

TALVIVAARA SOTKAMO OY

MAIN CONTENTS OF THE RESTRUCTURING PROGRAMME

1 Realisation Restructuring of Talvivaara Sotkamo Ltd

Restructuring proceedings under the Restructuring of Enterprises Act may be undertaken in order to rehabilitate a distressed debtor's viable business, to ensure its continued viability and to effect debt arrangements.

The application for initiating restructuring proceedings with respect to Talvivaara Sotkamo Ltd and Talvivaara Mining Company Plc was filed on 15/11/2013. The District Court began restructuring proceedings concerning Talvivaara Sotkamo Ltd on 17/12/2013 when 10 of the Company's largest creditors stated that they supported beginning the proceedings. The creditors that supported beginning the proceedings represented a total of over one-fifth of the debtor company's known restructuring debts. The restructuring proceedings for Talvivaara Sotkamo Ltd's listed parent company, Talvivaara Mining Company Plc, began on 29/11/2013.

Once the administrator familiarised himself with the Talvivaara group's business operations, it became clear that the continuation of operations involved a number of challenges. Sufficiently long-term experience and proof of the functionality of the bioleaching technique had not yet been obtained at the end of 2013. The global market price for nickel was low, and the company did not have fully certain financing to cover the period of the proceedings. Given that there was also a great deal of excess water in the mine area and that there was uncertainty relating to the environmental and water permits essential to the continuation of the Company's business operations and to investments due to pending permit and appeal processes, the administrator has had to determine whether restructuring proceedings are suitable for Talvivaara Sotkamo Ltd.

No demands that the proceedings be interrupted have been made to the administrator during the restructuring proceedings.

However, in the administrator's view the Company's business operations have proven to be viable during the restructuring proceedings. The bioleaching technique has been successfully utilised in the functioning parts of the primary heaps, and the amounts of leached metals have been promising. During the restructuring proceedings, the company has produced a total of 8,700 tonnes of nickel, 17,400 tonnes of zinc and smaller amounts of copper and cobalt. The increase in the global market price of nickel has supported the Company's finances, and a total of approximately EUR 100 million of income has been obtained from the sale of metals during the restructuring proceedings. The Company has also been successful in negotiating short-term financing with one of its business partners, Nyrstar. The Company has been granted a new environmental and water permit on 30/04/2014, though it did not fully meet the Company's expectations, and the permit has been appeal.

The administrator is of the opinion that it is possible to make the mining operations in Sotkamo profitable. This will require, first, that the bioleaching technique proves functional at a larger scale. The leaching of the primary and secondary heaps must use the accumulated know-how and experience of the Company to be made to function efficiently and on a long-term basis in all of the heaps undergoing active leaching. Key factors in achieving this goal are mining on a sufficiently large scale and careful preparation and heaping of crushed ore as well as continual and proactive monitoring of the irrigation and aeration of the ore heaps in order to successfully leach the amount of metals from the mined ore stated in the business plan. The production costs must not rise too high in proportion to the income obtainable from the sale of metals. This requires that the long-term global market price for nickel would remain at least

within the assumptions provided by the experts used by the administrator. The important environmental investments relating to the operation and expansion of the mine must be duly seen to.

There are numerous different grounds for continuing the business operations of the Sotkamo mine. Pellervo Economic Research PTT (**PTT**) and the Finnish Environment Institute (**SYKE**) have studied the benefits and detriments caused by mines for salaries from the perspective of the tourism industry, atmospheric emissions and waterways. The report published in September 2014 is entitled '*Kaivostoiminnan taloudellisten hyötyjen ja ympäristöhaittojen rahamääräinen arvottaminen*' (in English: Monetary valuation of financial benefits and environmental detriments of mining operations) and describes, among other things, the growth of the benefits of the mining industry for salaries deducted by the reduction in the benefits for salaries of the tourism industry. With respect to the Talvivaara mine, the positive net effect has been estimated at EUR 4.92 billion, whereas with the other examined mines the figure was under 500 million.

However, the continuation of business operations will require that new financing be obtained. The last financing round was in the spring of 2013 when Talvivaara Mining Company Plc raised EUR 261 million in a rights offering. Of this amount EUR 171 million was left for the use of the group after the payment of EUR 77 million nominal value convertible bond that matured in May 2013 and the covering of costs. The spring 2013 listing prospectus for the offering listed the following as risks associated with the investment, among other things:

- If Talvivaara is unable to achieve profitability and its cash flow from operations is not sufficient to fund its operations, it may need additional financing following the Offering, which may not be available on attractive terms or at all.
- The mining industry is characterised by significant capital and operating expenditure for the expansion of production and the maintenance of existing production facilities and estimates regarding future capital and operating expenditure are subject to significant uncertainty; further, there can be no assurance that Talvivaara will be able to obtain the required financing for its capital and operating expenditure requirements.
- Operational challenges have had, and continue to have, a material adverse effect on Talvivaara's production, business, financial condition and results of operations.
- The measures that Talvivaara has already taken, or plans to take, in order to address its operational challenges may not be sufficient and Talvivaara may not be able to ramp-up its production.

Many of the risks listed in the offering prospectus have been realised, which has hampered the Talvivaara group's ability to secure the new financing it needs during the restructuring proceedings. As it has not been possible to start mining and constructing new primary heaps due to insufficient financing, the need for new financing has grown all the time. It takes approximately 3–6 months before a primary heap begins to produce metals after mining is started, and delays in beginning mining have a direct effect on the amount of financing needed.

Despite these challenges, the administrator has together with the debtor company and its advisors sought parties that would be interested in financing the continuation of Talvivaara Sotkamo Ltd's mining operations in their current form. No such long-term financing solution has been found to date, and the customary financing required by and during the restructuring programme has

not been available for the Talvivaara group while the draft restructuring programme has been prepared.

For this reason, the point of departure for the administrator's draft restructuring programme is that the restructuring programmes are based on the sale of all of Talvivaara Sotkamo Ltd's business operations through what is called a realisation restructuring process. In a realisation restructuring process, the assets of a company can be realised, and the funds obtained in this manner can be used to pay off debts in a similar manner as in a bankruptcy.¹

A realisation restructuring process provides the possibility to secure the continuation of operations at Talvivaara Sotkamo Ltd's mine under a new or reorganised ownership and capital structure. With respect to Talvivaara Sotkamo Ltd, it is not justified or in the interests of the creditors to discontinue the restructuring proceedings and initiate bankruptcy proceedings in order to realise the assets or shut down mining operations. The financial and regional effect of the Talvivaara mine both from the perspective of the mining industry and employment is significant from the perspective of Finnish society. For this reason, it is important to find a financial and operative solution that will secure the mine's operations in the long term and provide the creditors with the best possible accrual in the prevailing circumstances.

Under a draft restructuring programme, one payment could be made to the creditors, whereas the administrator's estimate is that no disbursements would be payable to the creditors in a bankruptcy. The realisation restructuring process includes the possibility to make supplementary payments.

The administrator is of the opinion that a customary eight-year restructuring programme can be drafted for the group's parent company, Talvivaara Mining Company Plc, provided that financing for the duration of the implementation of the programme can be secured. As a listed company, Talvivaara Mining Company Plc has provided the Talvivaara group access to capital markets through share and debt instruments. The administrator is of the opinion that the parent company can continue to be used for this purpose in the future, and it could also continue to provide group and rental services to the operative subsidiaries. Talvivaara Mining Company Plc's withdrawal from the London Stock Exchange to Helsinki has eased and sped up the implementation of capital markets measures.

2 Business Purchase

The realisation restructuring process can be implemented, for example, by Talvivaara Sotkamo Ltd signing a Business Purchase Agreement (hereinafter **BPA**) with a new company to be incorporated (hereinafter **NewCo**). The decision to sell requires the approval of Talvivaara Sotkamo Ltd's general meeting of shareholders. Talvivaara Mining Company Plc would be a founding partner of NewCo. Negotiations with other possible purchasers, financiers and industrial operators are still pending at the time the draft restructuring programme has been prepared.

The intention is that all of Talvivaara Sotkamo Ltd's assets will be transferred to the ownership of NewCo in connection with the completion of the transaction. In the same connection, the product streaming and sale and purchase agreements in Talvivaara Sotkamo Ltd's name would be transferred in accordance with separately negotiated agreements.

¹ For more detailed information on the realisation restructuring process, see section 4.4.3 of the rationale of the government bill for the Restructuring of Enterprises Act 182/1992. Realisation restructuring is referred to, e.g. in section 7(3) and section 53(1)(6) of the Restructuring of Enterprises Act. For more on this subject, see Tuomas Hupli's article 'Epätyypilliset saneerausmenettelyt' (Atypical Restructuring Processes) in *Juhlajulkaisu Jarmo Tuomisto 1952-9/6-2012*.

The purchase price received from the business purchase would be used in full to pay Talvivaara Sotkamo Ltd's restructuring debts.

The transferability of the most material permits required for the business operations has been investigated, and the permits can for the most part be transferred to NewCo by notifications to the authorities. However, this transferability does not extend to the permits related to the industrial production of uranium, with respect to which a new application process would have to be initiated. This potential delay is not considered to have material financial or industrial significance from the perspective of the operational whole.

In addition to the transfer of permits, the continuation of mining operations in Sotkamo will require sufficient financing. For this reason, the new ownership and group structure must be such that it can support the acquisition of the financing required for the business operations both through direct financing from its owners and from the capital markets. The administrator's view is that such financing can be raised, provided that the ownership and group structure provides a credible and sustainable foundation for the continuation of business operations.

The administrator's current understanding is that the realisation restructuring process described herein (the **NewCo Model**), if implemented, may also lead to a certain, possibly significant, degree of dilution of the holdings of Talvivaara Mining Company Plc's current shareholders. Because a share issue can be used as part of this arrangement in addition to a possible bond, the dilution of current holdings will depend significantly on the amounts at which the current shareholder participate in such an arrangement.

Such decisions shall be separately executed in compliance with applicable company law.

The intention is to use instruments available on the capital markets as part of this arrangement. In the administrator's view, Talvivaara Mining Company Plc is well suited to this purpose.

The administrator and the Talvivaara companies are actively engaging in discussions concerning the implementation of the model for the realisation restructuring process. For this reason, the draft restructuring programme that the administrator is filing to the District Court does not yet include more specific details on the structure of, parties to and other terms and conditions of a possible business purchase or other arrangement. The Restructuring of Enterprises Act makes such a process possible.

The draft restructuring programme requires that Talvivaara Sotkamo Ltd must sign the BPA or other agreement otherwise facilitating the realisation restructuring process by 01/12/2014 under the threat that, after this date, the administrator can petition the District Court to interrupt the restructuring proceedings. The administrator can grant an extension to this deadline, provided that the District Court has correspondingly extended the deadline for submitting the statement. The administrator's view is that, if no agreement is reached on the business purchase or other arrangement by the date in question and lacking special grounds to extend the deadline, the preconditions for achieving or confirming a final restructuring programme for either Talvivaara company will no longer exist.

The administrator will supplement the draft restructuring programme once the method, terms and conditions and the receiving party of the transfer of business operations are known. The supplemented draft programme will be filed with the Espoo District Court in such a way that the creditors have sufficient time to review it and give their statement on the draft as referred to in the Restructuring of Enterprises Act.

Effect of the Restructuring Proceedings on the Position of the Shareholders

The management of the Company's financing and maintenance of capital is primarily the responsibility of the Company's owners. However, Talvivaara Sotkamo Ltd's owners, Talvivaara Mining Company Plc and Outokumpu Mining Oy, have not committed to investing more capital in Talvivaara Sotkamo Ltd.

The realisation restructuring process to be implemented in Talvivaara Sotkamo Ltd will lead to the Company's shareholders' stake in the Company losing its value. As stated above, from the perspective of the owners, the realisation restructuring process in practice corresponds to bankruptcy proceedings. In the administrator's view, the principle of the most lenient method contained in the Restructuring of Enterprises Act and from the perspective of the creditors can be implemented in the manner proposed herein.

In order to ramp-up the Talvivaara group's mining operations to full scale, a significant amount of new financing for the operative activities is required immediately. For this reason, it has been necessary to carry out debt cuts to significantly reduce the amount of 'old debt' to be paid out of the group. With respect to the parent company, the cash flows from future business operations will be used to pay its remaining liabilities during an eight-year programme.

The prerequisite for the continuation of the mining operations of the entire Talvivaara group is the securing of a significant amount of new financing. The companies currently undergoing restructuring cannot be helped by converting the capital of the receivables of their creditors into new capital in the companies. If sufficient new financing cannot be obtained by the Talvivaara group, it is clear that both companies will have to be declared bankrupt. This would inevitably lead to both current and potential converted capital being entirely lost. For this reason, the administrator is not proposing in this case that the creditors' claims be voluntarily converted into various capital instruments in a way that would require resolutions of the general meeting. The Restructuring of Enterprises Act also does not recognise such a debt arrangement method.

Based on the above, and considering what has been stated in Supreme Court decision KKO 2003:120, the administrator is of the opinion that the proposals presented herein do not violate the requirement set out in section 44(3) of the Restructuring of Enterprises Act that the measures used in the debt arrangement must not restrict the rights of a creditor beyond what is necessary for the achievement of the purpose of the restructuring programme.

Before filing the supplemented draft programme the administrator will consider the possibility to implement a conversion of the restructuring debt into share capital (debt-to-equity-swap) as part of the overall solution.

Debt Arrangement Relating to the Restructuring Proceedings

The total amount of restructuring debt to be taken into account in the Company's restructuring proceedings is approximately EUR 1,308 million. Of this, EUR 295.9 million is lowest-priority debt as defined in law. In addition, the Company has compensation and other liabilities of an indeterminate euro amount that have for the most part been disputed by the debtor company and must be considered conditional restructuring debt. Some of these liabilities are of lowest priority.

Some of the restructuring debts are secured by collateral. The administrator estimates that the amount of secured restructuring debt that constitutes financing debt is EUR 53 million after the deduction of liquidation costs.

The administrator is of the opinion that even though the amount of secured debt that constitutes financing debt has been estimated at EUR 53 million, the

amount payable of such secured debt must be evaluated on the basis of the result produced by the operations. For this reason, EUR 21.9 million can be paid of such secured debt in order for the realisation restructuring process to be possible at all. The secured creditors and the parties of the business purchase must agree separately on how the rest of the secured restructuring debt is to be paid. This arrangement requires the consent of all of the secured creditors.

The administrator is of the opinion that the assets subject to business mortgages had no value after the deduction of liquidation costs at the time the proceedings began. As a result, restructuring debt secured by business mortgages has not been included in the programme.

The total amount of unsecured restructuring debt is EUR 956.96 million. It has not been possible to determine a euro amount for all of the conditional compensation and other liabilities that the debtor company has mostly disputed. The administrator requests that the District Court order the amounts at which such liabilities are to be included in the restructuring programme.

In addition, there is a total of at least EUR 295.9 million in lowest-priority restructuring debts.

The continuation of mining operations will require significant new financing. Based on discussions held by the administrator, it is clear that unsecured restructuring debt must be significantly cut in order to make the new consolidated balance sheet (Talvivaara Mining Company Plc and NewCo) attractive to industrial and financial investors and to complete the realisation restructuring process.

The administrator proposes that the capital of unsecured debts be cut. The administrator's estimate is that unsecured restructuring debts must be cut by 99%, which would leave 1% of the capital of such debts to be paid. No payments will be made on debts with lowest priority.

A separate escrow account will be opened for the later processing of unclear and conditional as well as certain other restructuring debts, and separate instructions for the use of the account will be provided in the restructuring programme.

The restructuring programme also includes two different calculations comparing the restructuring proceedings to bankruptcy proceedings. The first calculation estimates what disbursements could be made to creditors in a realisation bankruptcy, i.e. in a situation in which the bankruptcy estate would be successful in selling the mining operations included in the estate's assets as a going concern. The second calculation describes a situation in which the bankruptcy estate would shut down the business operations of the mine and cease mining operations.

The administrator is of the opinion that it is highly likely that the bankruptcy of Talvivaara Sotkamo Ltd would also lead to the bankruptcy of Talvivaara Mining Company Plc and vice versa.

The administrator's estimate is that no disbursements of any kind could be made to secured creditors or deferred creditors in either bankruptcy alternative, because the necessary costs of managing and realising the pledge exceed the possible income from realisation. As a result, despite the significant percentage of the cut of debts and the low value of collateral, the restructuring programme still leads to a more favourable result for all the creditors than bankruptcy.

Unsecured debt will be provided the opportunity to receive supplementary payments. Supplementary payments can be made if NewCo is obligated under

the BPA to pay the Company the additional purchase price or if the Company is entitled to additional payments under another agreement. The duty to make supplementary payments will remain valid for eight years.

Due to the nature of the restructuring programme as a realisation, it is proposed that the duration of the actual payment programme be one day.

5 Environmental and Water Matters

Environmental and water permits and environmental legislation regulating mining activities are a normal part of Talvivaara Sotkamo Ltd's business operations. During the restructuring proceedings, the Company has made various investments with the purpose of ensuring that the Company complies with the environmental and water permits and legislation binding it.

An integral part of using the bioleaching technique in mining operations is maintaining what is called the water balance. In order to function, the bioleaching technique requires a large amount of water, a significant amount of which evaporates during the process. In order to get all of the bioleaching heaps functioning normally, the Company estimates that water will have to be brought into the mine area.

However, due to a variety of reasons, there was a significant amount of excess water in the mine area at the time the proceedings began. The valid permits have not allowed such amounts of water to be drained out of the mine area, even after treatment. The excess water and maintaining the water balance have come up in nearly all of the discussion between the administrator and potential investors or other business partners. Removing such water from the mine area is extremely important to the continuation of mining activities in Sotkamo.

The Company has appealed the Regional State Administrative Agency's (hereinafter the **RSA**) permit relating to the release of water to the Vaasa Administrative Court, which had not rendered its decision yet at the time the draft restructuring programme was prepared. As an alternative way forward, the Company has planned the construction of a new release pipe to a larger waterway, which would make it possible to release a larger amount of treated water from the mine area. The Kainuu ELY Centre has stated in a decision issued on 02/09/2014 that the construction of such a pipe would not require a separate environmental impact assessment (an EIA process). The Company intends to file a building permit application in relation to the pipe during October 2014.

Talvivaara Sotkamo Ltd was granted a new environmental and water permit April 2014. The permit stipulates that the Company must provide the authorities with a EUR 107 million security, whereas the security under the prior permit was approximately EUR 34 million. The Company has appealed the decision on numerous different grounds. This security arrangement has been addressed as a substantial risk factor in the negotiations held with potential financial investors, in particular.

6 Financing During the Proceedings

Talvivaara Sotkamo Ltd has received financing from two parties during the restructuring proceedings. The parent company, Talvivaara Mining Company Plc, has loaned the Company approximately EUR 8 million. The administrator and the secured creditors have approved the taking on and granting of debt. In addition, the Company has agreed on purchasing group and other services from the parent company on credit.

Nyrstar has undertaken to loan the company a maximum total of EUR 20 million on the basis of an agreement signed in April 2014 and approved by the ad-

ministrator. A total of approximately EUR 11 million of the loan has been taken out during the proceedings.

The Company is negotiating with HSH Nordic Finance Talvivaara AB about the payment and reorganisation of certain leasing payments. The administrator is participating in these negotiations.

The Company has managed all of its other new debts that have arisen during the proceedings.