SELECTED DATA 2012

SLOVMAG, a.s. Lubeník
Member of Magnezit Group
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GENERAL DIRECTOR FOREWORD

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Dear Shareholders, Partners, dear Customers and Colleagues,

I would like to summarize most important facts about 2012 results in our company. While the years 2010 and 2011 meant for our company a certain level of stabilization after worldwide crisis, it is not possible to qualify the year 2012 as stable and successful as far as sales volumes. Mainly in the second half of the year 2012 we have recorded lower level of sales than we have expected.

Sales of our own products reached the volume 26,2 million EURO that meant fulfillment of annual plan up to 94%. The revenues from sales of bulk materials were significantly lower than we have projected and reached 80,55% of plan. On the other side sales of bricks met our targets (99,24%). I highly appreciate that in spite of lower sales, we were able to end the year with positive economic result - net profit 264 thousand EURO. Together with sales decreases we have to manage to compensate remarkable increases in energy prices in our cost structure. If the energy prices were on the level of 2011, our costs would have been 690 thousand lower. That is why our strategy of energy purchase have been changed for the year 2013 and hopefully it will bring cost savings.

Our verdict to invest in new production technologies was very important. With respect to relevant sales decline to our traditional partner AMO Ostrava the decision to build a new technology of periclás bricks bounded on carbores basis seems to be a very positive step. We expect to achieve better quality and application results of these new type of bricks. First production volumes should be launched from May 2013. We hope to address and serve our existing but new customers as well.

A decision from our owners’ structures to build a briquetting line in 2013 here in Slovmag is also a very positive news. Briquetting technology enables us to utilize an existing magnesit raw materials, to lower unit material consumption and to enlarge the product portfolio of unshaped materials.

By processing of 10 000 tons of raw magnesite that is in our stocks from previous years we continue in the effort to improve environmental impact of operation and to cope up with historical environmental burdens.

Finally I would like to say thank you to everybody who work hard last year and I would like to highly appreciate the effort of those who are ready to challenge of actual time and understand the necessity of continual self improving.

Ing. Ondrej Dojčár
General Director
1 BASIC DATA

1.1 COMPANY PROFILE

A main production program of the Company is magnesite ore mining and processing as well as refractory production and sales. Our products can be utilized for heat aggregates lining-in steel making, non-ferrous metallurgy, lime and cement industry. They are used as a heating media in electric storage heaters and in agriculture as a magnesia source as well.

Name of the Company: SLOVMAG, a.s. Lubeník
Site: Lubeník 236, 049 18 Lubeník
IČO: 31 686 184
Date of registry: 01. 03. 1994
Registered in Business Company register of District Court in Banská Bystrica, Section Sa, Insert No. 402/S

BOARD OF DIRECTORS:

Ing. Ján Galovič, Chairman of the Board
Ing. Daniel Fedoriak, Member of the Board

SUPERVISORY BOARD:

Sergey Yurievich Odegov, Chairman
Vladimír Valerievich Dunaev, Member
Evgeny Nikolaevich Nenashev, Member
Ing. Július Kvetko, CSc., Member

MANAGEMENT:

Ing. Ondrej Dojčár General Director
Ing. Dušan Štefanko Commercial Director
Mgr. Jana Mladšia Director of Economy
PhDr. Daša Benková Personal Director
Ing. Ján Goldschmidt Director of Production
Ing. Jaroslav Ganaj Technical Director
1.2 COMPANY VALUES

QUALITY OF WORK = QUALITY OF PRODUCT

QUALITY OF LABOUR RELATIONS = MANAGEMENT

QUALITY OF RELATIONS WITH CUSTOMERS = EFFICIENCY OF WORK

QUALITY OF ENVIRONMENT = EFFICIENCY OF MANAGEMENT

QUALITY OF WORK = EFFICIENCY OF EXPENSES

QUALITY OF SALES = EFFICIENCY OF CUSTOMER SATISFACTION
1.3  SCHEME OF ORGANISATION

The structure of Company can be defined as function-production and from the point of decisional power as line-staff structure. These two aspects create multistage flexible matrix structure (General Meeting, Board of Directors, General Director, Directors, Heads of Departments, Heads of Centers. Heads of Sections) with clearly defined managing and labor elements and organizational setup.

1.4  SCHEME OF PRODUCTION

The plant uses hand picking, dense medium separation and hydro cyclone separation to produce a number of sized concentrates. The concentrates are used to make magnesite sinter by heating to temperatures above 1,550°C during which periclase is formed. The sinter is used for production of refractory bricks and other heat resistant materials for construction and repairing of furnaces, converters etc. The factory uses shaft kilns and a rotary kiln to sinter the concentrates.

The shaft kilns are fed with KIŠ and plus 40mm concentrates. The rotary kiln is fed with minus 40mm KI and KII concentrates and HC concentrate. Sinter from the kilns is processed further by crushing and then these sized materials are fed to a magnetic separator where they are separated into brick sinter and steel sinter. Material is also brought from outside sources which include high grade magnesite from to keep the brickworks operating at full capacity. Additives containing chrome and corundum are also used.

All the materials are pressed in hydraulic or mechanical presses and then either burnt in tunnel kilns or dried and afterwards separated and calibrated. In the Service Plant there are all the service and other auxiliary operation activities concentrated to secure the fluent operations of all technology lines.
2 ACTIVITIES AND RESULT

2.1 PRODUCTION

2012 production in comparison with 2012 production plan and 2011 production

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>Business plan 2012</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mine Plant</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raw ore</td>
<td>117 483</td>
<td>110 200</td>
<td>106 800</td>
</tr>
<tr>
<td>Concentrates</td>
<td>75 672</td>
<td>73 640</td>
<td>66 011</td>
</tr>
<tr>
<td><strong>Clinker Plant</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bulk Material</td>
<td>43 464</td>
<td>42 209</td>
<td>35 568</td>
</tr>
<tr>
<td><strong>Brick plant</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic Bricks total</td>
<td>32 673</td>
<td>27 253</td>
<td>27 183</td>
</tr>
<tr>
<td>thereof: burnt</td>
<td>27 146</td>
<td>21 436</td>
<td>21 849</td>
</tr>
<tr>
<td>carbon</td>
<td>5 395</td>
<td>5 770</td>
<td>5 189</td>
</tr>
<tr>
<td>Refractory Masses</td>
<td>4 662</td>
<td>2 978</td>
<td>4 080</td>
</tr>
</tbody>
</table>

Less amount of ore has been extracted in Mine Plant, but more space was opened for the future mining on XI. Horizon. The need of concentrates was less than in previous years because of the shorter production process in dense medium separation. On Sinter production plant we managed to keep the burnout index on the 2011 level what was the important from the point of production economy. The most important devices i.e. shaft and rotary kilns worked shorter time than in previous year because of lower demand of burnt bricks. But the carbon bricks ratio has increased from 16,51% to 19,09%. Also the so called snorkels production for USA customers has increased and we continued to penetrate also to special ceramics market. Our production plan and also the reality of production is a reflection of transfer from simple bricks to more sophisticated shapes as the result of customers demands. That is why we need to adjust all our technology by lowering the quantity of burnt magnesia bricks and so by lowering so called „pressing“ in tunnel kilns.

Of course, it is inevitable to lower spoilages- scrappiness – and it seems to be very demanding task because of the complicated shapes of bricks.

Production 2012 In Graphs
2.2 COMMERCIAL ACTIVITIES

The production and sale of refractory products is connected with the production of other industries especially with the production of steel and iron in black metallurgy. There are other factors as well: price in competitive producers, import of materials, and production in other industries – non ferrous metals, lime, cement industry and so on. The world production of higher mentioned products was lower than in previous years and this fact influenced SLOVMAG remarkably. It was sold more than 55 thousand tons of products – 28 thousand tons of bulk materials and 27 thousand tons of bricks to 29 countries.

Sale in the period were as follows:
Sale from the perspective of industries:

Sale of products to Czech Republic and to domestic customers has lowered in comparison with previous years. The sale to USA was the same and to Poland and Russia has improved. As to unshaped materials sale the situation has been worse in Ukraine, but the sale the sale to Russia and Czech Republic was better.

It can be seen from graphs that the most important industry concerning the sale of our production is black metallurgy. But very important is also the sector of cement, non ferrous metals and refractory materials industry. It has been an enormous effort to keep the satisfaction of our customers and thus to stay an important player in the market.
2.3 HUMAN RESOURCES

Motto: „We can do the slightest thing in the word, but we must do it the best.“

Tomáš Baťa

The main aim is to secure the highly qualified human resources in the required structure and to educate people to behave according to company standards and rules. And we did our best to achieve it. The work with people is very sensitive work – especially when it is need to optimalize the number of employees to manage effectively the expenses to human sources.

There is a system of Employee Appraisal in our company and in the previous year we have tested the new integrated method of this appraisal that was common for the whole company. The aim was to minimize subjective factors and formalism.

An external communication was focused on practical training and education. It is enabled to graduates from secondary and high schools to perform their practice in our company and it enables to fulfill our needs in future as far as human resources concerns.

On the chart below shows the selected variables with averages for the last five years.
Human Sources — Selected Data

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workers number</td>
<td>491</td>
<td>459</td>
</tr>
<tr>
<td>Technical and administrative staff</td>
<td>141</td>
<td>138</td>
</tr>
<tr>
<td>Total</td>
<td>632</td>
<td>597</td>
</tr>
<tr>
<td>Wage funds [€]</td>
<td>5 121 823</td>
<td>4 728 124</td>
</tr>
<tr>
<td>Average income [€]</td>
<td>672,59</td>
<td>651,94</td>
</tr>
<tr>
<td>Labour productivity [€/employee/month]</td>
<td>4 161,40</td>
<td>3 986,34</td>
</tr>
</tbody>
</table>

Not only the number of employees but also an average wage has dropped in comparison with 2011, as a result of lower revenue from sales, lower production and different professional structure.

The changes of Premium system in 2013 and a new Collective Agreement is being prepared to secure the return the wages to the level before 2012. We keep trying to secure the employment rate and the social stability in our region.
2.4 RESULTS IN ECONOMY

Results of economy reflect all our successful and unsuccessful steps and they are also the results of the external circumstances that we are not able to influence. The crisis woke us up from the dreaming about constantly increasing revenues and profits. But it also learned us to survive the crisis. Of course the critical factor is the way how company is able to manage the continually rises of energy prices, external expenses, employees requests and customers demands to a lower prices.

It is not easy for SLOVMAG to keep the positive results – as it is the factory with traditional production and with the very big production capacity – but we managed to keep the company profitable also in 2012. It was because of our correction of the expenses we could influence. But the higher taxes (from 19% to 23%) took us more from our profit because of deferred income tax. Because of the higher investments our assets have increased, but on the other hand it has increased our debts as well.

Also our raw material stock value has increased because of our purchase policy changes – we buy raw materials right in the place not by means of agents and it is cheaper, but more demanding to financing.
2.5 TECHNICAL DEPARTMENT

COMPANY ASSETS MANAGEMENT

We are the company with long-term tradition. But this fact also means our property is more demanding as far as the maintenance and repairs concerns. That is why:

- We are taking care of our property, by spending the considerable financials to maintenance – in 2012 it was 2 395 thousand €, even if it was necessary to restrict the repairs in the second half of the year.
- We are taking care of our property by means of 126 highly qualified workers – experts in the Service Plant. These workers take care of energetic equipment, for all the devices and intangible assets.
- We are taking care of our property also by means of external companies making some specific repairs – in 2012 it was in the amount of 251 thousand €.
- We are taking care of our property by means of new investments – in 2012 it was for example the crane 2,5 t for press forms manipulation (470 00 €).
- 10 tons lift truck (35 000 €), new dust collecting appliance (122 000 €).
- We have also improved our informational system and we have also continued in new XI horizon opening. The total value of investments was 2 529 000 €.

- The big fire has destroyed our administrative building „Kohút“ in Revúca. It was necessary to secure opened spaces and take steps leading to damages minimization. That is why the roof has been repaired and the building has been dried. But the expenses were 128 000 €. We plan to continue the work in 2013 and to finish the negotiations with insurance company as the damage compensation regards.
MANAGEMENT OF THE ENVIRONMENT

We are taking care of the environment as it is in our official document ENVIRONMENTAL POLICY. There we can read also that:

- The environmental issues are assessed globally, taking into account requirements of production activities impact minimizing to the surrounding environment.
- The commitment to comply with environmental legislation and justifiable requirements of interested parties fulfilling are regarded as the base of continual improvement of environment.
- Priorities are: natural resources saving, reduction of air pollution, energy and water consumption and wastes production.
- The environmental performance maintaining is considered as a obvious part of all technical proposals and procedures concerning the new production technologies, or their innovations, using environmental-friendly raw materials, additives and packaging materials.
- Environmental responsibility and awareness of our employees is encouraged by continual education.
- We shall enforce full responsibility of each employee for a permanent reduction of negative impacts on the environment at the work places and meeting for compliance with the principles of environmental management system.
- Our employees, the public and local authorities will be informed about our environmental activities, corrective actions and accepted tasks of prevention, in order to improve the influence of protection, prevention and inspection.

We take care of environment not only by means of documents and declarations. Also in 2012 we have reconstructed the dust collecting appliance in preparatory plant, on calibrator and on belt conveyor. These appliances have new types of filters and fulfill the most strict limits while the measured pollutions were under 1mg/m3. The value of this investment was 122 thousand €.

All our investments and other activities are judged also form the environmental point of view. That is why also our new carbon lone and briquetting line will have dust collecting appliances fulfilling the strict limits. And the briquetting line can process the waste material that can lead to environmental burden decrease.
3.1 INVESTMENTS—INNOVATIONS—INTELLIGENT SOLUTIONS

**We invest** - there is a decision to build a new carbon line and briquetting line and to continue in new horizon opening, a dust collection appliance reconstruction and so on...

**We innovate** – we bring new idea into products, services, processes, systems and relations. We make changes, we change our assortment according to customers requirements.

**We create** – we create intelligent solutions and we design procedures to our customers to help them in build-in processes.

These are our most important investments for 2013:

INVESTMENT – A NEW LINE FOR CARBON BRICKS

This line is an innovative investment because:

- Magnesia carbon bricks belong to an important group of bricks for modern equipments with constantly rising importance as the old appliances will be replaced by the modern ones.

- New line enables to increase production capacities but with a positive impact to the environment

- Steelmakers in all over the world react positively for a possibility to diversify their purchase as an alternative to Chinese materials, while the production can be based on raw materials from Russia.
INVESTMENT – BRIQUETTING LINE

This line is an innovative investment because:

- It is a production of clinkers with various properties made from our waste stocks material and dusts. Another alternative is the slag former production. Production of both kinds can lead to reduce the environmental burden,
- Briquetting line is also an innovative investment as.
- It enables to utilize waist stock materials.
- It can evaluate priceless material that is either unsalable or saleable at a very low prices.
- Utilizing the waste enables to stretch out the life spend of our mine sources.
- It enables to diversify the production portfolio.
- Hand in hand with carbon bricks products it can offer the complex of products to the customer.
3.2 ECONOMIC VALUES

For the 2013 year there is a target to increase the production and sale, especially in the area of carbon bricks. The aims are demanding, but in our everyday life there is a necessity to reach them step by step. First there is a task to finish the complex production units – to cooperate with suppliers, to make successful tests, to optimize production process to prepare marketing, to deliver test deliveries to our customers, to verify properties and application... The way is long and not simple, but we all perceive the importance of problems conquer. It is the only way to enable to gain and keep the market with the higher sophisticated products.

We must keep our sale ratio also in our traditional market (especially in burnt bricks and masses) to secure economic power and support for the new line sale development.

Of course our success will be highly influenced by the situation in steelmaking factories in Europe and USA as well as this is an important market for our products. We do our best to manage the situation and to secure at least the minimal profitability of the company – not only in case we manage to produce and sale according to our plans but also in case it takes more patience and time.