SELECTED DATA
2013
SLOVMAG, a.s. Lubeník
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GENERAL DIRECTOR FOREWORD

Dear Shareholders, Partners, dear Customers and Colleagues,

To summarize the year 2013, we can point out the fact that it was possibly the most active year of the almost 60 year’s history of the company as far as the investments concern. In concordance with harmonogram a new line started to produce the first carbon-magnesia bricks on Carbores basis - on May 2013. These products are convenient for heat resistant linings of the most up-to-date aggregates of black metallurgy and these products absorb 70 percent of our production. It seems to be very positive step as it can be seen already from the first month of the production - new products fulfil the expectations. That is why it is necessary to express gratitude primarily to shareholders for their willing to invest, then to SLOVMAG employees for their professionalism, to Magnezit Group Europe colleagues from Germany and to suppliers for their products, work and cooperation. The carbon line activities were also awarded by Slovak Industrial and Commercial Chamber and we gained the prize “Crystal Mercury 2013” as a main prize in category “Innovation of Technology, Management and Marketing”.

Another important investment was finished in 2013 – a briquetting line designed for more effective processing of our raw materials. For the first time in our history we managed to sell the first tonnes of calcined caustic magnesia in accordance with FAMI-QS and HACCP systems that was the important step for our production portfolio wider diversification. We managed not only to process raw magnesite in our waist stocks, but also the magnesia dusts from filters as well. These steps improve not only the economy but have also the positive impact to environment.

The profit of 2013 year could have been better than 300 thousand euro after taxation. But we met only 63 % of the plan as far as the bricks sale concerns and only 78 % as far as masses sale concerns. It is the big challenge for the future: to be more successful – in spite of the recession and hard competition. I do believe an active business policy together with the new technologies and quality of work enables to meet our targets.

The people – that is a decisive factor. And I believe our employees have an ambition to develop their moral qualities and skilfulness.

Ing. Ondrej Dojčár
General director of Joint stock company
BASIC DATA

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 can be used as a heating media in electric storage heaters and in agriculture as a magnesium source as well.

Name of the Company: SLOVMAG, a.s. Lubenik
Site: Lubenik 236, 049 18 Lubenik
ID. Number: 31 686 184
Date of Registry: 01. 03. 1994
Registered in Business Company register of District Court in Banska 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. Ljubomir Vaskovič, CSc.   Deputy 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
SELECTED ECONOMICAL DATA IN GRAPHS

**Comparison of profit**

- 2012: 263,963 Eur
- 2013: 297,145 Eur

The annual growth of profit is 12.57%.

**Balance sheet value comparison**

- 2012: 38,115,253 Eur
- 2013: 41,438,103 Eur

The annual growth is 8.71%.

**EBIDTA**

- 2012: 1,852,694 Eur
- 2013: 1,802,879 Eur
TO TRACE THE COMPANY HISTORY ...

... we begin with the year 1897 ...
... when the iron industry developed and therefore the first mine in the territory was built by General magnesia company AMAG. This company built also six double shaft kilns and – for this era - a modern electromagnetic separation of burnt magnesite. Their activity was not very systematic, without geological research just to maximize the profit. After big fall of rocks the extraction was stopped and renewed only in 1962.

... while the extraction in Studená mine was built from 1934 ...
... and a discovery of this mine was a result of targeted geological research. Stoping was proceeded from 1934 and practically without mechanisms. Until 1960 the crossed filled stope was used and ...

... a new factory was built from 1956 ...
... to 1972 – and project has its name - Lubenický nový závod –LuNZ and ...

... in 1967 dense medium separation was put into operation ...
... the plant was the part of Slovenské magnezitové závody, š.p. Košice and ...

... the year 1993 is the beginning of completely new independent history of the company ...
... state enterprise was divided into ten independent legal subjects and one of them was also the enterprise Slovenské magnezitové závody, š.p. Lubeník. This subject was transformed into joint stock company with 100 % participation of employees and ...

... in the 1st of March, 1994 was entered on Commercial register the joint stock company named SLOVMAG, a.s. Lubeník. That is why the year 2014 is going to be the year of 20th anniversary of SLOVMAG, a.s. Lubenik and trade mark SLOVMAG foundation and ...

... after a few changes of owners – while SLOVMAG was only a short time investment for them ...
... our company has become from 2008 a member of Magnezit Group. Magnezit group is a strategic investor in this area of business as a biggest magnesite producer in Russian territory and a key worldwide producer in this segment.
THE COMPANY IS ON PRESENT ...

... one of the biggest magnesia products producer in Slovakia. By extraction and processing the magnesia clinker is created that as a basis of unshaped and shaped heat resistant products. These products can be utilized for lining repairs in steelmaking and cement furnaces, non-ferrous metals industry, and electric heaters as cooling media in fillings or for other similar use. Our unshaped products are also a convenient source of magnesia in agriculture. The customer demands can be satisfied flexibly because of experience and because of over 50 years tradition. Research and development enables to increase the lifetime of our products that leads to customer’s expenses minimization. The big impact is put on an environmental protection during the production process and also during the products application as well.

At present the Magnezit Group is the owner of the company with 99,6 % of ownership. Magnezit group is represented by Mag Holdings S.A. with Luxembourg domicile.

Magnezit Group is the biggest heat resistant products producer in the area of Russia and keeps its important worldwide position in the segment of magnesia production. Magnezit Group is also the owner of several plants in Russia, Ukraine and China including the biggest company for heat resistant products – magnesia plant Satka.

THE COMPANY IN FUTURE ...

... keeps utilizing its own raw materials by mining.
... keeps going its traditional devices and appliances – shaft kilns, rotary kiln in clinker plant, tunnel kilns, presses and other devices in brick making plant ...
... will utilize more intensively its important reconstructed and newly built investments ... especially carbon bricks line including a new tempering furnace Lúbena and briquetting line as well. It is necessary to tune up all the processes but first of all it is inevitable to achieve the stable position in the market with new kinds of products.

THE COMPANY IN 2014 ...

... plans to invest 676 TEUR. First of all it is a new line for valve bag filling (75 TEUR), bricks selection manipulator (240 TEUR), special shapes saw (75 TEUR) and other ...
... plans to increase the revenues by 34 TEUR, especially by increasing the volume of the products from new investments ...
... plans to reach the profit before taxation of the amount of 945 TEUR.
2013 IN PRODUCTION DEPARTMENTS

The world of magnesia is changing rapidly. Demand for the simple bricks made from classical magnesia ore is replaced by the demand for special shaped bricks with complex chemism and special attributes.

That is why in the Miner plant less raw material was extracted than in previous year, less concentrates were processed as the demand is oriented to the products from other kinds of raw materials. On the other hand this fact enables to utilize the deposits more evenly and for a longer time than planned before.

In Clinker plant in 2013 the briquetting line started its production and thus new briquettes can be burnt in shaft and rotary kilns. It enabled to burn the materials from waste piles and 320 t from waste pile was burnt in shaft kilns and 1 111 t in rotary kiln. These are the trends for the next future – to increase the production of briquettes and to process the waste material from piles.

In Bricks production plant the quantity of bricks produced was 1 438 t less than in 2012. But from year to year the customers’ demands are higher and the production is more complicated. As to carbon bricks – the plan was not fulfilled as the production start in carbon line was not as fluent as expected.

The main production indicators are below:

<table>
<thead>
<tr>
<th>Production in Plants</th>
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<tr>
<td><strong>Production in Plants</strong></td>
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<td></td>
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<tr>
<td><strong>Miner Plant</strong></td>
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<tr>
<td>Raw ore extraction</td>
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<tr>
<td>Concentrates</td>
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<tr>
<td><strong>Clinker Plant</strong></td>
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<tr>
<td>Finished bulk material</td>
</tr>
<tr>
<td><strong>Brick Plant</strong></td>
</tr>
<tr>
<td>Bricks total</td>
</tr>
<tr>
<td>burnt bricks</td>
</tr>
<tr>
<td>carbon bricks</td>
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<tr>
<td>Masses</td>
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</tbody>
</table>
To maintain and repair the assets in company with production dated to nineteen is not easy. And in 2013 the situation was much more complicated by the necessity to repair an Administrative building „Kohút“ in Revúca after the big fire in this building in 2012.

A Service plant secures the transport personal and freight transport as well as the energetic media distribution, and last but not least secures the repairs of all the devices, machines and other assets.

In numerical data they provided maintenance in the amount of 1 918 TEUR, while 604 TEUR was general repairs (in internal prices). External repairs were in the amount of 292 TEUR – so it can be seen that the repairs were scored mainly internal – by 118 employees of Service plant.

Work Safety and Health Protection is not only a Technical Department matter. The company is a “heavy industry” company and it means the safety risks are very high and it is not possible to eliminate them absolutely. But the safety is of a highest priority and it means the increasing demands to expenses – namely the expenses to personal protective means (26 TEUR in 2013), expenses to hygiene (9 TEUR), protective drinks (2 TEUR), recondition stays (5 TEUR), working health service (19 TEUR). But the priority is safety and healths secure – not financials. The job-related injuries and occupational disease is still decreasing and this fact is the proof of our care. In spite of expenses optimisation the new measures must be accepted as far as the safety concerns. That is why also the continual control of keeping the safety rules is necessary – because sometimes the employees omit the rules. To provide the controls is one of the task of the Safety and Health Protection Section.
It can be seen from the preview that the number of accidents decreased in 2013 in comparison with 2012 rapidly and the number of occupational diseases was the lowest in 2013 in the last 5 years. In 2013 there were only 3 diseases while in 2010 there were 10 occupational diseases.

For the next future the task is to lower the number of risk places of work by taking technological and technical measurements.
MANAGEMENT OF THE ENVIRONMENT is one of the higher priorities in the company and new investments are also the proof of it. The carbon bricks tempering furnace is equipped by the modern technology enabling to burn polluting components and to avoid them to get into the air. The carbon line has also the dust-collecting appliance with the above average quality properties – not only the existing appliances have been reconstructed but the new ones have been built as well – and all these appliances are not externally opened to secure the strict environmental requirements. Also the new briquetting line is equipped by the dust collecting appliance of the highest quality that fulfils the strictest ecological requirements as all the collectors are not externally opened.

NEW INVESTMENTS - new production facilities built in 2013 enable to extend the product selection and so to meet a customer’s requirements more quickly and completely. Our answer to new demands is a new carbon line, definitely finished by successful functional and production tests. Now the new type of bricks - Carbores bound bricks can be produced. This type is an environmentally favourable alternative type of production in comparison with synthetic resin bound alternative. It was the answer to market demands – main impact on product quality, durability, and lifetime. As a part of this investment a new tempering furnace was built to enable the carbon bricks hardening by 300° C temperature. To cover the increasing manipulation with products demands, company bought two new manipulators.

BRIQUETTING LINE (see picture 1) enables to process until now unusable fine-grained materials - magnesia processing by-products. But it enables also to process materials in stocks and this way to lower an environmental burden. After processing, materials are burnt either to sintered magnesia or to raw briquettes (see picture 2) that can be sold to steelmaking producers as a slag formers to lower the bricks wear.
Two main influences determine the present heat-resistant bricks demand – prices, concurrence and quality. That is why it is necessary to produce the new, high value added products to customers. That is why the activities in 2013 were to sell the new Carbores bound carbon bricks, and briquettes and to increase the sale of caustic calcined magnesia for agriculture.

Our products are designed for industrial use from machinery and construction, that is why our production is influenced by the steel, lime and colour metallurgy products demand.

The negative impact of demand lowering could be seen in the sale of our products to Czech Republic.

The sale of products in 2013 in SLOVMAG, a.s. Lubeník reached almost 40 kT of its products heat-resistant products, from which amount almost 18 kT are unshaped and 21 kT shaped products.

It can be seen the increasing of bricks sale to Russian territory and the drop of sale to Czech Republic and Poland. There were no changes in export to other countries. As far as the masses concern, above 30 % was the share of export to Ukraine in 2013.
2013 IN PERSONAL DEPARTMENT

Motto: „If you want build a big and successful enterprise, build yourself first.“
Tomáš Baťa

Each company has three main pillars to build the business. The first is the vision, the targets and the building strategies. The second is the equipment, environment and systems supporting the production. And last but not least there are the people – the human resources which activate the previous ones. Reliable and satisfied employees - able to produce profit – these are the people each company seeks.

But it is not effective to dream about an ideal employee – more effective is to find a power, to develop it and utilize – this is our recommendation. That is why we created – in cooperation with managers and internal advisers - a formalization of professional requirements according to each profession and department.

We keep trying to create the professional instruments that enable to make the selection procedures, development and education of people to drive the employees to be more productive. Collective bargaining led to a new Collective Agreement for 2013 -2017 years signature with the exception of the wages demands that are to be negotiated each year.

Because of the legislative it was necessary the new rules implementation as far as the personal data protection concerns.

Human resources management is not only the personnel clerks matter. But their task is to give an advice, a help, a service – to guide the whole process.

![Number of Employees & Incomes - Average Values](image)
An ambitious Business Plan as far as the revenues and profit concern was not fulfilled in the first months of the year as the sale of the products was markedly lower. It was necessary to manage expenses maximally so to keep positive results in spite of the low revenues – the second lowest since the crisis in 2008. Therefore in spite of lower revenues we managed to create relatively high value added – thanks to the lower prices of bought raw materials. Energies, which are as critical for our economy as raw materials, we managed to buy in comparative prices to those in 2012, but we did not manage to save the planned expenses on gas.

We managed to save the expenses to repairs with the highest effect as far as the savings concern, but it can cause the equipment lifetime shortening and more frequent downtimes occurring.

However, we closed the year 2013 with positive result in the amount of 322 TEUR of profit before taxation – the trends were positive, but the shifting of the last month’s orders to the next year stopped them.

It is a very challenging task to create the positive result in 2014 because of the higher depreciation (new carbon bricks line and briquetting line) and higher bank interests (new investments financing). On the other hand there is a perspective of favourable raw materials prices. So if the level of revenues rises, we can eliminate the fixed costs growth by higher added value. It is more than clear that in 2014 the everyday fight for each euro seems to be absolutely inevitable.

### Human Sources—Selected Data

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production staff</td>
<td>459</td>
<td>425</td>
</tr>
<tr>
<td>Administrative employees</td>
<td>138</td>
<td>136</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>597</td>
<td>561</td>
</tr>
<tr>
<td>Salaries and wages (€)</td>
<td>4 728 124</td>
<td>4 626 496</td>
</tr>
<tr>
<td>Average pay (€)</td>
<td>651,94</td>
<td>678,30</td>
</tr>
<tr>
<td>Average labour productivity (€/employee/month)</td>
<td>3 986,34</td>
<td>4 027,57</td>
</tr>
</tbody>
</table>

### 2013 - ECONOMICS, INDEXES, TRENDS

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