plan to invest at a level above the average of previous years. We will invest on a programme-by-programme basis according to need, capacity and potential.
- Stocks of raw materials and consumables will be below 2022 levels and stocks of finished products will be higher. Receivables will be below 2022 levels.
- We estimate that the company's performance in 2023 will be good, all things considered, but significantly below the 2022 level.

The following are the key external assumptions and determinants of the 2023 Business Plan. The set of most important factors relates to the company's environment at the global, regional and local level. The most important concrete determinants are therefore:

- The reference rate for the US dollar is \$ 1 to the €, key and benchmark interest rates are broadly unchanged and the price of a barrel of oil will be at \$ 90.
- In 2023, in line with current expectations, economic growth rates will be below those achieved in 2022, specifically the GDP dynamics of the key economies are forecast to be as follows (2022 estimate > 2023 forecast): the World 3.3% > 2.1%, Europe 3.6% > 0.1%, Germany 1.4% > 1.3%, France 2.4% > 1.4%, Russia -3.2% > -2.6%, China 3.3% > 5.1% and the US 1.8% > 0.0%.
- The political/security situation in Europe, the Middle East and Ukraine will not change significantly.
- Social cohesion, overall security/stability and the functioning of the economic system in Slovenia will remain within the normative frameworks that ensure the smooth operation of economic entities.
- Other programmes were planned on a traditionally conservative basis, taking into account higher copper exchange prices and incorporating higher costs for other raw materials.

In line with industry expectations and cycles, we will achieve net sales of € 200.6 million in 2023. Sales in foreign markets will reach € 183.3 million in 2023.

The projected net result for 2023 is a net profit of € 5.9 million. The lower net profit is a direct consequence of the falling sales prices of titanium dioxide pigment and the rising prices of strategic raw materials and energy products. The operating profit plus depreciation and amortisation is expected to contribute 10% to revenue (EBITDA margin).

The changed circumstances will also lead to a change in the planned dividend policy in 2023. The company plans to allocate and pay out 50% of its net profit as dividends, a change from the dividend policy announced in the Summary of the Company's Development Strategy 2019-2023 (published on 17 April 2018).

Investments will be made on a programme-by-programme basis, according to need, capacity and potential, and in line with the medium-term strategic plan. We will invest mainly in projects to remove bottlenecks, increase energy efficiency, reduce negative environmental impacts, and improve safe and healthy working conditions. The largest share of our investments will be in titanium dioxide production. The planned amount of investments in fixed assets in terms of mitigating energy risks and investing in sustainable development exceeds the average of the last three years and amounts to € 20.5 million.

We will focus our development activities on ensuring the conditions for achieving the production volumes limited by the Environmental Permit, improving the quality of our products in line with customer expectations, developing individual products to improve our product range in line with market requirements and on sustainable development tasks (waste reduction, more rational use of resources).

In 2023, we will pay particular attention to ensuring the material and social security of our employees and their safe work. Our policy and strategy in this area will be adopted and managed in cooperation, consultation and consensus with employees, their representatives and trade unions.

All estimated values presented in the business plan, as well as comparisons and relationships of the planned values with the previous year, refer to the prepared assessment of the business and operating performance of Cinkarna Celje d.d. in the current year. The estimate is based on the values already realised in the nine months of the current year and on realistic assumptions about the development of variables until the end of the year.

Management Board

Overview of the most important data

OPERATIONS in € 000	2023 plan	2022 estimate	2021	2020	2019
Turnover	200,634.20	225,912.39	192,462.10	172,386.90	172,587.00
Operating profit (EBIT) ¹	7,727.20	49,192.38	39,976.60	22,534.40	25,726.90
Operating profit plus depreciation (EBITDA) ²	20,731.14	61,692.38	51,258.00	32,467.20	32,296.30
Net profit	5,936.13	40,019.70	33,227.10	18,950.70	21,436.40
Non-current assets (end of period)	113,917.42	107,175.51	110,511.61	110,888.70	107,753.80
Current assets (end of period)	113,007.61	141,160.91	131,373.20	100,251.70	100,516.50
Equity (end of period)	191,055.19	205,163.07	190,165.80	174,820.90	170,806.10
Non-current liabilities (end of period)	20,591.97	22,920.18	23,273.00	20,876.40	22,578.00
Current liabilities (end of period)	15,277.88	20,253.18	28,446.00	15,442.00	14,886.20
Investments	20,479.04	9,948.59	11,325.40	12,233.00	11,956.00
INDICATORS					
EBIT as a percentage of turnover	0.04	0.22	0.21	0.13	0.15
EBITDA as a percentage of turnover	0.10	0.27	0.27	0.19	0.19
Net profit as a percentage of turnover (ROS)	2.96	17.71	17.26	10.99	12.42
Return on equity (ROE) ³	3.39	24.85	21.40	12.50	14.70
Return on assets (ROA) ⁴	2.49	16.33	14.70	9.00	10.20
Value added per employee ⁵	70,796	129,441	106,181	78,729	80,896
NUMBER OF EMPLOYEES					
End of year/period	766	775	793	824	846

* Estimate based on values already realised for I-IX and assumptions on the development of variables until the end of the year. It was compiled in the period October-November.

¹ The difference between operating income and operating expenses.

² The difference between operating income and operating expenses, plus depreciation and amortisation. Reflects operating performance.

³ Net profit/average equity for the year. The indicator reflects the efficiency of the company in generating net profit in relation to capital. Return on equity is also an indicator of management's performance in maximising the value of the company for its owners.

⁴ Net profit/average balance for the year. The indicator reflects the efficiency of the company in generating net profit in relation to assets. Return on assets is also an indicator of management's performance in using assets efficiently to generate profits.

⁵ Operating profit plus depreciation, amortisation and labour costs divided by the average number of employees after accrued hours. A productivity indicator reflecting the average new value created per employee at Cinkarna.

Explanatory note

The document and its components relate to the future business and financial position of the company. The document is based on the current situation, estimates, analyses, as well as on assumptions, projections and forecasts made by relevant institutions and industry analysts. The document also contains the views, expectations and conclusions of the Management Board, which are in areas that are objectively outside the sphere of influence of the company and the Management Board. Forecasts and projections of the future performance of the company and its financial position are therefore subject to a number of uncertainties and risks of the assumptions, as well as the projections themselves, coming to fruition. The company and the Management Board do not accept any responsibility for the extent, content and degree of realisation of the aforementioned assumptions, expectations and resulting forecasts. Neither the company nor the Management Board undertakes any obligation to adjust and revise the forecasts and plans from year to year in the event of any changes in the assumptions or the bases and fundamentals of these forecasts and plans.

CINKARNA CELJE d.d.
MANAGEMENT BOARD