Talvivaara Mining Company Plc

# Interim Report January - June 2011

17 August 2011

**STOCK EXCHANGE RELEASE**
17 August 2011

# Talvivaara Mining Company Interim Report for January-June 2011
# Focus on production reliability

## Highlights

<u>Q2 2011</u>
- Nickel production of 3,951t despite an extended maintenance and upgrade stoppage in April-May; all planned measures at the metals recovery plant completed
- Net sales of EUR 37.6m adversely impacted by a high nickel inventory at the end of the quarter caused by a maintenance stoppage at Norilsk Nickel Harjavalta and a decrease in nickel price
- Operating loss EUR (1.2)m
- Acquisition of an additional 4% shareholding in the operating subsidiary Talvivaara Sotkamo Ltd from Outokumpu Mining Oy for EUR 60 million in June; option to acquire Outokumpu's remaining 16% shareholding in Talvivaara Sotkamo Ltd for EUR 240 million

<u>H1 2011</u>
- Nickel production of 8,166t, up 245% versus H1 2010
- Net sales EUR 104.1m (H1 2010: EUR 46.9m)
- Operating profit EUR 10.4m (H1 2010: EUR 0.2m)

## Highlights after the reporting period

- Talvivaara was included in the OMX Helsinki 25 index of the Helsinki Stock Exchange from 1 August 2011 onwards

## Key figures

| EUR million | **Q2 2011** | Q2 2010 | **Q1-Q2 2011** | Q1-Q2 2010 | FY 2010 |
|---|---|---|---|---|---|
| Net sales | **37.6** | 35.2 | **104.1** | 46.9 | 152.2 |
| Operating profit (loss) | **(1.2)** | 2.5 | **10.4** | 0.2 | 25.5 |
| % of net sales | **(3.1%)** | 7.2% | **10.0%** | 0.4% | 16.7% |
| Profit (loss) for the period | **(4.6)** | (16.8) | **8.1** | (33.7) | (13.1) |
| Earnings per share, EUR | **(0.02)** | (0.06) | **0.02** | (0.12) | (0.06) |
| Equity-to-assets ratio | **29.8%** | 38.4% | **29.8%** | 38.4% | 31.3% |
| Net interest bearing debt | **417.0** | 190.7 | **417.0** | 190.7 | 315.0 |
| Debt-to-equity ratio | **125.0%** | 51.6% | **125.0%** | 51.6% | 82.8% |
| Capital expenditure | **25.1** | 36.3 | **35.5** | 55.3 | 115.7 |
| Cash and cash equivalents at the end of the period | **46.5** | 35.4 | **46.5** | 35.4 | 165.6 |
| Number of employees at the end of the period | **481** | 382 | **481** | 382 | 389 |

All reported figures in this release are unaudited.

**CEO Pekka Perä comments:** *"Our second quarter operations were focused on improving production reliability through an extensive upgrading and maintenance programme at the metals recovery plant. Whilst this work necessitated holding back our ramp-up plans, I am pleased to report that the upgrade has been completed and that both production lines are now back in operation. However, I must also underline the need for our continued improvement in running the plant in an optimised fashion and minimising production disturbances through* *preventative maintenance. These same targets hold true also for our other processes, especially materials handling, where our efforts to get the primary heap reclaiming to work at full capacity went on throughout the second quarter and will continue into the third.*

*We are also placing continued emphasis on further mitigation of odour, dust and water emissions to the environment. We have set ourselves the goal of becoming an industry leader in environmentally sustainable mining and want to avoid causing any environmental concerns in the nearby communities. Naturally, we must also ensure we can comply with our environmental permit on a sustainable basis.*

*Our financial performance for the second quarter reflected our production stoppage in April-May as well as declining nickel prices. Due to a maintenance stoppage at Norilsk Nickel Harjavalta, we were also left with a sizeable nickel inventory, which pushed close to EUR 20 million in net sales beyond the end of the quarter. Norilsk Nickel is again receiving concentrate and we expect the impact of this inventory increase to be fully recovered in the third quarter.*

*After the quarter end, market conditions have become challenging once again, with nickel prices declining back to their 2011 lows seen earlier in the summer, and the very recent financial markets volatility impacting business confidence. We expect however to counter the difficult market environment with the continued production ramp-up, and greater sustained production reliability during the second half of the year."*

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**Webcast and conference call on 17 August 2011 at 12:00 GMT/14:00 EET**

A combined webcast and conference call on the January-June 2011 Interim Result will be held on 17 August 2011 at 12:00 GMT/14:00 EET. The call will be held in English.

The webcast can be accessed through the following link:

http://qsb.webcast.fi/t/talvivaara/talvivaara_2011_0817_Q2/

A conference call facility will be available for a Q&A with senior management following the presentation.

Participant - Finland: +358 (0)9 2313 9201
Participant - UK: +44 (0)20 7162 0077
Participant - US: +1 334 323 6201

**Conference id:** 891449

The webcast will also be available for viewing on the Talvivaara website shortly after the event.

## Financial review

### *Q2 2011 (April-June)*

*Net sales and financial result*

Talvivaara's net sales for nickel and cobalt deliveries to Norilsk Nickel and for zinc deliveries to Nyrstar during the three months ended 30 June 2011 amounted to EUR 37.6 million (Q2 2010: EUR 35.2 million). The net sales decreased by 43.4% compared to Q1 2011 due to a high nickel inventory at the end of the quarter, and adverse changes in the EUR/USD exchange rate and nickel price. More specifically, substantial nickel and cobalt deliveries to Norilsk Nickel were delayed into the third quarter due to a maintenance stoppage at Norilsk Nickel Harjavalta. Also, the final settlement in Q2 2011 of sales that were provisionally invoiced and recorded in Q1 2011, lead to foreign exchange losses of EUR 2.0 million and to nickel price losses of EUR 12.0 million. During the second quarter, the EUR/USD exchange rate increased from 1.3825 to 1.4453 and the LME nickel cash price decreased from 28,873 USD/tonne to 23,113 USD/tonne. Product deliveries during the period amounted to 2,705 tonnes of nickel, 64 tonnes of cobalt and 6,682 tonnes of zinc.

Materials and services during the second quarter amounted to EUR (31.9) million (Q2 2010: EUR (21.4) million) and, relative to the level of production, were in line with the previous quarter. Other operating expenses were EUR (16.7) million in Q2 2011 (Q2 2010: EUR (7.8) million), reflecting a 54.4% increase in maintenance costs compared to the previous quarter due to the extended maintenance programmes carried out in April-May.

Operating loss for Q2 2011 was EUR (1.2) million (Q2 2010: profit of EUR 2.5 million). Loss for the period amounted to EUR (4.6) million (Q2 2010: EUR (16.8) million).

*Balance sheet*

Capital expenditure during the quarter totalled EUR 25.1 million (Q2 2010: EUR 36.3 million). The expenditure related primarily to the construction of secondary heap foundations and a gypsum pond, equipment needed for secondary leaching, and dust removal.

In June, Talvivaara Mining Company Plc acquired an additional 4% shareholding in its operating subsidiary Talvivaara Sotkamo Ltd from Outokumpu Mining Oy for EUR 60 million. As a result of the acquisition, Talvivaara Mining Company's ownership in Talvivaara Sotkamo increased from 80% to 84%. The equity effect of the share acquisition is described below in the H1 2011 Balance sheet section.

### *H1 2011 (January-June)*

*Net sales and financial result*

Talvivaara's net sales during the six months ended 30 June 2011 amounted to EUR 104.1 million (H1 2010: EUR 46.9 million). The revenues came from the deliveries of 6,551 tonnes of nickel, 15,418 tonnes of zinc, and approximately 140 tonnes of cobalt.

The Group's other operating income amounted to EUR 1.4 million (H1 2010: EUR 16.7 million) and came mainly from fair value gains on foreign exchange derivatives and indemnities on losses relating to certain equipment failures.

Materials and services during the six months ended 30 June 2011 amounted to EUR (68.2) million (H1 2010: EUR (41.4) million) with the rise from the previous year stemming from increased level of production.

Employee benefit expenses including the value of employee expenses related to the employee share option scheme of 2007 were EUR (13.4) million (H1 2010: EUR (9.9) million). The increase was attributable to the increased number of personnel.

Other operating expenses amounted to EUR (30.3) million (H1 2010: EUR (19.3) million), of which energy and maintenance costs comprised over two thirds. The impact of maintenance costs was particularly high in the second quarter due to the maintenance and upgrading programmes carried out in April-May.

Operating profit amounted to EUR 10.4 million (H1 2010: EUR 0.2 million), which represents 10.0% of the net sales during the period.

Finance income for the six month period was EUR 20.1 million (H1 2010: EUR 4.9 million) and consisted mainly of exchange rate gains of EUR 18.5 million relating to the advance payment received from Nyrstar for the zinc streaming agreement entered into in February 2010. Finance costs of EUR (18.5) million (H1 2010: EUR (50.3) million) were mainly caused by interests on borrowings.

The Company's profit for the period amounted to EUR 8.2 million (H1 2010: loss of EUR (33.7) million).

The total comprehensive income for H1 of 2011 was EUR 3.3 million (H1 2010: EUR (39.6) million), including a reduction in hedge reserves resulting from the occurrence of the hedged sales.

*Balance sheet*

Capital expenditure during H1 2011 totalled EUR 35.5 million (H1 2010: EUR 55.3 million). The expenditure related primarily to secondary heap foundations, secondary leaching, gypsum pond and dust removal. On the consolidated statement of financial position as at 30 June 2011, property, plant and equipment totalled EUR 741.0 million (31 December 2010: EUR 728.2 million).

In the Group's assets, inventories amounted to EUR 219.1 million on 30 June 2011 (31 December 2010: EUR 175.4 million). The increase in inventories reflected the ramp-up of production and the consequent increase in the amount of ore stacked on heaps, valued at cost.

Trade receivables amounted to EUR 25.4 million on 30 June 2011 (31 December 2010: EUR 52.4 million). The decrease in trade receivables reflected the maintenance stoppage at Norilsk Nickel Harjavalta and the consequent high nickel inventories at Talvivaara at the end of the period.

On 30 June 2011, cash and cash equivalents, including short-term deposits of EUR 11.9 million, totalled EUR 46.5 million (31 December 2010: EUR 165.6 million).

In equity and liabilities, the total equity amounted to EUR 333.6 million on 30 June 2011 (31 December 2010: EUR 380.3 million). Subsequent to Talvivaara Mining Company's acquisition of an additional 4% shareholding in its operating subsidiary Talvivaara Sotkamo, the equity decreased by EUR 61.5 million as the acquisition price of EUR 60 million and the transaction costs of EUR 1.5 million were deducted from equity under to IFRS. On the other hand, the equity component of EUR 9.0 million for the EUR 225 million senior unsecured convertible bonds due 2015 was recognised in equity during the period.

A total of 370,507 new shares were subscribed for during H1 2011 under the company's stock option rights 2007A and 2007B and the convertible bonds due 2015. The entire subscription price of EUR 2.2 million was recognised in equity.

Borrowings decreased from EUR 480.6 million on 31 December 2010 to EUR 463.5 million at the end of June 2011. The changes in borrowings during the period included determination of the equity component for the senior unsecured convertible bonds due 2015 after an Extraordinary General Meeting of Talvivaara resolved to approve the issue of special rights in January 2011.

Total advance payments as at 30 June 2011 amounted to EUR 252.5 million (31 December 2010: EUR 267.1 million). The changes in advance payments during H1 2011 included the addition of a EUR 7.0 million advance payment by Cameco Corporation relating to the uranium off-take agreement and non-cash exchange rate gains of approximately EUR 18.5 million on the Nyrstar advance payment. The Nyrstar advance payment was also amortised by USD 4.1 million as a result of 15,418 tonnes of zinc deliveries during the first half of 2011. The remaining USD equivalent of the Nyrstar advance payment amounted to USD 326.0 million on 30 June 2011.

Total equity and liabilities as at 30 June 2011 amounted to EUR 1,118.7 million (31 December 2010: EUR 1,216.3 million).

*Financing*

In June, Talvivaara signed a EUR 80 million revolving credit facility with Nordea Bank, primarily as back-up financing relating to the acquisition of Talvivaara Sotkamo shares from Outokumpu Mining. The facility, which remains undrawn, has an initial margin of 2.50%.

Negotiations also commenced in June to amend the EUR 100 million revolving credit facility signed in June 2010 with Nordea Bank, Svenska Handelsbanken and Danske Bank to accommodate the share transaction with Outokumpu Mining and to also otherwise amend the agreement to reflect Talvivaara's current stage of development. Final bank approvals of the amendments are pending but expected in August 2011. Upon approval of the amendment agreement, the EUR 100 million revolving credit facility will replace the EUR 80 million commitment by Nordea Bank.

In February, Talvivaara signed a uranium off-take agreement with Cameco Corporation. According to the terms set forth in the agreement Cameco is to provide an upfront investment of up to USD 60 million to cover the construction costs of the uranium extraction circuit. Talvivaara will repay the investment through deliveries of uranium concentrate during the initial years of the agreement. Once the capital sum has been repaid all uranium concentrate produced thereafter until 31 December 2027 will be bought by Cameco at a price based on market prices at the time of delivery.

In January, an Extraordinary General Meeting of Talvivaara resolved to approve the proposal of the Board of Directors for the issue of special rights in relation to EUR 225 million senior unsecured convertible bonds due 2015 which were issued on in December 2010. The bonds are convertible into 27.0 million fully paid ordinary shares of the Company. The interest rate applied to the convertible bond is 4.00% and the yield to maturity 6.50%, reflecting a redemption price of 114.5% at maturity.

*Currency option programme*

In June 2011, Talvivaara entered into a currency option programme comprising USD options for six months from July 2011 through December 2011. The monthly obligation amounts to USD 7.5 million and protection to USD 5.0 million. The collar ranges from 1.2884 to 1.4900.

**Going concern**

Talvivaara Group's forecasts and projections, taking account of the Group's current liquidity position and reasonably possible changes in production, metal prices and foreign exchange rates, indicate the Group to be able to continue in operational existence with adequate financial resources for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

**Production review**

During the second quarter, operations at the Sotkamo mine focused on improving production reliability through an extensive maintenance and upgrading programme carried out at the metals recovery plant. The programme involved the increasing of sulphur melting and certain pumping capacities, cleaning and upgrading of hydrogen sulphide generators, inspection and maintenance of reactors and thickeners, and numerous small modification items, e.g. doubling up of selected process pipelines, that will help improve production reliability and sustainable capacity. The main findings from the thorough inspections included largely anticipated levels of wear and tear; no unexpected or serious corrosion was found. In the hydrogen sulphide generators large amounts of contamination were found and identified as the main cause of the reduced hydrogen sulphide capacity during the winter and spring. As the primary source of the contamination was determined to be dust from crushing and screening, measures were also taken to prevent dust from entering the sulphur storage area.

The maintenance and upgrading works commenced in early April and were completed in late May. While most of the work was carried out while one production line at the plant was operating, a full stoppage of fifteen days was also required. In view of the length of the full stoppage and the fact that for most of April and May only one production line at a time was operating, the achieved production output in Q2 2011 of 3,951t of nickel (Q2 2010: 2,729t) and 7,662t of zinc (Q2 2010: 5,575t) can be considered satisfactory. Furthermore, operation of the plant after the completion of the upgrading and maintenance programme has proven the facility to have sufficient capacity for full scale operation.

For the half-year, nickel output amounted to 8,166t, representing an increase of 245% over the 3,339t of nickel production achieved during the first half of 2010. The corresponding half-year figures for zinc were 14,005t in 2011 and 8,535t in 2010.

The mining department produced 2.8Mt of ore (Q2 2010: 3.5Mt) and 5.3Mt of waste (Q2 2010: 4.1Mt). The emphasis was again on waste mining to provide material for levelling the ground for the secondary heap foundations. Ore mining continued to be restricted due to the bottle-neck in primary heap reclaiming.

In materials handling, the focus was on primary heap reclaiming, which was initially delayed by a contractor change in Q1 2011 and has subsequently suffered from continued commissioning issues with the purpose-built reclaiming system. Modifications to the reclaiming equipment were made during the second quarter in order to improve the feeding of ore into the system. Additional reclaiming capacity was also obtained by engaging a second contractor to excavate and crush ore from the heap. Despite these efforts, crushing and stacking of ore continued to be restricted by the limited reclaiming capacity and amounted in Q2 2011 to 2.8Mt (Q2 2010: 3.7Mt) and during the first half of the year to 4.7Mt (Q1-Q2 2010: 7.0Mt).

Bioheapleaching continued to progress well during the second quarter. The average nickel grades in solution pumped to metals recovery increased from 2.3 g/l in April to 3.0 g/l in June. The main sources of leach solution were heap sections 3 and 4. Leaching in the secondary heap also progressed well, but solution from the secondary leaching was not yet pumped to metals recovery due to the yet insufficient size of the secondary heap.

*Production key figures*

| | | **Q2 2011** | Q2 2010 | **Q1-Q2 2011** | Q1-Q2 2010 | **FY 2010** |
|---|---|---|---|---|---|---|
| **Mining** | | | | | | |
| Ore production | Mt | **2.8** | 3.5 | **4.9** | 6.6 | **13.3** |
| Waste production | Mt | **5.3** | 4.1 | **10.4** | 6.5 | **16.7** |
| **Materials handling** | | | | | | |
| Stacked ore | Mt | **2.8** | 3.7 | **4.9** | 7.0 | **13.3** |
| **Bioheapleaching** | | | | | | |
| Ore under leaching | Mt | **29.2** | 18.0 | **29.2** | 18.0 | **24.3** |
| **Metals recovery** | | | | | | |
| Nickel metal content | Tonnes | **3,951** | 2,729 | **8,166** | 3,339 | **10,382** |
| Zinc metal content | Tonnes | **7,662** | 5,575 | **14,005** | 8,535 | **25,462** |

## Sustainable development and permitting

*Emissions to the environment*

Environmental monitoring during the second quarter confirmed Talvivaara to comply with all of its environmental permit limits for water emissions. Similarly, the hydrogen sulphide emissions have been within the permitted limits. Despite the already achieved good results, work aimed at minimizing the odour discharges continues with process and equipment modifications. Dust emissions have been within permitted limits in all but one measurement point at the screening building.

*Permitting*

The environmental permit application for uranium extraction was submitted to the regional environmental permitting agency in March. Application for the renewal of the existing environmental permit was also submitted in March. Public notice on both permit applications is expected during the autumn, following Talvivaara's responses to the relevant authorities' requests for amendments by the end of August.

In June 2011, Talvivaara submitted to the Ministry of Employment and Economy an application in accordance with the Mining Act (503/1965) for the expansion of the Talvivaara mining concession area by approximately 70 $km^2$. Subject to approval of the expansion, the total area of the Talvivaara mining concession will be approximately 130 $km^2$. The expansion of the mining concession area relates to the previously announced increase in the Talvivaara mineral resources, the full exploitation of which is not possible within the existing mining concession area.

Baseline studies of the environment and preparations for the Environmental Impact Assessment relating to the potential production expansion (Operation Overlord) and the expansion of the mining concession area continued during the second quarter. The Environmental Impact Assessment is anticipated to commence during the fourth quarter of 2011 and to cover certain parallel process options, as the final production processes and end products have not yet been chosen. Following the EIA, Talvivaara expects to submit the environmental permit application for the expansion in 2012.

In April 2010, Talvivaara applied to the Ministry of Employment and Economy for a permit to extract uranium as a by-product, in accordance with the Nuclear Energy Act. Processing of the permit application at the Ministry of Employment and Economy is ongoing and the Talvivaara expects to obtain this permit in late 2011.

*Safety and security*

At the end of the second quarter, the injury frequency among the Talvivaara personnel was 13.1 lost time injuries/million working hours on a rolling 12 month basis (31 December 2010: 10.7 lost time injuries/million working hours).

**Planned uranium extraction and uranium off-take agreement with Cameco Corporation**

In February, Talvivaara signed a uranium off-take agreement with Cameco Corporation. Under the terms of the agreement, Cameco will provide an up-front investment, up to a maximum of USD 60 million, to cover the construction cost of the uranium extraction circuit and related facilities. Cameco's capital contribution will be repaid through deliveries of uranium concentrate in the initial years of the agreement.

Once the capital is repaid, Cameco will purchase the uranium concentrate produced at Sotkamo through a supply agreement that will be in effect until 31 December 2027. Cameco will provide Talvivaara with payment for the uranium based on a formula that references market prices at the time of delivery.

Annual uranium production is estimated at 350tU (ca. 770,000 pounds), corresponding to approximately 410t (900,000 pounds) of yellow cake ($UO_4$).

Cameco is providing technical assistance to Talvivaara in the design, construction, commissioning and operation of the uranium extraction circuit to be constructed at the Sotkamo mine.

The agreements between Talvivaara and Cameco are subject to ratification by the Euratom Supply Agency and the approval of the European Commission pursuant to the Euratom Treaty. These approvals are expected during the current year.

During the second quarter, preparations for the construction of the uranium recovery facility continued and the key components of the uranium extraction circuit were ordered. Commissioning of the facility, subject to receiving the necessary permits and authorizations, is expected during the second half of 2012.

**Production expansion - Operation Overlord**

Conceptual studies relating to production expansion beyond 50,000tpa of nickel continued. Recruiting of a dedicated project team progressed during the second quarter, strengthening the team to nine members with metallurgical, infrastructure, bioheapleaching, materials handling and project coordination expertise. Recruiting to the project team continues targeting added expertise in environmental and water management issues, and automation.

Scoping studies are currently based on the target of doubling up the presently planned production to approximately 100,000tpa of nickel. Whilst studies relating to various processing options continue, it appears relatively likely that a substantial part of the expanded production would be LME quality nickel metal. Production of cobalt metal is also an option, but refining of zinc to zinc metal is currently not within the planning scope. For certain products and raw materials, e.g. manganese and sulphuric acid, joint ventures or other partnering arrangements will be investigated.

Investment into the expansion project is planned to be carried out in a modular fashion to allow stretching of the expenditure over an estimated 5-6 year period starting in 2013. The modular approach also allows commissioning of the equipment and processes sequentially in the order of the process stages, which is expected to reduce the risk of serious start-up issues.

**Acquisition of an additional 4% shareholding in the operating subsidiary Talvivaara Sotkamo Ltd from Outokumpu Mining Oy**

Talvivaara Mining Company signed an agreement on 1 June 2011 with Outokumpu Mining Oy and its parent company Outokumpu Oyj to acquire an additional 4% shareholding in Talvivaara Sotkamo Ltd. As a result of the acquisition, Talvivaara's ownership in Talvivaara Sotkamo increased from 80% to 84% and Outokumpu Mining's ownership decreased to 16%. The acquisition price for the 4% stake was EUR 60 million.

Simultaneously, Talvivaara entered into an exclusive option agreement with Outokumpu Mining and Outokumpu Oyj (the "Option") whereby it will have the right, at its sole discretion, in one or more instalments, to acquire Outokumpu Mining's remaining 16% shareholding in Talvivaara Sotkamo for EUR 240 million at any time prior to 31 March 2012. Should Talvivaara choose to exercise the Option, entirely or partially, it will consider appropriate funding arrangements for the payment of the exercise price at that time.

**Fulfilment of minimum transportation requirement on Talvivaara-Murtomäki railroad**

In 2008-2009, Talvivaara constructed a 25 km railway connecting the Talvivaara mine with the national railway grid. Subject to agreed minimum transportation volumes on the railroad being achieved, the Finnish State agreed to reimburse the construction expenses to Talvivaara Infrastructure Oy up to an amount of EUR 40 million (0% VAT) in two instalments and to redeem the railroad as part of the national rail grid. The first agreed transportation milestone was reached in 2010 and the Finnish State subsequently paid EUR 20 million as a partial reimbursement. The remaining minimum transportation volumes were reached in January 2011 and documentation work with the relevant authorities has since been ongoing in order to effect the final redemption payment during 2011.

**Annual General Meeting**

Talvivaara's Annual General Meeting was held on 28 April 2011 in Sotkamo, Finland. The resolutions of the AGM included:

- that no dividend be paid for the financial year 2010;
- that the annual fee payable to the members of the Board in 2012 be as follows: Chairman of the Board EUR 160,000, Deputy Chairman (Senior Independent Director) EUR 69,000, Chairman of the Audit Committee EUR 69,000, Chairman of the Nomination Committee EUR 53,000, Chairman of the Remuneration Committee EUR 53,000, Chairman of the Sustainability Committee EUR 53,000, other Non-executive Directors and Executive Directors EUR 48,000;
- that the number of Board members be seven and that Mr. Edward Haslam, Mr. Eero Niiva, Ms. Eileen Carr, Mr. D. Graham Titcombe, Mr. Pekka Perä, Mr. Tapani Järvinen and Ms. Saila Miettinen-Lähde be re-elected as Board Members;
- that the auditor be reimbursed according to the auditor's approved invoice and authorised public accountants PricewaterhouseCoopers Oy be elected as the company's auditor for the financial year 2011;
- that the Board be authorised to decide on the repurchase, in one or several transactions, of a maximum of 10,000,000 of the Company's own shares. The repurchase authorisation is valid until 27 October 2012. The proposed authorisation replaces the authorisation to repurchase 10,000,000 shares granted by the Annual General Meeting of 15 April 2010; and
- that the Company shall issue stock options partly to the key employees and partly to the personnel of the Company and its subsidiaries. The maximum total number of stock options issued will be 5,500,000 and the stock options entitle their owners to subscribe for a maximum total of 5,500,000 new shares in the Company or to receive existing shares held by the Company. The beginning of the share subscription

period shall require attainment of certain operational or financial targets determined by the Board annually.

**Risk management and principal risks**

In line with current corporate governance guidelines on risk management, Talvivaara carries out an ongoing process endorsed by the Board of Directors to identify risks, measure their impact against certain assumptions and implement the necessary proactive steps to manage these risks.

Talvivaara's operations are affected by various risks common to the mining industry, such as risks relating to the development of Talvivaara's mineral deposits, estimates of reserves and resources, infrastructure risks, and volatility of commodity prices. There are also risks related to counter parties, currency exchange ratios, management and control systems, historical losses and uncertainties about the future profitability of Talvivaara, dependence on key personnel, effect of laws, governmental regulations and related costs, environmental hazards, and risks related to Talvivaara's mining concessions and permits.

In the short term, Talvivaara's key operational risks relate to the ongoing ramp-up of operations. While the Company has demonstrated that all of its production processes work and can be operated on an industrial scale, the rate of ramp-up is still subject to risk factors, including various technical and operational risks, that may currently be unknown or are beyond the Company's control. In order to better mitigate operational risks going forward, Talvivaara has in place an ongoing production reliability programme, which targets at reducing downtime and risk of accidents through detailed evaluation of all equipment and processes and subsequent improvement of operating procedures and maintenance. The Company has also recently carried out and is planning further maintenance and upgrading programmes at the metals recovery plant in order to improve plant availability and capacity in the future.

The market price of nickel is, together with production volumes, the main determinant of Talvivaara's revenues. The volatility of nickel price has historically been high and the volatility is in the Company's view likely to persist also in the future. Talvivaara is unhedged against variations in nickel prices, which means that nickel price volatility will have a substantial effect on the Company's revenues and result. Full or substantially full exposure to nickel prices is in line with Talvivaara's strategy and supported by the Company's view that it can operate the Talvivaara mine profitably also during the lows of commodity price cycles.

Talvivaara's revenues are determined mostly in US dollars, whilst the majority of the Company's costs are incurred in Euro. Potential strengthening of the Euro against the US dollar could thus have a material adverse effect on the business and financial condition of the Company. Talvivaara hedges its exposure to the currency exchange risk relating to the US dollar on a case by case basis with the aim of limiting the adverse effects of US dollar weakness as considered justified from time to time.

**Personnel**

The number of personnel employed by the Group on 30 June 2011 was 481 (Q2 2010: 382), including 65 summer trainees.

Wages and salaries paid during the first three months of the year totalled EUR 8.7 million (Q2 2010: EUR 6.7 million).

As part of the Group's long term incentive plan, the employees of Talvivaara resolved on 18 June 2011 to establish a Group personnel fund to manage the earnings bonuses paid by Talvivaara. In accordance with its byelaws, the fund will invest a substantial proportion of its assets in Talvivaara Mining Company shares. The fund is managed by personnel representatives elected by the employees. Registration of the fund is pending at the Ministry of Employment and Economy.

**Shares and shareholders**

The number of shares issued and outstanding and registered on the Euroclear Shareholder Register as of 30 June 2011 was 245,727,603. Including the effect of the EUR 85 million convertible bond of 14 May 2008, the EUR 225 million convertible bond of 16 December 2010 and the Option Scheme of 2007, the authorised full number of shares of the Company amounted to 290,636,391.

The share subscription period for stock options 2007A is between 1 April 2010 and 31 March 2012 and for stock options 2007B between 1 April 2011 and 31 March 2013. By 30 June 2011 a total of 292,586 Talvivaara Mining Company's new shares had been subscribed for under the stock option rights 2007A and a total of 2,040,514 stock option rights 2007A remain unexercised. A total of 42,763 new shares of Talvivaara were subscribed for under the stock option rights 2007B and a total of 2,290,337 stock option rights 2007B remain unexercised. In addition, a total of 214,736 new shares of the Company were subscribed for under the convertible bonds due 2015.

As at 30 June 2011, the shareholders who held more than 5% of the shares and votes of Talvivaara were Pekka Perä (23.0 %), Varma Mutual Pension Insurance Company (8.6%), BlackRock Investment Management (6.0%) and Ilmarinen Mutual Pension Insurance Company (5.4%).

**Events after the review period**

*Inclusion of Talvivaara Mining Company in the OMX Helsinki 25 index*

Talvivaara was included in the OMX Helsinki 25 index of the Helsinki Stock Exchange from 1 August 2011.

**Short-term outlook**

*Operational outlook*

The nickel inventory build-up of the second quarter is expected to be recovered during the third quarter, which in turn is likely to have a substantial positive impact on the Group's Q3 2011 financial result.

The maintenance and upgrading stoppage planned for the second half of 2011 is likely to be scheduled for the fourth quarter.

Production ramp-up at the Sotkamo mine has continued and Talvivaara expects its nickel production for the current year to report towards the lower end of the previously given guidance range of 22,000-28,000t.

Near term progress in the reclaiming and stacking of the primary heap is critical in view of the 2012 production targets. The production guidance for the coming year will be reassessed based on the performance of these processes over the next 2-3 months. The availability and utilization rate of the metals recovery plant in the near future will also be a factor.

*Market outlook*

The third quarter of 2011 started relatively positively for base metals with nickel price climbing to around USD 25,000 per tonne and zinc reaching USD 2,500 per tonne. However, the recently heightened macroeconomic concerns over, amongst others, a slowdown of economic growth, the US debt burden and the Eurozone sovereign debt issues, have impacted also the commodity markets. This has resulted in the whole base metals complex retracting lower and in nickel price declining to its lowest level in 2011 at around USD 21,000 per tonne. Whilst this movement has been predominantly driven by speculative trading and the overall de-risking taking place across asset classes, prolonged macroeconomic concerns may also begin to impact the fundamental supply-demand balance and hence the nickel price. On the other hand, the global nickel market has remained in a deficit throughout the first half of the year with LME nickel stocks currently around their lowest levels since early 2009. An increase in production especially from ferronickel and nickel pig iron is predicted, but a significant shift of the supply-demand balance is not expected in the near term.

Overall, the short-term outlook for nickel is uncertain and volatility across the base metals complex is likely to remain high. The macroeconomic uncertainties create downside risks, but longer term fundamentals, including marginal cost of production, would appear to support the nickel price at around USD 20,000 per tonne.

17 August 2011

Talvivaara Mining Company Plc
Board of Directors

## CONSOLIDATED INCOME STATEMENT

| (all amounts in EUR '000) | Unaudited three months to 30 Jun 11 | Unaudited three months to 30 Jun 10 | Unaudited six months to 30 Jun 11 | Unaudited six months to 30 Jun 10 |
|---|---|---|---|---|
| **Net sales** | **37,647** | **35,248** | **104,114** | **46,854** |
| Other operating income | 1,085 | 1,283 | 1,421 | 16,711 |
| Changes in inventories of finished goods and work in progress | 26,893 | 13,084 | 39,674 | 32,159 |
| Materials and services | (31,894) | (21,439) | (68,204) | (41,369) |
| Personnel expenses | (6,626) | (5,004) | (13,421) | (9,856) |
| Depreciation, amortization, depletion and impairment charges | (11,618) | (12,786) | (22,816) | (25,032) |
| Other operating expenses | (16,671) | (7,843) | (30,335) | (19,268) |
| **Operating profit (loss)** | **(1,184)** | **2,543** | **10,433** | **199** |
| Finance income | 4,320 | 3,713 | 20,053 | 4,864 |
| Finance cost | (9,125) | (28,988) | (18,512) | (50,316) |
| Finance income (cost) (net) | (4,805) | (25,275) | 1,541 | (45,452) |
| **Profit (loss) before income tax** | **(5,989)** | **(22,732)** | **11,974** | **(45,253)** |
| Income tax expense | 1,356 | 5,968 | (3,823) | 11,553 |
| **Profit (loss) for the period** | **(4,633)** | **(16,764)** | **8,151** | **(33,700)** |
| **Attributable to:** | | | | |
| Owners of the parent | (3,937) | (15,025) | 4,902 | (28,886) |
| Non-controlling interest | (696) | (1,739) | 3,249 | (4,814) |
| | **(4,633)** | **(16,764)** | **8,151** | **(33,700)** |
| **Earnings per share for profit (loss) attributable to the owners of the parent expressed in EUR per share)** | | | | |
| Basic and diluted | (0.02) | (0.06) | 0.02 | (0.12) |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| (all amounts in EUR '000) | Unaudited three months to 30 Jun 11 | Unaudited three months to 30 Jun 10 | Unaudited six months to 30 Jun 11 | Unaudited six months to 30 Jun 10 |
|---|---|---|---|---|
| **Profit (loss) for the period** | **(4,633)** | **(16,764)** | **8,151** | **(33,700)** |
| **Other comprehensive income, items net of tax** | | | | |
| Cash flow hedges | (2,335) | (2,857) | (4,879) | (5,876) |
| **Other comprehensive income, net of tax** | **(2,335)** | **(2,857)** | **(4,879)** | **(5,876)** |
| **Total comprehensive income** | **(6,968)** | **(19,621)** | **3,272** | **(39,576)** |
| **Attributable to:** | | | | |
| Owners of the parent | (6,000) | (17,311) | 804 | (33,587) |
| Non-controlling interest | (968) | (2,310) | 2,468 | (5,989) |
| | **(6,968)** | **(19,621)** | **3,272** | **(39,576)** |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| (all amounts in EUR '000) | **Unaudited as at 30 Jun 11** | **Audited as at 31 Dec 10** | **Unaudited as at 30 Jun 10** |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 741,006 | 728,226 | 663,154 |
| Biological assets | 8,317 | 8,464 | 8,112 |
| Intangible assets | 7,559 | 7,737 | 7,734 |
| Deferred tax assets | 21,104 | 22,421 | 35,199 |
| Other receivables | 2,970 | 7,626 | 7,600 |
| Available-for-sale financial assets | 590 | 464 | - |
| | 781,546 | 774,938 | 721,799 |
| **Current assets** | | | |
| Inventories | 219,105 | 175,361 | 136,824 |
| Trade receivables | 25,352 | 52,354 | 26,736 |
| Other receivables | 6,094 | 8,702 | 3,680 |
| Financial assets at fair value through profit or loss | 11,898 | - | - |
| Derivative financial instruments | 703 | 40 | - |
| Cash and cash equivalent | 34,628 | 165,555 | 35,431 |
| | 297,780 | 402,012 | 202,671 |
| Assets held for sale | 39,395 | 39,391 | 39,372 |
| **Total assets** | **1,118,721** | **1,216,341** | **963,842** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Share capital | 80 | 80 | 80 |
| Share issue | - | 91 | 340 |
| Share premium | 8,086 | 8,086 | 8,086 |
| Hedge reserve | 3,770 | 7,494 | 11,866 |
| Other reserves | 447,929 | 433,012 | 439,020 |
| Retained earnings | (142,032) | (84,322) | (100,254) |
| | 317,833 | 364,441 | 359,138 |
| **Non-controlling interest in equity** | 15,802 | 15,831 | 10,777 |
| **Total equity** | 333,635 | 380,272 | 369,915 |
| **Non-current liabilities** | | | |
| Borrowings | 423,903 | 437,623 | 196,756 |
| Advance payments | 218,454 | 231,812 | 259,559 |
| Trade payables | - | 17 | - |
| Derivative financial instruments | - | - | 1,557 |
| Provisions | 5,278 | 3,935 | 2,453 |
| | 647,635 | 673,387 | 460,325 |
| **Current liabilities** | | | |
| Borrowings | 39,622 | 42,934 | 29,404 |
| Advance payments | 34,093 | 35,243 | 32,012 |
| Trade payables | 40,035 | 39,408 | 31,580 |
| Other payables | 22,644 | 43,820 | 39,788 |
| Derivative financial instruments | 1,057 | 1,277 | 818 |
| | 137,451 | 162,682 | 133,602 |
| **Total liabilities** | 785,086 | 836,069 | 593,927 |
| **Total equity and liabilities** | **1,118,721** | **1,216,341** | **963,842** |

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| (all amounts in EUR '000) | Share capital | Share issue | Share premium | Hedge reserve | Invested unrestricted equity | Other reserves | Retained earnings | Total | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **1 Jan 2010** | **80** | **-** | **8,086** | **16,567** | **401,248** | **16,200** | **(71,368)** | **370,813** | **11,784** | **382,597** |
| Profit (loss) for the period | - | - | - | - | - | - | (28,886) | (28,886) | (4,814) | (33,700) |
| Other comprehensive income | | | | | | | | | | |
| - Cash flow hedges | - | - | - | (4,701) | - | - | - | (4,701) | (1,175) | (5,876) |
| **Total comprehensive income for the period** | **-** | **-** | **-** | **(4,701)** | **-** | **-** | **(28,886)** | **(33,587)** | **(5,989)** | **(39,576)** |
| **Transactions with owners** | | | | | | | | | | |
| Stock options | - | 340 | - | - | 11 | - | - | 351 | - | 351 |
| Perpetual capital loan | - | - | - | - | - | 19,925 | - | 19,925 | 4,982 | 24,907 |
| Employee share option scheme | | | | | | | | | | |
| - value of employee services | - | - | - | - | - | 1,636 | - | 1,636 | - | 1,636 |
| Total contribution by and distribution to owners | - | 340 | - | - | 11 | 21,561 | - | 21,912 | 4,982 | 26,894 |
| **Total transactions with owners** | - | 340 | - | - | 11 | 21,561 | - | 21,912 | 4,982 | 26,894 |
| **30 Jun 2010** | **80** | **340** | **8,086** | **11,866** | **401,259** | **37,761** | **(100,254)** | **359,138** | **10,777** | **369,915** |
| **31 Dec 2010** | **80** | **91** | **8,086** | **7,494** | **401,612** | **31,400** | **(84,322)** | **364,441** | **15,831** | **380,272** |
| **1 Jan 2011** | **80** | **91** | **8,086** | **7,494** | **401,612** | **31,400** | **(84,322)** | **364,441** | **15,831** | **380,272** |
| Profit (loss) for the period | - | - | - | - | - | - | 4,902 | 4,902 | 3,249 | 8,151 |
| Other comprehensive income | | | | | | | | | | |
| - Cash flow hedges | - | - | - | (4,098) | - | - | - | (4,098) | (781) | (4,879) |
| **Total comprehensive income for the period** | **-** | **-** | **-** | **(4,098)** | **-** | **-** | **4,902** | **804** | **2,468** | **3,272** |
| **Transactions with owners** | | | | | | | | | | |
| Stock options | - | (91) | - | - | 502 | - | - | 411 | - | 411 |
| Conversion of convertible bond | - | - | - | - | 1,800 | - | - | 1,800 | - | 1,800 |
| Acquisition of subsidiary | - | - | - | 374 | - | 996 | (60,721) | (59,351) | (2,137) | (61,488) |
| Perpetual capital loan | - | - | - | - | - | - | (1,891) | (1,891) | (360) | (2,251) |
| Incentive arrangement for Executive Management | - | - | - | - | - | 47 | - | 47 | - | 47 |
| Convertible bond, equity component | - | - | - | - | - | 9,018 | - | 9,018 | - | 9,018 |
| Employee share option scheme | | | | | | | | | | |
| - value of employee services | - | - | - | - | - | 2,554 | - | 2,554 | - | 2,554 |
| Total contribution by and distribution to owners | - | (91) | - | 374 | 2,302 | 12,615 | (62,612) | (47,412) | (2,497) | (49,909) |
| **Total transactions with owners** | - | (91) | - | 374 | 2,302 | 12,615 | (62,612) | (47,412) | (2,497) | (49,909) |
| **30 Jun 2011** | **80** | **-** | **8,086** | **3,770** | **403,914** | **44,015** | **(142,032)** | **317,833** | **15,802** | **333,635** |

## CONSOLIDATED STATEMENT OF CASH FLOWS

| (all amounts in EUR '000) | Unaudited three months to 30 Jun 11 | Unaudited three months to 30 Jun 10 | Unaudited six months to 30 Jun 11 | Unaudited six months to 30 Jun 10 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Profit (loss) for the period | (4,633) | (16,764) | 8,151 | (33,700) |
| Adjustments for | | | | |
| Tax | (1,357) | (5,968) | 3,822 | (11,553) |
| Depreciation and amortization | 11,618 | 12,786 | 22,816 | 25,032 |
| Other non-cash income and expenses | (12,012) | (2,459) | (17,992) | (2,320) |
| Interest income | (4,320) | (3,713) | (20,053) | (4,864) |
| Fair value gains (losses) on financial assets at fair value through profit or loss | (240) | (2,987) | (385) | (16,642) |
| Interest expense | 9,125 | 28,988 | 18,512 | 50,316 |
| | (1,819) | 9,883 | 14,871 | 6,269 |
| Change in working capital | | | | |
| Decrease(+)/increase(-) in other receivables | 36,364 | (14,063) | 37,707 | (9,744) |
| Decrease (+)/increase (-) in inventories | (28,221) | (12,517) | (43,743) | (27,312) |
| Decrease(-)/increase(+) in trade and other payables | (8,254) | 39,181 | (22,647) | 34,293 |
| Change in working capital | (111) | 12,601 | (28,683) | (2,763) |
| | (1,930) | 22,484 | (13,812) | 3,506 |
| Interest and other finance cost paid | (9,704) | (8,809) | (11,514) | (13,210) |
| Interest and other finance income | 70 | 3,702 | 339 | 50,818 |
| **Net cash generated (used) in operating activities** | (11,564) | 17,377 | (24,987) | 41,114 |
| **Cash flows from investing activities** | | | | |
| Acquisition of subsidiary, net of cash acquired | (61,487) | - | (61,487) | - |
| Purchases of property, plant and equipment | (25,013) | (36,218) | (35,384) | (55,178) |
| Purchases of biological assets | (35) | (7) | (35) | (7) |
| Purchases of intangible assets | (81) | (110) | (104) | (124) |
| Proceeds from sale of biological assets | 48 | 33 | 232 | 92 |
| Purchases of financial assets at fair value through profit or loss | (12,010) | - | (12,010) | - |
| Purchases of available-for-sale financial assets | (90) | - | (128) | - |
| **Net cash generated (used) in investing activities** | (98,668) | (36,302) | (108,916) | (55,217) |
| **Cash flows from financing activities** | | | | |
| Realised stock options | 377 | 351 | 411 | 351 |
| Proceeds from interest-bearing liabilities | 1,067 | 1,539 | 1,067 | 6,539 |
| Perpetual capital loan | - | - | (3,042) | 24,875 |
| Proceeds from advance payments | - | 20,000 | 7,000 | 263,419 |
| Payment of interest-bearing liabilities | (1,234) | (23,448) | (2,460) | (257,527) |
| **Net cash generated (used) in financing activities** | 210 | (1,558) | 2,976 | 37,657 |
| **Net increase (decrease) in cash and cash equivalents** | (110,022) | (20,483) | (130,927) | 23,554 |
| Cash and cash equivalents at beginning of the period | 144,650 | 55,914 | 165,555 | 11,877 |
| **Cash and cash equivalents at end of the period** | 34,628 | 35,431 | 34,628 | 35,431 |

NOTES

**1. Basis of preparation**

This interim report has been prepared in compliance with IAS 34.

The interim financial information set out herein has been prepared on the same basis and using the same accounting policies as were applied in drawing up the Group's statutory financial statements for the year ended 31 December 2010.

**2. Property, plant and equipment**

| (all amounts in EUR '000) | Machinery and equipment | Construction in progress | Land and buildings | Other tangible assets | Total |
|---|---|---|---|---|---|
| Gross carrying amount at 1 Jan 11 | 336,598 | 21,035 | 257,613 | 206,227 | 821,473 |
| Additions | 275 | 35,038 | 67 | 4 | 35,384 |
| Disposals | - | - | (66) | - | (66) |
| Transfer to assets held for sale | - | - | - | (4) | (4) |
| Transfers | 10,591 | (13,931) | 2,583 | 757 | - |
| Gross carrying amount at 30 Jun 11 | 347,464 | 42,142 | 260,197 | 206,984 | 856,787 |
| Accumulated depreciation and impairment losses at 1 January 2011 | 39,793 | - | 21,150 | 32,304 | 93,247 |
| Depreciation for the period | 9,522 | - | 9,254 | 3,758 | 22,534 |
| Accumulated depreciation and impairment losses at 30 Jun 11 | 49,315 | - | 30,404 | 36,062 | 115,781 |
| Carrying amount at 1 Jan 11 | 296,805 | 21,035 | 236,463 | 173,923 | 728,226 |
| **Carrying amount at 30 Jun 11** | **298,149** | **42,142** | **229,793** | **170,922** | **741,006** |

**3. Trade receivables**

(all amounts in EUR '000)

| | 30 Jun 11 | 31 Dec 10 |
|---|---|---|
| Nickel-Cobalt sulphide | 23,377 | 50,437 |
| Zinc sulphide | 1,975 | 1,917 |
| **Total trade receivables** | **25,352** | **52,354** |

**4. Inventories**

(all amounts in EUR '000)

| | 30 Jun 11 | 31 Dec 10 |
|---|---|---|
| Raw materials and consumables | 12,738 | 8,668 |
| Work in progress | 178,990 | 154,632 |
| Finished products | 27,377 | 12,061 |
| **Total inventories** | **219,105** | **175,361** |

**5. Borrowings**
(all amounts in EUR '000)

| **Non-current** | **30 Jun 11** | **31 Dec 10** |
|---|---|---|
| Capital loans | 1,405 | 1,405 |
| Investment and Working Capital loan | 57,732 | 57,324 |
| Senior Unsecured Convertible Bonds due 2013 | 79,452 | 78,086 |
| Senior Unsecured Convertible Bonds due 2015 | 212,955 | 219,426 |
| Finance lease liabilities | 46,456 | 53,018 |
| Other | 25,903 | 28,364 |
| | **423,903** | **437,623** |
| **Current** | | |
| Investment and Working Capital loan | 715 | - |
| Railway Term Loan Facility | 18,700 | 18,527 |
| Finance lease liabilities | 16,007 | 20,211 |
| Interest Subsidy Loans | 4,200 | 4,196 |
| | **39,622** | **42,934** |
| **Total borrowings** | **463,525** | **480,557** |

**6. Changes in the number of shares issued**

| | **Number of shares issued** |
|---|---|
| **31 Dec 10** | **245,316,718** |
| Stock options 2007A and 2007B | 189,149 |
| Conversion of senior unsecured Convertible Bonds due 2015 | 215,736 |
| **30 Jun 11** | **245,721,603** |

**7. Contingencies and commitments**
(all amounts in EUR '000)
**The future aggregate minimum lease payments under non-cancellable operating leases**

| | **30 Jun 11** | **31 Dec 10** |
|---|---|---|
| Not later than 1 year | 1,724 | 1,175 |
| Later than 1 year and not later than 5 years | 2,089 | 1,993 |
| Later than 5 years | - | 11 |
| | 3,813 | 3,179 |

Capital commitments

At 30 June 2011, the Group had capital commitments principally relating to the completion of the Talvivaara mine, improving the reliability and expansion of production capacity. These commitments are for the acquisition of new property, plant and equipment.

**Talvivaara Mining Company Plc**
**Key financial figures of the Group**

| | | Three months to 30 Jun 11 | Three months to 30 June10 | Six months to 30 Jun 11 | Six months to 30 Jun 10 | Twelve months to 31 Dec 10 |
|---|---|---|---|---|---|---|
| Net sales | EUR '000 | 37,647 | 35,248 | 104,114 | 46,854 | 152,163 |
| Operating profit (loss) | EUR '000 | (1,184) | 2,543 | 10,433 | 199 | 25,456 |
| Operating profit (loss) percentage | | -3.1 % | 7.2 % | 10.0 % | 0.4 % | 16.7 % |
| Profit (loss) before tax | EUR '000 | (5,989) | (22,732) | 11,974 | (45,253) | (9,908) |
| Profit (loss) for the period | EUR '000 | (4,633) | (16,764) | 8,151 | (33,700) | (13,052) |
| Return on equity | | -1.3 % | -4.4 % | 2.3 % | -9.0 % | -3.4 % |
| Equity-to-assets ratio | | 29.8 % | 38.4 % | 29.8 % | 38.4 % | 31.3 % |
| Net interest-bearing debt | EUR '000 | 416,999 | 190,729 | 416,999 | 190,729 | 315,002 |
| Debt-to-equity ratio | | 125.0 % | 51.6 % | 125.0 % | 51.6 % | 82.8 % |
| Return on investment | | 0.5 % | 2.0 % | 3.2 % | 2.3 % | 3.1 % |
| Capital expenditure | EUR '000 | 25,129 | 36,335 | 35,523 | 55,308 | 115,658 |
| Research & development expenditure | EUR '000 | - | 63 | - | 63 | 365 |
| Property, plant and equipment | EUR '000 | 741,006 | 663,154 | 741,006 | 663,154 | 728,226 |
| Derivative financial instruments | EUR '000 | (354) | (2,375) | (354) | (2,375) | (1,237) |
| Borrowings | EUR '000 | 463,525 | 226,160 | 463,525 | 226,160 | 480,557 |
| Cash and cash equivalents at the end of the period[1] | EUR '000 | 46,526 | 35,431 | 46,526 | 35,431 | 165,555 |

'1) including financial assets at fair value through profit or loss

**Share-related key figures**

| | | Three months to 30 Jun 11 | Three months to 30 Jun 10 | Six months to 30 Jun 11 | Six months to 30 Jun 10 | Twelve months to 31 Dec 10 |
|---|---|---|---|---|---|---|
| Earnings per share | EUR | (0.02) | (0.06) | 0.02 | (0.12) | (0.06) |
| Equity per share | EUR | 1.29 | 1.46 | 1.29 | 1.46 | 1.55 |
| Development of share price at London Stock Exchange | | | | | | |
| Average trading price[1] | EUR | 5.50 | 4.60 | 6.12 | 4.48 | 4.89 |
| | GBP | 4.86 | 4.00 | 5.31 | 3.90 | 4.20 |
| Lowest trading price[1] | EUR | 4.56 | 3.94 | 4.64 | 3.94 | 3.99 |
| | GBP | 4.03 | 3.42 | 4.03 | 3.42 | 3.42 |
| Highest trading price[1] | EUR | 6.59 | 5.63 | 7.16 | 5.63 | 7.11 |
| | GBP | 5.82 | 4.90 | 6.22 | 4.90 | 6.10 |
| Trading price at the end of the period[2] | EUR | 5.15 | 4.47 | 5.15 | 4.47 | 6.92 |
| | GBP | 4.65 | 3.65 | 4.65 | 3.65 | 5.96 |
| Change during the period | | -20.0 % | -17.8 % | -21.9 % | -5.5 % | 54.2 % |
| Price-earnings ratio | | neg. | neg. | 258 | neg. | neg. |
| Market capitalization at the end of the period[3] | EUR '000 | 1,265,975 | 1,094,758 | 1,265,975 | 1,094,758 | 1,697,196 |
| | GBP '000 | 1,142,605 | 894,910 | 1,142,605 | 894,910 | 1,460,861 |
| Development in trading volume | | | | | | |
| Trading volume | 1000 shares | 14,927 | 26,722 | 26,347 | 65,827 | 93,802 |
| In relation to weighted average number of shares | | 6.1 % | 10.9 % | 10.8 % | 26.8 % | 38.2 % |
| Development of share price at OMX Helsinki | | | | | | |
| Average trading price | EUR | 5.55 | 4.71 | 6.16 | 4.55 | 5.18 |
| Lowest trading price | EUR | 4.53 | 4.04 | 4.53 | 3.99 | 3.99 |
| Highest trading price | EUR | 6.63 | 5.62 | 7.34 | 5.62 | 7.18 |
| Trading price at the end of the period | EUR | 5.16 | 4.45 | 5.16 | 4.45 | 7.07 |
| Change during the period | | -21.8 % | -10.4 % | -27.0 % | 2.8 % | 63.3 % |
| Price-earnings ratio | | neg. | neg. | 258 | neg. | neg. |
| Market capitalization at the end of the period | EUR '000 | 1,267,923 | 1,091,545 | 1,267,923 | 1,091,545 | 1,734,389 |
| Development in trading volume | | | | | | |
| Trading volume | 1000 shares | 44,708 | 36,300 | 82,728 | 76,392 | 140,115 |
| In relation to weighted average number of shares | | 18.3 % | 14.8 % | 33.9 % | 31.2 % | 57.1 % |
| Adjusted average number of shares | | 244,339,128 | 245,177,646 | 244,339,128 | 245,177,646 | 245,241,660 |
| Fully diluted average number of shares | | 244,339,128 | 245,177,646 | 244,339,128 | 245,177,646 | 245,241,660 |
| Number of shares at the end of the period | | 245,721,603 | 245,180,718 | 245,721,603 | 245,180,718 | 245,316,718 |

1. Trading price is calculated on the average of EUR/GBP exchange rates published by the European Central Bank during the period.
2. Trading price is calculated on the EUR/GBP exchange rate published by the European Central Bank at the end of the period.
3. Market capitalization is calculated on the EUR/GBP exchange rate published by the European Central Bank at the end of the period.

**Employee-related key figures**

| | | Three months to 30 Jun 11 | Three months to 30 Jun 10 | Six months to 30 Jun 11 | Six months to 30 Jun 10 | Twelve months to 31 Dec 10 |
|---|---|---|---|---|---|---|
| Wages and salaries | EUR '000 | 5,405 | 4,145 | 11,262 | 8,381 | 16,652 |
| Average number of employees | | 451 | 365 | 429 | 344 | 362 |
| Number of employees at the end of the period | | 481 | 382 | 481 | 382 | 389 |

**Other figures**

| | Three months to 30 Jun 11 | Three months to 30 Jun 10 | Six months to 30 Jun 11 | Six months to 30 Jun 10 | Twelve months to 31 Dec 10 |
|---|---|---|---|---|---|
| Share options outstanding at the end of the period | 5,796,111 | 5,333,100 | 5,796,111 | 5,333,100 | 5,950,822 |
| Number of shares to be issued against the outstanding share options | 5,796,111 | 5,333,100 | 5,796,111 | 5,333,100 | 5,950,822 |
| Rights to vote of shares to be issued against the outstanding share options | 2.4 % | 2.1 % | 2.4 % | 2.1 % | 2.4 % |

**Talvivaara Mining Company Plc**
**Key financial figures of the Group**

Return on equity: $\dfrac{\text{Profit (loss) for the period}}{\text{(Total equity at the beginning of period + Total equity at the end of period)/2}}$

Equity-to-assets ratio: $\dfrac{\text{Total equity}}{\text{Total assets}}$

Net interest-bearing debt: Interest-bearing debt - Cash and cash equivalent

Debt-to-equity ratio: $\dfrac{\text{Net interest-bearing debt}}{\text{Total equity}}$

**Share-related key figures**

Earnings per share: $\dfrac{\text{Profit (loss) attributable to equity holders of the Company}}{\text{Adjusted average number of shares}}$

Equity per share: $\dfrac{\text{Equity attributable to equity holders of the Company}}{\text{Adjusted average number of shares}}$

Market capitalization at the end of the period: Number of shares at the end of the period * trading price at the end of the period