



SOLWAY INVESTMENT GROUP 2019 ANNUAL RESULTS



Solway Investment Group Announces its Full Year 2019 Financial Results

- 2019 Solway Group consolidated revenues of USD 637 million, an increase of 19% vs. 2018
- Group EBITDA of USD 141 million; EBITDA margin of over 22%
- Production costs increased slightly by 2.5% to USD 468 million
- Group total assets reached USD 1.149 billion at year end 2019
- Solway had an impressive leverage ratio Net Debt/EBITDA of 0.06x for FY 2019.

In a volatile environment for commodities markets, Solway Group continues to concentrate its efforts on developing and optimizing the effectiveness of the group's business structure. Solway is primarily focused on reducing its cost of nickel production and stabilizing production volumes across its existing capacities. In 2020, the Group intends to launch Borov Dol, a new mining operation in North Macedonia, as well as to identify new exploration opportunities for gold deposits in Russia, as well as pursuing several other opportunities.



Environmental protection, occupational health and safety: CSR in 2019

Solway Investment Group is committed to the highest standards of health and safety, environment protection and sustainability. To embrace integrity, transparency, and cooperation, the Group has implemented internationally recognized standards for environmental and social performance: the Equator Principles; IFC Performance Standards; ISOs 14001, 9001, and 4500, and the Voluntary Principles on Security and Human Rights. The integrity of our implementation was assessed by independent consultancies including Golder Associates, ERM, and others. The Group is also currently studying methods and mechanisms for implementing the United Nations' Sustainable Development Goals (SDG) and Global Reporting Initiative (GRI).

Our primary responsibility is to promote and protect the health, safety, and well-being of all of our employees, contract personnel, and the residents of our local communities. We have a strong focus on local community relations. To that end, Solway is engaged in a continuous stakeholder dialogue with governments, public and regulatory agencies, employees, local communities, and customers. In order to bring its stakeholder interactions to a higher level, and ensure effective and coherent stakeholder engagement at the national as well as the international level, Solway Investment Group has begun working with external experts in 2019 on the development of specific tools based on an international best-practices approach.



International Solway Music Fellowship

Since 2017, Solway has operated a Group-wide, eight-month educational program, the International Solway Music Fellowship. The fellowship is designed to integrate young creatives between the ages of 14 and 17 from the local communities of North Macedonia, Guatemala, and Ukraine, into modern cultural life by learning English, experiencing the arts, and adapting their cultural traditions to the realities of the modern world. The program is run in partnership with the world-renowned Salzburg Festival.

In 2019, the fellowship program attracted over 55 applicants. 24 participants fully completed the challenge, and six young adults were chosen to represent their countries in the international opera camp for children and youth in Salzburg in 2021. Beginning with the 2020 season, Solway shifted from cooperating with the Salzburg Festival solely in the area of youth opera camps to supporting the festival's significantly expanded program for young talents: **jung&jede*r**.



Pronico and CGN, Guatemala

2019 was a landmark year for Solway's Guatemalan assets. For the first time since the projects were acquired by Solway, Pronico reached its planned production capacity to deliver a record 20,323 metric tons of nickel in ferronickel. Pronico became one of the largest nickel producers in Central America, a region which accounts for 12 percent of global annual nickel production.

Throughout the year, Pronico continued to invest in and adopt innovative technologies and alternative, cleaner energy sources in its mining operations. The projects prioritize sustainable, safe, and profitable long-term production. The transition to a low-emission model necessitates infrastructure upgrades based on carbon capture and storage (CCS) power generation technologies.

In 2019, capital expenditures reached USD 8.092 at Pronico and USD 4.593 at CGN. 2019 capex was primarily directed towards building a new ash dump, construction and installation of Thermax boilers, purchases of electricity generation and additional mining equipment, modernization, and exploration works.

The projects' management and key stakeholders have invested considerable time and effort to ensure sustainable, stable production. Solway continues to work on an ongoing basis to improve all its operational practices by implementing international industry best practices. The Group is committed to maintaining the highest standards in labor protection and industrial safety, environmental protection, sustainable development and support for its local communities in Guatemala.

The combined annual environmental expenditures of Pronico and CGN reached USD 2.63 million in 2019. The projects implemented important environmental protection initiatives. Environmental monitoring of the Fénix and Montufar areas was performed including: Lake Izabal, rivers, soils and sediments, emissions and air quality, environmental noise, and treated sanitary sewage. Biodiversity management programs were also supported, namely: protection of American crocodiles, monitoring of Howler monkeys, reforestation, and orchid nurseries. The projects also operated and maintained environmental protection facilities such as wastewater treatment facilities, landfill, and bag filters.



Pronico and CGN, Guatemala

Pronico passed certified audits for its ISO certifications 9001, 14001, and 45001 in 2018. In 2019, AENOR performed an external audit that confirmed the project's continued compliance with these certifications. The first phase of a new preventive technical service strategy was also completed that same year. Pronico plans to complete the second phase of the program, a predictive technical service, in 2020.

Annual operating expenses for employee health and safety programs at Pronico and CGN increased to USD 1.234 million in 2019. This figure includes personal protective equipment (PPE), vocational education, and emergency response training provided by licensed contractors.

In 2019, the projects invested USD 1.373 million in social programs supporting their local communities. Key elements were salary payments to temporary staff hired via agreements with the local communities and municipalities, investments in education, health, and social infrastructure, promotion of sport and local culture, and monitoring of the local communities in the projects' areas of operations.

Modern industries such as production of coffee, textiles, petroleum, paper and pharmaceutical products, rubber processing and mining help diversify Guatemala's traditionally agricultural economy. They not only generate economic growth and introduce new technologies, but also raise the living standards of and create new opportunities for the local population. Solway recognizes the significance of its investments for this developing country in which an estimated 40% of the population remain illiterate. Employment with the Group offers not just a reliable source of stable income for residents of local communities, but also the opportunity for professional training and furthering one's education.



Pobuzhsky Ferronickel Plant (PFP), Ukraine

In 2019, PFP processed 1.35 million metric tons of wet ore into 14.2 thousand tons of nickel in ferronickel.

In 2019, USD 3.46 million was spent on major repairs of the plant's main technical equipment. In 2019, investments to support production capacity (purchases of equipment, machinery, construction, etc.) amounted to USD 1.67 million, and USD 0.07 million was invested in environmental programs.

In 2017, PFP launched a long-term project to reconstruct the third stage of the gas-cleaning equipment on tubular rotary kilns No. 1 and No. 2. In 2018, the first stage of construction was completed at a cost of USD 1.86 million. This involved the transition of TOP-1 gas purification to a temporary scheme with the installation of a smoke extractor and the transfer of gas ducts to the chimney, which allow for performance of the second stage without stopping the main production line. In 2019, an auxiliary smoke exhauster was purchased and repair works were performed. The total cost (cost of equipment received and works performed in 2018-2019) amounted to USD 2.4 million. Emissions will be reduced by 99.9% upon completion of the project.

In 2019, PFP spent USD 440,000 on a wide variety of social programs to support the local town of Pobuzhskoe. These funds were directed towards the town's social and cultural programs, sponsorships, social work, and health care services. PFP also provided scholarships for some of its employees to study at universities and pursue further educational opportunities.

Over USD 450,000 was spent on environmental protection during 2019. This included investments in studies necessary to obtain environmental permits, as well as reconstruction of the third stage of the gas-cleaning equipment on the tubular rotary kilns at the plant.

International standards have been widely implemented across PFP's management systems. In 2019, PFP renewed its integrated management system (IMS) certifications: ISO 9001:2015, ISO 14001, and ISO 45001:2018.



Kurilgeo Project, Russia

In 2019, Kurilgeo produced 35.57 koz. of gold, and 134.70 koz. of silver. 2019 ore production reached 690,000 tons. Mining of rock mass totaled 2.95 million tons.

Low operating costs ensured a high operating margin; this is in line with the approved business plan. Kurilgeo's operations contributed USD 53.487 million in sales, with an EBITDA margin of 47% in 2019. The company's capital expenditures of USD 1.1 million were primarily directed towards an upgrade of the mining equipment, sustaining productive capabilities, and construction works.

In 2019, Kurilgeo spent over USD 60,000 on social and charitable programs in support of its employees and local communities.

The company invested in occupational safety and health, including staff certification and personnel training programs. In 2019, 180 Kurilgeo employees received additional professional training under the program.

Kurilgeo also invested in environmental, educational and nature preservation measures in 2019. During the course of the year, the company launched a series of educational initiatives aimed at popularizing engineering, geological, exploration and related professions among young people. As part of this program, Kurilgeo held a competition for students studying at the geological faculties of Russian universities. In total, more than 100 young professionals expressed their interest in participating in the competition, and three were offered the chance to take part in a specialized internship on the island of Urup.

The company also continued its two-year cooperation with a Sakhalin-based regional public organization, Boomerang. This initiative is aimed at middle and high school students. In cooperation with Boomerang, Kurilgeo's specialists conducted a series of seminars for the participants in a youth environmental camp. In 2019, Kurilgeo also continued to donate towards select regional charities.

In September 2019, Kurilgeo passed its certified audit for compliance with the integrated management systems (IMS): ISO 9001:2015, ISO 14001:2015, and ISO 45001:2019.



Bucim Copper Mine, North Macedonia

In 2019, Bucim produced 31,226 tons of dry copper concentrate, containing 6,512 tons of copper, 19.07 koz. of gold, and 30.13 koz. of silver, and produced 719 tons of cathode copper of 99.99% quality.

A steady improvement of Bucim's operational efficiency resulted in sustainable production volumes. The Group's Cu segment has performed stably, with a 2019 EBITDA margin of 42%. In 2019, in order to secure operational efficiency and extend the life of the company's mining resources through at least 2030, Bucim DOO Radovish began to develop its new Borov Dol project.

The Borov Dol project is replacing the 40 year-old Bucim mine which is currently in the process of closing. The company's strategy is to ensure a smooth and sustainable transition to the new mine while minimizing the environmental impact, preserving the jobs of most of the employees currently engaged in Bucim's operations, and also creating new job opportunities for residents of the neighboring municipalities of Konche, Shtip and Radovish. Funds were raised for this purpose in early 2019, including a EUR 25 million, 7-year loan from a local commercial bank (Komerrijalna Banka AD Skopje).

In 2019, Bucim invested USD 1 million in purchases of equipment, infrastructure development, occupational health and safety, and environmental protection measures. Facility maintenance and repair expenses totaled USD 4.519 million in 2019. As in previous years, most of the funds were spent on repairs and maintenance of mining and transportation equipment.

Solway Group continues to invest in occupational health and safety initiatives, environmental safeguards, and development of municipal infrastructure at the Bucim mine and in its neighboring municipalities. Bucim invested more than USD 385,000 in these programs in 2019.

In 2019, Bucim made significant investments in environmental programs. This included re-cultivation of the dam of the tailing dump in the required area, as well as environmental monitoring services, including both surface and groundwater, atmospheric air, environmental noise, industrial emissions and discharges, waste management services, and environmental third-party audits and assessments.

Health and safety operational investments were also a priority for Bucim, including funds directed towards PPE for employees, disinfectants, certifications of technical equipment, technical inspections of equipment, fire prevention measures, employee medical examinations, purchases of current safety materials, and additional staff training.

Bucim continued to support a wide range of social programs for its local communities in 2019. This included financial support for athletic clubs, young creative talents and educational programs, providing material assistance to the local hospital, schools and kindergartens, providing a pallet heating system for a kindergarten, carrying out repairs of buildings, purchasing necessary equipment and inventories, and assistance in the development of cultural programs for the local community.

In 2019, Bucim was recertified according to ISO 9001:2015 and ISO 14001:2015. In May 2019, Bucim was also successfully certified according to the latest international standard requirements, ISO: 45001:2018.



Borov Dol project development update North Macedonia

In 2019, the annual plan for earth works on the open pit was fulfilled. Construction of the main technical facilities began during the first half of 2019. Works were completed in the following volumes: road - 100%; conveyor line and power lines of 20kV, earthworks - 83%, reinforced concrete work - 40%, a site of primary crushing and a closed ore warehouse, earthworks - 90%, reinforced concrete work - 95%.

Total investment in 2019 in the Borov Dol project reached USD 37.63 million. USD 0.53 million was spent on the design of the project's buildings and preparations for construction. The project includes installation of an ore transport system from the Borov Dol open pit to the Bucim flotation unit. This system was already purchased in 2019 from Sarl Techni France, and is expected to be completed in September 2020. Installation of the primary crushing equipment is expected to be finished in July 2020 by Metso Minerals. In 2019, contracts for the procurement of movable equipment from Komatsu, Caterpillar, Epiroc, and Sandviks were signed. Total investments in equipment in 2019 reached USD 15.79 million.

In 2019, Borov Dol received a permit for exploitation, and began earth excavation work. 12.8 million tons of rock material were excavated. Total investments in excavation reached USD 13.10 million in 2019.



Nickel Direct Shipment Operations, Indonesia

In 2019, in accordance with an export permit obtained in 2018, Solway Group continued DSO operations and construction work on a nickel processing facility in Morowali in line with the Indonesian government's policy on nickel exports.

This activity continued until September 2019, at which point the Indonesian government announced that the export ban, originally scheduled for 2022, would be brought forward to 31 December 2019. As the existing export permit was valid until September 2019, DSO activities then redirected their focus to the local Indonesian market until December 2019, at which point the government announced an increase in the royalty paid by nickel miners.

Taking into account an oversupply of ore on the domestic market designated for export at that moment, and the absence of regulation on domestic pricing between mines and smelters, the Group decided to cease all mining activities until appropriate regulation of the sale of nickel ore between miners and smelters is implemented. This is necessary to increase the value of nickel ore and allow for more transparency, taking into account international market prices and allowing for a more equitable split of profits between miners and smelters in Indonesia.

Solway Group is looking forward to new regulations from the Indonesian government in support of miners operating in the country.



The Aquila Projects (Morowali & Halmahera), Indonesia

In 2019, Solway Group continued to maintain and perform works on all of its required permits for all of its nickel assets in the country, including maintenance of an operating license for a world-class nickel-cobalt deposit in Indonesia for the next 20-40 years.

Taking into account the sudden change in Indonesian policy regarding the export ban and the challenges which Tsingshan and Harita experienced in obtaining the DSTP permit, the Group decided to change its previous strategy for the PT Aquila Nickel Cobalt project (based on the Bahomoahi deposit) from atmospheric leaching to conventional RKEF, potentially followed by HPAL. This will allow the Group to build on its strong foundation of expertise from its existing ferronickel smelters in its current asset portfolio, and guarantee a successful first mineral processing project in Indonesia.

Production of NPI is expected in 2022, with an overall production target of 18,300 tons of nickel per year.

Taking into account further exploration works undertaken in 2019 at the Asera and Bahomoahi deposits based on the Group's own geological calculations, the nickel resources of all the Indonesian assets increased year-on-year and currently stand at almost 130 million wmt, with an average grade of 1.80% Ni for saprolite material, and almost 200 million wmt with an average grade of 1.18% Ni and 0.12% Co for limonite material. The in-house resource estimate is supported by independent JORC resource statements.



Papua New Guinea

Solway Group successfully maintained all of its licenses in PNG in 2019. The Group conducted further reconnaissance exploration works and identified potential industrial-level deposits of laterite nickel and chromite. The group plans to undertake further detailed exploration of its existing assets in PNG in 2020, with a focus on confirming industrial-level resources of nickel laterite ore in the country. All of the exploration programs undertaken in PNG have the full support of the local communities.