

QUARTERLY REPORT

PERIOD: January 1, 2019 - September 30, 2019

Celje, November 20, 2019

COMMENT AND ANALYSIS BY THE MANAGEMENT BOARD

Cinkarna Celje, d. d. once again showed its agility, increased its sales, and exceeded the planned annual net profit. Over the nine-month period of 2019, we have generated EUR 134.8 million of sales revenues, which accounts for 1% more compared to the same period in the previous year. The most important cornerstones of this success lie in producing titanium dioxide pigment and rationalising the portfolio of strategic business areas, focusing on the core line and abandoning non-profitable activities.

Globally, we are a small producer of titanium dioxide pigment. Within Europe, we are comparable to smaller East European manufacturing companies. In view of inter-branch analyses, comparisons of operational efficiency, and the level of sales prices (business and trade benchmarking), we find and confirm that Cinkarna Celje, d. d. is among the leading companies in the titanium dioxide pigment industry. The Management Board assesses the Company's operations as objectively very good.

According to forecasts, growth in key trading partners is decreasing. Their growth will slow down distinctively this year. Customs measures taken in major global economies have created a high level of uncertainty in business. Additional confusion is brought by the long-lasting process of the United Kingdom leaving the EU. The protectionism of the aforementioned countries has thus started to affect the wider economy, as in recent months, activities in the processing industry have dropped, mostly in Germany. Currently, there are only favourable prospects regarding private consumption, but, due to the employment slow-down, this will come to a halt as well. Economic activity and the related investment consumptions of the key economies of North America and Europe are cooling down. Objectively, this means that the level of demand in investment goods markets and basic raw material markets, i.e. commodities markets, is lower. We have not detected any other special risks or uncertainties in the international economic area for the near future that could have a significant negative effect on the Company's operations and its performance projections in the current year.

We insist on continuing a longstanding business strategy, which is mainly based on an active marketing approach oriented towards searching for and developing the most profitable customers and markets, increasing levels of production quantities and sales, and establishing long-term partner relationships with key customers. We are still detecting a relatively robust demand for pigment on the market. Pressures to limit supply and increase the prices of input materials and raw materials are always there, but the present situation may be described as stable. With the traditional time lag, the demand for input raw materials will drop over the next quarters. When applied to Cinkarna Celje, d. d., this means that, when purchasing key raw materials and other materials, there will be less pressure to increase prices of the limited quantity of titanium-bearing raw materials.

The basic highlights of the Company's business policy remain unchanged. We are focusing on the physical scope of operations, production capacities, utilising potentials in terms of increasing sales prices, optimising production costs, and executing our investment plans. The Company's financial operations have traditionally been conservative, which made it financially stable; the balance of cash is high and this makes it possible for liabilities to be settled in a timely and uninterrupted manner. Pursuant to a resolution adopted by the Company's Annual General meeting, dividends were paid out in mid-

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June, and they were above-average in the industry, i.e. in the total amount of EUR 22.84 million (EUR 28.27 per share), which accounts for 7% more compared to 2018.

The Company has been actively carrying out several interconnected projects with the purpose of comprehensively managing environmental risks. In the first half of the year, with the help of the company CDM Smith, we mainly worked on harmonising the views of all shareholders. This is of key importance for decision-making regarding the required measures based on research results and obtaining necessary permits for their implementation. We then continued to carry out field measurements, which will help identify local critical resources and appropriate manners of their removal. At the same time, a comparative overview of German, Dutch, and Slovenian legislation is being prepared. It will serve as the basis which the MOP (Ministry of Environment and Spatial Planning) will use to define requirements for preventing environmental damage. Within this project, we continued to strive to decrease the uptake of heavy metals into plants in the area of Bukovžlak by way of soil liming. A significant achievement in the period in question is obtaining an integral permit for rehabilitation works at the Bukovžlak non-hazardous waste landfill (ONOB) and the necessary permit for TENORM waste removal. Selection of a contractor for rehabilitation of ONOB is in progress, while we have exported TENORM waste to USA (Idaho) and are awaiting the confirmation of permanent storage. In manufacturing, investments into operation improvement or into treatment plant upgrades have been initiated. We have been implementing measures for decreasing dispersed emissions and emissions into the working environment.

Comparing Q3 to Q2, the conditions on the titanium dioxide pigment market have not changed. Additional customs duties on Chinese materials are reflected in the increased presence of Chinese materials in the EU and in neighbouring markets. As projected at the end of the first half of the year, our sales prices moderately decreased in Q3. Average global sales prices were 1.3% higher compared to the end of 2018 and 1.3% lower compared to the end of September 2018. The decreasing trend which started in the middle of last year has not changed significantly. The protectionist measures of the US administration enable domestic manufacturers of pigment to achieve higher prices compared to the prices which would otherwise apply in free market trading conditions, so the increase in sales prices on the American market is not insignificant (+ 5%). This situation led to Chinese manufacturers not being able to compete and a pigment surplus being created; this surplus is now entering the EU market instead of the American market. The competitive battle fought between European and Asian manufacturers does not have a winner for now, but there has been collateral damage for a few quarters in the form of similar decreasing trends in European and Asian prices. Nevertheless, the titanium dioxide industry has remained interesting as some capital concentrations, both vertical and horizontal, were announced or concluded.

The input raw materials supply remains unchanged in the short term. The export of the material from Vietnam and India remains nearly stopped. Furthermore, the newly opened mineral deposit in Australia and a project dealing with mine lifetime extensions in South Africa will contribute to reducing mid-term deficit in the titanium-bearing raw material supply. The lack of new projects will deepen the supply deficit over the next five years. The latter will result from an increasing demand by Chinese pigment manufacturers. It is hard to forecast future raw material market moves, but given the production capacity surplus in China, it is possible that demand will exceed the possibilities of the extractive industry. The titanium raw material purchase is currently stable, but a decrease in purchase prices could be expected in the medium term, which will follow the decrease in pigment demand with a delay.

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Regardless the aforementioned, it still remains questionable whether pigment manufacturers will continue to be supplied with input raw materials.

Cinkarna Celje, d. d. is surely not a market and price establisher, but by way of flexibility and short response times and within the frame of our strategic market status, we strive to utilise the potentials in the best manner possible in the currently falling market. The comparison of business results and marketing data reveal the Company's above-average effectiveness. In the first nine months of the year, we sold 19% more pigment compared to the same period in 2018. During the process of establishing a trading balance, the average prices grew by 1% since the end of 2018 and dropped by 1.5% since September 2018. The inventories of pigment decreased by 19% in the first nine months of this year and represent regular production of approximately one and a half months.

The results of other production and sales lines can be assessed as good. We recorded a significant increase in the sale of agricultural products, varnishes, masterbatches, and printing inks. Sales in zinc recycling and construction products fell slightly. By the Q3, we concluded the process of selling the fixed assets connected to the construction compounds line. The divestment of tangible assets of said line is to be completed by the end of the year. There was a simultaneous drop in quantities and prices in zinc recycling.

Cinkarna Celje, d. d. generated EUR 134.8 million in sales revenues by the end of Q3, which accounts for 1% more than in nine months in 2018 and 7% more than three quarters of the planned sales for 2019. Total exports in the period reached EUR 119.4 million, which is 3% more compared to exports in the first nine months of 2018. Net profit for the first nine months of 2019 reached the level of EUR 15.9 million. This income dropped by 43% compared to the first nine months of 2018 when we generated EUR 27.9 million of net profit. Net profit for the first nine-month period exceeded the planned result by 91%. Net profit planned for this period is EUR 8.3 million. The Company has had no debts as of the first nine-month period of 2019. Deposits and assets on accounts as of September 30, 2019 amount to EUR 27.7 million, which is 20% less compared to the end of September 2018 and 17% less compared to the end of 2018. The liquidity and solvency of the Company are within the planned levels at all times.

Within the scope of HR activities and management, we geared our activities into assuring social security, work safety, improving working conditions, developing potentials, and training employees. We pursue the principle of a positive pay policy and ensure a suitable level of employee satisfaction and motivation. We managed the problem of redundant workers from the construction compounds line by applying soft methods, namely by retirement and internal reassignments.

Over the first nine months of 2019, we used EUR 8 million on investments, purchasing fixed assets, and replacing equipment and making environmentally-oriented investments, accounting of 95% of all planned assets for this period. The biggest share of funds invested was allocated to titanium dioxide production, to improving the quality of our products, assuring the planned production quantity, and reducing the environmental impact.

By way of our development activities, we are implementing our five-year strategy. These development activities were conducted regarding the trends or the expectations of customers. Improvements were introduced in all processes, thus enabling better product quality, reaching higher utilisation rates and device capacities, and more efficient work. Within assuring sustainable development of the titanium dioxide production, we are continuing the multi-annual project of comprehensive water management (separate collection of waste waters in water preparation, preparation for implementation of

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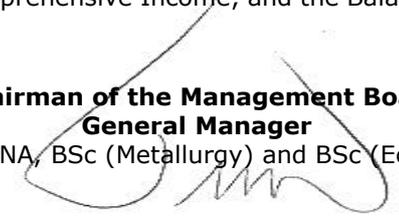
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neutralisation with reverse osmosis for filtrate cleaning of waste waters from the titanium dioxide production).

Below are the Statement of Profit or Loss, Statement of Comprehensive Income, and the Balance Sheet for the first nine months of 2019.

**Chairman of the Management Board –
General Manager**

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



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FINANCIAL STATEMENTS AND BALANCE SHEET

Statement of Profit or Loss

	in EUR		
	JAN...SEP 2019	JAN...SEP 2018	Index 19/18
1. Net sales revenues	134,778,698	134,030,285	101
- Net sales revenues generated on the domestic market	15,393,266	17,722,116	87
- Net sales revenues generated on the international market	119,385,432	116,308,170	103
2. Change in the values of inventories of products and work in progress	-5,562,921	10,718,526	-
3. Capitalised own products and services	1,780,622	2,218,407	80
4. Other operating revenues (including revaluation operating revenue)	1,191,275	2,063,160	58
5. Costs of goods, material and services	81,373,089	82,558,862	99
a) Costs of goods and materials sold and cost of materials used	70,452,675	71,960,216	98
b) Costs of services	10,920,414	10,598,646	103
6. Labour costs	22,015,144	23,031,913	96
a) Costs of wages and salaries	15,522,531	17,762,395	87
b) Costs of social security	1,221,085	1,414,936	86
c) Costs of pension insurance	1,773,001	1,881,992	94
č) Other labour costs	3,498,527	1,972,591	177
7. Write-down in value	9,087,855	9,035,288	101
a) Amortization	9,080,190	8,952,873	101
b) Revaluation operating expenses associated with intangible assets and tangible fixed assets	3,261	23,749	14
c) Revaluation operating expenses associated with current assets	4,404	58,666	8
8. Other operating expenses	985,766	927,041	106
Operating profit or loss	18,725,820	33,477,275	56
9. Finance income from participating interests	39,432	38,009	104
č) Finance income from other investments	39,432	38,009	104
10. Finance income from loans granted	8,812	11,248	78
b) Financial income from loans to others	8,812	11,248	78
11. Finance income from operating receivables	308,136	315,064	98
b) Finance income from operating receivables due from others	308,136	315,064	98
12. Finance expenses income from impairment and investment write-offs	0	0	-
13. Finance expenses from financial liabilities	0	0	-
14. Finance expenses form operating liabilities	288,080	831,885	35
b) Finance expenses from trade payables and bills payable	205,238	416,616	49
c) Finance expenses from other operating liabilities	82,842	415,269	20
15. Other income	26,051	54,459	48
16. Other expenses	10,839	11,307	96
Profit or loss before tax	18,809,332	33,052,862	57
17. Income tax	2,732,996	5,057,088	54
18. Deferred taxes	-169,581	-67,303	252
19. Net profit or loss for the financial year	15,906,755	27,928,471	57
Basic earnings per share ¹	19.69	34.28	57
Diluted earnings per share ²	19.69	34.28	57

¹ Net profit / number of shares

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

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Statement of Comprehensive Income

Statement of comprehensive income for the years 2019 and 2018 is made in accordance with the Slovene Accounting Standards 21.

Table 13: **Statement of Comprehensive as per September 30, 2019**

				in EUR
		30 Sep 2019	30 Sep 2018	Index 19/18
19.	Net profit or loss for the period	15,906,755	27,928,471	57
24.	Total comprehensive income for the period	15,906,755	27,928,471	57

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Balance Sheet

	in EUR		
	30 Sep 2019	31 Dec 2018	Index 19/18
ASSETS	206,727,585	213,954,012	97
A. Non-current assets	105,797,259	107,594,140	98
I. Intangible assets and long-term deferred costs and accrued revenues	1,294,477	1,424,728	91
1. Long-term property rights	1,267,405	1,411,819	90
5. Other long-term deferred costs and accrued revenues	27,072	12,909	210
II. Tangible fixed assets	101,163,379	102,660,428	99
1a. Land	9,803,718	9,857,976	99
1b. Buildings	42,412,912	42,073,048	101
2. Manufacturing plant and equipment	31,319,183	35,631,444	88
3. Other plant and equipment	58,496	42,475	138
4a. Tangible fixed assets under construction and in production	17,270,133	14,461,532	119
4b. Advances for acquisition of tangible fixed assets	298,937	593,952	50
IV. Long-term financial assets	950,363	950,363	100
1a. Other shares and interests	950,363	950,363	100
VI. Deferred tax assets	2,389,040	2,558,621	93
B. Current assets	100,181,535	106,067,370	94
II. Inventories	37,995,366	46,067,012	82
1. Materials	23,483,408	26,042,456	90
2. Work in progress	2,324,731	2,483,963	94
3. Products and merchandise	12,104,694	17,523,906	69
4. Advances for inventories	82,533	16,687	495
III. Short-term financial assets	350,900	247,681	142
1. Short-term investments, excluding loans	150,900	47,681	316
1c. Other short-term investments	150,900	47,681	316
2. Short-term loans	200,000	200,000	100
2b. Short-term loans to others	200,000	200,000	100
IV. Short-term operating receivables	34,164,758	26,269,282	130
2. Short-term trade receivables	31,837,457	24,357,937	131
3. Short-term operating receivables due from others	2,327,301	1,911,345	122
V. Cash	27,670,511	33,483,395	83
C. Short-term deferred costs and accrued revenues	748,791	292,502	256

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	in EUR		
	30 Sep 2019	31 Dec 2018	Index 19/18
EQUITY AND LIABILITIES	206,727,585	213,954,012	97
A. Equity	165,414,101	173,925,466	95
I. Called-up capital	20,229,770	20,396,244	99
1. Share capital	20,229,770	20,396,244	99
II. Capital surplus	44,284,976	44,284,976	100
III. Revenue reserves	86,658,781	88,068,917	98
1. Legal reserves	16,931,435	16,931,435	100
2. Reserves for treasury shares	1,576,610	1,364,106	116
3. Treasury shares	-1,576,610	-1,364,106	116
5. Other revenue reserves	69,727,346	71,137,482	98
V. Fair-value reserves	-1,666,698	-1,666,698	-
VI. Retained net profit/accumulated loss	517	-76,610	-
VII. Net profit or loss for the financial year	15,906,755	22,918,637	69
B. Provisions and long-term accrued costs and deferred revenues	27,008,274	27,763,293	97
1. Provisions for pensions and similar liabilities	3,622,028	3,811,723	95
2. Other provisions	22,879,701	23,439,296	98
3. Long-term accrued costs and deferred revenues	506,545	512,274	99
Č. Short-term liabilities	13,017,151	11,407,422	114
II. Short-term financial liabilities	22,973	70,677	33
1. Other short-term financial liabilities	22,973	70,677	33
III. Short-term operating liabilities	12,994,178	11,336,745	115
1. Short-term trade payables	10,464,045	8,683,609	121
2. Short-term operating liabilities from advances	118,259	27,428	431
3. Other short-term operating liabilities	2,411,874	2,625,708	92
D. Short-term accrued costs and deferred revenues	1,288,059	857,831	150

Due to seasonal adjustments in the mid-term report by Cinkarna Celje d. d., inventories of finished products are valued at direct costs of material, energy and production services, while a lesser portion of production costs is recorded directly among expenses. At the end of the year, this portion of costs is transferred to inventories.

CINKARNA CELJE, d. d.
MANAGEMENT BOARD