

Annex I

Correspondence with Georgian Manganese LLC and Georgian American Alloys

HUMAN RIGHTS WATCH

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Volodymyr Lozynskyy
General Director, Georgian Manganese
5 Marjanishvili Street, Tbilisi, Georgia 0102

April 30, 2019

Dear Mr. Lozynskyy,

I am writing to you to request information in connection with research that Human Rights Watch is carrying out on safety and labor rights in Georgian mines, which we plan to publish in the coming months. Our research to date in part relates to the safety of mining workers at the Chiatura manganese mine, which we understand includes nine sites in and around Chiatura. We understand from your website that Georgian Manganese LLC (GM), a subsidiary of Georgian American Alloys (GAA), owns these mining sites. Our research also relates in part to producers in GAA/GM supply chain.

Human Rights Watch is an independent, international nongovernmental organization that monitors human rights in more than 90 countries worldwide. We produce reports on our findings to raise awareness about human rights issues and to develop and promote policy recommendations for change.

In December 2018 and March 2019, Human Rights Watch spoke 24 workers employed in six of the nine sites of the Chiatura manganese mine. We interviewed 15 workers individually, and conducted two group interviews with four and five workers respectively. We met representatives of all three worker unions at the mine site. We also spoke with the head of a four-person cooperative, a small company licensed by GAA/GM, extracting manganese near the Chiatura mine that supplies manganese to GAA/GM through an intermediary.

Our research indicates that working conditions at the Chiatura mine heighten risks related to safety and labor rights. We are also seeking to understand how GAA/GM meet their responsibilities in relation to suppliers. Our key findings are summarized below. We request your responses on

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these findings, and to the specific questions that follow. We seek to produce well-balanced research and will incorporate your responses in our report.

Key findings

As stated above, we understand from workers and unions that GAA/GM currently operates nine mining sites around Chiatara, known together as the Chiatara manganese mine. A new mining system was reportedly introduced in 2016 and is being currently used in five of these sites, involving the use of a diesel-powered tractor instead of a train, longer working hours, and workers staying in a company dormitory during shifts. We were told that four other sites use an old system of mining with shorter shifts and where trains collect and transport manganese. Throughout this document, we refer to the new method described above as “new system,” and to the old method of mining as “old system.” We interviewed workers in three new system mines, and three old system mines.

Long working hours and inadequate rest. Workers who are employed in the new system described working 12-hour shifts for 15 consecutive days every month, followed by two weeks off. Every other month workers do night shifts under this schedule. Workers employed under this system said the long working hours are exhausting and they are unable to stay alert to possible hazards.

Employer-provided housing and food. Workers employed in the new system – a majority living in the same town as the mines – are required to live in an employer-provided dormitory for the 15 days of their shifts. Union representatives and seven workers employed in the dormitory system said that movement of workers in and out of the dormitory is restricted. All seven workers said they must submit written requests to a dormitory supervisor to obtain permission to leave the dormitory. We learned about a worker who was granted permission to leave being asked by dormitory supervisors upon return about the time spent away from campus, and to report with whom he spent time and what he did.

Workers said the food provided by the company at the dormitory and in packages handed out before shifts was insufficient for the physical effort required for their work. Three workers said their dormitory diet consisted mainly of macaroni and rice, and two said they would eat meat only once or twice a week. We learned from two workers and a union representative that dormitory workers staged a protest against poor quality food in 2017, which according to them did not help improve food quality.

Intoxication with diesel fumes. Workers in the new system reported their working spaces are filled with toxic smoke emitted by diesel-powered tractors. Workers described experiencing dizziness, nausea, and asthma-like symptoms they attributed to inhaling the fumes on a daily basis, for extended hours at a time. These testimonies are consistent with findings of the World Health Organization (WHO) on the effects of inhalation to diesel fumes.¹

Production pressures that compromise safety. Six new system workers said they have to meet production quotas, and two said their wages were deducted when they did not. To meet quotas faster, one worker said they are asked by superiors to go back inside the mine before the smoke clears after a blast. The Center for Disease Control and Prevention has found that blasting generates toxic gases that are dangerous for health.²

Seventeen old system miners also said they have to meet quotas. One old-system worker said superiors sometimes skip maintenance work to save time and meet the quota. The worker lost a limb allegedly after being asked by a superior to use a defective piece of equipment. Another said he was injured in two years ago in circumstances that he said came about because he was in a rush to meet the quota and could not pay attention to warning signs signaling the collapse.

Unpaid overtime, work on public holidays and penalties for not meeting quotas. Normal working hours including transportation to and from the underground mining sites in the old system add up to an average of 20 overtime hours per month. In addition, five old system workers said they would stay an extra 30 minutes to 1.5 hours several times a month in order to meet quotas. None of this overtime was compensated. Three workers said they worked during public holidays over the previous year, at no additional pay.

Two new system workers also said the company deducted up to ten percent from their wages on months when they did not meet quotas.

Lack of breaks. There are no regular breaks during working hours, according to 17 old system workers and four new system workers.

Failure to provide written employment contracts. All 17 old-system workers interviewed by Human Rights Watch reported never receiving copies of the contracts they signed, and in some cases never signing a contract. Six new system workers say they never got a pay slip.

¹ <https://www.who.int/ipcs/emergencies/diesel.pdf>

² <https://www.cdc.gov/niosh/mining/UserFiles/works/pdfs/dotff.pdf>

*Working conditions at licensee companies.*³ Human Rights Watch observed multiple smaller companies extracting manganese in and around Chiatura. We spoke to the head of one cooperative who said he sells manganese to GAA/GM through an intermediary. We observed excavators operating in unprotected trenches with layers of sand and other materials about 60 meters deep in this and other cooperatives. International Labor Organization (ILO) standards require that adequate precautions be taken in any excavation or shaft by suitable shoring or otherwise to guard against danger to workers from a fall or dislodgement of earth, rock or other material.⁴

Under the United Nations Guiding Principles on Business and Human Rights, companies have the responsibility to respect human rights and are required to “avoid causing or contributing to adverse human rights impacts through their activities,” as well as “seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts.”⁵

According to ILO Convention No. 1, the rate of pay for overtime shall be not less than one-and-one-quarter times the regular rate.⁶ The European Social Charter provides for work on public holidays with pay.⁷ ILO standards and the European Social Charter provide for a mandatory weekly break.⁸ EU standards which Georgia committed to implement under the EU-Georgia Association Agreement recognize that “long periods of night work can be detrimental to the health of workers and can endanger safety at the workplace” and require that night shifts not be longer than 8 hours in every 24-hour period.⁹ The Directive also requires a break every six hours of work.¹⁰

³ Human Rights Watch uses the term licensee company in this letter to refer to smaller companies or business entities, including those organized as cooperatives, who have contracts or other arrangements to supply manganese to Georgian Manganese LLC.

⁴ Article 19 of ILO Convention No. 167 – Safety and Health in Construction: https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0:NO:P12100_ILO_CODE:C167
⁵ https://www.ohchr.org/documents/publications/GuidingprinciplesBusinessstr_eN.pdf

⁶ Article 6 of ILO Convention No. 1 on Hours of Work (Industry): https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0:NO:P12100_ILO_CODE:C001

⁷ Article 2 para 2, European Social Charter: <https://rm.coe.int/168006b642>

⁸ Article 2, ILO Convention 014 on Weekly Rest (Industry): https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0:NO:P12100_ILO_CODE:C014 and Article 2 para 1 and 5 of European Social Charter: <https://rm.coe.int/168006b642>

⁹ Annex XXX of Georgia-EU Association Agreement: [https://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=CELEX:22014A0830\(02\)](https://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=CELEX:22014A0830(02)) and EU 2003/88/EC Working Time directive: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32003L0088&from=EN>

¹⁰ EU 2003/88/EC Working Time directive: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32003L0088&from=EN>

Based on these considerations, we would appreciate receiving your answer to the following questions. If it is not possible to answer all the questions, please send information that is available:

1. Please describe the relationship between GAA, GM, and the Chiatura manganese mine. What mining sites are owned by the Chiatura manganese mine? Does GAA/GM operate all of these sites? If not, who operates and controls decision-making about the operation of the sites of the Chiatura mine?
2. How many Chiatura mine sites owned by GAA/GM are mined by licensee companies? Can you please provide more information about your relationship with and oversight of licensees?
3. Does GAA/GM have human rights and labor rights policies? If so, could you provide us copies of these policies?
4. Could you briefly describe the new system of mining? Why did GAA/GM introduce this system? Was worker and union input collected in relation to introducing the new system? If so, how?
5. We would welcome more information on GAA/GM's rationale for requiring workers to stay in the company dormitory during shifts. Are exceptions ever granted to this requirement? If so, under what circumstances?
6. How many new system employees have their usual residence in Chiatura or nearby towns? How many commute from another town?
7. Does GAA/GM have a written list of house rules for those living in the company dormitory? If so, please provide us with relevant details. Can you please provide any information on the consequences for workers who break house rules?
8. What dietary considerations does GAA/GM take into account for the company-provided food in the dormitory? How many meals a day are provided, and for how many workers?
9. Does GAA/GM plan to expand the new system to any additional mines and if so, by when?
10. How does GAA/GM mitigate or plan to mitigate safety and health risks related to long hours of work, including risks related to fatigue and to prolonged exposure to toxic fumes such as diesel exhaust?
11. Are any breaks scheduled during shifts in new and old system mining? If so, how many and at what intervals?
12. How does GAA/GM work with licensee companies to purchase manganese? What are the terms of this relationship, and does it enter formal contracts? If so, do GAA/GM contracts include provisions on labor rights, and health and safety at work?

13. Who is consulted when determining production quotas? How does GAA/GM make sure quotas are reached safely?
14. How does GAA/GM record, calculate and pay workers for work during public holidays and for overtime?
15. Does GAA/GM have a system to receive and address worker grievances? If so, how does that system work? Can you provide data on the number and type of complaints received, and how they were handled?
16. Have complaints on issues similar to those that Human Rights Watch has identified and set out above come to your attention previously? If so, what actions did you take in response?

We would welcome a reply on these questions and on any other findings in this letter. In order to reflect your position in our upcoming report, which we may reprint in full, we would ask for a written response by June 7, 2019. In addition to written responses, if you would like to discuss our findings, we would be happy to speak by phone.

For a written response, please contact Hugh Williamson at william@hrw.org and Elida Vikic at vikice@hrw.org. For any questions, please contact Elida Vikic by phone at +4930700146591.

Thank you in advance for your attention to this matter.

Sincerely,

Hugh Williamson
Director
Europe and Central Asia Division
Human Rights Watch

CC: Mordechai Korf, CEO, Georgian American Alloys; Nikoloz Chikovani, Special Manager, Georgian Manganese



შპს “ჯორჯიან მანგანესი”

“Georgian manganese” LLC

To:
Hugh Williamson
Director
Europe and Central Asia Division
Human Rights Watch

June 10, 2019

Dear Mr. Williamson

I want to start with expressing our company's, as well as my personal, respect and appreciation for the work that Human Rights Watch does globally and in Georgia. I want to assure you that your questions and comments on our operations and working practices at our facilities are taken very seriously, as are all the matters touched upon. Human and social rights of our employees, their health and safety have always been of utmost importance for our company. Please see below some comments and responses and please note that we have recently underwent major overhaul of key social policies which were a result of our intensive negotiations with our employees. Shall there be any shortcomings in our practices, that do not correspond to best practices of industry, we are ready to tackle them accordingly.

First, I would like to present you some clarifications in respect of particular information that may be essential for the research that Human Rights Watch is carrying out. Therefore, our letter will be divided into two parts – 1. Clarifications; 2. Answers.

Part I. Clarifications:

- I. **Employer-provided housing and food.** We would like to clarify that upon prior verbal request made to the supervisor the employees can leave the dormitory. The only written process is company registering facts of the employees leaving and returning in the respective book. This process of registration is essential since the responsibility for the employees security lies upon the employer while the worker is within the employer's territory. As for the employee's statement that he had been asked to explain where and with whom he was staying after leaving the dormitory, we need more information to check the details of the issue, in case it is delivered, we will be able to clear the details. As for the food issue, the feeding of the employees is carried out by the contractor company and not directly by Georgian Manganese LLC. At the same time, practice has shown that there may be some shortcomings from time to time. However, we are working on maximizing the issue and currently Georgian Manganese LLC is performing the new supplier's tender selection process, in which the workforce is actively involved. The process will be over in the coming days.
- II. **Intoxication with diesel fumes.** Loaders used in new system are specially designed for the underground work and are equipped with anti-harmful emission system. Also, in the underground quarries ventilation system is provided and air content is monitored regularly. In order to control the permissible concentrations of harmful gases in the environment, the Georgian Manganese LLC contractor specialized organization ("Mining Rescue") takes air samples both according to the schedule and in case of suspicion of occurrence of violation of the permissible concentration. If the deviation from the permissible concentration is observed, evacuation of the workers is performed and the process of work will be suspended until the situation is fully corrected, which should also be confirmed by repeated, control samples.
- III. **Production pressures that compromise safety.** In case of underground mining through explosion, the production cycle includes complete ventilation for 30 minutes after the explosion. The work is

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renewed only after the completion of the ventilation. This is controlled by the engineers and technical personnel of the sites.

As for the formation of toxic gases as a result of the explosion, I would like to inform you that since 2018 the company has completely replaced a fiery method that generated the products of the firing by non-electric detonation (so-called Nonel) method.

At each safety trainings/instructions whether planned or extraordinary, the employees are always provided with the explanations that if there is the situation threatening the life or health of the employees or others nearby, they should discontinue the work and promptly inform the management about the risks. Besides, each occupational accident is recorded, detailed case investigation and analysis of the case is performed. The results of the inquiry are published publicly throughout the company and for the purpose of preventing similar cases, extra special instructions on safety regulations are conducted. As for the worker's statement about the loss of the limb which was caused as a result of the work on the faulty equipment, we need more information to verify the details of the issue.

- IV. **Unpaid overtime, work on public holidays and penalties for not meeting quotas.** We would like to clarify that transportation of the employees from residential places to the work is organized by the contractor company to prevent the employees from spending unreasonably long period of time on the way to and from work, since public transport has some problems. Standard working hours do not include transportation from the place of residence to and from the work. As for overtime compensation, see the answer to the 14th question. As for the statement of the surveyed workers when they said that in the last period they did not receive appropriate compensation for working on holidays and that a certain amount was deducted from the labor remuneration of the company's two employees due to the failure to meet the quotas, we need more information, in case it is delivered, we will be able to clear the details of the issue.
- V. **Failure to provide written employment contracts.** Labor contracts with employees are executed in accordance with the applicable legislation. As for the pay-slips, they will be printed a few days before the remuneration of each month and will be handed over to all employees. All the accruals, additions and privileges, as well as deducted taxes and other liabilities are detailed in the pay-slip. In addition, if needed every employee may receive clarification from HR department regarding accrued and deducted amounts.

Part II. Answers:

1. **Please describe the relationship between GAA, GM, and the Chiatura manganese mine. What mining sites are owned by the Chiatura manganese mine? Does GAA/GM operate all of these sites? If not, who operates and controls decision-making about the operation of the sites of the Chiatura mine?**

Currently, according to the Order of Tbilisi City Court, dated May 11, 2017 (case No. №3/3381-17, Georgian Manganese LLC is managed by a special manager. Georgian Manganese subordinate is its structural subdivision - Chiatura mining enrichment complex, that in turn includes following subdivisions:

Mines (underground mining):

1. underground site "Vake-Tke №1"
2. underground site "Vake-Tke №2"
3. underground site "Darkveti"
4. underground site "Devidzeebi N1"
5. underground site " Korokhnali N1"
6. underground site "Korokhnali N2"
7. underground site "Perevisa"
8. underground site "Tsereteli"
9. Mine "Mgvimevi"

10. Mine "Shukruti"
11. Pataridze mine

Open cast mines

1. quarry site "N27"
2. quarry site "Katsitadzeebi-2"
3. quarry site "კატსიტაძეები"
4. quarry site „Siamake-2“
5. quarry site „Siamake“

Beneficiation plants:

1. lower beneficiation plant
2. beneficiation plant №29
3. beneficiation plant Perof
4. Central gradation factory
5. Central beneficiation plant №1
6. Central beneficiation plant №2
7. Central beneficiation plant

And other structural auxiliary subdivisions of the industry.

Hereby, we additionally inform you that the management and decision-making e-system and procedures implemented in the company were maintained and remained unchanged in order to ensure transparency in management according to special manager's decisions.

2. **How many Chiatura mine sites owned by GAA/GM are mined by licensee companies? Can you please provide more information about your relationship with and oversight of licensees?**

All mines owned by GAA/GM are operated by the Georgian Manganese LLC.

3. **Does GAA/GM have human rights and labor rights policies? If so, could you provide us copies of these policies?**

Human rights and labor rights policies are provided in the company and are governed in accordance with the provisions of the applicable legislation of Georgia.

4. **Could you briefly describe the new system of mining? Why did GAA/GM introduce this system? Was worker and union input collected in relation to introducing the new system? If so, how?**

The new system mine operation in the first place implies the change of the technology of extraction. In contrast to the old system where the ore is loaded in the wagons and the is carried out on the surface through the electric locomotives, the new system is operated through the underground loader.

The work is simplified using modern technology, the load is reduced, distributed to the professions. Implementation of the system was carried out on the basis of the deep analysis and thorough consideration.

The process of the introduction of the system included intensive negotiations with professional unions and workers. Meetings, visits of trade unions to the site and inspecting working and living conditions were performed, and the workers had and still have the opportunity to move to a new system or work on an old system.

5. **We would welcome more information on GAA/GM's rationale for requiring workers to stay in the company dormitory during shifts. Are exceptions ever granted to this requirement? If so, under what circumstances?**

The goal of the company was to provide relevant conditions for the labor and full rest of the employees. Employees in the dormitory are provided with all living conditions and guaranteed rest, which are very important for the safety depending on the specifics of the mining industry.

6. How many new system employees have their usual residence in Chiatura or nearby towns? How many commute from another town?

At present 380 employees are employed on the new system, out of which 320 are from different settlements of Chiatura municipality and 60 of them are residents of other municipalities.

7. Does GAA/GM have a written list of house rules for those living in the company dormitory? If so, please provide us with relevant details. Can you please provide any information on the consequences for workers who break house rules?

- During 15 days of work, the employee is staying in the dormitory where all the living conditions are provided for him;
- Employees leave the employer's territory for the work site and in case of other necessary needs, about which they should verbally inform the direct supervisor and the times of leaving the site and return to the site should be recorded in the registry;
- Alcohol drinks are prohibited during the 15-day period of work on the territory of the dormitory;
- Entry of outsiders to the territory of the dormitory is prohibited;
- The employee is obliged to follow the order in the areas of dormitory and leisure areas, not to make noise and not to interfere with the relax of others;
- The employee is obliged to follow sanitary and hygiene norms in the area of the dormitory;
- In violation of these rules, disciplinary liability measures may be applied to the employee.

8. What dietary considerations does GAA/GM take into account for the company-provided food in the dormitory? How many meals a day are provided, and for how many workers?

The company contractor is ordered to provide the food ration and the energy cost of the food compatible to the workload.

The company provides the nutrition of the staff:

- With the new system: four times a day – for 220 workers (once a day- dry portion)
- With the old system: once in a day - for 1700 workers (dry portion)

9. Does GAA/GM plan to expand the new system to any additional mines and if so, by when?

The company is currently concentrated on research of modern technologies to simplify the process of acquisition, labor conditions and security. To this end in the beginning of April, 2019, the company's representatives attended one of the biggest international exhibitions of mining technology manufacturers "BAUMA" which was held in Germany this year.

The process of consultation with selected providers is currently underway to select the most relevant technology and equipment that will facilitate labor, improve labor conditions and increase labor safety. Decisions on the introduction of new systems on other sites will depend on the flow of the process.

10. How does GAA/GM mitigate or plan to mitigate safety and health risks related to lone hours of work, including risks related to fatigue and to prolonged exposure to toxic fumes such as diesel exhaust?

As mentioned in the answer to the ninth question, the company is working on the selection and implementation of such technologies that will facilitate labor, improve labor conditions and also increase labor safety. As for the reduction of risks, in this respect, continuous implementation of control-preventive measures is underway. In the working environment, the existence of harmful gases in the air is constantly controlled and if their contents are close to the permissible limit, immediate solutions are being done and employees are evacuated, before the problem is eliminated. For more details see the information given in the second clarification, part 1.

11. Are any breaks scheduled during shifts in new and old system mining? If so, how many and at what intervals?

Depending on the specifics of the mining industry, the timing of the scheduled break sometimes cannot be precisely reserved due to it is associated with the interval of the production cycle, which in some cases is creeping. However, the old and new system production cycles provide breaks for restoration of the workforce and for getting food.

12. How does GAA/GM work with licensee companies to purchase manganese? What are the terms of this relationship, and does it enter formal contracts? If so, do GAA/GM contracts include provisions on labor rights, and health and safety at work?

The company purchases only the ore extraction and beneficiation service, not the manganese ore. This is regulated by the corresponding General Agreement between the relevant parties, which provides for the terms and conditions of the provision of this service. As for the protection of the conditions of labor, health and safety by other legal entity, this is the direct obligation of the person concerned.

13. Who is consulted when determining production quotas? How does GAA/GM make sure quotas are reached safely?

The extraction plan is prepared by the participation of such specialists as mining engineers, geologists, financiers, labor and technical security specialists, etc. Review of the prepared plan and acceptance (approval) is made by the company management.

The safe fulfillment of the plan is ensured based on the geological situation assessment on a particular object, through the development of relevant projects and passports of mining works and by constant control of their performance and protection.

14. How does GAA/GM record, calculate and pay workers for work during public holidays and for overtime?

Presence and working hours of employees are recorded daily, including holidays, through the recording system. Periods of overtime and working on holidays are calculated and settlement is carried out along with the basic salary of the reporting period with the increased amount of hourly rate of the wage agreed with the employees.

15. Does GAA/GM have a system to receive and address worker grievances? If so, how does that system work? Can you provide data on the number and type of complaints received, and how they were handled?

The procedure for receiving and reviewing written applications is implemented and submission of the application is ensured and guaranteed to each employee, as well as collective applications or requests. Also, there is a weekly meeting procedure with employees and other stakeholders, on which the individual complains of the problem or complaints are filed by each applicant. In addition, there are regular meetings with professional unions, where problems and solutions are also discussed.

16. Have complaints on issues similar to those that Human Rights Watch has identified and set out above come to your attention previously? If so, what actions did you take in response?

As you are aware, mining activities are characterized by certain peculiarities, which often affect both employee and environmental conditions. Therefore, we fully share responsibility for our commitment and realize that we may have some shortcomings in our work and the fair claims expressed by the employee in this regard. In the case of systems and procedures described in response to the 15th question, the management of the company is mostly informed about the complaints expressed by the employees. As already mentioned, discussing problematic issues and solving them is a part of the daily activities of the company and goes on in the continuous regime, including the involvement of the employees with the involvement of trade unions, in the direction of solving individual cases and

collective issues. Here again, we emphasize that the labor and social rights of the employed people, their health and safety were always for us and would be of high priority.

We tried to provide you with the complete answers to your questions as well as to provide additional information that could be used for your research purposes. In addition, if we can add any contribution to your work, we are ready for cooperation at any time.

Sincerely,

Tamar Chipashvili
Deputy CEO
HR and Social Issues
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GEORGIAN AMERICAN ALLOYS

May 17, 2019

Mr. Hugh Williamson, Director
Europe and Central Asia Division
Human Rights Watch
Neue Promenade 5
10178 Berlin, Germany

Dear Mr. Williamson:

I am in receipt of your letter dated April 30, 2018 [s.c.] regarding your research on the safety of mining workers at the Chiatura manganese mine and your findings. In your letter, you have requested that Georgian American Alloys, Inc. (GAA) and Georgian Manganese LLC (GM) answer several questions relating to your findings.

First of all, I would like to clarify that the information you found on the website of GAA is outdated. In April 2019, GAA has completed a major corporate restructuring and as a result GM (which includes the Chiatura manganese mine) is no longer owned by GAA. Please note that we are in the process of updating the website of GAA to reflect the changes in our corporate structure.

Second, please note that since May 11, 2017, all operations of GM and the Chiatura manganese mine have been managed solely by Mr. Nikoloz Chikovani, as Special Manager, pursuant to the Order of the Administrative Cases Panel of the Tbilisi City Court. As you can verify in the Register of Entrepreneurs and Non-Entrepreneurial (non-commercial) Legal Persons (an extract of which is enclosed herewith), during such special management regime, which is ongoing, all persons other than Mr. Chikovani who are authorized to manage and represent GM as registered in the Registry of Entrepreneurs and Non-entrepreneurial (non-commercial) Legal Persons are prohibited from participating in the management of GM, in particular in the administration and representation of the company. Therefore, although in such registry Mr. Volodymyr Lozynskyy is still named the Director of GM and Messrs. Mordechai Korf, Barry Nuss and Uriel Lacer are still named members of the Supervisory Board of GM, none of such individuals have participated in the management of GM's operations, including the Chiatura

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manganese mine, since the date of appointment of Mr. Chikovani by the Tbilisi Court as the Special Manager of GM.

In view of the foregoing, Mr. Chikovani is the person to whom your questions should be addressed.

Sincerely yours,



Mordechai Korf
President and CFO
Georgian American Alloys, Inc.

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May 23, 2019

Dear Mr Korf,

Thank you very much for your response. We understand that Georgian American Alloys does not directly operate the Chiatara manganese mine, since a Special Manager was appointed on May 11, 2017. We have sent a separate letter to Mr. Chikovani.

Nevertheless, we would welcome your response to our questions with regard to the period under your management. We would especially appreciate your perspective on the new system of mining, which is at the center of our research and entails 12-hour shifts over periods of 15 consecutive days. Our understanding is that it was first introduced in 2016, prior to the appointment of Mr Chikovani, but please let us know if this is not the case.

A revised list of questions, relevant to the period from when the new system was introduced in 2016 and May 2017 when the special manager was appointed, is below:

1. Could you briefly describe the new system of mining? Why did GAA/GM introduce this system? Was worker and union input collected in relation to introducing the new system? If so, how?
2. We would welcome more information on GAA/GM's rationale for requiring workers to stay in the company dormitory during shifts.
3. Did GAA/GM have a written list of house rules for those living in the company dormitory? If so, please provide us with relevant details. Can you please provide any information on the consequences for workers who break house rules?
4. What dietary considerations did GAA/GM take into account for the company-provided food in the dormitory? How many meals a day are provided, and for how many workers?

5. How did GAA/GM mitigate or plan to mitigate safety and health risks related to long hours of work, including risks related to fatigue and to prolonged exposure to toxic fumes such as diesel exhaust?
6. Were any breaks scheduled during shifts in new and old system mining? If so, how many and at what intervals?
7. Who was consulted when determining production quotas? How does GAA/GM make sure quotas are reached safely?
8. How did GAA/GM record, calculate and pay workers for work during public holidays and for overtime?
9. Did GAA/GM have a system to receive and address worker grievances? If so, how did that system work? Can you provide data on the number and type of complaints received, and how they were handled?
10. Have complaints on issues similar to those that Human Rights Watch has identified and set out above come to your attention previously? If so, what actions did you take in response?

We would welcome your response to these questions before June 13, 2019.

Sincerely,
Hugh Williamson



GEORGIANAMERICANALLOYS

June 12, 2019

Mr. Hugh Williamson, Director
Europe and Central Asia Division
Human Rights Watch
Neue Promenade 5
10178 Berlin, Germany

Dear Mr. Williamson:

I am in receipt of your follow up letter dated May 13, 2019 regarding the working conditions of mining workers at the Chiatura manganese mine. I appreciate the opportunity to respond to your questions relating to the changes introduced in 2016 but I am afraid that I am unable to do so. Although Georgian American Alloys, Inc. ("GAA") was an indirect owner of Georgian Manganese LLC ("GM"), the day-to-day business affairs of GM (including the affairs of the Chiatura mine) were dealt with by GM's local management. In order to provide you with accurate answers, I would need to contact GM's employees and/or retrieve documents that are kept locally by GM's management. However, since GAA no longer owns GM, I do not have access to such information and records. I, again, direct you to Mr. Nikoloz Chikovani, the Special Manager of GM, as the person who is in the best position to answer your questions.

Notwithstanding the above, to the best of my recollection, all changes implemented by GM relating to working conditions of GM's employees were always negotiated with and approved by the local Union.

Sincerely yours,


Mordechai Korf
President and CEO
Georgian American Alloys, Inc.

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Correspondence with Georgian Industrial Group/ Sakhakhshiri LLC

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Jamjoul Jakeli
General Manager, Sakhakhshiri Ltd
18 Gazapkhuli Street, Tbilisi, Georgia 0177

April 30, 2019

Dear Mr. Jakeli,

I am writing to you to request information in connection with research that Human Rights Watch is carrying out on safety and labor rights in Georgian mines, which we plan to publish in the coming months. Our research to date in part relates to the safety of mining workers at Mindeli and Dzidziguri mines, both of which we understand are owned by Sakhakhshiri Ltd, a subsidiary of GIG.

Human Rights Watch is an independent, international nongovernmental organization that monitors human rights in more than 90 countries worldwide. We produce reports on our findings to raise awareness about human rights issues and to develop and promote policy recommendations for change.

In December 2018 and March 2019, Human Rights Watch spoke to 16 workers who said they were employed or formerly employed by Sakhakhshiri, subsidiary of Georgian Industrial Group. Miners we spoke with had worked at both Mindeli and Dzidziguri mines. We conducted nine individual interviews, one group interview with five current and former workers, and another with two former miners. We also spoke with a relative of a worker who lost his life in June 2018 at an open-pit mine with commercial ties with GIG.

Our research indicates working conditions at the Mindeli and Dzidziguri mines heighten risks related to safety and labor rights. Our key findings are summarized below. We request your responses on these findings, and to the specific questions that follow. We seek to produce well-balanced research and will incorporate your responses in our report.

Key findings

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Production-first approach that compromises safety. Worker testimonies raise concerns that company efforts to maximize production may have led to short-cuts on safety. All nine extraction workers and shift supervisors interviewed said they used a coal extraction method they say was inherently unsafe but rendered higher productivity, which included conducting additional blasting after an area had already been blasted without new reinforcement. Six workers spoke of a previously closed shaft due to gas accumulation being reopened because it contained unextracted coal. Workers also mentioned unused pits left uncovered, despite a prohibition of this practice under Georgian law because of increased risk of gas accumulation.

Economic incentives that may compromise safety. Compensation of extraction workers was based on performance, or quantity of coal extracted, according to all nine extraction workers we interviewed. Workers said production targets could not be reached safely, but rather encouraged omitting time-consuming safety measures such as reinforcing tunnel ceilings.

Pay deductions. All nine extraction workers we interviewed said the company deducted ten percent of their wages if the coal was determined to be of low quality, for example if mixed with rocks. Workers said this happened almost every month.

No worker control mechanism over the calculation of wages. It is our understanding that no worker or worker representative could formally observe the process of weighing and assessing the quality of extracted coal, although it had far reaching consequences over how wages were calculated. Three workers expressed concerns that they were being cheated of their wages, and that deductions for poor quality of coal were applied arbitrarily.

Lack of breaks during shifts. All nine extraction workers said they rarely took breaks during shifts, and it appears that there was no established policy for regular breaks during shifts. Workers said they skipped meals to make the quota, and some also avoided eating because of the unsanitary conditions inside the mine.

Non-payment of overtime. Depending on the number of shifts worked and the days in a month, working hours of extraction workers, including transportation to and from underground mines, varied between 36-54 hours per week, or an average of 20 hours of overtime per month. Workers said that all overtime was unpaid.

³ Resolution 441 of the Government of Georgia:

<https://matsne.gov.ge/ka/document/view/2186308?publication=0>

Article 19 point 10 required that "Temporarily suspended exploratory areas and unused tunnels should be isolated"

Concealing facts prior to labor inspections. Three workers said they witnessed company employees concealing evidence of inappropriate working practices ahead of an inspection, for example by parking trains with defective brakes in a way that wrongly suggested they were not in use, or covering up the unused pits to hide the use of a dangerous mining method. These workers expressed concern that these temporary measures were taken to mislead the inspectorate.

Long standing worker concerns about safety not addressed. Nine of the 16 workers interviewed said they had repeatedly raised safety concerns with their superiors, including their shift managers; the chief of safety; the chief engineer; and the head of their district. Concerns were raised about the failure to seal unused pits; failure to ensure use of ropes to protect workers from falls; and defective equipment. Workers said none of these concerns were addressed.

Deaths at Mindeli mine. Ten workers lost their lives in two separate incidents in Mindeli mine, one in April 2018 and a second in July 2018. Following the incidents, it is our understanding the mining activity was suspended, pending results of a technical assessment of safety at the mine.²

Deaths at the open pit licensee in Tkibuli. Human Rights Watch learned of the death of two workers on June 2, 2018 in a workplace incident at a coal company in Tkibuli, which we understand was producing coal on land licensed from GIG.³ According to a relative of one of the victims, the coal extracted from that particular enterprise was being sent to a coal refinery owned by GIG.

Under the United Nations Guiding Principles on Business and Human Rights, companies have the responsibility to respect human rights and are required to “avoid causing or contributing to adverse human rights impacts through their activities,” as well as “seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts.”⁴ The United Nations’ International Covenant on Economic, Social and Cultural Rights specifies “the right of everyone to the enjoyment of just and favourable conditions of work which ensure, in particular, . . . safe and healthy working conditions.”⁵ The European Social Charter provides that “all workers have the right to just conditions of

² <https://oc-media.org/work-halts-in-georgian-coal-shaft-after-four-miners-killed-in-explosion/>

³ http://netgazeti.ge/news/282597/?fbclid=IwAR0S2prj4fTenhA9fvoU2ek0c5r-gyfh8y0DBRH_JMTzWifMEhirqF1LA

⁴ https://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

⁵ <https://www.ohchr.org/en/professionalinterest/pages/cescr.aspx>

work” and to “safe and healthy working conditions.”⁶ According to ILO Convention No. 1, the rate of pay for overtime shall be not less than one-and-one-quarter times the regular rate.⁷

Based on these considerations, we would appreciate receiving your detailed answers to the following questions. If it is not possible to answer all the questions, please send information that is available:

1. Does GIG/Saknakhshtiri have human rights and labor rights policies? If so, could you provide us with copies of these policies?
2. Please describe the relationship you have with licensees, including agreements related to use and purchase of product. How many licensees does GIG/Saknakhshtiri have, and in what locations? Who has oversight over licensee operations? What steps, if any, do GIG/Saknakhshtiri coal refineries take to ensure that the coal extracted is done in compliance with labor protections?
3. Does GIG/Saknakhshtiri verify compliance with labor rights and protection of worker safety in its mines and sites operated by licensees, and if so, how?
4. How does GIG/Saknakhshtiri obtain, transmit, and react to information regarding worker or supervisor concerns on labor rights and safety in the organization? Does GIG have a grievance mechanism for worker or supervisor complaints?
5. Does GIG/Saknakhshtiri collect data on accidents, including near misses and near hits (incidents which could have, but did not result in injuries or fatalities)? Does GIG/Saknakhshtiri have any protocols with regard to responding to these incidents?
6. Could you briefly describe the method of coal extraction used at GIG/Saknakhshtiri-owned mines?
7. How are production targets set? Who was consulted when determining targets?
8. How does GIG make sure production targets were reached safely?
9. GIG pledged to drastically increase coal output before 2020. What is your plan to increase output? We would welcome information on measures GIG is taking to ensure this goal is reached safely.
10. How are wages of extraction workers calculated? Who is involved in the weighing and assessment of the quality of coal extracted? Do deductions apply and if so, in what cases?
11. How does GIG/Saknakhshtiri record, calculate, and pay overtime hours for workers?

⁶ <https://rm.coe.int/168006b642>

⁷ Article 6 of ILO Convention No. 1 on Hours of Work (Industry): https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0:NO:P12100_ILO_CODE:C001

12. Do GIG/Saknakhshiri internal regulations provide for breaks during shifts in the mines?
13. Have any of the above allegations come to your attention previously? If so, what actions did you take in response?
14. What official roles do union or worker representatives play in ensuring that workers are paid fairly and for all their work?

We would welcome a reply on these important matters. In order to reflect your position in our upcoming report, which we may reprint in full, we would ask for a written response by May 10, 2019. In addition to written responses, if you would like to discuss our findings, we would be happy to meet the next time we are in Tbilisi on May 14 or 15 or speak by phone.

For a written response, please contact Hugh Williamson at william@hrw.org and Elida Vidić at vidice@hrw.org. For any questions, please contact Elida Vidić by phone at 4930700146591.

Thank you in advance for your attention to this matter.

Sincerely,

Hugh Williamson
Director
Europe and Central Asia Division
Human Rights Watch

CC: David Bezhuashvili, CEO, GIG group



შპს „საკნახშირო“
„SAKNAKHSIRI“ LLC

№ 3/თ 178

May 27, 2019

Hugh Williamson
Director
Europe and Central Asia Division
Human Rights Watch

Dear Mr. Williamson,

We have reviewed your Letter of 30/04/2019. First of all, kindly receive our apologies for late answer, but we could not answer earlier as we received your letter late as well (on May 15).

As an answer to your letter, we would like to tell you the following:

Saknakhsiri LLC (hereinafter the Company) is the only coal producing company in Georgia, which in 2006 succeeded to restore the manufacturing process after almost ten years of compulsory downtime of coal mines. As a result of the renewal of the works in the mines by GIG Group (which is a parent company of Saknakhsiri LLC.), 1500 new jobs were created in the Tkibuli region. As a result of local employment policy, the GIG Group became the largest and only employer in the region and according to the National Statistics Department of Georgia, Tkibuli became the only place throughout Georgia, where creation of new jobs ensured the return of the population to the abandoned places of residence.

It is known that Saknakhsiri LLC is the only source of income for the absolute majority of Tkibuli residents. The company currently has 1,230 employees (although the coal production process is now suspended).

Before GIG Group started to operate in Saknakhsiri (before 2006), the coal producing works in Tkibuli mines had been stopped. About 80 people had been employed in the company (only for the operation of the water pumps in the mines). During this period, both the company and the region had faced severe financial and social problems. In 2007-2010 we gradually rehabilitated the mines and renewed coal producing process. Between 2006 and 2018, the number of people employed increased from 80 to 1564. Accordingly, the monthly payroll fund increased from 200

საკნახშიროს შპსის მისამართი: თბილისი, თბილისის რაიონი, თბილისის ქ. №15. ტელ.: 7900, თბილისის ქ. №13, თბილისი, GEORGIA

000 GEL to 1,3 million GEL. In 2011-2013 the volume of produced coal reached its peak, with an annual coal extraction up to 430,000 tons. In the following years, the extraction significantly reduced due to competition from imported coal.

Although since 2013 the market price of coal has decreased by 37%, and the production has reduced by 23%, the salaries of the Company employees have increased by 21%.

Since the purchase of the enterprise, GIG Group has invested more than 70 million GEL in the production and operation of the enterprise, and this process continues to date. However, despite the implementation of the abovementioned investments, total upgrade of the Company's infrastructure and the improvement of safety systems, the Company could not find an engineering solution that would have been able to make the coal production absolutely safe. This factor and several tragic accidents in the Company resulted in suspension of the enterprise activity from July 16, 2018. It should be noted that the tragic accidents that took place in the Company were largely driven by human errors and negligence (including the actions of affected people and victims), which in turn was the result of the lack of labor culture and responsibility. Clear examples of this are number of cases, where the Company's employees were detected at work place under the influence of alcohol and smoking in the mines as well. In addition, in the course of investigation of the incidents the Company's middle and top managers (including labor safety managers) were charged with a criminal offence.

Despite the suspension of activity, GIG Group still continues to invest as well as to pay salaries for employees. From this period (suspension of extraction) until now the Company has paid to the staff the amount of 11 million GEL for salaries.

It should be also noted that for all this period the Company has been working with the loss. In no calendar year, the Company issued any dividends, as it is confirmed by the financial reports prepared by international auditing companies.

It should also be noted that GIG Group, as the largest employer, is an economic entity with huge social responsibility and commitments to the Tkibuli municipality. The Company carries out significant social projects and is actively involved in the development of Tkibuli municipality. GIG Group has spent more than one million GEL for these activities. The Company is the largest contributor to the local (municipal) budget. The amount paid by us to the budget has exceeded 74 million GEL.

In accordance with the Memorandum of Cooperation signed between us and Georgian Technical University, the vocational training college is functioning in Tkibuli, which prepares qualified

specialists for work in the mines. Within the framework of the Memorandum, the Company has allocated its own space for the functioning of the college. The Company, together with the Technical University, planned to train workers in additional fields (subject to the activity of the Company) in the future (*due to suspension of the activity of Saknakhshiri, the project is postponed*).

GIG Group, as the highly responsible employer organization emphasizes that the rights of each employee is very important to it, including the right to labor safety. Noteworthy is that the Company provides the life and health insurance of employees, in which the Company pays annually about 360 000 GEL. Employees of the Company are served directly on the area by the insurance family doctor and the Company's medical office. The Company provides co-financing of the employees' meals at the workplace. As a result of accidents in 2017-2018, the families of each victim received the allowance of 30,000 – 40,000 GEL from the Company. From 2016, 9 injured persons have received the monthly financial assistance from the Company. The amount of assistance provided to them until the current period approximately amounts to 200,000 GEL. The Company continually ensures the employment of the deceased/insured's family members on different positions based on their working capacity.

In 2016-2018, the company implemented various activities for labor protection and technical safety with the total cost of 2,509,200 GEL.

The measures taken in the field of labor protection and technical safety in 2016-2018 are as follows:

- *The falling objects from the height at the industrial areas are bordered by special railings;*
- *Electrical equipment and electrical networks are protected from power leakage, and brought to the hermetically explosion-proof conditions;*
- *Transformer areas are protected by special fencing against access of strangers;*
- *The information and warning signs are being placed in facilities stop by stop;*
- *Special boxes are placed in production facilities to store oxygen flasks and warning signs are applied on them;*
- *Underground and surface production areas are perfectly equipped with primary care medicines that are periodically filled with supplies;*
- *Production areas are provided with sanitary units and drinking water;*
- *The underground production areas have been illuminated in the places specified by the regulations: the loading and unloading areas, the waiting chambers, decking and undecking places;*
- *Purchase of fire protection equipment for facilities is performed;*

- *Facilities are equipped with fire systems, and evacuation plans are placed in the administrative buildings;*
- *Strict control is imposed over the use of open fire during the underground work;*
- *Strict monitoring is underway and open fire is allowed only at clean air jet under the special permit;*
- *12 electric locomotives are purchased according to the requirements of regulation and periodic maintenance of mancars is underway;*
- *The devices for control and automatic detection of harmful/explosive gas concentrations in the mine air and the system ensuring staff detection, monitoring and electronic communication are purchased.*

Based on all of the above, we will try to answer each of the questions put in your letter in detail:

1 - From the end of 2018, the existing labor safety documentation of the Company has been reviewed and brought in compliance with the applicable legislative requirements in the country. The Company's policies and regulations required to ensure the labor safety have been developed. These documents provide the rights and obligations of workers in the labor safety. *(Should you have interest, we are ready to present the English-language copies of those documents separately, since the volume of the documents disables us to send them in one pack).*

2 - As of today, the Company owns 4 (four) mining licenses. Those are:

Licenses No. 10000236 and No. 10000237 for Tkibuli-Shaori coal mining.

License No. 10000238 for mining of Tkibuli sandstone of color suite. The resources obtained within the license are used for the supporting (reinforcing/refilling) work in the coal mine.

License No. 10000246 for extraction of the waste of Tkibuli coal enrichment factory. As of today, this license is not used.

According to the terms of the mining licenses, the Company has strongly defined the volume of the resources to be extracted and the coal lease limits. Besides, it is obligatory to carry out the recovery works in accordance with the project documentation developed for the mining of each deposit.

The project documentation developed by the Company includes technical, technological, economic and environmental means, volumes and conditions of mining works, as well as the

measures to be carried out to ensure the safety of human life and health, minerals and environmental protection.

Since the licensing terms are complex, the supervision over their performance is divided among the Company's respective structural units, and the state control over the fulfillment of licensing terms is carried out by LEPL National Agency for Mineral Resources.

As for the labor safety conditions, the mining licenses do not provide such conditions and the issue is regulated by the Law of Georgia on Labor Safety and the relevant normative acts and regulations.

The Company produces coal by deep mining. Before last July in some places specified by the licenses, the open-pit coal reconnaissance and mining operation works were also underway. In order to carry out these works, the Company signed the contract with 23 non-related entities, according to which they should be responsible for the proper performance of the works, the labor safety conditions and compliance with the requirements of the Georgian legislation.

In order to ensure that the activity of contractors was in full compliance with the technical and labor safety conditions provided by law, on June 19, 2018, the Company applied to the state control bodies, in particular the Department for Inspection of Labor Conditions of the Ministry of Labor, Health and Social Affairs of Georgia, LEPL Technical and Construction Technical Supervision Agency of the Ministry of Economy and Sustainable Development of Georgia and LEPL National Agency for Mineral Resources of the same Ministry.

As a result of the complex examination, the violations containing risk for human life and health were revealed. For this reason, since July 2018 the Company terminated legal relationships with the above-mentioned entities and today the open-pit coal reconnaissance and mining operations are no longer underway.

- 3, 4, 5** - Protection of labor and technical safety in the coal mining process is regulated by the Technical Regulations on the Safety of Coal Mines of 2014 and by GST 81: 2016 "Standard of Georgia. Coal Mines. Safety Requirements" of 2018. The safety of explosive operations in mines is regulated by GST 81: 2012 "National Standard of Georgia. Safety Rules for Explosive Operations". The compliance with each of these standards is checked once in every six months by the Construction and Technical Security Agency and the Department of Labor and Health of the Ministry of Health. These authorities also have the right to check the

labor safety at any time, after which the reports are written and the plan schedule is drawn up for elimination of the existing inconsistencies and violations specified in time.

In 2017, the Company established the Department of Labor and Technical Safety, comprising 36 employees. Upon establishment of the Department, the Company provided training of the employees of the Department in the direction of labor safety and primary medical care.

The main task of the Department is internal control of labor safety issues. The labor safety inspector is present in every shift during the working process, in every area and provides the control of labor safety rules in a constant manner.

The inspection group carries out the complete inspection of the facility approximately 8 times a month. The revealed discrepancies are recorded in the inspection reports in presence of the representatives of the enterprise/area/shop.

Discrepancies are discussed with the management of the enterprise/area/shop and the schedule-plan for the elimination of the inconsistencies in the relevant timeframes is drawn up. Copies of schedule-plan are handed to the chief of the particular area where the violations were fixed and the chief of the area shall confirm the acceptance of the copy by his signature on the original document. The reports and plan-schedule are recorded in a special log and archived. Once the critical discrepancies are detected (if any) the operation of the facility is immediately stopped.

The technical safety controller-mine overseer is also present during a shift on every area of the underground works.

- 6 - Due to the unique mining-geological conditions of the Ikbull-Shaori deposit (thick, superimposed, tectonically breached seams prone to sudden outburst (rock burst) and spontaneous firing, explosive and gas extrahazardous seams with the angle of inclination up to 100-450 laying in about 800-1500 meters from the surface) it is almost impossible to extract the existing coal using the mechanized methods and systems. These difficulties have conditioned the use of coal recovery technological schemes "F" and "g" (breast-and-pillar) given in Annex N3 of the above mentioned standards. Saknakhshiri Ltd. and invited specialists are already designing a new modern pit, which envisages the complete mechanization of coal extraction process and preparation works and which will be implemented in the nearest future and will significantly improve the labor and safety conditions of the miners.

In order to improve the safety of miners, since June 2018, the Automatic Gas Protection System has been introduced on E. Mindel mine which will control in the automated mode the quantity of methane-CH₄, poison gas-CO₂ in the mine atmosphere, the operation of the ventilation system and identification of miners so that they do not accidentally appear in the hazardous zone of explosive works. In case of detection of violations, the above mentioned system will ensure the shutdown of electrical equipment and facilities on the area and activate the voice alarm system.

- 7, 8, 9** - As for the development of production plans, the plans are developed in accordance with the possibility of sale of the products produced by the Company. The annual contract is signed with the local coal buying company, and subsequently the plan is reviewed quarterly in accordance with the new purchased volumes determined by the buyer. As we have mentioned above, since 2012, the volume of production has decreased significantly due to the deteriorated market conditions. It should be taken into consideration that the number of people employed has not changed on the background of this deterioration, resulting in decrease in labor efficiency, which is one of the lowest in the industry (just only 650 kilograms of coal per day per employee)

Despite the plan, the labor safety has been always a priority in the Company.

- 10** - The remuneration form of the employee is determined by a labor agreement. The company operates two calculations for remuneration: fixed and variable/by output. The variable/output type of remuneration mostly is applied to the employees engaged in coal extraction, tunneling and mechanisms repairs.

During the fixed calculation, the employer shall pay the employee a fixed amount for the fulfillment of the obligations under the labor agreement in accordance with the predetermined staff schedule and labor agreement once a month through non-cash settlement. Calculation of variable/output remuneration is based on a predetermined coefficient and an employee receives the salary once a month through cashless payment in accordance with the labor agreement.

Such remuneration of labor is entirely dependent on the results of the employee's labor, i.e. the quantity and quality of products produced by him. The remuneration is increasing simultaneously with the growth of production output and vice versa.

The payroll fund according to the product generated by the area is distributed to each employee according to the Labor Participation Coefficient. The amount of the employee's labor participation coefficient is determined preliminarily (on the daily basis) before the calculation of wages. The amount is determined by the council of the area where a person is employed. Prior to the meeting of the council, the employee's labor participation coefficient is determined daily by the chief mine overseer and recorded in the Mine Overseer Log, which excludes the bias. The area council consists of 10-12 members. Along with the direct superior of the employee, it includes mine overseers, representatives of mechanical workers. The minutes of the meeting of the council is drawn up. In determining the labor participation coefficient, the worker's qualification and approach to the work, discipline etc. are taken into consideration. In general, the maximum level of labor participation coefficient is 1.20 and the minimum level is 0.80.

The Quality Control Service is involved in determining the weight and quality of coal. Two heavy weighing devices are allocated to determine the coal weight. One is a railway weighing device, and another is a vehicle weighing device. In order to determine the quality of coal, samples are regularly taken on the coal-producing area and processed by the laboratory within the Quality Control Service. Also, from the coal sent to the central coal-enriching factory, the laboratory takes daily samples and processes them in accordance with the appropriate rules. If the ash content exceeds the planned index, the coal is removed and distributed according to the areas, proportionally, based on samples taken.

- 11 - According to the Company's internal rules and regulations, the overtime work is performance of work by an employee under the direct written order of the administration or immediate superior on the conditions as envisaged by the legislation during the period the duration of which exceeds the working time provided by the law, or in the case when under a written document of the administration or immediate superior the employee works on holidays as envisaged by the labor legislation. If the employee performs overtime work according to the labor agreement signed with him and the Company's Internal rules and regulations, he will be paid the 1,1 average hourly rate (i.e. 10% is added to the regular average hourly rate). In some cases (mainly for the workers called for performance of repair and safety works on holidays), a specific order may be issued under which the overtime rate may increase by 20%, 50% or more. In holidays, an employee called for the work over the schedule, will be given an extra rest day or will be paid an extra day wage, together with the overtime rate, that is finalized under the appropriate order.

12 - Working hours and holidays are determined by job descriptions and the Internal rules and regulations, which constitute an integral part of the labor agreement and which is in conformity with the legislation in Georgia.

The duration of working and rest time for employees who work on a shift basis is determined according to the schedule of work in a shift (shift schedule). The working process time in a shift is 6 hours. The shift schedule is approved by the employer taking into consideration the specificity of the job. The duration of rest between the shifts is at least 12 hours, since the Company is the entity with a specific work regime and the process of production involves the continuous regime of working week no more than 48 hours.

13 - As regards the response to the facts of misconduct in the Company, please be informed that the adequate response has been made by the management and various forms of liability under the labor legislation have been applied.

14 - As for the cooperation between the Company and trade unions, please be informed that the management of the Company closely cooperates with the trade union representatives and by our joint efforts, many problems and disputable issues of the employees have been eradicated.

We believe we've provided the comprehensive answers to your questions. Should you have additional questions, we are ready for cooperation.

Sincerely,
Saknakhshiri LLC


General Director
Jambulat Jakobi

