

>> TERRAFAME LTD

January–March 2019

Terrafame posts first quarter net sales of EUR 81 million and positive operating profit

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

January–March 2019 in brief

- Nickel production increased by 13.5 percent to 7,288 (6,421) tonnes. Zinc production decreased by 3.8 percent to 14,434 (15,008) tonnes.
- Net sales totalled EUR 81.0 (85.7) million.
- EBITDA totalled EUR 11.3 (9.8) million.
- Operating profit was EUR 2.8 (2.4) million.
- Free cash flow after sustaining capex was EUR -0.8 (-9.3) million.
- The combined lost-time injury frequency rate of Terrafame and its partner companies was 8.1 (5.7).
- The stacking of new ore to the primary leaching heap was interrupted at the end of the review period due to repairs of liner structures, resulting in a decrease in mining production volumes.
- Construction works for the solvent extraction building at the battery chemicals plant were started.

Key financial and production figures

	2019 Q1	2018 Q1	Change, %	2018
Financial figures				
Net sales, EUR million	81.0	85.7	-5.5 %	325.8
EBITDA, EUR million	11.3	9.8	15.3 %	32.8
Operating result, EUR million	2.8	2.4	16.7 %	3.0
Free cash flow, EUR million ¹⁾	-0.8	-9.3	n.a	-15.6
Capital expenditure, total, EUR million	20.3	15.5	30.8 %	81.5
Sustaining capex, EUR million	2.8	4.9	-42.9 %	28.1
Development and growth capex, EUR million	17.5	10.6	65.0 %	53.4
Equity, EUR million	348.9	300.8	16.0 %	365.6
Total assets, EUR million	684.9	612.6	11.8 %	681.6
Ore processing				
Ore to primary leaching, million tonnes	2.7	4.5	-40.0 %	17.9
Nickel to heaps, tonnes	6,842	12,234	-44.1 %	46,334
Zinc to heaps, tonnes	14,995	24,296	-38.3 %	97,633
Metals production				
Nickel produced, tonnes	7,288	6,421	13.5 %	27,377
Zinc produced, tonnes	14,434	15,008	-3.8 %	61,608

1) Free cash flow after sustaining capex = EBITDA - Change in net working capital – Sustaining capex

CEO Joni Lukkaroinen:

“Terrafame’s net sales in January-March 2019 totalled EUR 81.0 (85.7) million. The price of nickel began to rise in early 2019, and our nickel production was at a good level of over 7,000 tonnes. The average price of zinc had already begun to rise during the final quarter of 2018, and this increase continued in early 2019. In zinc production, we fell somewhat short of achieving the record levels of the final quarter of 2018. Thanks to good overall production and rising prices, net sales increased about 5 per cent from the final quarter of 2018.

EBITDA for the first quarter had a year-on-year increase of 15.3% to EUR 11.3 (9.8) million. Operating profit also increased to EUR 2.8 (2.4) million. I am particularly pleased that our profitability again turned positive after a challenging final quarter in 2018.

In autumn 2018, we decided on the further processing of our company’s current main product, nickel-cobalt sulphide, into sulphates, which are needed to manufacture batteries for electric vehicles. The construction project for the battery chemicals plant is progressing as planned. The strong current growth in electric vehicle manufacturing will increase need for batteries, which in turn will increase demand for nickel. In 2018, demand for electric vehicles grew by 63 per cent compared with 2017.

In March, we detected damage in the liner structures of block 2 of the primary leaching area. The stacking of new ore to the primary leaching heap was interrupted at the end of the review period due to repairs of liner structures. This resulted in a decrease in mining production volumes, but did not affect production in the metals production plant. Stacking of new ore was begun on 20 April, after which progress of the repairs to the base structure in the primary leaching area will be coordinated with heap reclaiming and stacking of new ore.

Employee safety is one of the cornerstones of operations at Terrafame. We focus on practices that promote safe ways of working, including starting all internal meetings with a review of topical safety issues. In the first quarter, the personnel of Terrafame and its partner companies suffered a total of 4 (4) accidents resulting in absences, with a rolling 12-month lost-time injury frequency rate (LTIFR) of 8.1 (5.7). Our goal is to retain our position among industry leaders in occupational safety and we continue methodical work for the development of a culture of safety among both our own personnel and our partner companies.”

Market developments

Global demand for Terrafame’s main products nickel and zinc has continued to be positive, reflecting in stock volumes and price development.

In January–March 2019, the average global market price of nickel was USD 12,369 (13,277) per tonne, with a year-on-year decrease of 6.8 percent in USD and increase of 0.8 percent in EUR. After a downward trend in the latter half of 2018, the price of nickel began to rise in early 2019, with an increase of 7.4 percent in USD and 7.9 percent in EUR in January-March 2019 compared with October-December 2018.

In January–March 2019, the average global market price of zinc was USD 2,702 (3,421) per tonne, with a year-on-year decrease of 21.0 percent in USD and 14.5 percent in EUR. After a downward trend throughout 2018, the average price of zinc began to rise in the final quarter of last year and continued to increase in early 2019. In January-March 2019, the price of zinc was 2.7 percent higher in USD and 3.2 percent higher in EUR compared with October-December 2018.

The total combined nickel stocks of the London Metal Exchange (LME) and Shanghai Futures Exchange (SHFE) stood at 193,338 (367,694) tonnes at the end of March 2019, corresponding to approximately 4 (approx. 8) weeks' demand. Total zinc stocks at the end of March stood at 163,701 (361,947) tonnes, corresponding to less than one (approx. 1) weeks of demand.

In the first quarter of 2019, the USD/EUR exchange rate was 1.1358 (1.2292).

Capital expenditure

In the first quarter of 2019, total capital expenditure stood at EUR 20.3 (15.5) million. Of this amount, EUR 17.5 (10.6) million were used to development and growth, while sustaining capital expenditures were EUR 2.8 (4.9) million.

The most significant expenditures for development and growth concerned tasks related to the design, equipment purchases and the initiation of construction work of the battery chemicals plant, as well as construction work of the new gypsum pond. The most significant sustaining capital expenditures were capital spare parts for mining equipment and the ore crushing line.

Environmental safety and permits

At the end of March 2019, 2.56 (1.4) million cubic metres of water were stored at the industrial site. In the first quarter, only 0.014 (0.2) million cubic metres of purified water, with a sulphate load of 16,8 (475) tonnes, were released. During the first quarter, the discharge pipe to Nuasjärvi was not used at all. Water discharge via the pipe was begun on 10 April 2019.

In March, damage was detected in the liner structures of block 2 of the primary leaching area. Repair measures to construct a new liner structure over the existing structure were immediately initiated. Protective pumping around the primary leaching area was enhanced to ensure that the contamination remained local. Repairs to the base structure in the primary leaching area will progress in coordination with heap reclaiming and stacking of new ore.

An environmental impact assessment procedure for the final disposal of water treatment sludge was initiated and the assessment programme was submitted to the Kainuu ELY Centre on 28 March 2019.

Personnel and occupational safety

At the end of March 2019, Terrafame employed 682 (634) personnel. In addition, approximately 70 partner companies, with a total of 651 (631) personnel, worked regularly at the industrial site during January–March 2019.

During the first quarter, Terrafame personnel suffered 3 (1) lost-time injuries. The rolling 12-month lost-time injury frequency rate, or the number of accidents resulting in absences per one million person-hours, was 9.1 (3.5). The personnel of partner companies suffered 1 (3) accident that resulted in an absence, and the lost-time injury frequency of partners was 7.2 (7.7). The combined lost-time injury frequency of Terrafame and its partner companies was 8.1 (5.7).

In autumn 2018, Terrafame made a donation for a three-year principal lecturer position at Kajaani University of Applied Sciences KAMK. The application process was finalised during the first quarter of 2019, and on 1 April 2019, Katriina Sirviö (D.Sc., Tech.) began as principal lecturer in processing industry. The new position strengthens the cooperation between Terrafame and KAMK. The new principal lecturer will receive in-depth insight into Terrafame's operations, which allows for the integration of studies directly with the company's needs in the form of project work as well as conventional internships and theses work, for example. The principal lecturer is also tasked with

developing the study programme for processing industry and maintenance, as well as coordinating research and development work and promoting the attractiveness of the study programme.

The application round for apprenticeship training organised jointly by Terrafame and the Kainuu and Oulu Vocational Colleges was finalised in the first quarter of 2019, and on 1 April, 23 new apprenticeship students began their two-year training for a vocational qualification in processing industry. During their apprenticeships, the students will learn the different stages of the production process and complete various qualifications in different subject areas. In addition to on-the-job learning, days of classroom instruction will be held on Terrafame's premises. The application round for the next apprenticeship training beginning in autumn 2019 will start this June.

Near-term outlook

Terrafame will continue to develop production and improve cost efficiency.

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

Construction of the battery chemicals plant is ongoing.

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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.