

# ANNUAL REPORT

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## 2019



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## Operations in the Last Three Years in Brief

	In EUR			
	<b>2017</b>	<b>2018</b>	<b>2019</b>	Change in % 2019/2018
Sales	188,704,758	163,960,861	172,586,979	+ 5
Net profit or loss	28,765,297	30,558,183	21,436,385	- 30
Total dividends paid	7,352,917	21,547,246	22,848,863	+ 6
Equity (31 Dec)	166,520,502	173,925,466	170,342,846	- 2
ROE	21.0%	21.7%	14.7%	- 33
Per share values (diluted)				
- Net profit or loss	EUR 35.31	EUR 37.51	EUR 26.53	- 29
- Dividends paid				
Gross	EUR 9.05	EUR 26.52	EUR 28.27	+ 7
Net	EUR 6.79	EUR 19.89	EUR 21.20	+ 7
- Equity	EUR 204.4	EUR 213.50	EUR 210.83	- 1
- Market price (31 Dec)	EUR 217.0	EUR 181.0	EUR 187.5	+ 4
Number of shares	814,626	814,626	807,977	- 1
No. of treasury shares	2,149	6,649	10,652	+ 60
No. of shareholders (31 Dec)	1880	2078	1920	- 8
No. of employees (31 Dec)	893	908	846	- 7

## 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 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

<b>Company</b>	<b>Cinkarna, metalurško kemična industrija Celje, d. d.</b>
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: <a href="mailto:info@cinkarna.si">info@cinkarna.si</a>
	Website: <a href="http://www.cinkarna.si">www.cinkarna.si</a>

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

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<b><i>Representative office</i></b>	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: <a href="mailto:d.barba@YUBC.net">d.barba@YUBC.net</a>

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## Company Organisation

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

### Management Board

#### Business units

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

## **Company Profile**

With its 147-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 nearly 850 people and generates around EUR 173 million per year in sales revenues, with around 89% of sales generated on international markets. It thus occupies the leading position in the Slovenian chemical processing industry and is one of the most important and successful Slovenian industrial companies.

## **Corporate Vision**

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

## **Mission**

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

## Report by the Management Board

We operated extremely successfully in 2019 despite the uncertainty of the global economy. The results achieved are undoubtedly one of the best in the Company's history. The major reason for exceeding the plan and last year's sales is the changed market balance in the titanium dioxide industry, which allows us to still achieve high profit margins. By closing down the line of unprofitable titanium-zinc sheets and the construction compounds line, we significantly improved also the structure of lines of business and internal operating efficiency of the entire system.

According to the Management Board's estimate, objectively speaking the Company's operations are very successful and greatly above expectations. Industry benchmark comparisons and analyses of period results confirm that in 2019 Cinkarna Celje, d. d. improved its position among the companies in the titanium dioxide pigment industry. In 2019, competitors' business on average significantly deteriorated, but Cinkarna Celje, d. d. exceeds the industry average in terms of both absolute and relative comparisons and is consolidating its position among the most successful players.

We are continuing with our traditionally conservative yet very active business policy in terms of marketing and focus on goals as we are certain of its accuracy validated by excellent results. The demand for the flagship product, titanium dioxide, was higher than the year before, and we constantly endeavoured to keep the major buyers and preserve our position on the most profitable markets. By way of flexibility, short response times and well elaborated allocation of quantities, we managed to meet all of our business commitments entirely and timely. Pursuing the return-on-sales criteria, we are gradually moving away from the distant markets of Middle East as we are adjusting to the market situation and orienting the Company's operations towards the EU and neighbouring markets. The pigment production has increased, but not to the 2017 record production level. 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 2019 and had no difficulties financing the investments totalling EUR 12 million and paying out dividends in June pursuant to the resolution of the Company's General Meeting in the total amount of EUR 22.8 million (EUR 28.27 per share), which is 6% more as compared to 2018. Unfavourable forecasts and conservative business plan require careful management of cash.

The Company actively prepares and implements several interconnected projects providing the basis for comprehensive management of environmental risks. In the first half of the year, we collaborated with CDM Smith mainly on unifying positions with all stakeholders. This is crucial for deciding what action is needed based on the results of the research and obtaining the necessary authorisations to carry it out. We proceeded to carry out measurements in the field to help identify local critical resources and an appropriate approach to addressing them. In parallel, a comparative review of the German, Dutch and Slovenian legislation is under preparation. This will serve as the basis for defining the requirements of the Ministry of the Environment and Spatial Planning (MOP) for the prevention of environmental damage. As part of this project, we continued our efforts to reduce heavy metals input into plants in the Bukovžlak area by liming. A very important achievement in the period under review is the acquisition of an integral permit for the rehabilitation of the Bukovžlak non-hazardous waste landfill (ONOB) and the permits necessary for the disposal of TENORM waste. The selection of a contractor is underway for the ONOB remediation, while TENORM waste was exported to the USA (Idaho). A number of investments are in progress to improve the operation or upgrade treatment plants. We have been implementing measures to reduce diffuse emissions and emissions in the work environment.

Throughout the 2019 financial year, the European economy has been unstable, characterised by an unfavourable external environment. In the second half of the year, trade tensions and geopolitical risks increased. In particular, this refers the protectionism of the USA, the UK and China, which have had the greatest impact on the global economy, seen as a

decline in manufacturing activity in recent months. At the end of the year, macroeconomic expectations improved slightly in the international environment, most likely because the USA and China signed a partial trade agreement. However, it is fundamental to note that economic activity, and with it investment spending, in the key economies of North America and Europe has been cooling down. Objectively, this means that the level of demand in the markets of capital goods and commodities is lower than usual, which will determine the conditions at the beginning of next year. In addition to the aforementioned and the uncertainties associated with the consequences of the spread of Covid-19, we do not perceive other pronounced risks in the international economic arena that could have a significant adverse effect on the Company's business and performance plans in the coming year.

In the last quarter, the situation on the titanium dioxide pigment market did not change compared to the preceding quarter. Customs duties on Chinese material were reflected in the increased pressure on the Chinese material in the EU and the neighbouring markets. Sales prices continue to slightly decline, with a likely positive rebound in the second half of 2020. The average global selling prices translated into EUR are down 1% since the end of 2018, down 2% since the end of September 2019, while average European prices dropped by 9% and 2% respectively. The downward trend, which began last year, did not have a pronounced incline this year. The application of protectionist measures by the US administration and, consequently, a high US dollar exchange rate, allowed domestic pigment producers to achieve higher prices than would otherwise be the case under free trade conditions, with the US market recording an increase in sales prices (+4%) in 2019. With that in mind, we expect an additional, but slight, decline in pigment sales prices in the first half of 2020 and decreasing margins between the purchase and selling prices. Despite its mature phase, the titanium dioxide industry remains interesting, as some capital concentrations, both vertical and horizontal mergers, have been announced and completed.

The supply of input raw materials remains unchanged in the short term. Exports of material from Vietnam and India are still almost at a standstill. The newly opened mineral deposits in Australia and this year's launch of a project to extend the life of the mine in South Africa will contribute to the reduction of the medium-term deficit in the supply of titanium-bearing raw materials. The lack of new projects could lead to a supply shortfall in the next five years. The latter will mainly be driven by the increasing demand from Chinese pigment manufacturers. Procurement of titanium-bearing raw materials in Cinkarna Celje, d. d. is currently stable, no particular problems are on the horizon in the medium term, however, a slight mid-term decrease can be expected in purchase prices, which follow the pigment demand and low economic activity in this market with a lag.

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 2019, we produced 4% more pigment than in 2018. The sale of pigment outstripped the production by over 2,900 tonnes, as a result of which our titanium dioxide stock decreased by the same volume. In 2018, the average pigment selling prices dropped by 15% compared to 2018.

When analysing and reviewing other product lines, we should emphasise the successfully completed procedure for selling the construction compounds plant. The rest of the metallurgy line is optimised and stabilised; we are recording ZAMAK sales close to past figures. The results of other lines can be assessed as solid. The agricultural product line (+17%) and the varnishes, coatings, masterbatches and printing inks (+12%) exceeded past results. The driving force behind the growth of Mozirje sales portfolio is masterbatches with a 32% spike in sales. Zinc recycling dropped by 14% as compared to 2018 sales, mostly on account of lower stock market prices in comparison to the year before.

In 2019, Cinkarna Celje, d. d. generated EUR 173 million of sales revenues, 5% more than in 2018. Sales also exceeded the plan for the year by 3%. Total exports in the period reached EUR 154 million, which is 8% more compared to 2018 exports and 6% higher

than planned. The major share of exports went to Germany with 30%, followed by Italy with 11%, Belgium with 10%, Turkey with 7%, Algeria with 5%, the Netherlands with 5%, France and Greece with 4% each and Austria with 3%. The remaining exports went to other EU markets, Eastern Europe and the Middle East.

Net profit for 2019 reached a high level of EUR 21.4 million, lagging behind the 2018 figure of EUR 30.6 million by 30%. Net profit represented almost twice the planned figure for 2019 (EUR 11.1 million).

From the last trading day in 2018 to the last trading day in 2019, the share price of Cinkarna Celje, d. d. on the standard market of the Ljubljana Stock Exchange increased from EUR 181 to EUR 188 per share or by 4%. The share had gained in value until the cut-off dividend day in early June. Before dividend payout, the share price fell by 14% and remained in the range between EUR 180 and EUR 200 per share until the end of the year. The SBI TOP index rose by 15% in the period concerned. The Company paid EUR 22.8 million in dividends (6% more as compared to the year before) or EUR 28.27 of gross dividend per share in 2019. Dividend yield came in at an extremely high 14.14% on the date of the General Meeting resolution and was again among the highest yields in the industry of titanium dioxide pigment.

In 2019, investment scope accounted for just under 50% of the past year's figure, having exceeded the planned value by 6.3%. The majority of these funds were allocated to modernisation, stabilisation and improvement of the quality of our products, environmental protection projects, and health and safety at work. A part of funds was spent on modernisation and legislative compliance of facilities and 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 2019 mostly focused again on three main areas, i.e. development of new products and services, improvements to existing products and services, and development of policies and models for successful marketing of new products developed in previous years.

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

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

Within the scope of HR activities and management, we geared our activities into the assurance of social security, work safety, working conditions improvement, development of potentials and employee training. We pursue the principle of positive wage policy and ensure a suitable level of employee satisfaction and motivation. We solved the problem of redundant workers from the construction compounds plant by soft methods, namely retirement and reassignments within the Company.

The Business Report presented in the continuation contains more detailed information on operations, including comparisons and analyses. It comprises information that is relevant for fair and objective presentation of the operations in the previous year. The financial standing and operations of the Company in 2019 are presented in the enclosed financial statements and the notes thereto.

## **Business Plan for 2020**

The business plan for 2020 was prepared based on global macroeconomic forecasts, projected GDP growth forecasts for the economically most important countries as well as industry analyses and forecasts. The year of 2019 was characterised by the slow activity on the titanium dioxide market and the beginning of deteriorating macroeconomic conditions. Expectations and trends projected for 2020 are based on these facts. Market indices and indicators are for now still rather favourable. We do not expect significant market imbalance in 2020, but a stable demand with lower pigment selling prices. On the purchase side, we expect an increase in energy prices with a relatively stable situation as regards titanium raw materials. In terms of annual level comparisons, the relative relationship between purchasing and selling prices is to change substantially, as the margins between the purchase and selling prices will decrease. The Company's strategy for 2020 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 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, solid operations, cash surpluses and forecasts also imply adequate and suitable payouts to owners in compliance with the Company's strategic plans and its financial position. The proposal for distribution is included herein. We plan to generate EUR 174.2 million of sales revenues in 2020, 1% more as compared to 2019 sales. We also plan net profit at the end of 2020 to reach EUR 14.1 million or 35% less than in 2019. In compliance with the investment plan, which includes finishing the project of modernising, stabilising and intensifying the titanium dioxide pigment production, we will invest a total of EUR 19.9 million in the Company's fixed assets, an increase of 66% over 2019. The increased volume of investment is primarily due to the emerging circumstances in production and regulatory risks. The 2020 plan does not include utilisation of EUR 2 million of environmental provisions for maintenance works at the Bukovžlak and Za Travnik locations and the ONOB rehabilitation works. We will finish the project of necessary rehabilitation measures for ensuring safety of the high barrier Bukovžlak. We also plan to comply with legislative requirements by setting up monitoring of induced seismicity and dynamic behaviour of the barrier. The business plan is an assessment of future operating conditions and operating performance that is based on the currently available set of key information, which is why it should be understood as a forecast that inexorably carries with it a certain level of uncertainty.

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



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

At the start of 2019, the Supervisory Board of Cinkarna Celje, d. d. had the following composition: Borut Jamnik, BSc (Mathematics) – Chairman, Dejan Rajbar, BSc (Economics), Urška Podpečan – Deputy Chair, LLB, Aleš Skok, BSc (Chemical Engineering), MBA, USA, Dušan Mestinišek, BSc (Electrical Engineering) and Aleš Stevanovič. In the second quarter, on 1 April 2019, Deputy Chair Urška Podpečan, LLB, stepped down and was replaced on 4 June 2019 by Luka Gaberščik, LLB. Further in the year, on 20 October 2019, the Chairman Borut Jamnik, BSc, resigned and the membership of the Supervisory Board was complemented on 23 December 2019 with the appointment of Dr Mario Gobbo.

In 2019, the Supervisory Board held/decided at 13 meetings, of which two extraordinary and five correspondence.

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 discussed the submitted materials, presentations, special explanations and notes diligently as well as organised and held 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.

The Supervisory Board devoted its attention and time equally to day-to-day operations, investments, business plans and regular internal audit activities on the one hand and specific and one-off challenges on the other. Among the latter we should at least highlight the review and evaluation of the investment project for the construction of a new plant in Serbia, the report and discussion on the implementation of the development strategy, environmental issues, safety and health/TiO<sub>2</sub> classification issues, report on energy consumption, the project for selling the construction compounds plant and the review of the operations and the implementation of the strategy at the Chemistry Mozirje BU.

In 2019, investment scope shrank by 47% compared to the year before, exceeding the planned value by 7%. Investments totalled EUR 12 million. The bulk of the funds were earmarked for the production of titanium dioxide pigment to improve product quality, attain the planned production volumes and reduce environmental impacts.

The Supervisory Board was informed in detail and promptly about the development and implementation of environmental protection projects. Additional improvements to the technical observation were made at the Bukovžlak and Za Travnik waste disposal plants. Seismographic observation was set up on the high barrier Bukovžlak and trial operation was started. The preliminary design of lowering the Bukovžlak lake water level was formulated and an attempt was made to lower it by improvised siphon. In connection with the rehabilitation project for the Bukovžlak non-hazardous waste landfill, the Company obtained an integral building permit, and continued with the preparation of RFP and the selection of a contractor. Throughout the year, we were pleased to review reports on the activities and completion of the TENORM waste disposal project and on the plan and progress of work within the project for removal of old burdens at the Celje site. The Supervisory Board also promptly took note of the situation related to the risk of classifying the titanium dioxide pigment in Annex VI under the CLP legislation.

The Supervisory Board closely monitored the entry into force and the implementation of the Company's Strategic Plan for 2019-2023 adopted in 2018. As a result, it supervised the successful sale of the construction compounds plant, reviewed and evaluated the feasibility study of the investment in a new pigment factory in Serbia, reconsidered the business and development perspectives of the Chemistry Mozirje BU and became acquainted with an updated and supplemented strategy for the flagship product - titanium dioxide pigment.



In December, we discussed and adopted the 2020 operating plan. The 2020 business plan is based on relatively pessimistic macroeconomic forecasts and slow activity in the titanium dioxide pigment industry. Sales plan stands at over EUR 174 million, which is 1% more than achieved in 2019, and planned net profit equals EUR 14.1 million. The planned decrease of the latter by 34% is mainly due to the still poor activity in the titanium dioxide pigment market and the resulting market pressures to lower average sales prices. The Supervisory Board was of the opinion that the plan was sufficiently ambitious, adequately reflecting the situation in the business environment as well as the competitive position and the possibility of generating results by the Company and therefore adopted it unanimously.

Business results were very good in 2019, among the best in the history of Cinkarna Celje, d. d. At the same time, they are above average in the competition of the top Slovenian industrial companies. International industry comparisons again 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 the majority of competing producers of titanium dioxide pigment. We therefore believe that the earned net profit of EUR 21.4 million and total sales of EUR 172.6 million are very good accomplishments. The Company is traditionally pursuing the strategy of conservative financial operations and is operating without external financial resources, thus being financially stable and solid.

As mentioned, the good results in 2019 are the result of the still relatively high average prices and margins, and we closely monitored progress with regard to the indicators of the physical volume of business. Despite the deteriorating macroeconomic conditions and limited demand in the titanium dioxide pigment market, the Company demonstrated organic growth and thus increased market shares in times of low market activity. The same applies to masterbatches and copper fungicides, which rank among the major product lines of the Company in terms of relative importance and driving force. Consequently, the 2020 goals are a logical continuation of the processes outlined above, so special emphasis will be placed on improving/strengthening competitive position, increasing market shares and boosting the physical volume of business.

The year 2019 was successful for the Company also considering its progress in the field of environmental protection and employee health, successful implementation of investment plans and targeted development work. Despite the high dividend payout, a high level of financial stability was maintained. Efficient operations coupled with robustness and stability of the system provide answers to the Company's long-term prospects.

The fundamental business orientations and development policies set in the mid-term strategy were qualitatively implemented in all key items. In 2018, the Supervisory Board participated in the preparation of the development strategy up to 2023 and adopted it. The strategy underscores the Company's focus on the core activity of titanium dioxide and the change of the sales portfolio of this flagship product towards enhanced quality, optical features and development of products for advanced user applications. The Supervisory Board actively supports the business policy focused on reducing risks and uncertainties and ensuring a stable financial position of the Company. We expect and demand special attention and compliance in relation to permanent progress in environmental protection and employee health.

The Annual Report, comprising the mandatory financial statements, disclosures, notes and the Business Report is deemed by the Supervisory Board to contain all the relevant information and indicators and appropriate notes to the specific events and facts. Acting upon the proposal from its Audit Committee, the Supervisory Board approves the Annual Report of Cinkarna Celje, d. d. for 2019.

The Supervisory Board also took note of the independent auditor's report received by the Company on 16 March 2020 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 2019 and on the Review of the Annual Report of Cinkarna Celje, d. d. for 2019**

The Audit Committee of the Supervisory Board of Cinkarna Celje, d. d. with the following composition: Dejan Rajbar, BSc (Economics) – Chairman, Dušan Mestinišek, BSc (Electrical Engineering) – member, and Gregor Korošec, BSc (Economics) – independent external expert, met at seven regular meetings and one correspondence meeting in 2019. Two meetings aimed at detailed discussion of the 2019 Annual Report and related processes were held in March 2020.

Members of the Audit Committee were present at all meetings. The meetings were always also attended by Jure Vengust, MSc, member of the Management Board in charge of Finance, Accounting and IT, and Karmen Fujs, MSc, Accounting Department Manager, who provided answers and explanations to the questions of the Committee members. The certified auditors Sanja Košir Nikašinić and Lidija Šinkovec from the audit firm Ernst & Young, d. o. o. were present at one meeting. The meetings were also always attended by Patricija Veršič, MSc, Internal Audit Department Manager, who presented the relevant internal audit plans, promptly reported on the progress of internal audit based on quarterly reports and the related state and implementation of the Company's internal controls.

At all regular meetings, the Audit Committee familiarised itself with interim operating results of Cinkarna Celje, d. d. and paid special attention to financial and accounting information. The Committee carefully considered the contents of the Company's interim and annual business reports and prepared proposals and recommendations for modifications. As already mentioned, the Committee verified and examined on an ongoing basis also internal audit reports, which also included reporting on the status of implemented measures based on its recommendations, at the same time actively cooperating, proposing improvements and directing internal audit operations.

The Audit Committee reviewed again the system for identifying, assessing and managing operating risks of the company Cinkarna Celje, d. d. In 2019, the system was adequately integrated into the Company's business processes, thus substantially enhancing its responsiveness and serving as a highly desired tool for active corporate governance. The risk management system, which is fully incorporated in the Integrated Management System, is based on prompt updating of the risk register, in which the risks are classified systematically in terms of the estimated probability of 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 the absence of extraordinary business events, the Audit Committee in 2019 primarily focused on regular and current tasks and obligations.

In line with its authorities, the Audit Committee was in 2019 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 2018.
- It reviewed the findings of the audit of the financial statements of Cinkarna Celje, d. d. for 2018 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 2018.
- It proposed to the Supervisory Board that it should propose to the General Meeting to engage the audit firm Ernst & Young, d. o. o. to audit the financial statements of Cinkarna Celje, d. d. for 2019, 2020 and 2021.
- It examined the contract for audit of the financial statements of Cinkarna Celje, d. d. for the said years and approved it.

The meetings and activities in 2020 were carried out for acknowledgement of the final audit of the financial statements of the Company for 2019, for review of the Annual Report of Cinkarna Celje, d. d. and the Internal Audit Report. In 2019, the Internal Audit Department was implementing internal audit tasks successfully and in line with the plan, also reporting promptly to the Audit Committee.

The Audit Committee received the first draft annual report of Cinkarna Celje, d. d. for 2019 on 6 March 2020. At the meeting held on 9 March 2020, the certified auditors were also present and answered further questions of the Audit Committee members. The members of the Audit Committee carefully reviewed the draft annual report and gave their comments at the Audit Committee meeting held on 17 March 2020.

The consolidated text of the Annual Report of Cinkarna Celje, d. d. for 2019 was received by the Audit Committee on 23 March 2020 and discussed at its meeting on 26 April 2020. The Audit Committee confirmed that the Annual Report of Cinkarna Celje, d. d. for 2019 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 2019 comprises a summary presentation of operations for the last three financial years. The operational and performance analysis for 2019 provides a detailed overview of the assets and profit of the Company as it contains all of the necessary notes on sales, operating profit or loss, expenses and costs, assets and liabilities.

Development of the Company is based on its employees, investments, the development activity, quality assurance and successful implementation of the strategic plan for the following period up to and inclusive of the year 2023.

The Annual Report also includes the Non-Financial Statement, which includes, based on the amended Companies Act, useful information regarding social responsibility, the environment, HR matters and anti-corruption and anti-bribery activities.

The financial statements of Cinkarna Celje, d. d. for 2019, including the accounting policies and notes, were audited by the audit firm Ernst & Young, d. o. o., which was approved by the General Meeting at its 23rd regular meeting on 4 June 2019. On 23 March 2020, the auditor issued an unqualified opinion on the financial statements of Cinkarna Celje, d. d. for 2020 and confirmed that the information contained in the Business Report was in line with the attached financial statements. In the opinion, the auditor pointed out the key audit matters disclosed in the financial section of the report, namely Note 9 – Provisions and long-term accrued costs and deferred revenues, which states that as at 31 December 2019 the Company disclosed EUR 17,768,340 of environmental provisions, which were set aside based on projects, reports and assessments made by external advisors and by the management in relation to the costs that will arise due to the rehabilitation of landfills and covering of future obligations related to land redevelopment at the existing location of the Company, formed based on the report of CDM Smith.

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 2019, that the Annual Report had been compiled in accordance with the Companies Act (ZGD-1) and that the financial statements, in all material respects, give a true and fair view of the financial position of Cinkarna Celje, d. d. as at 31 December 2019 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 2019 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 2019.

**Chairman of the Supervisory Board**  
Aleš Skok, BSc (Chemical Engineering), MBA, USA



## Internal Audit Report

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

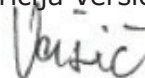
The Internal Audit Department provides independent and objective advisory aimed at maximising the benefits and improving the Company's operations. The objective of its operations is to assist the Management Board and other managerial levels to enhance governance and improve quality, efficiency and effectiveness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

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

Following each audit, the Internal Audit Department prepares an internal audit report, which is submitted to the audited departments and the Management Board. The Internal Audit Department prepares quarterly reports on internal audit operations and implementation of proposed measures for the Management Board, the Audit Committee and the Supervisory Board. The Department prepares annual internal audit reports and submits them to the Management Board, the Audit Committee, the Supervisory Board and external auditors. The Internal Audit Department pursues its mission based on the annual plan, which is approved by the Management Board, the Audit Committee and the Supervisory Board. In 2019, ten regular audits were performed, of which one was completed in the beginning of 2020. Within internal audit reviews, the Internal Audit Department verified and assessed: adequacy and efficiency of internal controls, compliance with legislation and internal acts, risk identification and management and efficiency and effectiveness of process implementation. The Department made an assessment of the reviewed processes that internal controls established for the audited areas are good and help manage efficiently and effectively the key risks at an acceptable level. In general, the control system is solid and the Company's management is adequately detecting and managing the (key) risks, but there is room for improvement. The Department thus prepared several recommendations, the implementation of which is monitored on an on-going basis.

**Manager of the Internal Audit Department**

Patricija Veršič, MSc



## The Company's Activities and Product Lines

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

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

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

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 2019

### SALES

Total sales generated by the Company in 2019 were 5% and 3% higher than the ones made in 2018 and planned for 2019, respectively. Total sales, i.e. net sales revenues, reached EUR 173 million.

The strong economic situation in 2017-2018 significantly altered the trends. As a new market balance was being established, the trend of quarterly and monthly net sales revenues until the first half of the year was adjusted to the seasonal influences specific to the industry. In January and December with seasonally low construction and processing sector activity, sales were poorer as compared to the average of other months of the year. The second half of the year was characterised by a distinctly non-traditional sales growth, which subsided by the end of the year. Higher sales was mainly the consequence of an increase in titanium dioxide pigment sales volume.

Monthly and quarterly sales analysis reveals that sales were the highest in Q2 2019, mostly due to extremely high quantities sold. Sales in the final quarter were, due to the low season and less working days in December, lower by 10% as compared to Q3 and 26% higher than in Q4 2018. Sales in Q1 2019 came in at EUR 45.5 million and were 13% lower YOY as well as 14% less than planned for this quarter. Q2 and Q3 2019 sales reached EUR 47.2 million and EUR 42.0 million respectively and exceeded Q2 and Q3 2018 sales by 3% and 17% respectively.

The highest monthly sales were recorded for February with EUR 17.5 million (the highest sales in 2018 were recorded for March with EUR 18.4 million) and the lowest for December with EUR 10.5 million (in 2018, December sales were also the lowest with EUR 7.9 million). Nevertheless, 2018 monthly sales figures were greatly exceeded in the last quarter.

In EUR			
Market	2018	2019	Change in 2019 (%)
Slovenia	21,624,294	18,818,634	- 13
EU	118,346,688	122,771,835	+ 4
Third countries of the former Yugoslavia	5,325,682	3,570,343	- 33
Third countries – other	18,664,197	27,426,167	+ 47
<b>Total</b>	<b>163,960,861</b>	<b>172,586,979</b>	<b>+ 5</b>
Slovenia	13%	12%	
EU +	73%	71%	
Middle/Near East & Africa	3%	7%	
Eastern Europe	11%	10%	
USA & Mercosur	0%	0%	

Total sales to foreign markets rose by 8% in 2019 as compared to 2018. The main contributor to the sales result was the successful operation on third country markets. Sales to domestic market fell by 13%. This was caused by the lower sales of all BUs. The most notable sales drop was seen in the markets of the former Yugoslavia.

Sales to the former-Yugoslavia markets fell by 33%, mostly due to persisting lower sales to Serbia (less demand for titanium dioxide by existing buyers). The drop in sales to the mentioned geographic segment was aggravated by a decline in sales to Bosnia and Herzegovina (decreased activities in the processing industry).

Total EU sales rose by 4% in 2019. Growth in the European market was achieved through increased sales of titanium dioxide, blue copper, masterbatches and powder coatings. We significantly improved our presence in previously smaller markets such as Hungary, Portugal and Spain.

Sales to the domestic market dropped by 13% as compared to 2018. Domestic customers' caution due to the future outlook resulted in lower sales across all business units. This was especially evident in the sales of metallurgic products, which dropped by 21% in the market concerned.

Exports accounted for 89.1% of the Company's total sales in 2019, an increase of 2.3 percentage points from the previous year. The rise in the share of exports is correlated with the drop in sales on the domestic market and stronger international demand. The value of exports in US dollars was 173,314,720, having increased by 1.9% compared to 2018. The lion's share of exports, i.e. 86.8%, relates to titanium dioxide pigment.

As much as 30.2% of export sales went to Germany, which corresponds to 26.9% 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 product line. Germany is naturally by far the most important market for titanium dioxide pigment sales, as the quantity of the pigment sold to this market increased by 16% (from 13.7 to 15.9 thousand tonnes YOY). In addition to the increased demand for pigment, sales to the German market were also higher in all other BUs, notably Chemistry Mozirje BU, which recorded a 63% increase.

The reasons for the most prominent changes in export sales are: the drop in Belgium, France, Austria, Poland, the Czech Republic, Serbia, Lebanon and Switzerland – lower selling prices of pigment. Growth in Algeria is the result of successful participation in procurement auctions. Higher pigment sales offset the impact of lower prices: in the Netherlands, Greece, Spain, Croatia, Hungary and Portugal. The Company won new buyers of masterbatches in Israel, Switzerland and Hungary. In Italy, the impact of lower selling prices of pigment was counterbalanced by improved sales of copper fungicides. A promising fact is that we significantly increased our sales of metallurgic products to Austria and France.

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	2018		2019	
	Value in EUR	Share in %	Value in EUR	Share in %
Titanium dioxide	131,546,536	80	140,356,503	81
Zinc recycling	8,491,559	5	7,301,913	4
Construction products	2,688,265	2	1,867,992	1
Varnishes, coatings, masterbatches and printing inks	13.267.665	8	14.824.299	9
Agricultural products	4,084,885	3	4,762,037	3
Other	3,881,951	2	3,474,235	2
<b>Value of sales</b>	<b>163,960,861</b>	<b>100</b>	<b>172,586,979</b>	<b>100</b>

The most important product line of the Company, **titanium dioxide pigment**, saw an increase of 7% in sales value in the relevant period. Higher sales value mostly arises from greater quantities sold with still solid profit margins. Consequently, market surpluses and forecasts for additional production capacities stopped the growth curve progress for selling prices. Establishing a new market balance led to lower prices, namely 15% below the average of the previous year. The value of sales thus reached EUR 140.4 million. Price decline in the European market began mid-2019 and continued until the end of the year. According to analysts' estimates and the data available, prices will continue to decrease in 2020. The partial agreement between China and the USA may cause Chinese pigment

to be rerouted from Europe to the USA. Namely, China increased its pigment exports to Europe significantly on account of lower prices. We can claim with certainty that the market reached the phase of stabilisation. Further general economic growth cooling in Europe, particularly in Germany and Italy, will significantly affect the demand for pigment.

The scope of the **zinc recycling line** dropped in 2019. Sales decrease of 14% chiefly results from lower zinc prices and, to a lesser extent, lower quantities sold. The lower sales volume is the result of a decrease in sales to the largest customer in the domestic market. Sales to new and existing buyers somewhat compensated for loss of sale on the domestic market. The primary Zamak sales volume is down 7%, whereas wire sales remain at the 2018 level.

Sales of the **construction product line** comprising building adhesives, mortars and plasters again fell in 2019 in value, by 31%. 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. Competitive larger and more vertically integrated manufacturers made it impossible to achieve return on the construction product line. The Management Board thus decided to withdraw from construction and in September disposed the relevant fixed assets for the production of construction compounds. In the future, only the stock will be sold.

After a major decline in the **varnishes, coatings, masterbatches and printing inks**, sales grew by 12% comparatively. The pressure to decrease selling prices, which we noted in 2018, came into effect in the period under review. The average selling prices for groups mentioned decreased as compared to 2018. The value of **flexo printing inks** sold (from the abolished group of graphic intermediate goods) fell by 6% as compared to 2018. On account of developing new qualities and types of existing products, we expect this line to grow further. The major reason for the drop in **powder coatings** was the decline in sales to two major buyers in the first quarter. We plan to compensate for the loss in sales with new buyers. Owing to new buyers, the **masterbatch** sales was exceptional in the period concerned, having grown by 32% over the previous period.

Sales of the **agricultural product line** comprising copper fungicides, Pepelin, green vitriol (copperas) and Humovit rose by 17% as compared to 2018. The growth can be attributed to increased sales quantities of copper fungicides (increase of 189 tonnes) and Humovit (increase of 1,119 m<sup>3</sup>). The changed structure of copper fungicide sales resulted in 3% higher prices as compared to the previous year. Humovit selling price was 7% lower than in 2018.

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 fell by 11%. The decrease is mostly due to the specific investment cycle dynamics reflected in a 20% drop in sales of thermoplasts, elastomers, polymers and STAM. The sales of sulphuric acid recorded a 24% drop. For other product groups from this category, we should mention the 35% increase in the value of CEGIPS sales. We sold 152.9 thousand tonnes of CEGIPS, which is 4% more than in 2018, but 4% less than produced in 2019. CEGIPS sales are extremely important in the context of prolonging the useful life of the Za Travnik landfill.



## PROFIT OR LOSS

In 2019, we generated **operating profit** at the level of EUR 25.7 million. This result accounts for 71% of the 2018 operating result of EUR 36.4 million. As compared to the planned operating result for 2019 (EUR 13.4 million operating profit), it is evident that the business plan was exceeded by 93%. Business operations thus objectively deteriorated as compared to the year before, but at the same time considerably exceeded the business plan levels, especially owing to planned selling prices having been outstripped by those achieved in 2019. EBITDA<sup>1</sup> reached EUR 37 million and equals 21.4% of sales. Compared to the previous year, EBITDA<sup>1</sup> is down 24% due to lower depreciation and lower pre-tax profit. If the impact of derecognition of the provisions for successfully deposited TENORM waste in the amount of EUR 4.2 million were disregarded, EBITDA<sup>1</sup> would be that much lower. The growing pressures from 2016 and 2017 were thus also realised in 2019 through actual and continuous increases in purchase prices, leading to a lower operating result. EBITDA calculation is presented in the section *Alternative Performance Measures Used in the Annual Report* on page 113.

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Operating profit or loss in millions of EUR	4.9	10.8	11.0	4.6	4.7	13.7	32.8	24.1	8.6	16.2	8.1	10.6	35.7	36.4	25.7

Taking into account the impact of finance revenue and expenses, **profit before tax** for 2019 stands at EUR 25.7 million, whereas in 2018 it totalled EUR 36 million. The pre-tax result decreased by 29% as compared to the year before, while the planned profit before tax was 93% higher. In 2019, minimum positive financing balance of EUR 9.6 thousand was recorded (in 2018, negative financing balance of EUR 440 thousand). The resulting positive financing balance arises from foreign exchange gains of EUR 35 thousand, revenue from investments and other loans in the amount of EUR 60 thousand and other financial liabilities in the amount of EUR 86 thousand (the costs of provisions for termination and jubilee benefits). Foreign exchange gains totalling EUR 35 thousand represent a marked improvement over the previous year owing to the effective use of hedging instruments to manage the volatile movements of the euro-dollar currency pair in the procurement of titanium-bearing ores.

Leto	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Net profit in millions of EUR	2.5	5.6	6.1	0.8	1.0	8.9	25.5	18.3	7.2	13.9	6.8	9.8	28.8	30.6	21.4

**Net profit for the period** reached EUR 21,436,385 or 30% less than the one generated in 2018 and 93% more than planned (we planned EUR 11.1 million net profit for 2019). Taking into account the decline in the international economic sentiment, the downward trend in titanium dioxide pigment prices and, above all, the poorer results of competitors from the titanium dioxide pigment industry, we assess the result to be more than excellent. Net profit comprises profit before tax, corporate income tax of EUR 3.5 million (effective tax rate of 13.66%) and deferred tax of EUR 754 thousand. The amount of deferred taxes and the change in the balance of deferred taxes refer to the reduction and derecognition of provisions for termination and jubilee benefits, the use and derecognition of environmental provisions (primarily TENORM in 2019) and the final write-offs of previously revalued operating receivables and investments. The increase is mainly related to the higher provisions for employees under SAS 10 and the new revaluation of receivables. The tax relief comprises relief for investments into research and development, hiring of disabled persons, voluntary supplementary pension insurance, investments into equipment and donations.

<sup>1</sup> Operating profit or loss increased by write-downs in value from the statement of profit or loss

## SHARES – Price and Turnover

Shares of Cinkarna Celje, d. d. are listed on the standard market of the Ljubljana Stock Exchange with the ticker symbol 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 2019 was 1,920, whilst the total number of shares issued was 807,977, whereby 797,325 shares carry voting rights and 10,652 are the Company's treasury shares. The number of shareholders decreased by 62% from the start of trading on the free market to the last day of 2019. It decreased by 8% from the end of 2018.

The price of a share of Cinkarna Celje, d. d. in 2019 was fluctuating between EUR 174 per share and EUR 225 per share. For the majority of trading days, changes were in line with the changes on the Slovenian market (SBI TOP) in the first half of the year. There was no rebound in the second half of the year and the share price ranged between EUR 180 and EUR 200. We assess that the CICG share price is related to the situation and forecasts for the titanium dioxide pigment industry. The share price climbed from EUR 181 to EUR 188, an increase of 4%, between the last trading day in 2018 and the last trading day in 2019.

The Company's market capitalisation equalled EUR 151 million as at the last trading day of 2019. It is lower than the Company's equity, reflecting the Slovenian capital market and the lack of investors' trust. The Company's market capitalisation as at the last day of 2018 was EUR 148 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	2016	2017	2018	2019											
Month	3	12	12	12	1	2	3	4	5	6	7	8	9	10	11	12
CICG price In EUR	33.6	162.0	217.0	181.0	210.0	197.0	211.0	221.0	215.0	186.0	190.0	191.0	179.5	180.0	185.0	187.5

The average cumulative monthly turnover in the shares of Cinkarna Celje, d. d. in 2019 was EUR 1.3 million or 70% lower than the average monthly turnover in 2018, when it was EUR 4.71 million. The total annual turnover was EUR 15.6 million (EUR 56.5 million in 2018).

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

	2017		2018		2019	
	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum
Share price in EUR per share	217.0	161.1	274.0	173.0	225.0	174.0
Cumulative monthly turnover in EUR thousand	4,273.2	1,064.2	10,586.0	1,564.2	2,296.0	572.2

## DIVIDENDS

On 4 June 2019, the Company's General Meeting voted in favour of the proposal of the Management Board and the Supervisory Board on the use of distributable profit for 2018, which was at the level of EUR 22.8 million. In accordance with the adopted proposal and resolution, the major part of distributable profit of EUR 22.8 million was paid out in the form of dividends. The dividend per share was worth EUR 28.27 gross, which is 7% more than in 2018, accounting for 75% of net profit generated in 2018. The remaining amount of EUR 517 was allocated to retained earnings.

On 5 June 2018, the General Meeting of Shareholders authorised the Management Board to redeem treasury shares. On the last day of 2018, the number of these shares was 6,649, accounting for 0.82% of all shares issued. By the end of 2019, 10,652 shares were obtained from the free market, totalling EUR 2.0 million in value. As at 31 December 2019, the Company had 10,652 treasury shares.

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

	2017	2018	2019	Change in 2019 (%)	Change in 2018 (%)
Gross dividend in EUR per share	9.05	26.52	28.27	+ 7	+ 193
Net dividend in EUR per share	6.79	19.89	21.20	+ 7	+ 193
P/E 31 Dec	6.15	4.83	6.99	+ 45	- 21

The Company paid out 75% of net profit for 2018 in the form of dividends in 2019. The dividend yield of the share as at the distribution date was a high 13.21%. The payment represented 67% of total free cash flow from operations in 2019. With above-average dividend payout as compared to the industry, the Company was in 2019 operating smoothly and confidently in terms of ensuring cash for continuous financing of operations and investments. The balance of cash decreased by 25%.

## EXPENSES AND COSTS

The analysis of expenses and costs provided below relates mostly to the cost of material, raw materials and energy and labour costs. The biggest impact on the Company's operating performance was exerted by the changes in the cost of material, raw material and energy as the Company pursues capital-intensive activities. Labour cost is defined primarily through a constructive dialogue with social partners and by operating performance. The cost of interest did not represent an important efficiency and performance factor in 2019 as the Company has had no debts as of 2014. The most important factor for the scope and dynamics of costs are the conditions in the global and European economies. The economic climate indicator has been weakening gradually as of the beginning of 2018. Economic growth rates of the major trading partners are mostly still positive, but lower. The situation in the Slovenian economy is currently encouraging, though the economic climate was deteriorating during the year. Domestic economic growth was affected by major capital expenditure and high domestic consumption. The prices of the key goods on the commodity markets (non-ferrous metals, steel, energy, basic chemicals, etc.) did not remain stable. The process of growing prices was 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 2019 as compared to 2018. The growing pressures from 2016 and 2017 were thus also realised in 2019 through actual and continuous increases in purchase prices. Political and security risks related to the situation in the Near and Middle East and the protectionist measures of the US administration have not had a direct material impact so far. The combination of the mentioned macroeconomic trends and contraction in the titanium dioxide pigment industry coupled with falling selling prices led to a deteriorated relationship between purchase and selling prices. The pressure on labour costs increased due to the improved economic situation in Slovenia and the reasonable increase in expectations of employees, but the Company managed to stay within business performance plans with the pay policy. The level of labour cost exceeding the plans relates to improvement in operations and the corresponding increase in employee receipts.

The shares of consumption of raw materials, packaging and energy slightly changed from 2018. The reason lies in different dynamics of changing of individual categories of direct production costs. In absolute and relative terms, the increase in raw material cost of 6% is the most significant one. Energy costs grew by 4%. A 5% rise 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 grew by 6% in the period as compared to 2018 and at the same time the scope of production rose by 6%. The relationship between direct production costs and the scope of production was aligned. Lower prices of copper and zinc had a positive impact on the efficiency of direct consumption. On the other hand, the negative impacts are fuelled by price increases in titanium-bearing raw materials; the average purchase prices of ilmenite and titanium slag grew by 7% and of sulphur by 9%.

Changes in the extractive industry traditionally take place with a certain delay, but they are inevitable due to the extreme negotiating power of producers (miners and smelters). The trend of growing purchase prices continued till the end of 2019. Lower demand for titanium dioxide pigment halted the growth in purchase prices of titanium-bearing raw materials with a delay. In 2019, market pressures subsided and the prices of titanium-bearing raw materials stabilised.

The biggest share of production costs in 2019 was again arising from raw materials for production (88.0%), which was followed by energy (10.2%) and packaging (1.8%).

When reviewing these costs, it is necessary to mention also the specific purpose of individual cost categories of direct production costs. The amounts for raw materials and packaging at the end of 2019 also comprise EUR 2,358,707 worth of costs relating to capitalised own products and services, while these costs in 2018 totalled EUR 2,305,002.

In 2019, we imported EUR 65 million (8% less than in 2018) 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 2.37 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 2019 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 4% YOY and came in at EUR 2,296.92 in 2019, while it was EUR 2,203.36 in 2018. In May 2019, we paid employees a holiday allowance of EUR 1,714.49 gross per employee. In February 2019, we paid employees a bonus of EUR 1,200.00 gross per employee owing to exceptional business results and high sales. Also, in January 2020, we paid employees a performance bonus as part of the salary in the amount of EUR 1,700.00 gross per employee, charged against the 2019 financial year. In 2019, 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 577 per employee.

The generated labour costs at the Company level were 3% higher as compared to 2018. Labour costs per employee grew by 6% in 2019 from 2018. The bulk of labour cost is the cost of gross salaries, accounting for 66.9%. Compared to the year before, total gross salaries decreased by 9%.

Based on the data on the production value (measured at constant prices) and the average number of employees in 2019, it is concluded that productivity at the level of Cinkarna Celje, d. d. exceeded the level achieved in the previous year by 9%. Productivity in 2019 was 1% lower than projected. The increase in the productivity level compared to the previous year is the result of a 6% increase in the volume of production. Productivity was positively affected by a decrease in the average number of employees by 3% (29 employees).

Amortisation and depreciation expense dropped by 11% on 2018, resulting from the scope of investments, which was lagging behind the amounts of accounted annual amortisation and depreciation over the previous 10 years. The situation was completely different in 2018 as we significantly exceeded the amount of accounted amortisation and depreciation for the year with EUR 22.6 million invested. Investment scope decreased by 47% as compared to 2018.

In 2019, the Company had no interest cost as it had no financial debts (in 2014, the Company recorded interest cost arising from bank loans for the last time). The cost of interest thus has no impact on the business performance and at the same time the Company is no longer exposed to risks related to potential changes in interest rates. The financing balance at the end of the 2019 financial year was positive. The resulting positive

financing balance equalling EUR 9.6 thousand arises from foreign exchange gains of EUR 35 thousand, increased by income from investments and other loans in the amount of EUR 60 thousand and decreased by other financial liabilities in the amount of EUR 86 thousand (the costs of provisions for termination and jubilee benefits). Foreign exchange gains totalling EUR 39 thousand represent a marked improvement over the previous year owing to the suitable use of hedging instruments to manage the volatile movements of the euro-dollar currency pair in the procurement of titanium-bearing ores.

Despite the cooling economy, unfavourable trends and the decreasing margins between the purchase and selling prices, the Company's operations in 2019 were extremely successful. We generated net profit of EUR 21.4 million. Corporate income tax for 2019 amounted to EUR 3.5 million. The decrease in deferred taxes stood at EUR 754 thousand.

Operating profit or loss & expenses	2018		2019	
	Value in EUR	Share in %	Value in EUR	Share in %
Operating profit or loss	36,408,486	20	25,726,942	15
Cost of material and services	102,004,714	56	108,285,638	61
Labour cost	30,082,256	16	30,856,980	17
Write-downs in value	12,390,336	7	11,287,681	6
Other expenses	1,273,775	1	1,542,270	1
<b>Total operating revenues</b>	<b>182,159,567</b>	<b>100</b>	<b>177,699,511</b>	<b>100</b>

## ASSETS AND LIABILITIES

The sources of financing for the achieved scope of operations in 2019 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	2018		2019	
	Value in EUR	Share in %	Value in EUR	Share in %
Non-current assets	107,594,140	<b>50.3</b>	107,290,529	<b>51.6</b>
Current assets	106,067,370	<b>49.6</b>	100,183,266	<b>48.2</b>
- Inventories	46,067,012	21.5	40,992,387	19.73
- Financial assets (investments)	247,681	0.1	360,650	0.2
- Receivables	26,269,282	12.3	27,131,987	13.1
- Cash	33,483,395	15.6	31,698,242	15.3
Short-term deferred costs and accrued revenues	292,502	<b>0.1</b>	333,270	<b>0.2</b>
<b>Value of assets</b>	<b>213,954,012</b>	<b>100.0</b>	<b>207,807,065</b>	<b>100.0</b>

**The share of non-current assets** in total assets increased by 1.3 percentage points from the end of 2018 to 51.6%. The lion's share of non-current assets is accounted for by property, plant and equipment (96.3%). Their value increased by EUR 638 thousand or 1%, i.e. by the difference between the amount invested in property, plant and equipment and the accounted depreciation in 2019. Long-term investments did not change in 2019 and include shares and interests in companies. Deferred tax assets decreased by 29% or EUR 754 thousand, mostly due to reversal of provisions and derecognition of final write-offs of previously revalued operating receivables and investments.

**The share of current assets** in total assets fell by 1.4 percentage points as compared to the balance as at the end of the previous year and came in at 48.2%. In terms of value, the most important item of these assets is inventory (41%), followed by cash (32%) and receivables (27%).



**Inventories** decreased by 11% as compared to the end of 2018, with inventories of material (including advances) decreasing by 5% and inventories of work-in-progress by 8%, while the total value of inventories of finished products and merchandise dropped by as much as 21% (as compared to the end of 2018). The key factor for decreased inventories of finished products is higher quantity of pigment sold.

**Short-term financial assets (investments)** mainly comprise the fair value of derivative financial instruments, having increased by 46% compared to the end of 2018.

**Short-term operating receivables** include short-term trade receivables and short-term operating receivables due from others (mostly from the state for input VAT and overpaid corporate income tax advance). They increased by 3% from the end of 2018. Trade receivables dropped by 2%, while other short-term receivables grew by 67%, mostly due to the corporate income tax advance payment exceeding the corporate income tax expense. The overview of trade receivables by maturity reveals that the age structure of receivables remains very solid.

**Cash** (and cash equivalents) account for 32% of total current assets; their balance decreased by 5% as compared to the year before. The relatively high balance of cash mostly arises from excellent operations throughout the year.

**Short-term deferred costs and accrued revenues** represent deferred costs paid in advance. They rose by 14%.

Equity and liabilities	2018		2019	
	Value in EUR	Share in %	Value in EUR	Share in %
Equity	173,925,466	81.3	170,342,846	82.0
Provisions	27,763,293	13.0	22,578,045	10.9
Short-term operating and financial liabilities	11,407,422	5.3	13,991,310	6.7
Short-term accrued costs and deferred revenues	857,831	0.4	894,864	0.4
<b>Liabilities and equity total</b>	<b>213,954,012</b>	<b>100</b>	<b>207,807,065</b>	<b>100</b>

**The value of equity** in the structure as at 31 December 2019 accounts for 82%, which is 0.7 percentage point more than at the end of 2018. The amount of equity decreased by 2% as compared to the end of 2018. The decrease (EUR 3 million) relates to the difference between net profit for 2019 and pay-out of dividends for 2018 in the amount of EUR 22.8 million, the decrease in the share capital due to cancellation of 6,649 treasury shares according to the General Meeting's resolution of 5 June 2018 and the entry of the decrease in the register in the amount of EUR 167 thousand, less changes in the surplus from the revaluation of termination benefits. Based on the resolution of the General Meeting dated 5 June 2018, the Company redeemed 10,652 treasury shares in 2019 totalling EUR 2 million in value, setting aside reserve for treasury shares against other revenue reserves at the same time. There were no other material changes in equity. The amount of share capital within total equity stood at EUR 20,229,769.66 and comprises 807,977 ordinary freely transferable no-par value shares (of which 10,652 treasury shares). The carrying amount of a share as at 31 December 2019 was EUR 210.83 (it decreased by 2.1% from the beginning of the year).

**Provisions and long-term accrued costs and deferred revenues** comprised 10.9% 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 waste disposal plant and destruction of low-level radioactive waste. At the end of 2017, we reformed provisions and only set aside new provisions for elimination of risks arising from old burdens in the amount of EUR 6.4 million. In the period under review, the volume of environmental provisions decreased by 24% or EUR 5.6 million for covering the costs of the above mentioned rehabilitation projects (the major portion equalling EUR 4.8 million is accounted for by the use and derecognition of provisions for TENORM waste disposal, which was successfully transported and stored in the USA). Long-term accrued costs and deferred revenues decreased by 46% owing to derecognition charged against other operating revenues.

**Financial and operating liabilities** rose by 23% compared to the end of the previous year due to a 9% increase in trade payables and a rise in other short-term liabilities arising from taxes and obligations for employee contributions representing 54%. Likewise, liabilities from advance payments recorded an enormous increase. All financial and operating liabilities are short-term. The Company's gross debt rate was 6.7% and was 1.4 percentage points higher as compared to the balance as at 31 December 2018, when it was 5.3%.

**Short-term financial liabilities** as at 31 December 2019 amounted to EUR 44.6 thousand, which is 37% less than at the end of 2018 (with EUR 70.7 thousand); the difference arises from decreased assignment of our liabilities and receivables of our suppliers. The Company's debt ratio is thus 0.22‰ (in the previous period: 0.33‰).

**Short-term operating liabilities** increased by 23% in the period. Short-term trade payables as at the last day of December 2019 stood at EUR 9.5 million and were up 9% as compared to the end of 2018, mostly due to increased scope of supplies in December 2019. Other short-term operating liabilities rose by 54% (EUR 1.4 million) due to employee performance bonuses and include mostly EUR 2.4 million of liabilities for net salaries and performance bonuses, EUR 1.5 million of liabilities for salary-related contributions and taxes and EUR 0.2 million of VAT liabilities.

**Short-term accrued costs and deferred revenues** increased by 4% in the period concerned. They mostly comprise accounted liabilities for annual leave, accrued environmental contributions and taxes and VAT on advances given.

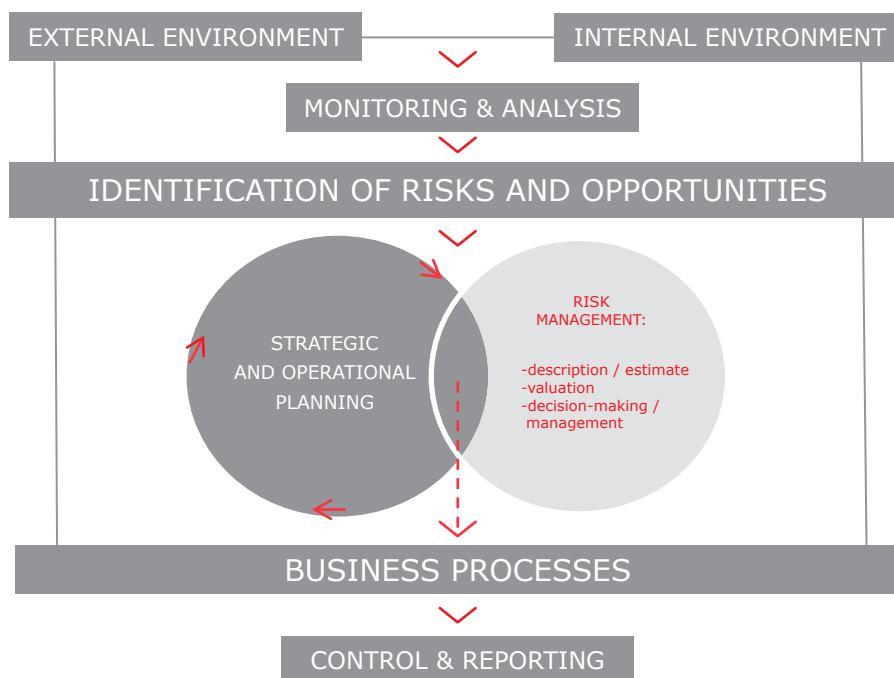
## The Company's Operating Risks and their Management

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 (ISO31000, COSO, RME/ferma, etc.) and established good practices in the industry.

### Integration of SRM into Business Processes and Their Substance

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



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

- Low; < EUR 2 million
- Moderate; > EUR 2 million < EUR 5 million
- High, > EUR 5 million



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

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

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

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

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

### ***SRM Organisation and Responsibilities***

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

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

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

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

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

### ***Key SRM Cornerstones and Tools***

- The most important integration and implementation tool of the risk management system is the 'Integrated Management System' (ISO 9001, ISO 14001, BS OHSAS 18001, EMAS), which combines in a formal and standardised manner data monitoring and collection, its analysis, processing and evaluation, operational planning, implementation monitoring & supervision and measures (PDCA) together with final reporting to the Management Board and its College.

- A specific SRM tool is the expanded risk register, which is regularly updated in compliance with changes in the environment, risk management measures and strategic decisions. The structure of the risk register is aligned with the structure and hierarchy of business processes and organisational units. The risk register is directly integrated into the Integrated Management System process and represents its database. The processes of recording, monitoring and reporting are comprehensively computerised. The Company's operating risks are dynamically grouped into the following major groups:
  - I. Sales and purchasing risks;
  - II. Production risks;
  - III. Financial risks;
  - IV. Spatial, environmental and legislative risks;
  - V. HR and organisational risks; and
  - VI. Support process risks.
- Regular systemic reporting to internal users, which integrates data from the extremely large database ORACLE (using internally developed programmes and tools) and external databases (either free or subject to payment). The Accounting or Planning & Analytics Department is responsible for reporting. Specific information is prepared by specialised organisational units using the same tools. Reporting is made on a monthly basis.
- An important part of the risk management system is also the process of strategic planning that integrates all strategic risks and opportunities and defines the fundamental, key guidelines for the Company's future development. Standard tools, such as SGA, SWOT, PA, etc., are actively used within the strategic planning process. The Company prepares strategic plans for a period of five years. Strategic planning is the responsibility of the Management Board.

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

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

## I. Sales Risks

Product sales risk	Probability of occurrence	Amount of damage
	Moderate	Moderate
Definition	The risk is associated with the possibility and ability of successfully selling products on target markets. It relates to the increasing negotiation power of buyers, economic (in)stability of markets, growing power of competitors (on account of capital concentrations) and the suitability of the elements of our own marketing mix (price, product, market, promotion). The risk for selling the flagship product, titanium dioxide pigment, increased in 2018 and notably in 2019. The change can be attributed to three critical factors, i.e. significant drop in basic demand due to the decreasing economic activity of the leading economies, intensive expansion of production capacities in China and Mexico and the impacts of the trade war between the USA and China. Above all, the issue of growing production capacities in China is becoming a long-term trend, which will affect significantly the industry structure also in the long term. According to forecasts, we were able to boost our sales volume in 2019, thereby increasing our market shares, with slightly lower sales prices. In 2020, the trend will continue. In the face of oversupply and increased price pressure, we will focus on enhancing the volume and relative market shares.	

Management	<p>The risk is mitigated by expansion of the sales network, diversification of the production and sales portfolio, introduction of new and shortening of existing sales channels, development of marketing partnerships, and development of new products that allow entry to new markets and industries. In the last years, we have been actively reducing the product sales risk by optimisation of the sales portfolio with exclusion of products with a high market risk. By way of target-oriented technological investments, we are focusing our sales portfolio on applications and markets of a more demanding nature with a higher quality that represent a shift from the commodity markets, characteristic of which is lower value added and high exposure to Chinese pigment at favourable prices or to universal products of multinationals. 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, Maghreb, Near/Middle East) where we can direct the available pigment quantities, taking into account their return from time to time.</p>	
Purchasing risks related to raw materials and energy	Probability of occurrence	Amount of damage
	<b>Moderate</b>	<b>Moderate</b>
Definition	<p>The Company is highly dependent on purchasing of quality and appropriately priced raw materials and energy. These are mostly standardised raw materials of a global character (which are often traded on organised markets), primarily titanium-bearing raw materials, copper, zinc and sulphur. The negotiating power of suppliers is high (and is rising). In the long-term, the risk is considerable in terms of prices and also availability. Due to the cooling and declining sales markets for titanium dioxide pigment at the end of 2018 and in 2019, market pressures decreased and the prices of titanium-bearing raw materials stabilised. The risk related to purchasing the most important raw material, i.e. titanium slag, is inherently above average as a result of the monopoly nature of the market. Nevertheless, the situation is manageable, as we have established a long-term partnership with the sole producer of titanium slag and we therefore estimate that the quantities have been secured for the long run. Taking into account the current market conditions, we expect the prices of key input raw materials to be relatively stable in 2020, much at the present levels.</p> <p>The risk in the area of energy products (gas and electricity) is important mostly in the long-term due to the expected trend of growing prices and objective long-term limitations of resources. In 2018, the prices of energy products related to crude oil increased, but in 2019 the electricity prices considerably grew. The impact of the increase in electricity will be notable in 2020, as the long-term purchase contract expired in 2019. Our mid-term estimate is that the supply of the energy market will be good, the situation will calm down, also because of the cooling of the global economy, but that means that the prices are projected to no longer increase significantly. Consequently, the risk is relatively manageable.</p>	
Management	<p>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 potential alternative. In this way, we managed to establish cooperation with three new/additional suppliers of titanium slag (or equivalent raw material) in the past years, resulting in somewhat decreased risk of dependence on one supplier. We develop infrastructure, information systems, technologies and products so as to limit the use of critical raw materials, reduce dependence on individual suppliers and limit the volatility of purchasing prices. Where possible, we conclude long-term fixed-price purchasing agreements, use various hedging systems, balance the structure of consumption of individual energy products, implement energy management and continuous measures/projects aimed at optimising energy consumption. We include targets for specific consumption of raw materials and energy products into the Integrated Management System.</p>	

<b>Risk of macroeconomic conditions in target economic environments</b>	Probability of occurrence	Amount of damage
	<b>Moderate</b>	<b>Moderate</b>
Definition	<p>Considering that the Company is not limited geographically, it is exposed to the risk of changes in regional and global macroeconomic conditions, political/security conditions and even damaging climate events. The international economy climbed out of recession in 2013 and in the period from 2014 to 2017 gradual economic recovery was underway. Unfortunately, in 2018 the positive trend started deteriorating. Forecasts, projections, confidence indicators and the key indicators for 2019/2020 are relatively pessimistic, but we assess that the titanium dioxide industry already faced and went through the majority of negative consequences in the second half of 2018 and the first half of 2019. The general macroeconomic risk is definitely present, but we believe to be prepared well for possible additional deterioration of conditions. Extreme prudence and attention are still in place due to the political escalation of relationships between Russia and the West, and the political and security crisis in the Middle/Near East. Undoubtedly, the current international trade war between the US and China also has an extremely unfavourable effect, as it is completely unpredictable, while an even greater potential risk stems from the aggravation of economic and US-EU relations. 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. and we have found that the economic situation has improved and stabilised in 2019 following the severe crisis in 2018. In 2020, we will have to devote attention also to the processes and consequences of the planned Brexit. So far, we have not detected and do not expect any significant impact on our operations in this respect.</p>	
Management	<p>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, Maghreb, Near/Middle and Far East. We develop a balanced sales structure from the point of view of risks &amp; 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 key markets, 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 inherent risks of the global economic environment.</p>	

## II. Production Risks

<b>Risks of availability of the means of work</b>	Probability of occurrence	Amount of damage
	<b>Moderate</b>	<b>High</b>
Definition	<p>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.).</p>	
Management	<p>The risk is mitigated through professionally elaborated and excellently organised preventative and curative maintenance system. Special attention is placed on preventative maintenance, which implies excellent technical diagnostics. We ensure operational safety through integrated spare devices at critical points.</p>	

<b>Risk of accident, fire, uncontrolled substance release into the environment and accidents at work</b>	Probability of occurrence	Amount of damage
	<b>Moderate</b>	<b>High</b>
Definition	The chemical processing and metallurgical industry implies the risk of the occurrence of such accidents.	
Management	<p>The risk is managed through systematic evaluation of environmental and employee impacts, periodical assessments of fire threats and job systematisation in line with risk assessment. In the area of environmental impact mitigation, we have systematically introduced European environmental standards through the implementation of the principles of the 'Responsible Action Programme' and alignment of our activities with the requirements of the IED directive. We implement our processes by observing the 'best available technique' (BAT) principle. As regards fire safety, we have our own firefighting unit organised, and the Company also holds adequate fire insurance. As concerns accidents at work, we have a service established that controls compliance with rules and measures for safety and health 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.</p> <p>A part of the Company certifies compliance with environmental regulations also by registering in the EMAS register kept by the Ministry of the Environment and Spatial Planning. We have performed an assessment of hazards and prepared the protection and rescue plan. We identify and eliminate process risks for the environment, safety and health through annual framework and implementation goals. In 2019, evacuation drills were carried out in line with the programme.</p>	

### III. Financial Risks

<b>Currency risk</b>	Probability of occurrence	Amount of damage
	<b>Low</b>	<b>Low</b>
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 raw materials and exceptionally sulphur and copper compounds. In terms of volume, exposure is significantly lower in dollar-denominated sales.	
Management	We are continuously monitoring changes and forecasts in relation to the dynamics of the euro/US dollar currency pair. Based on market data, the prices of financial instruments (hedging costs) and the assessment of their effectiveness, we are defining the strategy for hedging cash flows (method and extent) on an ongoing basis. Basically, the short-term risk of adverse changes in the dollar exchange rate is limited by the standardised and consistent use of financial instruments (dollar futures). We achieve virtually complete coverage of relevant business events involving the EUR/US dollar currency pair.	

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

#### IV. Environmental, Spatial and Legislative Risks

Rehabilitation of the Bukovžlak non-hazardous waste landfill	Probability of occurrence	Amount of damage
	Moderate	High
Definition	In the last quarter of 2010, the Management Board adopted the decision not to include the Bukovžlak non-hazardous waste landfill in the application for the environmental permit because of the high financial burdens and limited availability/capacity of the landfill and for the landfill closure procedure to be commenced immediately. An overall rehabilitation is needed for long-term safety and minimisation of environmental impacts.	
Management	<p>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.</p> <p>Further works on project documentation revealed a need for additional interventions not anticipated at the time of establishing provisions in 2010, thus we established additional provisions of EUR 782,563 at the end of 2017.</p> <p>We obtained an integral permit for the planned reconstruction of the entire landfill. We carried out a RFP for the execution of works, selected a contractor and concluded the respective contract. Rehabilitation works will start in the spring of 2020.</p>	



<b>Pipeline for pumping neutralising agent at the Za Travnik waste disposal plant</b>	Probability of occurrence	Amount of damage
	<b>Low</b>	<b>Low</b>
Definition	<p>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.</p> <p>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.</p>	
Management	<p>The problematic part of the pipeline has been replaced. We are obtaining the necessary easements for the old part of the original pipeline.</p> <p>In 2016, we set up a new pump for suspension pumping, which reduces the risk of malfunctions arising from hydraulic shocks. A trial procedure is underway for thickening gypsum suspension, which decreases the pumping volume, thus reducing the risk of leakage due to overburdening of the pipeline.</p>	
<b>Availability of the Za Travnik waste disposal plant</b>	Probability of occurrence	Amount of damage
	<b>Low</b>	<b>High</b>
Definition	<p>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.</p>	
Management	<p>We produce the maximum amount of CEGIPS possible, thus reducing the amount of red gypsum for disposal.</p> <p>The acquired integral permit for the rehabilitation of the Bukovžlak non-hazardous waste landfill endorses the use of red gypsum for the construction of an airtight cover and the setting up of a diversion dam.</p> <p>We have revised the project for backfilling red gypsum into the Za Travnik waste disposal plant, the aim of which is to optimise backfilling (more natural settlements). Depending on the changed conditions (increased removal of white gypsum, different crystal structure, settlements), a new estimate of the available backfilling volumes is in preparation.</p> <p>The time to backfilling is being prolonged by way of all these measures. Since we are under the obligation to complete backfilling by 2023 based on the decree of the Municipality of Šentjur, we will initiate the process of amending the OPPN (Detailed Municipal Spatial Plan) in view of the new circumstances in 2020.</p>	

<b>Ensuring the stability of barriers</b>	Probability of occurrence	Amount of damage
	<b>Moderate</b>	<b>Moderate</b>
Definition	Barriers represent a hazard in case of a collapse, which can occur in the event of a powerful earthquake.	
Management	<p>We carry out the prescribed monitoring that is analysed once a year by experts from the Faculty of Civil and Geodetic Engineering of the University of Ljubljana. We observe all recommendations by concurrent maintenance. Projects of the break wave have been developed.</p> <p>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. Based on data from new monitoring wells, we will order preparation of the water balance for any necessary measures on the west slope of the barrier. Due to the improved situation following rehabilitation works in previous years, we reversed environmental provisions to EUR 450,000 based on expert assessment of still necessary works.</p> <p>We perform regular maintenance of the high barrier for red gypsum Bukovžlak. At the end of 2017, we established EUR 3 million provisions for more comprehensive rehabilitation of this barrier. In 2018, we made new monitoring wells on the east side of the barrier, where monitoring started in 2019. On the basis of the data obtained we will formulate a plan for the rehabilitation measure. A concept project for lowering lake water level that would contribute significantly to safety of the barrier was prepared. We improvised noise reduction to obtain data for further work. The seismic observation of the high barrier Bukovžlak is in experimental operation.</p> <p>Rehabilitation of the barrier of the Bukovžlak non-hazardous waste landfill is finished. Complete rehabilitation of the entire landfill, which will begin in spring 2020, will further improve stability in the long run.</p>	
<b>Temporary storage of TENORM waste</b>	Probability of occurrence	Amount of damage
	<b>Low</b>	<b>Low</b>
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	<p>By exporting waste to Idaho, USA, we eliminated the risk and released the surplus environmental provisions.</p> <p>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.</p>	
<b>Environmental due diligence – phase II</b>	Probability of occurrence	Amount of damage
	<b>Moderate</b>	<b>Moderate</b>
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	<p>We are implementing several simultaneous activities to define the potential impact on human health and the environment and promptly informing the public of the results. In August 2018, we concluded and publicly presented the Human Health and Environmental Risk Assessment arising from consumption of agricultural crops produced under ONOB. It has been established that the polluted hanging underground water under ONOB has no negative impact on crops. In November 2018, we also presented the Ecotoxicological Research of impact of old burdens on the current production location in Celje on the biota in Hudinja and Vzhodna Ložnica water courses. Four locations requiring action have been identified. In 2019, we conducted the first part of the activities to supplement the Ecological Risk Assessment in segments for which the previous research does not provide sufficient causal explanation. One location remains that we cannot explain and requires some additional sampling. In agreement with the Ministry of the Environment and Spatial Planning, a comparison is in preparation between the requirements of Slovenian, German and Dutch legislation, which will serve as the basis for evaluating results in accordance with domestic legislation.</p>	
<b>Water permit for pumping process water from the Hudinja river</b>	Probability of occurrence	Amount of damage
	<b>Moderate</b>	<b>High</b>
Definition	<p>We must obtain environmental permit for pumping process water and comply with the requirements of the water permit. Continuous measurements with constant data on water flow and pumping quantity for ARSO are required. Production can be restricted during months of drought.</p>	
Management	<p>We obtained the water permit for permanent measurements of flow and pumped quantities. We must set up permanent measurements by November 2021. We initiated the investment in partial water recycling.</p> <p>We received the second request to supplement the application for amending the water permit from the Slovenian Water Agency and agreed on the preparation of necessary bases with the Institute for Water of the RS.</p> <p>Given the lengthy nature of the procedure with unpredictable outcome, we will undertake the task of examining the provision of process water from other sources in 2020.</p>	
<b>TiO<sub>2</sub> classification according to CLP legislation</b>	Probability of occurrence	Amount of damage
	<b>High</b>	<b>Moderate</b>
Definition	<p>In May 2016, the French Agency for Food, Environmental and Occupational Health &amp; 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".</p> <p>The Risk Assessment Committee (RAC), which is active within the ECHA, rejected the proposal for classification as class 1 B (presumed carcinogen) and supported classification as class 2 (suspected carcinogen). Based thereon, the European Commission included TiO<sub>2</sub> in the 14th ATP (adaptation to technical progress for entry in CLP legislation). This has been pending for a year due to the inconsistent views of the Member States and has not yet been confirmed. In July, the EU Parliament approved the application of a delegated act. This allows the European Commission to approve ATP procedures without a formal approval body by Member States (Reach Committee). In this way, the EU Commission submitted the TiO<sub>2</sub> classification for review and approval to the Parliament in October 2019. The Parliament is expected to vote on this in January 2020. After entering the classification into CLP legislation, all necessary adjustments have to be made within 18 months.</p> <p>In the case of classification, certain changes will occur in the industry, which may result in restrictions on the production, transport and use of titanium dioxide and the treatment of wastes containing more than 1% TiO<sub>2</sub>. The consequence could lead to higher costs, smaller demand and thus less quantities sold. There is no suitable substitute for titanium dioxide.</p>	

Management	<p>An expert fact, which was also endorsed by RAC members in their opinion, is that titanium dioxide as such is not toxic or genotoxic. It merely causes a problem if lungs are overloaded with extremely large amounts of dust, which is not possible in real situations. This is why manufacturers and users oppose the classification. Accordingly, the EU Commission adds to the proposal for entry in the 14th ATP the notes and exemptions detailing the circumstances that entail the risk.</p> <p>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.</p> <p>An extensive 5-year scientific program has been launched by TDMA to further investigate the potential risk of using various forms of titanium dioxide in both inhalation and skin contact and ingestion. A programme to define appropriate methods for measuring dust in the work environment is being implemented. We draw the attention of the decision-making bodies to the unresolved problem of waste that will largely prevent the circular economy.</p> <p>The Company has initiated a prevention measure to eliminate dust sources in manufacturing jobs. As a result, a series of minor and major investments is in progress. Information is communicated to employees through managers, co-management bodies and bulletin boards. We make employees aware of the importance of ensuring a clean working environment and the use of personal protective equipment in cases where other measures are not sufficient.</p>	
<b>Environmental permit pursuant to the SEVESO directive</b>	Probability of occurrence	Amount of damage
	<b>Moderate</b>	<b>High</b>
Definition	<p>The Seveso directive requires a special environmental protection permit for facilities that represent a risk of an accident involving hazardous substances.</p> <p>Cinkarna Celje, d. d. as a lower risk installation, has this permit, but the Environmental Agency of the Republic of Slovenia determined that the Scheme to reduce the risk needed to be supplemented. It therefore called for amendments by the end of March 2020.</p> <p>These are very extensive amendments. Some investments are expected to be required. The installation may be re-classified. The entire administrative process is very complex and also involves public disclosure.</p>	
Management	<p>The terms of reference for preparing the amendment to the application and drafting the amendments to the Scheme to reduce the risk or the Security Report have been issued. We hired external experts to help prepare the documentation. A wide team of employees prepares descriptions of technological procedures, identifies hazards, creates scenarios, combinations thereof, and takes necessary actions.</p> <p>We enrolled some employees at the School of Process Safety organised by the Chamber of Commerce and Industry.</p>	

## V. HR and Organisational Risks

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

## Corporate Governance Statement

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

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

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

Control activities and responsible persons are defined by internal acts (job descriptions, authorisations, organisational regulations, rules, and rules of procedure).

The Company provides for:

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

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

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

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

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

They decide by a  $\frac{3}{4}$  majority especially on amendments to:

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

*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 Mestinišek 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. Due to the resignation of the Deputy Chair of the Supervisory Board Urška Podpečan on 1 April 2019, the Annual General Meeting appointed a new member of the Supervisory Board, Luka Gaberščik, for a five-year term of office starting on 4 June 2019. The Supervisory Board was constituted at the meeting held on 15 October 2019 (Aleš Skok appointed Deputy Chair of the Supervisory Board). Due to the resignation of the Chair and member of the Supervisory Board Borut Jamnik on 20 November 2019, the General Meeting at an extraordinary meeting appointed Mario Gobbo member of the Supervisory Board for a five-year term of office starting on 23 December 2019.

### The Supervisory Board consists of:

#### Chairman

*Borut JAMNIK, BSc (Mathematics) (until 20 November 2019)*

#### Deputy Chairman

*Aleš SKOK, BSc (Chemical Engineering), MBA, USA  
(Member of the Supervisory Board since 23 October 2017,  
Deputy Chair of the Supervisory Board since 15 October 2019)*

#### Deputy Chair

*Urška PODPEČAN, LLB (until 1 April 2019)*

#### Members

*Dejan RAJBAR, BSc (Economics)  
Luka GABERŠČIK, LLB (as of 4 June 2019)  
Dr Mario GOBBO (as of 23 December 2019)  
Dušan Mestinišek, BSc (Electrical Engineering)  
Aleš STEVANOVIČ*



Deputy Chairman

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



Member

*Dejan RAJBAR,  
BSc (Economics)*



Member

*Luka GABERŠČIK,  
LLB*



Member

*dr. Mario GOBBO*



Member

*Dušan MESTINIŠEK,  
BSc (Electrical Engineering)*



Member

*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 (until 15 October 2019), Luka Gaberščik - President (member of the Committee since 15 October 2019, President of the Committee since 3 December 2019) and members Aleš Skok (as of 12 December 2017) and Aleš Stevanovič. The Committee drafts proposals for resolutions, position statements and opinions within the competence of the Supervisory Board, in particular in relation to drafting proposals concerning criteria and candidates for members of the Management Board, members of the Supervisory Board committees, and support for designing and implementing the pay system for the Management Board.

## Remuneration of the members of management and supervisory bodies

Remuneration of the members of the management bodies equalled EUR 888,874 in 2019 (in 2018: EUR 1,003,291) and remuneration of the members of supervisory bodies EUR 110,818 (in 2018: EUR 113,501). Remuneration of each member of the management and supervisory bodies is specified in detail in tables below.

Composition and remuneration of the Management Board members in the 2019 financial year – excluding the costs of company cards

In EUR

Name and surname	Function (President, member)	Fixed remuneration - gross (1)	Variable remuneration - gross Based on quantitative criteria	Benefits	Other remuneration	Total gross
Tomaž Benčina	President	252,221	29,569	15,482	3,788	301,060
Nikolaja Podgoršek Selič	Deputy President	201,775	23,655	13,880	3,282	242,591
Jurij Vengust	member	189,163	22,177	3,766	2,774	217,879
Marko Cvetko	member	107,192	12,567	69	7,515	127,343
<b>TOTAL</b>		<b>750,351</b>	<b>87,967</b>	<b>33,197</b>	<b>17,359</b>	<b>888,874</b>

Composition and remuneration of the Management Board members in the 2018 financial year – excluding the costs of company cards

In EUR

Name and surname	Function (President, member)	Fixed remuneration - gross (1)	Variable remuneration - gross Based on quantitative criteria	Benefits	Other remuneration	Total gross
Tomaž Benčina	President	260,748	59,422	16,719	3,235	340,124
Nikolaja Podgoršek Selič	Deputy President	208,597	47,539	11,851	2,757	270,744
Jurij Vengust	member	195,560	44,439	4,658	2,633	247,290
Marko Cvetko	member	110,819	25,254	69	8,991	145,133
<b>TOTAL</b>		<b>775,725</b>	<b>176,655</b>	<b>33,297</b>	<b>17,615</b>	<b>1,003,291</b>

Remuneration of members of the Supervisory Board and Committees in the 2019 financial year

In EUR

Name and surname	Position (Chair, Deputy, member external member of the committee)	Remuneration for performing function - gross annually (1)	SB and committees' meetings - gross annually (2)	Total gross (1+2)	Travel expenses	Total remuneration
Borut Jamnik	Chairman of the SB (until 20.11.2019)	17,703	4,056	21,759	468	22,227
Aleš Skok	Member of the SB (from 15.10.2019)	13,009	2,974	15,983	408	16,392
Urška Podpečan	Deputy Chair of the SB (until 1.4.2019)	3,777	275	4,052	0	4,052
Gaberščik Luka	Member of the SB	5,486	1,861	7,347	117	7,464
Dejan Rajbar	Member of the SB + member of the AC	14,163	3,682	17,844	702	18,546
Aleš Stevanovič	Member of the SB	12,875	3,025	15,900	0	15,900
Dušan Mestinšek	Member of the SB + member of the AC	12,875	4,070	16,945	0	16,945
Gregor Korošec	External members	0	1,529	1,529	0	1,529
Gregorinčič Žiga	External members	0	765	765	0	765
Bizjak Špela	Members of the AC	0	7,000	7,000	0	7,000
<b>Total</b>		<b>79,887</b>	<b>29,236</b>	<b>109,123</b>	<b>1,695</b>	<b>110,818</b>

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

In EUR

Name and surname	Position (Chair, Deputy, member external member of the committee)	Remuneration for performing function - gross annually (1)	SB and committees' meetings - gross annually (2)	Total gross (1+2)	Travel expenses	Total remuneration
Borut Jamnik	Chairman of the SB	19,313	3,135	22,448	468	22,915
Urška Podpečan	Deputy Chair of the SB	11,330	2,640	13,970	58	14,029
Dejan Rajbar	Member of the SB + member of the AC	14,163	4,400	18,563	877	19,439
Aleš Skok	Member of the SB	12,875	3,135	16,010	471	16,481
Aleš Stevanovič	Member of the SB	12,875	2,585	15,460	64	15,524
Dušan Mestinšek	Member of the SB + member of the AC	12,875	4,180	17,055	58	17,113
Gregor Korošec	Members of the AC	0	8,000	8,000		8,000
<b>Total</b>		<b>83,430</b>	<b>28,075</b>	<b>111,505</b>	<b>1,996</b>	<b>113,501</b>

## Corporate Governance Code for Publicly Listed Companies

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

**Item 2** - Governance of the Company is focused on meeting the objectives of its strategy up to 2023 (Strategic Plan of the Company for the period from 2019 to 2023); the Management Board has not adopted together with the Supervisory Board a special document dealing with the Company's corporate governance policy.

**Item 5.5** - To elect members of the Supervisory Board, the candidates are presented through substantiation of candidacy proposals with submitted data and in line with substantive requirements stipulated by the Companies Act (ZGD-1). We do not comply fully with item 5.5 in relation to this matter as it requires public disclosure of potentially sensitive personal data or as the Company does not have these data available or the data are not within its competence.

**Item 8.7** - The Supervisory Board's Rules of Procedure do not include the Board's communications with the public with respect to the decisions adopted at its meetings. The Company's Management Board is competent to communicate with the public. The Supervisory Board's resolutions of greater importance are published at the website of the Ljubljana Stock Exchange, Seonet, and on the Company's website.

**Item 13.2** - The Supervisory Board did not define the term of office of members of committees (composed of members of the Supervisory Board, except for the external member of the Audit Committee). Membership in committees for members of the Supervisory Board expires upon expiry of membership in the Supervisory Board.

**Item 20** - The Company does not have its corporate communication strategy defined within its corporate governance policy. The Company's Management Board and support services are responsible for the Company's communications and transparency of operations. Public announcements (Seonet and the Company's website) comply with legislative requirements and contain all the information necessary for a securities investor to assess the situation and estimate the effect of a business event on the price of the Company's security.

**Item 20.3** - The Company has not adopted internal acts or rules that would, besides legislative provisions and rules, stipulate restrictions for trading the Company's shares. Persons with access to inside information sign a special statement on protecting inside information and the Company keeps a list of persons with access to inside information in compliance with the provisions of the Market Abuse Regulation (MAR), the Market in Financial Instruments Act (ZTFI) and requirements of the Securities Market Agency.

## Code of Ethical Conduct and Work

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

## Diversity Policy

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

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

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

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

### Management of the Company

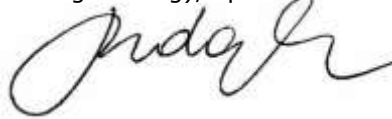
**President of the  
Management Board  
– General Manager**

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



**Member of the  
Management Board –  
Deputy President of  
the Management  
Board – Technical  
Director**

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 2019, investment scope accounted for just under 50% of the past year's figure, having exceeded the planned value by 6.3%. Investment value totalled EUR 12 million and we also utilised EUR 1,066,912 of environmental provisions. The majority of these funds were allocated to modernisation, stabilisation and improvement of the quality of our products, environmental protection projects, and health and safety at work. A part of funds was spent on modernisation and legislative compliance of facilities and infrastructure.

The biggest share of funds invested was allocated to titanium dioxide production. According to the plan, investments spanning over several years were made in this unit:

- additional line for the 1st stage of acidic effluents neutralisation,
- modernisation of ore digestion with a treatment plant,
- treatment plant for sulphur melting process,
- Fundabac filter for the second washing of metatitanic acid,
- additional treatment plant for purification of flue gases from calcination,
- calcite grinding.

We completed investments in:

- the central suction unit to reduce dust in the work environment,
- dosing of coagulant for clearing condensation waters,
- substitute transformer station for Final Processing,
- upgrading the storage tank to reduce the amount of  $TiO_2$  in the filtrate after gel washing and
- economiser 1 in the sulphuric acid production.

With the commissioning of basic engineering, we started a two-year project to replace the DEKA 1 steam drum and a sulphur combustion furnace.

We completed the investment in seismic observation of the Bukovžlak high barrier.

Within environmental provisions, the largest part of the funds was spent on TENORM waste disposal and the rest on research and project development.

A major part of the investment in the project of increasing the volume capacity for sprinkling fluorinated polymers in Polymers BU was realised.

Within the Marketing BU, we completed an investment in the rehabilitation of siding 14 and renovated the office building.

The first phase of rehabilitation of the operational  $TiO_2$  maintenance premises has been finalised.

In 2019, a significant portion of the funds was invested in replacement equipment for the production of  $TiO_2$ . The largest intervention was carried out in the framework of the overhaul, which to a lesser extent covered both lines of basic production and to a greater extent one line. The major interventions involved the renovation of the walling of two digestion columns and the replacement of two Fundabac filters for the first washing of metatitanic acid with the associated discharging vessel.

Some funds were also invested in purchasing individual fixed assets as needed.

**2020 Investment Plans.** Investments planned for 2020 total EUR 19,897,510. They include capitalised own products and services of EUR 2,460,600 and exclude anticipated activities arising from reversal of environmental provisions in the amount of EUR 2 million. The planned value of investments, taking into account capitalised own products is higher than projected in the strategic plan and significantly higher than the plan for 2019. Excluding the funds planned for derecognition of environmental provisions, it exceeds the 2019 plan by 78% and represents 11.4% of the planned sales for 2020. The reasons for the increased volume of investing are, in particular, the emerging circumstances in the area of production and legislative risks, which are detailed below.

Of the total, 61% will be allocated to investments, 25% to purchasing replacement equipment and 14% to acquiring individual fixed assets.

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

Also this year, the biggest share of funds invested will be allocated to titanium dioxide production. We will continue the investments started in 2019:

- we will complete the third line of the 1st neutralisation stage,
- we will install and establish regular production on a second Fundabac filter for the second gel washing,
- we will finalise the project of dry and wet grinding of calcite before surface treatment, which partly due to the equipment supplier's error and partly due to the specifics of our material requires processing and upgrading, and consequently additional investment funds,
- we will complete the modernisation of digestion with a treatment plant, which originally had a completely different design, but proved to be technologically non-feasible at the time of project preparation; the new solution requires additional funding,
- we will provide for regular operation of the treatment plant for sulphur melting; the investment has been extended from 2019 and requires a slightly larger amount of funds as we subsequently learned that a building permit needed to be obtained,
- we will partially upgrade the treatment facility for flue gases from the calcination process, which will be completed in 2021.

Some funds will also be used for the process of thickening the gypsum suspension, which has been in trial operation since last year, but the unforeseen flotation made it necessary to upgrade the vacuum degassing.

As regards the long-term project of Comprehensive Water Management, this year we plan to set up separate collection of waste from Water Preparation, which will cover the deficit of the water required for the treatment plant at Digestion. We will also continue the pilot tests of reverse osmosis, for which a stable overflow from the above mentioned gypsum suspension thickening process is a prerequisite.

With the aim of reducing production risks in sulphuric acid production and securing the target capacity, we plan to replace the DK1 steam boiler and the steam drum in 2020, and partially implement the project for replacing the sulphur combustion furnace, which will stretch into 2021.

The 2019 revision of the Strategic Plan highlighted the urgent need to replace 28-year-old pigment screw presses. The 2020 plan projects the drafting of a project for implementation in the coming years.

In view of market demands, we will invest in the procurement and installation of a hydraulic press for the calibration/pressing of large textile containers.

Some major investments are also envisaged in the field of preventive measures for dust reduction.



The investment in updating air cooling at 2.5 and 7.5 bar is associated exclusively with the production of titanium dioxide. High summer water temperatures no longer guarantee safe operation, so modernisation is essential, both in terms of ensuring production and preventing negative environmental impacts.

In the Polymers BU, we will invest in a flaring device for PTFE tube integrated into the metal base.

We will also carry out several rehabilitation interventions involving buildings as required due to ensuring static safety, hygiene minimum, establishing organisational changes and arranging a suitable working environment.

A considerable amount of funds will be allocated to the purchase of necessary replacement equipment and worn-out fixed assets.

In line with the plans, the actual need and financial ability, we will also prepare and introduce new projects during the year as well as purchase spare parts and new items of fixed assets.

Financing (own or other sources) will be adjusted to the anticipated dynamics of implementing works for individual projects.

A more detailed overview of projected investments is included in the Plan of Investments, Fixed Assets and Replacement Equipment for 2020.

## **DEVELOPMENT ACTIVITY**

We implemented 23 activities in 2019, which cover new products and services as well as new case studies. Half of them have been completed and the rest continue in 2020 (new type of titanium dioxide, reclamation of polluted soil, processing of waste sulphuric acid, etc.).

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

- WG formulation of copper oxychloride processed with manganese (Mancup WG), which was developed at the request of the customer;
- Acquisition of Qualicoat PEQ Certificate for glossy powder coating Class 1+ (1.5);
- Modified PU powder coating;
- More new quality masterbatches;
- Plastoflex matt coating for flex and copper printing;
- Larger injection moulded products from fluorinated polymers.

We were also working on 69 improvements relating to product quality, utilisation, working methods, technologies and risk elimination.

Among major improvements, we should first mention investment projects in the titanium dioxide production, which will in the future help us increase production quantity in accordance with quantities permitted by the environmental permit, reduce environmental impacts or improve quality (described in detail in the investment section).

We also introduced a new recipe for pigmentation and hydrolysis of titanium dioxide, thus improving the optical properties of the finished products.

Among other, the Chemistry Celje BU optimised the production of tribasic copper sulphate in the field of potassium preparation and waste reduction.

The Polymers BU introduced some improvements to the elements used in the production of titanium dioxide, thereby reducing maintenance costs and production downtime (Rotoliv-protected hydrolyser discharge elbows, discharge valves for digestion columns). Automatic welding of flanges on metal pipes was carried out, which reduces labour costs and improves product quality.



The Metallurgy BU eliminated the risks of uncontrolled melt discharge and production downtime by replacing several elements in the Alloy and Wire process.

The Chemistry Celje BU succeeded in removing acid droplets from the ventilation system of reactors for the production of copper preparations.

The Chemistry Mozirje BU introduced a laboratory mill for powder coatings and thus improved the final control process. In the field of masterbatches, organisational measures were taken to optimise the implementation of in-phase control.

The Maintenance BU staff became skilled in welding lead and introduced statutory monitoring.

The Quality Assurance Department followed the demands of users, developing or modifying several testing procedures.

In addition to the aforementioned, over 200 improvements were made in all units, resulting from the recorded potential hazards and reported ideas in CC UM.

## **QUALITY ASSURANCE**

To verify the adequacy, efficiency and compliance of implementing the Integrated Management System (covered by quality standard ISO 9001, environmental standards ISO 14001 and EMAS and standard for occupational health and safety BS OHSAS 18001), we also carried out in 2019 the annual management review for 2018. On the basis of the review, we initiated the necessary corrective and preventive measures. We checked the achievement of annual objectives set at quarterly college meetings and took prompt measures for deviations detected. We were carrying out horizontal internal assessments throughout the year. In 2019, 10 internal assessments were carried out. Special attention was devoted to preparations for transition from BS OHSAS 18001 to ISO 45001.

The external assessment by the Slovenian Institute of Quality and Metrology (SIQ) confirmed the adequacy of our Integrated Management System with all standards under this system. No incompliance was identified, but 21 recommendations were given, of which 3 are still being implemented, while the rest have already been realised.

We regularly monitored the number of complaints and comments of our buyers and responded to them with corrective measures. The number of all complaints regarding products reached 30, of which 4 were solved as unjustified.

We worked towards specific goals (introducing new TiO<sub>2</sub> quality, introducing new control methods) to pursue the set Policy for Integrated Management System, which provides products and services that meet the wishes and expectations of our customers.

Marketing and all production business units were consistently updating the table of complaints, comments and praises, making risk assessment and defining measures for these entries.

We assess customer satisfaction based on interim monitoring (table) as well as written questionnaires and oral interviews. We process data statistically and discuss it during the annual management review immediately after the adoption of the audited annual report. The external customer satisfaction index established at the last annual management review grew by 0.7% as compared to the year before (from 88.9% to 89.6%).

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

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

## **STRATEGY**

Cinkarna Celje, d. d. operates predominantly in the chemical processing sector. The principal activity of the Company is production of titanium dioxide pigment. The Company operates and conducts business globally, but generates most of its revenue on the European market. In the 2019 financial year, the Company generated 89% of net sales revenue from exports. The biggest market of the Company is Germany, accounting for approximately one third of sales, followed by Slovenia, Italy, Turkey, Belgium, France and the Netherlands. At the end of 2019, the Company employed 846 people.

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

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

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

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

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

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

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

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

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

Efficiently utilised production process will allow the Company to provide timely the requested quantities of finished products, which will enable sustainable long-term profitability under the given conditions. The expected EBITDA margin is to reach the average of 16.6% and the ROE indicator the average of 11.5%. The strategic plan includes the dividend policy, which provides for an approximate payment of 75% of the net profit achieved in a year. The dividend policy is naturally subject to change, in line with the amendments to the business policy as regards payments to owners and the structure of the sources of financing.

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

In the first year of implementation of the current strategic plan, the Company achieved and exceeded all the business performance objectives and at the same time carried out the optimisation of the portfolio of strategic business units and areas planned for this period.

In 2019, a feasibility study of an investment in the construction of a new pigment factory in the Republic of Serbia was also conducted and presented. Due to the relatively high inherent risk and unfavourable industry situation, the Management Board and the Supervisory Board postponed further decision on the investment.

## 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 21st 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 2019 we set four annual objectives within the Company's environmental framework objectives:

#### 1. Meeting the requirements regarding environmental protection

To comply with legislative requirements, we applied measures in the technological process of blue copper production to analyse the causes and take steps to reduce sulphate concentrations in wastewater.

At the Bukovžlak waste disposal plant, which has a barrier body higher than 15 m, a seismograph was installed in line with regulatory requirements and experimental seismic observation started (dynamic performance of barriers).

Customers were informed about the new regulatory requirements regarding chemicals. We provided data on compounds in relation to ensuring emergency medical assistance and taking preventive measures. We obtained the UFI (Unique Formula Identifier) codes, which will be passed on to poison centres and will also be included in the labels of hazardous chemicals we place on the market.

In order to eliminate risks, we successfully attained our long-term goal to dispose of TENORM waste. The waste was exported to the USA state of Idaho where it was permanently deposited.

We proceeded with our research work on elimination of old burdens. We had a meeting with representatives of the Ministry of the Environment and Spatial Planning and agreed on necessary additional activities, which we have also brought to completion.

We raised awareness among employees about the consequences of emergency events in various ways (the Cinko and Cinka contributions, employee education, field activities).

With regard to our goal to meet the sustainable development requirements, we carried out project activities aimed at comprehensive water management in the titanium dioxide production.

- We developed a project for separate collection of effluents from water preparation and their feeding back to the TiO<sub>2</sub> production, and initiated activities for obtaining a building permit.
- We tested the suitability of condition of the influent wastewater for reverse osmosis and started implementing necessary actions to reach the needed improvement. Considering the dynamism of our system, we found that a closed circuit reverse osmosis (CCRO) would be a more appropriate choice than the classical reverse osmosis. We commissioned a pilot facility to be tested in real system (by-pass installation).
- We developed a process for reducing COD and BOD5 in wastewater on a bioactive film up to the pilot testing phase.
- We performed precipitation of barium sulphate using a static mixer. We studied the process to the phase that we can prepare particles of different size and shape. We also found a suitable agent for surface treatment.

Work on all the above tasks will continue in 2020.

## **2. Defining measures to reduce emissions to the environment in case of emergency**

We revised Rules of Procedure and work instructions encompassing a review of possible emergencies, their prevention and the measures for reducing emissions to the environment. Based on the revision performed some improvements have been effected.

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

To mitigate the risks with potential adverse impact on the environment, we identified and broke down 22 process risks from individual business units.

We carried out activities to ensure stability of high barriers under the programme of measures of the project group.

At the Za Travnikom waste disposal plant we arranged a discharge of hinterland and drainage water and inspected the overflow outlet with a camera.

At Bukovžlak we conducted research in the east part of the high barrier and made an attempt to lower the lake water level.

At the Bukovžlak non-hazardous waste landfill we arranged a discharge of drainage water for private buildings Bukovžlak 27 and 27A below the barrier, completed the documentation for obtaining construction permit and obtained an integral permit for the reconstruction. We carried out a RFP and based on the offers received also concluded a contract with the main contractor.

## **4. Sustainably managing resources and products**

In the area of energy-related improvements, we were carrying out 5 projects. We replaced the lights with more energy-efficient LED lamps (in several BUs), eliminated compressed air leakages and replaced the fills in the cooling tower. Despite implementing additional measures, energy consumption in 2019 increased. The main reason for this was the reduction in titanium dioxide production due to extensive overhaul of machines in one line of basic production.

We set for ourselves 15 improvements to the waste management system with the target 2% decrease in specific quantity of non-hazardous waste. The planned reduction in specific quantity of waste was greatly exceeded, though this was done also at the expense of falling behind in processing of construction waste and cake from sulphur filtration, which will show in results for 2020.

By introducing the washing of dismantled equipment from the titanium dioxide production before being taken to workshops for repair, we reduced the dispersed emissions around the facility yard.

In 2019, we submitted to the Environmental Agency of the Republic of Slovenia:

- 2 amendments to the environmental permit (a request for a preliminary procedure for reconstruction of the roof and conversion of the former Grafika plošče plant, and a registration of modification involving 5 modifications in the technological process of production of TiO<sub>2</sub> and sulphuric acid, a de-registration of the cooling system in the growth substrates facility and the closure of the construction compounds plant).
- 8 applications or amendments to the environmental permit (3 for amending the water permit and ecologically acceptable flow, 1 statement on facts regarding the pipeline to the Savinja river, 3 amendments related to the Bukovžlak non-hazardous waste landfill and 1 application for the sulphuric acid plant).
- We received 3 decisions on amendments to the environmental permit. They cover the following planned investments:
  - the building of a new digestion column;
  - the new technology for calcite grinding;
  - the fourth electro filter for purification of flue gases from calcination;
  - the cooling towers for cooling the overflow after thickening of red gypsum;
  - setting up a treatment plant for vapour from sulphur melting;
  - setting up a new tank for HH<sub>2</sub>SO<sub>4</sub> and a tank for liquid sulphur;
  - increasing the amount of cake from sulphur filtration for processing.

We have further 8 applications awaiting processing by the ARSO.

We prepared and submitted timely all monitoring reports for 2018 in line with legislative requirements. We did not exceed threshold values.

In 2019, we had six inspections related to environmental protection and chemicals. Five of those were related to environmental protection (inspection of implementation of requirements for environmental permits related to EID, SEVESO, ONOB – the Celje site and environmental permit for the Mozirje site) and one to chemicals. Due to tightened controls of the plants that represent a risk for the environment, we were visited, apart from the inspector for the environment, protection against natural and other disasters and the inspector of the Chemicals Office of the Republic of Slovenia, also by the energy inspector specialised in machinery, the electrical inspector and the fire inspector. No non-compliances were found, only a few verbal warnings were given, which were complied with immediately.

At the end of the year, we underwent a comprehensive inspection by the Financial Administration of the Republic of Slovenia, which is responsible for monitoring the implementation of eight decrees on environmental taxes on the basis of the Environmental Protection Act. They reviewed the data used as the basis of accounting (the method and correctness of data collection) and methods of environmental tax accounting, reporting and payment. No irregularities were found.

The Environmental Protection Department received two complaints, i.e. public questions. One complaint referred to detected odour and one to noise. We responded to both complaints. The complaint about excessive noise during night time, which is bothering a resident of Popovičeva ulica street, is gradually being resolved.

In 2019, we prepared already the 19th report on responsible care of the environment (for 2018), 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).

We had several discussions with the Ministry of the Environment and Spatial Planning and ARSO on the topic of environmental risks elimination. Among other things, we presented them with the results of the new research in relation to Human Health and Environmental Risk Assessment Due to Old Burdens prepared by CDM Smith. We informed them on the announced change in the classification of titanium dioxide according to CLP legislation and obtained their positions regarding envisaged further action.



## 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 2019, we carried out 6 excursions and 71 students were on mandatory practical training with us, of whom two were preparing their master's thesis. We participated at the career fair in Celje with a presentation of occupations and presented our Company and possibilities for employment. In 2019 we granted 10 new scholarships. The Company has a total of 26 scholarship holders.

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

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

So far, we have implemented already eleven consecutive competitions.

- In 2008, we encouraged children with the competition "**Draw Yourself a Prize**".
- In 2009, we drew together "**Animals on Gypsum Landfills**".
- In 2010, we were making bird houses with children under the motto "**I am the Nature**".
- In 2011, the International Year of Chemistry, we thought about and formulated ideas on the significance and purpose of the products of Cinkarna Celje, d. d. in everyday life within the scope of the contest entitled "**Cool Chemistry**".
- In 2012, we prepared interesting projects to mark the jubilee of 140 years of our continuous operations in 2013 and implemented the competition "**Taking Care of the Environment**".
- In the 2013 jubilee year, we thus organised the contest entitled "**Let Us Create a New Home for the Bees**" and built a study bee house in Socka as part of this contest.
- We dedicated 2014 to recycling waste material within the contest "**Benches for Knowledge Thirsty Hikers**", placing the benches in the park Mozirski gaj.
- The theme of the 2015 competition was to improve the knowledge about the use of titanium dioxide in everyday life, which was implemented through the competition "**Titanium Dioxide, Where do You Hide?**".
- The 8<sup>th</sup> 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 9<sup>th</sup> competition under the title "**Let Us Paint Cinkarna**". Children painted business units and departments on white T-shirts and paper. We organised the closing event with cultural programme at the Central Celje Library, where works were also exhibited. Included were 37 schools and over 1,000 children.



- The title of the 10<sup>th</sup> jubilee competition was "**Cinkarna Celebrates by Making a Comic Book**". The challenge for young creators was to draw from our jubilees. They had to present the 145-year development of the Company through a comic book – from the arrival of the train to Celje, construction of the factory, employee training and setting up the first treatment plant, closing down some lines, development of new technologies and products, process modernisation and introduction of the latest technologies for safe operations. 450 children made 72 comic books about the history of Cinkarna.
- In 2019, we invited students and mentors from primary and secondary schools to carry out research in connection with our products. We named the competition "**Find Cinkarna Celje products**". The task focused on creating a variety of entertaining board games that linked our products and end products in our daily use. In a fun way we thus made the young people aware that without the products of our industry there would not be a multitude of everyday objects at our disposal. 560 pupils from 31 schools participated and made 40 board games.

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.

In 2019, we embarked on a project to design a museum of company history. To this end, we developed the concept of a museum layout with the help of an external contractor. As the necessary investment in the arrangement of the appropriate space was estimated to be high, we suspended the activities. However, we recorded a 25-minute film about the history of Cinkarna, featuring testimonies from former employees about working for the Company in the years following World War II.

We organised the traditional food collection campaign with the association SIBAHE (Slovenian Food Bank), in which both employees and the Company participated. Together, we collected a large amount of food for those in need of help.

We cooperated with the SONČEK Cerebral Palsy Association of Slovenia for the third year in a row in sales of their hand-made products during the pre-Christmas period in our main dining hall and expanded our cooperation also to pre-Easter time. The response of employees was extremely good as they raised quite some funds ensuring undisturbed operations of the Association.

We enabled a training session to the Association of Rescue Dogs at our holiday facility in Logarska dolina. We also cooperated with the Celje Animal Protection Society, which found a home for the homeless cats from the area of the Company.

We helped our employees in times of trouble. We paid three solidarity grants and two severance pays to the relatives upon the death of our employees.

We enabled several sports and dance activities to be pursued by 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 already for the 29th year in a row. Over 300 former employees responded to the invitation.

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

We are trying to regularly inform all stakeholders of our plans and achievements through different forms of communications. For the purpose of internal communications, we issued 23 notifications by Cinko and Cinka, our mascots encouraging employees in a humorous way for more productive, efficient and safe work and delivering important information. We also prepared three issues of Informator and one issue of the Latest news for employees.

In 2019, we again responded to the invitation to compete in the contest of the Tourist and Cultural Association Celje, which organised already the 50th awards Golden Rose and Broom. We received awards for neat landscaping, gardens and flower beds.

## **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 2019, we devoted EUR 741 thousand or somewhat more than 0.43% 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 92.7% of sponsorship and donation funds for sports, 1.6% for cultural and 5.7% 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 Klavivar Athletics Club; we also sponsor the Basketball Club Domžale, Handball Club Gorenje Velenje, Handball Club Pivovarna Laško, Handball Club Celje, Football Club Celje, Hockey Club Celje, Basketball Club Šentjur, etc.);
- artistic creation, work of cultural institutes and arts societies (Celeia Institute, Slovenian People's Theatre Celje, PDKZ Celje, Union of Cultural Associations Celje, Music School Celje and other cultural and artistic associations);
- educational, childcare and charity organisations and associations (voluntary firefighters' associations, primary schools, secondary schools, city municipalities and local communities, etc.).

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

## **HR Policy and Safety at Work in Brief**

### **EMPLOYEES**

Key data:

Number of employees: 846

Average age: 46.89 years

Employee gender structure: 77.4% male and 22.6% female

Percentage of work performed in the first shift: 61.6%

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 147 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 approximate and wider social environment.

As at 31 December 2019, there were 846 employees at Cinkarna Celje, d. d., 77.4% of whom were men and 22.6% were women. In line with the business policy of the Company's Management Board and the open labour market, diversified operating results of individual business units, the divestment of the construction compounds line and planned employment, the number of employees decreased by 6.8% or 15 employees. In 2019, 83 people stopped working at the Company. We employed 19 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 2019, the average employee age was 46.89 years (45.32 for men and 49.08 for women). Due to 19 recruitments and 83 terminations of employment and continued optimisation of the number of employees by organisational units, the positive trend persisted in the age structure, as the average age decreased by 1.02 percentage points or 1.13%, which is definitely reflected in the gradual rejuvenation of the staff.

### Average employee age by year from 2009 to 2019

CC	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>TOTAL</b>	46.22	46.47	46.79	46.78	47.11	47.33	47.95	48.20	48.42	47.91	46.89

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 846, which means a cumulative decrease of 1,581 employees or more than 65.1%).

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 2019, we recorded 19.49 hours of training per employee (in 2018, 19.0 hours of training per employee), the cost of which was EUR 446.08 per employee (in 2018, EUR 466.3 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, main upgrades to knowledge encompassed various technical content, training and education, whereas in the field of soft skills learning, we organised series of workshops with the aim of increasing employee engagement, with special emphasis on developing the most promising and executive staff.

In 2019, specific functional trainings at the Company and outside it were attended by 4,235 participants. Hours of training totalled 16,480 (in 2018, 17,166). We rationalised (shortened) mandatory forms of training in terms of substance and quantity, and adjusted them more to specific themes and requirements of the work process, focusing particularly on training and education with useful component and of importance for individual work processes.

As concerns the Company's social efforts, the Company put special attention on individual disability issues. We are namely dealing with an increasing number of employees restricted at work due to health issues. At the end of the year, we had 63 disabled employees or 13 fewer than at the end of the previous year. Longitudinally, the structural percentage of disabled employees is decreasing over years. In 2019, the share of disabled employees in total employees was 7.4%.

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 2019 came in at 9.0%, the total turnover, which includes internal reassignments, being the same at 12.3%. External employee turnover is 5.2 percentage points higher than the year before, while total turnover is 8.1 percentage points higher (in 2018, 4.2% and 4.1% respectively), which can be attributed to more

retirements, reassignments between OUs and decreasing the number of employees by use of soft methods owing to the disposal of the construction compounds plant with the aim of optimising the employee number by organisational unit.

The employment and education policy positively affects the rise in the qualifications structure that is visibly on the rise despite the long-term HR optimisation.

Level of education	2018		2019	
	No. of employees	Share in %	No. of employees	Share in %
VIII	23	2.5	20	2.4
VII	135	14.9	134	15.8
VI	57	6.3	53	6.3
V	300	33.0	280	33.1
IV, III	291	32.1	275	32.5
II, I	102	11.2	84	9.9
<b>Balance as at 31 Dec</b>	<b>908</b>	<b>100.0</b>	<b>846</b>	<b>100.0</b>

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 9.9% and an increase in highly educated labour force from the former 3.5% to the current 18.2%. 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 1.3 percentage points to 23.7% in 2019 as compared to the year before because of an increase in sick leave (sick leave absences account for 6.7% of the said amount or 28.2% of all absences, which is 5.1 percentage points more than in 2018). The percentage of sickness benefits rose by 24% compared to the year before.

Sickness benefits had a varying dynamic in the structure, soaring in all business units, except for the Chemistry Celje BU. 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),
- significant increase in the number of injuries outside workplace,
- age of the population (distinct impact on absenteeism as the average age is 46.89 years),
- work in four shifts (38.4% of workers work in several shifts),
- large number of disabled employees (7.4% of all employees),
- increasing number of long-term sick leave, mostly due to:
  - severe illnesses,
  - locomotor system diseases,
  - cardiovascular diseases.

The 2019 framework plan was 909 employees at the end of the year. The plan for the number of employees was based primarily on the envisaged production and sales plan (as well as investment plans) combined with the optimisation of the economy of production processes and increase in activities in specific professional areas. The majority of retirements pursuant to the Pension and Disability Insurance Act (ZPIZ-2) was implemented in the second half of 2019. New hires were anticipated as a rule only for the medium- and higher-level qualification structures, mostly for the fields of production business units and only to a minimum degree for support services, under the condition that a large share of employees leaving the Company would be replaced exclusively by professionally qualified employees.

In terms of production employees, we tried looking for long-term solutions with young employees, mostly from the fields of occupations with a shortage of workers (metal worker, mechanic, milling machine operator, chemical and machine technician, electrotechnician, etc.) and strove to merge jobs. For certain programmes, mostly those with unforeseeable business environment, we continued engaging students and hiring employees through temporary work agencies. In 2019, we continued providing scholarships to pupils and students of technical sciences.

We continued the policy of productive hiring, decreasing the percentage of unskilled labour as well as reorganising work so as to reduce the number of administrative employees. It should be noted that we have managed to reduce the percentage of all employees with qualification levels I and II to below 9.9%. In 2019, 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. As a result, we managed to boost the qualifications structure of qualification levels VI, VII and VIII by one-half percentage point (the balance as at the end of 2019 was 24.5% of employees with these levels of education).

## HEALTH AND SAFETY

The activities of the Occupational Health and Safety Department are aimed at legislative compliance for occupational health and safety and fire safety. By introducing the activities of detecting, recording and eliminating potential hazards and events in the working environment, the Company is actively working on decreasing the number of accidents at work and improving conditions at the workplace. We prevent fires with preventive fire safety measures and ensure active protection against fire with regular supervision, review and servicing of firefighting equipment. We had three annual framework objectives in the area of occupational health and safety in 2019:

### 1. Zero injuries at work

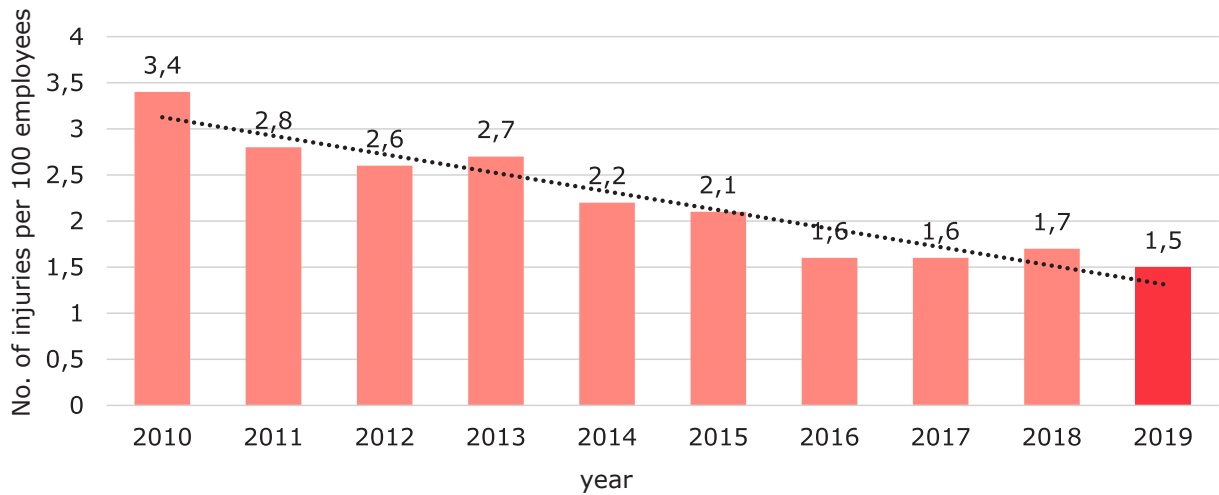
The objective is long-term. We wish to achieve it step by step by implementing various preventive activities and improvements. The number of injuries at work decreased by 2 over 2018. The number of days of absence resulting from work-related injury also fell. The low FS factor reveals that all injuries were minor.

### Comparison of changes in injuries at work/while travelling and absence from work due to injuries

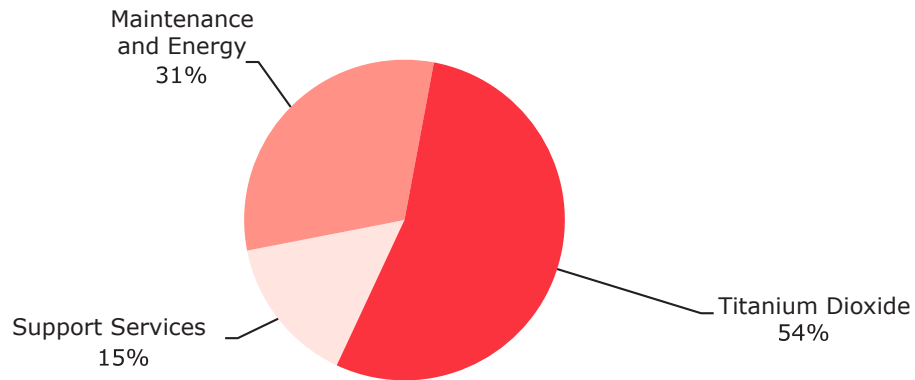
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
No. of employees – monthly average	1073	1064	1046	999	987	976	941	899	905	873
No. of reported NM	40	102	118	37	37	10	14	9	5	3
No. of recorded PH	-	-	-	81	62	79	105	79	61	56
No. of eliminated PH	-	-	-	44	88	71	86	65	57	52
FS factor	37.5	20.7	23.2	27.1	22.2	23.5	14.9	13.0	5.7	5.0
No. of injuries at work	37	30	27	27	22	20	15	14	15	13
No. of days lost	1007	735	907	996	1000	1122	934	837	346	334
<b>No. of injuries per 100 employees</b>	<b>3.4</b>	<b>2.8</b>	<b>2.6</b>	<b>2.7</b>	<b>2.2</b>	<b>2.0</b>	<b>1.6</b>	<b>1.6</b>	<b>1.7</b>	<b>1.5</b>
No. of injuries while travelling	11	14	6	0	0	2	0	0	0	0
No. of days lost	414	388	151	0	0	43	0	0	0	0

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

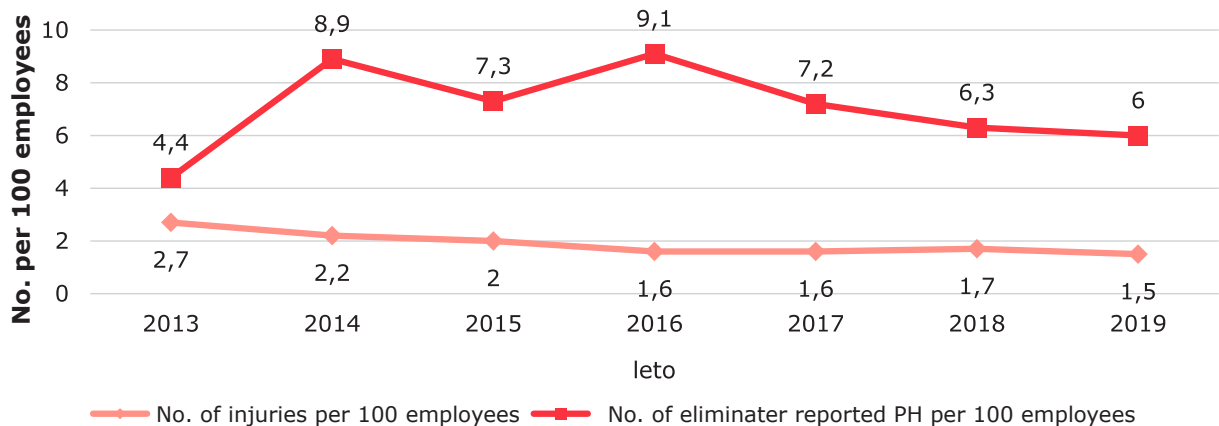
### Number of injuries at work per 100 employees with linear trendline (2010-2019)



### Share of injuries at work per 100 employees by business unit



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





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

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

	No. of eliminated identified and broken-down process risks		In %
	OBJECTIVE	REALISATION	
Metallurgy	1	1	100
Chemistry Celje	2	2	100
Chemistry Mozirje	2	2	100
Maintenance and Energy	4	3*	75
Titanium Dioxide	6	6	100
Polymers	2	2	100
Quality Assurance Department	1	1	100
Marketing	1	1	100
Total	19	18	94.7

\* 1 measure transferred to the Titanium Dioxide BU was not implemented

## 3. Organisation and implementation of employee health promotion

In 2019, we implemented 13 activities on the basis of the health promotion plan, namely:

- blood sugar and cholesterol level checks,
- measurements of bone mineral density,
- back mechanic (workshop on spine),
- yoga workshop,
- sports games at employees' picnic,
- team building,
- healthy breakfast,
- traditional Slovenian breakfast,
- healthy snacks (food choices, cutting salt and sugar, etc.),
- active holidays at nearby spas (option to buy discounted tickets, etc.) and
- promoting safe and healthy work - NAPO films in the main dining room.

## Costs of Occupational Health and Safety and Fire Safety

Last year, we spent EUR 507,497.06 on occupational health and safety and fire safety (excluding preventive maintenance interventions on working equipment) or 16% less as compared to the year before.

## Human Rights Policy in Brief

We pursue tolerance, mutual respect and respect for the fundamental human rights at our work. We reject all forms of mobbing, harassment and discrimination. We comply with ethical and professional principles and the Company's values.

Recruitment and HR activities are based on the principle of zero discrimination and equal opportunities, ensuring conditions for personal development of employees. We are creating conditions for well-being at the workplace for all employees, at the same time placing special emphasis on personal and professional development.

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

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

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

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

### **Anti-Corruption and Anti-Bribery Policy in Brief**

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

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

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

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

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

## Key Non-Financial Indicators

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

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

## Key Risks and their Management

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

<b>Environmental policy</b>	<b>Social policy</b>	<b>HR policy and safety at work</b>	<b>Human rights policy</b>	<b>Anti-corruption and anti-bribery policy</b>
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 2019, 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 was detected and 21 recommendations were given. By the end of 2019, we implemented 18 recommendations, whilst 3 remain in progress. Pursuant to the requirements of the EMAS Regulation, the environmental statement was prepared for CC Chemistry Mozirje, on which the environmental assessor did not give any comments. In the final report the leading assessor wrote that Cinkarna Celje, d. d. implemented, maintained and developed the management system in compliance with the requirements of standards ISO 9001, ISO 14001, BS OHSAS 18001 and the EMAS Regulation.

***ISO/IEC 17025:2005*** (General requirements for the competence to carry out tests and/or calibrations, including sampling).

The Quality Assurance Department and the Environmental Protection Department are accredited by Slovenian Accreditation, which confirms the competence of laboratories to carry out tests by awarding accreditation certificate and through periodical assessments. The scope of accreditation is evident from the Attachment to the Accreditation Certificate LP-050 (monitoring of waste waters, determining the content of TiO<sub>2</sub> in pigment and of TiO<sub>2</sub> and Fe in ilmenite and titanium slag). In December 2019, the Slovenian Accreditation performed the first regular monitoring in the fourth assessment cycle, this time according to the new version of ISO/IEC 17025:2017, which incorporates risk treatment into the management system, places a special emphasis on ensuring the impartiality and confidentiality of laboratories and addressing measurement uncertainty of sampling when the laboratory also performs sampling.

During the assessment, particular attention was paid to:

- expansion method, determination of total phosphorus in wastewater, SIST EN ISO 6878:2004, Part 7,
- compliance of the BOD5 determination method with the new edition of SIST EN ISO 5815-1:2019,
- compliance of the flow measurement method with the electromagnetic meter due to the transition to ISO 20456:2017.

There were 10 inconsistencies found in the course of the assessment. Corrections were made for 9 inconsistencies and a corrective measure was issued for 1.

In the final report, the lead assessor wrote:

- the management system has been implemented and complies with ISO/IEC 17025:2017,
- the laboratories have identified the key changes to the new version of the standard, included them in the Rules of Procedure of the Quality Assurance Department and the Environmental Protection Department and implemented them properly in their management system,
- the risks are properly identified and managed.

The approach to dealing with measurement uncertainties of sampling, which the assessors found to be very systematic and comprehensive, received a special commendation. The next assessment visit is scheduled for March 2021, with particular emphasis on ensuring information security and addressing personnel factors (determining and verifying competences, selecting staff).

### ***Responsible Care Programme***

We submitted a new report under the Responsible Care Programme for 2018 in the end of June 2019. At one of the meetings of the Responsible Care Programme Team we presented to other members and representatives of the Chamber of Commerce leading the CEFIC Responsible Care programme, the indicators achieved in 2018 in the field of environment, safety and health, and gave an account of the implementation of activities in industrial process safety as well as indicated which BAT/BREF documents were relevant to our Company, how we track document preparation/developments and how we prepare for implementation. Meeting our obligations for 2019, we again obtained the right to use the (CEFIC) Responsible Care logo until February 2021.

### ***Environmental Due Diligence***

We already started implementing activities in this field in 2013, when the risk arising from old burdens was identified for the areas of current production.

In August 2018, we concluded and publicly presented the Human Health and Environmental Risk Assessment arising from consumption of agricultural crops produced under ONOB. The Assessment and the proposed measures were presented by representatives of the chosen contractor, the German company CDM Smith. It has been established that the polluted hanging underground water under ONOB has no negative impact on crops.

In November 2018, we presented the completed Ecotoxicological Research of impact of old burdens on the current production location in Celje on the biota in Hudinja and Vzhodna Ložnica water courses. The results of the research indicated actions were required in four locations. In order to specify the actions, the impacts and resources need to be further defined. We dealt with this in 2019. After the work done, the source in one location has still not been identified. In agreement with the representatives of the Ministry of the Environment and Spatial Planning, an outsourced contractor – CDM Smith this year again prepared a summary of all the results and a comparative interpretation of German, Dutch and Slovenian regulations, which will serve as the basis to start the discussions on the necessary measures with the legislator.

### ***Management of the HACCP System***

We maintain the HACCP system introduced 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 risk of infection. We are making continuous improvements. Supervision and advice are provided by the National Laboratory of Health, Environment and Food, which conducts two inspections annually in the central kitchen and one inspection per year in the marketing and maintenance divisions. The whole HACCP system is very extensive, warranting continuous monitoring and updating as well as verification of the adequacy and necessity of individual procedures. For its successful implementation we organise training for all employees every two years in cooperation with the National Laboratory of Health, Environment and Food.

### ***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 2019	31 Dec 2018	Index 19/18
<b>ASSETS</b>		<b>207,807,065</b>	<b>213,954,012</b>	<b>97</b>
<b>A. Non-current assets</b>		<b>107,290,529</b>	<b>107,594,140</b>	<b>100</b>
I. Intangible Assets and Long-Term Deferred Costs and Accrued Revenues	1	1,236,811	1,424,728	87
1. Long-term property rights		1,195,343	1,411,819	85
5. Other long-term deferred costs and accrued revenues		41,468	12,909	321
II. Property, plant and equipment	2	103,298,508	102,660,428	101
1a. Land		9,821,534	9,857,976	100
1b. Buildings		42,230,411	42,073,048	100
2. Production plant and machinery		32,446,320	35,631,444	91
3. Other plant and equipment		56,214	42,475	132
4a. Property, plant and equipment under construction and in production		18,586,034	14,461,532	129
4b. Advances for acquisition of property, plant and equipment		157,995	593,952	27
IV. Long-term financial assets	3	950,363	950,363	100
1a. Other shares and interests		950,363	950,363	100
VI. Deferred tax assets	4	1,804,846	2,558,621	71
<b>B. Current assets</b>		<b>100,183,266</b>	<b>106,067,370</b>	<b>94</b>
II. Inventories	5	40,992,387	46,067,012	89
1. Material		24,636,886	26,042,456	95
2. Work-in-progress		2,297,051	2,483,963	92
3. Products and merchandise		13,908,165	17,523,906	79
4. Advances for inventories		150,285	16,687	901
III. Short-Term Financial Assets	3	360,650	247,681	146
1. Short-term financial assets, excluding loans		160,650	47,681	337
1c. Other short-term financial assets		160,650	47,681	337
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	6	27,131,987	26,269,282	103
2. Short-term trade receivables		23,948,700	24,357,937	98
3. Short-term operating receivables due from others		3,183,288	1,911,345	167
V. Cash	7	31,698,242	33,483,395	95
<b>C. Short-term deferred costs and accrued revenues</b>	<b>11</b>	<b>333,270</b>	<b>292,502</b>	<b>114</b>



In EUR

	Note	31 Dec 2019	31 Dec 2018	Index 19/18
<b>EQUITY AND LIABILITIES</b>		<b>207,807,065</b>	<b>213,954,012</b>	<b>97</b>
<b>A. Equity</b>	<b>8</b>	<b>170,342,846</b>	<b>173,925,466</b>	<b>98</b>
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		91,601,525	88,068,917	104
1. Legal reserves		16,931,435	16,931,435	100
2. Reserves for treasury shares		1,992,963	1,364,106	146
3. Treasury shares		-1,992,963	-1,364,106	146
5. Other revenue reserves		74,670,090	71,137,482	105
V. Fair-value reserves		-1,618,921	-1,666,698	97
VI. Retained net profit/accumulated loss		-231,793	-76,610	303
VII. Net profit or loss for the year		16,077,289	22,918,637	70
<b>B. Provisions and long-term accrued costs and deferred revenues</b>	<b>9</b>	<b>22,578,045</b>	<b>27,763,293</b>	<b>81</b>
1. Provisions for pensions and similar liabilities		4,208,262	3,811,723	110
2. Other provisions		18,091,449	23,439,296	77
3. Long-term accrued costs and deferred revenues		278,334	512,274	54
<b>D. Short-term liabilities</b>	<b>10</b>	<b>13,991,310</b>	<b>11,407,422</b>	<b>123</b>
II. Short-term financial liabilities		44,594	70,677	63
1. Other short-term financial liabilities		44,594	70,677	63
III. Short-term operating liabilities		13,946,716	11,336,745	123
1. Short-term trade payables		9,483,325	8,683,609	109
2. Short-term operating liabilities based on advance payments		407,013	27,428	1484
3. Other short-term operating liabilities		4,056,377	2,625,708	154
<b>E. Short-term accrued costs and deferred revenues</b>	<b>11</b>	<b>894,864</b>	<b>857,831</b>	<b>104</b>

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 2019	YEAR 2018	Index 19/18
<b>1. Net sales revenue</b>	<b>18</b>	<b>172,586,979</b>	<b>163,960,861</b>	<b>105</b>
- Net sales revenue generated in Slovenia		18,818,634	21,624,294	87
- Net sales revenue generated on the international market		153,768,345	142,336,567	108
<b>2. Change in the value of inventories of products and work-in-progress</b>		<b>-3,771,053</b>	<b>11,756,418</b>	<b>-</b>
<b>3. Capitalised own products and services</b>	<b>2</b>	<b>2,827,629</b>	<b>3,447,628</b>	<b>82</b>
<b>4. Other operating income (including revaluation operating income)</b>	<b>20</b>	<b>6,055,956</b>	<b>2,994,660</b>	<b>202</b>
<b>5. Costs of goods, material and services</b>	<b>15</b>	<b>108,285,638</b>	<b>102,004,714</b>	<b>106</b>
a) Cost of goods and material sold and costs of material used		93,494,697	88,012,639	106
b) Cost of services		14,790,940	13,992,075	106
<b>6. Labour cost</b>	<b>14</b>	<b>30,856,980</b>	<b>30,082,256</b>	<b>103</b>
a) Cost of salaries and wages		20,658,999	23,052,938	90
b) Cost of social security		1,728,898	1,828,849	95
c) Cost of pension insurance		2,476,747	2,469,281	100
d) Other labour cost		5,992,337	2,731,188	219
<b>7. Write-downs in value</b>	<b>13</b>	<b>11,287,681</b>	<b>12,390,336</b>	<b>91</b>
a) Depreciation and amortisation		10,859,864	12,172,175	89
b) Revaluation operating expenses associated with intangible assets and property, plant and equipment		3,624	49,456	7
c) Revaluation operating expenses associated with operating current assets		424,193	168,705	251
<b>8. Other operating expenses</b>	<b>15</b>	<b>1,542,270</b>	<b>1,273,775</b>	<b>121</b>
<b>Operating profit or loss</b>		<b>25,726,942</b>	<b>36,408,486</b>	<b>71</b>
<b>9. Finance income from participating interests</b>	<b>21</b>	<b>44,228</b>	<b>44,152</b>	<b>100</b>
d) Finance income from other investments		44,228	44,152	100
<b>10. Finance income from loans granted</b>	<b>21</b>	<b>16,021</b>	<b>21,956</b>	<b>73</b>
b) Finance income from loans to others		16,021	21,956	73
<b>11. Finance income from operating receivables</b>	<b>21</b>	<b>414,089</b>	<b>486,550</b>	<b>85</b>
b) Finance income from operating receivables due from others		414,089	486,550	85
<b>12. Finance expenses for impairment and write-off of financial assets</b>	<b>16</b>	<b>0</b>	<b>0</b>	<b>-</b>
<b>13. Finance expenses for financial liabilities</b>	<b>16</b>	<b>85,764</b>	<b>74,726</b>	<b>115</b>
c) Finance expenses for other operating liabilities		85,764	74,726	115
<b>14. Finance expenses for operating liabilities</b>	<b>16</b>	<b>378,979</b>	<b>917,405</b>	<b>41</b>
b) Finance expenses for trade payables and bills payable		218,599	494,350	44
c) Finance expenses for other operating liabilities		160,380	423,055	38
<b>15. Other revenue</b>	<b>21</b>	<b>28,872</b>	<b>66,988</b>	<b>43</b>
<b>16. Other expenses</b>	<b>16</b>	<b>63,230</b>	<b>12,346</b>	<b>512</b>
<b>Profit or loss before tax</b>		<b>25,702,178</b>	<b>36,023,655</b>	<b>71</b>
<b>17. Corporate income tax</b>	<b>22</b>	<b>3,512,018</b>	<b>5,375,584</b>	<b>65</b>
<b>18. Deferred taxes</b>	<b>19</b>	<b>-753,775</b>	<b>-89,888</b>	<b>839</b>
<b>19. Net profit or loss for the period</b>		<b>21,436,385</b>	<b>30,558,183</b>	<b>70</b>
Basic earnings per share <sup>2</sup>		<b>26.53</b>	<b>37.51</b>	<b>71</b>
Diluted earnings per share <sup>3</sup>		<b>26.53</b>	<b>37.51</b>	<b>71</b>

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

		<b>YEAR 2019</b>	<b>YEAR 2018</b>	<b>Index 19/18</b>
<b>19.</b>	<b>Net profit or loss for the period</b>	<b>21,436,385</b>	<b>30,558,183</b>	<b>70</b>
23.	Other components of comprehensive income (from unrealised actuarial gains/losses)	-184,533	-481,149	38
<b>24.</b>	<b>Total comprehensive income for the period (19+23)</b>	<b>21,251,852</b>	<b>30,077,034</b>	<b>71</b>

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

## Statement of Changes in Equity and Determination of Distributable Profit

In EUR

Statement of changes in equity for 2019	Share capital	Capital reserves	Revenue reserves				Fair value value reserves	Retained earnings	Net profit or loss for the year	Total capital
			Legal reserves	Reserves for treasury shares	Treasury shares	Other revenue reserves				
			I/1	II	III/1	III/2				
<b>A2. Opening balance for the period</b>	<b>20,396,244</b>	<b>44,284,976</b>	<b>16,931,435</b>	<b>1,364,106</b>	<b>-1,364,106</b>	<b>71,137,482</b>	<b>-1,666,698</b>	<b>-76,610</b>	<b>22,918,637</b>	<b>173,925,466</b>
<b>B1. Changes in equity - transactions with owners</b>				<b>628,857</b>	<b>-628,857</b>			<b>22,841,510</b>		<b>22,841,510</b>
d) Purchase of treasury shares				1,992,963	-1,992,963					<b>0</b>
e) Cancellation of treasury shares				-1,364,106	1,364,106					
g) Dividend distribution								22,841,510		22,841,510
<b>B2. Total comprehensive income for the reporting period</b>							<b>47,777</b>	<b>-232,310</b>	<b>21,436,385</b>	<b>21,251,852</b>
a) Entry of net profit or loss for the reporting period									21,436,385	21,436,385
d) Other components of comprehensive Income for the reporting period							47,777	-232,310		-184,533
<b>B3. Changes within equity</b>	<b>-166,474</b>					<b>3,532,607</b>		<b>22,918,637</b>	<b>-28,277,733</b>	<b>-1,992,963</b>
a) Allocation of the remaining net profit for the period to other equity components						5,359,096		22,918,637	-28,277,733	0
b) Allocation of part of net profit for the period to other equity components according to resolution of						-1,992,963				-1,992,963
d) Reserves for treasury shares	-166,474					166,474				0
<b>C. Closing balance for the period</b>	<b>20,229,770</b>	<b>44,284,976</b>	<b>16,931,435</b>	<b>1,992,963</b>	<b>-1,992,963</b>	<b>74,670,089</b>	<b>-1,618,921</b>	<b>-231,793</b>	<b>16,077,289</b>	<b>170,342,846</b>
<b>DISTRIBUTABLE PROFIT</b>								<b>-231,793</b>	<b>16,077,289</b>	<b>15,845,496</b>

In EUR

Statement of changes in equity for 2018	Share capital	Capital reserves	Revenue reserves				Fair value value reserves	Retained earnings	Net profit or loss for the year	Total capital
			Legal reserves	Reserves for treasury shares	Treasury shares	Other revenue reserves				
			I/1	II	III/1	III/2				
<b>A2. Opening balance for the period</b>	<b>20,396,244</b>	<b>44,284,976</b>	<b>16,931,435</b>	<b>238,926</b>	<b>-238,926</b>	<b>64,623,116</b>	<b>-1,265,277</b>	<b>-23,965</b>	<b>21,573,973</b>	<b>166,520,502</b>
<b>B1. Changes in equity - transactions with owners</b>				<b>1,125,177</b>	<b>-1,125,177</b>			<b>21,546,890</b>		<b>21,546,890</b>
d) Purchase of treasury shares				1,125,177	-1,125,177					<b>0</b>
g) Dividend distribution								21,546,890		21,546,890
<b>B2. Total comprehensive income for the reporting period</b>							<b>-401,421</b>	<b>-79,728</b>	<b>30,558,183</b>	<b>30,077,034</b>
a) Entry of net profit or loss for the reporting period									30,558,183	30,558,183
d) Other components of comprehensive Income for the reporting period							-401,421	-79,728		-481,149
<b>B3. Changes within equity</b>						<b>6,514,366</b>		<b>21,573,973</b>	<b>-29,213,519</b>	<b>-1,125,180</b>
b) Allocation of part of net profit for the period to other equity components according to resolution of management and supervision bodies						7,639,546		21,573,973	-29,213,519	0
d) Reserves for treasury shares						-1,125,180				-1,125,180
<b>C. Closing balance for the period</b>	<b>20,396,244</b>	<b>44,284,976</b>	<b>16,931,435</b>	<b>1,364,103</b>	<b>-1,364,103</b>	<b>71,137,482</b>	<b>-1,666,698</b>	<b>-76,610</b>	<b>22,918,637</b>	<b>173,925,466</b>
<b>DISTRIBUTABLE PROFIT</b>								<b>-76,610</b>	<b>22,918,637</b>	<b>22,842,027</b>

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

## Cash Flow Statement

In EUR

	YEAR 2019	YEAR 2018	Index 19/18
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>a) Net profit or loss</b>	<b>21,436,385</b>	<b>30,558,183</b>	<b>70</b>
Profit or loss before tax	25,702,178	36,023,655	71
Income tax and other taxes not included in operating expenses	4,265,793	5,465,472	78
<b>b) Adjustments for</b>	<b>10,221,311</b>	<b>12,021,293</b>	<b>85</b>
Amortisation and depreciation +	10,859,864	12,172,175	89
Revaluation operating revenues -	1,235,960	302,935	408
Revaluation operating expenses +	657,655	218,161	301
Finance revenue excluding that from operating receivables -	60,248	66,108	91
<b>c) Change in net operating current assets (and accruals and deferrals, provisions, deferred tax assets and liabilities) of operating items in the balance sheet</b>	<b>2,445,499</b>	<b>-8,381,235</b>	<b>-</b>
Opening less closing operating receivables	-405,424	9,951,884	-
Opening less closing deferred costs and accrued revenues	-40,768	66,001	-
Opening less closing deferred tax assets	753,775	89,888	839
Opening less closing inventories	4,628,384	-4,887,946	-
Closing less opening operating liabilities	2,609,971	-12,413,074	-
Closing less opening accrued costs and deferred revenues, and provisions	-5,100,439	-1,188,088	429
<b>d) Net cash flow from financing activities (a+b+c)</b>	<b>34,103,196</b>	<b>34,198,241</b>	<b>100</b>
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>a) Receipts from investing activities</b>	<b>1,296,208</b>	<b>369,043</b>	<b>351</b>
Receipts from interest and profit participations in other entities pertaining to investing activities	60,248	66,108	91
Receipts from disposal of property, plant and equipment	1,235,960	302,935	408
<b>b) Disbursements for investing activities</b>	<b>12,316,648</b>	<b>22,855,982</b>	<b>54</b>
Disbursements for acquisition of intangible assets	55,089	112,047	49
Disbursements for acquisition of property, plant and equipment	11,900,909	22,496,254	53
Disbursements for acquisition of financial assets	360,650	247,681	146
<b>c) Net cash flow from investing activities (a-b) or (b-a)</b>	<b>-11,020,440</b>	<b>-22,486,939</b>	<b>49</b>
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>b) Disbursements for financing activities</b>	<b>24,867,909</b>	<b>22,679,322</b>	<b>110</b>
Disbursements for repayment of financial liabilities	26,083	6,896	378
Expenses for redemption of treasury shares	1,992,963	1,125,180	177
Disbursements for dividends and other profit distributions	22,848,863	21,547,246	106
<b>c) Net cash flow from financing activities (a-b) or (b-a)</b>	<b>-24,867,909</b>	<b>-22,679,322</b>	<b>110</b>
<b>D. CLOSING BALANCE OF CASH AND CASH EQUIVALENTS</b>	<b>31,698,242</b>	<b>33,483,395</b>	<b>95</b>
<b>x) Cash flow for the period (sum total of items Ad, Bc and Cc)</b>	<b>-1,785,153</b>	<b>-10,968,020</b>	<b>16</b>
<b>y) Opening balance of cash and cash equivalents as at 1 Jan</b>	<b>33,483,395</b>	<b>44,451,415</b>	<b>75</b>

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 amended Slovenian Accounting Standards 2019 (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.

The estimates include, among other, determining the life and residual value of property, plant and equipment and intangible fixed assets, value adjustments of inventories and receivables, assessment of possible use of deferred tax assets, assumptions relevant for actuarial calculations related to certain employee benefits, assumptions included in the calculation of potential provisions for environmental purposes and for claims filed by legal and natural persons.



Estimates and assumptions stated 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 accounting policies used and the calculation methods applied are the same as for the last annual reporting, with the exception of the new standards that have been adopted and clarifications. Both are set out below and have been taken into account in the preparation of the financial statements if they had an impact during the reporting period.

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.

### **Amendments to accounting standards and impact on the preparation of the financial statements for the 2019 financial year**

In 2018, the Expert Council of the Slovenian Institute of Auditors adopted the revised Slovenian Accounting Standard 15 (2019) – Revenues.

#### **Important provisions of the adopted standard:**

Sales revenues arise from contracts with customers on the sale of goods or services. Sales revenues reflect the transfer (supply) of contracted goods or services to customers in the amount of the expected consideration to which the entity will be entitled in exchange for those goods or services. Sales revenues should be classified as revenues earned from the sale of the enterprise's own products and services and as revenues earned from the sale of merchandise and material. Amounts collected on behalf of third parties, such as accrued value added taxes and other sales taxes should be excluded from sales revenues. Similarly, amounts collected by an agent on behalf of a third party are not a component of revenue (sales revenue is only that part of commission to which the agent is entitled for rendering the service).

A goods or a service is transferred when control passes to the customer. The customer acquires control over a good or a service when he or she acquires the right to direct the use of, and obtain substantially all of the remaining benefits from a good or a service. Such control also means the ability to prevent others from directing the use of, and receiving the benefit from, a good or a service. The benefits of a good or a service are potential cash flows (inflows or savings in outflows) that can be obtained directly or indirectly in many ways.

An entity transfers control of a good or service at a specific moment or over time, and therefore satisfies a performance obligation.

At the conclusion of the contract with the customer, the entity must identify all performance obligations in the contract. The entity's promise to transfer a good or a service to the customer is separately identifiable from other promises in the contract:

- a) if, according to the SAS criteria, it can be separately identified from other promises in the contract for the transfer of goods or services; and
- b) if the customer can benefit from a good or a service on its own or in conjunction with other readily available resources. The fact that an entity regularly sells a good or a service separately would, for example, indicate that the customer can benefit from the good or service on its own or in conjunction with other readily available resources.

Sales revenue is recognised in an amount that reflects the transaction price, which is allocated to separate performance obligation in the contract. Transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The Management of the Company verified the impact of the above amendments to the Slovenian Accounting Standards and determined that the amendments to the standards did not require adjustments to the financial statements.

In 2018, other amendments were adopted to the Slovenian Accounting Standards 2016, which are applied in the preparation of the financial statements for the financial years beginning on or after 1 January 2019.

**Notable amendments were made to leases, regarding which the revised standard stipulates as follows:**

Upon the conclusion of the contract, the entity assesses whether the arrangement is or contains a lease. The contract is a lease contract or contains a lease if it conveys the right to control the use of identified asset for a period of time in exchange for consideration.

The Company as lessee

The Company applies a uniform approach to recognition and measurement of all leases, except for short-term leases and leases of small-value assets. The Company recognises a lease liability for lease payments and the right to use the assets, which represents the right to use the leased assets.

Company as the lessor

Leases in respect of which no significant ownership risks and rewards are transferred are classified as operating leases. Rental income is recognised on a straight-line basis over the lease term under revenue in the statement of profit or loss. Initial direct costs are additional costs that are directly attributable to the negotiation and arrangement of the lease, they increase the carrying amount of the leased asset and are recognised over the lease term in the same way as rental income. Contingent rents are recognised as income in the period in which they are earned.

The management of the Company verified the impact of the above amendments to the Slovenian Accounting Standards and determined that the amendments to the standards did not require adjustments to the financial statements.

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

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

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

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

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

Estimated useful lives for the current and comparative period are:

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

Amortisation rates did not change in 2019 as compared to the year before.

### **Property, Plant and Equipment**

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

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

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

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

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

Own products and services are capitalised when they increase the asset's future benefits or extend its useful life. These are the products and services created, or performed, the value of which is included in property, plant and equipment or intangible assets. At the same time, these effects of capitalising own products and services are reflected in other operating revenue.

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 50 years
Manufacturing equipment	2 to 30 years
Other equipment	2 to 5 years

Depreciation rates did not change in 2019 as compared to the year before.

## Financial Assets

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

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

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

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

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

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

### Available-for-sale financial assets

After initial recognition, the fair value of available-for-sale financial assets is reassessed as a rule every three months, and at the latest on the balance sheet date for the financial year. Fair value is generally calculated on the basis of the quoted price.

Upon recognition, available-for-sale financial assets are classified into the following categories:

- held for trading;
- not held for trading.

Held-for-trading financial assets are measured at fair value through profit or loss, while for assets not held for trading, the Company in accordance with SAS 3 decided to measure them at fair value through equity (other comprehensive income).

A change in the fair value of available-for-sale assets that an entity does not hold for trading is recognised directly in equity as an increase or decrease in the fair value reserve; if the fair value of an available-for-sale financial asset is less than its recognised value, a negative reserve arising from measurement at the fair value is recognised.

Upon derecognition of available-for-sale assets not held for trading, the difference between the carrying amount and the sum of the consideration received and the accumulated gain or loss recognised directly in equity is recognised in profit or loss.

The carrying amounts of securities are discounted at average securities prices upon sale or other disposal.

The assets shown in the balance sheet under *Other shares and interests* represent available-for-sale assets that are not held for trading.

## **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, considering the payment dynamic based on past experience, defaults, credit rating of the business partner and its status in case of insolvency proceedings.

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

## **Cash and Cash Equivalents**

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

## **Equity**

The Company's total equity comprises: called-up capital, capital surplus, revenue reserves, fair value reserve, retained earnings or accumulated losses and previously undistributed net profit or unsettled loss for the financial year.

Called-up capital comprises the basic share capital that is nominally defined in the Company's Articles of Association and comprises ordinary shares.

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

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

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

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

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

### **Provisions and Long-Term Accrued Costs and Deferred revenues**

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

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

Environmental provisions are established as the best estimate made by independent external environmental experts of the costs associated with the operation of landfills and plants owned by the Company for the coverage of long-term obligations.

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



## Liabilities

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

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

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

### Short-Term Accrued and Deferred 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.

### Revenue from Contracts with Customers

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.

Revenue from contracts with customers arises from the sale of chemical, metallurgical and other products and materials, where the performance obligation is satisfied at the moment the goods are shipped or taken over by the customer. However, in the case of revenue from contracts with customers resulting from the sale of a service, the performance obligation is satisfied at the moment the service is performed. The management assessed the impact of the standard on the financial statements based on the analysis performed and believes that SAS 15 does not significantly affect the timing of recognition and the amount of revenue recognised under these conditions.

Cinkarna Celje used *SAS 15* for the first time for the period to which the financial statements relate and, at the time of transition, applied the simplified retrospective method. There was no effect of restating the opening balance of retained earnings at the time of transition.

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

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

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

## **Expenses**

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

Operating expenses are recognised when material is used or the service is rendered and in the period to which they relate. The usual valuation of inventories of products and work-in-progress at production costs is based on operating expenses comprising the production costs that are no longer held in inventories as well as the purchasing and selling costs and the costs of general activities accrued during the accounting period. The transfer of costs from the inventories of products and work-in-progress to the costs of goods sold, and the transfer of acquisition cost of merchandise and materials to the costs of goods sold are carried out by applying the constant (estimated, standard) price method, taking into account the proportionate part of variance.

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

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

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

## **Corporate Income Tax**

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

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

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

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

## **Segment Reporting**

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

The Company's geographical segments are Slovenia, European Union, third countries and markets of the former Yugoslavia. The Company's business segments are Titanium dioxide, Zinc recycling, Construction products, Varnishes, coatings, masterbatches and printing inks, Agricultural products and other. The information about segments is provided in the financial section of the report under Revenues from Contracts with Customers.

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 2019	Cost		Adjustment		Carrying amount	
	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019
Long-term property rights	5,383,924	5,436,680	3,972,105	4,241,337	1,411,819	1,195,343
Other intangible assets	0	27,072	0	0	0	27,072
Assets being acquired	12,909	14,396	0	0	12,909	14,396
<b>TOTAL</b>	<b>5,396,833</b>	<b>5,478,148</b>	<b>3,972,105</b>	<b>4,241,337</b>	<b>1,424,728</b>	<b>1,236,811</b>

In EUR

Group of intangible assets for 2018	Cost		Adjustment		Carrying amount	
	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018
Long-term property rights	5,287,625	5,383,924	3,699,978	3,972,105	1,587,647	1,411,819
Other intangible assets	54,760	0	0	0	54,760	0
Assets being acquired	0	12,909	0	0	0	12,909
<b>TOTAL</b>	<b>5,342,385</b>	<b>5,396,833</b>	<b>3,699,978</b>	<b>3,972,105</b>	<b>1,642,407</b>	<b>1,424,728</b>

In 2019, the Company increased long-term property rights from investments in software and project documentation. Decreases in intangible assets relate to amortisation and write-off of other intangible assets. Other intangible assets (other long-term deferred costs and accrued revenues) comprise emission coupons received from the state free of charge, which are valued at EUR 1 each in accordance with Note 1 to the SAS 2/2016. The Company obtained 49,243 coupons in 2019 and was obliged to present 22,171 coupons for CO<sub>2</sub> emissions in 2019. The remaining 27,072 coupons are owned by the Company.

#### Changes in intangible assets

In EUR

2019	Long-term property rights	Other long-term deferred costs and accrued revenues	Assets being acquired	TOTAL
<b>COST</b>				
Balance as at 31 Dec 2018	5,383,924	0	12,909	<b>5,396,833</b>
Increases	0	49,243	55,089	<b>104,332</b>
Transfer from assets under acquisition	53,602	0	-53,602	<b>0</b>
Decreases	846	22,171	0	<b>23,017</b>
Balance as at 31 Dec 2019	5,436,680	27,072	14,396	<b>5,478,148</b>
<b>ADJUSTMENT</b>				
Balance as at 31 Dec 2018	3,972,105	0	0	<b>3,972,105</b>
Amortisation	270,078	0	0	<b>270,078</b>
Decreases	846	0	0	<b>846</b>
Balance as at 31 Dec 2019	4,241,337	0	0	<b>4,241,337</b>
<b>CARRYING AMOUNT</b>				
Balance as at 31 Dec 2018	1,411,819	0	12,909	<b>1,424,728</b>
Balance as at 31 Dec 2019	1,195,343	27,072	14,396	<b>1,236,811</b>

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

In EUR

<b>2018</b>	<b>Long-term property rights</b>	<b>Other long-term deferred costs and accrued revenues</b>	<b>Assets being acquired</b>	<b>TOTAL</b>
<b>COST</b>				
Balance as at 31 Dec 2017	5,287,625	54,760	0	<b>5,342,385</b>
Increases		50,255	112,047	<b>162,302</b>
Transfer from assets under acquisition	99,138	0	-99,138	<b>0</b>
Decreases	2,839	105,015	0	<b>107,854</b>
Balance as at 31 Dec 2018	5,383,924	0	12,909	<b>5,396,833</b>
<b>ADJUSTMENT</b>				
Balance as at 31 Dec 2017	3,699,978	0	0	<b>3,699,978</b>
Amortisation and depreciation	274,966	0	0	<b>274,966</b>
Decreases	2,839	0	0	<b>2,839</b>
Balance as at 31 Dec 2018	3,972,105	0	0	<b>3,972,105</b>
<b>CARRYING AMOUNT</b>				
Balance as at 31 Dec 2017	1,587,646	54,760	0	<b>1,642,406</b>
Balance as at 31 Dec 2018	1,411,819	0	12,909	<b>1,424,728</b>

## 2 Property, Plant and Equipment

In EUR

<b>Group of PPE for 2019</b>	<b>Cost</b>		<b>Adjustment</b>		<b>Carrying amount</b>	
	<b>31 Dec 2018</b>	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>	<b>31 Dec 2019</b>
Land	10,767,363	10,803,263	909,387	981,729	9,857,976	9,821,534
Buildings	117,642,330	120,691,641	75,569,282	78,461,230	42,073,048	42,230,411
Equipment	211,413,712	207,759,470	175,739,792	175,256,936	35,673,920	32,502,534
Assets being acquired	14,461,532	18,586,034	0	0	14,461,532	18,586,034
Advances	598,110	162,153	4,158	4,158	593,952	157,995
<b>TOTAL</b>	<b>354,883,047</b>	<b>358,002,561</b>	<b>252,222,619</b>	<b>254,704,053</b>	<b>102,660,428</b>	<b>103,298,508</b>

In EUR

<b>Group of PPE for 2018</b>	<b>Cost</b>		<b>Adjustment</b>		<b>Carrying amount</b>	
	<b>31 Dec 2017</b>	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>	<b>31 Dec 2018</b>
Land	10,711,758	10,767,363	837,046	909,387	9,874,712	9,857,976
Buildings	114,138,492	117,642,330	72,859,648	75,569,282	41,278,843	42,073,048
Equipment	215,083,183	211,413,712	183,325,451	175,739,792	31,757,732	35,673,920
Assets being acquired	8,611,333	14,461,532	0	0	8,611,333	14,461,532
Advances	2,373,148	598,110	4,158	4,158	2,368,990	593,952
<b>TOTAL</b>	<b>350,917,914</b>	<b>354,883,047</b>	<b>257,026,303</b>	<b>252,222,619</b>	<b>93,891,611</b>	<b>102,660,428</b>

## Changes in property, plant and equipment

In EUR

2019	Land	Buildings	Production and other equipment	TOTAL	Assets being acquired	Advances	TOTAL
<b>COST</b>							
Balance as at 31 Dec 2018	10,767,363	117,642,330	211,413,711	339,823,404	14,461,532	598,109	<b>354,883,045</b>
Increases	35,900	0	0	35,900	11,865,009	492,284	<b>12,393,193</b>
Transfer from assets under acquisition	0	3,049,311	4,691,196	7,740,507	-7,740,507	0	<b>0</b>
Decreases	0	0	8,345,437	8,345,437	0	928,241	<b>9,273,678</b>
Balance as at 31 Dec 2019	10,803,263	120,691,641	207,759,470	339,254,374	18,586,034	162,152	<b>358,002,560</b>
<b>ADJUSTMENT</b>							
Balance as at 31 Dec 2018	909,387	75,569,282	175,739,791	252,218,460	0	4,157	<b>252,222,617</b>
Depreciation	72,342	3,054,400	7,463,044	10,589,786	0	0	<b>10,589,786</b>
Decreases	0	162,452	8,138,932	8,301,384	0	0	<b>8,301,384</b>
Increases	0	0	193,033	193,033	0	0	<b>193,033</b>
Balance as at 31 Dec 2019	981,729	78,461,230	175,256,936	254,699,895	0	4,157	<b>254,704,052</b>
<b>CARRYING AMOUNT</b>							
Balance as at 31 Dec 2018	9,857,976	42,073,048	35,673,920	87,604,944	14,461,532	593,952	<b>102,660,428</b>
Balance as at 31 Dec 2019	9,821,534	42,230,411	32,502,534	84,554,479	18,586,034	157,995	<b>103,298,508</b>

In EUR

2018	Land	Buildings	Production and other equipment	TOTAL	Assets being acquired	Advances	TOTAL
<b>COST</b>							
Balance as at 31 Dec 2017	10,711,758	114,138,491	215,083,183	339,933,432	8,611,334	2,373,148	<b>350,917,914</b>
Increases	60,000	0	0	60,000	22,436,253	1,205,495	<b>23,701,748</b>
Transfer from assets under acquisition	0	3,661,389	12,924,665	16,586,054	-16,586,054	-2,980,534	<b>-2,980,534</b>
Decreases	4,395	157,550	16,594,137	16,756,082	0	0	<b>16,756,082</b>
Balance as at 31 Dec 2018	10,767,363	117,642,330	211,413,711	339,823,404	14,461,532	598,109	<b>354,883,045</b>
<b>ADJUSTMENT</b>							
Balance as at 31 Dec 2017	837,046	72,859,649	183,325,451	257,022,146	0	4,157	<b>257,026,303</b>
Depreciation	72,341	2,843,698	8,981,168	11,897,207	0	0	<b>11,897,207</b>
Decreases	0	90,523	16,567,198	16,657,721	0	0	<b>16,657,721</b>
Increases	0	43,542	370	43,912	0	0	<b>43,912</b>
Balance as at 31 Dec 2018	909,387	75,569,282	175,739,791	252,218,460	0	4,157	<b>252,222,617</b>
<b>CARRYING AMOUNT</b>							
Balance as at 31 Dec 2017	9,874,712	41,278,842	31,757,732	82,911,286	8,611,334	2,368,991	<b>93,891,611</b>
Balance as at 31 Dec 2018	9,857,976	42,073,048	35,673,920	87,604,944	14,461,532	593,952	<b>102,660,428</b>

In 2019, the Company disclosed an increase in property, plant and equipment resulting from the difference between the value of invested funds and accounted depreciation. In 2019, the Company made investments of EUR 11.96 million (EUR 22.6 million in 2018), mainly in the field of titanium dioxide, the most important of which are investments in the C line of neutralisation, modernisation of ore solution digestion and gas purification, replacement of the economiser, replacement of the sulphur combustion furnace and installation of Fundabac filter.

Property, plant and equipment also include the reported increase in cost by EUR 2,827,629 from capitalised own products and services, involving own maintenance services and material used for maintenance capitalised by the Company.

Land also comprises disclosed easements in compliance with SAS 2016 (2.39) in the amount of EUR 479,046. The increase in the cost of land arises from acquisition of land in the amount of EUR 35,900, whilst the decrease in land refers to amortisation of easement rights for the 2019 financial year of EUR 72,342.

The Company holds no assets under finance lease. As at 31 December 2019, the Company also had no assets pledged as collateral.

### 3 Financial Investments

#### Long-Term Financial Assets

In EUR

Group of long-term financial assets for 2019	Cost		Adjustment		Carrying amount	
	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019
Cinkarna BH, d. o. o.	580,503	0	580,503	0	0	0
Other investments	950,363	950,363	0	0	950,363	950,363
<b>TOTAL</b>	<b>1,530,866</b>	<b>950,363</b>	<b>580,503</b>	<b>0</b>	<b>950,363</b>	<b>950,363</b>

In EUR

Group of long-term financial assets for 2018	Cost		Adjustment		Carrying amount	
	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018
Cinkarna BH, d. o. o.	580,503	580,503	580,503	580,503	0	0
Other investments	950,363	950,363	0	0	950,363	950,363
<b>TOTAL</b>	<b>1,530,866</b>	<b>1,530,866</b>	<b>580,503</b>	<b>580,503</b>	<b>950,363</b>	<b>950,363</b>

2019	Elektro Celje, d. d.	Elektro Maribor, d. d.
Number 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 liquidation process of the subsidiary Cinkarna - BH, d.o.o., Tuzla was completed in early 2019. The investment in this company is accounted for in its entirety, as are the receivables and a short-term loan.

The assets of the subsidiary in the amount of EUR 70,408.05 were acquired by the parent company and recorded among receivables in the amount of EUR 19,857.21 and short-term assets held for sale in the amount of EUR 50,550.84. The carrying amount of the said property is 0, since revaluation adjustment was made for the entire amount of the value of the acquired receivables and real property because there was doubt as to repayment.

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

#### Changes in Long-Term Financial Assets

In EUR

2019	Long-term investments		
	Cinkarna BH d. o. o.	Other investments	Total
<b>COST</b>			
Balance as at 31 Dec 2018	580,503	950,363	<b>1,530,866</b>
Decrease during the year	580,503	0	<b>580,503</b>
Balance as at 31 Dec 2019	0	950,363	<b>950,363</b>
<b>ADJUSTMENT</b>			
Balance as at 31 Dec 2018	580,503	0	<b>580,503</b>
Decrease during the year	580,503	0	<b>580,503</b>
Balance as at 31 Dec 2019	0	0	<b>0</b>
<b>CARRYING AMOUNT</b>			
Balance as at 31 Dec 2018	0	950,363	<b>950,363</b>
Balance as at 31 Dec 2019	0	950,363	<b>950,363</b>

In EUR

2018	Long-term investments		
	Cinkarna BH d. o. o.	Other investments	Total
<b>COST</b>			
Balance as at 31 Dec 2017	580,503	950,363	<b>1,530,866</b>
Balance as at 31 Dec 2018	580,503	950,363	<b>1,530,866</b>
<b>ADJUSTMENT</b>			
Balance as at 31 Dec 2017	580,503	0	<b>580,503</b>
Balance as at 31 Dec 2018	580,503	0	<b>580,503</b>
<b>CARRYING AMOUNT</b>			
Balance as at 31 Dec 2017	0	950,363	<b>950,363</b>
Balance as at 31 Dec 2018	0	950,363	<b>950,363</b>

As at 31 December 2019, the Company has no long-term financial loans. Members of the Management Board and the Supervisory Board also received no long-term loans.



## Short-Term Financial Assets

In EUR

Group of investments for 2019	Investment value		Adjustment		Net investments	
	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019
Short-term loans to group companies	50,000	0	50,000	0	0	0
Short-term loans to others	200,000	200,000	0	0	200,000	200,000
Fair value of derivative financial instruments	47,681	160,650	0	0	47,681	160,650
<b>TOTAL</b>	<b>297,681</b>	<b>360,650</b>	<b>50,000</b>	<b>0</b>	<b>247,681</b>	<b>360,650</b>

In EUR

Group of investments for 2018	Investment value		Adjustment		Net investments	
	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018
Short-term loans to group companies	50,000	50,000	0	50,000	50,000	0
Short-term loans to others	0	200,000	0	0	0	200,000
Fair value of derivative financial instruments	0	47,681	0	0	0	47,681
<b>TOTAL</b>	<b>50,000</b>	<b>297,681</b>	<b>0</b>	<b>50,000</b>	<b>50,000</b>	<b>247,681</b>

A short-term loan of EUR 200,000 was granted to a sports society to be repaid in February 2020. The loan is not secured. The fair value of derivative financial instruments in the amount of EUR 160,650 refers to FX forward purchases and sales.

## 4 Deferred Tax Assets and Liabilities

In EUR

Description	Receivables	
	2019	2018
<b>Balance as at 1 Dec</b>	<b>2,558,621</b>	<b>2,648,509</b>
Increase during the year	47,301	70,045
Decrease during the year	801,076	159,933
<b>Balance as at 31 Dec</b>	<b>1,804,846</b>	<b>2,558,621</b>

The decrease in deferred tax assets relates to the use of provisions for jubilee and termination benefits, environmental and other provisions in the amount of EUR 585,394 and reversal of the allowance for receivables in the amount of EUR 215,682. The increase in deferred tax assets refers to one half of the formed provisions for jubilee benefits and termination benefits upon retirement in the amount of EUR 46,019 and the adjustment of assets in the amount of EUR 1,282. Changes in the balance of deferred tax assets had a negative impact on the statement of profit or loss in the amount of EUR 753,775.

The balance of deferred tax assets as at 31 December 2019 is disclosed at EUR 1,313,552 from 50% from environmental provisions, (while in 2018 the respective amount stood at EUR 1,809,955), with allowances for receivables at EUR 143,671 (in 2018: EUR 237,485) and EUR 347,623 from 50% of provisions for termination and jubilee benefits (in 2018: EUR 511,181). The basis for the recognition of deferred tax assets is future taxable profits arising from the Company's business plan for 2020 and the Company's strategy until 2023. All effects were recognised in the statement of profit or loss.

## 5 Inventories

In EUR

Group of inventories	31 Dec 2019	31 Dec 2018	Index 19/18	Realisable value
Material	24,636,886	26,042,456	95	24,636,886
Work-in-progress	2,297,051	2,483,963	92	2,297,051
Products	13,873,426	17,457,567	79	19,172,923
Merchandise	34,738	66,339	52	34,738
Advances given	150,285	16,687	901	150,285
<b>TOTAL</b>	<b>40,992,387</b>	<b>46,067,012</b>	<b>89</b>	<b>46,291,883</b>

In the 2019 financial year, an allowance was made to the value of inventories of materials and goods in the amount of EUR 393,367 (in 2018, in the amount of EUR 122,777) due to the revaluation, obsolescence and unserviceability of spare parts inventories and the revaluation of inventories related to the closing of the construction product line. No material inventory differences were established in 2019.

Allowances due to obsolescence and unserviceability of inventories of work-in-progress and finished products decreased by EUR 16,095 in the current year (in 2018 they increased by EUR 29,356 ), resulting from the construction product line. No inventory differences were established in 2019.

In comparison with 2018, the value of inventories of finished products and production fell by as much as 19% owing to higher sales of titanium dioxide pigment. Inventories were not pledged as collateral. Net realisable value of inventories as at 31 December 2019 exceeded their carrying amount.

## 6 Operating Receivables

### Short-Term Trade Receivables

In EUR

Group of receivables for 2019	Value of receivables		Allowance		Net receivables	
	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019
Domestic buyers	3,592,386	3,736,871	406,481	403,510	3,185,905	3,333,361
International buyers	21,692,909	20,294,503	843,440	368,351	20,849,469	19,926,152
Exporting agents	320,063	680,004	0	0	320,063	680,004
Advances given	2,500	9,183	0	0	2,500	9,183
<b>TOTAL</b>	<b>25,607,858</b>	<b>24,720,561</b>	<b>1,249,921</b>	<b>771,861</b>	<b>24,357,937</b>	<b>23,948,700</b>

In EUR

Group of receivables for 2018	Value of receivables		Allowance		Net receivables	
	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018
Domestic buyers	4,536,058	3,592,386	421,964	406,481	4,114,094	3,185,905
International buyers	28,531,481	21,692,909	1,054,470	843,440	27,477,011	20,849,469
Exporting agents	981,573	320,063	0	0	981,573	320,063
Advances given	3,086	2,500	0	0	3,086	2,500
<b>TOTAL</b>	<b>34,052,198</b>	<b>25,607,858</b>	<b>1,476,434</b>	<b>1,249,921</b>	<b>32,575,764</b>	<b>24,357,937</b>

### Changes in Allowance for Short-Term Trade Receivables

In EUR

2019	Balance as at 31 Dec 2018	Allowance made in 2019	Reversal of allowance from previous periods	Settled receivables previously written off	Balance as at 31 Dec 2019
Domestic buyers	406,481	0	0	2,971	403,510
International buyers	843,441	26,602	488,026	13,666	368,351
<b>TOTAL</b>	<b>1,249,922</b>	<b>26,602</b>	<b>488,026</b>	<b>16,637</b>	<b>771,861</b>

The amount of receivables allowance in 2019 amounts to EUR 26,602, of which only EUR 9,806 is recognised under operating expenses from revaluation of current assets (see Note 12). The difference of EUR 16,796 is accounted for by an adjustment of the value of the acquired receivables.

In EUR

Leto 2018	Balance as at 31 Dec 2017	Allowance 2018	Allowance made in 2018	Reversal of allowance from previous periods	Settled receivables previously written off	Balance as at 31 Dec 2018
Domestic buyers	421,964	-647	2,933	17,256	513	406,481
International buyers	1,054,470	647	25,137	0	236,814	843,440
<b>TOTAL</b>	<b>1,476,434</b>	<b>0</b>	<b>28,070</b>	<b>17,256</b>	<b>237,327</b>	<b>1,249,921</b>

## Trade Receivables by Maturity

In EUR

Geographical segment	Total receivables		Outstanding		Overdue							
					0 to 15 days		16 to 60 days		61 to 180 days		over 180 days	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Domestic buyers	3,333,361	3,185,905	3,167,409	2,750,590	114,380	326,140	51,229	103,131	343	4,788	0	1,257
International buyers – EU and third countries	19,607,711	19,762,174	18,645,712	17,945,215	656,764	1,141,276	280,819	290,632	24,347	365,575	69	19,475
Buyers in the former Yugoslavia markets	318,441	1,087,295	226,659	799,340	59,697	39,102	32,085	218,493	0	30,360	0	0
Exporting agents	680,004	320,063	680,004	320,063	0	0	0	0	0	0	0	0
Advances given	9,183	2,500	9,183	2,500	0	0	0	0	0	0	0	0
<b>TOTAL trade receivables</b>	<b>23,948,700</b>	<b>24,357,937</b>	<b>22,728,967</b>	<b>21,817,708</b>	<b>830,841</b>	<b>1,506,518</b>	<b>364,133</b>	<b>612,256</b>	<b>24,690</b>	<b>400,723</b>	<b>69</b>	<b>20,732</b>

## Short-Term Receivables Due from Others

In EUR

Group of receivables	31 Dec 2019	31 Dec 2018	Index 19/18
VAT claims	1,634,971	1,372,102	119
Receivables from the state arising from overpaid withholding corporate income tax	1,418,602	446,527	318
Receivables due from institutions	101,420	67,995	149
Receivables due from employees	20,731	20,185	103
Other receivables	7,564	4,536	167
<b>TOTAL</b>	<b>3,183,288</b>	<b>1,911,345</b>	<b>167</b>

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

## 7 Cash and Cash Equivalents

In EUR

Group of assets	31 Dec 2019	31 Dec 2018	Index 19/18
Cash on hand	298	282	106
Cash in transit	86	77	112
Cash in bank accounts	16,259,781	7,912,273	206
Short-term call deposits	15,437,719	25,570,322	60
Foreign currency assets in bank accounts	358	441	81
<b>TOTAL</b>	<b>31,698,242</b>	<b>33,483,395</b>	<b>95</b>

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

## 8 Equity

In EUR

Equity items	31 Dec 2019	31 Dec 2018
Share capital	20,229,770	20,396,244
Capital surplus	44,284,976	44,284,976
Legal reserves	16,931,435	16,931,435
Reserves for treasury shares	1,992,963	1,364,106
Treasury shares	-1,992,963	-1,364,106
Other revenue reserves	74,670,090	71,137,482
Fair-value reserves	-1,618,921	-1,666,698
Retained earnings/accumulated loss	-231,793	-76,610
Net profit or loss for the year	16,077,289	22,918,637
<b>TOTAL EQUITY</b>	<b>170,342,846</b>	<b>173,925,466</b>

The Company's share capital comprises 807,977 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.

As at 31 December 2019, the Company owns 10,652 treasury shares obtained in 2019 based on a resolution of the General Meeting of 5 June 2018, worth EUR 1,992,963, which accounts for 1.3% of share capital. The Company established reserves for treasury shares in the amount of newly redeemed treasury shares. Based on the resolution of the General Meeting, the Management Board was authorised to cancel treasury shares already redeemed in 2018 and earlier (6,649 treasury shares) at the expense of share capital decrease, which was entered in the Companies Register at the beginning of 2019. On this basis, the share capital of the Company decreased by EUR 167 thousand.

#### Participation of the Management Board in Equity

<b>2019</b>	<b>Number of shares</b>	<b>Share in equity (%)</b>
Tomaž Benčina	383	0.047
Nikolaja Podgoršek Selič	186	0.023
Marko Cvetko	31	0.004

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

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

In EUR

<b>2019</b>	<b>31 Dec 2018</b>	<b>Increase</b>	<b>Decrease</b>	<b>31 Dec 2019</b>
Change in revaluation reserve from fair value accounting of financial assets	1,277	0	0	1,277
Other components of the total comprehensive income for the reporting period	-1,667,975	47,777	0	-1,620,198
<b>TOTAL</b>	<b>-1,666,698</b>	<b>47,777</b>	<b>0</b>	<b>-1,618,921</b>

In EUR

<b>2018</b>	<b>31 Dec 2017</b>	<b>Increase</b>	<b>Decrease</b>	<b>31 Dec 2018</b>
Change in revaluation reserve from fair value accounting of financial assets	1,277	0	0	1,277
Other components of the total comprehensive income for the reporting period	-1,266,554	79,728	481,149	-1,667,975
<b>TOTAL</b>	<b>-1,265,277</b>	<b>79,728</b>	<b>481,149</b>	<b>-1,666,698</b>

On 4 June 2019, the Company's General Meeting voted in favour of the proposal on the use of distributable profit for 2018 in the amount of EUR 22,842,027. According to the adopted proposal, EUR 22,841,510 of distributable profit was paid as dividends. The remaining amount of EUR 517 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 2019 stood at EUR 3.9 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). Provisions were made based on the framework offer for incineration (Belgium) or long-term disposal at a radioactive waste disposal site. The amount of provisions was consistent with both above stated 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. In spite of several requests, the Company has not yet received an official reply from MOP. 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. Sulphur 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 treatment 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 was made for moving from our temporary storage facility to Brinje storage facility. In 2017, we contacted the American company US Ecology, with which we confirmed the possibility of and agreed on the export of waste to permanent storage in the state of Idaho, thus finding a more cost-effective solution for permanent disposal of waste. In 2019, the provision was derecognised based on two fulfilled conditions, namely we acquired export licenses, a permit for transport through transit countries and the US EPA import license, all of which we were able to collect and obtain by July 2019. The second condition was the acquisition of a certificate of suitability and conformity upon acceptance of TENORM waste at the Idaho site, as stipulated in the contract provisions on the final transfer of title and risk. We received the latter in November 2019. If these permits and certificates had not been obtained, the waste would have remained in Slovenia, and the Brinje landfill site would have been the solution used. Waste was transported in the third quarter of 2019 and in the last quarter we received a certificate of successful disposal and storage of that waste in the state of Idaho (transportation cost was EUR 691,004). The remainder of the funds set aside in the amount of EUR 4,158,375 increases other operating revenues arising from the derecognition of provisions. At the end of 2019, the provision was completely reversed.

- 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 2018, the balance of provisions was EUR 449,400. Based on works performed by contractors, we used EUR 65,034 in 2019, so that the balance of provisions as at 31 December 2019 equalled EUR 384,366.
- IV. We originally made provisions of EUR 5 million for rehabilitation of the Bukovžlak landfill. As at the end of 2018, the balance of provisions was EUR 4.5 million. We implemented a series of interventions at the location in the years following the establishment of provisions. The responsible construction designer Hidrosvet d.o.o. has prepared a cost estimate for completion of works based on the facts known to the date, which must be increased by the amount necessary for a new pumping station for leachate. In 2019, EUR 131,298 was used for rehabilitation. The remaining amount totalled EUR 4,479,352 at the end of 2019.
- V. The results of regular technical monitoring of the high barrier Bukovžlak show a constant trend of deteriorating safety on the east side of the barrier. To ensure long-term safety, the most suitable measure would be drainage, but this procedure requires preparation of projects and obtainment of permits. To prevent critical deterioration of safety in the meantime, the construction designer anticipated two parallel interventions: rehabilitation of the east side and preparation of the dike to start decreasing the level of water in the lake. Estimated costs amount to EUR 3,032,000. We made new provisions for the mentioned amount as at 31 December 2017. In 2019, we used funds in the amount of EUR 39,204, so that the balance of provisions as at 31 December 2019 equalled EUR 2,951,877.
- VI. Elimination of risks arising from old burdens at the locations of current production of Cinkarna Celje: The contractor compiling the Human Health and Environmental Risk Assessment Due to Old Burdens for the locations of the current production of Cinkarna Celje anticipated possible remediation measures and estimated them financially at the total of EUR 6.4 million. We

established new provisions as at 31 December 2017 at the level of the mentioned amount. In 2019, we used EUR 140,372 of provisions, so that as at 31 December 2019 the balance of provisions was EUR 6,011,275.

Considering the fact that the provisions for the high barrier Bukovžlak and for the eliminated risks arising from old burdens at the locations of current production of Cinkarna Celje were restated/formed at the end of 2017, the management assesses that, according to the estimate of the necessary rehabilitation costs, the costs of specific services and materials have not significantly changed and the amount of established provisions is adequate.

In EUR

Environmental Provisions	Balance as at 31 Dec 2017	Used in 2018	Balance as at 31 Dec 2018	Used in 2019	Derecognition in 2019	Balance as at 31 Dec 2018
Za Travnik plant	450,000	600	449,400	65,034	0	384,366
Bukovžlak waste landfill (ONOB)	4,941,557	330,908	4,610,649	131,298	0	4,479,351
TENORM waste disposal	4,953,534	104,155	4,849,379	691,004	4,158,375	0
Bukovžlak high barrier	3,032,000	40,919	2,991,081	39,204	0	2,951,877
Elimination of risks arising from old burdens - CDM SMITH	6,400,000	248,352	6,151,648	140,372	0	6,011,275
Environmental investment in TIO <sub>2</sub> production	4,799,729	428,281	4,371,447	429,977	0	3,941,471
<b>TOTAL</b>	<b>24,576,820</b>	<b>1,153,216</b>	<b>23,423,604</b>	<b>1,496,889</b>	<b>4,158,375</b>	<b>17,768,340</b>

Drawing of provisions in 2019 consists of costs of contractors for works performed in the amount of EUR 1,066,912 and depreciation charge at 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 429,977 (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: 2% growth of salaries at the Company, discount rate of 0.7% per annum (in 2018: 2.25%), conditions for retirement, mortality tables 2000-2002 and employee fluctuation rate (the assumptions applied in 2019 are the same as those in 2018, except for discount factor, which equals the return on RS bonds with average market return according to MTS methodology).

#### 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 2019, 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 2019	31 Dec 2018	Index 19/18
Provisions for termination and jubilee benefits	4,208,262	3,811,723	110
Other long-term provisions – environmental	17,768,340	23,423,604	76
Government grants received	27,072	0	-
Accrued costs	15,692	15,692	100
Provisions for lawsuits	280,345	0	-
Deferred revenues	278,334	512,274	54
<b>TOTAL</b>	<b>22,578,045</b>	<b>27,763,293</b>	<b>81</b>

In 2019, the Company established additional provisions for claims of legal and natural persons due to accidents at work in the amount of EUR 280,345.



In EUR

<b>Provisions and Long-Term Accrued Costs and Deferred revenues for 2019</b>	<b>31 Dec 2018</b>	<b>New</b>	<b>Used for specified purpose</b>	<b>Reversed</b>	<b>31 Dec 2019</b>
Provisions for termination and jubilee benefits	3,811,723	1,033,486	636,946	0	4,208,262
Provisions for lawsuits	0	280,345	0	0	280,345
Long-term accrued costs	15,692	0	0	0	15,692
Environmental provisions	23,423,604	0	1,496,889	4,158,375	17,768,340
Emission coupons	0	49,243	22,171	0	27,072
Assigned contributions for employment of disabled persons	5,729	78,650	81,483	0	2,896
Long-term deferred revenues for equipment	258,246	0	21,895	177,887	58,464
Funds received from the ERDF	244,876	0	27,902	0	216,974
Other deferred revenues	3,423	0	3,423	0	0
<b>TOTAL</b>	<b>27,763,293</b>	<b>1,441,724</b>	<b>2,290,709</b>	<b>4,336,262</b>	<b>22,578,045</b>

In EUR

<b>Provisions and Long-Term Accrued Costs and Deferred revenues for 2018</b>	<b>31 Dec 2017</b>	<b>New</b>	<b>Used for specified purpose</b>	<b>Reversed</b>	<b>31 Dec 2018</b>
Provisions for jubilee and termination benefits	3,318,225	684,081	174,598	15,985	3,811,723
Long-term accrued costs	15,692	0	0	0	15,692
Environmental provisions	24,576,820	0	1,153,216	0	23,423,604
Emission coupons	29,926	50,255	80,181	0	0
Assigned contributions for employment of disabled persons	7,097	124,553	125,921	0	5,729
Long-term deferred revenues for equipment	201,357	73,390	16,501	0	258,246
Funds received from the ERDF	272,778	0	27,902	0	244,876
Other deferred revenues	6,847	0	3,424	0	3,423
<b>TOTAL</b>	<b>28,428,742</b>	<b>932,279</b>	<b>1,581,743</b>	<b>15,985</b>	<b>27,763,293</b>

## 10 Short-Term Liabilities

### Other Short-Term Financial Liabilities

In EUR

<b>Group of liabilities</b>	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>	Index 19/18
Short-term liabilities associated with disbursement of profit	22,973	30,327	76
Short-term financial liabilities – assignments, cessions	21,621	40,350	54
<b>TOTAL</b>	<b>44,594</b>	<b>70,677</b>	<b>63</b>

### Short-Term Operating Liabilities

In EUR

<b>Group of liabilities</b>	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>	Index 19/18
Short-term trade payables to domestic suppliers	7,151,802	6,405,926	112
Short-term trade payables to foreign suppliers	2,331,459	2,203,271	106
Short-term liabilities for goods and services not invoiced	64	74,412	0
Short-term liabilities from advances	407,013	27,428	1,484
Short-term liabilities to employees	2,356,703	1,332,779	177
Short-term liabilities for payroll tax	1,201,279	728,777	165
Short-term liabilities to government and other institutions	486,896	553,593	88
Other short-term liabilities	11,500	10,559	109
<b>TOTAL</b>	<b>13,946,716</b>	<b>11,336,745</b>	<b>123</b>



## 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 2019	31 Dec 2018	Index 19/18
Prepaid costs	327,660	166,688	197
VAT on received advances	500	594	84
Material in transit and other deferred costs and accrued revenues	5,110	125,220	4
<b>TOTAL</b>	<b>333,270</b>	<b>292,502</b>	<b>114</b>

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

In EUR

Description	31 Dec 2019	31 Dec 2018	Index 19/18
Accrued unused right to annual leave	773,768	767,397	101
VAT on advances given	13,664	601	2,275
Other accrued costs and deferred revenues	107,432	89,833	119
<b>TOTAL</b>	<b>894,864</b>	<b>857,831</b>	<b>104</b>

## 12 Contingent assets and liabilities

In EUR

Description	31 Dec 2019	31 Dec 2018	Index 19/18
Guarantees granted	2,515,051	2,598,815	97
Futures and forwards	640,987	320,537	200
Payment cards VISA and Mastercard	53,500	53,500	100
Material in the process of completion or processing	59,725	59,725	100
<b>TOTAL</b>	<b>3,269,263</b>	<b>3,032,577</b>	<b>108</b>

Guarantees granted represent liabilities to Abanka, d. d. and UniCredit Bank d. d. in the amount of EUR 2,504,854 and warranty guarantees in the amount of EUR 10,197.

On 27 October 2017, the City Municipality of Celje filed a lawsuit against Cinkarna Celje, d. d. in the amount of EUR 1.3 million for reclamation of polluted soil. The management of the Company, relying on the assessments of external legal experts, concluded that the lawsuit would probably be decided in favour of the Company and therefore no provision was made for these purposes.

### 13 Write-Downs in Value

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

			In EUR
Description	2019	2018	Index 19/18
<b>Amortisation and depreciation</b>	<b>10,859,864</b>	<b>12,172,175</b>	<b>89</b>
- intangible assets	270,078	274,966	98
- easement	72,342	72,342	100
- buildings	3,054,400	2,843,698	107
- production equipment	7,457,981	8,979,266	83
- other equipment	5,063	1,903	266
<b>Revaluation operating expenses associated with non-current assets</b>	<b>3,624</b>	<b>49,456</b>	<b>7</b>
- loss on elimination of intangible assets and property, plant and equipment	3,624	49,456	7
<b>Revaluation operating expenses associated with operating current assets</b>	<b>424,193</b>	<b>168,705</b>	<b>251</b>
- of which allowance for receivables	9,806	28,070	35
- of which revaluation of inventories of material and merchandise	393,367	122,777	320
- write-offs and other	21,020	17,858	118
<b>TOTAL</b>	<b>11,287,681</b>	<b>12,390,336</b>	<b>91</b>

### 14 Labour Costs

			In EUR
Labour costs	2019	2018	Index 19/18
Salaries, wages and compensations for salaries and wages	20,658,999	23,052,938	90
Social security contributions	3,805,782	3,898,975	98
Reimbursements of expenses to employees and other employee income	5,992,337	2,731,188	219
Supplementary pension insurance	399,863	399,155	100
<b>TOTAL</b>	<b>30,856,980</b>	<b>30,082,256</b>	<b>103</b>

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 872,544 in 2019 and to EUR 878,817 in 2018. 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 2019, 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 701,100.36 (in 2018 the respective costs stood at EUR 430,473). Taking into account the number of hours worked based on these contracts, 29.72 persons were employed.

### Gross Receipts of Groups of Persons

			In EUR
	2019	2018	Index 19/18
Members of the Management Board	888,874	1,003,292	89
Members of the Supervisory Board	110,818	113,501	98
Employees under contracts for which the tariff section of the collective agreement does not apply	3,272,016	3,392,761	96
<b>Total gross receipts of groups of persons</b>	<b>4,271,708</b>	<b>4,509,554</b>	<b>95</b>

## 15 Operating Expenses

### Operating Expenses

In EUR

Expense	2019	2018	Index 19/18
Cost of material	93,163,256	87,720,810	106
Cost of services	14,790,940	13,992,075	106
Cost of goods and materials sold	331,442	291,830	114
Other operating expenses	1,542,270	1,273,775	121
<b>TOTAL</b>	<b>109,827,908</b>	<b>103.278.490</b>	<b>106</b>

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

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

Other operating expenses comprise environmental duties and taxes of EUR 481,928, municipal building land use duty amounting to EUR 367,016, bonuses to secondary school and university students on practice equalling EUR 232,708, accrued provisions for claims of legal and natural persons due to accidents at work in the amount of EUR 280,345 and other costs during the financial year totalling EUR 180,274.

The 2019 audit of the financial statements was performed by the audit firm Ernst & Young revizija, d. o. o. The contractual value of the agreed auditing services was EUR 23,500 increased by the VAT and travel expenses. In 2019, the audit firm Ernst & Young provided no non-audit services.

## 16 Finance Expenses

In EUR

Expense	2019	2018	Index 19/18
Interest expenses	12,739	5,510	231
Foreign exchange differences	366,240	911,895	40
Interest on provisions for termination and jubilee benefits	85,764	74,725	115
<b>TOTAL</b>	<b>464,743</b>	<b>992,131</b>	<b>47</b>

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 61 thousand from forwards and futures.

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

## 17 Costs by functional group

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

In EUR

	2019	2018	Index 19/18
Production costs of products sold	94,174,604	73,453,076	128
Cost of goods sold	331,442	291,830	114
Selling costs	35,468,499	36,034,486	98
Costs of general and administrative activities	25,769,077	24,215,271	106
<b>TOTAL</b>	<b>155,743,622</b>	<b>133,994,663</b>	<b>116</b>

## 18 Revenue from Contracts with Customers

Revenues from contracts with customers 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.

In EUR

	Realisation		Index 19/18
	2019	2018	
Net revenues from contracts of customers on products and services	172,161,860	163,503,091	105
Net revenues from contracts of customers on goods and material	425,118	457,770	93
<b>TOTAL</b>	<b>172,586,979</b>	<b>163,960,861</b>	<b>105</b>

## 19 Sales by segment

### Sales by Business Segment

In EUR

	Realisation		Index 19/18
	2019	2018	
Titanium Dioxide	140,356,503	131,546,536	107
Zinc recycling	7,301,913	8,491,559	86
Construction products	1,867,992	2,688,265	69
Varnishes, coatings, masterbatches and printing inks	14,824,299	13,267,665	112
Agricultural products	4,762,037	4,084,885	117
Other	3,474,235	3,881,951	89
<b>TOTAL</b>	<b>172,586,979</b>	<b>163,960,861</b>	<b>105</b>

### Sales by Geographical Segment

In EUR

	Realisation		Index 19/18
	2019	2018	
Slovenia	18,818,634	21,624,294	87
European Union	122,771,835	118,346,688	104
Former Yugoslavia markets	3,570,343	5,325,682	67
Third countries	23,971,862	16,089,952	149
Third countries – dollar market	3,454,305	2,574,245	134
<b>TOTAL</b>	<b>172,586,979</b>	<b>163,960,861</b>	<b>105</b>

### Profit or Loss by Business Segment

In EUR

	2019	2018	Index 19/18
Titanium Dioxide	20,406,480	36,358,152	56
Other	465,247	-4,014,819	-
Unclassified	564,658	-1,785,150	-
<b>Total</b>	<b>21,436,385</b>	<b>30,558,183</b>	<b>70</b>

## 20 Other Operating Revenues

In EUR

Revenue	2019	2018	Index 19/18
Sale of emission coupons	-	1,614,537	-
Revenues from use and reversal of long-term provisions	4,901,263	618,336	793
Revaluation operating revenues	997,423	302,935	329
Collected claims previously written-off	20,617	374,517	6
Other revenue	136,653	84,335	162
<b>TOTAL</b>	<b>6,055,956</b>	<b>2,994,660</b>	<b>202</b>

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 429,977, depreciation of means of work of disabled employees and their derecognition in the amount of EUR 185,105 and covering of salaries and wages of disabled employees in the amount of EUR 81,482 under the Vocational Rehabilitation and Employment of Disabled Persons Act as well as EUR 7,753 from reversal of provisions for jubilee and termination benefits in accordance with the actuarial calculation, and the bulk in the amount of EUR 4,158,375 relating to the derecognition of the provision for TENORM waste, which was successfully transported and stored in the state of Idaho.

Revaluation operating revenues relate to the sale of fixed assets, mainly the sale of construction compounds plant equipment in the amount of EUR 976,534 (which was sold to a purchaser of construction materials in September 2019), the sale value of which exceeds the respective book value.

Other revenues include revenues from previous years in the amount of EUR 56,147, funds from development funds in the amount of EUR 32,401 and the difference in excise duty on energy products, etc.

## 21 Finance Income

	In EUR		
Revenue	2019	2018	Index 19/18
Interest income	44,532	41,865	106
Foreign exchange differences	404,852	486,549	83
Income from other investments	24,954	24,244	103
<b>TOTAL</b>	<b>474,338</b>	<b>552,658</b>	<b>86</b>

Finance revenue includes interest received on investing activities and receivables, revenue from long-term financial assets and foreign exchange gains from operating and financing activities. Foreign exchange gains include EUR 174 thousand from forward transactions.

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

## 22 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 2019 is decreased by reliefs provided for investments into research and development, hiring of disabled persons, voluntary supplementary pension insurance, investment into equipment and donations.

	In EUR		
	2019	2018	Index 19/18
Pre-tax profit or loss in accordance with SAS	<b>25,702,178</b>	<b>36,023,655</b>	71
Revenues excluded from the tax base or increasing the tax base	-45.468	-398.971	11
Expenses not recognised for tax purposes	1,189,257	245,999	483
<i>Tax reliefs</i>	-8,345,874	-7,578,134	110
<b>Tax base total</b>	<b>18,500,093</b>	<b>28,292,549</b>	<b>65</b>
<i>Tax rate</i>	19%	19%	100
<b>Tax at source</b>	<b>3,000</b>	<b>0</b>	-
<b>Corporate income tax</b>	<b>3,512,018</b>	<b>5,375,584</b>	<b>65</b>

The effective tax rate calculated as the ratio between tax expenses and the accounting profit or loss is 13.66% in 2019 and 14.92% in 2018.

In accordance with SAS 5.15, the Company disclosed an increase in deferred tax assets arising from temporary differences. The decrease in 2019 relates to the difference between:

In EUR

Description	2019	2018	Index 19/18
Use of provisions	-556,912	-86,974	640
Reversal of allowance for receivables (investments)	-215,682	-72,958	296
Other derecognition	-28,482	0	-
Established provisions	46,019	64,712	71
Allowance for receivables (investments)	1,282	5,333	24
<b>TOTAL</b>	<b>-753,775</b>	<b>-89,888</b>	<b>839</b>

## V STATEMENT OF CASH FLOWS

The statement of cash flows shows the change in the balance of cash and cash equivalents for the financial year as the difference between the balance as at 31 December 2019 and 1 January 2019. It is compiled according to the indirect method using data from two consecutive balance sheets in accordance with SAS 22.9, i.e. according to the abbreviated format II. Theoretically possible items are not shown and values are disclosed for the current and previous year.

## VI STATEMENT OF CHANGES IN EQUITY

The statement of changes in equity has the form of a table of changes of all equity components in accordance with SAS 23. Theoretically possible items are not presented. Changes in equity relate to the decision of the General Meeting on the allocation of distributable profit for 2018 for dividend distribution to the owners that were paid out in 2019, and the redemption and cancellation of treasury shares.

Pursuant to point 14 of Article 64 of the Companies Act (ZGD-1), the determination of distributable profit is appended to the statement of changes in equity. It represents 75% of net profit for 2019 and retained earnings for 2018. The proposal for distribution of distributable profit is provided in the appendix.

## VII FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

### Credit risk

The key credit risk of Cinkarna Celje, d. d. is the risk of default by customers on maturity.

The risk is limited as we mostly do business with long-standing partners who are frequently well-known traditional European industrial companies with a high credit rating. Over the last years we noticed that the payment discipline is relatively poor in Slovenia, the Balkans and Eastern Europe, but we do not expect further problems in this geographical area in the future and the risk potential has notably decreased. Owing to the reorganisation/cleansing of the portfolio of strategic business lines of the Company, specifically the abolishment of the graphic intermediate goods line, the titanium-zinc sheet line, the anti-corrosion coatings line and the construction material line, the credit risk exposure was significantly reduced, which is evidenced by the data on the maturity of receivables and the fact that we practically no longer record any additional allowances of receivables as a result of doubtful payment and/or default on disclosed trade receivables.

The carrying amount of the financial assets most exposed to credit risk at the reporting date was as follows:

	Note	31 Dec 2019	31 Dec 2018
Loans granted	3	200,000	200,000
Financial assets	3	160,650	47,681
Trade receivables	6	23,948,700	24,357,937
Cash and cash equivalents	7	31,698,242	33,483,395
<b>TOTAL</b>		<b>56,007,592</b>	<b>58,089,013</b>

The Company has a sound structure of trade receivables, which is reflected in Note 6 Operating Receivables in the table showing the receivables by maturity and in the table of changes in the value adjustment of short-term trade receivables.

### Currency risk

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 raw materials and exceptionally sulphur and copper compounds. In terms of volume, exposure is significantly lower in dollar-denominated sales.

We are continuously monitoring changes and forecasts in relation to the dynamics of the euro/US dollar currency pair. Basically, the short-term risk of adverse changes in the dollar exchange rate is limited by the standardised and consistent use of financial instruments (dollar futures). We achieve virtually complete coverage of relevant business events involving the EUR/US dollar currency pair.

We generated financial gain of EUR 113 thousand from forward transactions as a result of hedging against the risk of change in the US dollar exchange rate.

### VIII FINANCIAL RATIOS UNDER GOOD ACCOUNTING PRACTICE 9

Financial ratios	2019	2018
Equity financing rate	82.35%	81.29%
Long-term financing rate	92.83%	94.27%
Operating fixed assets rate	50.28%	48.64%
Long-term assets rate	51.63%	50.29%
Equity to fixed assets ratio	1.64	1.67
Acid test ratio	2.27	2.94
Quick ratio	4.23	5.26
Current ratio	7.16	9.30
Operating efficiency ratio	1.17	1.25
Net return on equity	0.15	0.22
Dividends to share equity ratio	1.12	1.06



## Significant Business Events Occurring After the End of the Financial Year

Pursuant to the resolution of the General Meeting of Shareholders dated 5 June 2018, the Management Board was instructed to redeem treasury shares up to 10% of share capital with the purpose of cancelling treasury shares on the account of share capital decrease. In the beginning of 2020, the Management Board obtained another 1,069 treasury shares, which it will cancel together with treasury shares redeemed in 2019 (10,652), totalling 11,721, against share capital decrease in 2020, when share capital decrease is to be entered in the Companies Register.

After the Covid-19 infection had transmitted from China in February 2020, it had been spreading rapidly in Europe by the time this report was drafted, most notably in Northern Italy, causing WHO to declare a pandemic on 11 March 2020, followed by Slovenian Government's declaring the epidemic on 12 March 2020.

At the time this report was written, there was one case of infection recorded and confirmed in the Company. All business processes are running smoothly. The Company is well stocked with key raw materials and inventory levels are sufficient for many months of uninterrupted production. The market situation is stable. So far, we have not recorded a decline in orders and sales. On the contrary, the sales volume is higher than last year and the planned level for this period, which is attributed to the absence of supply from China.

Short-term risks to the smooth operation of the Company are divided into three groups, namely risks in the field of raw material supply, risks in the field of sales and risks in the field of human resources or workload of organisational and working groups in the company. Human resources risk is rated as the most pressing, while the former two risks are manageable in the current stage of infection spread.

The Company established protocols of operation should the infection spread further, established a decision-making/coordination group and provided adequate information support for the implementation of measures and operations of the Company.

In terms of providing HR support to business processes, the Company adopted an action plan prescribing preventive measures aimed at limiting the spread of infection, and defined the procedures for managing business processes if employee attendance significantly decreased. As a last resort, scenarios of controlled shutdown and closure of individual production processes are also projected, taking into account the predefined trigger conditions.

The impact of the spread of Covid-19 infection on the future business of the Company cannot be qualified and quantified, as it depends on the extent, development dynamics, geographical expansion and the transition of influences along the value chain or sectors. At the time of writing this report, we do not detect any relevant direct impacts.

There were no other business events that would affect the 2019 financial statements.



This is a translation of the original report in Slovene language

## INDEPENDENT AUDITOR'S REPORT

To the shareholders of Cinkarna Celje d.d.

### Opinion

We have audited the financial statements of Cinkarna Celje d.d. (the Company), which comprise the statement of financial position as at 31 December 2019, the income statement, the statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with Slovenian Accounting Standards.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014 of the European Parliament and the Council"). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the 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 and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the financial statements of the current period. This matter was 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 this matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.



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### **Environmental Provisions**

At December 31, 2019 the environmental provisions amounted to EUR 17.768 thousand as disclosed in Note 9: Provisions and long term accrued costs and deferred revenue.

The determination of the provisions is based on management's judgement and estimates of nature, timing and amount of future costs to be incurred to cover long term obligations of waste disposal and rehabilitation of waste landfills and facilities. The judgement required to estimate such costs is further compounded by the fact that there has been limited rehabilitation activity or experience with such activities against which the management could benchmark estimates of future costs.

We focused on this area because changes in the assumptions can materially affect the levels of provisions recorded in the financial statements.

Environmental provisions are thus significant to our audit and we consider them a key audit matter.

We obtained an understanding of the environmental provisioning process and evaluated and tested design of respective controls.

As part of our testing of the cost estimates prepared by management, we evaluated the existence of legal or constructive obligations with respect to the restoration and rehabilitation for each site and facilities to assess the appropriateness of the intended method of restoration and rehabilitation and associated cost estimate.

We evaluated management assessment of the required provisions who obtained the assessment of the required disposal and rehabilitation activities and respective cost estimates from the external experts.

We evaluated project documentation used as the basis for the management's assessment to determine whether the amount of provisions was adequate.

We also checked the utilisation and the release of provisions and inquired the management with respect to the utilisation plans.

We also considered the competence and objectivity of management's experts, whether internal or external to Cinkarna Celje, who produced the cost estimates.

In addition, we inspected the Company's litigation and compliance reports and held discussions with the Company's internal counsel for all significant matters.

In addition, we considered the appropriateness of the disclosures included in the Note 9: Provisions and long term accrued costs and deferred revenue in accordance with SAS 10 – Provisions.

### **Other matter**

The financial statements of the Company for the year ended 31 December 2018 were audited by another auditor, who expressed an unmodified opinion on those statements on 15 March 2019.

### **Other information**

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements 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. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

### **Responsibilities of management, audit committee and the supervisory board for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Slovenian Accounting Standards, 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, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The audit committee and the supervisory board 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 ISA and Regulation (EU) No. 537/2014 of the European Parliament and the Council 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 audit rules, we exercise professional judgment and maintain professional skepticism 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 Company 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.



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

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

From the matters communicated with the audit committee and the supervisory board, 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.

**Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council**

**Appointment and Approval of Auditor**

We were appointed as auditors of the Company at the general meeting of shareholders on 4 June 2019, the president of the supervisory board has signed the audit agreement on 4 September 2019. The agreement was signed for the period of three years.

Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 1 year. Sanja Košir Nikašinić and Lidija Šinkovec are certified auditors, responsible for the audit in the name of Ernst & Young d.o.o.

**Consistence with Additional Report to Audit Committee**


Our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on the same date as the issue date of this report.

**Non-audit Services**

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Company and we remain independent from the Company in conducting the audit.

In addition to statutory audit services and services disclosed in the annual report and in the financial statements, no other services which were provided by us to the Company.

Ljubljana, 23 March 2020

  
Sanja Košir Nikašinić  
Director, Certified auditor  
Ernst & Young d.o.o.  
Dunajska 111, Ljubljana

  
Lidija Šinkovec  
Certified auditor

**ERNST & YOUNG**  
Revizija, poslovno  
svetovanje d.o.o., Ljubljana 1

## Summary Overview of Operations from 2007 to 2019

In EUR thousand, EUR per share

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>SALES</b>													
Domestic market	26,639.33	23,621.65	20,032.10	21,268.26	24,217.33	23,745.12	23,523.81	22,830.92	22,490.37	21,438.09	24,460.68	21,624.29	18,818.64
International market	130,097.06	107,945.90	109,544.17	132,123.81	159,850.43	149,472.40	142,431.27	137,839.93	146,586.70	148,327.34	164,244.08	142,336.57	153,768.35
Sales	156,736.39	131,567.55	129,576.27	153,392.07	184,067.76	173,217.52	165,955.08	160,670.85	169,077.06	169,765.43	188,704.76	163,960.86	172,586.98
<b>PROFIT OR LOSS</b>													
Operating profit or loss	11,029.10	4,551.92	4,649.91	13,741.75	32,831.34	24,084.52	8,628.40	16,241.86	8,080.32	10,579.07	35,721.22	36,408.49	25,726.94
Profit or loss before tax	7,533.52	931.55	1,041.82	10,854.43	31,631.71	22,454.30	7,573.79	16,071.62	8,058.16	11,029.95	34,550.89	36,023.66	25,702.18
Taxes	1,451.93	131.76	26.16	1,970.11	6,133.40	4,160.50	412.89	2,139.18	1,244.61	1,269.95	5,785.60	5,465.47	4,265.79
Net profit or loss	6,081.58	799.79	1,015.66	8,884.31	25,498.31	18,293.81	7,160.90	13,932.44	6,813.54	9,760.00	28,765.30	30,558.18	21,436.39
<b>ASSETS AND LIABILITIES</b>													
Equity	100,339.52	97,715.61	98,763.56	106,881.95	127,512.33	133,348.36	135,148.87	140,115.23	140,235.49	145,966.79	166,520.50	173,925.47	170,342.85
Financial debt	84,236.65	86,345.47	65,243.45	47,305.74	21,137.89	19,660.40	4,747.01	39.44	41.72	116.86	77.57	70.68	44.59
Financial debt level	40%	42%	34%	25%	11%	10%	3%	0%	0%	0%	0%	0%	0%
Assets	209,812.69	207,364.17	189,856.27	188,349.62	197,957.05	196,001.27	183,359.40	182,947.47	180,987.95	186,021.92	219,731.07	213,954.01	207,807.07
Net working capital (NWC)	-2,476.55	-13,228.47	-6,744.25	5,144.77	32,745.35	47,252.87	50,216.93	57,527.09	62,199.82	72,908.59	96,412.29	94,659.95	86,135.69
<b>PER SHARE</b>													
Dividends:													
- gross	2.92	3.22	/	1.25	4.35	15.00	6.50	10.97	8.57	4.18	9.05	26.52	28.27
- net	2.19	2.42	/	1.00	3.48	12.00	4.88	8.23	6.43	3.13	6.79	19.89	21.20
Net profit or loss	7.47	0.98	1.25	10.91	31.3	22.46	8.79	17.1	8.36	11.98	35.31	37.51	26.53
Equity/no. of shares	123.2	120	121.2	131.2	156.53	163.7	165.9	172	172	179	204	214	210.8
Market value at end of year	143.2	72	49.4	58.2	84.5	79	90	177	76	162	217	181	187.5
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	807,977
Number of treasury shares	2,149	2,149	2,149	2,149	2,149	2,149	2,149	2,149	2,149	2,149	2,149	6,649	10,652
<b>Number of employees</b>	1131	1113	1079	1053	1063	1005	993	989	955	903	893	908	846
<b>Number of shareholders</b>	1846	1770	1735	1696	1603	1648	1706	2085	1794	1943	1880	2078	1920
<b>PERFORMANCE INDICATORS</b>													
Current ratio	0.96	0.83	0.89	1.1	1.89	2.67	3.65	4.76	5.09	5.72	5.05	9.3	7.2
Quick ratio	0.47	0.41	0.55	0.7	1.04	1.41	2.02	2.6	2.7	3.7	3.3	5.3	4.2
Inventory turnover ratio	12.8	9.9	11.7	21.7	18.9	12.27	12.4	11.4	11.6	16.2	25.8	13.61	10.98
Days sales outstanding	58 days	68 days	69 days	65 days	53 days	51 days	52 days	53 days	49 days	51 days	55 days	62 days	51 days
Days payables outstanding	25 days	29 days	37 days	39 days	37 days	36 days	35 days	37 days	35 days	37 days	43 days	41 days	31 days
Fixed asset turnover ratio	1.12	0.92	0.94	1.16	1.42	1.39	1.42	1.44	1.59	1.70	1.92	1.59	1.61
Total asset turnover ratio	0.75	0.63	0.65	0.81	0.95	0.88	0.87	0.88	0.93	0.93	0.93	0.76	0.82
Operating efficiency ratio	1.07	1.03	1.04	1.1	1.2	1.16	1.05	1.11	1.05	1.07	1.23	1.25	1.17
Profit margin	6.80%	3.30%	3.60%	8.90%	16.80%	13.50%	5.20%	9.60%	4.70%	6.36%	18.74%	19.99%	14.48%
Total net profit margin	3.70%	0.60%	0.80%	5.70%	13.00%	10.30%	4.30%	8.20%	4.00%	5.86%	15.09%	16.78%	12.06%
Return on sales	3.90%	0.60%	0.80%	5.80%	13.90%	10.60%	4.31%	8.67%	4.03%	5.75%	15.24%	18.64%	12.42%
Return on investment (ROI)	4.90%	2.80%	2.60%	7.00%	17.10%	11.80%	4.28%	8.81%	4.49%	6.05%	17.06%	16.65%	12.36%
ROA	2.90%	0.40%	0.50%	4.70%	13.20%	9.30%	3.78%	7.61%	3.74%	5.32%	14.18%	14.09%	10.17%
ROE	6.70%	0.80%	1.00%	9.10%	25.50%	16.90%	5.89%	10.96%	5.25%	7.24%	21.00%	21.74%	14.67%

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

Measure	Page in the Annual Report	Calculation
Dividend yield	14	amount of dividend/value of a share (as at the day of the General Meeting resolution)
EBITDA	25	operating profit or loss increased by write-downs in value from the statement of profit or loss
Financing balance	25	total finance revenue decreased by total finance expenses from the statement of profit or loss
P/E 31 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, 78	net cash from/used in operating activities from the statement of cash flows
Labour productivity	28	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)	113	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 4.02.1997 upon registration with the Central Securities Clearing Corporation		Balance as at 21.01.1998 upon registration with the Central Securities Clearing Corporation		Balance as at 31.12.2018		Balance as at 31.12.2019	
		Share in %	No. of shares	Share in %	No. of shares	Share in %	No. of shares	Share in %	No. of shares
<b>1.</b>	<b>LEGAL ENTITIES</b>	<b>60.52</b>	<b>493,024</b>	<b>60.05</b>	<b>489,182</b>	<b>74.50</b>	<b>606,952</b>	<b>76.60</b>	<b>618,885</b>
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	20.17	162,963
1.3.	DUTB, d.d., LJ					12.83	104,504	12.93	104,504
1.4.	Slovenski državni holding, LJ	9.77	79,573	9.77	79,573	11.41	92,950	11.50	92,950
1.5.	Unicredit Bank Austria AG, Wien - fiduciarni					4.51	36,710	4.36	35,210
1.6.	Kritni sklad PPS, Lj.					2.05	16,705	2.07	16,705
1.7.	Raiffeisen bank Austria d.d. , Zagreb- fiduciarni					1.77	14,451	2.06	16,658
1.8.	NLB skladi - Slovenija mešani, LJ					1.18	9,600	1.71	13,850
1.9.	Generali Galileo, mešani fleks. sklad, LJ					1.63	13,239	1.47	11,903
1.10.	Primorski skladi, d.d. Koper - PSP MODR					1.45	11,781	1.46	11,781
1.11.	Generali Rastko Evropa, delniški, LJ					1.50	12,257	1.45	11,681
1.12.	TINFIN d.o.o., LJ					0.00	0	1.40	11,300
1.13.	TR5 d.o.o., LJ					0.54	4,417	1.22	9,834
1.14.	The Bank of New York Mellon, New York					2.33	18,987	1.20	9,672
1.15.	MAVIA d.d., KR					0.86	6,969	1.08	8,743
1.16.	Special investment fund eQ emerging mark, Helsinki					0.85	6,900	0.99	8,000
1.17.	Fleksibilni mešani podsklad - Jugovzhodni, LJ					0.86	7,007	0.87	7,007
1.18.	ERSTE Group Bank AG, Wien - client account					0.05	445	0.65	5,286
1.19.	Generali Dividendni, delniški, LJ					0.68	5,545	0.62	4,977
1.20.	ABANKA d.d., LJ					0.57	4,628	0.57	4,628
1.21.	DBS d.d., LJ					0.52	4,243	0.53	4,243
1.22.	Other	6.93	56,490	26.31	214,314	8.91	72,651	8.29	66,990
<b>2.</b>	<b>NATURAL PERSONS</b>	<b>39.48</b>	<b>321,602</b>	<b>39.95</b>	<b>325,444</b>	<b>24.68</b>	<b>201,025</b>	<b>22.08</b>	<b>178,440</b>
<b>3.</b>	<b>TREASURY SHARES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.82</b>	<b>6,649</b>	<b>1.32</b>	<b>10,652</b>
	<b>TOTAL 1+2+3</b>	<b>100.00</b>	<b>814,626</b>	<b>100.00</b>	<b>814,626</b>	<b>100.00</b>	<b>814,626</b>	<b>100.00</b>	<b>807,977</b>

## Statement by the Management and the Persons Responsible for the Compilation of the Annual Report Dated 23 March 2020:

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 134 of the Financial Instruments Market Act (ZTFI-1) 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 2019 Annual Report on 23 March 2020.

<b>Management of the Company</b>		
<b>President of the Management Board – General Manager</b>	<b>Member of the Management Board – Deputy President of the Management Board – Technical Director</b>	<b>Member of the Management Board – Finance, Accounting &amp; IT</b>
Tomaž BENČINA, BSc (Metallurgy) and BSc (Economics)	Nikolaja PODGORŠEK SELIČ BSc (Chemical Engineering), Specialist	Jurij VENGUST, MSc
<b>Management of the Company</b>		
<b>Member of the Management Board – Worker Director</b>	<b>Persons responsible for the compilation of the Annual Report</b>	
<b>Member of the Management Board – Finance, Accounting &amp; IT</b>	<b>Accounting Manager</b>	
Marko GVETKO BSc (Chemical Engineering), Specialist	Jurij VENGUST, MSc	Karmen FUJS, MSc





## **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.