ANNUAL REPORT 2018

CINKARNA

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Celje, March 2019

Contents

Operations in the Last Three Years in Brief

In EUR

	2016	2017	2018	Change in % 2018/2017
Sales	169,765,430	188,704,758	163,960,861	- 13
Net profit or loss	9,759,997	28,765,297	30,558,183	+ 6
Total dividends paid	3,409,000	7,352,917	21,547,246	+ 193
Equity (31 Dec)	145,966,794	166,520,502	173,925,466	+ 4
ROE	7.2%	21.0%	21.7%	+ 3
Per share values (diluted)				
- Net profit or loss	EUR 11.98	EUR 35.31	EUR 37.51	+ 6
- Dividends paid				
Gross	EUR 4.20	EUR 9.05	EUR 26.52	+ 193
Net	EUR 3.15	EUR 6.79	EUR 19.89	+ 193
- Equity	EUR 179.2	EUR 204.4	EUR 213.50	+ 5
- Market price (31 Dec)	EUR 162.0	EUR 217.0	EUR 181.0	- 17
Number of shares	814,626	814,626	814,626	-
No. of shares with voting rights	812,477	812,477	807,977	-1
No. of shareholders (31 Dec)	1943	1880	2078	+11
No. of employees (31 Dec)	903	893	908	+ 2

General Information

Basic Information

Cinkarna, metalurško kemična industrija Celje, is a public limited company with registered office in Celje, at Kidričeva 26, and entered in the Companies Register kept by the Court of Celje, no. I-402-00.

The Company's principal activities include:

- titanium dioxide production,
- sulphuric acid production,
- zinc recycling,
- manufacture of products for use in agriculture,
- manufacture of products for use in construction,
- manufacture of anti-corrosion coatings and powder coatings,
- processing of fluorinated polymers and elastomers, and
- ancillary service activities.

Other information:

• tax no.	15280373
• registration no.	5042801
• activity code	20.120
• size	large public limited company
• financial year	calendar year

Registered Office, Locations, Related Company and Representative Office

Company	**Cinkarna, metalurško kemična industrija Celje, d. d.**	
Registered office	Kidričeva 26, 3000 Celje	
	Telephone – switchboard:	(+386) 03 427 6000
	Fax – Management Board:	(+386) 03 427 6106
	Telex:	36517 METKEM SI
	E-mail:	info@cinkarna.si
	Website:	www.cinkarna.si

Dislocated business unit	Chemistry Mozirje	
Business address	Ljubija 11, Mozirje	
	Telephone:	(+386) 03 837 0900
	Fax:	(+386) 03 837 0950

Company in 100% ownership	Cinkarna BH, d. o. o. – in liquidation as of 25 December 2018 Tuzla, Društvo za proizvodnju i promet Ul. 21. decembar b. b., Bukinje, 75000 TUZLA Federation of Bosnia and Herzegovina	
Registered office	Telephone:	(+386) 03 427 6320
	E-mail:	miran.spegel@cinkarna.si

Representative office	Cinkarna Celje Representative Office, Belgrade Resavska 76, 11000 Belgrade Republic of Serbia	
Registered office	Telephone:	(+381) 11 265 9484
	Fax:	(+381) 11 265 9484
	Mobile phone:	(+381) 63 730 2280
	E-mail:	d.barba@YUBC.net

Company Organisation

The Company is organised as a set of business profit centres, separated in terms of organisation and management, accompanied by centralised support departments and a centralised unit providing maintenance and energy infrastructure.

Management Board

Business units

TITANIUM DIOXIDE BU	*Director Zoran Kanduč*
METALLURGY BU	*Director Friderik Madarasi*
CHEMISTRY CELJE BU	*Director Andrej Lubej*
CHEMISTRY MOZIRJE BU	*Director Irena Vačovnik*
POLYMERS BU	*Director Darko Košak*
JOINT SUPPORT SERVICES	
Finance Department	*Director Jurij Vengust*
Marketing Department	*Director Irena Franko Knez*
R&D Department	*Manager Pavel Blagotinšek*
Investment Department	*Manager Blaž Črepinšek*
HR & General Department	*Manager Marko Cvetko*
Department for Occupational Health and Safety	*Manager Otmar Slapnik*
Legal Department	*Manager Darja Horvat*
Quality Assurance Department	*Manager Karmen Rajer Kanduč*
Environmental Protection Department	*Manager Bernarda Podgoršek Kovač*
Accounting Department	*Manager Karmen Fujs*
IT Department	*Manager Boris Špoljar*
Internal Audit Department	*Manager Patricija Veršič*
MAINTENANCE AND ENERGY BU	*Director Jože Gajšek*

Company Profile

With its 146-year tradition of uninterrupted operations, Cinkarna Celje, d. d. is among the best surviving companies in the Slovenian business sector. Until 1968, the Company’s fundamental activity was metallurgy, but having started the production of titanium dioxide pigment in 1972 and its subsequent expansion, Cinkarna Celje, d. d. is now classified as a company in the chemical processing sector. It employs 900 people and generates around EUR 164 million per year in sales revenues, with around 87% of sales generated on international markets. It thus occupies the leading position in the Slovenian chemical processing industry and is one of the most important and successful Slovenian industrial companies.

Corporate Vision

Cinkarna Celje aims to consolidate and improve its international status as a trustworthy, reliable and dedicated manufacturer of titanium dioxide pigment. Special emphasis is placed on achieving an excellent relationship between price, quality and prompt delivery of our products. We wish to retain our market position and continue to produce more than one percent of the entire world consumption and over three percent of the entire European consumption of titanium dioxide pigment. We wish to achieve the status of a premium supplier of copper fungicides on the demanding Western markets and upgrade our position as the leading supplier of powder coatings in the region.

Mission

Carrying out chemical and metallurgical processes professionally and socially responsibly, we produce a wide range of products necessary for everyday life. We provide work and personal growth to our employees and expected returns to our shareholders.

Report by the Management Board

We operated well in the 2018 financial year despite the changed situation. Even though we did not exceed the 2017 sales and did not achieve the planned sales, Cinkarna Celje, d. d. still achieved a record-high level of profit. The major reason for falling behind the plan and figures from the year before can be attributed to surplus supply in the titanium dioxide industry. The changed balance between supply and demand resulted in lower quantities and decreasing selling prices, though these are still at relatively high levels. Despite the falling selling prices and the growing purchasing prices, we exceeded the 2017 profit margin. By closing down the line of unprofitable titanium-zinc sheets, we significantly improved also the structure of lines of business and internal operating efficiency of the entire system.

Considering the market situation and the declining processing industry activity, the Management Board assesses the Company's operations as objectively very positive and somewhat above expectations. Industry benchmark comparisons and analyses of period results confirm that in 2018 Cinkarna Celje, d. d. managed again to stay among the most successful companies in the titanium dioxide pigment industry. All competitors significantly improved their operating results in 2018, but Cinkarna Celje, d. d. exceeds the industry average in terms of both absolute and relative comparisons and is consolidating its position among the most successful players.

We are continuing with our traditionally conservative yet very active business policy in terms of marketing and focus on goals as we are certain of its accuracy validated by excellent results. The demand for the flagship product, titanium dioxide, was lower as in the year before, but we constantly strove to keep the major buyers and preserve our position on the most profitable markets. By way of flexibility, short response times and well elaborated allocation of quantities, we managed to meet all of our business commitments entirely and timely. Pursuing the return-on-sales criteria, we are gradually moving away from the distant markets of North Africa and Middle East as we are adjusting to the market situation and orienting the Company's operations towards the EU and neighbouring markets. Record-high utilisation of production capacities from 2016 and 2017 was not exceeded due to lower content of soluble TiO_2 in raw material, decreased demand and bigger overhaul in October. The financial policy remains focused on ensuring a stable and safe financial position, providing liquid assets and managing financial risks along with prompt asset refinancing and timely settlement of liabilities. We did not utilise debt sources in 2018 and had no difficulties financing the increased investment scope at the level of EUR 22.6 million and paying out dividends in June pursuant to the resolution of the Company's General Meeting in the total amount of EUR 21.6 million (EUR 26.52 per share), which is 193% more as compared to 2017. Unfavourable forecasts and conservative business plan require careful management of cash.

In accordance with the plan, the Company was implementing the range of all environmental projects with the purpose of comprehensive management of all ecology-related risks. At waste disposal facilities Bukovžlak in Za Travnik, we mostly carried out activities aimed at supplementing the technical monitoring system that will serve as the basis for planning the necessary rehabilitation measures in the future years. As concerns the project for rehabilitating the Bukovžlak non-hazardous waste landfill (ONOB), we prepared the necessary documentation and submitted the application for integral procedure for obtaining construction permits. At mid-year, we presented the results of the Toxicological Risk Assessment for residents under ONOB arising from consumption of agricultural products. The conclusions show there is no risk present. At the end of the year, we presented the Ecotoxicological Report with the plan of future activities for the Celje location. We were also promptly following the situation related to the risk of classifying the titanium dioxide pigment in Annex VI under the CLP legislation. We prepared TENORM waste for export.

The international economic environment was dynamic and unforeseeable in 2018. Towards the end of the year, the world economy was becoming less and less encouraging for Slovenian exporters, mostly due to lower growth in exports to the major trading partners.

Weaker international demand is a combination of the general cooling economy, increased obstacles in the global trade and cyclical automotive industry. The fact that the purchasing manager index reached the lowest value of the last four years causes great concerns. Quite some uncertainty was also caused by the US and China in 2018 despite the 90-day ceasefire reached at the end of the year. The risks in the European international environment are growing due to political tensions in France and the Brexit-related uncertainty. The economic activity and the related investment consumption of the key economies of North America and Europe remain favourable for now. Objectively, this means that the level of demand on the markets of investment goods and raw materials, i.e. commodities, is stable. We have not detected any other special risks or uncertainties in the international economic area for the near future that could affect significantly negatively the Company's operations and its performance plans in the following year.

Supply was additionally restricted at the end of 2016 and in the beginning of 2017 due to the troubles of the Ukrainian pigment manufacturers, final closing-down of the Huntsman factory in the South African Republic and the severe fire at the Huntsman factory in Finland. These factors caused insufficient supply on the market and an extreme growth in prices. In 2018, the situation was again anything but calm. During the year, Huntsman announced its decision not to complete restoration of its factory in Finland. The announced merger of Tronox and Cristal is temporarily halted. A leak of sulphur dioxide gas occurred on the Crimean Peninsula (Crimea Titan). Pigment supply has not been restricted already since the end of March. In Q2 additional capacities occurred (USA and China). The mentioned events caused accumulation of pigment stock with buyers and manufacturers. The conditions of the short market, insufficient supply and robust demand only continued in Q1 2018. Other quarters saw a lower demand, which also resulted in price cutting in Europe in August. The average euro-denominated global selling prices increased by 4% as of the end of 2017. The prices in America rose even more, by 13% as compared to the end of 2017. Prices on the Asian market increased by 2%. In Europe, prices dropped by 3% due to the Chinese pigment. In the period of severely limited supply in Europe, Chinese manufacturers entered the market and offered a pigment that is substantially cheaper and of higher quality as in the past. They greatly expanded their capacities and pigment exports to the European markets in a relatively short period of time. The escalating trading situation between the US and China is likely to further boost European imports of the Chinese pigment. The effect of the Chinese pigment is present also in Latin America and Asia. Based on the current market situation and forecasts for future developments on the pigment market, we assess that the trends for the pigment selling prices will be stable and the trends for purchase prices of titanium-bearing raw materials will be gradually slowing down and stabilising. The titanium dioxide industry still remains interesting as some capital concentrations were announced, both vertical and horizontal.

Due to its relatively small size, Cinkarna Celje, d. d. is mostly a market follower, active predominantly in the middle segment, in which it consolidates its position above all through flexibility and responsiveness. This enables us to maximise potentials within our strategic market position. In 2018, we produced 15% less pigment as in 2017. We sold approximately 9 thousand tonnes less pigment than we produced. The inventory of finished pigment products increased by 146% due to lower sales. In 2018, the average pigment selling prices grew by 18% as compared to 2017.

When analysing and reviewing other product lines, we should emphasize initiation of the procedure for selling the facility for construction compounds, which started at the end of the year and will be completed in the first half of 2019. The rest of the metallurgy line is optimised and stabilised; we are recording ZAMAK sales exceeding past figures.

The results of other lines can be assessed as solid. Only the agricultural product line exceeded past results, whilst the other lines recorded lower sales as compared to the year before. The lowest drop in sales was recorded for construction products (of 1%).

Masterbatches and powder coating are to some extent an extended arm of titanium dioxide, so that lower demand for TiO_2 goes hand in hand with lower demand for these product groups. Zinc recycling dropped by 12% as compared to 2017 sales, mostly on account of selling the inventories of titanium-zinc sheets and lower wire sales quantities.

Cinkarna Celje, d. d. generated EUR 164 million of sales revenues in 2018, 13% less than in 2017. Sales also lagged behind the levels planned for the year, by 13%. Total exports in the period reached EUR 142.3 million, which is 23% less as compared to 2017 exports and 18% less than planned. The major share of exports went to Germany with 30%, followed by Italy and Belgium with 12% each, Turkey with 8%, France with 6%, the Netherlands with 5%, Austria with 4%, and Serbia and Poland with 3% each. The remaining exports went to other EU markets, Eastern Europe and the Middle East.

Net profit for 2018 reached a record-high level of EUR 30.6 million, exceeding the 2017 figure of EUR 28.8 million by 6%. Net profit lagged behind the 2018 plan by 6% (EUR 32.6 million planned).

From the last trading day in 2017 to the last trading day in 2018, the share price of Cinkarna Celje, d. d. on the entry market of the Ljubljana Stock Exchange decreased from EUR 216 to EUR 181 per share or by 17%. Growth was stable until the month of May. In the beginning of June, the news broke out about potential take-over and pushed the share price up, bouncing off at the level of EUR 274 per share and slowly losing value to the end of the year. The SBI TOP index fell by 0.2% in the same period. The Company paid EUR 21.6 million in dividends (193% more as compared to the year before) or EUR 26.52 of gross dividend per share in 2018. Dividend yield came in at an extremely high 12.63% on the date of the General Meeting resolution and was again among the highest yields in the industry of titanium dioxide pigment.

In 2018, investment scope grew by 70% as compared to the year before, even exceeding the planned value by 8.9%. The bulk of the funds was allocated to modernising, stabilising and improving quality parameters in the production of the titanium dioxide pigment and to the projects for environmental management, safety and health at work. A part of funds was spent on modernisation and legislative compliance of energy facilities and infrastructure. A major investment was also made at the Mozirje plant by setting up an additional line for masterbatches and powder coatings.

R&D activities were carried out in compliance with the five-year strategy, which is promptly modified in line with the changes in the business environment. Our activities in 2018 mostly focused again on three main areas, i.e. development of new products and services, improvements to existing products and services, and development of policies and models for successful marketing of new products developed in previous years. We prepared the foundations for the 2019-2023 strategic plan.

In terms of responsible environmental care, we continued implementing activities aimed at achieving strategic goals. The key goals are compliance with legislative requirements for environmental protection, identification and break-down of process risks that can impact adversely the external environment, and sustainable management of resources and products. We achieved phase goals for all areas and will continue upgrading these activities in the future years.

Periodical reviews and internal assessments served us to test and evaluate the adequacy, efficiency and compliance of the Integrated Management System (ISV or IMS), which ensures our compliance with quality standards (ISO 9001), environmental standards (ISO 14001) and health and safety standards (BS OHSAS 18001) as well as with the EMAS Regulation for the Mozirje BU. The adequacy was also confirmed by an external authorised organisation.

Within the scope of HR activities and management, we geared our activities into the assurance of social security, work safety, working conditions improvement, development of potentials and employee training. We pursue the principle of positive pay policy and ensure a suitable level of employee satisfaction and motivation. As agreed with representative trade unions, we paid out the 13th salary in August, thus exercising the positive pay policy and ensuring adequate employee satisfaction and motivation.

The Business Report presented in the continuation contains more detailed information on operations, including comparisons and analyses. It comprises information that is relevant for fair and objective presentation of the operations in the previous year. The financial standing and operations of the Company in 2018 are presented in the enclosed financial statements and the notes thereto.

Business Plan for 2019

The business plan for 2019 was prepared based on global macroeconomic forecasts, projected GDP growth forecasts for the economically most important countries as well as industry analyses and forecasts. The year of 2018 was characterised by the end of the extreme peak stage on the titanium dioxide market and the beginning of deteriorating macroeconomic conditions. Expectations and trends projected for 2019 are based on these facts. Market indices and indicators are for now still quite favourable. We do not expect market imbalance in 2019, but a stable demand together with lower pigment selling prices. The rise in purchase prices of titanium-bearing raw materials will be slight, following the changes in selling prices of titanium dioxide pigment with a delay. In terms of annual level comparisons, the relative relationship between purchasing and selling prices is to change substantially as compared to 2018. The Company's strategy for 2019 will be oriented towards ensuring maximum levels of production quantities and sales and utilising the potential of the most profitable pigment markets. With a high degree of flexibility, we will allocate sales quantities to the already mentioned most profitable markets. We plan to sell the construction compounds plant in 2019, which is not taken into account in the planned statements. We are traditionally pursuing the principles of conservative financial policy and reliable financial position, bearing in mind the market's volatility and the related risks. At the same time, solid operations, cash surpluses and forecasts also imply adequate and suitable payouts to owners in compliance with the Company's strategic plans and its financial position. The proposal for distribution is included herein. We plan to generate EUR 167.7 million of sales revenues in 2019, 2% more as compared to 2018 sales. We also plan net profit at the end of 2019 to reach EUR 11 million or 63% less than in 2018. In compliance with the investment plan, which includes finishing the project of modernising, stabilising and intensifying the titanium dioxide pigment production, new fixed assets at the Polymers BU and the Project for Comprehensive Management of TiO_2 Production Water, we will invest the total of EUR 11.2 million in the Company's fixed assets, a decrease of 50% over 2018. The 2019 plan also includes utilisation of EUR 2 million of environmental provisions for rehabilitation works at the Bukovžlak and Za Travnik locations and for the process of TENORM waste destruction. We will finish the project of necessary rehabilitation measures for ensuring safety of the high barrier Bukovžlak. We also plan to comply with legislative requirements by setting up monitoring of induced seismicity and dynamic behaviour of the barrier. The business plan is an assessment of future operating conditions and operating performance that is based on the currently available set of key information, which is why it should be understood as a forecast that inexorably carries with it a certain level of uncertainty.

Management Board of the company
Cinkarna Celje, d. d.

Report by the Supervisory Board of Cinkarna Celje, d. d.

The Supervisory Board of Cinkarna Celje, d. d. was acting in 2018 with the following composition: Borut Jamnik, BSc (Mathematics) – Chairman, Dejan Rajbar, BSc (Economics), Urška Podpečan – Deputy Chair, LLB, Aleš Skok, BSc (Chemical Engineering), MBA, USA, Dušan Mestinšek, BSc (Electrical Engineering) and Aleš Stevanovič. In 2018, it held 11 meetings, of which three extraordinary and two correspondence. The HR Committee of the Supervisory Board also held a meeting in 2018, at which it discussed variable part of remuneration of the Management Board.

The Supervisory Board was as a rule in full attendance at the meetings. Within the legal framework defined by law, regulations, the Company's Articles of Association as well as relevant codes and in line with the due care approach, we carried out and implemented conscientiously our competencies, duties and responsibilities. We reviewed the submitted materials, presentations, special explanations and notes diligently as well as organised and implemented interviews with individual external experts. We tried to additionally clarify and study certain topics through proposals, questions and requests for additional data, analyses and reports. We believe that the Supervisory Board acted with the due diligence required by the law and to the best of our knowledge and conscience, thereby responsibly protecting the interests of the Company and the shareholders.

Besides monitoring current operations, the Supervisory Board also devoted special attention to investments, environmental issues, regulatory risks, management of shareholder relations, the Company's new business strategy and internal audit operations. In 2018, investment scope grew by 70% as compared to the year before, even exceeding the planned value by 8.9%. The bulk of the funds was allocated to modernising, stabilising and improving quality parameters in the production of the titanium dioxide pigment and to the projects for environmental management, safety and health at work. A part of funds was spent on modernisation and legislative compliance of energy facilities and infrastructure. A major investment was also made at the Mozirje plant by setting up an additional line for masterbatches and powder coatings.

The Supervisory Board was informed in detail and promptly about the development and implementation of environmental protection projects. At waste disposal plants Bukovžlak in Za Travnik, we mostly carried out activities aimed at supplementing the technical monitoring system that will serve as the basis for planning the necessary rehabilitation measures in the future years. As concerns the project for rehabilitating the Bukovžlak non-hazardous waste landfill (ONOB), we prepared the necessary documentation and submitted the application for integral procedure for obtaining construction permits. At the end of the year, the Supervisory Board was acquainted with the Ecotoxicological Report on further research by CDM Smith at the Celje location. The Board promptly monitored also the developments related to the risk of classification of the titanium dioxide pigment as a carcinogen. In 2018, the procedure was being implemented as prescribed and at the end of the year a proposal was made by the European Commission to be included in the 14th ATP procedure, i.e. the process of technical adjustments for inclusion in Annex VI of the CLP legislation. The related decision-making is anticipated within the framework of the REACH Committee in Q1 2019.

The Supervisory Board was actively participating in the preparation of the Company's 2019-2023 Strategic Plan. Three meetings of the Supervisory Board were mostly dedicated to future development of the Company, resulting in the adoption of the Strategic Plan at not only the strategic, but also tactical and operational levels. The abstract of the Company's Strategic Plan was published in April 2018, thus assuming the role of the principal document for the Company's development policy.

In December, we discussed and adopted the 2019 operating plan. The 2019 business plan is based on somewhat poorer macroeconomic forecasts and an extreme downturn in the titanium dioxide pigment industry. Sales plan stands at almost EUR 168 million, which is 2% more than achieved in 2018, and planned net profit equals EUR 11.1 million, which is a 64-percent drop, mostly due to very unfavourable situation on the titanium dioxide pigment market and the consequential decrease in profit margins. The Supervisory Board believed

the plan to be rational and suitably in line with industry forecasts and thus adopted it.
The 2018 business results were excellent with new record-high levels for Cinkarna Celje, d. d., being certainly above the average level of the best Slovenian industrial companies. International industry comparisons reveal that the Company is at the very peak of the leading global companies in the titanium dioxide pigment industry. The Company's profitability exceeded the business results of most competing producers of titanium dioxide pigment. We therefore believe that the earned net profit of EUR 30.6 million and total sales of EUR 164 million are excellent accomplishments. The Company is traditionally pursuing the strategy of conservative financial operations and is operating without external financial resources and debts, thus being financially stable and solid.

As already mentioned, the solid 2018 figures result from extremely high profit margins, but in 2018 we were also carefully following the alarming deterioration of indicators for physical scope of operations. Unfavourable economic situation and surplus supply in the titanium dioxide industry led to a decrease in the scope of production and sales. The most important goals for 2019 are thus related to improving the competitive position, increasing market shares and physical scope of operations as well as reaching the planned business performance objectives.

The year of 2018 was a successful one for the Company, evidenced by a record-high profit, progress in environmental protection, implementation of bold investment plans, successful development activities, pay-out of suitable dividends and preservation of a high level of financial stability. Efficient operations coupled with robustness and system stability provide answers regarding the Company's long-term prospects.

The fundamental orientations for operations and development set with the mid-term strategy were being conscientiously implemented in terms of all key parameters. As already mentioned, the Supervisory Board participated in the preparation of the development strategy up to 2023 and adopted it. The key part of this strategy is change of the sales portfolio of the flagship product of titanium dioxide pigment towards enhanced quality, optical features and development of products for advanced user applications. The Supervisory Board actively supports the business policy focused on reducing risks and uncertainties and ensuring a stable financial position of the Company. We expect and demand special attention and compliance in relation to permanent progress in environmental protection and employee health.

The Annual Report, comprising the mandatory financial statements, disclosures, notes and the Business Report is deemed by the Supervisory Board to contain all the relevant information and indicators and appropriate notes to the specific events and facts. Acting upon the proposal from its Audit Committee, the Supervisory Board approves the Annual Report and the proposal for use of distributable profit of Cinkarna Celje, d. d. for 2018.

The Supervisory Board was also familiarised with the independent auditor's report received by the Company on 18 March 2019 and believes the report to be a suitable presentation of the mandatory audit of the financial statements and notes thereto and accepts the auditor's opinion that the Business Report is in line with the audited financial statements. Therefore, the requirement for true and fair presentation of the Company's assets and financial position in the relevant period has been met to a sufficient extent.

Report by the Supervisory Board's Audit Committee on its Work in 2018 and on the Review of the Annual Report of Cinkarna Celje, d. d. for 2018

The Audit Committee of the Supervisory Board of Cinkarna Celje, d. d. with the following composition: Dejan Rajbar, BSc (Economics) – Chairman, Dušan Mestinšek, BSc (Electrical Engineering – member, and Gregor Korošec, BSc (Economics) – independent external expert, met at seven regular meetings and one correspondence meeting in 2018. Two meetings aimed at detailed discussion of the 2018 Annual Report and related processes were held in March 2019.
Members of the Audit Committee were present at all meetings. The meetings were always also attended by Jure Vengust, MSc, member of the Management Board in charge of

Finance, Accounting and IT, and Karmen Fujs, MSc, Accounting Department Manager, who provided answers and explanations to the questions of the Committee members. Two meetings were attended by Tina Kolenc Praznik, certified auditor from the audit firm Deloitte revizija d.o.o. The meetings were also always attended by Patricija Veršič, MSc, Internal Audit Department Manager, who presented the relevant internal audit plans, promptly reported on the progress of internal audit based on quarterly reports and the related state and implementation of the Company's internal controls.

At all regular meetings, the Audit Committee familiarised itself with interim operating results of Cinkarna Celje, d. d. and paid special attention to financial and accounting information. The Committee carefully considered the contents of the Company's interim and annual business reports and prepared proposals and recommendations for modifications. As already mentioned, the Committee verified and examined on an ongoing basis also internal audit reports, which also included reporting on the status of implemented measures based on its recommendations, at the same time actively cooperating, proposing improvements and directing internal audit operations.
The Audit Committee reviewed again the system for identifying, assessing and managing operating risks of the company Cinkarna Celje, d. d. In 2018, the system was fully integrated into the Company's business processes, thus substantially enhancing its responsiveness and ensuring a highly desired tool for active corporate governance. The risk management system, which is fully incorporated in the Integrated Management System, is based on prompt updating of the risk register, in which the risks are classified systematically in terms of the assessment for occurrence of individual types of risks and the level of potential damage. The system also includes a range of measures aimed at managing these risks. The Audit Committee has assessed the system as satisfactory.

In 2018, the Audit Committee also reviewed data and information regarding the status of the subsidiary Cinkarna BH, d.o.o. based in Tuzla. The subsidiary was no longer operating in 2018. Except for materially insignificant liabilities to the parent company and a limited scope of assets held for sale, it has no other assets or liabilities. As of mid-year, all the conditions for liquidation are met. The procedure is being carried out with the Commercial Court in Tuzla and is to be completed in 2019. The Audit Committee reviewed the report on company liquidation. The liquidation procedure was also reviewed by the Internal Audit Department, which reported to the Audit Committee thereon.

In line with its authorities, the Audit Committee was in 2018 active in the regular audit procedures for Cinkarna Celje, d. d. The principal activities could be summarised as follows:

- It met with the auditors and was briefed on the course of the final audit of the financial statements of Cinkarna Celje, d. d. for 2017.
- It reviewed the findings of the audit of the financial statements of Cinkarna Celje, d. d. for 2017 and the auditor's opinion.
- It was familiarised with the management letter including findings of the audit of the financial statements of Cinkarna Celje, d. d. for the year ended 31 December 2017.
- It proposed to the Supervisory Board that it should propose to the General Meeting to engage the audit firm Deloitte revizija, d. o. o. to audit the financial statements of Cinkarna Celje, d. d. for 2018.
- It examined the contract for audit of the financial statements of Cinkarna Celje for 2018 and approved it.

The meetings and activities in 2019 were carried out to be familiarised with the final audit of the financial statements of the Company for 2018, to review the Annual Report of Cinkarna Celje, d. d. and the Internal Audit Report. In 2018, the Internal Audit Department was implementing internal audit tasks successfully and in line with the plan, also reporting promptly to the Audit Committee.
The Audit Committee received the first draft annual report of Cinkarna Celje, d. d. for 2018 on 8 March 2019. At the meeting held on 8 March 2019, the certified auditor was also present and answered further questions of the Audit Committee members. They carefully reviewed the draft annual report and gave their comments at the Audit Committee meeting held on 18 March 2019.

The final text of the Annual Report of Cinkarna Celje, d. d. for 2018 was received by the Audit Committee on 26 March 2019 and discussed at its meeting on 8 April 2019. The Audit Committee confirmed that the Annual Report of Cinkarna Celje, d. d. for 2018 was compiled in a timely manner and in accordance with the Slovenian Accounting Standards as well as the provisions of the Companies Act in all important aspects.

The business section of the Annual Report of Cinkarna Celje, d. d. for 2018 comprises a summary presentation of operations for the last three financial years. The operational and performance analysis for 2018 provides a detailed overview of the assets and profit of the Company as it contains all of the necessary notes on sales, operating profit or loss, expenses and costs, assets and liabilities.
Development of the Company is based on its employees, investments, the development activity, quality assurance and successful implementation of the strategic plan for the following period up to and inclusive of the year 2023.
The Annual Report also includes the Non-Financial Statement, which includes, based on the amended Companies Act, useful information regarding social responsibility, the environment, HR matters and anti-corruption and anti-bribery activities.

Financial statements of Cinkarna Celje, d. d. for 2018, including the accounting policies and notes, were audited by the audit firm Deloitte revizija d.o.o. that was appointed by the General Meeting at its 22th regular meeting on 5 June 2018. On 18 March 2019, the auditor issued an unqualified opinion on the financial statements of Cinkarna Celje, d. d. for 2018 and confirmed that the information contained in the Business Report is in line with the attached financial statements. In its opinion, the auditor emphasised Note 9 to the financial statements, Provisions and long-term accrued costs and deferred revenues, which states that as at 31 December 2018 the Company disclosed EUR 23,423,604 of environmental provisions, which were set aside based on projects, reports and assessments made by external advisors and the management in relation to the costs that will arise to rehabilitate landfills and land and to remove low-level radioactive waste in future years. The mentioned provisions comprise also provisions established at the end of 2017 intended to cover future liabilities relating to rehabilitation of land at the Company's current location, which were made based on the CDM Smith report.

The Audit Committee came to the conclusion, based on the unqualified opinion in the auditor's report, additional explanations provided by the auditor and support departments of Cinkarna Celje, d. d. and the data and disclosures contained in the Annual Report of Cinkarna Celje, d. d. for 2018, that the Annual Report had been compiled in accordance with the Companies Act (ZGD-1) and that the financial statements, in all material respects, give a true and fair view of the financial position of Cinkarna Celje, d. d. as at 31 December 2018 and its profit and cash flow generated in the year then ended, in accordance with the Slovenian Accounting Standards.

The Audit Committee assessed the auditor's work as objective and independent and in compliance with the Auditing Act. The certified auditor and the audit firm did not render any non-audit services to the Company.
The Audit Committee had no objections to the Annual Report of Cinkarna Celje, d. d. for 2018 that would lead the Committee to withhold the proposal to the Supervisory Board to act in accordance with Article 282 of the Companies Act and approve the Annual Report of Cinkarna Celje, d. d. for 2018.

The Audit Committee further had no objection to the Management Board's proposal on the use of distributable profit for 2018 and proposed to the Supervisory Board to act jointly with the Management Board in proposing, in accordance with Articles 230 and 282 of the Companies Act, the adoption of the resolution to the General Meeting for distributable profit of Cinkarna Celje, d. d. in the amount of EUR 22,842,027 to be used for dividend distribution in the amount of EUR 28.27 per share or a total of EUR 22,841,510, and for the transfer of the remaining part of EUR 517 to retained earnings.

Chairman of the Supervisory Board
Borut Jamnik, BSc (Mathematics)

Internal Audit Report

Internal audit in Cinkarna Celje, d. d. is carried out by the Internal Audit Department. The Internal Audit Department is an independent organisational unit of the Company, which is responsible directly to the Management Board in organisational terms and to the Audit Committee or the Supervisory Board in functional terms. The Department operates in line with the International Standards for the Professional Practice of Internal Auditing.

The Internal Audit Department provides independent and objective advisory aimed at maximising the benefits and improving the Company's operations. The objective of its operations is to assist the Management Board and other managerial levels to enhance governance and improve quality, efficiency and effectiveness of operations in line with the adopted strategy, business policy as well as business and financial plans. It helps achieve these objectives by encouraging a well-deliberated and organised manner of assessing and improving the efficiency of risk management procedures and risk control and management. It acts in compliance with the Fundamental Charter and the Rules on Internal Audit Operations and respects the principles of independence, professionalism and objectivity as well as ethical principles as the underlying principles of the internal audit practice.

The programme for ensuring and improving the quality of the internal audit practice is subject to continuous development and updating. The programme includes periodical internal self-assessments and on-going supervision and assessment of work quality. Within the framework of the quality programme, activities aimed at improving and upgrading work methodologies continued. External quality assessment of the internal audit practice has not yet been made as the Internal Audit Department was established in September 2016.

Following each audit, the Internal Audit Department prepares an internal audit report, which is submitted to the audited departments and the Management Board. The Internal Audit Department prepares quarterly reports on internal audit operations and implementation of proposed measures for the Management Board, the Audit Committee and the Supervisory Board. The Department prepares annual internal audit reports and submits them to the Management Board, the Audit Committee, the Supervisory Board and external auditors. The Internal Audit Department pursues its mission based on the annual plan, which is approved by the Management Board, the Audit Committee and the Supervisory Board. In 2018, 11 regular audits were performed, of which one was completed in the beginning of 2019. Within internal audit reviews, the Internal Audit Department verified and assessed: adequacy and efficiency of internal controls, compliance with legislation and internal acts, risk identification and management and efficiency and effectiveness of process implementation. The Department made an assessment of the reviewed processes that internal controls established for the audited areas are good and help manage efficiently and effectively the key risks at an acceptable level. In general, the control system is solid and the Company's management is adequately detecting and managing the (key) risks, but there is room for improvement. The Department thus prepared several recommendations, the implementation of which is monitored on an on-going basis.

Manager of the Internal Audit Department
Patricija Veršič, MSc

Veršič

The Company’s Activities and Product Lines

Cinkarna Celje, d. d. produces and sells a wide range of products. The various product subgroups can be combined into different product sales groups with similar intended functions. Over the last years, the Company abolished some product lines, which were not achieving planned profitability and performance levels.

The core product and sales group is titanium dioxide pigment, which combines a range of various pigment types. Titanium dioxide pigment is a special inorganic chemical; its extraordinary optical characteristics make it extremely useful in the production of varnishes and paints, plastic materials, laminates and paper. Cinkarna Celje, d. d. markets the pigment to global markets and successfully competes with international corporations thanks to its constant progress in terms of technological advances, formulations, adaptability, reliability and the achievement of an optimal relationship between price, quality and delivery. This group is complemented by a number of types of ultrafine titanium dioxide pigments. These are products featuring high added value that can assume the role of a photocatalyst or UV absorber thanks to their crystalline structure. They are incorporated in high-tech products (self-cleaning systems, photovoltaics, suntan lotions, materials with UV stabilisers, etc.).

Plant protection products represent one of the key sales groups. The leading products in this group are copper fungicides with various formulations and active substances (copper hydroxide, copper oxychloride and tribasic copper sulphate). The strategy for plant protection products focuses mostly on superior quality and environmentally safe use. Over the last years, we achieved a major breakthrough in sales to the demanding Western European markets. This group is also one of the key pillars of the Company’s future development.

Sales of products for the construction industry are directed at the domestic market and the former Yugoslavia markets. The group includes building and restoration materials, cement adhesives, building mortars and facade plasters.

The product group consisting of coatings, powder coatings and masterbatches is increasingly gaining in importance. It is a sales group which represents a vertical upgrade of the basic production of titanium dioxide pigment. The coatings are used predominantly for anti-corrosion protection of construction materials, and the majority of powder coatings are intended for anti-corrosion and decorative needs in the production of household appliances, heating elements and other metal goods. Masterbatches are dynamic products intended for incorporation in plastic materials for the purpose of improving their applicable characteristics.

Other significant products and sales groups of Cinkarna Celje, d. d. are:

- the group of zinc alloys, anodes and wires,
- the group of fluorinated polymers and elastomers that, owing to their characteristics, are suitable for transport of aggressive mediums and protection of process equipment and hardware,
- sulphuric acid,
- semi-finished products from the production of titanium dioxide pigment: titanyl sulphate, metatitanic acid and sodium titanate, and
- by-products from the production of titanium dioxide pigment: white gypsum – CEGIPS (intended for the cement industry and use in agriculture), and red gypsum – RCGIPS (intended for the filling in civil engineering construction, construction of low dikes and covering layers).

Operational and Performance Analysis for 2018

SALES

Total sales generated by the Company in 2018 in changed and poorer conditions in the international economic environment with the resulting lower demand in industrial sectors were 13% lower as compared to 2017 and 18% lower than planned. Total sales, i.e. net sales revenues, reached EUR 164 million.

The dynamics of quarterly and monthly net sales revenues followed the seasonal nature characteristic of the industry in the first half of the year. The second half of the year was characterised by a significant drop in sales, which was only intensifying until the end of the year. In the last month of the year, sales reached the lowest level. In the past, the months of January, February and December with seasonally low construction and processing sector activity were always months with poorer results as compared to the average of other months of the year. The tremendously upward trend from the past two years was present until the end of Q1 and changed significantly the traditional dynamics at the beginning of the year. The curve of decreasing prices of titanium dioxide pigment affected additionally the change in sales in the second half of the year. As evident from the continuation, the best quarters were Q1 and Q2, which is related to extremely high prices and increased demand. Q3 and Q4 lagged behind due to a combination of lower selling prices and quantities of titanium dioxide with the low season for the construction and industrial sector.

Monthly and quarterly sales analysis reveals that sales were the highest in Q1 2018, mostly due to extremely high selling prices and quantities. Sales in the final quarter were, due to the low season and less working days in December, lower by 16% as compared to Q3 and by 34% as compared to Q4 2017. It should be added that in Q4 2017 the demand was extremely high and so were the pigment selling prices. The last quarter also deviates the most negatively from the plan, by 36%. Q1 2018 sales reached extremely high EUR 52.5 million or 17% more as compared to the same period in 2017. Q2 and Q3 2018 sales reached EUR 45.7 million and EUR 35.8 million respectively and lagged behind Q2 and Q3 2017 sales by 6% and 28% respectively.

The highest monthly sales were recorded for March with EUR 18.4 million (the highest sales in 2017 were recorded for September with EUR 17.8 million) and the lowest for December with EUR 7.9 million (in 2017, December sales were also the lowest with EUR 11.2 million). In the first quarter we exceeded significantly monthly sales figures for 2017, but, as already mentioned, that was the effect of the upward trend postponing into 2018.

In EUR

Market	2017	2018	Change in 2018 (%)
Slovenia	24,460,675	21,624,294	- 12
EU	129,615,745	118,346,688	- 9
Third countries of the former Yugoslavia	6,874,874	5,325,682	- 23
Third countries – other	27,753,464	18,664,197	- 33
Total	**188,704,758**	**163,960,861**	**- 13**
Slovenia	14%	13%	
EU +	69%	73%	
Middle/Near East & Africa	4%	3%	
Eastern Europe	13%	11%	
USA & Mercosur	0%	0%	

Total sales to foreign markets dropped by 13% in 2018 as compared to 2017. Sales to domestic market fell by 12%. The reasons for poorer sales to all markets can be attributed to lower quantities of titanium dioxide sold coupled with gradual decreasing of average pigment selling prices.
The most obvious drop in sales was recorded for third country markets outside the EU – dollar markets, which are not our principal markets as we only sell our products to these markets in case we detect higher profit margins. The lowest drop in sales was recorded for EU markets.

Sales to the former-Yugoslavia markets fell by 23%, mostly due to lower sales to Serbia (less demand for titanium dioxide by existing buyers). The drop in sales to the mentioned geographic segment was partially cushioned by increased sales to Bosnia and Herzegovina (increased activities in the processing industry).

Total EU sales dropped the least in 2018 in relative terms, i.e. by 9%. In absolute terms, lower sales to these markets are not insignificant as we sold EUR 11.3 million less products and services. Poorer sales figures result from lower growth in demand in the key European countries. The ambiguous outcome of Brexit and the rising political tensions further increase the uncertainty.

Sales to the domestic market dropped by 12% as compared to 2017. The major reason for lower sales is decreased sales level for pigment and products of the Chemistry Mozirje BU. It is encouraging that we increased sales of the metallurgic products on the domestic market. Sales of the Polymers BU and the Chemistry Celje BU remained at a level similar to the year before.

Exports accounted for 87% of the Company's total sales in 2018, a decrease of 0.2 percentage points from the previous year. The slight decrease in exports results from closing down the titanium-zinc sheets production. The value of exports in US dollars was 170,094,280, which is a decrease of 8.8% as compared to 2017. The lion's share of exports, i.e. 87.7%, relates to titanium dioxide pigment.

The regional export sales structure changed somewhat in 2018. As much as 30.6% of export sales went to Germany, which corresponds to 26.6% of the Company's total sales. The importance of the German market decreased somewhat as compared to the year before due to closing down the titanium-zinc sheet programme. Germany is naturally by far the most important market for titanium dioxide pigment sales, even though the quantity of the pigment sold to this market dropped by 23% (from 17.7 to 13.7 thousand tonnes YOY). The drop in quantities of titanium dioxide pigment sold in 2018 as compared to 2017 results from the cooling German economy, sufficient supply with lower demand and further utilisation of stock by customers.

When interpreting export sales, we should again refer to the record year of 2017. In the year before, we namely recorded growth for almost all countries due to the peak trend and related higher pigment selling prices. This financial year was in terms of growth only characterised by increased sales to Italy – higher sales of blue copper, Belgium – higher pigment prices, Bosnia and Herzegovina, Georgia and Lebanon – higher quantities of pigment sold and higher pigment prices. In other countries, sales dropped. Despite higher average pigment selling prices, the difference was too small to substitute for lower quantities sold (Turkey, France, Germany, the Netherlands, Austria, Poland, Serbia, Greece, Spain, Algeria, Czech Republic, Switzerland, Portugal, Ukraine, Sweden and Kuwait). We also recorded lower pigment sales for Hungary, Croatia and Romania, but revenues lost were to some extent compensated by higher sales for metallurgic products. Lower quantities of blue copper sold further worsened sales to Greece. The drop for Bulgaria is related to lower quantities of masterbatches and powder coatings sold.

Sales structure by national market is quarterly continuously and significantly changing in line with the conditions prevailing on individual markets from time to time. In the long-term, the structure depends on market profitability, market balance (reflected through price appeal), safety (in terms of fulfilling contractual commitments) and market reliability. Above-average effectiveness of implementing price increases and successful quantitative sales of the pigment reveal that the current geographical sales segmentation efficiently enables a relatively high level of sales flexibility in terms of allocating variable quantities to the most profitable markets at a given time.

Product line	**2017**		**2018**	
	Value in EUR	Share in %	Value in EUR	Share in %
Titanium dioxide	153,262,672	81	131,546,536	80
Zinc recycling	9,657,712	5	8,491,559	5
Construction products	2,724,130	1	2,688,265	2
Varnishes, coatings, masterbatches and printing inks	15,333,478	8	13,267,665	8
Agricultural products	3,990,967	3	4,084,885	3
Other	3,735,798	2	3,881,951	2
Value of sales	**188,704,758**	**100**	**163,960,861**	**100**

The most important product line of the Company, **titanium dioxide pigment**, saw a decrease of 14% in sales revenue in the relevant period. Lower sales value mostly arises from lower quantities sold, which was compensated by higher selling prices in the first half of the year. The increase in prices is a consequence of insufficient supply and high demand on the key international markets in past periods. The value of sales reached EUR 131.5 million. Decreasing quantities persist as of this year's Q1 and the negative trend even intensified in Q3 and Q4. Further general economic growth cooling in Europe, particularly in Germany and Italy, significantly affected the demand for pigment. The demand was further weakened by the information on sufficient supply (additional capacities in the US and China). China increased its pigment exports to Europe significantly on account of lower prices. In the third quarter, competitors from China affected the selling prices even stronger. Consequently, market surpluses and forecasts for additional production capacities stopped the growth curve progress for selling prices. We can claim with certainty that the market reached the phase of stabilisation.

The scope of the **zinc recycling line** dropped in 2018. Sales decrease of 12% results from lower quantities and, to a lesser extent, lower average selling prices. We are pleased that the primary and secondary Zamak are exceeding results from the year before. Lower sales are also a consequence of postponing transactions into the following year and decreased competitiveness of products on target markets. The quantity of primary Zamak sold increased by 6% and wire sales dropped by 11%.

Sales of the **construction product line** comprising building adhesives, mortars and plasters fell insignificantly in 2018 in value, by 1%. The value of these sales has been dropping constantly since 2008, the beginning of the economic crisis, which also led to the collapse of the Slovenian construction sector. However, over the last three years, the scope of the Slovenian construction activity has been increasing together with the growing Slovenian real GDP. Quantities sold dropped by 2% as compared to the year before, which is, besides the changed sales structure, the main reason for lower sales. As compared to the year before, we achieved somewhat higher prices in 2018. At the end of the year, the procedures for selling the construction compounds plant were initiated.

In the relevant period, a 13-percent decrease in sales of **varnishes, coatings, masterbatches and printing inks** was recorded, which is related to the drop in quantities of powder coatings and masterbatches sold. The average selling prices for both groups mentioned rose as compared to 2017. **Masterbatches** and powder coatings are for the Company still one of the product groups with the highest potential. Revenue lost on account of masterbatches (-24%) was compensated to some extent by sales to new buyers. Due to quality stabilisation, quantities began increasing again in Q3. The quantity of **flexo printing inks** sold (from the abolished group of graphic intermediate goods) increased by 13% as compared to 2017. On account of developing new qualities and types of existing products, we expect sales of this line to increase further. We are entering again international markets with printing inks. The major reason for negative figures for **powder coatings** (-18%) can be attributed to the ongoing suspended sales to the biggest buyer from Ukraine and entry of the Asian competitor on the market. We managed to compensate for the majority of business lost with existing and new buyers.

Sales of the **agricultural product line** comprising copper fungicides, Pepelin, green vitriol (copperas) and Humovit rose by 2% as compared to 2017. The growth can be attributed to increased sales quantities of copper fungicides (increase of 71 tonnes) and Humovit (increase of 1.034 m3). We achieved lower selling prices for both product groups. Due to reduced treatment of fruit in the spring time (quick transition from winter to summer temperatures and shorter phenophase suitable for spraying), sales to fruit growers across Europe dropped substantially. Owing to new business, the drop was not reflected in sales, which also exceeded the one from the year before. Sales to new buyers on new markets compensated for revenue lost on the existing ones.

The category **"other"** comprises the sales lines of thermoplasts, polymers, elastomers and systems for transport of aggressive mediums (STAM), sulphuric acid, CEGIPS, merchandise and services, and sales of abolished products and product groups. The value of sales rose by 4%. The biggest share in the increase relates to selling off inventories of the abolished graphic line in 2016, which was no longer in place in 2017. Due to the specific dynamics of investment cycles, sales of thermoplasts, elastomers, polymers and STAM grew by 7%. Sales of sulphuric acid remain at the same level. For other product groups from this category, we should mention the 57% increase in the value of CEGIPS sales. We sold 146.6 thousand tonnes of CEGIPS, which is 13% less than in 2017, but 1% more than produced in 2018. CEGIPS sales are extremely important in the context of prolonging the useful life of the Za Travnik landfill.

PROFIT OR LOSS

In 2018, we generated **operating profit** at the level of EUR 36.4 million. This result exceeds the 2017 operating result of EUR 35.7 million by 2%. As compared to the planned operating result for 2018 (EUR 39.1 million operating profit), it is evident that the realisation reached the level of 93% of the business plan. Business operations thus objectively improved as compared to 2017, but at the same time lagged behind the business plan levels. EBITDA reached EUR 48.8 million and equals 29.8% of net sales revenues, staying at the same level as compared to the year before.

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Operating profit or loss in millions of EUR	5.0	4.9	10.8	11.0	4.6	4.7	13.7	32.8	24.1	8.6	16.2	8.1	10.6	35.7	36.4

Taking into account the impact of finance revenue and expenses, **profit before tax** for 2018 stands at EUR 36 million, whereas in 2017 it totalled EUR 34.6 million. The pre-tax result increased by 4% as compared to the year before. Profit before tax is lower than planned for 2018 by 8%. In 2018, we recorded a negative financing balance of EUR 440 thousand (in 2017, negative financing balance of EUR 1,170 thousand). The negative financing balance arises from foreign exchange losses and finance expenses for other financial liabilities of EUR 75 thousand (costs of provisions for termination and jubilee benefits). The balance of foreign exchange gains and losses totalled EUR 0.4 million, which is a substantial improvement as compared to the year before. Foreign exchange losses result from extremely volatile movements of the euro-dollar currency pair in 2018, which, due to simultaneous unplanned purchases of titanium-bearing ores, led to restricted utilisation of collateral instruments.

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net profit in millions of EUR	2.6	2.5	5.6	6.1	0.8	1.0	8.9	25.5	18.3	7.2	13.9	6.8	9.8	28.8	30.6

Net profit for the period reached EUR 30,558,183, 6% more than the one realised in 2017 and 6% less than the one planned (we planned EUR 32.6 million net profit for 2018). Taking into account developments in the international economy, the titanium dioxide pigment market and, above all, the results of competitors from the titanium dioxide pigment industry, we assess the result as more than excellent. Net profit comprises profit before tax, corporate income tax of EUR 5.4 million (effective tax rate of 14.92%) and deferred tax of EUR 90 thousand. The amount of deferred taxes or the downward change in the balance of deferred taxes relates primarily to the payment of a larger scope of termination benefits and final write-offs of previously impaired operating receivables, while the upward change mostly relates to the recalculation of provisions for employees under SAS 10 and other provisions as well as new revaluation of receivables. The tax relief comprises relief for investments into research and development, hiring of disabled persons, voluntary supplementary pension insurance, investments into equipment and donations.

SHARES – Price and Turnover

Shares of Cinkarna Celje, d. d. are listed on the entry market of the Ljubljana Stock Exchange under the designation CICG. The average price on the first day of trading, 6 March 1998, was EUR 33.71 per share.

The total number of shareholders as at the last day of 2018 was 2,078, whilst the total number of shares issued was 814,626, whereby 807,977 shares carry voting rights and 6,649 are the Company's treasury shares. The number of shareholders decreased by 60% from the start of trading on the free market to the last day of 2018. As compared to the end of 2017, the number of shareholders increased by 11%, which points to higher dispersion of ownership.

The price of a share of Cinkarna Celje, d. d. in 2018 was fluctuating between EUR 173 per share and EUR 274 per share. For the majority of trading days, changes were in line with the changes on the Slovenian market (SBI TOP). In the beginning of June, we witnessed a higher increase in the price of a share of Cinkarna Celje, d. d. (news on takeover bid announcement). The share was then slowly losing value till the end of the year, but still remained at a high level. We assess that the growth in the CICG share price is related to the situation and forecasts for the titanium dioxide pigment industry. The share price dropped from EUR 217 to EUR 181, a decrease of 17%, between the last trading day in 2017 and the last trading day in 2018.

The Company's market capitalisation equalled EUR 148 million as at the last trading day of 2018. The Company's market capitalisation as at the last trading day of 2017 was EUR 177 million. The table below shows changes in the price of the CICG share over the last year (average price at the end of the month) and previous years.

Year	1998	2015	2016	2017	**2018**											
Month	3	12	12	12	1	2	3	4	5	6	7	8	9	10	11	12
CICG price in EUR	33.6	76.0	162.0	217.0	216.0	200.0	201.0	225.0	235.0	249.0	265.0	259.0	243.0	223.0	217.0	181.0

The average cumulative monthly turnover in the shares of Cinkarna Celje, d. d. in 2018 was EUR 4.71 million and twice the average monthly turnover in 2017, when it was EUR 2.25 million. The average daily turnover of CICG shares in 2018 was EUR 235.3 thousand (EUR 112.1 thousand in 2017). The total annual turnover was EUR 56.5 million (EUR 27 million in 2017).

The table shows extreme values of the share price and the cumulative monthly turnover over the last three years.

	2016		2017		2018	
	Max	Min	Max	Min	Max	Min
Share price in EUR per share	162.0	70.5	217.0	161.1	274.0	173.0
Cumulative monthly turnover in EUR thousand	5,335.6	166.9	4,273.2	1,064.2	10,586.0	1,564.2

DIVIDENDS

On 5 June 2018, the Company's General Meeting voted in favour of the proposal of the Management Board and the Supervisory Board on the use of distributable profit for 2017, which was at the level of EUR 21.55 million. In accordance with the adopted proposal and resolution, the major part of distributable profit of EUR 21.55 million was paid out in the form of dividends. The dividend per share was worth EUR 26.52 gross, which is 193% more than in 2017, accounting for 75% of net profit generated in 2017. The remaining amount of EUR 3,118 was allocated to retained earnings.

On 5 June 2018, the General Meeting of Shareholders authorised the Management Board to redeem treasury shares. On the last day of 2017, the number of these shares was 2,149, accounting for 0.26% of all shares issued. By the end of 2018, 4,500 shares were obtained from the free market, totalling EUR 1.1 million in value. As at 31 December 2018, the Company had 6,649 treasury shares.

Dividend distributions over the last three years are shown in the table below.

	2016	2017	2018	Change in 2018 (%)	Change in 2017 (%)
Gross dividend in EUR per share	4.20	9.05	26.52	+193	+116
Net dividend in EUR per share	3.15	6.79	19.89	+193	+116
P/E 31 Dec	13.5	6.15	4.83	-22	-54

The Company paid out 75% of net profit for 2017 in the form of dividends in 2018. The dividend yield of the share as at the distribution date was a high 12.63%. The payment represented 65% of total free cash flow from operations in 2017. With above-average dividend pay-out as compared to the industry, the Company was in 2018 operating smoothly and confidently in terms of ensuring cash for continuous financing of operations and investments. The balance of cash decreased by 25%.

EXPENSES AND COSTS

The analysis of expenses and costs provided below relates mostly to the cost of material, raw materials and energy and labour costs. The biggest impact on the Company's operating performance was exerted by the changes in the cost of material, raw material and energy as the Company pursues capital-intensive activities. Labour cost is defined primarily through a constructive dialogue with social partners and by operating performance. The cost of interest did not represent an important efficiency and performance factor in 2018 as the Company has had no debts as of 2014. The most important factor for the scope and dynamics of costs are the conditions in the global and European economies. The economic climate indicator has been weakening gradually as of the beginning of 2018. Economic growth rates of the major trading partners are mostly still positive, but lower. The situation in the Slovenian economy is currently encouraging, though the economic climate was deteriorating during the year. Domestic economic growth was affected by major capital expenditure, high domestic consumption and exports. The prices of the key goods on the commodity markets (non-ferrous metals, steel, energy, basic chemicals, etc.) did not remain stable. The process of growing prices was also obvious on the European markets of investments goods. The mentioned favourable trends for the Company were gradually reflected in steady growth in energy prices and purchase prices of titanium-bearing raw materials, resulting in higher purchase prices in 2018 as compared to 2017. The growing pressures from 2016 and 2017 were thus also realised in 2018 through actual and continuous increases in purchase prices. Political and security risks related to the situation in Venezuela and the Near and Middle East and the protectionist measures of the US administration did not have a direct material impact so far. The combination of the mentioned macroeconomic trends and contraction in the titanium dioxide pigment industry coupled with falling selling prices led to a deteriorated relationship between purchase and selling prices. The pressure on labour costs increased due to the improved economic situation in Slovenia and the reasonable increase in expectations of employees, but the Company managed to stay within business performance plans with the pay policy. The level of labour cost exceeding the plans relates to improvement in operations and the corresponding increase in the number of employees and their receipts.

The shares of consumption of raw materials, packaging and energy slightly changed from 2017. The reason lies in different dynamics of changing of individual categories of direct production costs. In absolute terms, the decrease in raw material cost of 3% is the most significant one. Energy costs dropped by 4%, whilst the 17% decrease in packaging costs is mostly related to the on-going changing of the sales structure of products in line with the demands of buyers regarding packaging. Total direct cost of material, energy and packaging dropped by 3% in the period as compared to 2017 and at the same time the scope of production also dropped by 15%. The relationship between direct production costs and the scope of production deteriorated as compared to the previous period. Lower prices of copper and zinc had a positive impact on the efficiency of direct consumption. On the other hand, the negative impacts are fuelled by price increases in titanium-bearing raw materials; the average purchase prices of ilmenite grew by 33.4% and of titanium slag by 16%. In 2018, the average prices of natural gas increased by 8% as compared to 2017, whilst the average prices of electricity increased by 2%.

In 2017, the process of increasing purchase prices of major raw materials started, which continued in 2018. The most important reason for this is certainly the peak stage of the business cycle on the titanium dioxide pigment market. The process of transferring part of generated surplus upwards along the value chain is evident. Changes in the extractive industry traditionally take place with a certain delay, but they are inevitable due to the extreme negotiating power of producers (miners and smelters). The trend of growing purchase prices continued till the end of 2018. Lower demand for titanium dioxide pigment will stop the growth in purchase prices of titanium-bearing raw materials with a delay. We did detect higher prices of sulphur, but the 2008 scenario is not very likely.

The biggest share of production costs in 2018 was again arising from raw materials for production (87.7%), which was followed by energy (10.5%) and packaging (1.8%).

When reviewing these costs, it is necessary to mention also the specific purpose of individual cost categories of direct production costs. The amounts for raw materials, materials and packaging at the end of 2018 also comprise EUR 2,305,002 worth of costs relating to capitalised own products and services, while these costs in 2017 (because of the lower scope of capitalised own products and services at the time) were EUR 1,366,451. This means that direct production costs decreased even more than shown by the basic figures on a net basis, i.e. by the difference between the above amounts.

In 2018, we imported EUR 71.3 million (14% more than in 2017) of raw materials, materials and spare parts. The bulk of imports was titanium-bearing slag, ilmenite, pure zinc, sulphur and aluminium. The ratio of coverage of imports with exports was 1.99 in the period.

In line with the increased efficiency and return in the titanium dioxide industry and in Cinkarna Celje, d. d., we relaxed the pay policy in 2018 and, within a realistic framework, followed the dynamics of business results, which significantly exceeded the results from the year before as well as the plans. The foundations of the pay policy were agreements and guidelines of social partners at the level of the state and within the Company.

The average monthly gross salary decreased by 3.3% YOY and came in at EUR 2,203.36 in 2018, while it was EUR 2,277.82 in 2017. In August, we paid out the 13th salary to employees. In February 2018, we paid employees a holiday allowance of EUR 1,229.87 gross per employee. In 2018, the Company also paid supplementary pension insurance contributions for employees into the Modri krovni pokojninski sklad (MKPS) managed by Modra zavarovalnica, whereby the annual contribution was EUR 546.60 per employee.

The generated labour cost at the Company level was 1% lower as compared to 2017. Labour costs per employee fell by 1% in 2018 from 2017. The bulk of labour cost is the cost of gross salaries, accounting for 87.1%. As compared to the year before, total gross salaries increased by 3%.

Labour productivity decreased by 16% as compared to 2017 due to adjustments to the lower demand. Value added per employee remained at the level from the year before and came in at a very high EUR 90.2 thousand in 2018.

Amortisation and depreciation expense dropped by 1% on 2017, resulting from the scope of investments, which was lagging behind the amounts of accounted annual amortisation and depreciation over the previous ten years. The situation was completely different in 2018 as we significantly exceeded the amount of accounted amortisation and depreciation for the year with EUR 22.6 million invested. Investment scope increased by 70% in 2018 as compared to 2017.

In 2018, the Company had no interest cost as it had no financial debts (in 2014, the Company recorded interest cost arising from bank loans for the last time). The cost of interest thus has no impact on the business performance and at the same time the Company is no longer exposed to risks related to potential changes in interest rates. The balance of foreign exchange gains and losses totalled EUR 0.4 million, which is a substantial improvement as compared to the year before. Foreign exchange losses result from extremely volatile movements of the euro-dollar currency pair in 2018, which, due to simultaneous unplanned purchases of titanium-bearing ores, led to restricted utilisation of collateral instruments.

Despite the lower scope of operations related to poorer demand for the pigment and deteriorated relationship between purchase and selling prices, we operated well in 2018. We generated net profit of EUR 30.6 million. Corporate income tax for 2018 amounted to EUR 5.4 million. The decrease in deferred taxes stood at EUR 89.9 thousand.

Operating profit or loss & expenses	**2017**		**2018**	
	Value in EUR	Share in %	Value in EUR	Share in %
Operating profit or loss	35,721,219	19	36,408,486	20
Cost of material and services	104,576,124	55	102,004,714	56
Labour cost	30,324,810	16	30,082,256	16
Write-downs in value	13,109,958	7	12,390,336	7
Other expenses	6,846,137	3	1,273,775	1
Total operating revenues	**190,578,248**	**100**	**182,159,567**	**100**

ASSETS AND LIABILITIES

The sources of financing for the achieved scope of operations in 2018 were mostly our own assets accumulated over the course of current operations and to a minor extent debts. The financing of the increase in and upgrading of production/business equipment and buildings as well as investments underway was exclusively from our own assets accumulated over the course of current operations. Over the last year, we used no bank sources and focused on management of net current, short-term assets, thus ensuring the Company’s reliable, safe and stable financial position and adequate liquidity at all times.

Assets	2017		2018	
	Value in EUR	Share in %	Value in EUR	Share in %
Non-current assets	99,132,889	**45.1**	107,594,140	**50.3**
Current assets	120,239,680	**54.7**	106,067,370	**49.6**
- Inventories	41,314,607	18.8	46,067,012	21.5
- Financial assets (investments)	0	0.0	247,681	0.1
- Receivables	34,473,658	15.7	26,269,282	12.3
- Cash	44,451,415	20.2	33,483,395	15.6
Short-term deferred costs and accrued revenues	358,503	**0.2**	292,502	**0.1**
Value of assets	**219,731,072**	**100.0**	**213,954,012**	**100.0**

The share of non-current assets in total assets increased by 5.2 percentage points from the end of 2017 to 50.3%. The lion's share of non-current assets is accounted for by property, plant and equipment (95.4%). Their value increased by EUR 8.8 million or 9%, i.e. by the difference between the amount invested in property, plant and equipment and the accounted depreciation in 2018. Long-term investments did not change in 2018 and include shares and interests in companies. Deferred tax assets decreased by 3% or EUR 90 thousand, mostly due to elimination of provisions and reversal of allowances for receivables that were settled in 2018.

The share of current assets in total assets fell by 5.1 percentage points as compared to the balance as at the end of the previous year and came in at 49.6%. In terms of value, the most important item of these assets is inventory (43%), followed by cash (32%) and receivables (25%).

Inventories increased by 12% as compared to 2017, with inventories of material (including advances) decreasing by 21% and inventories of work-in-progress increasing by 44%, whilst the total value of inventories of finished products increased materially, namely by as much as 167%, as compared to the end of 2017. The key factor for increased inventories of finished products is lower quantity of pigment sold.

Short-term financial assets (investments) as at the balance sheet date of 31 December 2018 amounted to EUR 247,681 and relate to short-term loan given to an unrelated entity in the amount of EUR 200 thousand and to fair value of derivatives in the amount of EUR 47,681.

Short-term operating receivables include short-term trade receivables and short-term operating receivables due from others (mostly from the state for input VAT). They decreased by 24% from the end of 2017. Receivables due from others rose by 1% due to the increased input VAT. Trade receivables dropped by 25%, mostly due to the smaller scope of titanium dioxide pigment sales. The overview of trade receivables by maturity reveals that the age structure of receivables remains very solid.

Cash (and cash equivalents) account for 32% of total current assets; their balance decreased by 25% as compared to the year before. The relatively high balance of cash mostly arises from excellent operations throughout the year.

Short-term deferred costs and accrued revenue represent costs paid in advance. Their balance dropped by 18% (mostly in relation to decreased scope of material in transit).

Equity and liabilities	2017		2018	
	Value in EUR	Share in %	Value in EUR	Share in %
Equity	166,520,502	76	173,925,466	81
Provisions	28,428,742	13	27,763,293	13
Short-term operating and financial liabilities	23,827,392	11	11,407,422	6
Short-term accrued costs and deferred revenues	954,436	0	857,831	0
Liabilities and equity total	**219,731,072**	**100**	**213,954,012**	**100**

The value of equity in the structure as at 31 December 2018 accounts for 81.3%, which is 5.5 percentage points more than at the end of 2017. The amount of equity increased by 4% as compared to the end of 2017. The increase (EUR 7.4 million) relates to the difference between net profit for 2018 and pay-out of dividends for 2017 in the amount of EUR 21.6 million less fair value reserve (actuarial loss) in the amount of EUR 0.4 million. Based on the resolution of the General Meeting of Shareholders dated 5 June 2018, the Company redeemed 4,500 treasury shares in 2018 totalling EUR 1.1 million in value, setting aside reserve for treasury shares against other revenue reserves at the same time. There were no other material changes in equity. The amount of share capital within total equity remained unchanged at EUR 20,396,244.37 and comprises 814,626 ordinary freely transferable no-par value shares (of which 6,649 treasury shares). The carrying amount of a share as at 31 December 2018 was EUR 213.5 (it increased by 4.5% from the beginning of the year).

Provisions and long-term accrued costs and deferred revenues comprised 13% of liabilities. Provisions for pensions and similar liabilities were established as at 1 January 2006 (termination and jubilee benefits under SAS 10) and are adjusted annually based on actuarial calculations. Other provisions were established in the ownership transformation procedure for environmental provisions. Over the last years, we established the following additional environmental provisions: EUR 5 million in 2010 for rehabilitation of the Bukovžlak solid waste landfill and EUR 7 and 5 million in 2011 for rehabilitation of the Za Travnik landfill and destruction of low-level radioactive waste. At the end of the year, we reformed provisions and only set aside new provisions for elimination of risks arising from old burdens in the amount of EUR 6.4 million. The scope of environmental provisions decreased in the period by 5% or EUR 1.2 million to cover the costs of the mentioned rehabilitation projects. Long-term accrued costs and deferred revenues rose by 5% as a result of an increase in accounted unpaid liabilities to ZPIZ (Pension and Disability Insurance Institute of Slovenia).

Financial and operating liabilities more than halved as compared to the end of 2017 due to decreased short-term operating liabilities (decrease in trade payables of 40% and in other short-term liabilities arising from accounted income tax). All financial and operating liabilities are short-term. The Company's gross debt rate was 5.3% and was 5.5 percentage points lower as compared to the balance as at 31 December 2017, when it was 10.8%.

Short-term financial liabilities as at 31 December 2018 amounted to EUR 70.7 thousand, which is 9% less than in the end of 2017 (with EUR 77.6 thousand); the difference arises from decreased assignment of our liabilities and receivables of our suppliers. The Company's financial debt rate is thus 0.33‰, half of the rate from the previous period.

Short-term operating liabilities decreased by 52% in the period. Short-term trade payables as at the last day of December 2018 stood at EUR 8.7 million and were down 40% as compared to the end of 2017, mostly due to decreased scope of supplies in December 2018. Other short-term operating liabilities decreased by 71% or EUR 6.5 million due to excess prepayments for corporate income tax and include mostly EUR 1.2 million of liabilities for net salaries and wages, EUR 1 million of liabilities for salary-related contributions and taxes and EUR 0.3 million of VAT liabilities.

Short-term accrued costs and deferred revenues decreased by 10% in the period. They mostly comprise accounted liabilities for annual leave, accrued environmental contributions and taxes and VAT on advances given.

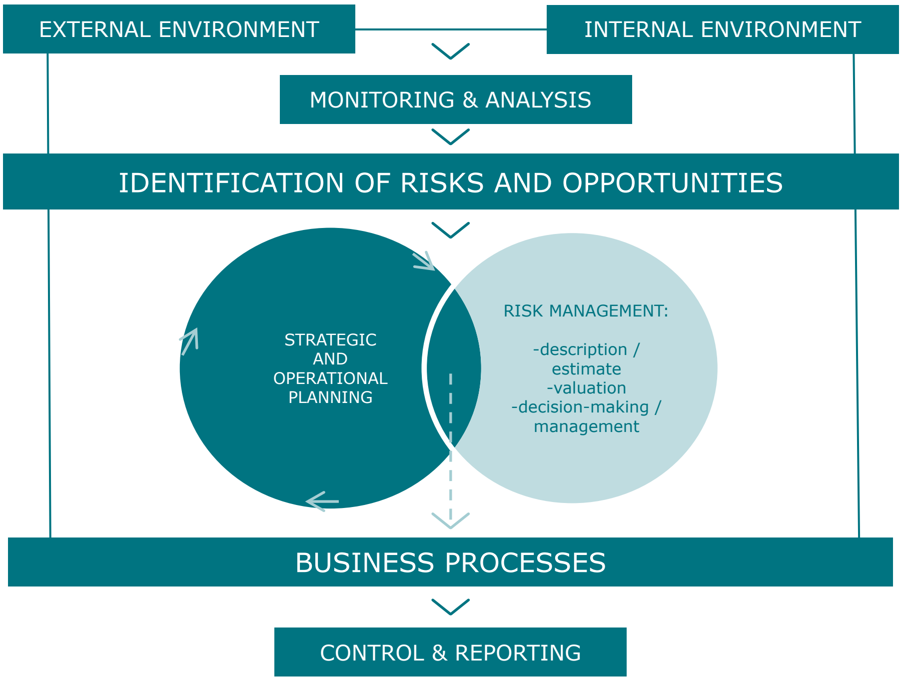
The Company's Operating Risks and their Management

Cinkarna Celje, d. d. is a regional company operating globally. Therefore, it is exposed to risks of economic, environmental and social nature. The risks are perceived individually or collectively as a series of events that could significantly impact the achievement of tactical and strategic goals of the Company and/or its capacity for long-term operations. These events include both positive and negative impacts, those with negative potential impact being risks and those with positive potential impact being opportunities. The risk management system/process (SRM) is designed in the same way and operates in the same, complimentary way for both managing risks and exploiting opportunities.

The Company's risk management system is comprehensively integrated into all business processes. Its design, process structure and organisation (in terms of competencies and responsibilities) is a combination of corporate knowledge, experience with specific external and internal environment and recommendations, norms, frameworks of international standards for risk management (ISO3100, COSO, RME/ferma, etc.) and established good practices in the industry.

Integration of SRM into Business Processes and their Substance

The risk management system itself combines sub-processes of risk identification, risk assessment/evaluation, risk management, control and reporting. SRM input is data obtained based on monitoring and analysing the external and internal environment, whilst the risk management process results co-define business processes in interaction with operational, tactical and strategic planning. The risk management process is presented below.



The sub-process of assessing and evaluating risks is of utmost importance. For this purpose, we use a uniform manner for describing and defining risks and a combined quantitative and qualitative method for their evaluation. Risks are evaluated in terms of the scope of their impact and the probability of their occurrence. The scope of impact on the Company's results or damage is structured in the following way:

- Low: < EUR 2 million
- Moderate: > EUR 2 million < EUR 5 million
- High: > EUR 5 million

The probability of occurrence is defined in a combined, descriptive manner and is based on arbitrary experiential method:

- Low probability: the probability for occurrence of event in the next five years is low.
- Moderate probability: the probability for occurrence of event in the next year is low and the probability for occurrence of event in the next five years is high.
- High probability: the probability for occurrence of event in the next year is high.

This risk structuring manner enables a relatively clear definition of significance, ranging and prioritising.

Active operational management of risks and their control includes various tools and their combinations primarily aimed at avoiding risks, eliminating sources of risks, risk taking and integration of risks in the business model, transfer of risks to external partners, reducing probabilities, limiting consequences, etc.

Cinkarna Celje, d. d. is a long-standing company with traditionally prudent approach and business culture, which does not favour taking risks and risky operations. Consequently, the range of measures is primarily focused on rejecting and eliminating risks and less on calculating risk and return trade-off.

SRM Organisation and Responsibilities

The risk management system and its efficiency is a direct collective responsibility of the Company's Management Board. The Management Board defines the process, supervises it and adopts key decisions (strategic development, investments, divestments, business area portfolio, etc.). Administration of the system is divided into key areas (sales, production, finance, environment, HR), for which individual members of the Management Board are responsible.

The Management Board is directly supported by directors and managers of business units and support departments, i.e. Management Board College, which meets at least once quarterly. In terms of integration into business processes, the support of organisational units of Finance, Accounting, Internal Audit, IT and Planning & Analytics is of key importance. Coordinated actions of all risk management stakeholders and clearly defined responsibilities are prerequisite and enable successful integration of risk management into tactical and strategic plans and operational business processes of the Company.

Specific risks and opportunities related to individual product and sales lines or specific areas, such as HR, security, IT safety, safety at work, etc., are managed by heads at the level of organisational units or processes, taking into account organisational acts and work instructions and they report systematically on these to the Management Board College, which is responsible to adequately register individual risks and initiate adequate control measures.

It oversees the operations of the system and reports on it to the Internal Audit Department. In compliance with ZGD-1, the Supervisory Board monitors and familiarises itself with the operations and findings of the system for risk management and internal controls. External audit verifies whether the system for risk management and internal controls is in place and operational in compliance with the Accounting Act (ZR).

The Company reports to the external public about its operating risks and their management formally through its annual and semi-annual reports (published on the SEOnet portal and the Company's website), which means every six months.

Key SRM Cornerstones and Tools

- The most important integration and implementation tool of the risk management system is the 'Integrated Management System' (ISO 9001, ISO 14001, BS OHSAS

18001, EMAS), which combines in a formal and standardised manner data monitoring and collection, its analysis, processing and evaluation, operational planning, implementation monitoring & supervision and measures (PDCA) together with final reporting to the Management Board and its College.

- A specific SRM tool is the expanded risk register, which is regularly updated in compliance with changes in the environment, risk management measures and strategic decisions. The structure of the risk register is aligned with the structure and hierarchy of business processes and organisational units. The risk register is directly integrated into the Integrated Management System process and represents its database. The processes of recording, monitoring and reporting are comprehensively computerised. The Company's operating risks are dynamically grouped into the following major groups:

  I. Sales and purchasing risks;
  II. Production risks;
  III. Financial risks;
  IV. Spatial, environmental and legislative risks;
  V. HR and organisational risks; and
  VI. Support process risks.

- Regular systemic reporting to internal users, which integrates data from the extremely large database ORACLE (using internally developed programmes and tools) and external databases (either free or subject to payment). The Accounting or Planning & Analytics Department is responsible for reporting. Specific information is prepared by specialised organisational units using the same tools. Reporting is made on a monthly basis.

- An important part of the risk management system is also the process of strategic planning that integrates all strategic risks and opportunities and defines the fundamental, key guidelines for the Company's future development. Standard tools, such as SGA, SWOT, PA, etc., are actively used within the strategic planning process. The Company prepares strategic plans for a period of five years. Strategic planning is the responsibility of the Management Board.

The system for managing risks and opportunities is constantly dynamically changing and being adjusted to the needs and challenges of the environment, at the same time integrating new knowledge and positive international practices and experience.

The overview of key risks in the continuation has been made and updated in accordance with the circumstances and expectations prevailing at the time of the compilation of this Report.

I. Sales Risks

Product sales risk	Probability of occurrence	Amount of damage
	Moderate	**Moderate**
Definition	The risk is associated with the possibility and ability of successfully selling products on target markets. It relates to the increasing negotiation power of buyers, economic (in)stability of markets, growing power of competitors (on account of capital concentrations) and the suitability of the elements of our own marketing mix (price, product, market, promotion). The risk for selling the flagship product, titanium dioxide pigment, increased drastically after Q1 2018. The change can be attributed to three major factors, i.e. significant drop in basic demand due to the decreasing economic activity of the leading economies, expansion of production capacities in China and Mexico and the protectionist measures of the US federal administration. Above all, the issue of growing production capacities in China is becoming a long-term trend, which will affect significantly the industry structure also in the long term. Consequently, the Company's entire production potential could not be directed to the target markets for the pigment in a profitable manner in 2018. We expect the conditions for quantitative sales to improve in 2019, but due to lower average selling prices.	

Management	The risk is mitigated by expansion of the sales network, diversification of the production and sales portfolio, introduction of new and shortening of existing sales channels, development of marketing partnerships, and development of new products that allow entry to new markets and industries. In the last years, we have been actively reducing the product sales risk by optimisation of the sales portfolio with exclusion of products with a high market risk. By way of target-oriented technological investments, we are focusing our sales portfolio on applications and markets of a more demanding nature with a higher quality that represent a shift from the commodity markets, for which lower value added and high exposure to Chinese pigment with favourable prices are characteristic. We also manage sales risks through systematic monitoring and comparative analyses of relevant industries (competitors and buyers), participation in marketing and professional industry events and the introduction of standards for managing quality, safety, the environment and health. The risk is managed through strategic development and maintenance of the so-called compensation markets (USA, Near/Middle East) where we can direct surpluses of unsold quantities, taking into account their return from time to time.	
Purchasing risks related to raw materials and energy	Probability of occurrence	Amount of damage
	Moderate	**Moderate**
Definition	The Company is highly dependent on purchasing of quality and appropriately priced raw materials and energy. These are mostly standardised raw materials of a global character (which are often traded on organised markets), primarily titanium-bearing raw materials, copper, zinc and sulphur. The negotiating power of suppliers is high (and is rising). In the long-term, the risk is considerable in terms of prices and also availability. Due to the growing sales markets for titanium dioxide pigment in 2017 and in the beginning of 2018, market pressures increased significantly and also materialised in substantial price increases of titanium-bearing raw materials in the second half of 2018. The risk related to purchasing of titanium slag increased somewhat between 2016 and 2018 as one of the long-time suppliers stopped its production (one of the two global producers), but we successfully established cooperation with another high-quality supplier, thus ensuring sufficient quantities in the long-term. Taking into account the current market conditions, we expect the prices of key input raw materials to stabilise in 2019 at present levels. The risk in the area of energy products (gas and electricity) is important mostly in the long-term due to the expected trend of growing prices and objective long-term limitations of resources. In 2018, the prices of energy products related to crude oil increased, but we believe the conditions already began stabilising. We asses energy supply in the following medium-term to be good, the market to be relatively balanced and price levels not to change significantly. Consequently, the risk is relatively manageable.	
Management	We manage the risk by searching for and evaluating alternative raw material sources (catalogues of verified alternative raw materials and suppliers). We build long-term and stable partnerships in a targeted manner. We monitor and analyse the situation on international markets ourselves and with the help of market specialists. We are in regular contact also with suppliers with whom we do not cooperate, but that could be a quality alternative. In this way, we managed to establish cooperation with three additional suppliers of titanium slag (or equivalent raw material) in 2017 and 2018, resulting in somewhat decreased risk of dependence on one supplier. We develop infrastructure, information systems, technologies and products so as to limit the use of critical raw materials, reduce dependence on individual suppliers and limit the volatility of purchasing prices. Where possible, we conclude long-term fixed-price purchasing agreements, use various hedging systems, balance the structure of consumption of individual energy products, implement energy management and continuous measures/projects aimed at optimising energy consumption. We include targets for specific consumption of raw materials and energy products into the Integrated Management System.	

Risk of macroeconomic conditions in target economic environments	Probability of occurrence	Amount of damage
	Moderate	**Moderate**
Definition	Considering that the Company is not limited geographically, it is exposed to the risk of changes in regional and global macroeconomic conditions, political/security conditions and even damaging climate events. The international economy climbed out of recession in 2013 and in the period from 2014 to 2017 gradual economic recovery was underway. Unfortunately, in 2018 the positive trend started deteriorating. Forecasts, projections, confidence indicators and the first interim indicators for 2018/2019 are relatively pessimistic, but we assess that the titanium dioxide industry already faced and went through the majority of negative consequence in the second half of 2018. The general macroeconomic risk is currently definitely present, but we believe to be prepared well enough for possible additional deterioration of conditions. Extreme prudence and attention are still in place due to the political escalation of relationships between Russia and the West, political and security failure in the Middle/Near East and unpredictable international economic policy of the current US administration. The long-term situation in Turkey, which is one of the biggest markets for titanium dioxide pigment, is particularly important for Cinkarna Celje, d. d. The economic situation deteriorated significantly on this market in 2018. In 2019, we will have to put special attention also on processes and consequences of the planned Brexit. So far, we have not detected and do not expect any significant impact on our operations in this respect.	
Management	We manage the risk by focusing on relatively safe and stable markets within EU+ (more than 80% of sales), while sales outside the borders of EU+ are distributed over a broad portfolio of markets such as: the USA, Near/Middle and Far East. We develop a balanced sales structure from the point of view of risks & returns. An important element of the strategy for the management of this risk is flexibility in directing sales to different geographic markets. We consequently maintain an optimum scope of the so-called compensation markets. In doing so, we regularly monitor macroeconomic forecasts and projections and adjust our business policy accordingly. We are carefully monitoring developments in Turkey, promptly assessing and adjusting our business decisions together with our local partners. We mitigate manageable risks strategically (e.g. financial risks) in order to enhance the compensation ability in objective risks of the global economic environment.	

II. Production Risks

Risks of availability of the means of work	Probability of occurrence	Amount of damage
	Moderate	**High**
Definition	Cinkarna Celje, d. d. is a capital-intensive company involved in the processing industry with a high share of continuous processes. From the point of view of loading and wear of the means of work, the conditions are mostly unfavourable (chemically aggressive substances, high temperatures, pressure, etc.).	
Management	The risk is mitigated through professionally elaborated and excellently organised preventative and curative maintenance system. Special attention is placed on preventative maintenance, which implies excellent technical diagnostics. We ensure operational safety through integrated spare devices at critical points.	

Risk of accident, fire, uncontrolled substance release into the environment and accidents at work	Probability of occurrence	Amount of damage
	Moderate	**High**
Definition	The chemical processing and metallurgical industry implies the risk of the occurrence of such accidents.	
Management	The risk is managed through systematic evaluation of environmental and employee impacts, periodical assessments of fire threats and job systematisation in line with risk assessment. In the area of environmental impact mitigation, we have systematically introduced European environmental standards through the implementation of the principles of the 'Responsible Action Programme' and alignment of our activities with the requirements of the IED directive. We implement our processes by observing the 'best available technique' (BAT) principle. As regards fire safety, we have our own firefighting unit organised, and the Company also holds adequate fire insurance. As concerns accidents at work, we have a service established that controls compliance with rules and measures for safety at work. We provide regular education and training for employees. The Company holds liability insurance. We conclude written agreements with external contractors and provide them with training. We have engaged a permanent coordinator for safe and healthy work. We have introduced work instructions for the performance of maintenance interventions in terms of fire prevention, accident prevention and improvement of cleanliness in the workplace. We have had the ISO 14001 environmental management system and the BS OHSAS 18001 safety and health management system in place since 2009, both of which are certified and supervised by an authorised institution. A part of the Company certifies compliance with environmental regulations also by registering in the EMAS register kept by the Ministry of the Environment and Spatial Planning. We have performed an assessment of hazards and prepared the protection and rescue plan. We identify and eliminate process risks for the environment, safety and health through annual framework and implementation goals. In 2018, we carried out a tactical protection and rescue drill for cases of chemical accidents and fire. The drill was performed in cooperation with the civil protection service within the framework of the national drill Earthquake 2018 in Celje.	

III. Financial Risks

Currency risk	Probability of occurrence	Amount of damage
	Low	**Low**
Definition	Cinkarna Celje, d. d. performs its purchasing and sales on the global market, which is why it is also exposed to the risk of unfavourable inter-currency ratios. The most important is the euro/US dollar exchange rate. Because the majority of sales are transacted in euros, exposure is worrying especially in dollar-denominated purchasing of titanium-bearing ores and copper compounds.	
Management	We are continuously monitoring changes and forecasts in relation to the dynamics of the euro/US dollar currency pair. Based on market data and prices of financial instruments (hedging costs), we are defining the strategy for hedging cash flows on an ongoing basis. The risk of unfavourable changes in exchange rates of the US dollar are basically mitigated in two ways; a part of the exposure is covered by operational hedging, which is the currency matching of sales and purchasing, while we hedge the uncovered difference by financial instruments (dollar futures contracts, currency options), provided that the assessment of exposure and hedging costs so dictates.	

Credit risk	Probability of occurrence	Amount of damage
	Moderate	**Low**
Definition	This is the risk of potential non-fulfilment of contractual obligations on the part of buyers, meaning that buyers are in delay with payments or default on their past-due liabilities. The risk is limited as we mostly do business with long-standing partners who are frequently well-known traditional European industrial companies with a high credit rating. Over the last years we noticed that the payment discipline is relatively poor in Slovenia, the Balkans and Eastern Europe, but we do not expect further deterioration in this regard in the future. Exposure to credit risk decreased significantly by reorganising the portfolio of the Company's strategic business areas, specifically by abolishing the graphic intermediate goods, the titanium-zinc sheet and the anti-corrosion coatings lines. As concerns credit risks, we should point to the consequences of the forecast shrinking economic activity and the related growing possibility of a new recession period in EU economies. We are continuously monitoring these conditions.	
Management	The risk is mitigated by development of long-term partnerships, checking of ratings of new domestic and international buyers, selection of reliable buyers, and regular monitoring and verification of the business health of our buyers. We are using the credit limit system, which limits systematically potential damages. We also have a department with adequate IT infrastructure organised for dynamic monitoring of maturity of outstanding receivables, balance of overdue receivables and their collection. When it comes to mediation, court and out-of-court recovery of receivables, we cooperate with external providers of such services. We make use of payment security instruments (advance payment, bills of exchange, documentary letter of credit, bank guarantee or documentary collections) in individual cases.	

IV. Environmental, Spatial and Legislative Risks

Rehabilitation of the Bukovžlak non-hazardous waste landfill	Probability of occurrence	Amount of damage
	Moderate	**High**
Definition	In the last quarter of 2010, the Management Board adopted the decision not to include the Bukovžlak non-hazardous waste landfill in the application for the environmental permit because of the high financial burdens and limited availability/capacity of the landfill and for the landfill closure procedure to be commenced immediately.	
Management	In 2010, the Company formed environmental provisions in the amount of EUR 5 million that was debited against operating results. We have obtained the environmental permit for the period of closing down the landfill (30 years). We finished the first phase of comprehensive rehabilitation, strengthening of the barrier. Further works on project documentation revealed a need for additional interventions not anticipated at the time of establishing provisions in 2010, thus we established additional provisions of EUR 782,563 at the end of 2017. We made the Assessment of Environmental Impacts and submitted it to ARSO (Slovenian Environment Agency) together with the required project documentation. As the facility is of national importance, the application for issuance of integral permit is being processed by MOP (Ministry of Environment and Spatial Planning).	

Pipeline for pumping neutralising agent at the Za Travnik waste disposal plant	Probability of occurrence	Amount of damage
	Low	**Low**
Definition	The Company only has one functioning pipeline for pumping the neutralising agent at the Za Travnik waste disposal plant. The pipeline has already been partially replaced and a bigger, new one was partially set up, whilst the original is still partially operating. In the event of leaks, production of titanium dioxide must be stopped. We were able to repair the leaks to date in sufficiently short periods of time, which is why the risk is still assessed as low.	
Management	The problematic part of the pipeline has been replaced. We are obtaining the necessary easements for the old part of the original pipeline. In 2016, we set up a new pump for suspension pumping, which reduces the risk of malfunctions arising from hydraulic shocks. At the end of 2018, we started test operations for thickening gypsum suspension, which decreases the pumping volume, thus decreasing the risk of leakage due to overburdening of the pipeline.	
Availability of the Za Travnik waste disposal plant	Probability of occurrence	Amount of damage
	Low	**High**
Definition	The time to dry backfilling of the Za Travnik waste disposal plant is limited. It depends on available volume, pigment production quantity and by-product quantity. The backfilling of the waste disposal plant means that the titanium dioxide production is stopped.	
Management	We are increasing the quantity of extracted CEGIPS. In 2018, we put into use also the 6th centrifuge. The use of red gypsum for the production of impermeable cover for closing the Bukovžlak non-hazardous waste landfill is anticipated. We have revised the project for backfilling red gypsum into the Za Travnik waste disposal plant, the aim of which is to optimise backfilling (more natural settlements). The time to backfilling is being prolonged by way of all these measures.	
Ensuring the stability of barriers	Probability of occurrence	Amount of damage
	Moderate	**Moderate**
Definition	Barriers represent a hazard in case of a collapse, which can occur in the event of a powerful earthquake.	
Management	We carry out the prescribed monitoring that is analysed once a year by experts from the Faculty of Civil and Geodetic Engineering of the University of Ljubljana. We observe all recommendations by concurrent maintenance. Projects of the break wave have been developed. We amended the network for technical monitoring at the Za Travnik barrier and renovated the primary and secondary geodetic monitoring network. We plan additional security and drainage measures on the east side for 2019. Based on data from new monitoring wells, we will order preparation of the water balance for any necessary measures on the west slope of the barrier. Due to the improved situation following rehabilitation works in previous years, we reversed environmental provisions to EUR 450,000 based on expert assessment of still necessary works. We perform regular maintenance of the high barrier for red gypsum Bukovžlak. At the end of 2017, we established EUR 3 million provisions for more comprehensive rehabilitation of this barrier. In 2018, we made new monitoring wells on the east side of the barrier, where rehabilitation measures are anticipated for 2019. A concept project for lowering lake water level that would contribute significantly to safety of the barrier is in preparation. Rehabilitation of the barrier of the Bukovžlak non-hazardous waste landfill is finished. The project for further works at the Bukovžlak non-hazardous waste landfill (ONOB) also includes the implementation of protective measures for the reduction of the threat to local houses and inhabitants in the event of a break wave from the Bukovžlak waste disposal plant.	

Temporary storage of TENORM waste	Probability of occurrence	Amount of damage
	High	**Moderate**
Definition	In the process of titanium dioxide production, smaller amounts of TENORM waste (technologically enhanced naturally occurring radioactive material) are generated. Their source is the ore with radioactivity that is slightly above background radiation. During the production process, there is a build-up of radionuclides on certain parts of equipment, which is why parts of the equipment are classified as TENORM waste after the expiry of their useful life. Cinkarna Celje, d. d. holds a permit from the Slovenian Nuclear Safety Administration (URSJV) for temporary storage of such waste until December 2026.	
Management	We carry out all of the prescribed supervision procedures required by the temporary storage licence. We have measured the activity level of waste in store. In 2011, we established provisions of EUR 5 million for the purpose of removal based on the price list of the Brinje storage facility. In 2017, we contacted the American company US Ecology, with which we confirmed the possibility to export waste for permanent storage in the state of Idaho. In 2018, we carried out re-packaging into interocean containers. We are waiting for transport permit to be issued. By implementing the change in the technological procedure, we prevented further generation of such waste and also obtained the permit from URSJV for the solution.	

Environmental due diligence – phase II	Probability of occurrence	Amount of damage
	Moderate	**Moderate**
Definition	The results of the environmental due diligence – phase II revealed that the current production location in Celje is built on waste of past activities. Deposited waste has impact on groundwater, which can affect human health and the environment.	
Management	We are implementing several simultaneous activities to define the potential impact on human health and the environment and promptly informing the public of the results. In August 2018, we concluded and publicly presented the Human Health and Environmental Risk Assessment arising from consumption of agricultural crops produced under ONOB. It has been established that the polluted hanging underground water under ONOB has no negative impact on crops. In November, we also presented the Ecotoxicological Research of impact of old burdens on the current production location in Celje on the biota in Hudinja and Vzhodna Ložnica water courses. Four locations requiring actions have been identified. Measures have already been anticipated for one location, whilst for the other three further research is required. We will continue with these efforts as planned in 2019.	

Water permit for pumping process water from the Hudinja river	Probability of occurrence	Amount of damage
	Moderate	**High**
Definition	We must obtain environmental permit for pumping process water and comply with the requirements of the water permit. Continuous measurements with constant data on water flow and pumping quantity for ARSO are required. Production can be restricted during months of drought.	
Management	We obtained the environmental permit for permanent measurements of flow and pumped quantities. We must set up permanent measurements by October 2020. We initiated the investment in partial water recycling. We received a request to supplement the application for amending the water permit from the Slovenian Water Agency and agreed on the preparation of necessary amendments with the Institute for Water of the RS.	

Classification of TiO_2 in the 1B class of carcinogens in EU	Probability of occurrence	Amount of damage
	High	**High**
Definition	In May 2016, the French Agency for Food, Environmental and Occupational Health & Safety (ANSES) submitted to the European Chemicals Agency (ECHA) proposal to classify titanium dioxide in the group of carcinogens 1B with hazard statement H350i "May cause cancer by inhalation". The Risk Assessment Committee (RAC), which is active within the ECHA, rejected the proposal for classification as class 1 B and supported classification as class 2. The opinion is currently being examined by professional bodies within the EU Commission, which will also adopt a proposal on potential implementation in the final phase. The proposal must then be confirmed by the EU Parliament. In case of classification, certain changes would occur in the industry that could restrict the production, transport and use and could result in higher costs, lower demand and consequently less quantities sold.	
Management	The European Titanium Dioxide Manufacturers Association (TDMA) organises several activities for collecting evidence, informing the users and communicating with the decision makers. As a member, we are actively involved in these activities. By engaging experts, we also participated in the preparation of opinion foundations of Slovenia as an EU member state.	

V. HR and Organisational Risks

Ensuring continuity of human resources	Probability of occurrence	Amount of damage
	Low	**Moderate**
Definition	The nature of the Company's operations is inherently complex and specific as it operates in several industries that are not interrelated and at the same time supplies products to end users from very different industrial areas. Consequently it is exposed to the risk related to networking and interactions and, above all, transfer of its managerial, engineering and supporting know-how. These risks are thus related both to the HR structure and the system of continuous learning and transfer of acquired knowledge and information through communications paths and structures.	
Management	We are training and preparing responsible successors for the key functions at all levels of the Company's organisational structure through target-oriented programme. We ensure adequate information flow for the key managerial and expert fields in all phases of operations of organisational units through constant communications, informing and harmonised actions of all key employees. Successors are actively participating and are closely familiarised with actions and issues related to ensuring uninterrupted operations of business functions and processes. In cooperation with support services we thus ensure undisturbed takeover of the Company's key functions in case of foreseeable and also extraordinary events (illness or longer period of absence, resignations and retirement).	

Corporate Governance Statement

The Internal Control and Risk Management System in Relation to the Financial Reporting Procedure

The Company has set up a system of operational and supervisory internal controls at all levels and areas of operations in order to manage risks that impact achievements of objectives in terms of:

- business efficiency and effectiveness,
- reliability of financial reporting and
- compliance with legislative and internal regulations.

Control activities and responsible persons are defined by internal acts (job descriptions, authorisations, organisational regulations, rules, and rules of procedure).
The Company provides for:
- Accounting controlling of data that encompasses the assessment of the correctness of accounting information and elimination of irregularities found. Accounting and Finance Departments are in charge of implementation;
- Verification of reliability of accounting data that is performed by listing assets and liabilities (inventory). Inventorying is performed by the permanent inventory commission in accordance with the annual inventory schedule. The head of inventory and member of the inventory commission are organisationally assigned within the Accounting Department. For the purpose of individual types of inventory or extraordinary taking of inventory, the Management Board can appoint special inventory commissions;
- Assessment of deviations of the actual amounts from the planned amounts that can indicate deficiencies in implementation as well as planning of objectives. The activities are performed by the Accounting Department;
- Internal control over implementation of prescribed procedures in the area of purchasing, warehousing and consumption of materials and the area of production, warehousing and sale of products (control of consumption and approval of prescribed documentation, analysis of eventual discrepancies and proposals of measures). Activities are performed within the scope of the Accounting Department and by the Company's management;
- Internal controls in the computer-assisted IT system relating to the management, infrastructure, protection, purchasing, development and maintenance of software are provided by the IT Department. Controls within individual applications or controls for software solutions of users provide for the completeness and accuracy of capturing and processing data;
- The internal control system is complemented by the assessment system according to:
  ISO 9001 – quality management systems,
  ISO 14001 – environmental management systems and the EMAS Regulation for the Chemistry Mozirje BU,
  BS OHSAS 18001 – occupational health and safety systems.
  The internal assessment of the functioning of processes is performed by qualified internal assessors so as to verify whether activities are performed in accordance with management systems and whether the introduced management system is suitable and effective for the achievement of set objectives. External assessments are performed by a certification entity;
- Audit of annual financial statements is performed by an external audit firm;
- Based on the resolution of the Management Board, verification of the functioning of operational and supervisory internal controls is performed once a year. By way of a resolution, the Management Board designates a responsible person, the area of supervision and the schedule for the implementation of supervision;
- In 2016, we set up the Internal Audit Department. Based on the adopted fundamental charter, the rules and plan, the Internal Audit Department has been fully operational since 2017.

Discrepancies established through different forms of internal controls are analysed by responsible persons and the Company's management and on the basis of these analyses they initiate measures for elimination or prevention of the causes for the occurrence of risks that caused or could cause deviations from the set rules and objectives of the Company.

Information on the Work of the Company's General Meeting, Including Competencies, Shareholders' Rights and their Enforcement

The General Meeting is convened by the Management Board at their own initiative, at the request of the Supervisory Board or at the request of the Company's shareholders representing one twentieth of the share capital. The General Meeting is familiarised with the Annual Report and takes valid decisions at sessions with a regular majority of votes cast, whereby they decide especially on:

- use of distributable profit,
- appointment of the members of the Supervisory Board,
- granting discharge to the members of the Management Board and the Supervisory Board,
- appointment of the auditor and other matters.

They decide by a ¾ majority especially on amendments to:

- Articles of Association,
- measures for increasing or decreasing share capital,
- status changes and winding up of the Company and other matters, provided this is s tipulated by the law or the Articles of Association.

Shareholders can attend the General Meeting and exercise their voting rights only under the condition that they announce their attendance at the General Meeting to the Company's Management Board in writing no later than by the end of the fourth day prior to the General Meeting session. An individual shareholder's number of votes at the General Meeting is determined by the votes vested in the shares that the former owns according to the information in the share register on the fourth day prior to the date of the General Meeting session.

Shareholders can exercise their rights arising from shares directly at the General Meeting or through proxies, whereby the letter of proxy must be issued in writing and deposited with the Company.

As a rule, one General Meeting is held per year.

Information on the Composition and Work of Management and Supervisory Bodies with Committees

Management Board
The five-year term of office of the Management Board started on 30 June 2015, except for the Worker Director, for whom it started on 25 October 2015.

President of the Management Board - General Manager
Tomaž BENČINA, BSc (Metallurgy) and BSc (Economics)

Member of the Management Board – Deputy President of the Management Board, Technical Manager
Nikolaja PODGORŠEK - SELIČ, BSc (Chemical Engineering), Specialist

Member of the Management Board – Finance, Accounting & IT
Jurij VENGUST, MSc

Member of the Management Board – Worker Director
Marko CVETKO, BSc (Chemical Engineering), Specialist

President of the Management Board - General Manager
Tomaž BENČINA,
BSc (Metallurgy) and BSc (Economics)

Member of the Management Board – Deputy President of the Management Board, Technical Manager
Nikolaja PODGORŠEK - SELIČ,
BSc (Chemical Engineering), Specialist

Member of the Management Board – Finance, Accounting & IT
Jurij VENGUST, MSc

Member of the Management Board – Worker Director
Marko CVETKO,
BSc (Chemical Engineering), Specialist

The Company has a two-tier governance system and is governed by the Management Board and the Supervisory Board.

The Management Board represents and presents the Company. It is composed of a President and three members, one of whom is the Worker Director (conditions for the appointment and discharge of the Worker Director as well as his/her competencies are stipulated by the Worker Participation in Management Act).

The Management Board adopts all decisions in accordance with the law and the Articles of Association, with the exception of decisions that fall within the express competence of the General Meeting and the Supervisory Board. The Management Board has in particular the following competencies vis-à-vis the General Meeting:
- prepares information on matters involving the Company, expert materials and resolutions within the competence of the General Meeting,
- convenes the General Meeting,
- implements the General Meeting’s resolutions.

The Management Board reports to the Supervisory Board on:
- the Company's profitability,
- planned business policy and transactions that could materially affect profitability or solvency of the Company as well as other matters pursuant to the law and the Supervisory Board’s requests.

Supervisory Board

The General Meeting of Cinkarna Celje, d. d. appointed new members of the Supervisory Board on 2 June 2015 (five-year term of office as of 18 June 2015): Borut Jamnik, Matej Runjak and Dejan Rajbar. It also familiarised itself with the appointment of employee representatives as members of the Supervisory Board, Dušan Mestinšek and Aleš Stevanovič (five-year term of office as of 18 June 2015). Due to the resignation of Matej Runjak on 7 June 2016, the General Meeting appointed on the same day a new member of the Supervisory Board for a five-year term of office, Urška Podpečan. The Supervisory Board was constituted in the new composition (Deputy Chair of the Supervisory Board appointed) at its meeting held on 20 September 2016. The term of office of Matjaž Janša, member, expired on 23 October 2017 and on 6 June 2017 the General Meeting appointed a new member of the Supervisory Board, Aleš Skok, for a five-year term of office as of 23 October 2017.

The Supervisory Board consists of:

Chairman
Borut JAMNIK, BSc (Mathematics)

Deputy Chair
Urška PODPEČAN, LLB

Members
Dejan RAJBAR, BSc (Economics)
Matjaž JANŠA, MSc (up to 22 October 2017)
Aleš SKOK, BSc (Chemical Engineering), MBA, USA (as of 23 October 2017)
Dušan Mestinšek, BSc (Electrical Engineering)
Aleš STEVANOVIČ

Chairman
Borut JAMNIK,
BSc (Mathematics)

Deputy Chair
Urška Podpečan,
LLB

Members
Dejan RAJBAR,
BSc (Economics)

Members
Aleš SKOK,
BSc (Chemical Engineering),
MBA, USA

Members
Dušan MESTINŠEK,
BSc (Electrical Engineering)

Members
Aleš STEVANOVIČ

The Supervisory Board comprises six members, two of whom are employee representatives elected by the Worker's Council that notifies the General Meeting thereof. The Supervisory Board is appointed by the General Meeting, within the exception of those Supervisory Board members who are employee representatives. The competencies of the Supervisory Board are stipulated by the law. More detailed regulation, method and conditions for their work are regulated by the Supervisory Board by way of the Rules of Procedure on the Work of the Supervisory Board. The Management Board must obtain the consent of the Supervisory Board for the adoption of the business policy and plans, establishment and co-establishment of companies, increases and transfers of the founding contributions of the Company in other companies, purchase and transfer of shares and shareholdings of the Company in other companies, awarding of the authorisation for procuration, etc.

The Supervisory Board meetings are convened by the Chairman of the Supervisory Board at their own initiative or the initiative of any member of the Supervisory Board or at the initiative of the Management Board. The Supervisory Board constitutes a quorum for decision-making in meetings if at least half of the members are present during decision-making.

As a rule, the Supervisory Board meets six times a year.

The Supervisory Board of Cinkarna Celje, d. d. has the **Audit Committee** that is composed of three members and is a permanent body within the Supervisory Board. Members of the Audit Committee are Dejan Rajbar (President), Dušan Mestinšek and Gregor Korošec as external independent expert.

Based on its consideration, the Committee drafts proposals for resolutions, position statements and opinions within the competence of the Supervisory Board and relating to the annual and business reports of the Company's Management Board, reports and opinions of external auditors, and also prepares Supervisory Board reports for the General Meeting. It must inform the Supervisory Board promptly of its work and activities and deliver to it reports on meetings.

The Supervisory Board's **HR Committee** consists of Borut Jamnik (President) and two members, Aleš Skok (as of 12 December 2017) and Aleš Stevanovič. The Committee drafts proposals for resolutions, position statements and opinions within the competence of the Supervisory Board, in particular in relation to drafting proposals concerning criteria and candidates for members of the Management Board, members of the Supervisory Board committees, and support for designing and implementing the pay system for the Management Board.

Remuneration of the members of management and supervisory bodies

Remuneration of the members of the management bodies equalled EUR 1,023,661 in 2018 (in 2017: EUR 902,773) and remuneration of the members of supervisory bodies EUR 113,501 (in 2017: EUR 110,427). Remuneration of each member of the management and supervisory bodies is specified in detail in tables below.

Composition and remuneration of the Management Board members in the 2018 financial year

Name and surname	Function (President, member)	Fixed receipts - gross (1)	Variable receipts - gross based on quantitative criteria	Benefits	Other receipts	Total gross
Tomaž Benčina	President	260,748	59,422	16,719	14,881	351,770
Nikolaja Podgoršek Selič	Deputy President	208,597	47,539	11,851	6,272	274,259
Jurij Vengust	Member	195,560	44,439	4,658	7,842	252,499
Marko Cvetko	Member	110,819	25,254	69	8,991	145,133
TOTAL		**775,725**	**176,655**	**33,297**	**37,985**	**1,023,661**

Composition and remuneration of the Management Board members in the 2017 financial year

Name and surname	Function (President, member)	Fixed receipts - gross (1)	Variable receipts - gross based on quantitative criteria	Benefits	Other receipts	Total gross
Tomaž Benčina	President	237,689	42,572	6,615	19,587	306,463
Nikolaja Podgoršek Selič	Deputy President	190,156	34,515	5,844	10,408	240,924
Jurij Vengust	Member	177,757	32,577	5,742	11,296	227,371
Marko Cvetko	Member	101,017	19,546	6	7,407	127,975
TOTAL		**706,619**	**129,210**	**18,206**	**48,698**	**902,733**

Remuneration of members of the Supervisory Board and Committees in the 2018 financial year

Name and surname	Function (Chairman, Deputy Chair, member, external committee member)	Payment for performance of function - gross annually (1)	Session fees for the Supervisory Board and committee meetings - gross annually (2)	Total gross (1+2)	Travel expenses	Total receipts
Borut Jamnik	Chairman of the SB	19,313	3,135	22,448	468	22,915
Urška Podpečan	Deputy Chair of the SB	11,330	2,640	13,970	58	14,029
Dejan Rajbar	Member of the SB and Member of the Audit Committee	14,163	4,400	18,563	877	19,439
Aleš Skok	Member of the SB	12,875	3,135	16,010	471	16,481
Aleš Stevanovič	Member of the SB	12,875	2,585	15,460	64	15,524
Dušan Mestinšek	Member of the SB and Member of the Audit Committee	12,875	4,180	17,055	58	17,113
Gregor Korošec	Member of the Audit Committee		8,000	8,000		8,000
Total		**83,430**	**28,075**	**111,505**	**1,996**	**113,501**

Remuneration of members of the Supervisory Board and Committees in the 2017 financial year

Name and surname	Function (Chairman, Deputy Chair, member, external committee member)	Payment for performance of function - gross annually (1)	Session fees for the Supervisory Board and committee meetings - gross annually (2)	Total gross (1+2)	Travel expenses	Total receipts
Borut Jamnik	Chairman of the SB	19,313	3,350	22,662	409	23,071
Urška Podpečan	Deputy Chair of the SB	11,330	2,365	13,695		13,695
Dejan Rajbar	Member of the SB and Member of the Audit Committee	14,163	3,355	17,518	702	18,219
Matjaž Janša	Member of the SB (up to 22 October 2017)	10,418	1,540	11,958	234	12,191
Aleš Skok	Member of the SB (up to 23 October 2017)	2,104	550	2,654	102	2,756
Aleš Stevanovič	Member of the SB	12,875	2,365	15,240		15,240
Dušan Mestinšek	Member of the SB and Member of the Audit Committee	12,875	3,410	16,285		16,285
Gregor Korošec	Member of the Audit Committee		7,000	7,000		7,000
Špela Bizjak	HR Committee		985	985		985
Sonja Šmuc	HR Committee		985	985		985
Total		**83,077**	**25,904**	**108,981**	**1,447**	**110,427**

Corporate Governance Code for Publicly Listed Companies

The Company follows the Corporate Governance Code for Publicly Listed Companies (www.ljse.si) in its operations and also the related set of internal corporate governance standards included in the general recommendations of the Corporate Governance Code for Publicly Listed Companies. In the continuation, we provide an overview and explanations of deviations from individual provisions of the Code:

Item 2 - Governance of the Company is focused on meeting the objectives of its strategy up to 2023 (Strategic Plan of the Company for the period from 2019 to 2023); the Management Board has not adopted together with the Supervisory Board a special document dealing with the Company's corporate governance policy.
Item 5.5 - To elect members of the Supervisory Board, the candidates are presented through substantiation of candidacy proposals with submitted data and in line with substantive requirements stipulated by the Companies Act (ZGD-1). We do not comply fully with item 5.5 in relation to this matter as it requires public disclosure of potentially sensitive personal data or as the Company does not have these data available or the data are not within its competence.
Item 8.7 - The Supervisory Board's Rules of Procedure do not include the Board's communications with the public with respect to the decisions adopted at its meetings. The Company's Management Board is competent to communicate with the public. The Supervisory Board's resolutions of greater importance are published at the website of the Ljubljana Stock Exchange, Seonet, and on the Company's website.
Item 13.2 - The Supervisory Board did not define the term of office of members of committees (composed of members of the Supervisory Board, except for the external member of the Audit Committee). Membership in committees for members of the Supervisory Board expires upon expiry of membership in the Supervisory Board.
Item 20 - The Company does not have its corporate communication strategy defined within its corporate governance policy. The Company's Management Board and support services are responsible for the Company's communications and transparency of operations. Public announcements (Seonet and the Company's website) comply with legislative requirements and contain all the information necessary for a securities investor to assess the situation and estimate the effect of a business event on the price of the Company's security.
Item 20.3 - The Company has not adopted internal acts or rules that would, besides legislative provisions and rules, stipulate restrictions for trading the Company's shares. Persons with access to inside information sign a special statement on protecting inside information and the Company keeps a list of persons with access to inside information in compliance with the provisions of the Market Abuse Regulation (MAR), the Market in Financial Instruments Act (ZTFI) and requirements of the Securities Market Agency.

Code of Ethical Conduct and Work

The Company has adopted the Code of Ethical Conduct and Work, which is published on its website and defines the fundamental principles and rules of behaviour and actions of the management and all other employees of the Company. These principles and rules define the standard of operation, management and leadership, contributing to the business culture and excellence.

Diversity Policy

The objective of the diversity policy for management and supervisory bodies is to obtain the optimal efficiency of these bodies, thus enhancing developmental and competitive advantages and the Company's reputation.

Cinkarna Celje, d. d. implements the diversity policy in management and supervisory bodies in particular in terms of adequate procedure for search and selection of members, in cooperation with the HR (nomination) Committee. The diversity policy is not specifically formulated in writing. The Company's bodies comply with it and implement it in accordance with valid legislation under the Employment Relationship Act (ZDR-1) as well as principles and provisions of codes defining the substance and providing recommendations for this field.

Each individual expressing an interest and fulfilling the criteria defined by the law, the Company's Articles of Association and the Corporate Governance Code for Publicly Listed Companies can be a member candidate.

The following aspects of the diversity policy are taken into account for composition of the Management Board and the Supervisory Board: sex, age, education and professional experience.

Management of the Company

President of the Management Board – General Manager

Tomaž BENČINA, BSc (Metallurgy) and BSc (Economics)

Member of the Management Board – Deputy President of the Management Board – Technical Manager

Nikolaja PODGORŠEK SELIČ
BSc (Chemical Engineering), Specialist

Member of the Management Board – Finance, Accounting & IT

Jurij VENGUST, MSc

Member of the Management Board – Worker Director

Marko CVETKO
BSc (Chemical Engineering), Specialist

INVESTMENTS

In 2018, investment scope grew by 70% as compared to the year before, exceeding the planned value by 8.9%. Investment value totalled EUR 22.6 million and we also utilised EUR 1,153,216 of environmental provisions. The majority of these funds were allocated to modernisation, stabilisation and improvement of quality of our products, environmental protection projects, health and safety at work and modernisation and legislative compliance of energy facilities and infrastructure.

The biggest share of funds invested was allocated to titanium dioxide production. We completed investments in:

- the 6th centrifuge for extraction of white gypsum,
- additional filter for black solution filtration,
- additional hydrolising unit,
- new sand mills for grinding,
- replacement of two worn-out mills for ore grinding,
- additional tank for liquid sulphur,
- pallet loader in PD 2,
- replacement of elevators for the calcite grinding process,
- replacement of the vessel for pneumatic transport of slag,
- device for flocculant preparation,
- separation wall in the ore warehouse,
- dosing of coagulant for clearing condensation waters, and
- 46" air jet mill for pigment micronisation.

Thickening of gypsum suspension is in the phase of test operations.
The facility for increased safety of waste acid neutralisation (extension of the C line of the first neutralisation stage) was under construction as planned.
In order to ensure safe operations and, at the same time, better purification of flue gases from calcination, we ordered the necessary equipment for the substitute electro filter.
To decrease ore emissions into the external environment, we replaced the filter on ilmenite grinding mill.

We were also implementing some investments, which have not been completed so far:

- installation of the filter for the second phase of washing metatitanic acid,
- dry grinding of calcite before surface treatment,
- replacement of ECO 1, and
- treatment plant for purifying vapour from sulphur melting.

We completed successfully the investment in new production lines for masterbatches and powder coatings.

For Blue Copper production, we finalised the project documentation for the new mixing and packaging line. We have not yet decided on the investment considering the market situation and operating results. We set up a new packaging machine in the growth substrates facility.

As concerns Polymers, we arranged additional space and paint cabin as well as purchased the furnace for powder coating sintering. We made the basic plans and obtained the offer for making the machine for sprinkling fluorinated polymers onto elements of bigger dimensions.

We set up a new TBMA filling station for filling TiO_2 into roadtankers in the marketing warehouse. We have renovated the marketing building.
In terms of infrastructure, we reconstructed the railway track no. 14 in order to ensure safety and constructed a new transformer station for Final Processing.

We partially renovated the premises for operational TiO_2 maintenance.

In 2018, we also allocated quite some funds to substitute equipment for TiO_2 production (renovation of the B calcination furnace walling, comprehensive renovation of the purification system for flue gases, safety pool for collecting acidic effluents and other equipment that proved necessary at the time of overhaul).

Some funds were also invested in purchasing individual fixed assets.

2019 Investment Plans. Investments planned for 2019 total EUR 11,209,417. They include capitalised own products and services of EUR 1,446,700 and exclude anticipated activities arising from reversal of environmental provisions in the amount of EUR 2 million. The planned value of investments with capitalised own products is in accordance with the strategic plan by 48% lower than estimated for 2018 and accounts for 6.7% of planned sales for 2019.

Of the investment total, 66.7% will be allocated to investments, 27.6% to purchasing of replacement equipment and 5.7% to purchasing of fixed assets.

Investments will be made in individual lines based on needs, abilities, capacities and prospects as well as in line with the five-year strategic plan.

Also this year, the biggest share of funds invested will be allocated to titanium dioxide production. These investments mostly relate to the continuation of the 2018 investment plan:

- third line of the 1st neutralisation stage,
- installation of the Fundabac filter for the second phase of gel washing,
- conclusion of the project for dry and wet grinding of calcite before surface treatment,
- modernisation of separation with a purification device,
- setting up a purification device for sulphur melting,
- replacement of economiser 1 in the sulphuric acid production, and
- upgrading of the purification device for flue gases from the calcination process.

All of the investments above were planned to be completed by the end of 2019. However, the 2019 implementation dynamics will be adjusted to the titanium dioxide market situation and forecasts and funds available for investments arising from the strategic plan. This means that the achievement of annual rated capacity of 71,000 tonnes of titanium dioxide is moving towards the end of 2020.

A part of funds invested in titanium dioxide production will also be intended to prevent losses of titanium dioxide with filtrates and implementation of measures for reducing dust in the working environment.

As concerns Polymers, we will continue with the investment initiated in 2018 (increase in volume capacity for sprinkling fluorinated polymers) and purchase a device for welding flanges onto longer pipes.
As concerns the Maintenance & Energy BU, we will partially renovate wardrobes and bathrooms.
We will start investing under the project of Comprehensive Water Management in the Titanium Dioxide Production. The investment depends on the needs for adjusting legislative requirements for emissions into the environment. Implementation in 2019 will mostly be restricted to partial investing in filtrate cleaning after neutralisation with reverse osmosis, rearrangement of water regulation for purifying flue gases from ore separation and separate collection of waters after regeneration of ion exchangers in water preparation.
In line with the plans, the actual need and financial ability, we will also prepare and introduce new projects during the year as well as purchase spare parts and new items of fixed assets.

Financing (own or other sources) will be adjusted to the anticipated dynamics of implementing works for individual projects.
A more detailed overview of projected investments is included in the Plan of Investments, Fixed Assets and Replacement Equipment for 2019.

DEVELOPMENT ACTIVITY

We planned 32 activities, which cover new products and services as well as new case studies.
We were also working on 62 improvements relating to product quality, utilisation, working methods, technologies and risk elimination.

In terms of major results achieved in the field of new products the following should be emphasised:

- Three-basic copper sulphate, which already went through test industrial production.
- Before regular production, we need to find an appropriate manner of waste removal.
- Biofertiliser – plant strengthener, which we developed in cooperation with a business partner.
- Hidrozan plus, which we started marketing successfully this year.
- A substrate for raised beds, which is already part of regular sales.
- A prototype of ball valve DN 150.
- White masterbatch based on PE with MFI>20. We are already marketing successfully the type with quality requirement PE 90670.
- HD printing ink has been developed and qualitatively certified through industrial tests.
- We have developed the procedure for titanium dioxide wetting after calcination using a cheaper and environmentally friendlier soaking agent.

Among major improvements, we should first mention investment projects in the titanium dioxide production, which will in the future help us increase production quantity in accordance with quantities permitted by the environmental permit, reduce environmental impacts or improve quality (described in detail in the investment section).
Among other, the Chemistry Celje BU optimised the quality of Vilaplan, solved the issue of the dryer at the line for granulation of copper formulations by heating the matter poured in and introduced a new method for granulation analysis.
The Polymers BU implemented some optimisation measures at the lacquering facility, separated the production of powder and emulsion fluorinated coatings, which improves product quality, increased capacities for emulsion coatings and started spraying Al balls (shut-off element for the valve) of varying dimensions.
The Metallurgy BU improved utilisation rate and enabled one work shift to be abolished by moving the ABB furnace from the Rolling to the Alloys unit. By reconstructing the chopping device, the Wires unit enabled production of bigger dimensions of zinc prisms for which demand was detected on the market.
Improvements to physical, chemical and applicative features of the E/P-07-4-R7035 dust, optimisation of the warehouse for finished products under the FIFO system and introduction of determining abrasion resistance of coatings were implemented for the powder coatings production.
The Quality Assurance Department followed the demands of users, developing or modifying several testing procedures.
The Maintenance unit studied the making of vital spare parts of ODS pumps and set up the testing facility for flow meter up to dimension of DN 100.

We prepared the necessary grounds for implementing the feasibility study for setting up a titanium dioxide factory in Serbia and also completed the study with the help of an external provider. The results show that the investment is reasonable.

We made a feasibility study for $BaSO_4$ production from waste waters, which revealed a break-even point at production quantities for which marketing is questionable. Due to this and insufficiently reliable market data, we suspended the task of $BaSO_4$ production from pure sulphuric acid. As concerns the production procedure with precipitation of waste waters, we continue with technological optimisation of the procedure. When we set up the reverse osmosis procedure and thus obtain the input material, we will perform the industrial production test and test samples on the market. We will re-do the feasibility study in line with market response and adopt a decision on future actions.

As concerns the development task of remediating polluted soil in the Celje basin, we checked all sources of raw materials available to our Company and established that they are inadequate for waste treatment on our grounds. We also checked the option of mining, but concentrations of metals were too dispersed for the procedure to be rational. We will carry on with the task by looking for a suitable material for solidification of our soil samples as we will need the technological procedure or will have to pay substantial amounts for removal in case of any construction interventions.

QUALITY ASSURANCE

To verify the adequacy, efficiency and compliance of implementing the Integrated Management System (covered by quality standard ISO 9001, environmental standards ISO 14001 and EMAS and standard for occupational health and safety BS OHSAS 18001), we also carried out in 2018 the annual management review for 2017. On the basis of the review, we initiated the necessary corrective and preventive measures. We checked the achievement of annual objectives set at quarterly college meetings and took prompt measures for deviations detected. We were carrying out horizontal internal assessments throughout the year. In 2018, 12 internal assessments were carried out. We paid special attention to new areas of the standard version ISO 9001:2015 (risks, opportunities, organisational context and knowledge).
The external assessment by the Slovenian Institute of Quality and Metrology (SIQ) confirmed the adequacy of our Integrated Management System under the new standard version ISO 2015. They detected no deviations or inconsistencies and gave 36 recommendations, which we mostly took into account and already implemented almost half of them.

We regularly monitored the number of complaints and comments of our buyers and responded to them with corrective measures. The number of all complaints regarding products reached 25, of which 9 were solved as unjustified. We also focused on complying with the set Policy for Integrated Management System, which defines permanent implementation of activities for meeting and exceeding the expectations of customers. Marketing and all production business units were consistently updating the table of complaints, comments and praises, making risk assessment and defining measures for these entries.
We assess customer satisfaction based on interim monitoring (table) as well as written questionnaires and oral interviews. We process data statistically and discuss it during the annual management review immediately after the adoption of the audited annual report. The external customer satisfaction index established at the last annual management review dropped by 0.8% as compared to the year before (from 89.7% to 88.9%).

Permanent improvements dictated by standards and quality guidelines are the driving force of progress and continuous improvements on all areas of the Company's operations. The system for collection of useful suggestions, CC Um, resulted in 0.28 improvement per employee.

A great deal of objectives managed within development tasks and projects under the task of improving existing products and services were dedicated to ensuring and improving quality.

STRATEGY

Cinkarna Celje, d. d operates predominantly in the chemical processing sector. The principal activity of the Company is production of titanium dioxide pigment. The Company operates and conducts business globally, but generates most of its revenue on the European market. In the 2018 financial year, the Company generated 87% of net sales revenue from exports. The biggest market of the Company is Germany, accounting for approximately one third of sales, followed by Slovenia, Italy, Turkey, Belgium, France and the Netherlands. At the end of 2018, the Company employed 908 people.

The Company will continue striving for active cooperation with employees, business partners and the local community with the purpose of continued successful operations and generating adequate return for the owners.

Continued optimisation of the HR structure is anticipated with reassignment and new hires of young and technically qualified personnel. Investments in development, training and further improvement of the working environment of employees will also continue.

As the Company is highly aware of the environmental issues of the immediate surroundings, we will continue looking for and introducing additional ways of reducing potential adverse impact on the environment, continuously acting in compliance with all the requirements of the environmental legislation and regulations. Restrictions in this field could represent additional risks.

Taking into account fluctuations in trends, in the new five-year strategic period from 2019 to 2023 average sales revenue of EUR 190.8 and average annual growth in revenue of 2.3% are anticipated.

With the aim of increasing sales and through well-deliberated investments in renovation, optimisation and expansion of existing production capacities, the Company will as of 2018 invest on the average EUR 13.4 million per year in fixed assets and EUR 2.1 in operating current assets, which will enable the Company to achieve the planned organic growth. The majority of funds invested will be directed to growth and development of the core line of titanium dioxide pigment.

The main objective is to preserve long-term relationships with existing buyers and acquire new ones through development of products with a higher value added on the basis of achieving the requisite higher level of quality and a suitable relationship between responsiveness, flexibility and quality on the one and price on the other side. Sales will continue focusing mostly on the European markets.

Over the next five-year period, the Company's Titanium Dioxide strategic business unit will focus on acquiring new buyers from the industry of printing ink production, which has significant short-term opportunities due to the current demand exceeding supply, whilst at the same time its more demanding buyers enable in the long term higher returns and indirectly serve as protection against potential new entries of competitors on the European market with products of a lower quality range. The share of titanium dioxide pigment in sales accounts for 80% and by 2023 this share will increase by approximately 10 percentage points.

When developing its core line, the Company will strive to develop new products with a high value added and those vertically integrated products that will enable professional, income and cost synergies, thus making the best possible use of competitive advantages of the business environments of individual production lines. The Company will strengthen its presence on the existing markets for the key strategic business units of Titanium Dioxide as well as for the accompanying units and lines of Copper Fungicides, Polymers and Metallurgy. The Chemistry Mozirje BU and the Construction Compounds line are to be disposed of.

The Company will also focus on management of the purchasing process due to unpredictable business cycles with significant changes in selling and purchase prices, which can impact materially the operating results and cash flows.

Efficiently utilised production process will allow the Company to provide timely the requested quantities of finished products, which will enable sustainable long-term profitability under the given conditions. The expected EBITDA margin is to reach the average of 16.6% and the ROE indicator the average of 11.5%.

A new investment cycle required for stable current operations will be carried out over the future years. By investing in the expansion of production capacities at the existing location, the scope of titanium dioxide pigment production is coming close to the regulatory maximum limit, so alternative options for further growth in operations will have to be looked for in the future.

The Company examined certain factors for possible setting up of a new factory in the Republic of Serbia as one of the options for organic growth. Following the feasibility study and other necessary analyses and subject to economic justification of the investment, alignment with the owners' long-term expectations regarding the Company's future development and growth will be necessary.

NON-FINANCIAL STATEMENT

Description of the Non-Financial Business Model

Cinkarna Celje, d. d. strives for compliance of operations at all levels. Through constant investments, we provide for technological procedure modernisation in line with the best available techniques and thus minimum environmental impact. We make sure to enable healthy and safe working conditions for employees and their permanent training.

Quality assurance is a constituent part of the Company's governance and is based on the vision of growth strategy and key strategic objectives aimed at achieving the satisfaction of owners, buyers, employees and the environment in which we operate. As a chemical company, we chose as our 21th century challenge the development of titanium dioxide in special forms, which we intend to upgrade into finished products with a higher value added. We are also expanding the range and quantity of preparations for plant protection based on copper, different master types and powder coatings and processing fluorinated polymers and elastomers. The majority of our products is exported to the EU markets.

We are looking for innovative and sustainable solutions for reducing waste quantities, offering the market two such products, white gypsum (CEGIPS) and red gypsum (RCGIPS), and we are also developing new ones.

The Company is organised as a set of business profit centres, separated in terms of organisation and management, accompanied by centralised support departments and a centralised unit providing maintenance and energy infrastructure.

Environmental Policy in Brief

For 2018 we set two annual objectives within the Company's environmental framework objectives:

1. **Identifying and breaking down process risks with potential adverse impact on the external environment**

To mitigate the risks with potential adverse impact on the environment, we identified and broke down 19 process risks from individual business units. One risk is being identified. We only emphasise some of them, i.e.:

- find an appropriate manner for removing TENORM waste,
- prepare the Human Health and Environmental Risk Assessment Due to Old Burdens (continuation from 2017),
- ensure the stability of high barriers,
- prepare the project for ensuring monitoring of dynamic behaviour of barriers, and
- recognise all types of risks in case of firewater.

Activities related to removal of TENORM waste were being carried out intensively in cooperation with the company US Ecology and the Slovenian Nuclear Safety Administration, which participated in the preparation of the necessary documentation and permits for export, transport and import of the waste abroad. We also prepared the waste for transport (repackaging into barrels and containers under the supervision of US Ecology and the Institute of Occupational Safety). Administrative procedures are in progress, so we will continue the task in 2019.
We continued research with the company CDM Smith to prepare measures based on the Human Health and Environmental Risk Assessment Due to Old Burdens. Risk assessment for water courses Hudinja in Vzhodna Ložnica was also in progress due to inflow of polluted groundwater. We presented the results to the professional public and to journalists at a press conference, also sending out a press release.
We were carrying out activities to ensure stability of high barriers under the programme of measures of the project group (Cinkarna, UL FGG and Hidrosvet) at the waste disposal

plant Za Travnikom (discharge of hinterland and drainage water, review of strait outlet), Bukovžlak (research in the east part of the barrier, concept project for lowering lake water level) and ONOB (discharge of drainage water for private buildings Bukovžlak 27, 27 A under ONOB, documentation for obtaining construction permits for reconstruction of ONOB).
We prepared the project for ensuring monitoring of dynamic behaviour of the Bukovžlak barrier, which serves as the basis for tendering out works.
As concerns the identified risk for occurrence of firewaters, we assessed the quantity of potential firewaters and the possibility to contain them.

2. Sustainably managing resources and products

The framework objective of sustainable management of resources was broken down into three objectives:

- Use of energy products - energy-related improvements leading to reduced energy consumption,
- Waste treatment - improvements for waste management reducing waste quantities, and
- Process planning and optimising.

As concerns energy-related improvements, we were carrying out four projects, installation of frequency regulators, insulation of furnace cover, replacement of lights with more energy-efficient LED lamps (in several BUs). The planned circular loop of the main steam-line was not carried out for the TiO_2 production, but we ensured better flow in the steam-line with other measures. As concerns process optimisation in the TiO_2 production, we replaced sand mills (estimate of 30% less electricity used). Actual energy consumption as compared to the planned for 2018 was at the level of 14,370 MWh energy savings (approximately 5%). Specific use increased by 9% due to quite lesser production of TiO_2.

We set for ourselves four improvements to the waste management system with the target 5% decrease in specific quantity of waste. The planned decrease in specific quantity of non-hazardous waste was not achieved (the quantity stayed at the 2017 level). The reason is mostly waste arising from major overhaul and maintenance works for the TiO_2 production. The objective of increasing the CEGIPS by-product to more than 2.77 tonne per tonne TiO_2 was not achieved (2.59 tonne per tonne TiO_2 as in 2017).

A series of activities and coordination efforts were carried out with MOP and ARSO for eliminating environmental risks, including presentation of the results of the new research in relation to Human Health and Environmental Risk Assessment Due to Old Burdens prepared by CDM Smith.

We actively participated in preparing legislative requirements and complied with the requirements of the new legislation.

We reported three changes to operations of devices to the Environmental Agency last year (amendments to the environmental permit) for the Celje location, submitted four applications for amendments to the environmental permit and one application for preliminary procedure. We received two decisions on amendments to the environmental permit. As of 2010, when we obtained the integral environmental permit, we have had the total of ten amendments to the basic permit. In December, we received the amended environmental permit also for operations of the Chemistry Mozirje BU.

We prepared and submitted timely all monitoring reports for 2017 in line with legislative requirements. We did not exceed threshold values.

In 2018, we had two environmental inspections (one at the Mozirje location and one at the ONOB location). No irregularities were detected.

The Environmental Protection Department received one complaint, i.e. public question. It referred to detected odour. Following an inspection it was established that the complaint could not be connected to our operations.

In 2018, we prepared already the 18th report on responsible care of the environment (for 2017), through which we present our attitude to the environment, health and society within the Slovenian Chemical and Rubber Industry Association. The responsible care programme is in compliance with the principles of voluntary initiative encouraged by the International Council of Chemical Associations (ICCA) and the European Chemical Industry Council (CEFIC).

Social Policy in Brief

SOCIAL PROJECTS

We are aware of the utmost importance of developing intergenerational cooperation, transfer of knowledge and joint building of a system of values in our society. This is why we devote special attention to working with the youth from Slovenian primary and secondary schools, educational institutes and universities. We regularly organise visits and presentations, take part in the preparation of research and seminar papers, bachelor's theses and post-graduate theses as well as scientific papers.

In 2018, we carried out 5 excursions and 60 students were on mandatory practical training with us, of whom two were preparing their bachelor's theses and two were preparing the master's thesis. We were participating at the career fair in Celje with presentation of occupations and presented our Company and possibilities for employment of students and future graduates at the Faculty of Chemistry and Chemical Technology.

The Environmental Protection Department has been cooperating for several years with the Secondary School of Civil Engineering and Environmental Protection from the Celje School Centre in the implementation of practical training for the programme of environmental technician. This year, we also carried out four hours of practical training at our premises. We familiarised students with the principal activities of Cinkarna Celje, d. d. (video), focusing on activities for environmental protection. We saw one of the measuring points for emissions into the air and one for emissions into waters. We also showed them the filtration unit and the device for removing waste – gypsum. We familiarised them with the basics of environmental monitoring, waste management, waste water sampling and field measurements.

We are proud of the multi-annual project of intensive cooperation with primary schools, the fundamental purpose of which is to encourage the creativity and thought processes of children as well as to promote their awareness of the broader social importance of industrial production and development.
So far, we have implemented already ten consecutive competitions.

- In 2008, we encouraged children with the competition **"Draw Yourself a Prize"**.
- In 2009, we drew together **"Animals on Gypsum Landfills"**.
- In 2010, we were making bird houses with children under the motto **"I am the Nature"**.
- In 2011, the International Year of Chemistry, we thought about and formulated ideas on the significance and purpose of the products of Cinkarna Celje, d. d. in everyday life within the scope of the contest entitled **"Cool Chemistry"**.
- In 2012, we prepared interesting projects to mark the jubilee of 140 years of our continuous operations in 2013 and implemented the competition **"Taking Care of the Environment"**.
- In the 2013 jubilee year, we thus organised the contest entitled **"Let Us Create a New Home for the Bees"** and built a study bee house in Socka as part of this contest.
- We dedicated 2014 to recycling waste material within the contest **"Benches for Knowledge Thirsty Hikers"**, placing the benches in the park Mozirski gaj.
- The theme of the 2015 competition was to improve the knowledge about the use of

titanium dioxide in everyday life, which was implemented through the competition **"Titanium Dioxide, Where do You Hide?"**.
- The 8th competition in 2016 was the biggest so far as over 40 primary schools and secondary were participating; its title was **"Pots and Troughs for Colourful Flower Beds"**.
- In 2017, we conducted the 9th competition under the title **"Let Us Paint Cinkarna"**. Children painted business units and departments on white T-shirts and paper. We organised the closing event with cultural programme at the Central Celje Library, where works were also exhibited. Included were 37 schools and over 1,000 children.
- The title of the 10th jubilee competition was **"Cinkarna Celebrates by Making a Comic Book"**. The challenge for young creators was to draw from our jubilees. They had to present the 145-year development of the Company through a comic book – from the arrival of the train to Celje, construction of the factory, employee training and setting up the first treatment plant, closing down some lines, development of new technologies and products, process modernisation and introduction of the latest technologies for safe operations. 450 children made 72 comic books about the history of Cinkarna.

All of the contests were extremely well-received and attended. They saw the participation of schools and institutes from the broader Celje region and achieved their aim of enriching the participants, i.e. children, teachers, childcare workers and employees of Cinkarna Celje, d. d.

We organised several events to honour the 145 years since the foundation of Cinkarna and 45 years of titanium dioxide production:
- blood donation campaign for employees at the Company,
- demonstration of firefighting with a new combined firefighting vehicle for nearby firefighting associations,
- tactical protection and rescue drill for cases of chemical accidents and fire; the drill was performed in cooperation with the civil protection service within the framework of the national drill Earthquake 2018 in Celje, and
- exhibition at the Museum of Contemporary History; the exhibition portrayed production history for all products to date and showed contemporary products available in each home though a three-dimensional house.

We organised a campaign together with the SIBAHE association (Slovenian Food Bank), within the scope of which employees and the Company collected over 950 kg of food for those in need.
We cooperated with the SONČEK Cerebral Palsy Association of Slovenia traditionally for the third year in a row in sales of their products during the pre-Christmas period in our main dining hall and expanded our cooperation also to pre-Easter time. The response of employees was extremely good as they raised quite some funds ensuring undisturbed operations of the Association.
We enabled a training session to the Association of Rescue Dogs at our holiday facility in Logarska dolina.
We helped our employees in times of trouble. We paid hardship allowance in four instances.
We enable implementation of several sports activities for our employees and external participants at our multi-purpose premises.
We organised a picnic with sports activities for all employees and separately by business unit and department. In December, we invited our retired employees to the traditional pre-New Year's event, which we organised last year already for the 28th time in a row. Over 300 former employees responded to the invitation.

We organised five exhibitions of paintings and photographs of our employees in the main dining hall and in a special room.

We are trying to regularly inform all stakeholders of our plans and achievements through different forms of communications. To this end, we prepared two public presentations in 2018 (presentation of the Human Health and Environmental Risk Assessment arising from consumption of agricultural crops produced under ONOB and presentation of the Toxicological Assessment of Risk for watercourses Hudinja and Vzhodna Ložnica due to old burdens at the Celje location). Two issues of our Cinkarnar magazine were made, which we sent to surrounding local communities, schools and prominent political and business figures in Celje and its surroundings. They were also published on the website. For the purpose of internal communications, we issued 23 notifications by Cinko and Cinka, our mascots encouraging employees in a humorous way for more productive, efficient and safe work and delivering important information. We also prepared three issues of Informator and six issues of latest news for employees.

In 2018, we again responded to the invitation to compete in the contest of the Tourist and Cultural Association Celje, which organised already the 49th awards Golden Rose and Broom. The awards are given for neat landscaping, gardens and flower beds. We received the golden award.

DONATIONS AND SPONSORSHIPS

We are convinced that it is our duty to act and operate with a long-term view and sustainably both from the point of view of environmental impacts and relations with the broader society. We are aware of our role and importance, which is why we strongly encourage, support and finance activities that improve the quality of life and work of people and the entire community.
In doing so, we devote special attention to supporting activities geared towards development and advancement of children and youth.
In 2018, we devoted EUR 735 thousand or somewhat more than 0.45% of total sales to various sponsorships and donations. As a socially responsible company we support activities focused on sports, culture and in particular the environment. In compliance with the strategy, we earmark 91.8% of sponsorship and donation funds for sports, 2.2% for cultural and 6% for other activities.

The most important areas and activities that we invest in and develop with the holders of said activities are:
- sports associations and clubs (we are the general sponsor of the Women’s Basketball Club Celje and the Kladivar Athletics Club; we also sponsor the Basketball Club Domžale, Handball Club Gorenje Velenje, Handball Club Celje, Football Club Celje, Aeroklub Celje, Hockey Club Celje, Basketball Club Šentjur, etc.);
- artistic creation, work of cultural institutes and arts societies (Celeia Institute, Slovenian People’s Theatre Celje, PDKZ Celje, Union of Cultural Associations Celje, Music School Celje and other cultural and artistic associations);
- educational, childcare and charity organisations and associations (voluntary firefighters’ associations, primary schools, secondary schools, city municipalities and local communities, etc.).

In most cases and especially in cases that involve larger amounts of funds, we get directly involved in the management, operations and supervision of societies, clubs and institutes. We thus actively take part in and help ensure that funds are used for the purpose they were provided for.

HR Policy and Safety at Work in Brief

EMPLOYEES

Key data:
Number of employees: 908
Average age: 47.91 years
Employee gender structure: 77.7% male and 22.3% female
Percentage of work performed in the first shift: 64.8%

Cinkarna Celje, d. d., which is a basic chemical processing company integrated on the edge of the industrial zone of the city of Celje, offers interesting and socially safe work with the possibility of constant learning and personal development as well as efficient and responsible work. By nurturing the feeling of belonging to the Company with over 145 years of tradition and responsibility to the micro and macro environment in which we operate, we orient our employees towards respect for sustainable development and compliance with norms and ethical attitude towards fellow beings and the wider social environment.

As at 31 December 2018, there were 908 employees at Cinkarna Celje, d. d., 77.7% of whom were men and 22.3% were women. In line with the business policy of the Company's Management Board and the open labour market, diversified operating results of individual business units and planned employment, the number of employees increased by 1.67% or 15 employees. In 2018, 38 people stopped working at the Company, whereby 19 cases involved retirement. We employed 53 new hires (generally with levels IV, V and VII of vocational education). We managed our other employment needs by internal reassignment.

As at 31 December 2018, the average employee age was 47.91 years (46.60 for men and 50.61 for women). Due to 53 newly hired employees, 19 retirements and 19 terminations of employment relationship, the age structure saw a positive trend after a long time as the average age decreased by 0.51 percentage points or 1.05%.

Average employee age by year from 2008 to 2018

CC	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
TOTAL	46.10	46.22	46.47	46.79	46.78	47.11	47.33	47.95	48.20	48.42	47.91

From 1985, when the Company's management began implementing a long-term restrictive HR policy, the number of employees more than halved (from 2,427 to 908, which means a cumulative decrease of 1,519 employees or more than 62.6%).

The Company invests a lot in development and education of employees. As concerns increasing the level of knowledge and updating existing knowledge of employees in 2018, we recorded 19.0 hours of training per employee (in 2017, 18.2 hours of training per employee), the cost of which was EUR 466.3 per employee (in 2017, EUR 337.0 per employee). The biggest share of trainings represents mandatory training, mostly from the fields of occupational health and safety, work with hazardous chemicals, fire safety, environmental protection and compliance with standards. At the individual level, we worked the most on strengthening knowledge for various professional areas, training and education, foreign language training (English and German languages) and placed a special emphasis on developing employees with the highest potential and over 45 years of age, for whom we organised within the framework of the ASI project (Comprehensive Support to Companies for Active Ageing of Employees) sets of workshops with the objective of improving the competencies of older employees.

In 2018, specific functional trainings at the Company and outside it were attended by 6,579 participants. Hours of training totalled 17,166 (in 2017, 16,225). We rationalised (shortened) mandatory forms of training in terms of substance and quantity, and adjusted them more to

specific themes and requirements of the work process, focusing particularly on training and education with useful component and of importance for individual work processes.
As concerns the Company's social efforts, the Company put special attention on individual disability issues. We are namely dealing with an increasing number of employees restricted at work due to health issues. At the end of the year, we had 76 disabled employees or seven less than at the end of the previous year. Longitudinally, the structural percentage of disabled employees is decreasing over years. In 2018, the share of disabled employees in total employees was 8.3%.
Taking into account employee age structure and changes to the legislation, which is increasingly restrictive in terms of the disabled retirement, we do not expect significant improvements to the mentioned structure. The main reason for the situation is the nature of production in the past and, despite technological modernisations, we cannot expect it to improve in the near future.

External employee turnover in 2018 came in at 4.2%, the total turnover, which includes internal reassignments, being the same at 4.2%. External employee turnover is by 1.0 percentage points lower than in the year before, while total turnover is by 5.0 percentage points lower (in 2017, 5.2% and 9.2% respectively), which can be attributed to less retirements, optimisation of the number of employees by organisational unit and the related poor internal dynamics of reassignments within the Company.

The employment and education policy positively affects the rise in the qualifications structure that is visibly on the rise despite the long-term HR optimisation with simultaneous higher number of new hires.

Level of education	2017		2018	
	No. of employees	Share in %	No. of employees	Share in %
VIII	23	2.6	23	2.5
VII	125	14.0	135	14.9
VI	57	6.4	57	6.3
V	285	31.9	300	33.0
IV, III	288	32.2	291	32.1
II, I	115	12.9	102	11.2
Balance as at 31 Dec	**893**	**100.0**	**908**	**100.0**

The analysis of statistical data and employment and training policy indicates a drop in unskilled labour force from the former high 48.7% to the current level of 11.2% and an increase in highly educated labour force from the former 3.5% to the current 17.4%. Internal reassignments and merging of jobs are slowly bringing about a positive balance between the actual and required education and the Company is also willing to invest only in those employees whose education obtained benefits the Company and the work process.

The trend of the falling number of unskilled and retrained workers and the hiring of workers with education levels IV, V and VII is also positive, which is in turn favourably affecting the educational structure of the Company. A part of the functional gap in this area is filled by intensive internal training.

The average level of employee absence from work increased by 4.0% or 0.9 percentage points in 2018 as compared to the year before despite lower total sick leave and came in at 23.4% (sick leave absences account for 5.4% of the said amount or 23.1% of all absences, which is 1.9 percentage points less than in 2017). The percentage of sickness benefits decreased by 0.4 percentage points as compared to the year before or by 6.9%.

Sickness benefits had a varying dynamic in the structure, decreasing in business units, except for the Titanium Dioxide BU, and staying at the 2017 level for support services. The causes for absenteeism at Cinkarna Celje, d. d. and the associated sick leave are primarily as follows:

- nature of the work (difficult, physically straining work),
- age of the population (distinct impact on absenteeism as the average age is 47.91 years),
- work in four shifts (35.2% of workers work in several shifts),
- large number of disabled employees (8.3% of all employees),
- increasing number of long-term sick leave, mostly due to:
  - increased number of injuries outside workplace,
  - severe diseases, locomotor system disorders and cardiovascular diseases.

The 2018 framework plan was 895 employees at the end of the year. The plan for the number of employees was based primarily on the envisaged production and sales plan (as well as investment plans) combined with the optimisation of the economy of production processes and increase in activities in specific professional areas. The majority of retirements pursuant to the Pension and Disability Insurance Act (ZPIZ-2) was implemented in the last quarter of 2018. New hires were anticipated as a rule only for the medium- and higher-level qualification structures, mostly for the fields of production business units and only to a minimum degree for support services, under the condition that a large share of employees leaving the Company would be replaced exclusively by professionally qualified employees. In terms of production employees, we tried looking for long-term solutions with young employees, mostly from the fields of occupations with a shortage of workers (metal worker, mechanic, milling machine operator, chemical and machine technician, electrotechnician, etc.) and strove to merge jobs. For certain programmes, mostly those with unforeseeable business environment, we continued engaging students and hiring employees through temporary work agencies. In 2018, we also provided scholarships to pupils and students of technical sciences.

We continued the policy of productive hiring, decreasing the percentage of unskilled labour as well as reorganising work so as to reduce the number of administrative employees. It should be noted that we have managed to reduce the percentage of all employees with qualification levels I and II to below 11.2%.

In 2018, we managed to lower the structural portion of levels I and II by an additional percentage point. The success of implementation rested on the willingness or retirement of employees and other forms of employment termination. Analogously, we managed to boost the qualifications structure of qualification levels VI, VII and VIII by one-half percentage point (the balance as at the end of 2018 was 23.7% of employees with these levels of education).

HEALTH AND SAFETY

The activities of the Occupational Health and Safety Department are aimed at legislative compliance for occupational health and safety and fire safety. By introducing the activities of detecting, recording and eliminating potential hazards and events in the working environment, the Company is actively working on decreasing the number of accidents at work and improving conditions at the workplace. We prevent fires with preventive fire safety measures and ensure active protection against fire with regular supervision, review and servicing of firefighting equipment. We had three annual framework objectives in the area of occupational health and safety in 2018:

1. Zero injuries at work

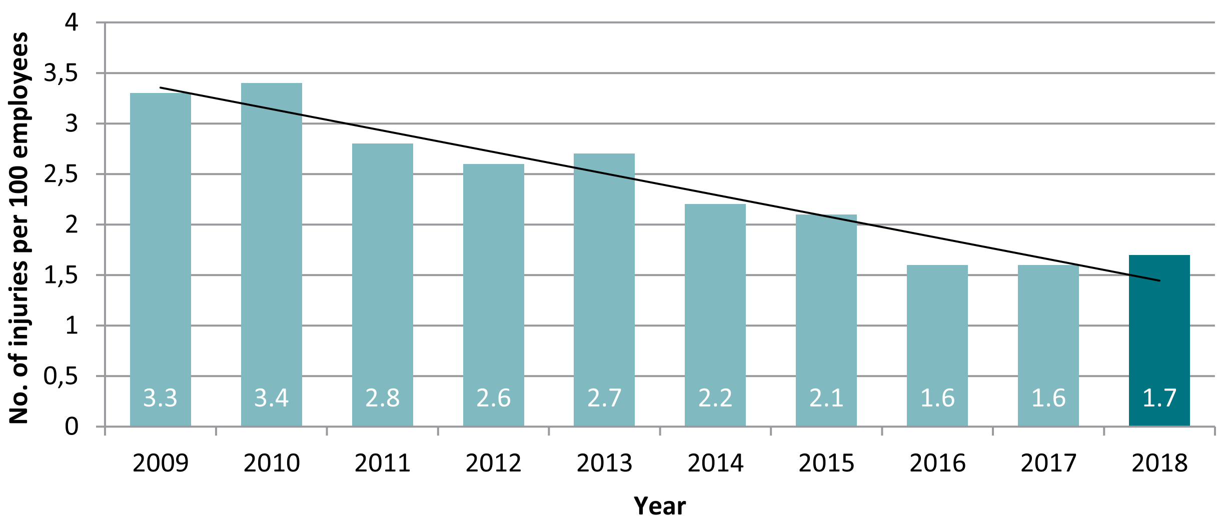
The objective is long-term. We wish to achieve it step by step by implementing various preventive activities and improvements. As compared to 2017, the number of injuries at work increased by one, but total sick leave due to injuries at work more than halved. The low FS factor reveals that all injuries were minor.

The table below shows changes in injuries at work/while travelling and absence from work due to injuries.

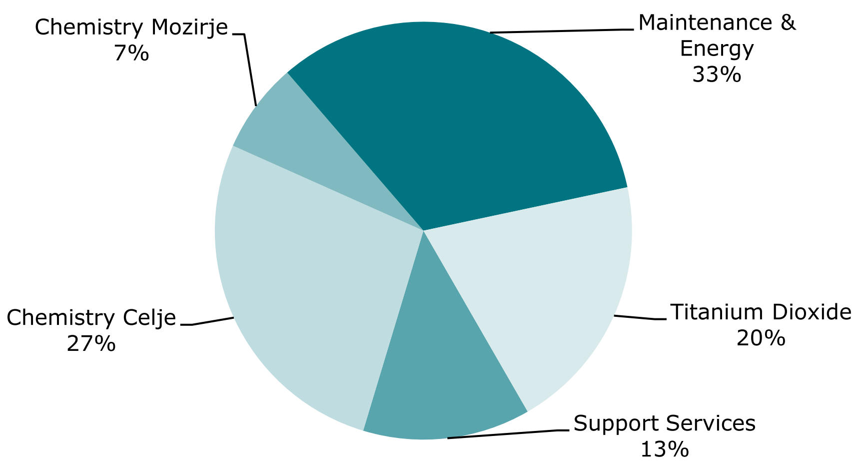
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
No. of employees – monthly average	1098	1073	1064	1046	999	987	976	941	899	905
No. of reported NM	28	40	102	118	37	37	10	14	9	5
No. of recorded PH	-	-	-	-	81	62	79	105	79	61
No. of eliminated PH	-	-	-	-	44	88	71	86	65	57
FS factor	26.9	37.5	20.7	23.2	27.1	22.2	23.5	14.9	13.0	5.7
No. of injuries at work	36	37	30	27	27	22	20	15	14	15
No. of days lost	776	1007	735	907	996	1000	1122	934	837	346
No. of injuries per 100 employees	**3.3**	**3.4**	**2.8**	**2.6**	**2.7**	**2.2**	**2.0**	**1.6**	**1.6**	**1.7**
No. of injuries while travelling	11	11	14	6	0	0	2	0	0	0
No. of days lost	246	414	388	151	0	0	43	0	0	0

NM – near misses; **PH** – potential hazard; **FS factor** – factor of frequency and severity of injuries at work (ratio between the number of injuries, **BS** and the number of employees)

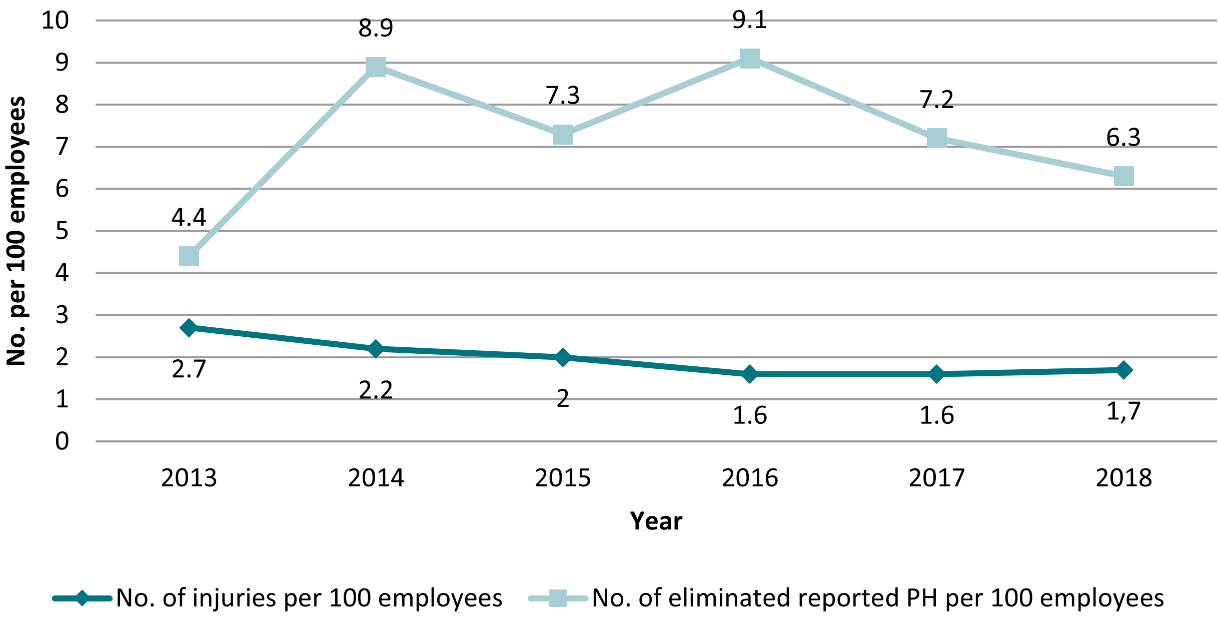
Number of injuries at work per 100 employees (2009 to 2018) with linear trendline



Share of injuries at work per 100 employees by business unit



Ratio of the number of injuries at work to the number of eliminated reported potential hazards per 100 employees



2. Identification and break-down of process risk with potential adverse impact on occupational health and safety

By identifying and breaking down process risks with potential adverse impact on occupational health and safety we were eliminating possible causes for injuries at work. The table below shows the objective and realisation of identified and broken-down process risks by production unit. The goal was achieved.

	No. of eliminated identified and broken-down process risks		In %
	OBJECTIVE	**REALISATION**	
Metallurgy	2	2	100
Chemistry Celje	2	2	100
Chemistry Mozirje	1	1	100
Maintenance and Energy	5	5	100
Titanium Dioxide	7	7	100
Polymers	1	1	100

3. Organisation and implementation of employee health promotion

In 2018, we implemented activities for employee health promotion on the basis of the health promotion plan:

- prevention of cardiovascular diseases (measurements of blood pressure, body composition, fat and blood sugar),
- lecture of the society for lifelong education DVE "Healthy Lifestyle: Reality or Utopia?",
- workshop by health centre Celje "Increased Blood Lipids, a Healthy Diet",
- vision checks (protective glasses with dioptre range),
- article on the Intranet "7 April – World Health Day",
- vaccination against tick-borne meningoencephalitis (1st and 2nd dose),
- vaccination against seasonal influenza,
- first aid for cardiac arrest – use of automated defibrillator,
- reduced price of tickets for swimming pools and sauna,
- promotion of a healthy breakfast,
- employee sports games (at the Company picnic),
- team building,
- sports activities and clubs (table tennis, fitness, functional workout, mountaineering, dancing, football, basketball, hockey, box, etc.), and
- discounts in surrounding health resorts.

Costs of Occupational Health and Safety and Fire Safety

Last year, we spent EUR 603,512.75 on occupational health and safety and fire safety (excluding preventive maintenance interventions on working equipment) or 7.6% more as compared to the year before.

Human Rights Policy in Brief

We pursue tolerance, mutual respect and respect for the fundamental human rights at our work. We reject all forms of mobbing, harassment and discrimination. We comply with ethical and professional principles and the Company's values.
Recruitment and HR activities are based on the principle of zero discrimination and equal opportunities, ensuring conditions for personal development of employees. We are creating conditions for well-being at the workplace for all employees, at the same time placing special emphasis on personal and professional development.

We also place special attention to personal data protection. Personal data is protected in compliance with the Regulation (EU) 2016/679 (GDPR) and the applicable Slovenian legislation, if the latter prescribes different or stricter rules.

We respect the right to participate in workers' organisations and strive for the dialogue between social partners to be conducted in a professional manner and in compliance with the law.

In case of detecting any illegal or unethical conduct harming the Company's reputation or operations or violating the dignity and personal integrity of any employee, we are obliged to report it immediately and initiate adequate procedures and actions.

The Company's Management Board has adopted the Rules on Prohibition of Sexual and Other Forms of Harassment and Mobbing at the Workplace (with positive opinion of the Workers' Council and both trade unions). In compliance with these Rules, the Company has appointed the authorised person for **receiving reports, help and information**. The authorised person is a trustworthy person to whom a victim of sexual or other form of harassment or mobbing at the workplace can turn to for advice, support and information about measures related to protection against sexual and other forms of harassment and mobbing.

Anti-Corruption and Anti-Bribery Policy in Brief

In the performance of our work tasks and execution of rights and obligations as well as in making business decisions and acting on behalf of Cinkarna Celje, d. d., all employees are obliged to act in the best interest of the Company, which prevail over personal interests and interests of third parties.

Cinkarna grants donations and sponsorship funds exclusively in compliance with its mission, vision and values, mostly for the fields of sports and culture.

Cinkarna competes with its competitors solely in a fair and honest manner. We are looking for competitive advantages and developing these only by increasing our efficiency and productivity and never through unethical or illegal activities and actions.

Appropriate and expected behaviour and actions are defined in more detail in the Code of Ethical Conduct and Work.

We have established the mechanism for detecting and reporting any impermissible actions, which have not yet been registered.

Key Non-Financial Indicators

The table in the continuation presents a selection of key non-financial indicators, which are disclosed in more detail in the following sections.

Environmental policy	Social policy	HR policy and safety at work	Human rights policy	Anti-corruption and anti-bribery policy
Total energy consumption	No. of excursions and interactions with schools	Age structure of employees	Rules on Prohibition of Sexual and Other Forms of Harassment at the Workplace (authorised person for help and information)	Sponsorships and donations
Specific energy consumption	No. of interactions with the local community	Educational structure	Participation in trade unions and no. of employees' representatives	Code of Ethical Conduct and Work
Specific waste quantity	Scope of sponsorships and donations	Absence from work	Code of Ethical Conduct and Work	Commission for Receiving Comments and Complaints
Total waste quantity	No. of sponsored associations	No. of the disabled	Employee satisfaction questionnaires	Compliance with recommendations and legal bases (Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT-1))
Quantity of by-product sold	No. of schools participating in projects	No. of injuries at work	Zero discrimination in recruitment	Stock exchange rules
	No. of activities for the disabled	FS factor	Rules on the Protection of Business Secrets and Personal Data	
	No. of forms of internal communications	Changes in the no. of employees		
		Fluctuation rate (internal and external)		
		Employee training		

Key Risks and their Management

The table below shows the key risks for non-financial operations, whilst more detailed information, including management methods, is provided in previous section.

Environmental policy	Social policy	HR policy and safety at work	Human rights policy	Anti-corruption and anti-bribery policy
Legal and regulatory non-compliance	Negative reputation of the Company	Restrictive impacts of high average employee age	Negative reputation of the Company	Negative reputation of the Company
Inefficient use of energy	Poor recognition of the Company	Inadequate education and qualifications of employees	Unfavourable attitude of the public and shareholders	Unfavourable attitude of the public and shareholders
Limited potential for disposal of non-hazardous waste	Inadequate informing of the public	Decrease in operability due to a high number of the disabled and increased absence from work	Loss of business transactions	Business loss, loss of profit
Process and production risks	Inadequate informing of employees	Adverse impacts of injuries and accidents at work	Court proceedings	Court proceedings
Extraordinary events	Spreading of misinformation	Shortage of suitable labour force on the market		Adequate organisational climate
Court proceedings	Appropriate social dialogue	Epidemic and danger of poisoning		

Due Diligences

Integrated Management System
The Integrated Management System (IMS) is a constituent part of the management system of Cinkarna Celje, d. d. It includes the fundamental features of management and operations for all activities of the Company in compliance with the requirements of the standards ISO 9001 (quality management standard), ISO 14001 (environmental management standard), BS OHSAS 18001 (standard for occupational health and safety) and, for the Mozirje location, also with the EMAS Regulation. Compliance of the system with the requirements of the standards is verified each year by the certification authority SIQ (Slovenian Institute of Quality and Metrology). In 2018, the assessment of the Integrated Management System and compliance with the EMAS Regulation (for the Mozirje location) was carried out in May. The assessment was performed under the new issue of standards ISO 9001:2015 and ISO 14001:2015. No instance of non-compliance was detected and 36 recommendations were given. By the end of 2018, we implemented 48% of recommendations, whilst the remaining ones are in progress. Pursuant to the requirements of the EMAS Regulation, the environmental statement was prepared for CC Chemistry Mozirje, on which the environmental assessor did not give any comments. In the final report the leading assessor wrote that Cinkarna Celje, d. d. implemented, maintained and developed the management system in compliance with the requirements of standards ISO 9001, ISO 14001, BS OHSAS 18001 and the EMAS Regulation.

ISO/IEC 17025:2005 (General requirements for the competence to carry out tests and/or calibrations, including sampling).
The Quality Assurance Department and the Environmental Protection Department are accredited by Slovenian Accreditation, which confirms the competence of laboratories to carry out tests by awarding accreditation certificate and through periodical assessments. The scope of accreditation is evident from the Attachment to the Accreditation Certificate LP-050 (monitoring of waste waters and content of TiO_2 in pigment, ilmenite and slag). In 2018, Slovenian Accreditation performed again a complete review after four years. Instances of non-compliance established (16) were eliminated timely.

In the final report the leading assessor wrote that the laboratory was well organised, that its operations were stable and that professional knowledge of responsible persons was at a high level. The management system is operational, transparent and well maintained.

Responsible Care Programme
We submitted a new report under the Responsible Care Programme for 2017 in the end of June 2018. At one of the Responsible Care Programme group meetings, we also presented to other members and representatives of the Chamber of Commerce and Industry that manage the Programme within CEFIC the indicators achieved for the fields of the environment, safety and health in 2017. We also presented our system for eliminating process risks for occurrence of environmental accidents. The key findings were that, by implementing the policy for environmental care, employee health and safety and quality assurance policy on all areas and by achieving environmental objectives, we manage and decrease the impact of our activity on the immediate and wider environment, improve the quality of our products and services and conditions for employees. This is confirmed by the indicators defined by the Responsible Care Programme that reveal a trend of improvements in terms of less injuries at work, less waste produced and lower emissions into the environment despite the growing production trend.
Meeting our obligations for 2018, we again obtained the right to use the (CEFIC) Responsible Care logo until February 2020.

Environmental Due Diligence
We already started implementing activities in this field in 2013, when the risk arising from old burdens was identified for the areas of current production.
In August 2018, we concluded and publicly presented the Human Health and Environmental Risk Assessment arising from consumption of agricultural crops produced under ONOB. The Assessment and the proposed measures were presented by representatives of the chosen contractor, the German company CDM Smith. It has been established that the polluted hanging underground water under ONOB has no negative impact on crops.
In November, we also presented the Ecotoxicological Research of impact of old burdens on the current production location in Celje on the biota in Hudinja and Vzhodna Ložnica water courses. Four locations requiring actions have been identified. Measures have already been anticipated for one location, whilst for the other three further research is required. We will continue with these efforts as planned in 2019.

Management of the HACCP System
We set up the HACCP system in 2004 at our kitchen facility. In 2017, we renovated it entirely in cooperation with the National Laboratory of Health, Environment and Food. We are implementing the system consistently, thus decreasing the hazard of infection. Due to optimisation and compliance with the HACCP system, we invested in purchase of two cleaning machines (wet/dry) that thoroughly remove all microorganisms from surfaces and a shock chamber that ensures optimum food quality with shock freezing. We implemented a mandatory training for all employees dealing with safety of food based on the HACCP System.

Financial and Legal Due Diligences
The Company has not specifically defined a policy for carrying out financial and legal due diligences. In case of carrying out financial and legal due diligences, procedures are being implemented in compliance with the needs of the client and information is disclosed and prepared in compliance with the applicable legislation for the relevant fields.

Financial Report

FINANCIAL STATEMENTS

Balance Sheet

In EUR

		Note	31 Dec 2018	31 Dec 2017	Index 18/17
	ASSETS		**213,954,012**	**219,731,072**	**97**
A.	**Non-current assets**		**107,594,140**	**99,132,889**	**109**
I.	Intangible assets and long-term deferred costs and accrued revenues	1	1,424,728	1,642,406	87
	1. Long-term property rights		1,411,819	1,587,646	89
	5. Other long-term deferred costs and accrued revenues		12,909	54,760	24
II.	Property, plant and equipment	2	102,660,428	93,891,611	109
	1a. Land		9,857,976	9,874,712	100
	1b. Buildings		42,073,048	41,278,843	102
	2. Production plant and machinery		35,631,444	31,716,610	112
	3. Other plant and equipment		42,475	41,122	103
	4a. Property, plant and equipment under construction and in production		14,461,532	8,611,333	168
	4b. Advances for acquisition of property, plant and equipment		593,952	2,368,991	25
IV.	Long-term financial assets	3	950,363	950,363	100
	1a. Other shares and interests		950,363	950,363	100
VI.	Deferred tax assets	4	2,558,621	2,648,509	97
B.	**Current assets**		**106,067,370**	**120,239,680**	**88**
II.	Inventories	5	46,067,012	41,314,607	112
	1. Material		26,042,456	25,594,946	102
	2. Work-in-progress		2,483,963	1,727,210	144
	3. Products and merchandise		17,523,906	6,574,598	267
	4. Advances for inventories		16,687	7,417,853	-
III.	Short-term financial assets	3	247,681	0	-
	1. Short-term financial assets, excluding loans		47,681	0	-
	1c. Other short-term financial assets		47,681	0	-
	2. Short-term loans		200,000	0	-
	2b. Short-term loans to others		200,000	0	-
IV.	Short-term operating receivables	6	26,269,282	34,473,658	76
	2. Short-term trade receivables		24,357,937	32,575,764	75
	3. Short-term operating receivables due from others		1,911,345	1,897,894	101
V.	Cash	7	33,483,395	44,451,415	75
C.	**Short-term deferred costs and accrued revenues**	**11**	**292,502**	**358,503**	**82**

In EUR

		Note	31 Dec 2018	31 Dec 2017	Index 18/17
	EQUITY AND LIABILITIES		**213,954,012**	**219,731,072**	**97**
A.	**Equity**	**8**	**173,925,466**	**166,520,502**	**104**
I.	Called-up capital		20,396,244	20,396,244	100
	1. Share capital		20,396,244	20,396,244	100
II.	Capital surplus		44,284,976	44,284,976	100
III.	Revenue reserves		88,068,917	81,554,551	108
	1. Legal reserves		16,931,435	16,931,435	100
	2. Reserves for treasury shares		1,364,106	238,926	571
	3. Treasury shares		-1,364,106	-238,926	571
	5. Other revenue reserves		71,137,482	64,623,116	110
V.	Fair-value reserves		-1,666,698	-1,265,277	132
VI.	Retained net profit/accumulated loss		-76,610	-23,965	320
VII.	Net profit or loss for the year		22,918,637	21,573,973	106
B.	**Provisions and long-term accrued costs and deferred revenues**	**9**	**27,763,293**	**28,428,742**	**98**
	1. Provisions for pensions and similar liabilities		3,811,723	3,318,225	115
	2. Other provisions		23,439,296	24,622,438	95
	3. Long-term accrued costs and deferred revenues		512,274	488,079	105
D.	**Short-term liabilities**	**10**	**11,407,422**	**23,827,392**	**48**
II.	Short-term financial liabilities		70,677	77,573	91
	1. Other short-term financial liabilities		70,677	77,573	91
III.	Short-term operating liabilities		11,336,745	23,749,819	48
	1. Short-term trade payables		8,683,609	14,543,172	60
	2. Short-term operating liabilities based on advance payments		27,428	95,457	29
	3. Other short-term operating liabilities		2,625,708	9,111,190	29
E.	**Short-term accrued costs and deferred revenues**	**11**	**857,831**	**954,436**	**90**

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

Statement of Profit or Loss for the Period from 1 January to 31 December

In EUR

		Note	YEAR 2018	YEAR 2017	Index 18/17
1.	**Net sales revenue**	**15**	**163,960,861**	**188,704,758**	**87**
	- Net sales revenue generated in Slovenia		21,624,294	24,460,675	88
	- Net sales revenue generated on the international market		142,336,567	164,244,083	87
2.	**Change in the value of inventories of products and work-in-progress**		**11,756,418**	**-1,274,431**	**-**
3.	**Capitalised own products and services**		**3,447,628**	**2,113,892**	**163**
4.	**Other operating revenues (including revaluation operating revenue)**	**15**	**2,994,660**	**1,034,029**	**290**
5.	**Costs of goods, material and services**	**14**	**102,004,714**	**104,576,124**	**98**
	a) Cost of goods and material sold and costs of material used		88,012,639	90,742,232	97
	b) Cost of services		13,992,075	13,833,892	101
6.	**Labour cost**	**13**	**30,082,256**	**30,324,810**	**99**
	a) Cost of salaries and wages		23,052,938	22,338,216	103
	b) Cost of social security		1,828,849	1,728,875	106
	c) Cost of pension insurance		2,469,281	2,499,243	99
	d) Other labour cost		2,731,188	3,758,477	73
7.	**Write-downs in value**	**12**	**12,390,336**	**13,109,958**	**95**
	a) Depreciation and amortisation		12,172,175	12,352,786	99
	b) Revaluation operating expenses associated with intangible assets and property, plant and equipment and equipment		49,456	323,665	15
	c) Revaluation operating expenses associated with operating current assets		168,705	433,507	39
8.	**Other operating expenses**	**14**	**1,273,775**	**6,846,137**	**19**
	Operating profit or loss		**36,408,486**	**35,721,219**	**102**
9.	**Finance revenue from participating interests**	**15**	**44,152**	**20,451**	**216**
	d) Finance revenue from other investments		44,152	20,451	216
10.	**Finance revenue from loans granted**	**15**	**21,956**	**163,027**	**13**
	a) Finance revenue from loans to group companies		0	381	-
	b) Finance revenue from loans to others		21,956	162,646	13
11.	**Finance revenue from operating receivables**	**15**	**486,550**	**686,833**	**71**
	b) Finance revenue from operating receivables due from others		486,550	686,833	71
12.	**Finance expenses for impairment and write-off of financial assets**	**14**	**0**	**291,000**	**-**
13.	**Finance expenses for financial liabilities**	**14**	**74,726**	**64,396**	**116**
14.	**Finance expenses for operating liabilities**	**14**	**917,405**	**1,685,322**	**54**
	b) Finance expenses for trade payables and bills payable		494,350	301,426	164
	c) Finance expenses for other operating liabilities		423,055	1,383,896	31
15.	**Other revenue**	**15**	**66,988**	**11,081**	**605**
16.	**Other expenses**	**14**	**12,346**	**11,003**	**112**
	Profit or loss before tax		**36,023,655**	**34,550,892**	**104**
17.	**Corporate income tax**	**16**	**5,375,584**	**6,351,394**	**85**
18.	**Deferred taxes**	**16**	**-89,888**	**565,799**	**-**
19.	**Net profit or loss for the period**		**30,558,183**	**28,765,297**	**106**
	Basic earnings per share[1]		**37.51**	**35.31**	**106**
	Diluted earnings per share[2]		**37.51**	**35.31**	**106**

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

[1] Net profit / number of shares

[2] All shares are ordinary, freely transferable and of the same class.

Statement of Other Comprehensive Income for the Period from 1 January to 31 December

In EUR

		YEAR 2018	YEAR 2017	Index 18/17
19.	**Net profit or loss for the period**	**30,558,183**	**28,765,297**	**106**
23.	Other components of comprehensive income	-401,421	-858,672	47
24.	**Total comprehensive income for the period (19+23)**	**30,156,762**	**27,906,625**	**108**

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

Statement of Changes in Equity and Determination of Distributable Profit

In EUR

Statement of Changes in Equity for 2018	Share capital	Capital surplus	Revenue reserves				Fair-value reserves	Profit or loss brought forward	Net profit or loss for the year	Total equity
			Legal reserves	Reserves for treasury shares	Treasury shares	Other revenue reserves				
	I/1	II	III/1	III/2	III/3	III/5	V	VI	VII/1	VIII
A2. Opening balance for the period	**20,396,244**	**44,284,976**	**16,931,435**	**238,926**	**-238,926**	**64,623,116**	**-1,265,277**	**-23,965**	**21,573,973**	**166,520,502**
B1. Changes in equity - transactions with owners				**1,125,177**	**-1,125,177**			**21,546,890**		**21,546,890**
d) Acquisition of treasury shares				1,125,177	-1,125,177					0
g) Payment of dividends								21,546,890		21,546,890
B2. Total comprehensive income for the reporting period							**-401,421**	**-79,728**	**30,558,183**	**30,077,034**
a) Net profit or loss for the reporting period									30,558,183	30,558,183
č) Change in surplus from revaluation of termination benefits							-401,421	-79,728		-481,149
B3. Changes in equity						**6,514,366**		**21,573,973**	**-29,213,519**	**-1,125,180**
b) Allocation of part of net profit of the reporting period to other equity components according to the resolutions of the management and supervision bodies						7,639,546		21,573,973	-29,213,519	0
d) Formation of reserves for treasury shares						-1,125,180				-1,125,180
C. Closing balance for the period	**20,396,244**	**44,284,976**	**16,931,435**	**1,364,103**	**-1,364,103**	**71,137,482**	**-1,666,698**	**-76,610**	**22,918,637**	**173,925,466**
DISTRIBUTABLE PROFIT OR ACCUMULATED LOSS								**-76,610**	**22,918,637**	**22,842,027**

In EUR

Statement of Changes in Equity for 2017	Share capital	Capital surplus	Revenue reserves				Fair-value reserves	Profit or loss brought forward	Net profit or loss for the year	Total equity
			Statutory reserves	Reserves for treasury shares	Treasury shares	Other revenue reserves				
	I/1	II	III/1	III/2	III/3	III/5	V	VI/1	VII/1	VIII
A2. Opening balance for the period	**20,396,244**	**44,284,976**	**16,931,435**	**238,926**	**-238,926**	**57,431,792**	**-431,863**	**34,212**	**7,319,998**	**145,966,794**
B1. Changes in equity - transactions with owners								**7,352,917**		**7,352,917**
g) Payment of dividends								7,352,917		7,352,917
B2. Total comprehensive income for the reporting period							**-833,414**	**-25,258**	**28,765,297**	**27,906,625**
a) Net profit or loss for the reporting									28,765,297	28,765,297
č) Changes in surplus from revaluation of termination benefits							-833,414	-25,258		-858,672
B3. Changes in equity						**7,191,324**		**7,319,998**	**-14,511,322**	**0**
a) Allocation of remaining net profit of the comparative reporting period to other equity components								7,319,998	-14,511,322	-7,191,324
b) Allocation of part of net profit of the reporting period to other equity components according to the resolutions of the management and supervision bodies						7,191,324				7,191,324
C. Closing balance for the period	**20,396,244**	**44,284,976**	**16,931,435**	**238,926**	**-238,926**	**64,623,116**	**-1,265,277**	**-23,965**	**21,573,973**	**166,520,502**
DISTRIBUTABLE PROFIT OR ACCUMULATED LOSS								**-23,965**	**21,573,973**	**21,550,008**

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

Cash Flow Statement

In EUR

		YEAR 2018	YEAR 2017	Index 18/17
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
a)	**Net profit or loss**	**30,558,183**	**28,765,297**	**106**
	Profit or loss before tax	36,023,655	34,550,892	104
	Income tax and other taxes not included in operating expenses	5,465,472	5,785,595	94
b)	**Adjustments for**	**12,021,293**	**12,739,506**	**94**
	Amortisation and depreciation +	12,172,175	12,352,786	99
	Revaluation operating revenues -	302,935	186,973	162
	Revaluation operating expenses +	218,161	757,171	29
	Finance revenue excluding that from operating receivables -	66,108	183,478	36
c)	**Change in net operating current assets (and accruals and deferrals, provisions, deferred tax assets and liabilities) of operating items in the balance sheet**	**-8,381,235**	**-5,296,679**	**158**
	Opening less closing operating receivables	9,951,884	-7,763,937	-
	Opening less closing deferred costs and accrued revenues	66,001	66,522	99
	Opening less closing deferred tax assets	89,888	-565,799	-
	Opening less closing inventories	-4,887,946	-10,745,372	45
	Closing less opening operating liabilities	-12,413,074	8,413,674	-
	Closing less opening accrued costs and deferred revenues, and provisions	-1,188,088	5,298,233	-
č)	**Net cash flow from from operating activities (a+b+c)**	**34,198,241**	**36,208,124**	**94**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
a)	**Receipts from investing activities**	**369,043**	**370,451**	**100**
	Receipts from interest and profit participations			
	in other entities pertaining to investing activities	66,108	183,478	36
	Receipts from disposal of property, plant and equipment	302,935	186,973	162
b)	**Disbursements for investing activities**	**22,855,982**	**15,756,133**	**145**
	Disbursements for acquisition of intangible assets	112,047	224,238	50
	Disbursements for acquisition of property, plant and equipment	22,496,254	15,531,895	145
	Disbursements for acquisition of financial assets	247,681	0	-
c)	**Net cash flow from investing activities (a-b) or (b-a)**	**-22,486,939**	**-15,385,682**	**146**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
b)	**Disbursements for financing activities**	**22,679,322**	**7,403,050**	**306**
	Disbursements for repayment of financial liabilities	6,896	39,285	18
	Expenses for redemption of treasury shares	1,125,180	0	-
	Disbursements for dividends and other profit distributions	21,547,246	7,363,765	293
c)	**Net cash flow from financing activities (a-b) or (b-a)**	**-22,679,322**	**-7,403,050**	**306**
D.	**CLOSING BALANCE OF CASH AND CASH EQUIVALENTS**	**33,483,395**	**44,451,415**	**75**
x)	**Cash flow for the period (sum total of items Ad, Bc and Cc)**	**-10,968,020**	**13,419,392**	**-**
y)	**Opening balance of cash and cash equivalents as at 1 Jan**	**44,451,415**	**31,032,023**	**143**

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

NOTES TO THE FINANCIAL STATEMENTS

I BASES FOR COMPILATION OF THE FINANCIAL STATEMENTS

Statement of Compliance

The Company's financial statements were prepared in accordance with the Slovenian Accounting Standards 2016 (hereinafter 'SAS'), Rules of Diligent Accounting (hereinafter 'PSR'), provisions of the Companies Act, Corporate Income Tax Act, Rules on Accounting and Finances and the Company's organisational acts.

The Company prepares its financial statements according to the going concern principle.

Bases for Measurement

When disclosing and valuing individual items of the financial statements, standards are applied directly, with the exception of the valuation of items, for which the standards provide the Company with a choice between different valuation methods, which is defined by accounting policies.

The financial statements were prepared by observing the initial cost, with exception of the available-for-sale financial assets. The methods used for the measurement of fair value are described under individual items of accounting policies.

The balance sheet has the form of a sequential report defined in SAS 20.4. and the Companies Act (ZGD-1). Balance sheet items are disclosed according to carrying amount, which is the difference between total value and value adjustment.

Assets are initially valued according to initial cost (purchase price, cost value) and subsequently, in the event of impairment, as the lower of the following two options: carrying amount or the recoverable amount. The recoverable amount is the higher of the following two: either the fair value net of selling costs or the value of asset in use, whichever is higher.

Liabilities are initially valued at cost. Subsequently, the carrying amount of liabilities upon the assumption of prudence is the higher of the following two values: historical cost or fair value.

The principle of individual valuation of items of assets and liabilities was applied.

Revenues and expenses are accounted when they occur and recorded in the accounting period, to which they pertain.

Functional and Presentation Currency

The financial statements and notes thereto were compiled in euros without cents. Accounting information presented in euros in the Business Report was rounded.

Application of Estimates and Judgements

When compiling financial statements, the management must provide estimates, judgements and assumptions that affect the application of accounting policies and disclosed values of assets, liabilities, revenues and expenses. Actual results may deviate from these estimates.

Estimates and assumptions must be reviewed regularly. Adjustments to accounting estimates are recognised for the period in which estimates are adjusted, provided they affect only this period, and for future periods, which are affected by the adjustments. Information on significant uncertainty estimates and decisive judgements that were prepared by the management within the process of accounting policy implementation and which affect the amounts in the financial statements the most is described in the notes.

II ACCOUNTING POLICIES

The Company has applied the same accounting policies to all periods presented in the enclosed financial statements.

For transactions that are originally executed in foreign currencies, the recalculation of business events during the year observes the exchange rate of a commercial bank or the middle exchange rate of the Bank of Slovenia. Assets and liabilities expressed in a foreign currency were converted at the middle exchange rate of the Bank of Slovenia as at the reporting date.

Intangible Assets and Long-Term Deferred Costs and Accrued Revenues

Internally generated costs of development are recognised as an intangible asset. The recognition of an intangible asset is reversed and eliminated from the books of account and from the balance sheet on disposal or when no future economic benefits are expected from its further use and subsequent disposal.

Other intangible assets have a defined useful life and are disclosed at cost reduced by amortisation adjustment and any accumulated impairment losses. The cost also includes the cost of borrowing until the creation of an intangible asset.

Subsequent expenditures relating to intangible assets are capitalised when they increase future economic benefits of the asset to which they relate.

The Company uses the straight-line depreciation method. Amortisation rates are determined according to the expected useful life. Amortisation is accounted individually until the value that forms the basis for the calculation of amortisation is replaced in full, whereby amortisation begins when an intangible asset with a fixed useful life becomes available for use.

Estimated useful lives for the current and comparative period are:

Software:	2 to 10 years
Technical and project documentation:	8 to 40 years
Easements:	20 years

Amortisation rates did not change in 2018 as compared to the year before.

Property, Plant and Equipment

Property, plant and equipment of the Company include land, buildings, manufacturing equipment and other property, plant and equipment, small tools, property, plant and equipment under construction and in production and advances for the acquisition of property, plant and equipment.

The Company applies the cost model. The cost is composed of the costs that can be directly attributed to the acquisition of an individual item of fixed assets (import and non-refundable purchase taxes as well as costs that can be directly attributed to the asset being brought to working condition for intended use, especially the cost of transport and installation). The Company uses the cost model and records property, plant and equipment according to their cost reduced by accumulated depreciation and impairment losses. The cost also comprises borrowing costs related to the acquisition of an asset and incurred until it is brought to working condition for its intended use.

The cost of a self-constructed item of property, plant and equipment comprises the cost of constructing or producing the asset (cost of materials, labour, services of external contractors and services of the Company’s business units) that relate directly to the asset and the general cost of constructing or producing the asset that can be attributed to the asset being brought to working condition for its intended use.

The cost of an item of property, plant and equipment is distributed among its components if their value is significant, if they have different useful lives relevant given the total cost of such item and are accounted as a separate asset.

Subsequent expenditure on an item of property, plant and equipment increases its cost in case of a replacement and if it is probable that its future economic benefits will exceed the ones originally assessed. In the event of subsequent expenditure on a fully depreciated item of property, plant and equipment, such item is recognised as a new asset with a new useful life.

The Company uses the straight-line depreciation method. Depreciation rates are determined according to the expected useful life. Depreciation is accounted individually until the value that forms the basis for the calculation of depreciation is replaced in full, whereby depreciation begins on the first day of the month following the month when the asset becomes available for use. Land and fixed assets of artistic and cultural importance are not depreciated.

Estimated useful lives for the current and comparative period are:

Buildings:	5 to 71 years
Manufacturing equipment:	2 to 30 years
Other equipment:	2 to 5 years

Depreciation rates did not change in 2018 as compared to the year before.

Financial Assets

In the balance sheet, financial assets are disclosed as long-term and short-term financial assets. Long-term financial assets are investments that the Company intends to hold for a period longer than one year and which are not held for trading.

Equity investments, equity securities of other companies or debt securities of other companies or the state are valued at fair value upon initial recognition increased by direct costs of acquisition of the investment.

Long-term investments in subsidiaries and affiliates are valued in the financial statements at cost less any impairments. Profit participations increase finance revenue.

If there is unbiased evidence of a financial asset being impaired in the long-term, the impairment is recognised in the statement of profit or loss as a finance expense.

Investments into debt and equity securities, with the exception of investments into subsidiaries, are treated as available-for-sale investments and are measured at fair value in the financial statements. These financial instruments are recognised or reversed as at the date of the transaction. Fair value of available-for-sale securities listed on the stock exchange equals the published average price per share as at the balance sheet date. Changes in the fair value of an investment into securities listed on an organised securities market are disclosed by the Company as an increase in fair value reserve or a decrease in this reserve. Fair value of shares and shareholdings in unlisted companies is estimated based on the most recent transactions or based on a different valid valuation method. If the fair value of shares and shareholdings in unlisted companies does not allow valuation based on the most recent transactions or based on a different valid valuation method and there is unbiased evidence of a decrease in the value of such shares and shareholdings, their value is impaired in line with the unbiased evidence.

Financial assets are measured at fair value upon initial recognition. Financial assets that do not have a price published on an active market and the fair value of which cannot be reliably measured, are measured at cost less impairments.

Inventories

The Company records inventories of raw materials and materials as well as support materials, packaging and merchandise at cost including all dependent purchasing costs. When disclosing inventories and consumption of materials, the Company uses fixed prices with deviations. Consumption of basic raw materials is recorded according to the FIFO method, while the consumption of other inventories of materials and goods is recorded according to the weighted average prices method.

Inventories of raw materials and materials without changes are revalued for impairment by writing down values according to the following criteria:

- third year:	25 %
- fourth year:	50 %
- fifth year:	100 %

Inventories of work-in-progress, semi-finished products and finished products are valued at production costs which include direct costs of material, wages, production services, depreciation and a portion of general production costs of manufacturing cost centres, comprising costs of material, maintenance, insurance and a portion of costs of other services. When disclosing inventories of work-in-progress and finished products, the Company uses fixed prices (AVC) with deviations. Transfer of costs from inventories is performed according to the weighted average price method.

Inventories of work-in-progress and finished products without changes are revalued for impairment by writing down values according to the following criteria:

- second year:	25 %
- third year:	50 %
- fourth year:	100 %

Receivables

Receivables are initially recognised at amounts arising from relevant documents under the assumption that they will be paid.

Receivables presumed not be settled or settled in their entirety are considered doubtful receivables, or, in the case of litigation, as disputed receivables. The Company accounts for their value adjustment to the debit of revaluation operating expenses relating to receivables.

Revaluation of trade receivables and other operating receivables is based on individual judgement of their risk level.

Receivables expressed in a foreign currency are translated to euros, the functional currency of the Company, as at the reporting date. An increase in receivables increases finance revenue, while a decrease in receivables increases finance expenses.

Cash and Cash Equivalents

Cash and cash equivalents comprise: cash on hand, funds in transaction and foreign currency accounts, bank deposits with maturity of 3 months and less, and similar investments intended for ensuring solvency. Upon initial recognition, cash is disclosed in amounts that arise from relevant documents, based on which rights associated therewith are managed.

Equity

The Company's total equity comprises: called-up capital, capital surplus, revenue reserves, fair value reserve, retained earnings or accumulated losses and previously undistributed net profit or unsettled loss for the financial year.
Called-up capital comprises the basic share capital that is nominally defined in the Company's Articles of Association and comprises ordinary shares.

Treasury shares: upon redemption of treasury shares disclosed as part of share capital, the amount of the consideration paid including the costs that are directly related to the redemption exclusive of any tax effects is recognised as a change in equity. Redeemed shares are disclosed as treasury shares and are deducted from equity. Upon the sale or re-issue of treasury shares, the amount received is disclosed as a capital increase, while the thus obtained surplus or shortage of the transaction is transferred to capital surplus or retained earnings.

Capital surplus comprises the capital surplus formed within the procedure of ownership transformation and the general revaluation adjustment of capital that included the revalorisation of share capital prior to 2002 in accordance with the SAS valid at the time. The general revaluation adjustment of the Company's capital was transferred to capital surplus on 1 January 2006 because of the transition to the new SAS (2006).

Revenue reserves are appropriated retained earnings from the Company's net profit from previous years, which serve primarily for settling potential future loss. They comprise: legal reserves, reserves for treasury shares or own shareholdings, treasury shares or own shareholdings (as a deduction item), statutory reserves and other revenue reserves.

Retained earnings comprise that part of net profit neither distributed to equity owners as dividends or other participations nor earmarked for reserves.

Fair value reserves relate to the change in fair value of equity investments in other companies that are measured at fair value through equity. Fair value reserves also include the costs of repeated measurement of post-employment benefits (actuarial gains/losses) arising due to a change in the present value of payables for termination benefits upon retirement.

Provisions and Long-Term Accrued Costs and Deferred Revenues

Provisions are recognised when the Company has present legal or indirect obligations as a result of a past event, the amount of which can be reliably estimated and it is probable that the settlement of the obligation will result in an outflow of resources embodying economic benefits. The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the reporting date. The Company recognises provisions against the relevant expenses or costs once the respective conditions have been met.

Provisions for termination benefits and jubilee benefits: pursuant to the law, the collective agreement and internal rules, the Company is obliged to pay its employees jubilee benefits and termination benefits upon retirement, for which long-term provisions are formed. There are no other pension liabilities. Provisions are established in the amount of estimated future disbursements for termination benefits and jubilee benefits, discounted at the balance sheet date.

Environmental provisions are established as the best estimate of the costs associated with the operation of landfills owned by the Company for the coverage of long-term obligations.

Deferred revenues: government grants are recognised in the financial statements when they are received and when there is reasonable assurance that the Company will comply with the conditions attached to them. Deferred revenues received for the coverage of costs are recognised strictly and consistently as revenue in the periods in which the relevant costs, which deferred revenues are supposed to replace, are incurred. Government grants associated with assets are strictly and consistently recognised in the statement of profit or loss among other operating revenues during the useful life of an individual asset.

Liabilities

Long-term liabilities are disclosed as long-term financial liabilities and long-term operating liabilities. Long-term financial liabilities comprise liabilities arising from loans received. They are increased by accrued interest or decreased by repaid amounts and any other settlements provided there is an agreement for this with the creditor. The carrying amount of long-term liabilities equals their initial cost reduced by the repayment of the principal and transfers to short-term liabilities until the need for revaluation arises.

Within the scope of short-term liabilities, short term financial liabilities and short-term operating liabilities are disclosed separately. Short-term financial liabilities comprise liabilities arising from loans received. Short-term operating liabilities are liabilities arising from the purchase of products or services, liabilities arising from the work performed, liabilities to state institutions and other liabilities due in less than a year.

Liabilities expressed in a foreign currency are translated to euros, which is the functional currency of the Company, as at the date they are incurred. Exchange rate difference that occurs by the settlement date or the reporting date is recorded under finance expenses or revenue.

Short-Term Deferred and Accrued Items

Short-term deferred costs and accrued revenues comprise short-term deferred costs and expenses. In line with the established methodology for deferring the costs of annual liabilities, deferred costs of holiday pay, paid insurance premiums and other short-term costs are disclosed during the year. As at the reporting date, the Company discloses prepaid purchasing costs of raw materials and the costs relating to the future balance sheet period. The Company also discloses VAT from received advances among short-term deferred costs and accrued revenues.

Short-term accrued costs and deferred revenues include short-term accrued costs (expenses) and short-term deferred revenues (income). In line with the established methodology for deferring the costs of annual liabilities, planned operating liabilities are deferred during the year, while accounted revenues during the year arising from the sale of products and services are recorded among short-term deferred revenues. The Company discloses accounted unused rights to annual leave among short-term accrued costs and deferred revenues. Short-term accrued costs and deferred revenues also comprise VAT from advances given.

Revenues

Revenues are recognised if the increase in economic benefits in the accounting period is associated with an increase in the value of an asset or a decrease in liabilities, and if the increase can be reliably measured. Revenues are recognised when it is reasonable to expect that they will lead to receipts if these have not been realised upon their occurrence.

<u>Operating Revenues</u>
Revenues from sales of products and goods are recognised at fair value of the received repayment or receivable arising therefrom, whereby they are decreased by refunds and discounts, rebates for resale and quantity-related discounts. Revenues are disclosed when the buyer assumes all significant forms of risks and benefits associated with the ownership

of the asset, when there is certainty regarding the repayment of the compensation and the associated costs or options of product returns, and when the Company ceases further decision-making with regard to sold products.

Revenues from rendered services are recognised depending on the level of completion of the transaction as at the reporting date. The level of completion is assessed by a review of the work performed. Revenues based on received subsidies or grants are measured according to the amounts received for this purpose.

Revaluation operating revenues arise upon disposal of intangible assets and items of property, plant and equipment as surpluses from their sales value above their carrying amount.

Finance revenue comprises revenue from interest received from investments, dividend revenue, revenue from disposal of available-for-sale financial assets, foreign exchange gains and profit from hedging instruments that are recognised in the statement of profit or loss. Interest revenue is recognised upon occurrence using the effective interest rate method. Dividend revenue is recognised in profit or loss when the Company obtains the right to receive payment.

Other revenues consist of extraordinary, unusual items. They are disclosed in amounts that actually occurred.

Expenses

Expenses are recognised if the decrease in economic benefits in the accounting period is associated with the decrease in an asset or an increase in liabilities, and if the decrease can be reliably measured.

Operating expenses are recognised when material is used or the service is rendered and in the period to which they relate.

Revaluation operating expenses occur in relation to property, plant and equipment, intangible assets and operating current assets because of their impairment.

Finance expenses comprise the costs of interest on loans, foreign exchange losses and losses from impairment of financial assets that are recognised in the statement of profit or loss. Borrowing costs are recognised in the statement of profit or loss according to the effective interest rate method.

Other expenses comprise unusual items that are disclosed in the actually incurred amounts.

Corporate Income Tax

Corporate income tax for the financial year comprises current (assessed) tax and deferred tax. Corporate income tax is disclosed in the statement of profit or loss, with the exception of the portion related to items that are disclosed directly in equity. Taxable profit differs from net profit reported in the statement of profit or loss because it is exclusive of items of revenues and expenditures that are taxable or deductible in other years and items that are never taxable or deductible.

Current tax is the expected tax payable on taxable profit for the year, using tax rates enacted and applicable at the reporting date.

Deferred tax is disclosed according to the balance sheet liability method, whereby temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and amounts for tax reporting purposes are observed. Deferred tax is disclosed in the amount that is expected to be payable upon elimination of temporary differences pursuant to the law enacted or essentially enacted as at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that taxable profit will be available against which the deferred asset can be utilised. Deferred tax assets are decreased by the amount for which it is no longer probable that it can be claimed as tax relief related to the asset.

Segment Reporting

A segment is a recognisable component part of the Company that deals with particular products or services (business segment) or products and services in separate, geographically defined economic environment (geographical segment) and differs from other segments in terms of risks and returns. Information by segment is disclosed for geographical and business segments of the Company. The Company's segment reporting is based on geographical segments supported by the method of management within the Company and the internal reporting system.

The Company's geographical segments are Slovenia, European Union, third countries and markets of the former Yugoslavia.

Profit or loss by business segment is disclosed as the difference between operating revenues and expenses by taking into account revenues and expenses that can be attributed directly to a particular segment, which excludes revenue and expenses from revaluation that cannot be reasonably allocated to business segments. Smaller business segments are merged into a single category as they are immaterial and because detailed disclosures could also cause significant damage to the Company.

III NOTES

1 Intangible Assets and Long-Term Deferred Costs and Accrued Revenues

In EUR

Group of intangible assets for 2018	Cost		Adjustment		Carrying amount	
	1 Jan 2018	31 Dec 2018	1 Jan 2018	31 Dec 2018	1 Jan 2018	31 Dec 2018
Long-term property rights	5,287,625	5,383,924	3,699,978	3,972,105	1,587,647	1,411,819
Other intangible assets	54,760	0	0	0	54,760	0
Assets being acquired	0	12,909	0	0	0	12,909
TOTAL	**5,342,385**	**5,396,833**	**3,699,978**	**3,972,105**	**1,642,407**	**1,424,728**

In EUR

Group of intangible assets for 2017	Cost		Adjustment		Carrying amount	
	1 Jan 2017	31 Dec 2017	1 Jan 2017	31 Dec 2017	1 Jan 2017	31 Dec 2017
Long-term property rights	5,103,463	5,287,625	3,429,113	3,699,978	1,674,350	1,587,646
Other intangible assets	52,245	54,760	0	0	52,245	54,760
Assets being acquired	20,097	0	0	0	20,097	0
TOTAL	**5,175,805**	**5,342,385**	**3,429,113**	**3,699,978**	**1,746,692**	**1,642,406**

In 2018, the Company increased long-term property rights from investments in software and project documentation. Decreases in intangible assets relate to amortisation and disposal of other intangible assets. Other intangible assets (other long-term deferred costs and accrued revenues) comprise emission coupons received from the state free of charge, which are valued at EUR 1 each in accordance with Note 1 to the SAS 2/2016. The Company obtained 50,255 coupons in 2018 and was obliged to present 24,825 coupons for CO2 emissions in 2018. The Company sold the remaining 80,190 coupons and discloses this amount under other operating revenue.

<u>Changes in intangible assets</u>

In EUR

2018	Long-term property rights	Other long-term deferred costs and accrued revenues	Assets being acquired	TOTAL
COST				
Balance as at 1 Jan 2018	5,287,625	54,760	0	**5,342,385**
Increases		50,255	112,047	**162,302**
Transfer from assets under acquisition	99,138	0	-99,138	**0**
Decreases	2,839	105,015	0	**107,854**
Balance as at 31 Dec 2018	5,383,924	0	12,909	**5,396,833**
ADJUSTMENT				
Balance as at 1 Jan 2018	3,699,978	0	0	**3,699,978**
Amortisation for the current year	274,966	0	0	**274,966**
Decreases	2,839	0	0	**2,839**
Balance as at 31 Dec 2018	3,972,105	0	0	**3,972,105**
CARRYING AMOUNT				
Balance as at 1 Jan 2018	1,587,646	54,760	0	**1,642,406**
Balance as at 31 Dec 2018	1,411,819	0	12,909	**1,424,728**

A part of long-term property rights relates to easements disclosed under land in compliance with SAS 2016 (2.39).

2 Property, Plant and Equipment

In EUR

Group of property, plant and equipment for 2018	Cost		Adjustment		Carrying amount	
	1 Jan 2018	31 Dec 2018	1 Jan 2018	31 Dec 2018	1 Jan 2018	31 Dec 2018
Land	10,711,758	10,767,363	837,046	909,387	9,874,712	9,857,976
Buildings	114,138,492	117,642,330	72,859,648	75,569,282	41,278,843	42,073,048
Equipment	215,083,183	211,413,712	183,325,451	175,739,792	31,757,732	35,673,920
Assets being acquired	8,611,333	14,461,532	0	0	8,611,333	14,461,532
Advances	2,373,148	598,110	4,158	4,158	2,368,990	593,952
TOTAL	**350,917,914**	**354,883,047**	**257,026,303**	**252,222,619**	**93,891,611**	**102,660,428**

In EUR

Group of property, plant and equipment for 2017	Cost		Adjustment		Carrying amount	
	1 Jan 2017	31 Dec 2017	1 Jan 2017	31 Dec 2017	1 Jan 2017	31 Dec 2017
Land	10,711,758	10,711,758	764,704	837,046	9,947,054	9,874,712
Buildings	112,217,142	114,138,492	70,471,829	72,859,648	41,745,313	41,278,843
Equipment	215,816,621	215,083,183	178,762,480	183,325,451	37,054,141	31,757,732
Assets being acquired	2,001,595	8,611,333	0	0	2,001,595	8,611,333
Advances	1,470,596	2,373,148	4,158	4,158	1,466,438	2,368,990
TOTAL	**342,217,712**	**350,917,914**	**250,003,171**	**257,026,303**	**92,214,541**	**93,891,611**

Changes in property, plant and equipment

In EUR

2018	Land	Buildings	Production and other equipment	Total	Assets being acquired	Advances	TOTAL
COST							
As at 1 Jan 2018	10,711,758	114,138,491	215,083,183	339,933,432	8,611,334	2,373,148	**350,917,914**
Increases	60,000	0	0	60,000	22,436,253	1,205,495	**23,701,748**
Transfer from assets under acquisition	0	3,661,389	12,924,665	16,586,054	-16,586,054	-2,980,534	**-2,980,534**
Decreases	4,395	157,550	16,594,137	16,756,082	0	0	**16,756,082**
As at 31 Dec 2018	10,767,363	117,642,330	211,413,711	339,823,404	14,461,532	598,109	**354,883,045**
ADJUSTMENT							
As at 1 Jan 2018	837,046	72,859,649	183,325,451	257,022,146	0	4,157	**257,026,303**
Depreciation for the year	72,341	2,843,698	8,981,168	11,897,207	0	0	**11,897,207**
Decreases and transfers	0	90,523	16,567,198	16,657,721	0	0	**16,657,721**
Additions and transfers	0	43,542	370	43,912	0	0	**43,912**
As at 31 Dec 2018	909,387	75,569,282	175,739,791	252,218,460	0	4,157	**252,222,617**
CARRYING AMOUNT							
As at 1 Jan 2018	9,874,712	41,278,842	31,757,732	82,911,286	8,611,334	2,368,991	**93,891,611**
As at 31 Dec 2018	9,857,976	42,073,048	35,673,920	87,604,944	14,461,532	593,952	**102,660,428**

In 2018, the Company disclosed an increase in property, plant and equipment resulting from the difference between the value of invested funds and accounted depreciation.

Land also includes disclosed easements in compliance with SAS 2016 (2.39) in the amount of EUR 551,387. The increase in the cost of land arises from acquisition of land in the amount of EUR 60,000, whilst the decrease in land refers to amortisation of easement rights for the 2018 financial year of EUR 72,342.

The Company holds no assets under finance lease. As at 31 December 2018, the Company also had no assets pledged as collateral.

3 Financial Investments

Long-Term Financial Assets

In EUR

Group of long-term financial assets for 2018	Cost		Adjustment		Carrying amount	
	1 Jan 2018	31 Dec 2018	1 Jan 2018	31 Dec 2018	1 Jan 2018	31 Dec 2018
Cinkarna BH, d. o. o.	580,503	580,503	580,503	580,503	0	0
Other investments	950,363	950,363	0	0	950,363	950,363
TOTAL	**1,530,866**	**1,530,866**	**580,503**	**580,503**	**950,363**	**950,363**

In EUR

Group of long-term financial assets for 2017	Cost		Adjustment		Carrying amount	
	1 Jan 2017	31 Dec 2017	1 Jan 2017	31 Dec 2017	1 Jan 2017	31 Dec 2017
Cinkarna BH, d. o. o.	580,503	580,503	339,503	580,503	241,000	0
Other investments	950,363	950,363	0	0	950,363	950,363
Long-term loans	613	0	0	0	613	0
- of which the short-term part	-613	0	0	0	-613	0
TOTAL	**1,530,866**	**1,530,866**	**339,503**	**580,503**	**1,191,363**	**950,363**

2018	Elekto Celje, d. d.	Elektro Maribor, d.d.
No. of ordinary shares	165,818	18,350
Cost of a share in EUR	5.10	5.50
Value in books of account in EUR	5.10	5.50

The financial statements of the subsidiary Cinkarna - BH, d. o. o., Tuzla are not consolidated in compliance with Article 2 of the Rules on Accounting and Finances of the company Cinkarna Celje, d. d. and the seventh paragraph of Article 56 of the Companies Act. The criterion of materiality of the items is at the level of five-percent share in total revenues, sales, equity and assets of the parent company.

Cinkarna - BH, d.o.o., Tuzla is in the simple liquidation procedure and will be completely liquidated in the beginning of 2019.
In 2018, the subsidiary did not supply products to the Company as it is in the liquidation procedure and will be terminated in Q1 2019. The subsidiary's assets are disposed of for the most part.

As at 31 December 2018, the parent company Cinkarna Celje, d. d discloses in relation to the subsidiary Cinkarna BH, d.o.o., Tuzla overdue receivables in the amount of EUR 17,027, which were completely impaired in 2017. Their settlement is anticipated for 2019, when the remaining assets of the subsidiary are to be sold off.

Cinkarna Celje, d. d. has no other subsidiaries or associates and does not transact with other related entities.

Changes in Long-Term Financial Assets

In EUR

2018	Long-term investments		
	Cinkarna BH, d.o.o.	Other investments	Total
COST			
Balance as at 1 Jan 2018	580,503	950,363	**1,530,866**
Balance as at 31 Dec 2018	580,503	950,363	**1,530,866**
ADJUSTMENT			
Balance as at 1 Jan 2018	580,503	0	**580,503**
Balance as at 31 Dec 2018	580,503	0	**580,503**
CARRYING AMOUNT			
Balance as at 1 Jan 2018	0	950,363	**950,363**
Balance as at 31 Dec 2018	0	950,363	**950,363**

As at 31 December 2018, the carrying amount of the investment in subsidiary Cinkarna BH, d. o. o equals 0 as the Company completely impaired the investment in 2017 due to its liquidation.
As at 31 December 2018, the Company has no long-term financial loans. Members of the Management Board and the Supervisory Board also received no long-term loans.

Short-Term Financial Assets

In EUR

Group of investments for 2018	Investment value		Adjustment		Net investments	
	1 Jan 2018	31 Dec 2018	1 Jan 2018	31 Dec 2018	1 Jan 2018	31 Dec 2018
Short-term loans to group companies	50,000	50,000	0	50,000	50,000	0
Short-term loans to others	0	200,000	0	0	0	200,000
Fair value of derivative financial instruments	0	47,681	0	0	0	47,681
TOTAL	**50,000**	**297,681**	**0**	**50,000**	**50,000**	**247,681**

In EUR

Group of investments for 2017	Investment value		Adjustment		Net investments	
	1 Jan 2017	31 Dec 2017	1 Jan 2017	31 Dec 2017	1 Jan 2017	31 Dec 2017
Short-term loans to group companies	50,000	50,000	0	50,000	50,000	0
Short-term part of long-term investments	613	0	0	0	613	0
TOTAL	**50,613**	**50,000**	**0**	**50,000**	**50,613**	**0**

The short-term loan given to the subsidiary in 2016 in the amount of EUR 50,000 is impaired entirely as at 31 December 2018 due to the liquidation of the subsidiary (impairment was performed in 2017). Short-term loan in the amount of EUR 200,000 was granted to a sports association and will in compliance with the contract on cooperation represent sponsorship costs for the 2019 financial year. The loan is not secured.

The fair value of derivative financial instruments in the amount of EUR 47,681 refers to foreign exchange forwards.

4 Deferred Tax Assets and Liabilities

In EUR

Description	Assets	
	2018	2017
Balance as at 1 Jan	**2,648,509**	**2,082,710**
Increase during the year	70,045	729,453
Decrease during the year	159,933	163,654
Balance as at 31 Dec	**2,558,621**	**2,648,509**

The decrease in deferred tax assets relates to the use of provisions for jubilee and termination benefits and environmental provisions in the amount of EUR 86,974 and reversal of the allowance for receivables in the amount of EUR 72,958. The increase in deferred tax assets refers to one half of the formed provisions for jubilee benefits and termination benefits upon retirement in the amount of EUR 64,712 and the adjustment of assets in the amount of EUR 5,333.

Changes in the balance of deferred tax assets had a negative impact on the statement of profit or loss in the amount of EUR 89,888.

5 Inventories

In EUR

Group of inventories	31 Dec 2018	31 Dec 2017	Index 18/17	Realisable value
Material	26,042,456	25,594,946	102	26,042,456
Work-in-progress	2,483,963	1,727,210	144	2,483,963
Products	17,457,567	6,457,902	270	27,579,922
Merchandise	66,339	116,696	57	66,339
Advances given	16,687	7,417,853	0	16,687
TOTAL	**46,067,012**	**41,314,607**	**112**	**56,189,367**

Adjustment of inventories of material and merchandise was made additionally in 2018 in the amount of EUR 52,833 owing to revaluation, obsolescence and unserviceability. No material inventory differences were established in 2018.
Adjustment of EUR 29,356 was during the year made for the inventories of work-in-progress and finished products because of obsolescence and unserviceability. No inventory differences were established in 2018.

The value of inventories of finished products rose by as much as EUR 11,756,418 as compared to 2017. Inventories were not pledged as collateral. Net realisable value of inventories as at 31 December 2018 exceeded their carrying amount.

6 Operating Receivables

Short-Term Trade Receivables

In EUR

Group of receivables for 2018	Value of receivables		Allowance		Net receivables	
	1 Jan 2018	31 Dec 2018	1 Jan 2018	31 Dec 2018	1 Jan 2018	31 Dec 2018
Domestic buyers	4,536,058	3,592,386	421,964	406,481	4,114,094	3,185,905
International buyers	28,531,481	21,692,909	1,054,470	843,440	27,477,011	20,849,469
Exporting agents	981,573	320,063	0	0	981,573	320,063
Advances given	3,086	2,500	0	0	3,086	2,500
TOTAL	**34,052,198**	**25,607,858**	**1,476,434**	**1,249,921**	**32,575,764**	**24,357,937**

In EUR

Group of receivables for 2017	Value of receivables		Allowance		Net receivables	
	1 Jan 2017	31 Dec 2017	1 Jan 2017	31 Dec 2017	1 Jan 2017	31 Dec 2017
Domestic buyers	4,562,417	4,536,058	452,711	421,964	4,109,706	4,114,094
International buyers	20,291,707	28,531,481	955,351	1,054,470	19,336,356	27,477,011
Exporting agents	1,701,143	981,573	0		1,701,143	981,573
Advances given	7,214	3,086	0	0	7,214	3,086
TOTAL	**26,562,481**	**34,052,198**	**1,408,062**	**1,476,434**	**25,154,419**	**32,575,764**

Changes in Allowance for Short-Term Trade Receivables

In EUR

2018	Balance as at 1 Jan 2018	Allowance 2018	Allowance made in 2018	Reversal of allowance from previous periods	Settled receivables previously written off	Balance as at 31 Dec 2018
Domestic buyers	421,964	-647	2,933	17,256	513	406,481
International buyers	1,054,470	647	25,137	0	236,814	843,440
TOTAL	**1,476,434**	**0**	**28,070**	**17,256**	**237,327**	**1,249,921**

In EUR

2017	Balance as at 1 Jan 2017	Allowance made in 2017	Reversal of allowance from previous periods	Settled receivables previously written off	Balance as at 31 Dec 2017
Domestic buyers	452,712	1,252	9,970	22,030	421,964
International buyers	955,350	261,831	10,503	152,208	1,054,470
TOTAL	**1,408,062**	**263,083**	**20,473**	**174,238**	**1,476,434**

Trade Receivables by Maturity

In EUR

Geographical segment	Total receivables		Not yet due		Overdue							
					0 to 15 days		16 to 60 days		61 to 180 days		Over 180 days	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Domestic buyers	3,185,905	4,114,094	2,750,590	3,849,308	326,140	204,112	103,131	57,735	4,788	2,939	1,257	0
International buyers – EU and third countries	19,762,174	26,059,174	17,945,215	24,664,945	1,141,276	967,177	290,632	153,534	365,575	273,518	19,475	0
Buyers from the former Yugoslavia markets	1,087,295	1,417,837	799,340	1,138,719	39,102	193,299	218,493	85,819	30,360	0		0
Exporting agents	320,063	981,573	320,063	801,468	0	180,105	0	0	0	0	0	0
Advances given	2,500	3,086	2,500	3,086	0	0	0	0	0	0	0	0
TOTAL trade receivables	**24,357,937**	**32,575,764**	**21,817,708**	**30,457,526**	**1,506,518**	**1,544,693**	**612,256**	**297,088**	**400,723**	**276,457**	**20,732**	**0**

Receivables due from the subsidiary Cinkarna BH, d. o. o. amount to EUR 17,027 and were impaired entirely as at 31 December 2018.

Short-Term Receivables Due from Others

In EUR

Group of receivables	31 Dec 2018	31 Dec 2017	Ind. 18/17
VAT claims	1,372,102	1,656,437	83
Receivables from the state arising from overpaid withholding corporate income tax	446,527	0	-
Receivables due from institutions	67,995	212,967	32
Receivables due from employees	20,185	28,490	71
Other receivables	4,536	0	-
TOTAL	**1,911,345**	**1,897,894**	**101**

Receivables are not collateralised. The Company records no receivables due from the Management Board and Supervisory Board members.

7 Cash and Cash Equivalents

In EUR

Group of assets	31 Dec 2018	31 Dec 2017	Ind. 18/17
Cash on hand	282	263	107
Cash in transit	77	54	143
Cash in bank accounts	7,912,273	12,306,401	64
Short-term call deposits	25,570,322	28,294,172	90
Foreign currency assets in bank accounts	441	3,850,525	0
TOTAL	**33,483,395**	**44,451,415**	**75**

Cash is deposited with domestic banks with a fixed annual interest rate ranging from 0.01% to 0.50%.

8 Equity

In EUR

Equity items	31 Dec 2018	31 Dec 2017
Share capital	20,396,244	20,396,244
Capital surplus	44,284,976	44,284,976
Legal reserves	16,931,435	16,931,435
Reserves for treasury shares	1,364,106	238,926
Treasury shares	-1,364,106	-238,926
Other revenue reserves	71,137,482	64,623,116
Revaluation surplus	-1,666,698	-1,265,277
Retained earnings/accumulated loss	-76,610	-23,965
Net profit or loss for the year	22,918,637	21,573,973
TOTAL EQUITY	**173,925,466**	**166,520,502**

The Company's share capital comprises 814,626 freely transferable no-par value shares of the same class. All no par value shares have the same nominal value and have been paid up in full.

The company holds 2,149 treasury shares acquired on 18 June 2007 from D.S.U. – in liquidation for EUR 238,926 or EUR 111.18 per share and representing 0.26% of share capital. Pursuant to the resolution of the General Meeting of Shareholders, the Company redeemed in 2018 further 4,500 treasury shares totalling EUR 1,125,180, so that as at 31 December 2018 the Company discloses the total of 6,649 treasury shares accounting for 0.82% of share capital. The Company established reserves for own shares in the amount of newly redeemed treasury shares. In accordance with the same resolution of the General Meeting of Shareholders, the Management Board was authorised to cancel redeemed treasury shares at the expense of share capital decrease, which will be implemented on the day of entry in the Companies Register.

Participation of the Management Board in Equity

2018	**Number of shares**	**Share in equity (%)**
Tomaž Benčina	383	0.047
Nikolaja Podgoršek Selič	186	0.023
Marko Cvetko	31	0.004

2017	**Number of shares**	**Share in equity (%)**
Tomaž Benčina	383	0.047
Nikolaja Podgoršek Selič	186	0.023
Marko Cvetko	31	0.004

Fair value reserves include the costs of repeated measurement of post-employment benefits (actuarial gains/losses) arising due to a change in the present value of payables for termination benefits upon retirement.

In EUR

2018	**1 Jan 2018**	**Increase**	**Decrease**	**31 Dec 2018**
Revaluation surplus for long-term financial assets	1,277	0	0	1,277
Adjustment of surplus for deferred tax	0	0	0	0
Revaluation surplus - actuarial gains/losses	-1,266,554	79,728	481,149	-1,667,975
TOTAL	**-1,265,277**	**79,728**	**481,149**	**-1,666,698**

In EUR

2017	**1 Jan 2017**	**Increase**	**Decrease**	**31 Dec 2017**
Revaluation surplus for long-term financial assets	1,277	0	0	1,277
Adjustment of surplus for deferred tax	0	0	0	0
Revaluation surplus - actuarial gains/losses	-433,140	0	833,414	-1,266,554
TOTAL	**-431,863**	**0**	**833,414**	**-1,265,277**

On 5 June 2018, the Company's General Meeting voted in favour of the proposal on the use of distributable profit for 2017 in the amount of EUR 21,550,008. According to the adopted proposal, EUR 21,546,890 of distributable profit was paid as dividends. The remaining amount of EUR 3,118 was allocated to retained earnings.

9 Provisions and Long-Term Accrued Costs and Deferred revenues

Environmental Provisions

I. Provisions under 'Environmental provisions for the field of titanium dioxide production' (change in depositing the neutralising agent) were originally made in June 1994 in the ownership transformation procedure. The revalued amount as at 31 December 2006 equalled EUR 8.7 million, which represents 47% of assets invested. The amount of provisions is annually decreased by the same percentage of value of accounted depreciation of assets invested. The balance of provisions at the end of 2018 stood at EUR 4.4 million.

II. Provisions originally made for TENORM waste (low-level radioactive material) equalled EUR 5 million in accordance with the applicable price list of the Radioactive Waste Management Agency (ARAO). The balance as at the end of 2018 was EUR 4.9 million. Provisions were made based on the framework offer for incineration (Belgium) or long-term disposal at a radioactive waste disposal site. The value is applicable to either of the mentioned alternatives. In 2014, we ordered measurements of activity level of barrels in store and discussed the report together with the Slovenian Nuclear Safety Administration (URSJV). We received a guidance from them that according to the existing legislation the waste could be classified in the group with abandoned and the group with conditionally abandoned control. In compliance with the guidance, we ordered a safety assessment for exposed inhabitants in case of building in waste in the sealing layer of the covering at the non-hazardous waste landfill Bukovžlak (ONOB). We received the assessment and submitted it for review to URSJV, which confirmed it. However, in the continuation of the procedure of preliminary assessment of environmental impacts we were faced with the fact that waste could no longer be deposited at ONOB as the landfill was considered closed. In 2016, we were looking for a solution together with the Faculty of Civil and Geodetic Engineering Ljubljana, the Slovenian National Building and Civil Engineering Institute (ZAG) and the Jožef Stefan Institute (IJS) for recycling into "green concrete". A meeting was organised at ARSO with representatives of MOP, ARSO, URSJV, ZVD and Cinkarna. Cinkarna obtained principally favourable opinion from all participants, with the comment for the matter to be finally checked with MOP. Up to this day, Cinkarna has not yet received an official reply from MOP despite interventions. Based on unofficial information that MOP does not support waste depositing, Cinkarna started examining the possibility of incineration at the company Studsvik in Sweden. It turned out that their equipment made of ordinary steel can only tolerate 1% of sulphur in rubber. In the same year, Cinkarna contacted the French company SOCODEI. Suplhur content was again an issue and other components of rubber as well. They rejected incineration. We received a negative answer for taking over and destroying the waste in store also from Kemis. We checked orally with URSJV also the possibility of incineration in Anhovo, for example, but received a negative answer (it could not be expected that ARSO would allow it and the purification plant is certainly not suited to this purpose). On 20 December 2016, we did receive the extended permit to store source of radiation (temporary storage of TENORM waste) for the period of 10 years. The Company checked all known options for waste destruction or recycling and urgently needs the space occupied by the TENORM waste for the production process. In accordance with the legislation adopted by the Government of the Republic of Slovenia, we are as the producer of waste obliged to deliver radioactive waste for further management to the Radioactive Waste Management Agency. An assessment of costs for destroying the stored TENORM waste has been made for moving from our temporary storage facility to a radioactive waste storage facility. In 2017, we contacted the American company US Ecology, with which we confirmed the possibility to export waste for permanent storage in the state of Idaho. In 2018, we carried out re-packaging into interocean containers. We are waiting for transport permit to be issued. Transport is scheduled for 2019. As at the cut-off date, 31 December 2018, the balance of remaining provisions equals EUR 4,849,379. Provisions will be used on successful removal of waste.

III. Provisions for rehabilitation of the barrier at Za Travnik landfill were originally made at EUR 7 million. The amount was defined based on the rehabilitation project for the Bukovžlak landfill barrier. In the year following the establishment of provisions, we already implemented three rehabilitation interventions (drainage of rainwater on the east side – phase I, drainage of rainwater on the east side – phase II and implementation of the strengthening dike on berm 2 of the barrier). Over the past years, we implemented some major rehabilitation interventions and expanded and partially renovated the technical monitoring network. The results of technical monitoring are very good, thus the planned rehabilitation part is not yet necessary. As at 31 December 2017, the balance of provisions was EUR 450,000. Based on works performed by contractors, we released assets in the amount of EUR 600 in 2018, so that the balance of provisions as at 31 December 2018 equalled EUR 449,400.

IV. We originally made provisions of EUR 5 million for rehabilitation of the Bukovžlak landfill. As at the end of 2018, the balance of provisions was EUR 4.6 million. We implemented a series of interventions at the location in the years following the establishment of provisions. The responsible construction designer Hidrosvet d.o.o. has prepared a cost estimate for completion of works based on the facts known to the date, which must be increased by the amount necessary for a new pumping station for leachate. The total amount of necessary funds at the end of 2017 thus equalled EUR 4,941,557. In 2018, we released EUR 330,907 for rehabilitation works, so that as at 31 December 2018 the balance was EUR 4,610,649.

V. The results of regular technical monitoring of the high barrier Bukovžlak show a constant trend of deteriorating safety on the east side of the barrier. To ensure long-term safety, the most suitable measure would be drainage, but this procedure requires preparation of projects and obtainment of permits. To prevent critical deterioration of safety in the meantime, the construction designer anticipated two parallel interventions: rehabilitation of the east side and preparation of the dike to start decreasing the level of water in the lake. Estimated costs amount to EUR 3,032,000. We made new provisions for the mentioned amount as at 31 December 2017. In 2018, we released funds in the amount of EUR 40,919, so that the balance of provisions as at 31 December 2018 equalled EUR 2,991,081.

VI. Elimination of risks arising from old burdens at the locations of current production of Cinkarna Celje: The contractor compiling the Human Health and Environmental Risk Assessment Due to Old Burdens for the locations of the current production of Cinkarna Celje anticipated possible remediation measures and estimated them financially at the total of EUR 6.4 million. We established new provisions as at 31 December 2017 at the level of the mentioned amount. In 2018, we used EUR 248,352 of provisions, so that as at 31 December 2018 the balance of provisions was EUR 6,151,648.

Drawing of provisions in 2018 consists of costs of contractors for works performed in the amount of EUR 724,614 and depreciation of EUR 321, which are directly debited against provisions (Items II, III, and IV of environmental provisions) and depreciation of invested assets in the amount of EUR 428,281 (Item I of environmental provisions).

Provisions for Termination and Jubilee Benefits

The Company discloses provisions for jubilee benefits and termination benefits upon retirement in accordance with the provisions of the amended IAS 19. The actuarial calculation was made according to the book reserve method. The following assumptions were used: growth of salaries and wages at the Company of 2%, discount rate of 2.25% per annum, conditions for retirement, mortality tables 2000-2002 and employee fluctuation rate.

Long-Term Accrued Costs and Deferred Revenues

In 2007, the Company obtained Decision no. PIZ-06/0245 for the exemption from the payment of contributions for pension and disability insurance in accordance with Article 74 of the Vocational Rehabilitation and Employment of Disabled Persons Act. In 2018, we allocated all assigned contributions and awards to covering the costs of salaries of disabled employees.

In EUR

Provisions and long-term accrued costs and deferred revenues	**31 Dec 2018**	**31 Dec 2017**	**Ind. 18/17**
Provisions for termination and jubilee benefits	3,811,723	3,318,225	115
Other long-term provisions – environmental	23,423,604	24,576,820	95
Government grants received	0	29,926	0
Accrued costs	15,692	15,692	100
Deferred revenues	512,274	488,079	105
TOTAL	**27,763,293**	**28,428,742**	**98**

In EUR

Provisions and long-term accrued costs and deferred revenues for 2018	**1 Jan 2018**	**New**	**Used**	**Reversed/ profit or loss**	**31 Dec 2018**
Provisions for jubilee and termination benefits	3,318,225	684,081	174,598	15,985	3,811,723
Long-term accrued costs	15,692	0	0	0	15,692
Environmental provisions	24,576,820	0	1,153,216	0	23,423,604
Emission coupons	29,926	50,255	80,181	0	0
Assigned contributions for employment of disabled persons	7,097	124,553	125,921	0	5,729
Long-term deferred revenues for equipment	201,357	73,390	16,501	0	258,246
Funds received from the ERDF	272,778	0	27,902	0	244,876
Other deferred revenues	6,847	0	3,424	0	3,423
TOTAL	**28,428,742**	**932,279**	**1,581,743**	**15,985**	**27,763,293**

In EUR

Provisions and long-term accrued costs and deferred revenues for 2017	1 Jan 2017	New	Used	Reversed/ profit or loss	31 Dec 2017
Provisions for jubilee and termination benefits	2,804,680	1,044,693	529,803	1,345	3,318,225
Long-term accrued costs	15,692	0	0	0	15,692
Environmental provisions	20,328,264	5,541,671	1,293,115	0	24,576,820
Emission coupons	27,533	51,254	48,861	0	29,926
Assigned contributions for employment of disabled persons	7,571	128,927	129,401	0	7,097
Long-term deferred revenues for equipment	218,653	0	17,296	0	201,357
Funds received from the ERDF	300,680	0	27,902	0	272,778
Other deferred revenues	10,271	0	3,424	0	6,847
TOTAL	**23,713,344**	**6,766,545**	**2,049,802**	**1,345**	**28,428,742**

10 Short-Term Liabilities

Other Short-Term Financial Liabilities

In EUR

Group of liabilities	31 Dec 2018	31 Dec 2017	Ind. 18/17
Short-term liabilities associated with disbursement of profit	30,327	34,278	88
Short-term financial liabilities – assignments, cessions	40,350	43,295	93
TOTAL	**70,677**	**77,573**	**91**

Short-Term Operating Liabilities

In EUR

Group of liabilities	31 Dec 2018	31 Dec 2017	Ind. 18/17
Short-term trade payables to domestic suppliers	6,405,926	8,506,633	75
Short-term trade payables to foreign suppliers	2,203,271	6,032,985	37
Short-term liabilities for goods and services not invoiced	74,412	3,555	2,093
Short-term liabilities from advances	27,428	95,457	29
Short-term liabilities to employees	1,332,779	2,435,440	55
Short-term liabilities for payroll tax	728,777	1,214,756	60
Short-term liabilities for corporate income tax	0	4,922,764	-
Short-term liabilities to government and other institutions	553,593	502,238	110
Other short-term liabilities	10,559	35,991	29
TOTAL	**11,336,745**	**23,749,819**	**48**

11 Short-Term Accrued and Deferred Items

Short-term deferred costs and accrued revenues include short-term deferred costs and expenses and other deferred costs and accrued revenues.

In EUR

Description	31 Dec 2018	31 Dec 2017	Ind. 18/17
Prepaid costs	166,688	216,410	77
VAT on received advances	594	0	-
Material in transit	125,220	142,093	88
TOTAL	**292,502**	**358,503**	**82**

Short-term accrued costs and deferred revenues comprise accrued costs and expenses.

In EUR

Description	31 Dec 2018	31 Dec 2017	Ind. 18/17
Accrued unused right to annual leave	767,397	837,927	92
VAT on advances given	601	37,081	2
Other accrued costs and deferred revenues	89,833	79,428	113
TOTAL	**857,831**	**954,436**	**90**

Off-balance-sheet records

In EUR

Description	31 Dec 2018	31 Dec 2017	Ind. 18/17
Guarantees granted	2,598,815	2,688,957	109
Futures and forwards	320,537	0	-
Payment cards VISA and Mastercard	53,500	53,500	100
Material in the process of completion or processing	59,725	59,725	100
TOTAL	**3,032,577**	**2,802,182**	**108**

Guarantees granted represent liabilities to Abanka, d. d. and UniCredit Bank d. d. in the amount of EUR 2,588,618 and warranty guarantees in the amount of EUR 10,197.

On 27 October 2017, the City Municipality of Celje filed a lawsuit against Cinkarna Celje, d. d. in the amount of EUR 1.3 million for rehabilitation of polluted soil. As the Company has assessed that the lawsuit will be settled in its favour, it did not establish provisions for the claimed amount.

12 Write-Downs in Value

The Company uses the straight-line depreciation/amortisation method to depreciate/amortise fixed assets over the expected useful life of an individual fixed asset. Depreciation/amortisation reduces the value of an item of fixed assets.

In EUR

Description	2018	2017	Ind. 18/17
Amortisation and depreciation	**12,172,175**	**12,352,786**	**99**
- intangible assets	347,308	351,806	99
- buildings	2,843,698	2,687,651	106
- production equipment	8,979,266	9,312,202	96
- other equipment	1,903	1,127	169
Revaluation operating expenses associated with non-current assets	**49,456**	**323,665**	**15**
- loss on elimination of intangible assets and property, plant and equipment	49,456	323,665	15
Revaluation operating expenses associated with operating current assets	**168,705**	**433,507**	**39**
- of which allowance for receivables	28,070	263,083	11
- of which revaluation of inventories of material and merchandise	140,155	169,098	83
- other	480	1,326	36
TOTAL	**12,390,336**	**13,109,958**	**95**

13 Labour Costs

In EUR

Labour costs	2018	2017	Ind. 18/17
Salaries, wages and compensations for salaries and wages	23,052,938	22,338,216	103
Social security contributions	3,898,975	4,228,118	92
Reimbursements of expenses to employees	2,731,188	3,371,137	81
Supplementary pension insurance	399,155	387,340	103
TOTAL	**30,082,256**	**30,324,810**	**99**

Labour costs include accounted liabilities to employees pursuant to the corporate collective agreement and pursuant to individual employment contracts, and the reimbursement of work-related expenses pursuant to the collective agreement. Reimbursement of work-related expenses does not include costs of meals in the part relating to costs of preparing meals in own kitchen. These costs amounted to EUR 878,817 in 2018 and to EUR 881,701 in 2017. Costs are disclosed in accordance with their purpose and substance, thus under costs of used material and services, labour costs, write-downs (amortisation and depreciation) and other operating expenses. The Company accounted unused annual leave in accordance with SAS 13 and IAS 19. The Company is registered in the register of pension funds as an employer that finances a pension plan with the designation PNMZ K that is operated by the open-end fund Modri krovni pokojninski sklad and managed by Modra zavarovalnica.

In 2018, the Company also had costs of services not treated as labour costs in relation to temporary work agencies based on agency contracts in the amount of EUR 430,473.Taking into account the number of hours worked based on these contracts, 20.84 persons were employed.

Gross Receipts of Groups of Persons

In EUR

	2018	2017	Ind. 18/17
Members of the Management Board	1,023,661	902,733	113
Members of the Supervisory Board	113,501	110,427	103
Employees under contracts for which the tariff section of the collective agreement does not apply	3,392,761	3,491,439	97
Total gross receipts of groups of persons	**4,529,923**	**4,504,599**	**101**

14 Expenses

Operating Expensesi

In EUR

Odhodek	**2018**	**2017**	**Ind. 18/17**
Cost of material	87,720,810	90,262,047	97
Cost of services	13,992,075	13,833,892	101
Cost of goods and materials sold	291,830	480,185	61
Other operating expenses	1,273,775	6,846,137	19
TOTAL	**103,278,490**	**111,422,261**	**93**

Operating expenses are the same as accrued costs for the accounting period, increased by the costs that are retained in opening inventories of products and work-in-progress and decreased by the costs that are retained in the closing inventories of products and work-in-progress valued at production costs.

Operating expenses are increased by the cost of merchandise and materials sold. Costs of services largely relate to costs arising in relation to maintenance of assets, transport services, services of intermediaries in sales of products, costs of advertising (sponsorships), costs of research work and costs of intellectual services.

Other operating expenses comprise environmental duties and taxes, municipal building land use duty, bonuses to secondary school and university students on practice and other costs during the financial year.

The 2018 audit of the financial statements was performed by the audit firm Deloitte revizija, d. o. o. The contractual value of the agreed auditing services was EUR 22,000 increased by the VAT and travel expenses. The audit firm Deloitte performed other non-audit services in 2018 in the amount of EUR 3,510.

Finance Expenses

In EUR

Expense	2018	2017	Ind. 18/17
Interest expenses	5,510	997	552
Foreign exchange differences	911,895	1,684,324	54
Impairment of financial assets	0	291,000	-
Interest on provisions for termination and jubilee benefits	74,725	63,172	118
Other	0	1,224	-
TOTAL	**992,131**	**2,040,717**	**49**

Finance expenses comprise accounted liabilities for the financial year arising from long-term and short-term financial and operating liabilities and foreign exchange losses generated in operating and financing activities.

Foreign exchange losses include EUR 157 thousand from forwards and futures.

Other expenses include primarily losses on settlement of claims for damages and compensations paid to natural persons.

In accordance with SAS 21.7, costs are presented by functional group:

In EUR

	2018	2017	Ind. 18/17
Production costs of products sold	73,453,076	88,932,473	83
Cost of goods sold	291,830	480,185	61
Selling costs	36,034,486	43,108,048	84
Costs of general and administrative activities	24,215,271	23,610,753	103
TOTAL	**133,994,663**	**156,131,459**	**86**

15 Revenues

Sales revenues consist of the sales values of sold products, merchandise and material, and services rendered in the accounting period. The breakdown of net sales revenues by business and geographical segment is shown below.

Sales by Business Segment

In EUR

	Realisation		Ind. 18/17
	2018	2017	
Titanium dioxide	131,546,536	153,262,672	86
Zinc recycling	8,491,559	9,657,712	88
Construction products	2,688,265	2,724,130	99
Varnishes, coatings, masterbatches and printing inks	13,267,665	15,333,478	87
Agricultural products	4,084,885	3,990,967	102
Other	3,881,951	3,735,798	104
TOTAL	**163,960,861**	**188,704,758**	**87**

Sales by Geographical Segment

In EUR

	Realisation		Ind. 18/17
	2018	2017	
Slovenia	21,624,294	24,460,675	88
European Union	118,346,688	129,615,745	91
Former Yugoslavia markets	5,325,682	6,874,874	77
Third countries	16,089,952	21,715,270	74
Third countries – dollar market	2,574,245	6,038,194	43
TOTAL	**163,960,861**	**188,704,758**	**87**

Profit or Loss by Business Segment

In EUR

	2018	2017	Ind. 18/17
Titanium dioxide	36,358,152	42,111,594	86
Other	-4,014,819	-1,105,240	363
Unclassified	-1,785,150	-12,241,057	15
Total	**30,558,183**	**28,765,297**	**106**

Other Operating Revenues

In EUR

Revenue	2018	2017	Ind. 18/17
Sale of emission coupons	1,614,537	0	-
Revenues from use and reversal of long-term provisions	618,336	608,518	102
Revaluation operating revenues	302,935	186,973	160
Collected claims previously written-off	374,517	174,238	215
Other revenue	84,335	64,300	137
TOTAL	**2,994,660**	**1,034,029**	**290**

In 2018, the Company sold 80,190 emission coupons totalling EUR 1,614,537 of revenues. Revenues from use and reversal of long-term provisions refer to accounted depreciation of invested assets in environmental provisions that were established in the process of ownership transformation in the amount of EUR 428,281, depreciation of means of work of disabled employees in the amount of EUR 48,149 and covering of salaries and wages of disabled employees in the amount of EUR 125,921 under the Vocational Rehabilitation and Employment of Disabled Persons Act and EUR 15,985 from reversal of provisions for jubilee and termination benefits in accordance with the actuarial calculation.

Revaluation operating revenue of EUR 302,935 refers to disposal of fixed assets, the selling value of which exceeds their carrying amount. Other revenues include collected receivables previously written off in the amount of EUR 374,517 and the remaining amount relates to funds from development funds, excise duty on energy, etc.

Finance Revenue

In EUR

Revenue	2018	2017	Ind. 18/17
Interest income	41,865	178,173	23
Foreign exchange differences	486,549	671,693	72
Income from other investments	24,244	20,445	119
TOTAL	**552,658**	**870,311**	**64**

Finance revenue includes interest received on investing activities and receivables, revenue from long-term financial assets and foreign exchange gains from operating and financing activities.

Foreign exchange gains include EUR 205 thousand from forward transactions.

Other revenue comprises unusual items, the majority of which are funds paid by insurance companies for life assurance and from suppliers for early payment.

16 Corporate Income Tax

Corporate income tax is accounted in accordance with the Rules on Corporate Income Tax Returns at the rate of 19% of the tax base. The tax base in 2018 is decreased by reliefs provided for investments into research and development, hiring of disabled persons, voluntary supplementary pension insurance, investment into equipment and donations.

In EUR

	2018	2017	Ind. 18/17
Pre-tax profit or loss in accordance with SAS	**36,023,655**	**34,550,892**	104
Revenues excluded from the tax base or increasing the tax base	-398,971	-194,737	205
Expenses not recognised for tax purposes	245,999	4,808,019	5
Tax reliefs	-7,578,134	-5,735,783	132
Tax base total	**28,292,549**	**33,428,391**	**85**
Tax rate	19%	19%	100
Corporate income tax	**5,375,584**	**6,351,394**	**85**

The effective tax rate calculated as the ratio between tax expenses and the accounting profit or loss is 14.92% in 2018 and 18.4% in 2017.

In accordance with SAS 5.15, the Company disclosed an increase in deferred tax assets arising from temporary differences.

The increase in 2018 relates to the difference between:

In EUR

Description	2018	2017	Ind. 18/17
Use of provisions	-86,974	-132,536	66
Reversal of allowance for receivables (investments)	-72,958	-31,118	234
Established provisions	64,712	625,704	10
Allowance for receivables (investments)	5,333	103,748	5
TOTAL	**-89,888**	**565,799**	**-**

V STATEMENT OF CASH FLOWS

The statement of cash flows shows the change in the balance of cash and cash equivalents for the financial year as the difference between the balance as at 31 December 2018 and 1 January 2018. It is compiled according to the indirect method using data from two consecutive balance sheets in accordance with SAS 22.9, i.e. according to the abbreviated format II. Theoretically possible items are not shown and values are disclosed for the current and previous year.

VI STATEMENT OF CHANGES IN EQUITY

The statement of changes in equity has the form of a table of changes of all equity components in accordance with SAS 23. Theoretically possible items are not presented.

Changes in equity relate to the decision of the General Meeting on the allocation of distributable profit for 2017 for dividend distribution to the owners that were paid out in 2018.

Pursuant to point 14 of Article 64 of the Companies Act (ZGD-1), the determination of distributable profit is appended to the statement of changes in equity. It represents 75% of net profit for 2018 and retained earnings for 2017. The proposal for distribution of distributable profit is provided in the appendix.

VII FINANCIAL RATIOS UNDER PRS 9

Financial ratios	2018	2017
Equity financing rate	81.29%	75.78%
Long-term financing rate	94.27%	88.72%
Operating fixed assets rate	48.64%	43.45%
Long-term assets rate	50.29%	45.12%
Equity to fixed assets ratio	1.67	1.74
Acid test ratio	2.94	1.87
Quick ratio	5.26	3.31
Current ratio	9.30	5.05
Operating efficiency ratio	1.25	1.23
Net return on equity	0.22	0.21
Dividends to share equity ratio	1.06	0.36

Significant Business Events Occurring After the End of the Financial Year

Pursuant to the resolution of the General Meeting of Shareholders dated 5 June 2018, the Management Board was instructed to redeem treasury shares up to 10% of share capital with the purpose of cancelling treasury shares on the account of share capital decrease. In 2018, the Management Board obtained 4,500 treasury shares, which it will cancel together with treasury shares redeemed previously, all totalling 6,649, against share capital decrease in 2019, when share capital decrease is to be entered in the Companies Register.

There were no other business events that would affect the 2018 financial statements.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
to the shareholders of Cinkarna Celje, d.d.

Opinion

We have audited the financial statements of the company Cinkarna Celje, d.d. (hereinafter 'the Company'), which comprise the balance sheet statement as at 31 December 2018, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with Slovenian Accounting Standards (hereinafter 'SAS').

Basis for Opinon

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules are further described in *the Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the year ended 31 December 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	Audit procedures to the key audit matter
Enviornmental provisions	
As at 31 December 2018, environmental provisions stood at EUR 23,424 thousand, which was significant for our audit. Provisions are based on the management's assessment of future costs of depositing was and rehabilitating waste disposal sites. Provisions refer to different environment issues disclosed in more detail under Note 9 to the financial statements.	Our audit also included: - Assessment whether the accounting policies comply with the recognition and measurement requirements as defined by SAS 10. - Interviews with management regarding each individual item of environmental provisions and the risks related to it. - Within the scope of our audit procedures, we reviewed for each of the environmental issues included in Note 9 project

	documentation, which supported management estimation of provision balance per 31.12.2018. We assessed if the booked provisions are appropriate. - We analyzed documentation related to the drawing of provisions with purpose of assessing whether there is any information that would indicate that the provisions disclosed were not drawn in accordance with plans and were thus not adequately measured. More detailed disclosures relates to environmental provisions are included in Note 9 to the financial statements.

Other information

Management is responsible for the other information. The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we express no assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.

In relation to this and based on our procedures performed, we report that:

- other information are, in all material respects, consistent with the financial statements;
- other information are prepared in compliance with applicable law or regulation; and
- based on our knowledge and understanding of the Company and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

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

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

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

Supervisory Board and Audit Committee are responsible for overseeing the Company's financial reporting process and for approving audited annual report.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

From the matters communicated Supervisory Board and Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on Other Legal and Regulatory Requirements

Appointment of the Auditor and the Period of Engagement
Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 5.6.2018. Our total uninterrupted engagement has lasted 7 years.

Confirmation to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 15 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. There are no services, in addition to the statutory audit, which we provided to the Company, and which have not been disclosed in the Annual Report.

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Barbara Žibret Kralj, certified auditor.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj
Certified auditor

For signature please refer to the original Slovenian version.

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

Ljubljana, 15 March 2019

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

Summary Overview of Operations from 2006 to 2018

In EUR thousand, EUR per share

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
SALES													
Domestic market	26,998.17	26,639.33	23,621.65	20,032.10	21,268.26	24,217.33	23,745.12	23,523.81	22,830.92	22,490.37	21,438.09	24,460.68	21,624.29
International market	123,732.47	130,097.06	107,945.90	109,544.17	132,123.81	159,850.43	149,472.40	142,431.27	137,839.93	146,586.70	148,327.34	164,244.08	142,336.57
Sales	150,730.64	156,736.39	131.567.55	129,576.27	153,392.07	184,067.76	173,217.52	165,955.08	160,670.85	169,077.06	169,765.43	188,704.76	163,960.86
PROFIT OR LOSS													
Operating profit or loss	10,754.01	11,029.10	4,551.92	4,649.91	13,741.75	32,831.34	24,084.52	8,628.40	16,241.86	8,080.32	10,579.07	35,721.22	36,408.49
Profit or loss before tax	6,878.69	7,533.52	931.55	1,041.82	10,854.43	31,631.71	22,454.30	7,573.79	16,071.62	8,058.16	11,029.95	34,550.89	36,023.66
Taxes	1,290.06	1,451.93	131.76	26.16	1,970.11	6,133.40	4,160.50	412.89	2,139.18	1,244.61	1,269.95	5,785.60	5,465.47
Net profit or loss	5,588.64	6,081.58	799.79	1,015.66	8,884.31	25,498.31	18,293.81	7,160.90	13,932.44	6,813.54	9,760.00	28,765.30	30,558.18
ASSETS AND LIABILITIES													
Equity	94,849.27	100,339.52	97,715.61	98,763.56	106,881.95	127,512.33	133,348.36	135,148.87	140,115.23	140,235.49	145,966.79	166,520.50	173,925.47
Financial debt	85,675.81	84,236.65	86.345.47	65,243.45	47,305.74	21,137.89	19,660.40	4,747.01	39.44	41.72	116.86	77.57	70.68
Financial debt level	42%	40%	42%	34%	25%	11%	10%	3%	0%	0%	0%	0%	0%
Assets and liabilities	206,317.43	209,812.69	207,364.17	189,856.27	188,349.62	197,957.05	196,001.27	183,359.40	182,947.47	180,987.95	186,021.92	219,731.07	213,954.01
Net working capital	2,111.05	-2,476.55	-13,228.47	-6,744.25	5,144.77	32,745.35	47,252.87	50,216.93	57,527.09	62,199.82	72,908.59	96,412.29	94,659.95
PER SHARE													
Dividends													
- Gross	2.72	2.92	3.22	/	1.25	4.35	15.00	6.50	10.97	8.57	4.18	9.05	26.52
- Net	2.04	2.19	2.42	/	1.00	3.48	12.00	4.88	8.23	6.43	3.13	6.79	19.89
Net profit or loss	6.86	7.47	0.98	1.25	10.91	31.3	22.46	8.79	17.1	8.36	11.98	35.31	37.51
Equity/no. Of shares	116.4	123.2	120	121.2	131.2	156.53	163.7	165.9	172	172	179	204	214
Market value at year end	112.7	143.2	72	49.4	58.2	84.5	79	90	177	76	162	217	181
No. of shares	814,626	814,626	814,626	814,626	814,626	814,626	814,626	814,626	814,626	814,626	814,626	814,626	814,626
No. of shares with voting rights	814,626	812,477	812,477	812,477	812,477	812,477	812,477	812,477	812,477	812,477	812,477	812,477	807,977
No. of employees	1144	1131	1113	1079	1053	1063	1005	993	989	955	903	893	908
No. of shareholders	1952	1846	1770	1735	1696	1603	1648	1706	2085	1794	1943	1880	2078
PERFORMANCE INDICATORS													
Current ratio	1.03	0.96	0.83	0.89	1.1	1.89	2.67	3.65	4.76	5.09	5.72	5.05	9.3
Quick ratio	0.56	0.47	0.41	0.55	0.7	1.04	1.41	2.02	2.6	2.7	3.7	3.31	5.26
Inventory turnover ratio	13.9	12.8	9.9	11.7	21.7	18.9	12.27	12.4	11.4	11.6	16.2	25.8	13.61
Days sales outstanding	56 days	58 days	68 days	69 days	65 days	53 days	51 days	52 days	53 days	49 days	51 days	55 days	62 days
Days payables outstanding	25 days	25 days	29 days	37 days	39 days	37 days	36 days	35 days	37 days	35 days	37 days	43 days	41 days
Fixed asset turnover ratio	1.1	1.12	0.92	0.94	1.16	1.42	1.39	1.42	1.44	1.59	1.70	1.92	1.59
Total asset turnover ratio	0.75	0.75	0.63	0.65	0.81	0.95	0.88	0.87	0.88	0.93	0.93	0.93	0.76
Operating efficiency ratio	1.07	1.07	1.03	1.04	1.1	1.2	1.16	1.05	1.11	1.05	1.07	1.23	1.25
Profit margin	6.70%	6.80%	3.30%	3.60%	8.90%	16.80%	13.50%	5.20%	9.60%	4.70%	6.36%	18.74%	19.99%
Total net profit margin	3.50%	3.70%	0.60%	0.80%	5.70%	13.00%	10.30%	4.30%	8.20%	4.00%	5.86%	15.09%	16.78%
Return on sales	3.70%	3.90%	0.60%	0.80%	5.80%	13.90%	10.60%	4.31%	8.67%	4.03%	5.75%	15.24%	18.64%
Return on investment (ROI)	5.20%	4.90%	2.80%	2.60%	7.00%	17.10%	11.80%	4.28%	8.81%	4.49%	6.05%	17.06%	16.65%
ROA	2.80%	2.90%	0.40%	0.50%	4.70%	13.20%	9.30%	3.78%	7.61%	3.74%	5.32%	14.18%	14.09%
ROE	6.40%	6.70%	0.80%	1.00%	9.10%	25.50%	16.90%	5.89%	10.96%	5.25%	7.24%	21.00%	21.74%

Alternative Performance Measures Used in the Annual Report (ESMA 5/10/2015)

Measure	**Page in the Annual Report**	**Calculation**
Dividend yield	14	amount of dividend/value of a share (as at the day of the General Meeting resolution)
EBITDA	25	operating profit or loss increased by write-downs in value from the statement of profit or loss
Financing balance	25	total finance revenue decreased by total finance expenses from the statement of profit or loss
P/E 31 Dec	27	value of a share (as at the last day of the year)/net profit per share from the statement of profit or loss
Total free cash flow, free cash flow	27, 74	net cash from/used in operating activities from the statement of cash flows
Labour productivity	29	volume of production (constant prices)/average number of employees
Value added per employee	29	operating profit or loss increased by write-downs in value and labour cost from the statement of profit or loss/number of employees based on calculated hours
Net working capital (NWC)	103	total current assets decreased by total short-term liabilities from the balance sheet

General Meeting / Capital Structure

STRUCTURE OF THE OWNERSHIP OF SHARES OF CINKARNA Celje, d. d.

	Beneficiary	Balance as at 4 Feb 1997 upon entry in the Companies Register		Balance as at 21 Jan 1998 upon registration with the Central Securities Clearing Corporation		Balance as at 31 Dec 2017		Balance as at 31 Dec 2018	
		Share in %	No. of shares	Share in %	No. of shares	Share in %	No. of shares	Share in %	No. of shares
1.	**LEGAL ENTITIES**	**60.52**	**493,024**	**60.05**	**489,182**	**75.23**	**644,518**	**75.34**	**602,257**
1.1.	D.S.U. d.o.o., LJ	21.95	178,777	1.94	15,789	-	-	-	-
1.2.	Modra zavarovalnica d.d., LJ	21.87	178,184	22.03	179,506	20	162,963	20	162,963
1.3.	DUTB, d.d.. LJ					14.48	117,952	12.83	104,504
1.4.	Slovenski državni holding, LJ	9.77	79,573	9.77	79,573	11.41	92,950	11.41	92,950
1.5.	Unicredit bank Austria AG, Wien					-	-	4.51	36,710
1.6.	The bank of New York MELLON – escrow account, NY					1.46	11,892	2.33	18,987
1.7.	Kritni sklad PPS, Lj.					2.05	16,705	2.05	16,705
1.8.	Raiffeisen bank Austria d.d. – escrow account ZG					1.65	13,447	1.77	14,451
1.9.	KD Galileo, mešani fleks. sklad, LJ					1.98	16,165	1.63	13,239
1.10.	KD Rastko, evropski delniški sklad, LJ					1.79	14,607	1.50	12,257
1.11.	Primorski skladi, d.d. Koper - PSP MODR					1.45	11,781	1.45	11,781
1.12.	NLB skladi - Slovenija mešani, LJ					0.84	6,813	1.18	9,600
1.13.	Fleksibilni mešani podsklad-Jugovzhodni. LJ					1.96	15,949	0.86	7,007
1.14.	Mavia d.d., Kranj					-	-	0.86	6,969
1.15.	Special investment fund eQ emerging mark, Helsinki					-	-	0.85	6,900
1.16.	KD Dividendni, delniški, LJ					0.92	7,458	0.68	5,545
1.17.	KD Balkan, delniški, LJ					-	-	0.61	4,960
1.18.	ABANKA d.d., LJ					1.72	14,000	0.57	4,628
1.19.	TR5 d.o.o., Medvode					-	-	0.54	4,417
1.20.	DBS d.d., LJ					0.67	5,475	0.52	4,243
1.21.	Boxaric Investments Limited, Limassol					0.46	3,787	0.40	3,293
1.22.	Other	6.93	56,490	26.31	214,314	12.39	132,574	8.79	60,148
2.	**NATURAL PERSONS**	**39.48**	**321,602**	**39.95**	**325,444**	**20.62**	**167,959**	**25.26**	**205,720**
3.	**TREASURY SHARES**	**-**	**-**	**-**	**-**	**0.26**	**2,149**	**0.82**	**6,649**
	TOTAL 1+2+3	**100.00**	**814,626**	**100.00**	**814,626**	**96.11**	**814,626**	**101.42**	**814,626**
	No. of shares with voting rights		814,626		814,626		812,477		807,977

Statement by the Management and the Persons Responsible for the Compilation of the Annual Report Dated 18 March 2019:

The indicated and undersigned members of the management and the persons responsible for the compilation of the Annual Report within the meaning of the second paragraph of Article 110 of the Financial Instruments Market Act (ZTFI) hereby confirm that, to the best of our knowledge:

I. The financial report complies with the relevant financial reporting standards, i.e. the Slovenian Accounting Standards. As such, it provides a true and fair presentation of the Company's assets, liabilities, profit or loss and financial position.

II. The Business Report presents a fair presentation of the development and the operating results of the Company and its financial position, including the description of the material types of risks the Company is exposed to.

The Management Board hereby accepts and confirms the 2018 Annual Report on this 18 March 2019.

Management of the Company

President of the Management Board – General Manager

Tomaž BENČINA, BSc (Metallurgy) and BSc (Economics)

Member of the Management Board – Deputy President of the Management Board – Technical Manager

Nikolaja PODGORŠEK SELIČ BSc (Chemical Engineering), Specialist

Member of the Management Board – Finance, Accounting & IT

Jurij VENGUST, MSc

Management of the Company

Member of the Management Board – Worker Director

Marko CVETKO BSc (Chemical Engineering), Specialist

Persons responsible for the compilation of the Annual Report

Member of the Management Board – Finance, Accounting & IT

Jurij VENGUST, MSc

Head of Accounting

Karmen FUJS, MSc

Proposal for the Use of the 2018 Distributable Profit

In EUR

PROPOSAL FOR THE USE OF THE 2018 DISTRIBUTABLE PROFIT	
Distributable profit	**22,842,027**
- dividends (EUR 28.27 per share)	22,841,510
- bonuses for the Management Board	/
- retained earnings	517
- increase in other revenue reserves	/

Explanation of the Proposal for the Use of the 2018 Distributable Profit: Due to the deteriorating international economic situation and unfavourable trends in the titanium dioxide pigment industry, we plan for 2019 net profit at the level of EUR 11.1 million (the 2018 net profit stood at EUR 30.6 million), thus a 64-percent decrease. Readily available cash at the end of 2018 and free cash flow from operations are anticipated to suffice for covering investment needs and distribution of proposed dividends in 2019. The Management Board proposes disbursement of dividends in the amount of EUR 22.8 million or EUR 28.27 per share. This means that the dividends paid out in 2019 will increase when compared to those from the year before by 6.6 percent and that the total value of dividend disbursement would reach 75% of net profit generated in 2018. The Management Board believes that the proposed distribution of distributable profit appropriately reflects the business performance of the Company and thus meets the interests and expectations of the owners. The difference of EUR 517 would be brought forward to the next financial year as retained earnings.

Corporate Culture

BUSINESS PARTNERS

We will constantly focus our efforts on fair, high-quality and timely satisfaction of our customers' needs. We will develop relationships based on mutual trust, cooperation and friendship. We will settle our liabilities to suppliers, banks and contractors with the highest degree of responsibility.

SHAREHOLDERS

We will work to ensure that the shareholders' investment and their confidence as to the correctness of the decision to invest are rewarded with expected and suitable returns. We will take care of the Company's long-term vitality and profitability by investing into development and employees.We understand that our responsibility is proportionate to the trust that has been placed in us by the shareholders.

EMPLOYEES

All employees will enjoy an honest relationship. Fair payment for the work well-done is an unalienable right. We will make sure that the rights to appropriate information, personal safety and equal treatment are respected. The duty of the Company's management is to promote a positive atmosphere and care for the development and implementation of the rules and principles of ethical operations.

LOCAL COMMUNITY

Within the scope of the sustainable development philosophy, investment in environmentally-oriented projects and targeted technology design, we will strive for optimum paths and methods of environmental protection and health of our community members. We will strive for and participate in the development and progress of the local community in the areas of education, sports and culture to the highest possible degree.