ANNUAL REPORT
2017

CINKARNA

ANNUAL REPORT
2017

CINKARNA

Celje, March 2018

Contents

Business Operations in the Last Three Years in Brief

in EUR

	2015	**2016**	**2017**	Change in % 2017/2016
Sales	169.077.061	169.765.430	188.704.758	+ 11
Net profit or loss	6.813.544	9.759.997	28.765.297	+ 195
Total dividends paid	6.960.646	3.409.000	7.352.917	+ 116
Equity (31 Dec)	140.235.486	145.966.794	166.520.502	+ 14
ROE	5,3 %	7,2 %	21,0%	+ 192
Per share values (diluted)				
- Net profit or loss	8,36 €	11,98 €	35,31 €	+ 195
- Dividends paid				
Gross	8,57 €	4,20 €	9,05 €	+ 116
Net	6,43 €	3,15 €	6,79 €	+ 116
- Equity	172,2 €	179,2 €	204,4 €	+ 14
- Market price (31 Dec)	76,0 €	162,0 €	217,0 €	+ 34
Number of shares	814.626	814.626	814.626	-
No. of shares with voting rights	812.477	812.477	812.477	-
No. of shareholders (31 Dec)	1794	1943	1880	- 3
No. of employees (31 Dec)	955	903	893	- 1

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		
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.,	
Registered office	Tuzla, Društvo za proizvodnju i promet	
	Ul. 21. decembar b. b., Bukinje, 75000 TUZLA	
	Federation of Bosnia and Herzegovina	
	Telephone:	(+387) 35 207 110
	Fax:	(+387) 35 207 112
	E-mail:	office@cinkarna.ba, info@cinkarna.ba

Representative office	Cinkarna Celje Representative Office, Belgrade	
Registered office	Resavska 76, 11000 Belgrade	
	Republic of Serbia	
	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

<u>Business units</u>

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	*Department Head Pavel Blagotinšek*
Investment Department	*Department Head Blaž Črepinšek*
HR & General Department	*Department Head Marko Cvetko*
Department for Occupational Health and Safety	*Department Head Otmar Slapnik*
Legal Department	*Department Head Darja Horvat*
Quality Assurance Department	*Department Head Karmen Rajer Kanduč*
Environmental Protection Department	*Department Head Bernarda Podgoršek Kovač*
Accounting Department	*Department Head Irena Leščak Zalokar up to 31 August* *Department Head Karmen Fujs as of 1 September*
IT Department	*Department Head Boris Špoljar*
Internal Audit Department	*Department Head Patricija Veršič*
MAINTENANCE AND ENERGY BU	*Director Jože Gajšek*

Company Profile

With its 145-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 almost 900 people and generates around EUR 189 million per year in sales revenues, with over 85% of sales generated on export 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 ratio 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, upgrade our position as a leading supplier of powder coatings in the region, and we will endeavour to consolidate our position as a renowned supplier of high-quality construction materials.

Mission

By carrying out chemical and metallurgical processes professionally and with social responsibility, 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

Our operations in 2017 were excellent. Cinkarna Celje, d. d. achieved record figures in terms of both scope of operations and performance results. We strongly exceeded the 2016 business results, at the same time substantially improving the planned objectives for 2017. The most important factor for the excellent results was the extremely upward trend in the titanium dioxide pigment industry. Insufficient pigment supply is establishing market disequilibrium conditions leading to an extremely positive change in selling prices. The increase in selling prices with simultaneous control of all types of costs, in particular direct production costs, resulted in record-level operating margins and the related growth in profitability. 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.

The Management Board assesses that the Company's operations in 2017 were superior. As mentioned in the beginning, we strongly exceeded both business plans and the 2016 results. Industry benchmark comparisons and analyses of period results confirm that in 2017 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 2017, 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. Due to the high demand for our flagship product along with insufficient supply a special challenge for us was undisturbed and timely supply to major buyers and 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. Market situation still forces us to focus on the EU and neighbouring markets. Pursuing the sales return criterion, we are gradually abandoning the distant markets of the USA, North Africa and Middle East. Similarly as in 2016, the production capacities for our flagship product were in 2017 completely sold out despite record-level production quantities and the inventory of finished products dropped again. 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 2017 and had no difficulties financing the increased investment scope at the level of EUR 13.3 million and paying out dividends in June pursuant to the resolution of the Company's General Meeting in the total amount of EUR 7.35 million (EUR 9.05 per share), which is 115.5% more as compared to 2016. Excellent operations, favourable forecasts and ambitious business plans coupled with existing surplus cash imply a substantial increase in various pay-outs to shareholders, as is and will be evident also from the proposals of the Management Board and the Supervisory Board relating to the allocation of accumulated profit and the proposed resolutions of the regular General Meeting planned for June 2018.

In the first half of 2017, we presented the environmental review report prepared by the German company CDM Smith. The report included analysis, risk identification and a range of proposed measures for environmental rehabilitation. To summarize, the risks are related to the current location of the Company at Kidričeva cesta in Celje and the Bukovžlak landfill. Potential contingent liabilities related to rehabilitation range between EUR 1.8 and 6.4 million. During the year, we prepared an integral range of all environmental projects with the purpose of comprehensive management of all ecology-related risks. Consequently, we restructured the existing environmental provisions to cover the related liabilities and increased them by the net amount of EUR 5.5 million based on prepared projects and designers' estimates at the end of 2017. The Management Board assesses that by doing so the level of environmental provisions is adequate for the control and management of all environmental risks identified and recorded so far.

[1] Summary of the report is published at website www.cinkarna.si and full report is available from the Management Board of the Company.

The international economic environment was stable and positive in 2017. Business analysts and rating agencies assess that the favourable conditions, circumstances and trends characteristic of the second half of 2016 persist. The economic activity and the related investment consumption of the key economies of the North America and Europe were improving persistently and have been on a high and satisfactory level for over a year. Objectively, this means that the level of demand on the markets of investment goods and raw materials, i.e. commodities, is undoubtedly high and stable. The characteristic conditions are further confirmed by the increasing trends for market prices on the mentioned markets. We have not detected any special risks or uncertainties in the international economic area for the near future that could affect negatively the Company's operations and results in the following year.

Correspondingly, the situation of short-term market, insufficient supply and robust demand persisted on the global markets of titanium dioxide pigment as well. There is simply still not enough pigment available on the market. The trend of insufficient supply to the market has continued for eight quarters, which is one of the longest periods of growth in price levels so far. The insufficient supply experienced further restrictions at the end of 2016 and in the beginning of 2017 due to the troubles of the Ukrainian pigment manufacturers (accidents and the Ukraine-Russia conflict), final closing-down of the Huntsman factory in the South African Republic and the severe fire with the related ongoing halt of the Huntsman factory in Finland. The deficit in supply caused a quick erosion of pigment inventories with manufacturers and buyers, enabling a series of consecutive corrections to selling prices. The average euro-denominated global selling prices increased by 17% as of the end of 2016. The prices in Europe rose even more, by 36% as compared to the end of 2016. Based on the current market situation and forecasts for future developments on the pigment market, we assess that the positive trends for the pigment selling prices will slow down and stabilise, whilst the purchase prices for titanium-bearing raw materials will still be gradually growing for some time.
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 all phases of the industry business cycle. Industry comparison shows that we have been more successful than our competitors in terms of production quantities and price level adjustments. In 2017, we produced almost one percent more pigment than in 2016, sold all quantities produced and also decreased the inventories of finished products by 35%. Our production capacities remain sold out. We increased our selling prices by 40% from the end of 2016 to the end of 2017, whilst the average annual pigment prices rose by 32% as compared to 2016. Pigment inventories only accounted for slightly more than 13 days of regular production at the end of 2017.

When analysing and reviewing other product lines, we should emphasize the successful conclusion of the project of closing down and liquidating the line for titanium-zinc sheets. We successfully divested all current assets and reallocated most employees as well as optimised and stabilised the rest of the metallurgy line, achieving sales exceeding the levels planned by 99% and a high profit from operations at the level of almost half a million euros. For the future, we find of utmost importance to significantly increase the value of masterbatch sales, which is the Company's most propulsive smaller unit. Due to the restricted production capacities, we recorded stagnation for powder coatings. We only recorded poorer results for construction and agricultural products. Mentioning this, we should emphasize that the achieved scope of operations for construction products was somewhat above the levels from the year before, but the decreasing market prices led to poorer business results. As for agricultural products, we experienced a negative trend for the relationship between input and output prices despite the increased value of sales, resulting in weaker results.

Cinkarna Celje, d. d. generated EUR 188.7 million of sales revenues in 2017, almost 11% more than in 2016. Sales also exceeded the levels planned for the year, by 25%. Total exports in the period reached EUR 164.2 million, which is 11% more as compared to 2016 exports and 26% above the plan. The major share of exports went to Germany with 29%, followed by Italy with 10%, Turkey with 9%, Belgium with 8%, France with 6%, the Netherlands with 5% and Austria, Serbia and Poland with 4% each. The remaining exports went to other EU markets, the USA, Eastern Europe, the Middle East and North Africa.

Net profit for 2017 reached the level of EUR 28.8 million or 195% more as compared to 2016, when it amounted to EUR 8.9 million. Net profit for 2017 also exceeded the plans by 187% as EUR 10 million net profit was planned for 2017.

From the last trading day in 2016 to the last trading day in 2017, the share price of Cinkarna Celje, d. d. on the entry market of the Ljubljana Stock Exchange increased from EUR 162 to EUR 217 per share or by as much as 34%. The increase can be attributed to improved conditions on capital markets, substantially improved results of the Company and favourable forecasts for trends in the industry of titanium dioxide pigment. The SBI TOP index rose by 12% in the same period. The Company paid EUR 7.35 million in dividends (116% more as compared to the year before) or EUR 9.05 of gross dividend per share in 2017. Dividend yield came in at a high 4.9% on the date of the General Meeting resolution and was again among the highest yields in the industry of titanium dioxide pigment.

In 2017, we spent EUR 13.3 million on investments in fixed assets, which is 51% more than in 2016 and 8% less than planned. When investing, we focused on replacing worn-out equipment for the flagship titanium dioxide pigment line as well as enhancing the finished product quality, debottlenecking, reducing emissions into the environment and improving conditions for safe and healthy work. Of major investments concluded, we should mention setting up two new steam boilers, which was necessary for legislative compliance and improved safety of energy supply. We also finished rehabilitation of the barrier of the Bukovžlak non-hazardous waste landfill and made an investment in modernising railway transport infrastructure.

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 2017 mostly focused 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. An important part of development activities also related to the preparation of high-quality technically technological and marketing foundations for the new five-year strategy, which is to be prepared in 2018.

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), and also 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. Due to the excellent business results and substantial exceeding of the plans, we paid out an additional, 13th salary in the month of June for 2017 in agreement with the representative trade unions and also the performance bonus. By doing so, we pursued the principle of positive pay policy and ensured a suitable level of 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 Company's financial position and operations in 2017 are presented through the Company's financial statements with the accompanying notes.

Business Plan for 2018

The business plan for 2018 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 market for our flagship product of titanium dioxide pigment has been witnessing excess demand and insufficient supply ever since the first quarter of 2016. In this period, we also recorded increasing selling prices of the pigment. It is evident that the industry is at the peak level of the business cycle. Expectations and trends projected for 2018 are based on these facts. Market indices and indicators are positive, demand is robust and the average selling prices are at extremely high levels. For 2018, we expect gradual balancing of the market, increasing of restocking and, in the future, stabilising of price levels. We also expect corrections and price adjustments for input raw materials, mostly for titanium-bearing raw materials, to occur due to transfer of earnings along the value chain. In terms of annual level comparisons, the relative relationship between purchasing and selling prices is not to change substantially as compared to 2017. The Company’s strategy for 2018 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 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, excellent operations, cash surpluses and favourable 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 almost EUR 200 million of sales revenues in 2018, over 6% more as compared to 2017 sales. We also plan net profit at the end of 2018 to reach extremely high EUR 32.6 million or 13% more than in 2017. In compliance with the ambitious investment plan, which includes finishing the project of modernising, stabilising and intensifying the titanium dioxide pigment production, new lines for the production of powder coatings and masterbatches as well as investments in environmental protection and safety at work, we will invest the total of EUR 18.5 million in the Company’s fixed assets, an increase of 39% over 2017. We will spend additional EUR 600 thousand of environmental provisions, mostly for the ongoing rehabilitation of both Bukovžlak waste deposit sites. 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. with the following composition: Borut Jamnik, BSc (Mathematics) – Chairman, Dejan Rajbar, BSc (Economics), Urška Podpečan – Deputy Chair, LLB, Matjaž Janša, MSc., Dušan Mestinšek, BSc (Electrical Engineering) and Aleš Stevanovič; was active until 22 October 2017, when, due to expiry of the term of office of Matjaž Janša, MSc, Aleš Skok, BSc (Chemical Engineering), MBA, USA, started his five-year term of office. The Supervisory Board held nine meetings in 2017, of which two extraordinary and two correspondence. The HR and Nomination Committees are also active within the framework of the Supervisory Board. The HR Committee held no meeting in 2017, whilst the Nomination Committee held two regular meetings, at which it carried out the selection procedure and prepared the proposal for appointment of a new member of the Supervisory 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 thoroughly 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, the Company's business strategy and internal audit operations. The overview of investment activities shows that they were carried out with substantially increased dynamics as compared to 2016 and, at the same time, somewhat lagged behind the plans (mostly due to lengthy procedures for approvals and permits). The Company's investments totalled EUR 13.3 million or 51% more as compared to the year before. 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 large share of funds was spent on modernisation and legislative compliance of energy facilities and infrastructure.

The Supervisory Board was informed in detail and promptly about the development and implementation of environmental protection projects. A special emphasis was placed in 2017 mostly on situation analysis, risk valuation and preparation of potential measures for rehabilitating land at the Company's current location. In the first half of 2017, the Supervisory Board examined the report of the project contractor CDM Smith and familiarised itself with the assessment of the necessary investments for land rehabilitation. Based on the mentioned and for this purpose, the Management Board set aside provisions in the amount of EUR 6.4 million. The Supervisory Board was informed of
project management processes, acquisition of approvals and bids relating to the drawing of environmental provisions formed in previous years. The Supervisory Board promptly monitored also the developments related to the risk of classification of the titanium dioxide pigment as a carcinogen. The Risk Assessment Committee (RAC), which is active within the European Chemicals Agency (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.

The Supervisory Board reviewed the Company's current strategy, the efficiency of its implementation and individual urgent adjustments. At its December 2017 meeting, it was familiarised with the schedule and substantive plan for making a new strategic plan for the period from 2019 to 2023. The project for strategy drafting started in 2018.
In December, we discussed and adopted the 2018 operating plan. The 2018 business plan is based on favourable macroeconomic forecasts and the peak of the economic cycle for the titanium dioxide pigment industry. Sales plan stands at almost EUR 200 million, which is

6% more as compared to 2017, and planned net profit equals EUR 32.6 million or 13% rise on 2017, mostly due to very favourable situation on the titanium dioxide pigment market. The Supervisory Board believed the plan to be rational and ambitious and thus adopted it unanimously.

The 2017 business results were excellent with record 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. Therefore, we asses that the disclosed net profit of EUR 28.8 million and total sales revenue of EUR 188.7 million are excellent achievements, even more so taking into account the timely and efficiently implemented closing down of the relatively large product line of titanium-zinc sheets. 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.

We should not forget that in 2017 the Company achieved progress again in terms of quantities and quantitative performance indicators. The new quantitative record figure for the production of the flagship product, titanium dioxide pigment, is of utmost importance. We assess that the mentioned quantitative performance indicators, progress in marketing flagship products, decrease in the number of employees, payout of suitable dividends, progress in terms of environmental protection and employee care as well as persistent development efforts confirm the efficiency and robustness of the Company's business model and its future prospects.

The fundamental orientations for operations and development set with the mid-term strategy are being conscientiously implemented in terms of all key parameters. The Supervisory Board continues supporting the business policy measures aimed at improved business efficiency, reduced risks and uncertainty and 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 accumulated profit of Cinkarna Celje, d. d. for 2017.

The Supervisory Board was also familiarised with the independent auditor's report received by the Company on 19 March 2018 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 2017 and on the Review of the Annual Report of Cinkarna Celje, d. d. for 2017

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 meetings in 2017, all of which were regular. Two meetings aimed at detailed discussion of the 2017 Annual Report and related processes were held in March 2018.
Members of the Audit Committee were present at all meetings. The meetings were also attended by Jure Vengust, MSc, member of the Management Board in charge of Finance, Accounting and IT, and Karmen Fujs, MSc, Head of the Accounting Department (until September, Irena Leščak Zalokar, Head of the Accounting Department), 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 attended by Patricija Veršič, MSc, Head of Internal Audit Department, 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 in its recommendations, at the same time actively cooperating, proposing improvements and directing internal audit operations.
The Audit Committee studied reviewed again the system for identifying, assessing and managing operating risks of the company Cinkarna Celje, d. d. that was modernised and upgraded in 2017. The modernised system introduces improvements to the integration into the Company's business processes and enhances its responsiveness. 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 2017, the Audit Committee also reviewed data and information on the operations of the subsidiary Cinkarna BH, d. o. o. from Tuzla and familiarised itself with the Management Board's decision to close down the subsidiary. In the last quarter of 2017, the subsidiary stopped the production and laid off most employees, whilst its remaining assets are to be sold off in 2018. After these assets are sold, the Audit Committee will review and examine the final report, whilst the liquidation procedure itself is subject to the internal audit review, which will be completed when the liquidation process is finished.

In line with its authorities, the Audit Committee was in 2017 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 2016.
- It reviewed the findings of the audit of the financial statements of Cinkarna Celje, d. d. for 2016 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 2016.
- 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 2017.
- It examined the contract for the audit of the financial statements of Cinkarna Celje for 2017 and approved it.

The meetings and activities in 2018 were carried out to familiarise itself with the final audit of the financial statements of the Company for 2017 and to review the Annual Report of Cinkarna Celje, d. d. as well as the annual internal audit report. 2017 was the first year throughout which internal audit pursued its mission based on the plan adopted in 2016.

The Audit Committee received the first draft annual report of Cinkarna Celje, d. d. for 2017 on 12 March 2018. At the meeting held on 12 March 2018, 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 20 March 2018.

The final text of the Annual Report of Cinkarna Celje, d. d. for 2017 was received by the Audit Committee on 27 March 2018 and discussed at its meeting on 9 April 2018. The Audit Committee confirmed that the Annual Report of Cinkarna Celje, d. d. for 2017 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 2017 comprises a summary presentation of operations for the last three financial years. The operational and performance analysis for 2017 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 2018.

For the first time, 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 2017, 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 21th regular meeting on 6 June 2017. On 19 March 2017, the auditor issued an unqualified opinion on the financial statements of Cinkarna Celje, d. d. for 2017 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 2017 the Company disclosed EUR 24,577 thousand 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 for the first time 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 2017, that the Annual Report had been compiled in accordance with the Companies Act (ZGD-1) and that the financial statements in all material respects made a fair presentation of the financial position of Cinkarna Celje, d. d. as at 31 December 2017 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 2017 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 2017.
The Audit Committee further had no objection to the Management Board's proposal on the use of accumulated profit for 2017 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 accumulated profit of Cinkarna Celje, d. d. in the amount of EUR 21,550,008 to be used for dividend distribution in the amount of EUR 26.52 per share or a total of EUR 21,546,890, and for the transfer of the remaining part of EUR 3,118 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 answerable 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, external quality 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 only 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. It 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. Five regular audits and one extraordinary, special audit were performed in 2017, of which four were concluded in 2017 and two in the beginning of 2018. 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 realisation of which is monitored on an on-going basis.

Head 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 two 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 ratio 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 year, 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 2017

SALES

Total sales generated by the Company in 2017 under very favourable and improving conditions in the international economic environment and the resulting high demand in industrial sectors were 11.2% higher as compared to 2016 and 25.5% higher than planned. Total sales, i.e. net sales revenues, reached EUR 188.7 million.

The dynamics of quarterly and monthly net sales revenues basically followed the seasonal nature characteristic of the industry. For the months of January, February and December with seasonally low construction and processing sector activity, we certainly always record poorer results as compared to the average of other months of the year. In 2017, the increasing prices of titanium dioxide pigment were a major factor; the sales results in the months of October and November were in this respect especially high. As evident from the continuation, the best quarters were the second and the third, which is related to the maximum production activity of our buyers. The first and the fourth quarters were at similar levels and in line with the plans, lagging behind due to the low season for the construction and industry sectors.

When analysing quarterly and monthly sales, we established that sales results were the worst for Q1 2017, mostly due to growing selling prices, even though sales quantities of the leading products were higher as compared to Q4 2017. Sales in the final quarter were, due to the low season and less working days in December, lower as compared to Q3 by 10%, but higher by 19% as compared to Q4 2016. Sales in the last quarter were also as much as 51% higher than planned. Total Q4 2016 reached EUR 45.1 million and the progress as compared to 2016 mostly results from the significant increase in the selling prices of the titanium oxide pigment. The high demand with higher selling prices helped alleviate the characteristic impact of the low season at the end of the year in terms of sales. Q1 2017 sales reached EUR 45.1 million or 11% more as compared to the same period in 2016. Q2 and Q3 2017 sales reached EUR 48.6 million and EUR 49.9 million respectively and exceeded Q2 and Q3 2016 sales by 5% and 12% respectively.

The highest monthly sales were recorded for September with EUR 17.8 million (the highest sales in 2016 were also recorded for September with EUR 16.3 million), and the lowest for December with EUR 11.2 million (in 2016, December sales were also the lowest with EUR 10.6 million). It is obvious that all monthly sales significantly exceeded monthly sales realised in 2016. We should emphasise that we achieved these results despite abolishing the titanium-zinc sheets line, resulting in loss of approximately EUR 1.7 million of average monthly sales.

in EUR

Market	**2016**	**2017**	Change in 2017 (%)
Slovenia	21,438,087	24,460,675	+ 14
EU	118,662,076	129,615,745	+ 9
Third countries of the former Yugoslavia	6,132,233	6,874,874	+ 12
Third countries – other	23,533,034	27,753,464	+ 18
Total	**169,765,430**	**188,704,758**	**-**
Slovenia	13%	14%	
EU +	70%	69%	
Middle/Near East and Africa	3%	4%	
Eastern Europe	13%	13%	
USA & Mercosur	1%	0%	

Total sales to foreign markets grew by 10.7% in 2017 as compared to 2016. Sales to domestic market rose by 14.1%. Sales to foreign markets were excellent and, despite terminating sales of titanium-zinc sheets, we achieved very good results for quantities of titanium dioxide pigment coupled with drastically increased average selling price of the pigment. For entire years of 2016 and 2017 it is characteristic that the limited production capacities for titanium dioxide pigment represented a bottleneck for quantitative servicing of the market.

In relative terms, sales increased the most for non-EU third countries – euro markets, and this mostly relates to the drastic increase in the value of pigment sales to Turkey, Switzerland and Kuwait. Frontier markets and EU neighbouring markets, above all Turkey, were in 2017 particularly attractive and profitable.
Sales to the former Yugoslavia markets rose by 12%, mostly due to increased sales to Serbia (increased pigment prices and activities in the processing industry), whilst sales to Bosnia and Herzegovina dropped significantly due to the relatively poor economic situation and closing down of our subsidiary in this country.
The volume of sales to dollar markets of third countries were also very positive with 8% increase, which can be attributed to entry on the Israeli pigment market and acquisition of new buyers. Due to less favourable situation and somewhat lower price levels of the pigment, sales to the USA dropped. As the value of the dollar was relatively low and the market was not so attractive, we are gradually changing our sales structure, decreasing dollar sales to the USA and to the dollar markets of the Middle East.

Even though we almost did not sell titanium-zinc sheets to the EU markets any more (in 2016, we generated more than EUR 20.6 million of these sales), total sales to the EU market rose significantly in 2017 by 9%, up EUR 11 million on the year before. Improved sales results confirm the peak stage of the cycle in the titanium dioxide pigment industry and information on sustainable improvement in the general economic climate and activities in the EU and interdependent and related neighbouring economies.

Sales to the domestic market rose by 14% as compared to 2016. The increase can be attributed to the drastic increase in quantities sold and the prices of zinc alloys and anodes as well as to the increase in the prices of titanium dioxide pigment for the Slovenian industry of coatings and varnishes.

Exports accounted for 87% of the Company's total sales in 2017, a decrease of 0.4 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 186,550,379, which is an increase of 13.5% as compared to 2016. The lion’s share of exports, i.e. 88.2%, relates to titanium dioxide pigment.

The regional export sales structure changed somewhat in 2017. As much as 29.2% of export sales went to Germany, which corresponds to 25.4% 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. In 2016, we namely sold 5.8 thousand tonnes of titanium-zinc sheets to the German market or 70% of total titanium-zinc sheet sales (no sheets were sold to Germany in 2017). 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 13% (from 20.4 to 17.8 thousand tonnes YOY). The main reason for lesser quantities of titanium dioxide pigment sold in 2017 as compared to 2016 is the absence of available production quantities of the pigment. Objectively speaking, the German investment consumption is at a high level and the demand for German investment goods is assessed as unexpectedly robust and high. The forecasts for 2018 are also positive and optimistic as the demand and orders exceed our production capacities.

The reasons for the most obvious changes in export sales are: growth in France, Turkey, the Netherlands, Spain, Portugal, Switzerland, Serbia and Austria – increase in the prices of titanium dioxide pigment, acquisition of new pigment buyers and increased quantities sold to existing buyers; growth in Sweden – increase in quantities for the existing buyer and partial re-allocation of quantities from Belgium; growth in Poland, Hungary and Greece – acquisition of new buyers for various products of the Company, such as copper fungicides, coatings and masterbatches & increase in quantities and prices of the pigment; growth in Israel – utilisation of the conditions of the extremely under-serviced pigment market; drop in Algeria, Kuwait and the United Arab Emirates – lower value of the dollar and ceased participation in purchasing auctions due to shortage of the pigment and too low production levels; drop in the Czech Republic – shortage of available pigment quantities and absence of metallurgical sales programme; drop in the USA – shortage of the pigment and lower value of the dollar; drop in Bosnia and Herzegovina – poor economic situation, closing down of own factory for construction products.

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	**2016**		**2017**	
	Value in EUR	Share in %	Value in EUR	Share in %
Titanium dioxide	118,311,742	69	153,262,672	81
Zinc recycling	26,430,409	16	9,657,712	5
Construction products	2,814,049	2	2,724,130	1
Varnishes, coatings, masterbatches and printing inks	13,400,739	8	15,333,478	8
Agricultural products	3,896,130	2	3,990,967	3
Other	4,912,361	3	3,735,798	2
Value of sales	**169,765,430**	**100**	**188,704,758**	**100**

The most important product line of the Company, **titanium dioxide pigment,** saw an increase of 30% in sales revenue in the relevant period. This increase mostly results from significant growth in average selling prices, whilst quantities sold dropped by almost one percent. The increase in prices is a consequence of insufficient supply and high demand on the key international markets. The value of sales reached EUR 153.3 million. Selling prices have been growing since the beginning of the second quarter of 2016, when the market balance changed significantly and market surpluses started disappearing. In the second half of 2016, first quantitative market deficits already started appearing, which were only growing in the end of 2016 and in the beginning of 2017 with the expected and extraordinary halts of production units in the world. Market situation was extraordinary for most of 2017, but first signs of stabilisation appeared towards the end of the year. The current situation implies that the market is still short of material, but that it started entering the balance phase again. Since segment inventories are still outstandingly low, the price curve is still positive. In 2017, pigment producers had great difficulties in fulfilling their commitments made in the year before. Throughout the year, the demand was drastically exceeding short-term production potentials of the pigment industry. Consequently, market deficits were pushing the curve of selling prices along with pessimistic forecasts for increased supply. In the mid-term, there are no indicators that would point to market turnover, but the market will certainly stabilise and balance gradually.

Zinc recycling sales dropped significantly in 2017 in the situation of significantly higher average stock prices of zinc. The decrease of sales value of 63% is the exclusive and expected consequence of liquidating the titanium-zinc sheets production. It is positive that the rest of the zinc recycling programme (zinc alloys and wires) exceeded substantially the results from the year before as well as expectations and plans, both in terms of sales quantities and selling prices (the latter is the objective consequence of increased zinc stock prices). In terms of quantities sold, sales quantities for alloys increased by 26% and for wires (and anodes) by 53%.

Sales of the **construction product line** comprising building adhesives, mortars and plasters fell again in 2017 in value, by 3%. 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 two years, the scope of the Slovenian construction activity has been increasing together with the growing Slovenian real GDP. The fact that the demand did start growing and that sales quantities have started increasing justifies for some optimism. As compared to 2016, sales quantities rose by 7%. The mentioned drop in the value of sales thus mostly arose from decreased average prices (and somewhat changed sales structure). Lower average selling prices are a reflection of the extremely tough competitive struggle. With further growth in the Slovenian real GDP and investment consumption, we can expect the results for the construction product line to gradually improve.

In the relevant period, 14% increase in sales of **varnishes, coatings, masterbatches and printing inks** was recorded. The value of masterbatch sales grew by as much as 38%. The sales results for powder coatings were at the level from the previous year, mostly due to limited production capacities, whilst the groups of classic anti-corrosion products and printing inks slightly regressed. The group of classic anti-corrosion products was in the phase of gradual termination and was completely abolished at the end of the year. Sales of the newly introduced line of flexo printing inks in 2016 (from the abolished group of graphic intermediate goods) dropped by 17%. The rise in sales of the line, mostly related to increased masterbatch sales, is related to the improving international economic climate and poor availability of white masterbatches due to shortage of titanium dioxide pigment. In 2017, we started investing in expanding production capacities for masterbatches and powder coatings.

Sales of the product line for agriculture comprising copper fungicides, Pepelin, green vitriol (copperas) and Humovit rose by 2% compared to 2016. The rise can be attributed to the slight increase in average selling prices and quantities of copper fungicides (value of sales rose by 5%) with simultaneous drop in the value of sales of growth substrates of 16%. Despite the increased sales of copper fungicides, the results of the line were negative due to the decreasing ratio of selling vs. purchase prices, which should be attributed to the extremely unfavourable climatic conditions (hot and dry spring) causing market saturation and the related drop in relative price levels together with return on sales. Nonetheless, we managed to expand markets and increase the number of buyers of copper fungicides.

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 dropped by 24%. The biggest share in the decrease 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 dropped by 10%. For other product groups from this category, we should mention the 9% drop in the value of sales of sulphuric acid and 30% drop in the value of sales of CEGIPS. We sold 160 thousand tonnes of CEGIPS, which is 17% more than in 2016. This quantitative increase is of utmost importance in the context of increasing the useful life of the Za Travnik waste disposal site.

PROFIT OR LOSS

In 2017, we generated **operating profit** at the level of EUR 35.7 million. This results exceeds the 2016 operating result of EUR 10.6 million by 238%. As compared to the planned operating result for 2017 (EUR 11.5 million operating profit), it is evident that we exceeded the plans by 211%. Business operations were thus objectively significantly better than in 2016, at the same time strongly exceeding the business plan levels. EBITDA reached EUR 48.8 million and equals 25.9% of net sales revenues, increasing 93% on 2016.

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Operating profit or loss in millions of EUR	4.6	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

Considering the impact of finance income and expenses, **profit before tax** for 2017 stands at EUR 34.6 million, whereas in 2016 it totalled EUR 11 million. Profit before tax increased by 213% as compared to the year before. Profit before tax is also significantly higher than planned for 2017 and exceeds the plans by 200%. In 2017, we recorded a negative financing balance of EUR 1,170 thousand (in 2016, positive financing balance of EUR 533 thousand). The negative financing balance arises from foreign exchange losses, impairment of the investment in the subsidiary in liquidation proceedings (negative impact on profit of EUR 291,000) and finance expenses for other financial liabilities of EUR 63 thousand (costs of provisions for termination and jubilee benefits). The balance of foreign exchange losses of the total amount of EUR 1 million results from extremely volatile movements of the euro-dollar currency pair in 2017, which, due to simultaneous difficulties with scheduling and implementing purchases and unplanned substantial increase in purchasing titanium-bearing ores, led to discrepancies between maturity of liabilities and collateral instruments.

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net profit in millions of EUR	1.6	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

Net profit for the period reached EUR 28,765,297, 195% more than the one realised in 2016 and 187% more than the one planned (we planned EUR 10 million net profit for 2017). 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 6.35 million (effective tax rate of 18.4%) and deferred tax of EUR 566 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, new allowances for receivables and impairment of financial assets. 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 2017 was 1,880, whilst the total number of issued shares was 814,626, whereby 812,477 shares carry voting rights and 2,149 are the Company’s treasury shares. The number of shareholders decreased by 63% from the start of trading on the free market to the last day of 2017. As compared to the end of 2016, the number of shareholders dropped by 3%, so the process of ownership concentration continued in 2018 after a few years of increasing in the number of shareholders.

The price of a share of Cinkarna Celje, d. d. in 2016 was between EUR 162 per share and EUR 217 per share. Share price was increasing gradually from the beginning to the end of the year, the movements being quite volatile. The dynamics of the Slovenian stock exchange market (SBI TOP) was similar in the same period, but the growth rate was lower at 13% (CICG beta coefficient calculated based on analysis of six-year data for CICG & SBI TOP equals 0.5344). We assess that the growth in share price is related to successful operations and improved situation and forecasts for the titanium dioxide pigment industry. The share price rose from EUR 162 to EUR 217, an increase of 34%, between the last trading day in 2016 and the last trading day in 2017.

The Company's market capitalisation equalled EUR 177 million as at the last trading day of 2017. The Company's market capitalisation as at the last trading day of 2016 was EUR 132 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	2014	2015	2016	**2017**											
Month	3	12	12	12	1	2	3	4	5	6	7	8	9	10	11	12
CICG price in EUR	33.6	177.0	76.0	162.0	174.7	195.0	184.6	182.0	190.0	167.5	168.0	170.0	180.0	187.4	194.1	217.0

The average cumulative monthly turnover in the shares of Cinkarna Celje, d. d. in 2017 was EUR 2.25 million and was 64% higher than the average monthly turnover in 2016, when it was EUR 1.37 thousand. The average daily turnover of CICG shares in 2017 was EUR 112.1 thousand (EUR 65.6 thousand in 2016). The total annual turnover was EUR 27 million (EUR 16.5 million in 2016).

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

	2015		**2016**		**2017**	
	Max	Min	Max	Min	Max	Min
Share price in EUR per share	212.1	75.0	162.0	70.5	217.0	161.1
Cumulative monthly turnover in EUR thousand	1,819.6	337.9	5,335.6	166.9	4,273.2	1,064.2

DIVIDENDS

On 6 June 2017, the Company’s General Meeting voted in favour of the proposal of the Management Board and the Supervisory Board on the use of accumulated profit for 2016, which was at the level of EUR 7.35 million. In accordance with the adopted proposal and resolution, the major part of accumulated profit of EUR 7.35 million was paid out in the form of dividends. The dividend per share was worth EUR 9.05 gross, which is 116% more than the payment of dividends in 2016, accounting for 75% of net profit generated in 2016. The difference of EUR 1.3 thousand was allocated to retained earnings.

The Company did not increase the number of treasury shares in 2017. The Company's treasury stock comprises 2,149 shares, which is 0.26% of all issued shares. The treasury stock was formed based on the General Meeting resolution from 2007.

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

	2015	2016	2017	Change in 2017 (%)	Change in 2016 (%)
Gross dividend in EUR per share	8.57	4.20	9.05	+116	-51
Net dividend in EUR per share	6.43	3.15	6.79	+116	-51
P/E 31 Dec	9.1	13.5	6.15	-54	+48

The Company paid out 75% of net profit for 2016 in the form of dividends in 2017. The dividend yield of the share as at the distribution date was a high 4.9%. The payment represented 20.3% of total free cash flow from operations in 2017. With above-average dividend payout as compared to the industry, the Company was in 2017 operating smoothly and confidently in terms of ensuring cash for continuous financing of operations and investments. The balance of cash increased by 43%.

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 2017 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. Economic activity was due to the business activity on the rise again in 2017 at a higher level as compared to 2016 and the macroeconomic trends were improving throughout the year. The situation in the domestic economy also improved significantly. The improving situation in the global economy, mostly the related increase in demand, were establishing the conditions for gradual price increases of the key goods on the commodity markets (non-ferrous metals, steel, energy, basic chemicals, etc.). 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 2017 as compared to 2016. The growing pressures from 2016 were thus realised in 2017 through actual and continuous increases in purchase prices, which were, in terms of dynamics, lagging behind selling prices. Political and security risks related to the situation in Ukraine and the Near and Middle East and the confused situation in the American economic and political system did not have a significant impact. The combination of the mentioned macroeconomic trends and the highly favourable business cycle for the titanium dioxide pigment industry coupled with disproportionate increases in selling prices led to the improved 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 significant improvement in operations and the corresponding increase in payments to employees.

The shares of consumption of raw materials, packaging and energy slightly changed from 2016. The reason lies in different dynamics of changing of individual categories of direct production costs and naturally the closing-down of the titanium-zinc sheets line. In absolute

terms, the decrease in raw material cost of 10% is the most significant one. Energy costs rose by 1%, whilst the 8% 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 9% in the period as compared to 2016 and at the same time the scope of production also dropped by 8%. We can say without a doubt that we further improved the relationship between direct production costs and the scope of production in relative terms (mostly taking into account stable and unchanged scope of work-in-progress). The major growth in sales value led to significant increases in operational efficiency and return. The abolishment of the titanium-zinc sheets line (resulting in decreased quantities of expensive zinc used) and lower prices of sulphur used for the production of sulphuric acid 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 28.5% and of titanium slag by 9%. After several years of decreasing energy prices, the prices of natural gas jumped by 26% in 2017 as compared to 2016, whilst the prices of electricity dropped insignificantly.
In 2017, the process of increasing purchase prices of major raw materials started. 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 was 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). So far, we faced moderate increases in titanium-bearing materials, but we also expect the trend to continue in 2018.

The biggest share of production costs in 2017 was again arising from raw materials for production (87.2%), which was followed by energy (10.7%) and packaging (2.1%).
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 2017 also comprise EUR 1,366,451 worth of costs relating to capitalised own products and services, while these costs in 2016 (because of the lower scope of capitalised own products and services at the time) were EUR 1,211,020. 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 2017, we imported EUR 62.7 million (21% less than in 2016) 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 2.62 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 2017 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 increased by 14.6% YOY and came in at EUR 2,277.82 in 2017, while it was EUR 1,987.33 in 2016. In June 2017, we paid the extra, 13th salary to employees and, in January 2018, also the Christmas bonus for business performance in 2017 with the base amount of EUR 1,621.46 gross per employee adjusted to hours of actual presence; the Christmas bonus exceeded the one from 2016 by 47.8%.
In February 2017, we paid employees a holiday allowance of EUR 1,157.00 gross per employee. In 2017, 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 7% higher as compared to 2016. Labour cost per employee increased by 13% in 2017 as compared to the year before.
The bulk of labour cost is the cost of gross salaries, accounting for 83.9%. As compared to the year before, total gross salaries increased by 8%.

Labour productivity decreased as planned by 3.5% in 2017 as compared to 2016 due to abolishing the titanium-zinc sheets line. Value added per employee grew by 54% and came in at a very high EUR 91.2 thousand in 2017.
Amortisation and depreciation expense dropped by 3% on 2016, 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 2017 as we significantly exceeded the amount of accounted amortisation and depreciation for the year with EUR 13.3 million invested. Investment scope increased by 51% in 2017 as compared to 2016.

In 2017, 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 lo longer exposed to risks related to potential changes in interest rates. We should expose other financing expenses, which rose drastically as compared to the year before. The rise is related to increased foreign exchange losses. The balance of foreign exchange losses of the total amount of EUR 1 million results from extremely volatile movements of the euro-dollar currency pair in 2017, which, due to simultaneous difficulties with scheduling and implementing purchases and unplanned substantial increase in purchasing titanium-bearing ores, led to discrepancies between maturity of liabilities and collateral instruments.

Despite the slight decrease in the quantitative scope of operations, we achieved in 2017 excellent and, at the industry level, above-average business performance results with the rapid increases in the average selling prices of titanium dioxide pigment and the growing gap between purchase and selling prices. We generated net profit of EUR 28.8 million. Corporate income tax for 2017 amounted to EUR 6.4 million. The increase in deferred taxes stood at EUR 565.8 thousand.

Operating profit or loss & expenses	**2016**		**2017**	
	Value in EUR	Share in %	Value in EUR	Share in %
Operating profit or loss	10,579,068	6	35,721,219	19
Cost of material and services	111,611,691	67	104,576,124	55
Labour cost	28,190,727	17	30,324,810	16
Write-downs in value	14,790,371	9	13,109,958	7
Other expenses	1,240,244	1	6,846,137	3
Total operating revenues	**166,412,101**	**100**	**190,578,248**	**100**

ASSETS AND LIABILITIES

The sources of financing for the achieved scope of operations in 2017 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	**2016**		**2017**	
	Value in EUR	Share in %	Value in EUR	Share in %
Non-current assets	97,235,306	**52.3**	99,132,889	**45.1**
Current assets	88,361,593	**47.5**	120,239,680	**54.7**
- Inventories	*30,569,235*	*16.4*	*41,314,607*	*18.8*
- Receivables	*26,709,721*	*14.4*	*34,473,658*	*15.7*
- Cash	*31,032,024*	*16.7*	*44,451,415*	*20.2*
Short-term deferred costs and accrued revenues	425,025	**0.2**	358,503	**0.2**
Value of assets	**186,021,924**	**100,0**	**219,731,072**	**100,0**

The share of non-current assets in total assets fell by 7.2 percentage points from the end of 2016 to 45.1%. The lion's share of non-current assets is accounted for by property, plant and equipment (94.7%). Their value increased by EUR 1.7 million or 2%, i.e. by the difference between the amount invested in property, plant and equipment and the accounted depreciation in 2017. Long-term financial assets decreased by EUR 241,000 in 2017 due to the impairment of the investment in the subsidiary, whilst other investments stayed at the same level and include shares and stakes in companies. As at 31 December 2017, long-term housing loans were fully repaid. Deferred tax assets increased by 27% or EUR 565.8 thousand, mostly in relation to establishment of provisions not recognised for tax purposes and adjustments to receivables and investments.

The share of current assets in total assets grew by 7.2 percentage points as compared to the balance as at the end of the previous year and came in at 54.7%. In terms of value, the most important item of these assets is cash (37%), followed by inventory (34%) and receivables (29%).

Inventories increased by 35% as compared to 2016, with inventories of material (including advances) increasing by 58% and inventories of work-in-progress increasing by 10%, whilst the total value of inventories of finished products decreased, namely by 19%, as compared to the end of 2016. The key factor for decreased inventories of finished products are pigment inventories.

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 rose by 29% from the end of 2016. Receivables due from others rose by 22% due to the increased input VAT. Trade receivables rose by 31%, mostly due to the increased scope of sales arising from the favourable market situation for titanium dioxide pigment. The overview of trade receivables by maturity reveals that the age structure of receivables remains very solid.

Cash and cash equivalents account for 37% of total current assets; their balance increased by 43%. The relatively high balance of cash mostly arises from excellent operations throughout the year and delays in the implementation of planned environmental investments.

Short-term deferred costs and accrued revenues represent costs paid in advance. Their balance dropped by 16% (mostly in relation to decreased scope of material in transit).

Equity and liabilities	**2016**		**2017**	
	Value in EUR	Share in %	Value in EUR	Share in %
Equity	145,966,794	78	166,520,502	76
Provisions	23,713,344	13	28,428,742	13
Long-term operating and financial liabilities	0	0	0	0
Short-term operating and financial liabilities	15,453,003	8	23,827,392	11
Short-term accrued costs and deferred revenues	888,783	1	954,436	0
Liabilities and equity total	**186,021,924**	**100**	**219,731,072**	**100**

The value of equity in the structure as at 31 December 2017 accounts for 75.8%, which is 2.7 percentage points less than at the end of 2016. The amount of equity increased by 14% as compared to the end of 2016. The increase (EUR 20.5 million) relates to the difference between net profit for 2017 and 2017 payout of dividends for 2016 in the amount of EUR 7.4 million less fair value reserve (actuarial loss) in the amount of EUR 0.8 million. 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 2,149 treasury shares). The carrying amount of a share as at 31 December 2017 was EUR 204.4 (it increased by 14% from the beginning of the year).

Provisions and long-term accrued costs and deferred revenues comprised 12.9% 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. The scope of environmental provisions grew in the period by 21% or EUR 4.3 million, taking into account the following: EUR 0.83 million provisions were used to cover the rehabilitation projects mentioned above, EUR 5.5 million provisions were established additionally for the barrier Bukovžlak in the amount of EUR 3 million and for elimination of risks arising from old burdens in the amount of EUR 6.4 million, for which the Company due to transformation simultaneously reversed EUR 3.9 million provisions established previously. Long-term accrued costs and deferred revenues decreased by 8% due to utilising accounted unpaid ZPIZ (Pension and Disability Insurance Institute of Slovenia) liabilities and covering the costs of depreciating the equipment intended for disabled persons.

Financial and operating liabilities increased in 2017 by 54% as compared to the end of 2016 due to increased short-term operating liabilities (increase in trade payables of 39% and other short-term liabilities arising from accounted income tax). All financial and operating liabilities are short-term. The Company's gross debt rate was 10.8% and was 2.5 percentage points higher as compared to the balance as at 31 December 2016, when it was 8.3%.

Short-term financial liabilities as at 31 December 2017 amounted to EUR 77.6 thousand, which is 34% less than in the end of 2016 (with EUR 117 thousand); the difference arises from decreased assignment of our liabilities and receivables of our suppliers. The Company's financial debt rate is thus 0.35 ‰, half of the rate from the previous period.

Short-term operating liabilities increased by 55% in the period. Short-term trade payables as at the last day of December 2017 stood at EUR 14.5 million and were up 39% as compared to the end of 2016, mostly due to increased scope of supplies in December 2016. Other short-term operating liabilities increased by 95% or EUR 4.4 million and include mostly EUR 2.4 million of liabilities for net salaries and wages, EUR 1.5 million of liabilities for salary-related contributions and taxes, EUR 0.2 million of VAT liabilities and EUR 4.8 million of liabilities for corporate income tax exceeding tax prepayments.

Short-term accrued costs and deferred revenues increased by 7% in the period. They mostly comprise accounted liabilities for annual leave, accrued environmental contributions and taxes and VAT on advances given.

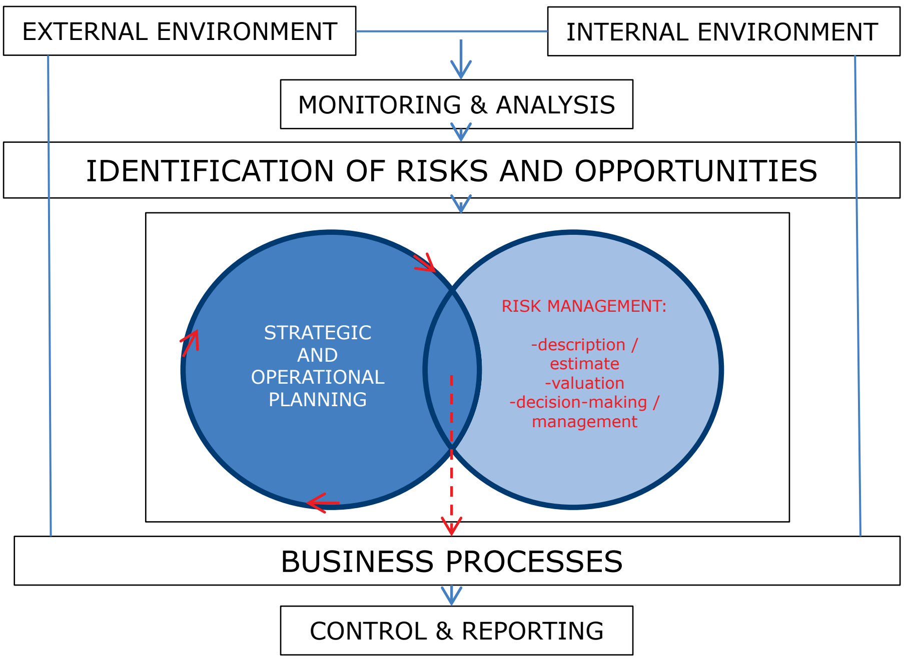
The Company's Operating Risks and Their Management

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 managers and heads 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.
  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 the 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	Probability of occurrence
	Low	**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 sales risk for the flagship product, titanium dioxide pigment, decreased significantly because of the increase in demand from 2013 to 2015 and mostly because of the occurrence of market deficits in 2016 and 2017. The sales risk for the pigment has been decreasing over the last years effectively due to the expanded portfolio of buyers and sales markets, introduction of new products and shortening of sales channels. In the last five years, production capacities for titanium dioxide pigment were constantly fully booked, so the market is not a bottleneck. Record-high sales and production levels achieved from 2015 to 2017 evidence the contrary, that production capacities are the bottleneck for supply to the market.	

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 two years, we have been actively reducing the product sales risk by target optimisation of the sales portfolio with exclusion of products with a high market risk. 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
	Low	**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 ores, zinc, aluminium 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. The balancing of sales markets of titanium dioxide pigment and the development of individual new deposits of titanium-bearing materials over the last years stabilised the prices of titanium-bearing materials at relatively low levels. The risk related to purchasing of titanium slag increased somewhat in 2016 and 2017 as one of the long-time suppliers stopped its production (one of the two global producers), but we successfully established cooperation with another quality supplier, thus ensuring sufficient quantities in the long-term. Taking into account the current market situation, we do not expect significant changes in the mid-term, but we can expect growing pressures for higher prices of titanium-bearing materials due to the increased prices of the pigment in 2016 and 2017. 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. However, we asses energy supply in the following medium-term to be good, the market to be in balance and price levels not to change significantly. Consequently, the risk is relatively low.	
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 two additional suppliers of titanium slag (or equivalent raw material) in 2017, 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, and 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
	Low	**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. Forecasts, projections, confidence indicators and the first interim indicators for 2017 and 2018 are relatively positive and optimistic. Therefore, we assess the general risk of macroeconomic conditions is currently low. Even more, the global economy proved to be unexpectedly robust over the last five years by successfully compensating for several global challenges. Some concerns are caused by specific risks of the continuing and potentially growing conflict between Ukraine and Russia and the political and security failure in the Middle/Near East. 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. In 2017 and 2018 we will have to pay special attention to the processes and consequences of the planned Brexit and the economic and political decisions of the new US administration. So far, we have not detected any particular impact on our operations.	
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.	
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 are continuously harmonising 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 fire fighting 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.

III. Financial Risks

Currency risk	Probability of occurrence	Amount of damage
	Moderate	**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 has deteriorated 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 and the titanium-zinc sheet lines.	

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. The project for further rehabilitation phases is to be finished in the spring of 2018. It anticipates 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. The Environmental Impact Assessment for the planned rehabilitation measures is in the final preparation phase. When all the necessary documents are prepared, we will file the application for environmental permit and the construction permit.	
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. In 2017, we started preparing the project for thickening gypsum suspension, which will, when implemented, decrease 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. The project for setting up the sixth centrifuge is in the phase of implementation. The use of red gypsum for the production of an impermeable cover for the closure of the Bukovžlak non-hazardous waste landfill has been approved. We are amending 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
	Low	**High**
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 are 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 2018. 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 as at 31 December 2017 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. 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) will also include 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
	Low	**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 are checking the possibility to export waste for permanent storage in the state of Idaho. 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
	High	**High**
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 April 2017, we publicly presented the Human Health and Environmental Risk Assessment. Based on findings and proposals of the assessment compiler, we established environmental provisions of EUR 6.4 million at the end of 2017 and we also continue with additional research. In this respect, we already prepared the Toxicological Assessment of Risk to Human Health Arising from Consumption of Agricultural Products Produced under the Bukovžlak Non-Hazardous Waste Landfill. The assessment has not yet provided final results, thus we will continue with research activities.	
Water permit for pumping process water from the Hudinja river	Probability of occurrence	Amount of damage
	High	**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 the Slovenian Environment Agency (ARSO) are required. Production can be restricted during months of drought.	
Management	Testing of the technical solution for partial water recycling is in the final phase. The Institute for Water of the RS conducted a study to define environmentally acceptable water flow. On the basis of the study, we submitted the application for amended water permit to the Slovenian Water Agency.	
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, significant changes would occur in the industry that would 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 stated in 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 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 internal audit plan for 2017, the Department was already fully operational in 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 accumulated profit,
- appointment of the members of the Supervisory board,
- granting discharge to the members of the Management Board and the Supervisory Board, and
- 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, and
- status changes and winding up of the Company and other matters, provided this is stipulated 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 Matjaž Janša, MSc, member, (up to 22 October 2017, Aleš Skok as of 12 December 2017) and Aleš Stevanovič, member. 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.

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 2018 (Strategic Plan of the Company for the period from 2013 to 2018); the Management Board has not yet 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).
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) are in compliance 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.

Diversity Policy

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 and Nomination Committees.

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

Development Foundations and Strategy

INVESTMENTS

In terms of investments, 2017 was more intensive than previous years as we invested the total of EUR 15,449,780 together with capitalised own products and services, exceeding the planned value for 2017 by 2% and increasing the scope of investments as compared to the year before by 43%. Equipment for titanium dioxide production was after 10 to 15 years from the last major investment cycle worn-out to the degree requiring a more comprehensive renovation or replacement. By initiating investments, we also answer the demand for higher product quality, debottlenecking, decreased emissions into the environment and improved conditions for safe and healthy work.

Investments in titanium dioxide production were mostly intended for:

- Setting up a substitute tank for liquid sulphur, which enables more flexibility in purchasing sulphur form with more favourable prices.
- Replacement of two worn-out ore grinding mills with one bigger (to be concluded in 2018). The investment will ensure reliable operations and enable better emission control with new filtering devices.
- Replacement of the pallet line at the Packaging Facility 2. After being in use for 22 years, the line was causing frequent interruptions, spare parts are extremely expensive and the software part of the equipment no longer had the manufacturer's support. With the change, we harmonised the external design of packaged material with the Packaging Facility 1.
- Setting up water cooling towers for purifying flue gases from the digest-and-dissolve process, thus increasing the efficiency of the purification plant and decreasing emissions.
- We initiated the investment in additional hydrolysing unit, which will enable gradual renovation of existing worn-out units without interruptions.
- We installed the fifth centrifuge and ordered the sixth one for extraction of white gypsum, thus decreasing waste gypsum quantity and extending operating time of the titanium dioxide production.
- We initiated the investment into thickening gypsum suspension and the C neutralisation line to decrease the risk of emissions of liquid waste into the environment.
- We commenced the investment into additional filter for black solution. We are looking for alternative suppliers to decrease the risk related to ore supplies. Change in the ore input occasionally causes poorer solution filterability, which limits the available time for necessary maintenance of the existing 13-year old machinery.
- To increase the quality of end products in line with market requirements as well as to renovate machinery and get rid of the bottleneck, we initiated the investment in calcite grinding. In relation to this, we also need to build a new transformer station.
- We purchased an additional device for preparation of flocculant for black solution clarification, thus eliminating the risk for production failure and poor quality of calcite due to inadequate flocculant addition.
- Due to decrepitation and unavailability of spare parts, we replaced the elevator for the calcite grinding process.
- Some funds were also allocated to internal and external renovation of the production hall (smaller scope of replacing ceramic floor tiles and façade panels).

We concluded the investment in two new steam boilers for the Maintenance & Energy BU, thus ensuring legislative compliance as the two old ones did not meet requirements for operating.

We initiated the investment in additional line of powder coatings and masterbatches for the Chemistry Mozirje BU. New lines will enable production of more profitable colour masterbatches and powder coatings.

We invested in renovation of internal railway tracks and, to a lesser degree, road surfaces.

We started renovating the marketing building. We renovated the Rogla apartments. We invested in vehicles for the performance of the principal activity and in the sweeping machine for road surfaces.

Some assets were also allocated to modernising the IT equipment.

Rehabilitation of the barrier at the non-hazardous waste landfill ONOB is finished. The project for the other four necessary rehabilitation interventions for the Bukovžlak non-hazardous waste landfill are still in the phase of preparation.

We also invested in the equipment for development and quality control:
- laboratory application device for powder coatings,
- foil defect detector (machine vision),
- device for determining abrasion resistance of powder coating film,
- Wesemann fume cupboard with ventilator,
- laser engraving device for marking valves, and
- pilot device for reverse osmosis.

Some major overhauls were carried out and a part of funds was invested in purchasing individual fixed assets.

2018 Investment Plans. The planned investment value for 2018 together with capitalised own products and services is EUR 18,516,044. This amount does not include anticipated activities arising from reversal of environmental provisions of EUR 2 million. The planned amount is by 47% higher as compared to the 2017 realisation assessment and equals 9.3% of planned sales.
Within this framework, we will invest in individual lines based on needs, abilities, capacities and prospects as well as in line with the five-year strategic plan.

The biggest share of funds invested will be allocated to titanium dioxide production.
We will continue with investments initiated in 2017 in:
- replacement of two worn-out mills for grinding titanium-bearing ores,
- thickening of red gypsum suspension before pumping for filtration,
- finishing the sixth centrifuge for increasing the quantity of extracted white gypsum,
- installation of the filter for black solution filtration,
- installation of the new hydrolysing unit,
- installation of the filter for the second phase of washing metatitanic acid,
- dry and wet grinding of calcite before surface treatment, and
- production and installation of 46'' air jet mill for pigment micronisation.

Commencement of the investment in increased safety of waste acid neutralisation is anticipated (extension of the C line of the first neutralisation stage).
In order to ensure safe operations and, at the same time, better purification of flue gases from calcination, we will start renovating the existing electro filters and installing one substitute.
To decrease ore emissions into the external environment, we will replace the filter on ilmenite grinding mill. To lower emissions at the workplace, we will install the system for dust abatement for black grinding devices.

We plan to expand the masterbatch and powder coating production (for each one new line). The investment is already underway and will be finished in 2018.

For Blue Copper production, we will finalise project documentation for the new mixing and packaging line, deciding on appropriate investing dynamics during the year in line with the market situation.

As concerns Polymers, we will arrange additional space, paint cabin and furnace for powder coating sintering and also make the machine for sprinkling fluorinated polymers onto elements of bigger dimensions.

We will set up a TBMA filling station for filling TiO_2 into roadtankers in the marketing warehouse. We also plan to renovate the marketing building.
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 and Purchase of Fixed Assets for 2018.

DEVELOPMENT ACTIVITIES

We pursued three framework objectives to monitor the development activity in 2017.

I. Developing new products & services
Most of these implementation objectives were focused on adjusting to the market in the sense of expanding product range and quantities produced.

We made a formulation for highly weather resistant pigment with a thick silicon coating. A sample is undergoing testing with a development partner.
At the initiative of one of our buyers, we are developing anti-statically modified pigment TiO_2. The first sample was sent for testing. Such material is not yet present on the market. Its advantage would be that the antistatic agent would not migrate to the surface of plastic products, which restricts their use in contact with food. A number of different antistatic additives will have to be tested in a similar way. The task thus continues in 2018.
The existing organic pigment additive for plastic could be declared unsuitable for use for products in contact with food. We found a suitable replacement.

We continued with the project Comprehensive Water Management; its result for this year is the Waste Water Management Plan. By taking into account all aspects, this plan presents possibilities for internal recycling of process water and simultaneous production of an interesting new product for the market, $BaSO_4$.

As concerns construction compounds, we developed a new watertight compound Hidrozan Plus with increased flexibility.

As concerns the Blue Copper OU, we optimised at the laboratory level the procedure for preparing tri-basic copper sulphate (TBCS) with minimum waste and found a partner that would take over the waste for further use. The task is still underway in the sense of preparation for production.

We developed a white masterbatch on the universal EVA carrier with 75% filling.
We developed two new products for powder coatings:

- E/P powder coatings with increased reactivity and
- temperature-resistant powder coating with smooth surface.

We developed a unique angular connector of a demanding form in the Polymers BU with the Rotoliv procedure. Based on buyers' needs, we developed a pressure compensator for production vessels with an aggressive medium.

We also introduced some new services for quality control and maintenance for own purposes:

- mastering proficiency testing procedure as one of the conditions for accreditation under ISO 17025,
- dynamic mass centrifuge balancing, and
- introduction of the PDM diagnostic tool for analysing operations of devices on the Profibus DP network.

We also made some case studies to check the justification of developing some new products in the future (liquefied carbon dioxide for the purpose of removing sulphates from waste waters, production of titanyl sulphate for lithium titanium batteries, powder coatings in the PEQ quality category 1+, masterbatches in the PE quality category MFI>20 (melt flow index), etc.).
The most important of these studies was the one related to the possibility of developing titanium dioxide production on the existing and new location.

II. Improving existing products & services
Improvements are made daily in all our units in compliance with the requirements of the ISO standards. We implement them in formal (R&D tasks, investment projects, CC UM, IR orders, concept and technological projects) and informal manner.
For 2017, we should emphasise the following:

- Returning the particles of calcinate that the airflow takes away from the furnace, thus decreasing emissions into the air and selling the returned pigment quantity.
- Development of the procedure and concept project for leaching titanium compounds from the filter cake after washing sludge. By implementing the investment, we will increase the utilisation rate by approximately 1500 tonnes of TiO_2 annually.
- Improving the colour of blue products in the Blue Copper production as per buyers' demands.
- Improving grinding degree of recycle of WG products in the Blue Copper production.
- Optimising the sandblasting procedure for pre-preparation of steel parts of Polymers BU products before painting. The improvement ensures compliance with the required standards for surface roughness and cleanliness.
- Packaging colour masterbatches in bags with external valve that prevents leakage of granules.

We also improved some methods for controlling and maintaining equipment and organisation of work at individual plants. By doing go, we achieved improved availability of work equipment, lowered costs and allocated work to employees more efficiently.

III. Launching marketing of products developed last year
Sales of products developed in 2016 accounted for 0.4% of total sales generated in 2017.
We started marketing:

- titanium dioxide pigment RC 821,
- COC 35 WG fungicide,
- Cuprovin fertiliser,
- NiveGrip contact coating,
- valves with integrated locking system, and
- white EVA masterbatch with 65 and 72% filling.

Funds allocated to R&D (own sources) amounted to EUR 216,876. There was no co-financing in 2017. The amount of funds allocated to R&D accounts for 0.115% of total sales revenues.

QUALITY ASSURANCE

The most important quality indicators for our products are the number of complaints and customer satisfaction. Therefore, our goal is to achieve every year the planned level of successfully solved corrective measures and tasks initiated based on complaints and comments of our customers. The target level was at least 80% and we achieved 96.55% realisation.

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. Customer satisfaction rate during the last review was 89.7%, which is 7.6% more as compared to the year before.

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.

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 2017 the annual management review for 2016. 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. The external assessment by the Slovenian Institute of Quality and Metrology (SIQ) confirmed again the adequacy of our Integrated Management System. They detected no deviations or inconsistencies and gave 22 recommendations (20% less than in the year before), which we mostly took into account and already implemented half of them.

STRATEGY

We prepared the current strategic plan in 2012 for the period from 2013 to 2018. The strategic plan was presented to the Supervisory Board in December 2012 and was unanimously confirmed and adopted following a constructive debate (with a small number of editing corrections).

The Management Board and the Supervisory Board review the Company’s strategic plan every year to check its realisation and implementation and to make any necessary corrections. Corrections are verified and confirmed, thus becoming an integral part of the current plan.

The key elements of the valid strategy are as follows:

I. I. Our corporate-level plan envisages a directed growth in the scope of operations and gradual stabilisation of its performance. We plan to have EUR 6 to 7 million in net profit at the end of the strategic period, over 5% ROE and payment of dividends between EUR 3 to 4 million.

II. II. Over the strategic period, we will change the structure of the Company’s strategic business lines. Investments will be used to raise the scope of operations of the most profitable business lines exhibiting the most potential and we also plan withdrawal from and divestment of business lines that operate below the planned performance standards and have limited development potentials. The following lines of business are the most important to us in this sense: 10% growth in the principal line of titanium dioxide pigment, 20% increase in the activity of the zinc recycling line and manifold increase in the production and sale of the copper fungicide line.

III. III. Development activities are focused on the development and marketing of high-tech ultra-fine titanium dioxide, which is important as per its type due to its UV absorption and photocatalytic properties. We are also developing applications (products and systems using ultra-fine titanium dioxide) simultaneously with the development of ultra-fine titanium dioxide.

IV. IV. When it comes to financing, we will continue the conservative policy of low indebtedness, low financial leverage and thereby low level of risk to the business system.

V. V. Another two important items of the strategy are successful rehabilitation of the Bukovžlak non-hazardous waste landfill and the assurance of conditions for long-term operations of the Za Travnik landfill.

Conceptual adjustments to the strategic plan:

As at the end of 2016, we discontinued most of the zinc recycling programme due to lack of profitability and accumulated losses. The zinc recycling programme is thus no longer a strategically important line of business of Cinkarna Celje, d. d.

The success and in particular time efficiency of the strategic plan implementation depend strongly on a large number of independent and interrelated factors. The Company prepared the strategic plan and adopted a set of binding and key orientations for future operations relating to the entire period until the end of 2018. Because of the extreme importance of macroeconomic conditions and conditions in the industry at the time, many elements of the strategic plan will in the temporal sense very probably be fulfilled with a certain degree of deviation, either in the positive or negative direction.
In the beginning of 2018, the Company started preparing a new strategic plan for the period from 2019 to 2023. The plan will be adopted before the beginning of the new strategic period and will be appropriately presented to the public in line with regulations and appropriate communications practices.

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 2017 we set three annual objectives within the Company's environmental framework objectives:

1. Meeting the requirements for environmental protection

We grouped requirements into: requirements for legislative compliance, requirements for risk elimination and requirements for sustainable development.
The framework objective of compliance with legislative requirements had four implementation objectives:

- audit of the project for closing down the Bukovžlak non-hazardous waste landfill (ONOB),
- acquisition of construction permit and initiation of works for rehabilitation of ONOB (to be continued in 2018),
- arrangement of other waste collection points (protecting waste against weather) and preparation of the application for environmental permit under the SEVESO Directive, and
- acquisition of permit for sealed radioactive sources.

Audit of the project for closing down ONOB is in progress and not yet finished as additional research for deep drainage and the pertaining shaft under the high barrier had to be carried out. To avoid implementation risks, we also need to prepare safety calculation for the planned implementation procedures.

In November 2017, we managed to obtain the environmental permit for closing down the solid waste landfill Bukovžlak, so the title will also have to be changed on conclusion of the project audit. We will namely no longer be in the landfill closing-down phase, but in the phase of rehabilitating and reconstructing the closed solid waste deposit site Bukovžlak.
As project audit was not carried out, we have also not started yet the procedure for obtaining the construction permit. We did perform some urgent measures anticipated by the project in 2017. Based on the requirement from the inspection decision of the environmental inspector

we thus implemented phase 2 of strengthening the barrier and constructed the temporary pumping station for landfill leachate. We also prepared the necessary documentation and obtained the construction permit for the new pumping station for landfill leachate with the purpose of enhancing operational reliability.
We arranged all waste collection points in compliance with the requirements of the Decree on Waste.
We audited the Risk Decreasing Concept and submitted the application for the environmental permit under the SEVESO Directive.

Within the requirements for risk elimination in the environmental area, we set for ourselves three implementation objectives:

- finding an appropriate manner for removing TENORM waste,
- preparing the Human Health and Environmental Risk Assessment Due to Old Burdens (continuation from 2016), and
- making a study of ecologically acceptable flow at the point of capturing process water from the Hudinja water course, which will be the foundation for changing it.

Activities aimed at finding an appropriate manner for removing TENORM waste were intensive. We established cooperation with a US company, which will help export this waste abroad. The procedures require preparation of demanding documentation and permits for export, transport and import. Administrative procedures are in progress, so we will continue the task in 2018.
The company CDM Smith finished and presented to the public the Human Health and Environmental Risk Assessment Due to Old Burdens.
A study of ecologically acceptable flow at the point of capturing process water from the Hudinja water course was also made and an application for amending the ecologically acceptable flow was submitted to the Slovenian Water Agency under the Environmental Agency of the RS.

For sustainable development requirements, we set for ourselves three implementation objectives, which remain also in 2018, namely:

- Amending the project for dry filling gypsum at Za Travnik,
- Preparing technological project for the third neutralisation line,
- Preparing waste management plan and sulphate reduction plan.

As concerns amending the project for dry filling, we carried out the programme for renovating the monitoring network of piezometers and inclinometers for technical monitoring of the high barrier Za Travnik, renovation of the primary and secondary geodetic monitoring network is in progress and we set up a shaft for decreasing the lake water level at Za Travnik as well as implemented measurements of the lake depth at Za Travnik.

We made a concept project for the third neutralisation line, which we amended in line with the analysed possibilities and needs. We confirmed the technological plan, obtained planning information and submitted the application for the anticipated change to the Slovenian Environment Agency.

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

To mitigate the risks for exceeding emission levels into the environment defined by law, we set for ourselves the objective of identifying and breaking down 20 or more process risks from individual business units. Business units identified and broke down 22 process risks in total.

3. Sustainably managing resources and products

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

- energy-related improvements leading to reduced energy consumption,
- improvements for waste management reducing waste quantities,
- reduction of dust emissions, and
- review of the Life-Cycle Assessment study.

As concerns energy-related improvements, we were carrying out six projects, two of which are still in progress. One served to terminate consumption of drinking water (0.15 litre per kg masterbatch). New heat exchangers (higher thermal conductivity) for the pigment drying process helped us achieve higher capacity for the same drying unit. We installed energy-efficient lighting in two buildings and ensured workplace illumination in compliance with regulations together with lower electricity consumption.
We set for ourselves nine improvements to the waste management system with the target 5% decrease in specific quantity of waste. The planned reduction in specific quantity of waste was achieved (5.1%). The objective of increasing the CEGIPS by-product to more than 2.34 tonne per tonne TiO_2 was exceeded by almost 10% (2.59 tonne per tonne TiO_2). We introduced some improvements to the purification device for the pre-drying process, but did not manage to achieve through them the planned objective for measures aimed at reducing the quantity of dust emissions.
The Life-Cycle Assessment was reviewed and amended. Calculation with data used for 2016 revealed a lower carbon footprint (3.72) from the one already calculated in 2012 (4.22). The footprint is also lower than the average titanium dioxide industry footprint within TDMA (5.3).

A series of activities and coordination efforts were carried out with the Ministry of Environment and Spatial Planning (MOP) and the Slovenian Environment Agency (ARSO) for eliminating environmental risks, including presentation of the 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 seven changes to operations of devices to the Environmental Agency last year (amendments to the environmental permit) for the Celje location. 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 nine amendments to the basic permit. In November we obtained the environmental permit for operations of the closed non-hazardous solid waste deposit site Bukovžlak (ONOB) for the period of 30 years.
We prepared and submitted timely all monitoring reports for 2016 in line with legislative requirements. We did not exceed threshold values.
In 2017, we had the total of six environmental inspections (one at the Mozirje location and five at the Celje location). No irregularities were detected. We implemented in a timely manner the decision of the environmental inspector from 2016, which ordered rehabilitation of the barrier of the Bukovžlak solid waste landfill by July 2017. One inspection review was carried out for chemicals and one for ionising radiation. These inspections also detected no irregularities.
The Environmental Protection Department received three complaints, i.e. public questions. All of them related to detected odour. For one case, we found the source of odour in poorer operations of the purification device on digesting towers (repairs of pumps, thus decrease in flow of washing water). We could not connect the other two cases to our operations.
In 2017, we prepared already the 17th report on responsible care of the environment (for 2016), 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 2017, we carried out 14 excursions and 53 students were on mandatory practical training with us, of whom two were preparing their bachelor's theses and one was preparing the master's thesis. We were participating at the career fair in Celje with presentation of occupations.

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.
The results of this project are:

- Children's competition "**Draw Yourself a Prize**" in 2008;
- "**Animals on Gypsum Landfills**" drawing event in 2009;
- "**I am the Nature**" was the motto of children making bird houses in 2010;
- 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.
- 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 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.

We concluded the design competition for products made of pre-patinated zinc-titanium sheets and awarded the selected works.

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 a campaign together with the SIBAHE association (Slovenian Food Bank), within the scope of which employees and the Company collected over 440 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. 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 supported young and aspiring members of the Shooting Association Dolič with equipment and material.
We helped our employees in times of trouble. We paid hardship allowance in two instances. We also organised internal fund-raising for a surgery abroad for our employee, who is now on a wheelchair due to illness.

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 a New Year's play with presents for children of our employees, which we repeated four times.
We organised four exhibitions of paintings and photographs of our employees in the main dining hall and in a special room. We organised two free cooking workshops for all employees.
We are trying to regularly inform all stakeholders of our plans and achievements through different forms of communications. For this purpose, we prepared in 2017 three public presentations (presentation of the Human Health and Environmental Risk Assessment Due to Old Burdens, presentation of the toxicological research plan for the Bukovžlak non-hazardous waste landfill, presentation of plans for filling gypsum at Za Travnik). 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 34 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 five issues of latest news for employees.

In 2017, we again responded to the invitation to compete in the contest of the Tourist and Cultural Association Celje, which organised already the 48th 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 2017, we devoted EUR 355 thousand or somewhat more than 0.19% 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 83.7% of sponsorship and donation funds for sports, 2.7% for cultural and 13.6% 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, Sport Club Celje, etc.);
- artistic creation, work of cultural institutes and arts societies (Celeia Institute, Slovenian People's Theatre Celje, Cultural and Educational Association Jurij, Music School Nazarje 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: 893
Average age: 48.42 years
Employee gender structure: 76.8% male and 23.2% female
Percentage of work performed in the first shift: 65.1%
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 144 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 2017, there were 893 employees at Cinkarna Celje, d. d., 76.8% of whom were men and 23.2% were women. In line with the business policy of the Company's Management Board, good operating results and planned employment, the number of employees decreased by 1% or 10 employees. In 2017, 47 people stopped working at the Company, whereby 23 cases involved retirement. We employed 37 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 2017, the average employee age was **48.42** years (46.25 for men and 50.95 for women). Despite 37 newly hired employees, 23 retirements and 24 terminations of employment relationship, the age structure still has a slightly negative trend as the average age rose by 0.2 percentage points or 0.45%.

Average employee age by year from 2007 to 2017

CC	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
TOTAL	45.71	46.10	46.22	46.47	46.79	46.78	47.11	47.33	47.95	48.20	48.42

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 893, which means a cumulative decrease of 1,534 employees or more than 63.2%).

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 2017, we recorded 18.2 hours of training per employee (in 2016, 21.2 hours of training per employee), the cost of which was EUR 337.0 per employee (in 2016, EUR 347.5 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 matters, training and education, foreign language training (English and German languages) and placed a special emphasis on developing the Company's managerial team in terms of soft skills.

In 2017, specific functional trainings at the Company and outside it were attended by 5,271 participants. Hours of training totalled 16,225 (in 2016, 20,082). In compliance with the education and training policy, the Company trains employees based on identified requirements, needs and development of individual processes and jobs regardless of sex, nationality, health condition, disability, religion, age, union membership, etc., strictly complying with the principle of equal treatment and opportunities for men and women.
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 83 disabled employees or two less than at the end of the previous year. Longitudinally, the structural percentage of disabled employees is decreasing over years. In 2017, the share of disabled employees in total employees was 9.3%.

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 2017 came in at 5.2%, while the total turnover, which includes internal reassignments, came in at 9.2%. External employee turnover is by 2.8 percentage points lower than in the year before, while total turnover is by 7.1 percentage points lower (in 2016, 8.0% and 16.3% respectively), which can be attributed to the lower number of retirements, less terminations of employment relationship despite closing down the Rolling BU and the related higher 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 restriction on new employments.

Level of education	2016		2017	
	No. of employees	Share in %	No. of employees	Share in %
VIII	23	2.6	23	2.6
VII	119	13.2	125	14.0
VI	58	6.4	57	6.4
V	273	30.2	285	31.9
IV, III	297	32.9	288	32.2
II, I	133	14.7	115	12.9
Balance as at 31 Dec	**903**	**100.0**	**893**	**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 12.9% and an increase in labour force with a suitable high level of education from the former 3.5% to the current 16.6%. 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 4.2% or 0.9 percentage points in 2017 as compared to the year before and came in at 22.5% (sick leave absences account for 5.8% of the said amount or 25.8% of all absences, which is 2.4 percentage points less than in 2016). The percentage of sickness benefits decreased by 0.4 percentage points as compared to the year before or by 4.9%.
Sickness benefits had a varying dynamics in the structure, increasing in business units and decreasing in 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 48.42 years),

- work in four shifts (34.9% of workers work in several shifts),
- large number of disabled employees (9.3% 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 2017 framework plan was 910 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 HR plan did not take into account closing down of the Metallurgy-Rolling BU as at 1 January 2017, which resulted in deviation from the plan and a lower number of employees at the end of 2017 (due to termination of employment contracts for a bigger number of employees in the last quarter of 2016 and the first quarter of 2017). The majority of retirements pursuant to the Pension and Disability Insurance Act (ZPIZ-2) was implemented in the first and last quarter of 2017. As a consequence, we expected the total number of employees to drop under 900 at the end of 2017; 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.

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 13.0%.

In 2017, 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 percentage point (the balance as at the end of 2017 was 23.0% 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:

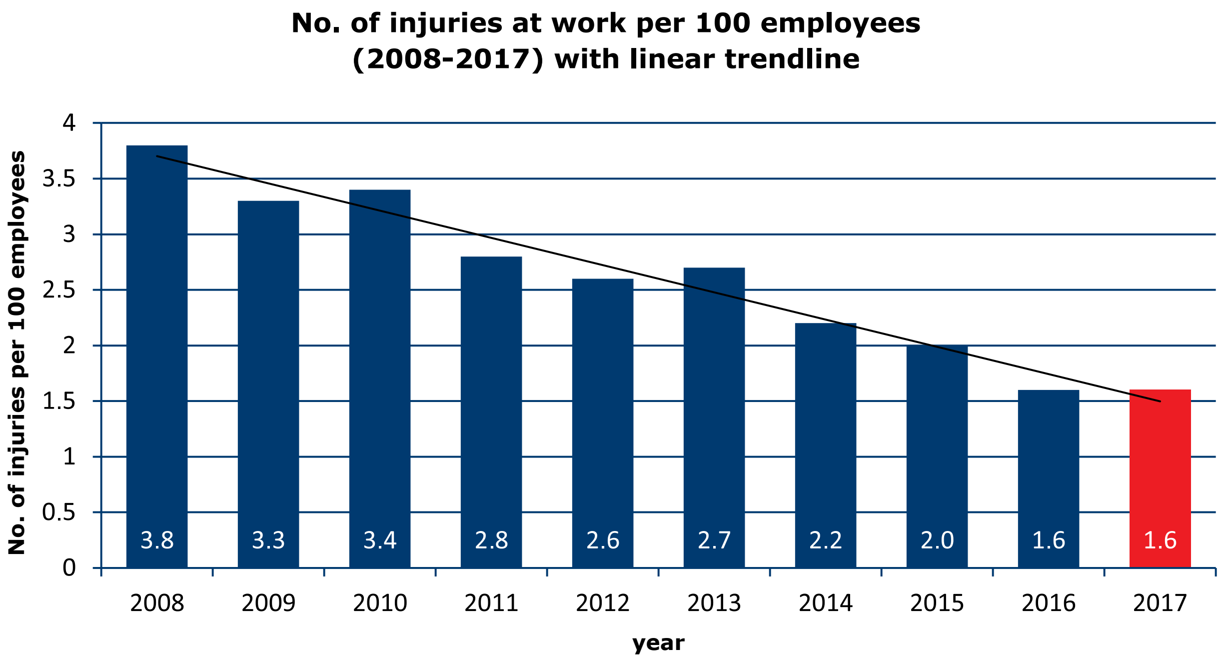
1. Zero injuries at work

The objective is long-term. We wish to achieve it step by step by implementing various preventive activities and improvements. We did not achieve the planned reduction in 2017, but we managed to keep the result at the level from the year before.

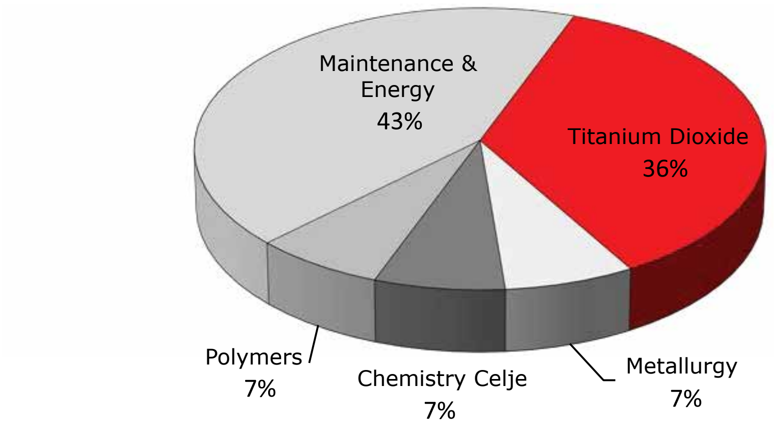
The table below shows changes in injuries at work/while travelling and absence from work due to injuries.

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
No. of employees – monthly average	1129	1098	1073	1064	1046	999	987	976	941	899
No. of reported NM	3	28	40	102	118	37	37	10	14	9
No. of recorded PH	-	-	-	-	-	81	62	79	105	79
No. of eliminated PH	-	-	-	-	-	44	88	71	86	65
FS factor	57.1	26.9	37.5	20.7	23.2	27.1	22.2	23.5	14.9	13.0
No. of injuries at work	43	36	37	30	27	27	22	20	15	14
No. of days lost	1500	776	1007	735	907	996	1000	1122	934	837
No. of injuries per 100 employees	3.8	3.3	3.4	2.8	2.6	2.7	2.2	2.0	1.6	1.6
No. of injuries while travelling	17	11	11	14	6	0	0	2	0	0
No. of days lost	882	246	414	388	151	0	0	43	0	0

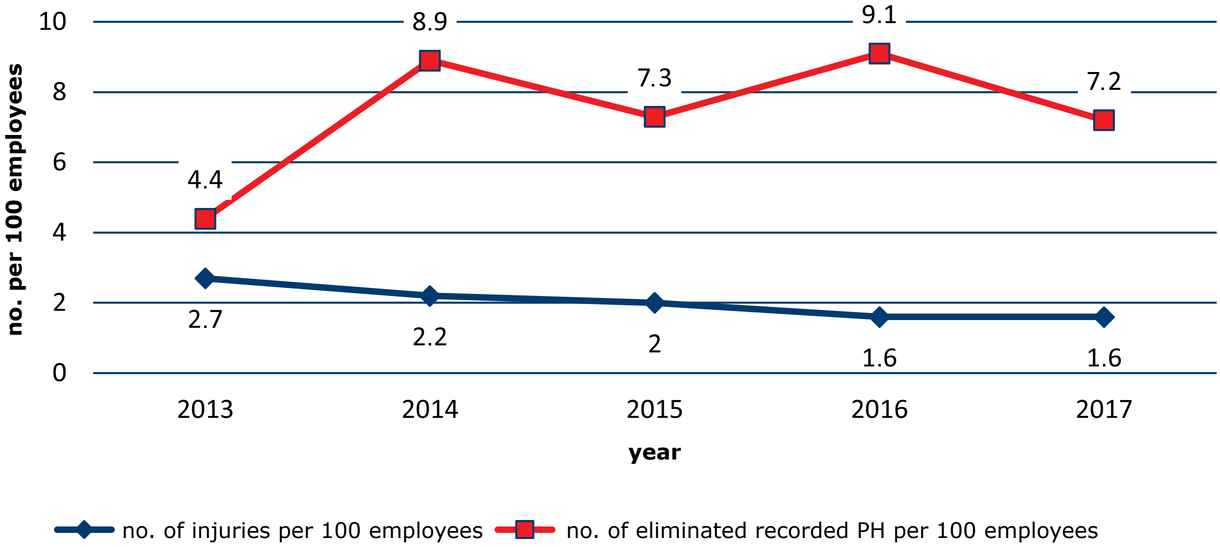
NM – near misses; **PH** – potential hazard; **FS factor** – factor of frequency and severity of injuries at work (ratio between the number of injuries, sick leave and the number of employees)



Share of injuries at work per 100 employees by BU



Relationship between the no. of injuries at work and the no. of eliminated recorded PH 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. We exceeded the objective.

	Identified and broken-down process risks	**Identified process risks**	**Broken-down process risks**
	OBJECTIVE	**REALISATION**	
Metallurgy	2	2	2
Chemistry Celje	2	2	2
Chemistry Mozirje	2	2	2
Maintenance and Energy	4	5	3
Titanium Dioxide	4	7	7
Polymers	1	5	4

3. Organisation and implementation of employee health promotion

In 2017, we implemented 15 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),
- reduced price of tickets for swimming pools and sauna,
- workshop on correct use of automated defibrillator,
- workshop "Am I fit?",
- support to the SVIT programme (national screening and early detection programme for colorectal cancer),
- workshop "Relaxation Techniques",
- exhibition in the dining hall "Let us Live Healthily",
- practical workshop "Cooking without Flavour Enhancers, Use of Spices and Wholemeal Flavours",
- promotion of a healthy breakfast,
- employee sports games (at the Company picnic),
- team building,
- health-related educational activities (Cinko & Cinka, World Health Day– »Depression«, World No Tobacco Day),
- vaccination against seasonal influenza,
- 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 561,042.32 on occupational health and safety and fire safety (excluding preventive maintenance interventions on working equipment).

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 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	Sponsorships and donations
Specific energy consumption	No. of interactions with the local community	Educational structure	(authorised person for help and information)	Code of Ethical Conduct and Work
Specific waste quantity	Scope of sponsorships and donations	Absence from work	Participation in trade unions and no. of employees' representatives	Commission for Receiving Comments and Complaints
Total waste quantity	No. of sponsored associations	No. of the disabled	Code of Ethical Conduct and Work	Compliance with recommendations and legal bases
Quantity of by-product sold	No. of schools participating in projects	No. of injuries at work	Employee satisfaction questionnaires	(Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT-1))
	No. of activities for the disabled	FS factor	Zero discrimination in recruitment	Stock exchange rules
	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 2017, the assessment of the Integrated Management System and compliance with the EMAS Regulation (for the Mozirje location) was carried out in May. No instance of non-compliance were detected and 22 recommendations were given. By the end of 2017, 10 recommendations were already implemented and 12 were in the phase of realisation. Pursuant to the requirements of the EMAS Regulation, the environmental statement was prepared for CC Chemistry Mozirje – amendment for 2016 (in April 2017), 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 the 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 2017, the Slovenian Accreditation carried out its regular assessment in June. Instances of non-compliance established (eight) were timely eliminated and a new Attachment to the Accreditation Certificate was issued on 2 November 2017.

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.

Energy Inspection of the Company

Pursuant to Article 354 of the Energy Act, a detailed energy inspection of the Company was made in 2016 and partially in 2017. The contractor INEA prepared in March 2017 the final report on the energy inspection, which includes, besides energy analysis for the period of three years, also organisational and investment suggestions for improved energy efficiency. In line with the management order during the annual management review, the results of the inspection were presented in May to the Management and BU directors. The results of the inspection reveal, among other items, also great progress in the field of efficient use of energy as compared to the previous energy inspection. The inspecting entity confirmed our Company to be among the most successful companies in Slovenia as regards efficient use of energy. The proposed measures are being implemented together with modernisation of some technological procedures in the future investment intensive period.

Responsible Care Programme

We submitted a new report under the Responsible Care Programme for 2016 in the end of June 2017. 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 2016. We also presented our system for detecting and eliminating process risks as it is part of the activities of the group for Responsible Care Programme planned for 2017 and 2018. 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 2017, we again obtained the right to use the (CEFIC) Responsible Care logo until February 2019.

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 May 2017, we concluded and publicly presented the results of the Human Health and Environmental Risk Assessment. The Assessment and the proposed measures were presented by representatives of the chosen contractor, the German company CDM Smith. The biggest risk is polluted underground water. The document contains more versions of proposals for rehabilitation measures and further research. For the Bukovžlak area, it also anticipates making of the Toxicological Assessment of Risk to Human Health Arising from Consumption of Agricultural Products from the area with polluted hanging underground water. We started implementing activities for this field in the autumn of 2017.

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. Based on due diligence and recommendations provided by the Laboratory, we installed screens against insects on all windows in the kitchen and washing area in 2017. We purchased a steam cleaning machine, which thoroughly removes all micro-organisms from surfaces, thus additionally decreasing the hazard of food contamination, and a system for biological fat degradation (with biological cultures) on the surface of kitchen hoods. 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 2017	31 Dec 2016	Index 17/16
	ASSETS		**219,731,072**	**186,021,924**	**118**
A.	**Non-current assets**		**99,132,889**	**97,235,306**	**102**
I.	Intangible assets and long-term deferred costs and accrued revenues	1	1,642,406	1,746,692	94
	1. Long-term property rights		1,587,646	1,674,350	95
	5. Other long-term deferred costs and accrued revenues		54,760	72,342	76
II.	Property, plant and equipment	2	93,891,611	92,214,541	102
	1a. Land		9,874,712	9,947,054	99
	1b. Buildings		41,278,843	41,745,313	99
	2. Production plant and machinery		31,716,610	37,015,967	86
	3. Other plant and equipment		41,122	38,174	108
	4a. Property, plant and equipment under construction and in production		8,611,333	2,001,595	430
	4b. Advances for acquisition of property, plant and equipment		2,368,991	1,466,438	162
IV.	Long-term financial assets	3	950,363	1,191,363	80
	1d. Other shares and interests		950,363	1,191,363	80
VI.	Deferred tax assets	4	2,648,509	2,082,710	127
B.	**Current assets**		**120,239,680**	**88,361,593**	**136**
II.	Inventories	5	41,314,607	30,569,235	135
	1. Material		25,594,946	20,890,259	123
	2. Work-in-progress		1,727,210	1,571,971	110
	3. Products and merchandise		6,574,598	8,078,556	81
	4. Advances for inventories		7,417,853	28,449	26074
III.	Short-term financial assets	3	0	50,613	-
	2a. Short-term loans to the Group companies		0	50,000	-
	2b. Short-term loans to others		0	613	-
IV.	Short-term operating receivables	6	34,473,658	26,709,721	129
	1. Short-term operating receivables due from the Group companies		0	255,247	-
	2. Short-term trade receivables		32,575,764	24,899,172	131
	3. Short-term operating receivables due from others		1,897,894	1,555,302	122
V.	Cash	7	44,451,415	31,032,024	143
C.	**Short-term deferred costs and accrued revenues**	**11**	**358,503**	**425,025**	**84**

in EUR

		Note	31 Dec 2017	31 Dec 2016	Index 17/16
	EQUITY AND LIABILITIES		**219,731,072**	**186,021,924**	**118**
A.	**Equity**	**8**	**166,520,502**	**145,966,794**	**114**
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		81,554,551	74,363,227	110
	1. Legal reserves		16,931,435	16,931,435	100
	2. Reserves for treasury shares		238,926	238,926	100
	3. Treasury shares		-238,926	-238,926	100
	5. Other revenue reserves		64,623,116	57,431,792	113
V.	Fair-value reserves		-1,265,277	-431,863	293
VI.	Retained net profit/accumulated loss		-23,965	34,212	-
VII.	Net profit or loss for the year		21,573,973	7,319,998	295
B.	**Provisions and long-term accrued costs and deferred revenues**	**9**	**28,428,742**	**23,713,344**	**120**
	1. Provisions for pensions and similar liabilities		3,318,225	2,804,680	118
	2. Other provisions		24,622,438	20,371,489	121
	3. Long-term accrued costs and deferred revenues		488,079	537,175	91
D.	**Short-term liabilities**	**10**	**23,827,392**	**15,453,003**	**154**
II.	Short-term financial liabilities		77,573	116,858	66
	4. Other short-term financial liabilities		77,573	116,858	66
III.	Short-term operating liabilities		23,749,819	15,336,145	155
	2. Short-term trade payables		14,543,172	10,459,753	139
	4 . Short-term operating liabilities from advances		95,457	192,177	50
	5. Other short-term operating liabilities		9,111,190	4,684,215	195
E.	**Short-term accrued costs and deferred revenues**	**11**	**954,436**	**888,783**	**107**

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 2017	Year 2016	Index 17/16
1.	**Net sales revenues**	**15**	**188,704,758**	**169,765,430**	**111**
	- Net sales revenues generated on the domestic market		24,460,675	21,438,087	114
	- Net sales revenues generated on the international market		164,244,083	148,327,343	111
2.	**Change in the value of inventories of products and work-in-progress**		**-1,274,431**	**-6,190,370**	**21**
3.	**Capitalised own products and services**		**2,113,892**	**1,949,210**	**108**
4.	**Other operating revenues (including revaluation operating revenue)**	**15**	**1,034,029**	**887,831**	**116**
5.	**Costs of goods, material and services**	**14**	**104,576,124**	**111,611,691**	**94**
	a) Cost of goods and materials sold and cost of materials used		90,742,232	99,139,072	92
	b) Cost of services		13,833,892	12,472,619	111
6.	**Labour cost**	**13**	**30,324,810**	**28,190,727**	**108**
	a) Cost of salaries and wages		22,338,216	20,727,030	108
	b) Cost of social security		1,728,875	1,596,647	108
	c) Cost of pension insurance		2,499,243	2,337,217	107
	d) Other labour cost		3,758,477	3,529,833	106
7.	**Write-downs in value**	**12**	**13,109,958**	**14,790,371**	**89**
	a) Depreciation and amortisation		12,352,786	12,710,917	97
	b) Revaluation operating expenses associated with intangible assets and property, plant and equipment		323,665	1,825,099	18
	c) Revaluation operating expenses associated with current assets		433,507	254,355	170
8.	**Other operating expenses**	**14**	**6,846,137**	**1,240,244**	**552**
	Operating profit or loss		**35,721,219**	**10,579,068**	**338**
9.	**Finance income from participating interests**	**15**	**20,451**	**31,568**	**65**
	d) Finance income from other investments		20,451	31,568	65
10.	**Finance income from loans granted**	**15**	**163,027**	**2,120**	**7,690**
	a) Finance income from loans to the Group companies		381	0	-
	b) Finance income from loans to others		162,646	2,120	7672
11.	**Finance income from operating receivables**	**15**	**686,833**	**942,546**	**73**
	b) Finance income from operating receivables due from others		686,833	942,546	73
12.	**Finance expenses from impairment and write-off of financial assets**	**14**	**291,000**	**0**	**-**
13.	**Finance expenses from financial liabilities**	**14**	**64,396**	**64,832**	**99**
	d) Finance expenses from other financial liabilities		64,396	64,832	99
14.	**Finance expenses from operating liabilities**	**14**	**1,685,322**	**378,106**	**446**
	b) Finance expenses from trade payables and bills payable		301,426	199,744	151
	c) Finance expenses from other operating liabilities		1,383,896	178,362	776
15.	**Other income**	**15**	**11,081**	**30,361**	**36**
16.	**Other expenses**	**14**	**11,003**	**112,778**	**10**
	Profit or loss before tax		**34,550,892**	**11,029,947**	**313**
17.	**Corporate income tax**	**16**	**6,351,394**	**1,394,452**	**455**
18.	**Deferred taxes**	**16**	**565,799**	**124,502**	**454**
19.	**Net profit or loss for the period**		**28,765,297**	**9,759,997**	**295**
	Basic earnings per share		**35.31**	**11.98**	**295**
	Diluted earnings per share		**35.31**	**11.98**	**295**

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

[2] Net profit / number of shares

[3] 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 2017	YEAR 2016	Index 17/16
19.	**Net profit or loss for the period**	**28,765,297**	**9,759,997**	**295**
23.	Other components of comprehensive income	-858,672	-643,233	133
24.	**Total comprehensive income for the period (19+23)**	**27,906,625**	**9,116,764**	**306**

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 Accumulated Profit

in EUR

Statement of changes in equity for 2017	Share capital	Capital surplus	Revenue reserves				Fair value reserve	Retained earnings	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/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**
h) Dividend distribution								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) Entry of net profit or loss for the reporting period									28,765,297	28,765,297
d) Change in surplus from revaluation of termination benefits							-833,414	-25,258		-858,672
B3. Changes within equity						**7,191,324**		**7,319,998**	**-14,511,322**	**0**
a) Allocation of the remaining net profit for the period to other equity components								7,319,998	-14,511,322	-7,191,324
b) Allocation of part of net profit for the period to other equity components according to resolution of 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**
ACCUMULATED PROFIT								**-23,965**	**21,573,973**	**21,550,008**

in EUR

Statement of changes in equity for 2016	Share capital	Capital reserves	Revenue reserves				Fair value reserve	Retained earnings	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/1**	**VII/1**	**VIII**
A2. Opening balance for the period	20,396,244	44,284,976	16,931,435	238,926	-238,926	54,991,793	211,370	12,896	3,406,772	140,235,486
b) Retrospective adjustments								26,947		26,947
A2. Opening balance for the period	**20,396,244**	**44,284,976**	**16,931,435**	**238,926**	**-238,926**	**54,991,793**	**211,370**	**39,843**	**3,406,772**	**140,262,433**
B1. Changes in equity - transactions with owners								**3,412,403**		**3,412,403**
g) Dividend payout								3,412,403		3,412,403
B2. Total comprehensive income for the reporting period							**-643,233**		**9,759,997**	**9,116,764**
a) Entry of net profit or loss for the reporting period									9,759,997	9,759,997
d) Change in the surplus from revaluation of termination benefits							-643,233			-643,233
B3. Changes within equity						**2,439,999**		**3,406,772**	**-5,846,771**	**0**
a) Allocation of the remaining net profit for the period to other equity components								3,406,772	-3,406,772	0
b) Allocation of net profit in accordance with the resolution of the Management Board and the Supervisory Board						2,439,999			-2,439,999	0
C. Closing 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**
ACCUMULATED PROFIT								**34,212**	**7,319,998**	**7,354,210**

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

Statement of Cash Flows

in EUR

		YEAR 2017	YEAR 2016	Index 17/16
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
a)	**Net profit or loss**	**28,765,297**	**9,759,997**	**295**
	Profit or loss before tax	34,550,892	11,029,947	313
	Income tax and other taxes not included in operating expenses	5,785,595	1,269,950	456
b)	**Adjustments for**	**12,739,507**	**14,660,457**	**87**
	Amortisation and depreciation +	12,352,786	12,710,917	97
	Revaluation operating revenues -	186,973	96,226	194
	Revaluation operating expenses +	757,171	2,079,454	36
	Finance income excluding that from operating receivables -	183,478	33,688	545
c)	**Change in net current assets (and accruals and deferrals, provisions, deferred tax assets**	**-5,296,679**	**4,724,015**	**-**
	Opening less closing operating receivables	-7,763,937	-253,202	3066
	Opening less closing deferred costs and accrued revenues	66,522	306,558	22
	Opening less closing deferred tax assets	-565,799	-124,502	454
	Opening less closing inventories	-10,745,372	6,112,183	-
	Closing less opening operating liabilities	8,413,674	228,161	3688
	Closing less opening accrued costs and deferred revenues, and provisions	5,298,233	-1,545,183	-
d)	**Net cash flow from operating activities (a+b+c)**	**36,208,125**	**29,144,469**	**124**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
a)	**Receipts from investing activities**	**370,450**	**130,650**	**284**
	Receipts from interest and profit participations			
	in other entities pertaining to investing activities	183,478	33,688	545
	Receipts from disposal of intangible assets and deferred costs and accrued revenues	0	0	-
	Receipts from disposal of property, plant and equipment	186,973	96,226	194
	Receipts from disposal of long-term financial assets	0	736	-
b)	**Disbursements for investing activities**	**15,756,133**	**8,862,325**	**178**
	Disbursements for acquisition of intangible assets	224,238	127,731	176
	Disbursements for acquisition of property, plant and equipment	15,531,895	8,684,594	179
	Disbursements for acquisition of financial assets	0	50,000	-
c)	**Net cash flow from investing activities (a-b) or (b-a)**	**-15,385,683**	**-8,731,675**	**176**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
b)	**Disbursements for financing activities**	**7,403,050**	**3,409,000**	**217**
	Disbursements for repayment of financial liabilities	39,285	0	-
	Disbursements for dividends and other profit distributions	7,363,765	3,409,000	216
c)	**Net cash flow from financing activities (a-b) or (b-a)**	**-7,403,050**	**-3,409,000**	**217**
D.	**CLOSING BALANCE OF CASH AND CASH EQUIVALENTS**	**44,451,415**	**31,032,023**	**143**
x)	**Cash flow for the period (sum total of items Ad, Bc and Cc)**	**13,419,392**	**17,003,794**	**79**
y)	**Opening balance of cash and cash equivalents as at 1 Jan**	**31,032,023**	**14,028,229**	**221**

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. Transition to the SAS (2016) had an impact on the disclosure of balance sheet items, but did not affect profit and equity.

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 assets 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 2017 as compared to the year before.

Property, Plant and Equipment

Property, plant and equipment of the Company includes 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 2017 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 income.

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 income, 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 income 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 income.

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.

Operating Revenues
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 risk 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 income comprises income from interest received from investments, dividend income, income from the 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 income is recognised upon occurrence using the effective interest rate method. Dividend income 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 income 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 2017	Cost		Value 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 EUR

Group of intangible assets for 2016	Cost		Value adjustment		Carrying amount	
	1 Jan 2016	31 Dec 2016	1 Jan 2016	31 Dec 2016	1 Jan 2016	31 Dec 2016
Long-term property rights	6,050,485	5,103,463	3,920,706	3,429,113	2,129,779	1,674,350
Deferred development costs	58,857	0	0	0	58,857	0
Other intangible assets	1	52,245	0	0	1	52,245
Assets being acquired	399,506	20,097	0	0	399,506	20,097
TOTAL	**6,508,849**	**5,175,805**	**3,920,706**	**3,429,113**	**2,588,143**	**1,746,692**

In 2017, the Company increased long-term property rights from investments in software and project documentation. Other intangible assets (other long-term deferred costs and accrued revenues) comprise emission coupons received from the state free of charge (54,760 coupons), which are valued at EUR 1 each in accordance with Note 1 to the SAS 2/2016. The Company obtained 51,254 coupons in 2017 and was obliged to present 24,834 coupons for CO_2 emissions.

Changes in intangible assets

in EUR

2017	Long-term property rights	Other long-term deferred costs and accrued revenues	Assets being acquired	TOTAL
COST				
Balance as at 1 January 2017	5,103,463	52,245	20,097	**5,175,805**
Increases	0	51,254	172,984	**224,238**
Transfer from assets under acquisition	193,081	0	-193,081	**0**
Decreases	8,920	48,739	0	**57,659**
Balance as at 31 December 2017	5,287,625	54,760	0	**5,342,384**
VALUE ADJUSTMENT				
Balance as at 1 January 2017	3,429,113	0	0	**3,429,113**
Amortisation for the current year	279,785	0	0	**279,785**
Decreases	8,920	0	0	**8,920**
Balance as at 31 December 2017	3,699,978	0	0	**3,699,978**
CARRYING AMOUNT				
Balance as at 1 January 2017	1,674,350	52,245	20,097	**1,746,692**
Balance as at 31 December 2017	1,587,646	54,760	0	**1,642,406**

The decrease in long-term property rights relates to the disclosure of easements under land in compliance with SAS 2016 (2.39).

2 Property, Plant and Equipment

in EUR

Group of property, plant and equipment for 2017	Cost		Value 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**

in EUR

Group of property, plant and equipment for 2016	Cost		Value adjustment		Carrying amount	
	1 Jan 2016	31 Dec 2016	1 Jan 2016	31 Dec 2016	1 Jan 2016	31 Dec 2016
Land	9,254,598	10,711,758	0	764,704	9,254,598	9,947,054
Buildings	110,552,398	112,217,142	68,048,990	70,471,829	42,503,408	41,745,313
Equipment	212,159,076	215,816,621	169,236,875	178,762,480	42,922,201	37,054,141
Assets being acquired	2,053,158	2,001,595	0	0	2,053,158	2,001,595
Advances	367,574	1,470,596	4,158	4,158	363,416	1,466,438
TOTAL	**334,386,804**	**342,217,712**	**237,290,023**	**250,003,171**	**97,096,781**	**92,214,541**

Changes in property, plant and equipment

in EUR

2017	Land	Buildings	Production and other equipment	T o t a l	Assets being acquired	Advances	TOTAL
COST							
Balance as at 1 January 2017	10,711,758	112,217,142	215,816,621	338,745,521	2,001,595	1,470,595	**342,217,711**
Increases	0	0	8,600	8,600	13,162,905	2,478,101	**15,649,605**
Transfer from assets under acquisition	0	2,499,304	4,053,862	6,553,166	-6,553,166	0	**0**
Decreases	0	577,955	4,795,900	5,373,855	0	1,575,548	**6,949,403**
Balance as at 31 December 2017	10,711,758	114,138,491	215,083,183	339,933,432	8,611,334	2,373,148	**350,917,913**
VALUED ADJUSTMENT							
Balance as at 1 January 2017	764,704	70,471,829	178,762,480	249,999,013	0	4,157	**250,003,170**
Depreciation for the year	72,342	2,687,651	9,313,329	12,073,322	0	0	**12,073,322**
Decreases and transfers	0	299,831	4,750,358	5,050,189	0	0	**5,050,189**
Balance as at 31 December 2017	837,046	72,859,649	183,325,451	257,022,146	0	4,157	**257,026,303**
CARRYING AMOUNT							
Balance as at 1 January 2017	9,947,054	41,745,313	37,054,141	88,746,508	2,001,595	1,466,438	**92,214,541**
Balance as at 31 December 2017	9,874,712	41,278,842	31,757,732	82,911,287	8,611,334	2,368,991	**93,891,611**

In 2017, 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 623,729. The decrease in land relates to the accounted amortisation of easements for 2017 in the amount of EUR 72,342.

The Company holds no assets under finance lease. As at 31 December 2017, the Company also had no assets pledged as collateral.

3 Financial Assets

Long-Term Financial Assets

in EUR

Group of long-term financial assets for 2017	Cost		Value 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**

in EUR

Group of long-term financial assets for 2016	Cost		Value adjustment		Carrying amount	
	1 Jan 2016	31 Dec 2016	1 Jan 2016	31 Dec 2016	1 Jan 2016	31 Dec 2016
Cinkarna BH, d. o. o.	580,503	580,503	339,503	339,503	241,000	241,000
Other investments	950,363	950,363	0	0	950,363	950,363
Long-term loans	1,350	613	0	0	1,350	613
- of which the short-term part	-736	-613	0	0	-736	-613
TOTAL	**1,531,480**	**1,530,866**	**339,503**	**339,503**	**1.191.97**	**1,191,363**

2017	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.

in EUR

2017	Cinkarna Celje, d. d.	Cinkarna BH, d. o. o.	Total	Share of Cinkarna BH, d. o. o. in total value in %
Total revenues	191,459,640	362,028	191,821,668	0.19
Sales	188,704,758	317,347	189,022,105	0.17
Equity	166,520,502	76,685	166,597,187	0.05
Total assets	**219,731,072**	373,214	220,104,286	0.17

in EUR

2016	Cinkarna Celje, d. d.	Cinkarna BH, d. o. o.	Total	Share of Cinkarna BH, d. o. o. in total value in %
Total revenues	167,418,696	618,548	168,037,245	0.37
Sales	169,765,430	608,323	170,373,753	0.36
Equity	145,966,794	142,040	146,108,834	0.10
Total assets	**186,021,924**	**478,811**	**186,500,735**	**0.26**

Transactions with the subsidiary	2017	2016
Revenues from sales of products to the subsidiary	85,692	189,545
Receivables of the parent company	0	255,247

Receivables due from the subsidiary as at 31 December 2017 in the amount of EUR 217,027 were impaired entirely due to the planned liquidation of the company in 2018. The effect of impairments is presented in the statement of profit or loss under revaluation operating expenses.

Changes in Long-Term Financial Assets

in EUR

2017	Long-term investments			Long-term loans granted to others
	Cinkarna BH, d.o.o.	Other investments	Total	
COST				
Balance as at 1 January 2017	580,503	950,363	**1,530,866**	613
Increases during the year	0	0	**0**	0
Decreases during the year	0	0	**0**	613
Balance as at 31 December 2017	580,503	950,363	**1,530,866**	0
VALUE ADJUSTMENT				
Balance as at 1 January 2017	339,503	0	**339,503**	0
Increases during the year	241,000	0	**241,000**	0
Decreases during the year	0	0	**0**	0
Balance as at 31 December 2017	580,503	0	**580,503**	0
CARRYING AMOUNT				
Balance as at 1 January 2017	0	950,363	**950,363**	0
- of which the short-term part	0	0	**0**	0
Balance as at 1 January 2017	0	950,363	**950,363**	0
Balance as at 31 December 2017	0	950,363	**950,363**	0
- of which the short-term part	0	0	**0**	0
Balance as at 31 December 2017	0	950,363	**950,363**	0

As at 31 December 2017, the Company impaired entirely the investment in the subsidiary Cinkarna BH, d.o.o. in the amount of EUR 241,000 due to its liquidation in 2018. The effects of impairments are disclosed in the statement of profit or loss under finance expenses from impairment and write-off of financial assets.

As at 31 December 2017, the Company had no long-term loans. Members of the Supervisory Board and the Management Board also received no long-term loans.

Short-Term Financial Assets

in EUR

Group of investments for 2017	Investment value		Investment 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 the 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**

in EUR

Group of investments for 2016	Investment value		Investment adjustment		Net investments	
	1 Jan 2016	31 Dec 2016	1 Jan 2016	31 Dec 2016	1 Jan 2016	31 Dec 2016
Short-term loans to the Group companies	0	50,000	0	0	0	50,000
Short-term part of long-term investments	736	613	0	0	736	613
TOTAL	**736**	**50,613**	**0**	**0**	**736**	**50,613**

The short-term loan given to the subsidiary in 2016 in the amount of EUR 50,000 was impaired entirely as at 31 December 2017 due to the liquidation of the subsidiary. The effect of the impairment is presented in the statement of profit or loss under finance expenses.

The housing loan was repaid entirely in 2017.

4 Deferred Tax Assets and Liabilities

in EUR

Description	Receivables	
	2017	2016
Balance as at 1 January	**2,082,710**	**1,958,208**
Increase during the year	729,453	325,435
Decrease during the year	163,654	200,933
Balance as at 31 December	**2,648,509**	**2,082,710**

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 132,536 and reversal of the allowance for receivables in the amount of EUR 31,118. The increase in deferred tax assets represents one half of the formed provisions for jubilee benefits and termination benefits upon retirement in the amount of EUR 625,704 and the allowance for receivables and investments in the amount of EUR 103,748.

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 132,536 and reversal of the allowance for receivables in the amount of EUR 31,118. The increase in deferred tax assets represents one half of the formed provisions for jubilee benefits and termination benefits upon retirement in the amount of EUR 625,704 and the allowance for receivables and investments in the amount of EUR 103,748.

5 Inventories

in EUR

Group of inventories	31 Dec 2017	31 Dec 2016	Ind. 17/16	Realisable value
Material	25,594,946	20,890,259	123	25,594,946
Work-in-progress	1,727,210	1,571,971	110	1,727,210
Products	6,457,902	7,887,574	82	10,686,915
Merchandise	116,696	190,982	61	116,696
Advances given	7,417,853	28,449	26074	7,417,853
TOTAL	**41,314,607**	**30,569,235**	**135**	**45,543,620**

Value adjustment of inventories of material and merchandise was made in the amount of EUR 169,097 in 2017 owing to revaluation, obsolescence and unserviceability. No material inventory differences were established in 2017.

Value adjustment of EUR 32,685 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 2017.

The value of inventories of finished products and production decreased by EUR 1,274,431 in 2017 as compared to 2016. Inventories were not pledged as collateral. Net realisable value of inventories as at 31 December 2017 exceeded their carrying amount.

6 Operating Receivables

Short-Term Trade Receivables

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**

in EUR

Group of receivables for 2016	Value of receivables		Allowance		Net receivables	
	1 Jan 2016	31 Dec 2016	1 Jan 2016	31 Dec 2016	1 Jan 2016	31 Dec 2016
Domestic buyers	5,146,653	4,562,417	460,434	452,711	4,686,219	4,109,706
International buyers	18,298,129	20,291,707	780,666	955,351	17,517,463	19,336,356
Exporting agents	676,019	1,701,143	0	0	676,019	1,701,143
Advances given	8,597	7,214	0	0	8,597	7,214
TOTAL	**24,129,398**	**26,562,481**	**1,241,100**	**1,408,062**	**22,888,298**	**25,154,419**

Changes in Allowance for Short-term Trade Receivables

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**

in EUR

2016	Balance as at 1 Jan 2016	Allowance made in 2016	Reversal of allowance from previous periods	Balance as at 31 Dec 2016
Domestic buyers	460,434	18,815	26,537	452,712
International buyers	780,666	210,559	35,875	955,350
TOTAL	**1,241,100**	**229,374**	**62,412**	**1,408,062**

Trade Receivables by Maturity

in EUR

Geographical segment	Total receivables		Not yet due		Overdue							
					from 0 to 15 days		**16 to 60 days**		**61 to 180 days**		**Over 180 days**	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Domestic buyers	4,114,094	4,109,706	3,849,308	3,475,912	204,112	339,713	57,735	268,815	2,939	25,266	0	0
International buyers – EU and third countries	26,059,174	18,251,058	24,664,945	16,121,287	967,177	1,362,168	153,534	507,236	273,518	258,367	0	2,000
Buyers from the former Yugoslavia markets	1,417,837	1,085,298	1,138,719	611,348	193,299	133,210	85,819	143,880	0	69,074	0	127,786
Exporting agents	981,573	1,701,143	801,468	1,587,302	180,105	113,841	0	0	0	0	0	0
Advances given	3,086	7,214	3,086	7,214	0	0	0	0	0	0	0	0
Trade receivables TOTAL	**32,575,764**	**25,154,419**	**30,457,526**	**21,803,063**	**1,544,693**	**1,948,932**	**297,088**	**919,931**	**276,457**	**352,707**	**0**	**129,786**

Receivables due from the subsidiary Cinkarna BH, d. o. o. amount to EUR 217,027 and were impaired entirely as at 31 December 2017.

Short-term Receivables Due from Others

in EUR

Group of receivables	31 Dec 2017	31 Dec 2016	Index 17/16
VAT claims	1,656,437	1,481,205	112
Receivables due from institutions	212,967	51,316	415
Receivables due from employees	28,490	22,302	128
Other receivables	0	479	-
TOTAL	**1,897,894**	**1,555,302**	**122**

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

7 Cash and Cash Equivalents

in EUR

Group of assets	31 Dec 2017	31 Dec 2016	Index 17/16
Cash on hand	263	205	128
Cash in transit	54	73	74
Cash in bank accounts	12,306,401	2,992,849	411
Short-term call deposits	28,294,172	27,070,743	105
Foreign currency assets in bank accounts	3,850,525	968,154	398
TOTAL	**44,451,415**	**31,032,024**	**143**

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

8 Equity

in EUR

Equity items	31 Dec 2017	31 Dec 2016
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	238,926	238,926
Treasury shares	-238,926	-238,926
Other revenue reserves	64,623,116	57,431,792
Revaluation surplus	-1,265,277	-431,863
Retained earnings/accumulated loss	-23,965	34,212
Net profit or loss for the year	21,573,973	7,319,998
TOTAL EQUITY	**166,520,502**	**145,966,794**

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 owns 2,149 treasury shares that were acquired on 18 June 2007 from the company D.S.U. – in liquidation, whereby their value is EUR 238,926 or EUR 111.18 per share, which represents 0.26% of the share capital.

Participation of the Management Board in Equity

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

2016	Number of shares	Share in equity (%)
Benčina Tomaž	383	0.047
Podgoršek Selič Nikolaja	186	0.023
Cvetko Marko	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

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**

in EUR

2016	1.1.2016	Povečanje	Zmanjšanje	31.12.2016
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	210,093	0	643,233	-433,140
TOTAL	**211,370**	**0**	**643,233**	**-431,863**

On 6 June 2017, the Company's General Meeting voted in favour of the proposal on the use of accumulated profit for 2016 in the amount of EUR 7,354,210. According to the adopted proposal, EUR 7,352,917 of accumulated profit was paid as dividends. The remaining amount of EUR 1,293 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 2017 stood at EUR 4.8 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 2017 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 storage facility. In 2017, we were actively looking for other options for destruction or permanent deposit. We are currently actively cooperating with the American company US Ecology, which is checking the possibility for permanent storage in the state of Idaho. We have not yet received proposal with a fee, thus we keep the level of provisions from 2011. During this time, we already used some of these assets for measurements. As at the cut-off date, 31 December 2017, the balance of remaining provisions equals EUR 4,953,535. The level of provisions complies with the costs as per price list.

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 5,378,736.28. The construction designer Hidrosvet made a cost estimate of still necessary works (attachment), which stands at EUR 450,000. Based on the estimate, we released assets in the amount of EUR 4,928,736.28, so that the balance of provisions as at 31 December 2017 equalled EUR 0.45 million.

IV. We originally made provisions of EUR 5 million for rehabilitation of the Bukovžlak landfill. As at the end of 2017, the balance of provisions was EUR 4.9 million. We implemented a series of interventions at the location in the years following the establishment of provisions. The balance of remaining provisions as at 31 December 2017 was EUR 3,903,148.36, which will change also the level of necessary funds for a comprehensive rehabilitation. 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 funds required thus amounts to EUR 4,941,557, which means that the difference between this amount and the level of remaining provisions is EUR 1,038,408.

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 acquisition 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. New provisions were established for the mentioned amount as at 31 December 2017.

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 made new provisions for the mentioned amount as at 31 December 2017.

Drawing of provisions in 2017 consist of costs of contractors for works performed in the amount of EUR 863,645 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 429,149 (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 1.2%, discount rate of 2.25% per annum, conditions for retirement, and mortality tables 2000-2002.

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 2017, 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 2017**	**31 Dec 2016**	Index 17/16
Provisions for termination and jubilee benefits	3,318,225	2,804,680	118
Other long-term provisions – environmental	24,576,820	20,328,264	121
Government grants received	29,926	27,533	109
Accrued costs	15,692	15,692	100
Deferred revenues	488,079	537,175	110
TOTAL	**28,428,742**	**23,713,344**	**120**

in EUR

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

in EUR

Provisions and long-term accrued costs and deferred revenues for 2016	1 Jan 2016	New	Used	Reversed/ profit or loss	Reversed/ equity	31 Dec 2016
Provisions for jubilee and termination benefits	2,881,403	790,691	816,019	51,395	0	2,804,680
Long-term accrued costs	15,692	0	0	0	0	15,692
Environmental provisions	21,123,137	0	794,873	0	0	20,328,264
Emission coupons	1	52,244	24,712	0	0	27,533
Assigned contributions for employment of disabled persons	9,215	147,847	149,491	0	0	7,571
Long-term deferred revenues for equipment	263,695	0	45,042	0	0	218,653
Funds received from the ERDF	331,845	0	31,165	0	0	300,680
Other deferred revenues	13,695	0	3,424	0	0	10,271
TOTAL	**24,638,683**	**990,782**	**1,864,726**	**51,395**	**0**	**23,713,344**

10 Short-Term Liabilities Other Short-Term Financial Liabilities

in EUR

Group of liabilities	31 Dec 2017	31 Dec 2016	Ind. 17/16
Short-term liabilities associated with disbursement of profit	34,278	45,125	76
Short-term financial liabilities – assignments, cessions	43,295	71,733	60
TOTAL	**77,573**	**116,858**	**66**

Short-Term Operating Liabilities

in EUR

Group of liabilities	31 Dec 2017	31 Dec 2016	Ind. 17/16
Short-term trade payables to domestic suppliers	8,506,633	8,118,687	105
Short-term trade payables to foreign suppliers	6,032,985	2,339,783	258
Short-term liabilities for goods and services not invoiced	3,555	1,283	277
Short-term liabilities from advances	95,457	192,177	50
Short-term liabilities to employees	2,435,440	3,304,620	74
Short-term liabilities for the payroll tax	1,214,756	471,571	258
Short-term liabilities for corporate income tax	4,922,764	613,380	803
Short-term liabilities to government and other institutions	502,238	285,637	176
Other short-term liabilities	35,991	9,007	400
TOTAL	**23,749,819**	**15,336,145**	**155**

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 2017	31 Dec 2016	Ind. 17/16
Prepaid costs	216,410	248,155	87
VAT on received advances	-	40,552	-
Material in transit	142,093	136,318	104
TOTAL	**358,503**	**425,025**	**84**

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

in EUR

Description	31.12.2017	31.12.2016	Ind. 17/16
Accrued unused right to annual leave	837,927	815,438	103
VAT on advances given	37,081	41,054	90
Other accrued costs and deferred revenues	79,428	32,291	246
TOTAL	**954,436**	**888,783**	**107**

Contingent Liabilities

in EUR

Description	31 Dec 2017	31 Dec 2016	Ind. 17/16
Guarantees granted	2,688,957	1,022,773	263
Payment cards VISA and Mastercard	53,500	49,799	107
Material in the process of completion or processing	59,725	59,725	100
TOTAL	**2,802,182**	**1,132,297**	**247**

Guarantees granted represent liabilities to Abanka, d. d. and UniCredit Bank d. d. in the amount of EUR 2,675,314 and warranty guarantees in the amount of EUR 13,643.

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 method to depreciate fixed assets over the expected useful life of an individual fixed asset. Depreciation reduces the value of an item of fixed assets.

in EUR

Description	2017	2016	Ind. 17/16
Amortisation and depreciation	**12,352,786**	**12,710,917**	**97**
- intangible assets	351,806	273,111	129
- buildings	2,687,651	2,632,001	102
- production equipment	9,312,202	9,805,326	95
- other equipment	1,127	479	235
Revaluation operating expenses associated with non-current assets	**323,665**	**1,825,099**	**18**
- loss on elimination of intangible assets and property, plant and equipment	323,665	72,637	446
- impairment of intangible assets and property, plant and equipment	-	1,752,462	-
Revaluation operating expenses associated with current assets	**433,507**	**254,355**	**170**
- of which allowance for receivables	263,083	221,543	119
- of which revaluation of inventories of material and merchandise	169,098	32,812	515
- other	1,326	-	-
TOTAL	**13,109,958**	**14,790,371**	**89**

13 Labour Costs

in EUR

Labour costs	2017	2016	Ind. 17/16
Salaries, wages and compensations for salaries and wages	22,338,216	20,727,030	108
Social security contributions	4,228,118	3,543,818	119
Reimbursements of expenses to employees	3,371,137	3,529,833	96
Supplementary pension insurance	387,340	390,046	99
TOTAL	**30,324,810**	**28,190,727**	**108**

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 881,701 in 2017 and to EUR 839,219 in 2016. 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 2017, 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 446,825.Taking into account the number of hours worked based on these contracts, 15.69 persons were employed.

Gross Receipts of Groups of Persons

in EUR

	2017	2016	Ind. 17/16
Members of the Management Board	902,733	772,577	117
Members of the Supervisory Board	110,427	105,169	105
Employees under contracts for which the tariff section of the collective agreement does not apply	3,491,439	3,190,236	109
Total gross receipts of groups of persons	**4,504,599**	**4,067,982**	**111**

14 Expenses

Operating Expenses

in EUR

Expense	2017	2016	Ind. 17/16
Cost of material	90,262,047	98,644,766	92
Cost of services	13,833,892	12,472,619	111
Cost of goods and materials sold	480,185	494,306	97
Other operating expenses	6,846,137	1,240,244	552
TOTAL	**111,422,261**	**112,851,935**	**99**

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 represent taxes for ecology-related reimbursements and taxes, contribution for the use of building land owned by the municipality, rewards for students and pupils on practical training and other costs of the financial year.

The 2017 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 revizija, d. o. o. did not perform any other services for Cinkarna Celje, d. d. in 2017.

Finance Expenses

in EUR

Expense	Leto 2017	Leto 2016	Ind. 17/16
Interest expenses	997	1,199	83
Foreign exchange differences	1,684,324	376,907	447
Impairment of financial assets	291,000	-	-
Interest on provisions for termination and jubilee benefits	63,172	64,832	97
Other	1,224	-	-
TOTAL	**2,040,717**	**442,938**	**461**

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 430 thousand from forward transactions.

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

	2017	2016	Ind. 17/16
Production costs of products sold	88,932,473	102,378,909	87
Cost of goods sold	480,185	494,295	97
Selling costs	43,108,048	38,483,542	112
Costs of general and administrative activities	23,610,753	20,666,657	114
TOTAL	**156,131,459**	**162,023,403**	**96**

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. 17/16
	2017	2016	
Titanium dioxide	153,262,672	118,311,742	130
Zinc recycling	9,657,712	26,430,409	37
Construction products	2,724,130	2,814,049	97
Varnishes, coatings, masterbatches and printing inks	15,333,478	13,400,739	114
Agricultural products	3,990,967	3,896,130	102
Other	3,735,798	4,912,361	76
TOTAL	**188,704,758**	**169,765,430**	**111**

Sales by Geographical Segment

in EUR

	Realisation		Ind. 17/16
	2017	2016	
Slovenia	24,460,675	21,438,087	114
European Union	129,615,745	118,662,076	109
Former Yugoslavia markets	6,874,874	6,132,233	112
Third countries	21,715,270	17,966,422	121
Third countries – dollar market	6,038,194	5,566,612	108
TOTAL	**188,704,758**	**169,765,430**	**111**

Profit or Loss by Business Segment

in EUR

	2017	2016	Ind. 17/16
Titanium dioxide	42,111,594	14,069,268	299
Other	-1,105,240	-1,050,400	105
Unclassified	-12,241,057	-3,258,871	376
Total	**28,765,297**	**9,759,997**	**295**

Other Operating Revenues

in EUR

Revenue	2017	2016	Ind. 17/16
Revenues from use and reversal of long-term provisions	608,518	710,220	86
Revaluation operating revenues	186,973	96,226	194
Other revenues	238,538	81,385	293
TOTAL	**1,034,029**	**887,831**	**116**

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 429,149, depreciation of means of work of disabled employees in the amount of EUR 45,198 and covering of salaries and wages of disabled employees in the amount of EUR 129,401 under the Vocational Rehabilitation and Employment of Disabled Persons Act.

Revaluation operating revenues in the amount of EUR 178,373 refer to the sale of fixed assets with the selling value exceeding their carrying amount and the difference in the amount of EUR 8,600 to established surpluses on inventory-taking of fixed assets.

Other revenues include collected receivables previously written off in the amount of EUR 174,238 and the remaining amount relates to funds from development funds, excise duty on energy, emission coupons, etc.

Finance Income

in EUR

Income	**2017**	**2016**	Ind. 17/16
Interest income	178,173	23,983	743
Foreign exchange differences	671,693	920,689	73
Income from other investments	20,445	31,562	65
TOTAL	**870,311**	**976,234**	**89**

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

Other income 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 2017 is decreased by allowances provided for investments into research and development, hiring of disabled persons, voluntary supplementary pension insurance, investment into equipment and donations.

in EUR

	2017	**2016**	Ind. 17/16
Pre-tax profit or loss in accordance with SAS	**34,550,892**	**11,029,947**	313
Revenues excluded from the tax base or increasing the tax base	-194,737	-78,187	249
Expenses not recognised for tax purposes	4,808,019	648,379	742
Tax reliefs	-5,735,783	-3,397,479	169
Tax base total	**33,428,391**	**8,202,660**	**408**
Tax rate	19%	17%	112
Corporate income tax	**6,351,394**	**1,394,452**	**455**

The effective tax rate calculated as the ratio between tax expenses and the accounting profit or loss is 18.4% in 2017 and 12.64% in 2016.

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

The increase in 2017 relates to the difference between:

in EUR

Description	**2017**	**2016**	Ind. 17/16
Use of provisions	-132,536	-195,648	68
Reversal of allowance for receivables (investments)	-31,118	-5,285	589
Recalculation / corporate income tax rate (17 > 19)	0	206,738	-
Established provisions	625,704	75,116	833
Allowance for receivables (investments)	103,748	43,581	238
TOTAL	**565,799**	**124,502**	**454**

V STATEMENT OF CASH FLOWS

The statement of cash flows shows the change is the balance of cash and cash equivalents for the financial year as the difference between the balance as at 31 December 2017 and 1 January 2017. 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 accumulated profit for 2016 for dividend distribution to the owners that were paid out in 2017.

Pursuant to point 14 of Article 64 of the Companies Act (ZGD-1), the determination of accumulated profit is appended to the statement of changes in equity. It represents 75% of net profit for 2017 and retained earnings for 2016. The proposal for distribution of accumulated profit is provided in the appendix.

VII FINANCIAL RATIOS UNDER GOOD ACCOUNTING PRACTICES 9

Financial ratios	2017	2016
Equity financing rate	75.78%	78.47%
Long-term financing rate	88.72%	91.22%
Operating fixed assets rate	43.45%	50.47%
Long-term assets rate	45.12%	52.27%
Equity to fixed assets ratio	1.74	1.56
Acid test ratio	1.87	2.01
Quick ratio	3.31	3.74
Current ratio	5.05	5.72
Operating efficiency ratio	1.23	1.07
Net return on equity	0.21	0.07
Dividends to share equity ratio	0.36	0.17

Significant Business Events Occurring After the End of the Financial Year

Due to several years of negative results of operations, negative business trends, absence of development potential and based on the resolution of the Supervisory Board of Cinkarna Celje, d. d. no. 3-5/2017 dated 12 September 2017 and the decision of the Supervisory Board of Cinkarna BH, d. o. o. Tuzla on final termination of production dated 6 October 2017, the Management Board of Cinkarna Celje, d. d. adopted the resolution on liquidation of the subsidiary Cinkarna BH, d. o. o. Tuzla, which is anticipated to be concluded by 1 April 2018.

Due to the mentioned above, the company Cinkarna Celje, d. d. impaired entirely receivables due from the subsidiary and the investment in it as at 31 December 2017, thus increasing its finance expenses by EUR 291,000.

There were no other business events that would affect the 2017 financial statements.

Deloitte.

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

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

INDEPENDENT AUDITOR'S REPORT
to the owners 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 statement of financial position as at 31 December 2017, 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 2017, and its financial performance and cash flow statement for the year then ended in accordance with Slovene Accounting Standards (hereinafter 'SAS').

Basis for Opinon

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

Key Audit Matters

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

Key audit matter	Audit procedures related to the key audit matter
Environmental provisions	
As at 31 December 2017, environmental provisions stood at EUR 24,577 thousand, which was significant for our audit. Provisions are based on the management's assessment of future costs of depositing waste and rehabilitating waste disposal sites. Provisions	Our audit also included: • Assessment whether the accounting policies comply with the recognition and measurement requirements as defined by SAS 10.

refer to different environmental issues disclosed in more detail under Note 9 to the financial statements.	• Interviews with the 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 31.12.2017. We assessed if the booked provisions are appropriate. • We analysed documentation related to the drawing of provisions with the 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 related to environmental provisions are included in Note 9 to the financial statements.

Other information

The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon. Other information were obtained prior to the date of this auditor's report, except Report from Supervisory Board, which is expected to be made available to us after that date. Management is responsible for the other information.

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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 or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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

Appointment of the Auditor and the Period of Engagement

We were reappointed as the statutory auditor of the Company by the shareholders on General Shareholders' Meeting held on 6 June 2017. Our total uninterrupted engagement has lasted 6 years.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report issued to the Audit Committee of the Company on 19.3.2018 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

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

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

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj
Certified auditor

Deloitte.

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

For signature please refer to the original Slovenian version.

Ljubljana, 19 March 2018

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

Summary Overview of Operations from 2005 to 2017

in EUR thousand, EUR per share

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
SALES													
Domestic market	23,876.75	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
International market	93,740.50	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
Sales	117,617.24	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
PROFIT OR LOSS													
Operating profit or loss	4,917.67	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
Profit or loss before tax	2,768.07	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
Taxes	295.66	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
Net profit or loss	2,472.41	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
ASSETS AND LIABILITIES													
Equity	93,883.90	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
Financial debt	80,535.91	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
Financial debt level	41%	42%	40%	42%	34%	25%	11%	10%	3%	0%	0%	0%	0%
Assets	196,757.65	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
Net working capital	-50.83	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
PER SHARE													
Dividends													
- Gross	2.51	2.72	2.92	3.22	/	1.25	4.35	15.00	6.50	10.97	8.57	4.20	9.05
- Net	1.83	2.04	2.19	2.42	/	1.00	3.48	12.00	4.88	8.23	6.43	3.15	6.79
Net profit or loss	3.04	6.86	7.47	0.98	1.25	10.91	31.3	22.46	8.79	17.1	8.36	11.98	35.31
Equity/no. of shares	115.3	116.4	123.2	120	121.2	131.2	156.53	163.7	165.9	172	172	179	204
Market value at year end	103	112.7	143.2	72	49.4	58.2	84.5	79	90	177	76	162	217
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	814,626	812,477	812,477	812,477	812,477	812,477	812,477	812,477	812,477	812,477	812,477	812,477
No. of employees	1166	1144	1131	1113	1079	1053	1063	1005	993	989	955	903	893
No. of shareholders	2101	1952	1846	1770	1735	1696	1603	1648	1706	2085	1794	1943	1880
PERFORMANCE INDICATORS													
Current ratio	1	1.03	0.96	0.83	0.89	1.1	1.89	2.67	3.65	4.76	5.09	5.72	5.05
Quick ratio	0.53	0.56	0.47	0.41	0.55	0.7	1.04	1.41	2.02	2.6	2.7	3.7	3.31
Inventory turnover ratio	12.8	13.9	12.8	9.9	11.7	21.7	18.9	12.27	12.4	11.4	11.6	16.2	25.8
Days sales outstanding	60 days	56 days	58 days	68 days	69 days	65 days	53 days	51 days	52 days	53 days	49 days	51 days	55 days
Days payables outstanding	28 days	25 days	25 days	29 days	37 days	39 days	37 days	36 days	35 days	37 days	35 days	37 days	43 days
Fixed asset turnover ratio	0.9	1.1	1.12	0.92	0.94	1.16	1.42	1.39	1.42	1.44	1.59	1.70	1.92
Total asset turnover ratio	0.62	0.75	0.75	0.63	0.65	0.81	0.95	0.88	0.87	0.88	0.93	0.93	0.93
Operating efficiency ratio	1.04	1.07	1.07	1.03	1.04	1.1	1.2	1.16	1.05	1.11	1.05	1.07	1.23
Profit margin	3.90%	6.70%	6.80%	3.30%	3.60%	8.90%	16.80%	13.50%	5.20%	9.60%	4.70%	6.36%	18.74%
Total net profit margin	2.00%	3.50%	3.70%	0.60%	0.80%	5.70%	13.00%	10.30%	4.30%	8.20%	4.00%	5.86%	15.09%
Return on sales	2.10%	3.70%	3.90%	0.60%	0.80%	5.80%	13.90%	10.60%	4.31%	8.67%	4.03%	5.75%	15.24%
Return on investment (ROI)	2.70%	5.20%	4.90%	2.80%	2.60%	7.00%	17.10%	11.80%	4.28%	8.81%	4.49%	6.05%	17.06%
ROA	1.30%	2.80%	2.90%	0.40%	0.50%	4.70%	13.20%	9.30%	3.78%	7.61%	3.74%	5.32%	14.18%
ROE	2.70%	6.40%	6.70%	0.80%	1.00%	9.10%	25.50%	16.90%	5.89%	10.96%	5.25%	7.24%	21.00%

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

Measure	**Page in the Annual Report**	**Calculation**
Dividend yield	13	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 income decreased by total finance expenses from the statement of profit or loss
P/E 31 December	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	27,76	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)	105	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 2016		Balance as at 31 Dec 2017	
		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**	**80.77**	**657,927**	**79.12**	**644,518**
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	20.00	162,963	20.00	162,963
1.3.	DUTB, d.d., LJ					14.48	117,952	14.48	117,952
1.4.	Slovenski državni holding, LJ	9.77	79,573	9.77	79,573	11.41	92,950	11.41	92,950
1.5.	Clearstream banking sa - escrow account Luxembourg					0.00	0	4.13	33,614
1.6.	SOP Ljubljana					1.84	15,028	3.25	26,468
1.7.	KD Galileo, mešani fleks. sklad, LJ					1.98	16,165	1.98	16,165
1.8.	Fleksibilni mešani podsklad-Jugovzhodni, LJ					3.97	32,378	1.96	15,949
1.9.	KD Rastko, evropski delniški sklad, LJ					1.87	15,243	1.79	14,607
1.10.	ABANKA d.d., LJ					1.72	14,000	1.72	14,000
1.11.	Raiffeisen bank Austria d.d. - escrow account ZG					0.78	6,394	1.65	13,447
1.12.	The bank of New York MELLON - escrow account, NY					0.96	7,832	1.46	11,892
1.13.	Primorski skladi, d.d. Koper - PSP MODR					1.45	11,781	1.45	11,781
1.14.	ALTA senior, vzajem.skl.prilagodljiv, LJ					1.13	9,241	1.12	9,141
1.15.	KD dividendni, delniški, LJ					0.94	7,673	0.92	7,458
1.16.	NLB skladi - Slovenija mešani, LJ					0.96	7,848	0.84	6,813
1.17.	Parametric emerging markets fund, Boston					0.77	6,272	0.77	6,272
1.18.	DBS d.d., LJ					2.49	20,250	0.67	5,475
1.19.	Parametric tax-managed emerging market, Boston					0.51	4,134	0.64	5,206
1.20.	Boxaric investments limited, Limassol					0.45	3,681	0.46	3,787
1.21.	Other	6.93	56,490	26.31	214,314	13.06	106,142	8.42	68,578
2.	**NATURAL PERSONS**	**39.48**	**321,602**	**39.95**	**325,444**	**18.97**	**154,550**	**20.62**	**167,959**
3.	**TREASURY SHARES**	**-**	**-**	**-**	**-**	**0.26**	**2,149**	**0.26**	**2,149**
	TOTAL 1+2+3	**100.00**	**814,626**	**100.00**	**814,626**	**100.00**	**814,626**	**100.00**	**814,626**
	No. of shares with voting rights		814,626		814,626		812,477		812,477

Statement by the Management and the Persons Responsible for the Compilation of the Annual Report Dated 19 March 2018

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 Annual Report on this 19 March 2018.

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 2017 Accumulated Profit

in EUR

PROPOSAL FOR THE USE OF THE 2017 ACCUMULATED PROFIT	
Accumulated profit	**21,550,008**
- dividends (EUR 26.52 per share)	21,546,890
- bonuses for the Management Board	/
- retained earnings	3,118
- increase in other revenue reserves	/

Explanation of the Proposal for the Use of the 2017 Accumulated Profit: Due to the improving international economic situation and favourable trends in the titanium dioxide pigment industry, we plan for 2018 net profit at the level of EUR 33 million (the 2017 net profit stood at EUR 29 million), thus a 13-percent growth. Free cash flow from operating activities in 2018 is expected to suffice for covering the increased investment needs (that also include continuation of the project of rehabilitating the Bukovžlak non-hazardous waste landfill) and payment of proposed dividends. The Management Board proposes disbursement of dividends in the amount of EUR 21.6 million or EUR 26.52 per share. This means that the dividends paid out in 2018 will increase when compared to those from the year before by 193 percent and that the total value of dividend disbursement would reach 75% of net profit generated in 2017. The Management Board believes that the proposed distribution of accumulated profit appropriately reflects the business performance of the Company and thus meets the interests and expectations of the owners. The difference of EUR 3.1 thousand would be brought forward to the next financial year as retained earnings.

CINKARNA

Press: Atelje 64 d.o.o., april 2018

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.