

Summary of the 2015 Business Plan and the performance estimate for 2014

Celje, 16 December 2014

Main information overview

	YEAR 2013	ESTIMATE 2014	PLAN 2015	change in % 2015/2014
Sales	165,955,080	155,543,988	177,183,852	+14
Export	142,431,268	133,775,047	153,549,092	+15
Operating profit or loss (EBIT)	8,628,400	14,391,081	9,907,923	-31
Operating profit or loss + amortisation/depreciation (EBITDA)	21,062,363	26,647,497	22,216,273	-17
Net profit or loss	7,160,899	12,107,867	8,310,726	-31
Revenue	167,822,586	164,434,809	179,318,606	+9
Disbursements	160,248,801	149,871,186	169,305,683	+13
Labour cost	28,455,515	28,805,872	28,366,489	-2
Added value	49,949,053	55,678,369	50,802,762	-9
Added value per employee	51,020	57,878	53,141	-8
Production in EE	57,454,362	57,296,842	63,524,189	+11
Assets	183,359,396	181,092,074	179,455,518	-1
Equity	135,148,867	138,343,860	140,597,392	+2
Investments	6,599,760	8,444,926	9,703,487	+15
Financial liabilities	4,747,016	30,402	20,000	-34
Return on equity (ROE)	5.89	9.30	6.43	-31
Number of employees at the end of the year	993	994	977	-2

All values are denominated in euro (€), except:

- production in EE (fixed prices)
- return on equity (%)
- number of employees at the end of the year (no. of people)

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2015 Business Plan – comment by the management

Accounting and financial budgeting, which defines the key elements of the plan for 2015 – presented below – has been made by taking into account the basic quality characteristics of business information: understandability, relevance, reliability (prudence) and comparability. The text below represents an assessment of the future operating conditions and estimate of operating performance that is based on the currently available set of external and internal information, which is why it should be understood as a forecast that carries with it a logical and expected level of uncertainty. The plan has been prepared by taking into account the recommendations and guidelines of the SAS and IAS.

A high profit has been projected for 2014 and will probably be realised considering our operating performance in the first nine months and projections until the end of the year. The system profitability was very high in the first half of the year, but has decreased in the second half, mostly due to closing of purchase/sales prices gap. Typically for the second half of the year, market surplus conditions caused sales prices of pigment to drop, while the decrease in purchase prices of raw materials was limited to the relevant production costs, due to which margin decrease was inevitable.

These starting points which have governed the main markets in the last quarter represent also the basis and starting point of the Business Plan for 2015. Based on the forecasts of the international pigment market development, we believe that the market will gradually gain stability, most probably in the long run. Simply put, we expect the current relative relationship between sales and purchase prices in this industry to last for minimally the predominant part of 2015.

The most important in realisation of performance plan upon applicable but relatively low margins is a significant increase in the volume of operations, thus exploitation of business leverage.

Taking into account the existing market conditions and projections of improved macroeconomic conditions in the global economy, we prepared the 2015 Business Plan which is ambitious and optimistic, with the following business policy emphases:

- The projected improvement of the global economy implies that the focus will be on significant increase of the sales volume. The key element in our plan is effective marketing of our main products – especially of titanium dioxide pigment and titanium-zinc sheets; quantity records are planned for both ranges. The strategy will be consequently orientated towards an aggressive and obstinate battle for sales quantities and, as a consequence, shares on the most profitable markets.
- In the area of raw materials purchasing, we will expand our cooperation with the current suppliers and continue to develop new resources and methods, thus exploit objective maximum from the supply markets. In 2015, we expect a replete raw materials market, this is why the negotiating position is estimated as solid.
- Our commitment to ensure stable and liable cash position. Volume of investments will increase, the predominant part of assets will be used to raise security and stability of titanium dioxide production and to carry out the investments that are necessary from the perspective of environment protection and health of employees. The 2015 Plan already comprises rehabilitation of the Bukovžlak hazardous waste depot worth EUR 2 million, since we expect to reach an agreement with the Celje municipality by which the external conditions for the beginning of works will be fulfilled.

In the accounting period of 2014, we plan to reach very good business results; however, due to decreased margins and profitability in the second half of the year and current market circumstances, it is impossible to objectively guarantee the same business performance also in 2015. The fact is that the business performance plan and the sales plan are tied to the expected robust demand on the international markets – especially in terms of investment goods. Concrete macroeconomic environment assumptions are based on the macroeconomic projections by international and national institutions (UMAR, IMF, etc.), which besides the general improvement of key indicators mention also

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very probable trends of economic activity improvement and the decrease in risk / probability of drop in the global economic activity.

The basic determinants of the external environment of the business plan are therefore the following:

- The reference exchange rate of the US dollar is 1.27 \$ for 1 €, the key and reference interest rates are unchanged and the oil barrel price is \$ 100.
- According to the current positive expectations, the economic growth rates will considerably increase in 2015. Specifically, the projections of the GDP dynamics of the key economies are the following (2014 estimate >> 2015 forecast): World 3.3 % >> 3.8 %, EU 1.3 % >> 1.7 %, Germany 1.6 % >> 1.7 %, France 0.4 % >> 1 %, Russia 0.0 % >> 1.0 %, China 7.4 % >> 7.1 %, USA 2.2 % >> 3.1 % and Japan 0.9 % >> 0.8 %.
- Political / safety conditions in the Near / Middle East and in Ukraine will not change significantly or deteriorate.
- Social cohesion, general safety / stability and operating economic system in Slovenia will remain within the normative frameworks ensuring smooth and independent operations of businesses.

With regard to the main range of titanium dioxide pigment, in 2014 we saw a slight drop in demand in comparison with the previous year. This decrease mostly refers to the second half of the period and to the decrease in investment use in the EU. The international market was affected by relatively low consumption in China, which led to invasion of pigment of Chinese origin in Europe and the Near / Mid East. Insufficient demand and excessive supply resulted in overstock of pigment with the producers, which, of course, reflected in reduction of sales prices, especially in the second half of the year. Due to forecasted higher percentage of real GDP growth globally, we expect the pigment demand to be robust in 2015 and that it will increase by a few percent in relation to 2014. Along with dollar appreciation, this should generate at least market opportunities if not a space for greater volume of pigment sales planned for 2015. Therefore, we plan to increase pigment sales by 18% in relation to 2014, namely at by 6% lower sales prices. The production will be carried out at fully available production capacities and simultaneously the market will be serviced also through reduction of pigment stocks. In 2015, we will undergo only symbolic corrections of dollar-denominated prices, but since the value of US dollar improved significantly over the last year a material increase in average prices of raw and other input materials will occur. This means that we will achieve the projected business results at lower margins only with increased quantity placement.

Our operations in the area of titanium-zinc sheets sales clearly improved in 2014, thanks to the implementation of diverse actions regarding cost cutting and sales structure improvement. An important positive effect is definitely due also to a gradual increase in zinc exchange prices after years of stagnation. In 2015, we plan to expand the volume of titanium-zinc sheets sales, which at maintaining the current profitability level or sales margins will ensure continuation of positive trends in melioration of the metallurgic range performance.

In terms of other ranges, it is clear that our planning is once again and traditionally very positive and optimistic, of course taking into account the expected improvement of general economic circumstances. Growth is planned for all ranges, especially for the agro-range, despite a two-year delay, thanks to the introduction of new quality and types of blue copper (Cuprablau) on the market as well as development of new markets. A significant increase in sales is planned also for the range of graphic intermediate goods, coatings and lacquers, as a result of new markets and products development. We are evenly cautious in planning the sales of construction materials due to ongoing issues of the Slovenian construction industry, as well as in planning the sales of elastomers, thermoplasts and STEM systems in the Polymers unit, which depends on the volume of regional investments in the petrochemical industry.



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In 2015, we expect to achieve **EUR 177 million in sales revenue**, which is undoubtedly an optimistic sales plan. The sales plan for 2015 exceeds the 2014 sales by 14%.

The sales on foreign markets will reach **EUR 153.5 million**, which is 15% more than the export achieved in 2014.

The planned **net profit** for 2015 amounts to **EUR 8.3 million**. The current estimate of the net profit for 2014 is about EUR 12.1 million. The net profit decrease thus amounts to 31%, which is the result of lower margins or closing of the purchase/sales prices gap.

Our investment activities in 2015 will be focused on ensuring operational safety and reliability of the pigment production at the highest level determined on the basis of environmental permit. We will invest also in the projects aimed at environment protection and health of employees; in this context, we would like to emphasise that the investment in rehabilitation of the Bukovžlak hazardous waste depot has already started. The planned amount of investment in long-term assets is 15% higher than in 2014, and will amount to EUR 9.7 million.

In 2015, special attention will be dedicated also to ensuring material and social security of our employees as well as their safety at work. We will adopt and implement the relative policy and strategy based on cooperation, consultation and agreement with our employees, their representatives and trade unions.

All the estimates for 2014 that we present in the business plan below (and the introduction), as well as the comparisons and relations between the planned values and the last year results, refer to the estimate of operations and business performance of Cinkarna Celje, d.d. in 2014. The estimate arises from the already achieved results in the periods of I-IX and I-X 2014 and the realistic assumptions of the movement of variables by the end of the year.

President of the Management Board - CEO
Tomaž BENČINA, BSc (Metallurgy) and BSc (Econ)

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Projected income statement

in €

	YEAR 2013	ESTIMATE 2014	PLAN 2015	Index	
				PI/Est	PI/13
1. Net sales revenue	165,955,080	155,543,988	177,183,852	114	107
- net revenue from sales in the domestic market	23,523,812	21,776,158	23,634,760	109	100
- net revenue from sales in foreign markets	142,431,268	133,767,830	153,549,092	115	108
2. Changes in inventories of products and work-in-progress	-3,835,005	3,658,383	-1,378,710	0	36
3. Capitalised own products and services	3,148,513	3,688,804	2,418,464	66	77
4. Other operating revenue (including revaluation operating revenue)	1,231,229	1,059,697	700,000	66	57
5. Costs of goods, materials and services	115,486,303	107,089,243	126,849,924	118	110
a) Cost of goods and materials sold and costs of materials used	105,149,121	96,072,480	115,017,025	120	109
b) Costs of services	10,337,182	11,016,763	11,832,899	107	114
6. Labour costs	28,455,515	28,805,872	28,366,489	98	100
a) Payroll costs	21,347,172	21,597,905	21,706,214	101	102
b) Social security costs	1,641,667	1,626,948	1,598,652	98	97
c) Cost of pension insurance	2,267,998	2,236,481	2,203,087	99	97
d) Other labour costs	3,198,678	3,344,538	2,858,536	85	89
7. Write-downs in value	12,865,138	12,481,416	12,528,350	100	97
a) Amortisation and depreciation	12,433,963	12,256,416	12,308,350	100	99
b) Revaluation operating expenses with property, plant and equipment and intangible assets	254,859	25,000	20,000	80	8
c) Operating expenses from revaluation of current assets	176,316	200,000	200,000	100	113
8. Other operating expenses	1,064,461	1,183,260	1,270,920	107	119
Operating profit or loss	8,628,400	14,391,081	9,907,923	69	115
9. Financial revenue from shares and interests	105,335	14,657	15,000	102	14
d) Financial revenue from other investments	105,335	14,657	15,000	102	14
10. Financial revenue from loans given	767,876	136,413	100,000	73	13
a) Financial revenue from loans to group companies	0	0	0	0	0
b) Financial revenue from loans to others	767,876	136,413	100,000	73	13
11. Financial revenue from operating receivables	390,501	304,511	250,000	82	64
b) Financial revenue from operating receivables due from others	390,501	304,511	250,000	82	64
12. Financial expenses arising from impairment and write-downs of investments	1,306,569	0	0	0	0
13. Financial expenses for financial liabilities	549,825	67,169	0	0	0
b) Financial expenses for bank loans	549,825	67,169	0	0	0
d) Financial expenses for other financial liabilities	0	0	0	0	0
14. Financial expenses for operating liabilities	475,308	208,555	250,000	120	53
b) Financial expenses for trade liabilities and bills payable	160,772	149,572	150,000	100	93
c) Financial expenses for other operating liabilities	314,536	58,983	100,000	170	32
15. Other revenue	59,057	28,356	30,000	106	51
16. Other expenses	45,682	35,671	40,000	112	88
Profit or loss before tax	7,573,785	14,563,623	10,012,923	69	132
17. Corporate income tax	696,885	2,475,816	1,702,197	69	244
18. Deferred taxes	283,999	20,060	0	0	0
19. Net profit or loss for the period	7,160,899	12,107,867	8,310,726	69	116



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Projected balance sheet

	estimate	plan	in €
	31/12/2014	31/12/2015	Index P15/Est1 4
ASSETS	181,092,074	179,455,518	99
Long-term assets			
A.	109,859,057	107,224,083	98
I. Intangible assets and long-term accrued revenue and deferred costs	2,916,707	2,655,324	91
1. Long-term property rights	2,794,177	2,541,432	91
4. Long-term deferred development costs	58,857	58,857	100
5. Other long-term deferred costs and accrued revenue	63,673	55,035	86
II. Property, plant and equipment	102,929,363	100,557,245	98
1a. Land	8,624,600	8,624,600	100
1b. Buildings	42,945,069	41,316,019	96
2. Production plant and equipment	46,722,594	40,862,593	87
3. Other plant and equipment	35,228	35,072	100
4a. Property, plant and equipment in the course of construction	4,566,398	9,718,961	213
4b. Advances for acquisition of property, plant and equipment	35,474	0	0
IV. Long-term investments	1,532,339	1,530,866	100
1c. Other shares and interests	1,530,866	1,530,866	100
2b. Long-term loans to others	1,473	0	0
VI. Deferred tax assets	2,480,648	2,480,648	100
B. Current assets	71,053,017	72,081,435	101
II. Inventories	33,443,342	32,656,466	98
1. Material	14,858,166	15,500,000	104
2. Work in progress	2,729,388	2,800,000	103
3. Products and merchandise	15,655,788	14,206,466	91
4. Advances for inventories	200,000	150,000	75
III. Short-term investments	735	0	0
2b. Short-term loans to others	735	0	0
IV. Short-term operating receivables	27,007,913	29,293,519	108
2. Short-term trade receivables	23,035,000	26,259,900	114
3. Short-term operating receivables due from others	3,972,913	3,033,619	76
V. Cash	10,601,027	10,131,450	96
C. Short-term accrued revenue and deferred costs	180,000	150,000	83

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	estimate 31/12/2014	plan 31/12/2015	Index PI15/Est14
			in €
EQUITY AND LIABILITIES	181,092,074	179,455,518	99
A. Equity	138,343,860	140,597,392	102
I. Called-up capital	20,396,244	20,396,244	100
1. Share capital	20,396,244	20,396,244	100
II. Capital surplus	44,284,976	44,284,976	100
III. Revenue reserves	67,604,169	71,759,532	106
1. Legal reserves	16,931,435	16,931,435	100
2. Reserves for treasury shares	238,926	238,926	100
3. Treasury shares	-238,926	-238,926	100
5. Other revenue reserves	50,672,734	54,828,097	108
IV. Revaluation surplus	1,277	1,277	100
V. Retained earnings	3,261	0	0
VI. Net profit for the year	6,053,933	4,155,363	69
B. Provisions and long-term accrued costs and deferred revenues	26,795,126	23,685,126	88
1. Provisions for pensions and similar liabilities	2,953,631	2,953,631	100
2. Other provisions	22,497,275	20,047,275	89
3. Long-term accrued costs and deferred revenue	1,344,220	684,220	51
C. Long-term liabilities	0	0	-
I. Long-term financial liabilities	0	0	-
2. Long-term financial liabilities to banks	0	0	-
III. Deferred tax liabilities	0	0	-
D. Short-term liabilities	15,058,088	14,263,000	95
II. Short-term financial liabilities	30,402	20,000	66
2. Short-term financial liabilities to banks	0	0	0
4. Other short-term financial liabilities	30,402	20,000	66
III. Short-term operating liabilities	15,027,686	14,243,000	95
2. Short-term trade liabilities	10,500,000	12,075,000	115
4. Short-term operating liabilities arising from advances	0	0	-
5. Other short-term operating liabilities	4,527,686	2,168,000	48
E. Short-term accrued costs and deferred revenue	895,000	910,000	102



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Note

This document and its integral parts refer to the company's future operations and financial situation. The document is prepared based on the current situation, estimates, analyses, as well as assumptions, projections and forecasts of relevant institutions and industry analysts. The document includes also views, expectations and deductions of the Management Board, whereas the covered areas are objectively outside the scope of influence of the company or the Management Board. Projections and plans regarding the company's future operations and finances, therefore, depend on several uncertainties and risks of realisation of assumptions as well as the plans them-selves. The company and the Board do not assume any responsibility for the scope, content or degree of realisation of the discussed assumptions, starting points and the resulting projections. The company and the Board do not assume any liability of midyear adjustments or corrections of projections and plans upon each change in assumptions or bases of such projections and plans.

**CINKARNA CELJE, d. d.
THE BOARD**