

Terrafame's net sales during the first half of 2019 amounted to EUR 141.0 million - profitability was burdened by lower prices and a maintenance break

(The financial interim data from Terrafame Ltd presented in this release are unaudited FAS figures. Unless otherwise stated, the figures in parentheses refer to the corresponding period of the previous year.)

January-June 2019 in brief

- Nickel production increased by 10.1% to 13,584 (12,341) tonnes. Zinc production decreased by 7.1% to 27,036 (29,104) tonnes.
- The production volumes of the metals production plant were impacted by a scheduled, annual maintenance break during the second quarter. Overall, production volumes were at a good level.
- Nickel price decreased by 11% and averaged USD 12,315 (13,871) per tonne. Zinc price decreased by 16% and averaged USD 2,732 (3,268) per tonne.
- Net sales were burdened by lower prices and increased zinc treatment charge compared with the comparison period.
- Net sales decreased by 13.2% to EUR 141.0 (162.4) million.
- EBITDA totalled EUR 1.5 (20.9) million. The decline in net sales decreased profitability.
- Operating loss was EUR -16.1 (5.8) million.
- Free cash flow from operations was EUR -22.7 (-14.7) million.
- The combined lost-time injury frequency of Terrafame and its partner companies was 7.9 (7.1).
- The construction of the battery chemicals plant is proceeding as planned.

Financial and production figures

	2019 Q2	2018 Q2	Change, %	2019 H1	2018 H1	Change, %	2018
Financial figures							
Net sales, EUR million	60.0	76.7	-21.8 %	141.0	162.4	-13.2 %	325.8
EBITDA, EUR million	-9.8	11.1	na	1.5	20.9	-92.8 %	32.8
Operating result, EUR million	-18.9	3.4	na	-16.1	5.8	na	3.0
Free cash flow, EUR million ⁽¹⁾	-21.9	-5.4	na	-22.7	-14.7	na	-15.6
Capital expenditure, total, EUR million	36.7	21.1	73.9 %	57.0	36.6	55.7 %	81.5
Sustaining capex, EUR million	7.0	7.7	-9.1 %	9.8	12.6	-22.2 %	28.1
Development and growth capex, EUR million	29.8	13.4	122.4 %	47.3	24.0	97.0 %	53.4
Equity, EUR million	341.6	304.6	12.2 %	341.6	304.6	12.2 %	365.6
Total assets, EUR million	703.5	616.9	14.0 %	703.5	616.9	14.0 %	681.6
Metals production							
Nickel produced, tonnes	6,296	5,920	6.4 %	13,584	12,341	10.1 %	27,377
Zinc produced, tonnes	12,602	14,096	-10.6 %	27,036	29,104	-7.1 %	61,608

1) Free cash flow after maintenance capex = EBITDA - Change in net working capital - Maintenance capital expenditure

CEO Joni Lukkaroinen:

"Terraframe's metals production in January–June 2019 was at a solid level, but net sales decreased by 13.2% year over year and amounted to EUR 141.0 (162.4) million. The price of nickel fell by 11.2% during the review period and the price of zinc fell by 16.4% year over year. Nickel price fluctuated greatly and the average price during the second quarter was lower year over year in spite of a rise in the early part of the year. The average price of zinc during the second quarter was slightly higher than in the first quarter, but significantly lower year over year. In addition, in May, there was a scheduled annual maintenance break at the metals production plant, which decreased the production volumes of metals compared with the first quarter. The maintenance break was carried out as planned and the production ramp-up after the break progressed well.

Net sales decreased due to lower market prices which started to decrease towards the end of the review period, combined with the higher treatment charge of zinc as well as lower production volumes during the second quarter. The decrease in net sales was reflected in EBITDA, which was EUR 1.5 (20.9) million. Operating loss for the review period amounted to EUR -16.1 (5.8) million.

In the autumn of 2018, we made a decision to invest in a battery chemicals plant. The project is proceeding as planned. Major events during the review period included starting the construction of buildings in the main processing areas as well as contracts for oxygen and energy plants that will be built in connection to the battery chemicals plant.

Once completed, the battery chemicals plant will use the current main product of the metals production plant its raw material. Currently it is sold as a semi-fabricated product to companies that process metals. As the new plant starts, we will process the semi-fabricated product into battery chemicals that will be sold as raw material for the manufacture of electric car batteries. Demand for electric cars is expected to continue strongly. Several car manufacturers have announced ambitious targets for the next few years that aim at increasing the share of electric car sales in their total sales. Investments in the manufacturing of battery cells are also increasing. In April, we submitted the environmental permit application for the battery chemicals plant to the Northern Finland Regional State Administrative Agency.

The carbon footprint of our production process is lower compared with traditional metals production methods, and energy-efficient solutions have been considered in the design of the battery chemicals plant, too. In June, we signed an agreement on the implementation of a renewable energy-based power plant at our industrial site. The new plant will almost entirely replace the LPG now used in energy production with domestic and clean wood-based fuels, such as wood chips, recycled wood or by-products of sawmills. The new biofuel energy plant strengthens our position as a producer of low carbon footprint battery chemicals.

The new battery chemicals plant means that we will also need to find 120–150 new process and chemical industry professionals, whose external and internal recruitment will begin this autumn.

In addition to recruitment, we invest in education. Within the company, we provide continuous training for our multidisciplinary employees, in order to develop their competence in the processing sector. In cooperation with Kainuu and Oulu Vocational Colleges, we have also started an apprenticeship training leading to a professional qualification in the process industry. The first two-year training began in the spring, and we are currently seeking students for a new group that will start training in autumn 2019. Our goal is to train 50 new process engineering professionals annually. In addition, we have donated a three-year principal lecturer position in the process industry to Kajaani University of Applied Sciences KAMK. The aim is to create a new process technology specialisation programme at KAMK that will be launched in 2020. In collaboration with Lapland

University of Applied Sciences, KAMK will start a conversion training next semester to enable the training of electrical automation engineers in Kainuu.

During the early part of 2019, there were a total of 9 (9) lost-time injuries in the industrial site involving Terrafame's and partners' employees. The 12-month rolling lost-time injury frequency rate (LTIFR) was 7.9 (7.1). Our aim is to be among the best operators in our industry in terms of occupational safety, and we systematically invest in training and practices that promote occupational safety."

Market developments

Global demand for Terrafame's main products nickel and zinc has continued to be solid during the early part of 2019 as stock volumes have continued to decrease. However, there has been great fluctuation in prices and, at the end of the review period, nickel and zinc prices started to decrease. Producer prices for both nickel and zinc consist of market price and treatment charge components. In the second quarter, the zinc treatment charge turned to a rise, which partly burdened producer prices.

In January–June, the global market price for nickel decreased by 11.2% year over year and averaged USD 12,315 (13,871) per tonne. In April–June 2019, nickel price was on average USD 12,258 (14,476), which was 15.3% and in euros 10.2% lower year over year. At the beginning of 2019, nickel price started to rise, but due to great price fluctuation, the average price in dollars in April–June was 0.9% lower than in January–March.

In January–June, the global market price for zinc decreased by 16.4% year over year and averaged USD 2,732 (3,268) per tonne. In April–June 2019, zinc price was on average USD 2,763 (3,112) per tonne, which was 11.2% and in euros 5.9% lower year over year. The increase in the average price of zinc continued during the early part of 2019, but at the end of the second quarter, prices started to decrease. However, the zinc price in April–June 2019 was 2.2% higher in dollars than in January–March.

The total combined nickel stocks of the London Metal Exchange (LME) and Shanghai Futures Exchange (SHFE) stood at 182,122 (296,895) tonnes at the end of June 2019, corresponding to demand of approximately 4 (7) weeks. At the end of June, total zinc stock volumes stood at 175,021 (330,559) tonnes, corresponding to demand of about a week.

During the second quarter of 2019, the US dollar appreciated against the euro. The average EUR/USD exchange rate for April–June was 1.1237 whereas in January–March 2019, it was 1.358.

Metals production

In January–June 2019, nickel production increased by 10.1% year over year and amounted to 13,584 (12,341) tonnes. Zinc production decreased 7.1% to 27,036 (29,104) tonnes. Cobalt and copper were produced alongside the company's main products.

During the second quarter, nickel production grew by 6.4% year over year and amounted to 6,296 (5,920) tonnes. Zinc production decreased 10.6% to 12,602 (14,343) tonnes. In May, a scheduled annual maintenance break was carried out at the metals production plant, which decreased the production volumes of metals compared with the first quarter of 2019. The maintenance break was carried out as planned and the production ramp-up after the break progressed well. As a whole, production volumes are at a good level and correspond to the annual production levels of nickel and zinc specified at the start of the company's business operations.

Repairs to damage in the liner structure of the primary leaching area detected in March have progressed as planned with heap reclaiming and stacking of new ore.

Net sales and financial performance

In January–June 2019, Terrafame's net sales decreased 13.2% year over year and amounted to EUR 141.0 (162.4) million. Net sales were in particular burdened by nickel and zinc prices that decreased towards the end of the second quarter.

Net sales decreased during the second quarter by 21.8% year over year and amounted to EUR 60.0 (76.7) million. The annual maintenance break carried out at the metals production plant reduced production volumes during the second quarter, which, together with nickel and zinc prices that decreased towards the end of the second quarter, reduced sales during the quarter, compared with the first quarter in 2019.

Net sales decreased due lower market prices as they started to decrease towards the end of the review period combined with the higher treatment charge of zinc and lower production volumes during the second quarter.

The decrease in net sales was reflected in EBITDA, which was EUR 1.5 (20.9) million. Operating loss for the review period amounted to EUR -16.1 (5.8) million.

Capital expenditure

In the first half of 2019, total capital expenditure stood at EUR 57.0 (36.6) million. Of this amount, EUR 47.3 (24.0) million were used to improve productivity and increase capacity, while maintenance capital expenditure amounted to EUR 9.8 (12.6) million.

The most significant investments in improving productivity and increasing capacity were related to the construction of the battery chemicals plant and a new gypsum pond, as well as initiating the construction of the surface structures of the third block in the waste rock area. The most significant capital expenditures on production maintenance concerned the purchases of spare parts for mining equipment and the ore crushing line, in addition to the modification of the hydrogen sulphide plant.

Environment

At the end of June 2019, 3.6 (1.9) million cubic metres of water was stored at the industrial site. During the first six months, a total of 2 (1.6) million cubic metres of purified water was released from the industrial site. The discharge pipe in Nuasjärvi has been in operation since April. The substance concentrations of purified water released from the site have been below permit levels.

The environmental permit application for the battery chemicals plant was submitted to the Northern Finland Regional State Administrative Agency in April.

Personnel and occupational safety

At the end of June 2019, Terrafame employed 745 (711) people. The figure also includes Terrafame's summer employees and apprentices. In addition, approximately 70 partner companies with a total of 654 (610) employees worked regularly at the industrial site in January–June 2019.

During the first half of the year, Terrafame personnel suffered 4 (4) lost-time injuries. The rolling 12-month lost-time injury frequency rate or number of accidents resulting in absence per one million person-hours was 7.2 (5.4). The personnel of the partner companies suffered 5 (5) accidents that

resulted in absence, and the lost-time injury frequency of Terrafame's partners was 8.7 (8.7). The combined lost-time injury frequency of Terrafame and its co-operation partners was 7.9 (7.1).

Terrafame continues to take active measures in order to recruit skilled personnel. In April, a three-year principal lecturer position in process industry, which was donated by Terrafame, started at Kajaani University of Applied Sciences KAMK. The aim is to create a new process technology specialisation programme at KAMK that will be launched in 2020.

Terrafame has also initiated an apprenticeship training leading to a professional qualification in the process industry, which is organised by Kainuu Vocational College in cooperation with Oulu Vocational College. The first two-year training began in the spring, and a new group will start the training in autumn 2019. The goal is to train 50 new process engineering professionals annually.

The company also invests in internal training by providing continuous training for its multidisciplinary employees, in order to develop their competence in the processing sectors, including internal security, environment, quality and equipment trainings.

Near-term outlook

After the end of the review period, the nickel price on the London Metal Exchange (LME) has been rising. However, price fluctuations have continued.

The construction of the battery chemicals plant continues and recruitment will begin in autumn 2019.

The Government is expected to issue a decision on the application for a uranium recovery permit in 2019.

Terrafame will continue to develop production and improve cost efficiency.

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Terrafame Ltd is a Finnish multi-metal company producing nickel, zinc, cobalt and copper at its mine and metal works located in Sotkamo. Our goal is to conduct environmentally sustainable, safe and profitable operations.