

**TALVIVAARA MINING COMPANY PLC**

**FINANCIAL STATEMENTS 2014**

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**BOARD OF DIRECTORS' REVIEW FOR YEAR ENDED 31 DECEMBER 2014****Introduction**

Following the bankruptcy of Talvivaara Mining Company Plc's ("Talvivaara" or the "Company") operating subsidiary Talvivaara Sotkamo Ltd ("Talvivaara Sotkamo") on 6 November 2014, trading of Talvivaara's shares on the Helsinki Stock Exchange was suspended. The suspension of trading continues on the date of publication of the Company's financial statements 30 April 2015.

Talvivaara has been in corporate reorganisation throughout the review period of 1 January 2014 - 31 December 2014. During the corporate reorganisation proceedings, all major decisions and decisions outside the ordinary course of business have required consent of the administrator of the corporate reorganisation proceedings.

Talvivaara's financial statements for the financial year ended 31 December 2014 have been prepared on a basis other than going concern. The chosen reporting basis results from the existence of material uncertainty that casts significant doubt upon the Company's ability to realise its assets and discharge its liabilities in the normal course of business and from the lack of visibility on the Company's operational environment twelve months beyond the date of reporting.

Talvivaara continues its operations for the time being with the target of securing sufficient financing to participate, as a member of a consortium, in the acquisition of the mining operations from the bankruptcy estate of Talvivaara Sotkamo or securing a different financial and/or operative arrangement that will secure the continuance of the Company's eligible business. Currently, the Company finances its operations by providing administrative and technical services and by leasing certain critical machinery and equipment to the bankruptcy estate of Talvivaara Sotkamo Ltd under agreements entered into by the Company and the bankruptcy estate.

**Review of Operations**

Following the bankruptcy of Talvivaara Sotkamo on 6 November 2014, Talvivaara has not had control over the operations at the Sotkamo mine and is therefore no longer in a position to continue reporting on the status and development of the Sotkamo mining operations, including information on production levels and water management. Following the announcement of the bankruptcy of Talvivaara Sotkamo, trading of Talvivaara's shares on the Helsinki Stock Exchange was suspended on 6 November 2014. The suspension of trading continues on the date of publication of the Company's financial statements 30 April 2015.

Prior to the bankruptcy, the activities of the Talvivaara group comprised of the operations at the Talvivaara mine primarily carried out by Talvivaara Sotkamo and a broad range of support functions and expert services provided by the Company. Throughout its existence, the Company has employed the majority of the group's managerial resources and technical experts and therefore provided the operating subsidiary with e.g. administrative, financial, communications, technical, laboratory, commercial, legal and sustainability services against agreed fees. In addition, the Company owns a lime and limestone handling plant and reception station, which are critical for the production and water treatment processes of the mine, and which the Company has leased to Talvivaara Sotkamo since 2009.

In order to minimise any environmental risks, assist the running of the ongoing operations and to facilitate the sales process of the mining assets, Talvivaara and the bankruptcy estate of Talvivaara Sotkamo agreed that the services and equipment leases provided by the Company shall continue. To this effect, the parties entered on 19 November 2014 into the Administration and Laboratory Services Agreement and the Agreement on Lease of Lime and Limestone Handling Plant and Reception Station. The agreements detail the Company's personnel resources and equipment that are available and critical for the environmentally and occupationally safe operations at the Sotkamo mine and state the agreed pricing for the services provided. Invoicing of personnel resources is based on hourly rates, expenses incurred in the provision of the services are charged at cost added with an administrative margin, and for the limestone plant a monthly rent has been agreed. The new agreements are largely in line with those previously in place between Talvivaara and Talvivaara Sotkamo with only minor modifications resulting from the changed circumstances following Talvivaara Sotkamo's bankruptcy.

On 19 December 2014, Talvivaara decided to place its dormant subsidiaries Talvivaara Exploration Oy, Talvivaara Infrastructure Oy, Bream Lake Energy Oy, and Talvivaara Management Oy in liquidation. Prior to the decision to liquidate these subsidiaries, Talvivaara converted all its receivables from these companies into equity and the

subsidiaries wrote off all their receivables from the bankruptcy estate of Talvivaara Sotkamo. In addition, Talvivaara sold on 30 December 2014 all the shares of its subsidiary incorporated under the laws of Sweden, Hyena Holding AB, to a third party independent of the management and significant shareholders against a nominal purchase price basing on the amount of liquid assets of Hyena Holding AB at the time of transaction. Placing the subsidiaries in liquidation and the conveyance of the shares in Hyena Holding AB was in line with the Company's plan to simplify the group structure and leave the Company as the single reporting entity. Consequently, the Company's financial statements for the year ended 31 December 2014, which have been prepared in accordance with IFRS, encompass solely the Company and do not include consolidated statements of the former Talvivaara group.

The Annual General Meeting of the Company resolved on 12 June 2014 to authorise the Board of Directors to cancel the listing of the Company's shares on the official list maintained by the UK Financial Services Authority and remove such shares from trading on the main market for listed securities of London Stock Exchange plc. The listing of the shares on the Official List of the United Kingdom Listing Authority was cancelled with effect from (and including) 14 July 2014.

## **Financial review**

### *Financial result*

The operating loss for 2014 was EUR (702.6) million (2013: EUR (697.8) million), consisting mainly of impairment charges, write-offs and provisions resulting from the bankruptcy of Talvivaara Sotkamo on 6 November 2014 and from the application of the non-going concern principle. An impairment charge of EUR (470.6) on subsidiary investments was made at the year-end 2014. In addition, the provision for the potential 203.4 EUR million termination sum guarantee liability towards Nyrstar as well as the write-off of the Company's 24.9 EUR million unsecured receivable from Talvivaara Sotkamo were booked in other operating expenses.

Finance income for 2014 was EUR 37.5 million (2013: EUR 40.9 million) and consisted mainly of interests on deposits and receivables. Finance costs of EUR (109.7) million (2013: EUR (48) million) resulted mainly from recognition of the guarantee liability for the debts owed by Talvivaara Sotkamo to Finnvera and Nystar as well as from interest and related financing expenses on borrowings.

The loss for 2014 amounted to EUR (774.9) million (2013: EUR (709.1) million) reflecting the impairment charges, write-offs and provisions resulting from the bankruptcy of Talvivaara Sotkamo and from the application of the non-going concern principle. Earnings per share was EUR (0.41) (2013: EUR (0.50)).

### *Liquidity*

As at 1 January 2014, the Talvivaara group had cash and cash equivalents amounting to EUR 5.9 million. With the existing cash, income generated from nickel and cobalt sales to Norilsk Nickel Harjavalta Oy and the loan drawn down from Nyrstar Sales and Marketing AG ("Nyrstar") upon zinc deliveries, the group was able to continue operations until 6 November 2014. On that date, following intensive financing discussions with key stakeholders, potential new investors and the Republic of Finland, Talvivaara was informed that short term financing to meet Talvivaara Sotkamo's immediate working capital needs was not available in the required time frame. As a result, the Board of Directors of Talvivaara Sotkamo decided to file Talvivaara Sotkamo for bankruptcy. The filing was done jointly with the Administrator of Talvivaara Sotkamo's corporate reorganisation proceedings and later the same day approved by the District Court of Espoo.

Subsequent to Talvivaara Sotkamo's bankruptcy, the Company declared EUR 31.5 million, including EUR 5.6 million in value added tax ("VAT"), of its sales receivables from Talvivaara Sotkamo as credit losses and accordingly claimed and received a refund of the associated VAT.

To date, the Company finances its day-to-day operations by providing administrative and technical services and the lease of critical machinery and equipment to the bankruptcy estate of Talvivaara Sotkamo.

As at 31 December 2014, the Company's cash and cash equivalents amount to EUR 5.3 million.

### *Financing*

On 1 April 2014, the Company as a guarantor and Talvivaara Sotkamo entered into a Loan and Streaming Holiday Agreement ('the Agreement') with Nyrstar Sales and Marketing AG ("Nyrstar"). Under the Agreement, Nyrstar made available to Talvivaara a loan facility of up to EUR 20 million. Nyrstar made the facility available in several tranches with the amount of each advance calculated with reference to a corresponding delivery by Talvivaara Sotkamo of zinc in concentrate under the original Zinc Streaming Agreement of February 2010.

In the short term, the Agreement enabled the continuation of the Company and Talvivaara Sotkamo's corporate reorganisation and the process, whereby Talvivaara group explored the options of identifying potential investor(s) to participate in a long-term, overall financial solution for the Talvivaara group.

Nyrstar's obligation to extend financing under the loan facility was to cease at the earlier of the aggregate amount outstanding including accrued interest exceeding EUR 20 million or the commencement of a streaming holiday. Prior to the bankruptcy of Talvivaara Sotkamo, Talvivaara Sotkamo had drawn down EUR 12.8 million of the Nyrstar loan facility (including interest through October 2014).

### *Equity*

Following Talvivaara Sotkamo's bankruptcy, the Company wrote off fully its receivables from and the shares held in Talvivaara Sotkamo. As a result, Talvivaara lost its equity, which has been acknowledged by the Company's Board and notified to the trade register. Talvivaara recognised the weakening of its financial position already in November 2013 and took measures to mitigate this by applying for corporate reorganisation. The corporate reorganisation proceedings of the Company were commenced on 29 November 2013 and their continuation was approved by the Annual General Meeting of Shareholders of the Company on 12 June 2014.

### *Provisions and other items recognised based on restructuring programme*

Under the Loan and Streaming Holiday Agreement, the Company has issued a guarantee for the termination sum amounting to approximately 203.4 million euros that Talvivaara Sotkamo would have to pay to Nyrstar due to a premature termination of the Zinc Streaming Agreement between the companies. The liability of the guarantor in respect of the termination sum would, if applicable, fall due for payment on the date falling 12 months after the date on which Talvivaara Sotkamo was placed in bankruptcy. As at 31 December 2014, the Zinc Streaming Agreement had not been terminated, despite the bankruptcy of Talvivaara Sotkamo. However, as explained in more detail in paragraphs "Reporting basis – other than going-concern" and "Events after the review period", the Company has provided the full amount as a provision on the balance sheet based on uncertainties related to the treatment of the Company's guarantee obligation.

In addition, the Company has issued a floating charge security for the loans drawn from Finnvera by Talvivaara Sotkamo, amounting in aggregate to 58.7 million euros, including accrued interest. The aggregate amount consists of two parts: 50.7 million euros the Company has guaranteed as its own debt, and 8.0 million euros the Company has secured with a floating charge security issued as a third-party-security. In the Administrator's final draft restructuring programme, liability of the Company under the floating charge security to Finnvera has been valued to 3.4 million euros. This is a liability referred to in section 3(3) of the Restructuring of Enterprises Act, and it is subject to the same rules as the secured debt of the Company. As Finnvera's 8.0 million euros claim is not the Company's own debt, it has not been taken into account as restructuring debt. However, this liability has been taken into account in the calculation of the amount of secured and business mortgage debt, and payments will be made on it in the same manner as on the Company's debts secured by collateral and business mortgages. However, due to the applied non-going concern principle, the Company has also recognised the full 8.0 million euros as a liability on the balance sheet.

### *Off-balance sheet and contingent liabilities*

Talvivaara Sotkamo has largely covered the environmental bond requirement under the current environmental permit by a guarantee insurance provided by Atradius Credit Insurance NV ("Atradius"). The coverage amounts to EUR 31.9 million on the date of publication of the Company's financial statements 30 April 2015. According to the environmental permit, the required bond is to be placed to cover the cost of the restoration of waste areas (gypsum ponds, heap areas), which is anticipated to take place partly during the life of the mine, as waste areas are filled to their maximum levels, and partly as part of the eventual closure of the mine. In the event such restoration activities took place without Talvivaara Sotkamo carrying the cost, the expenses would initially be covered by Atradius. However, eventually Atradius would claim the cost back from the Company, which has given counter-indemnity for

such costs to Atradius. The guaranteed liability is part of the Company's restructuring debt and any payments that fall due under the guarantee are finally determined in the Company's restructuring programme and repaid according to the authorized payment schedule.

Furthermore, even if the Company's restructuring debts were cut in accordance with the Administrator's final draft restructuring programme, the assets of the Company would still be less than the aggregate amount of the Company's remaining liabilities following the 99-percent-haircut of the unsecured restructuring debts or even following a 100% conversion of the unsecured restructuring debts into equity of the Company. The exact amount of the negative funding balance will depend, among others, on the extent to which unsecured restructuring debts are converted into equity of the Company, and on the aggregate amount of the Company's other liabilities not subject to restructuring at the date of entry into force of the restructuring programme.

#### *Assets*

On the statement of financial position as at 31 December 2014, property, plant and equipment totalled 5.0 million euros (31 December 2013: 8.9 million euros) after an impairment charge of EUR 3.1 million. Intangible assets totalled 0.6 million euros (31 December 2013: 2.4 million euros) after an impairment charge of 1.7 million euros.

Shares with a value of 7.2 million euros in Majakkavoima Oy and Katternö Kärnkraft Ab, companies holding shares in Fennovoima nuclear power company, were fully written down as under the reporting basis other than going concern, the Company does not recognise any value in such holdings with a view to its current business operations.

Value of the buildings located in the Talvivaara Sotkamo site were fully written down as the Company lost control of the asset due to the real estate mortgage given by Talvivaara Sotkamo as a result of its bankruptcy.

On 31 December 2014, cash and cash equivalents totalled EUR 5.3 million (31 December 2013: EUR 4.7 million).

#### **Corporate reorganisation**

The Company and Talvivaara Sotkamo applied for corporate reorganisation on 15 November 2013 by filing related applications with the District Court of Espoo, Finland. The District Court of Espoo took the decision to commence a corporate reorganisation process in respect of the Company on 29 November 2013 and in respect of Talvivaara Sotkamo on 17 December 2013. The District Court of Espoo appointed Mr. Pekka Jaatinen, Attorney-at-Law, from Castrèn & Snellman Attorneys to act as the Administrator in respect of the corporate reorganisation of both the Company and Talvivaara Sotkamo.

In reorganisation proceedings governed by the Finnish Restructuring of Enterprises Act (47/1993, as amended), both the business operations and the debts of a company may be reorganised and restructured. As a result of such reorganisation, a company can either continue its operations or, if the reorganisation fails, initiate bankruptcy proceedings.

The central task of the Administrator is to draw up a proposal for a reorganisation plan in collaboration with the various parties within a time limit set by the District Court of Espoo. An important part of the reorganisation plan is the payment arrangements for debts. In the reorganisation plan, debts may be restructured in any of the following ways: (i) through changing the payment schedule; (ii) applying payments made by the debtor first in amortisation of the principal amount of the debt and only thereafter as payments of other debt related costs, such as interest; (iii) reducing debt related costs, including the interest rate; and (iv) reducing the amount of the unpaid debt. The commencement of a reorganisation process does not result in all the debts of the relevant debtor becoming due and payable. Any debts that are not considered restructuring debts are to be repaid in accordance with their original terms.

The reports on the financial status of the Company and Talvivaara Sotkamo were completed by the Administrator of the corporate reorganisation on 14 April 2014. According to the Administrator, an executable restructuring programme can be set up for both companies, provided that financing solutions for the interim period and for the longer term are achieved.

Proposals for both companies' respective reorganisation plans were submitted by the Administrator on 30 September 2014. Under the draft restructuring programme of Talvivaara Sotkamo, a one-off payment was suggested to be made to the creditors with the possibility to make supplementary payments, while a customary eight-year restructuring programme would be drafted for Talvivaara. The payments to creditors would take place during 2017-

2022 so that the creditors would be paid 10% of the capital cut in accordance with the programme during each of the first two years (2017-2018) and 20% thereafter (2019-2022). The secured debts and leasing debts of Talvivaara would be paid off according to the same schedule as the unsecured debts. The Administrator estimated that the part of all the secured restructuring debt of Talvivaara Sotkamo (in aggregate EUR 130 million) that constitutes financing debt is EUR 53 million after the deduction of liquidation costs. The Administrator proposed that EUR 21.9 million of these secured debts would be payable upon execution of the realisation restructuring process. The secured creditors and the parties to the sale and purchase of Talvivaara Sotkamo's business would have to agree separately on how the remaining balance of the secured financing debt (EUR 31.1 million) would be paid.

The Administrator estimated that the amount of debt secured by a floating charge issued by Talvivaara is EUR 7.5 million and the amount of debt secured by other securities would be EUR 3 million after the deduction of liquidation costs. The Administrator proposed that the capital of unsecured debts of Talvivaara Sotkamo (in aggregate not less than EUR 956 million) and Talvivaara (in aggregate EUR 478 million) be cut by 99% for Talvivaara Sotkamo and by 97% for Talvivaara. No payments would be made on debts with lowest priority of either of the companies. Finally, the draft restructuring programmes proposed that the holders of unsecured debt of Talvivaara Sotkamo and Talvivaara would be entitled to receive supplementary payments under certain circumstances. The duty to make supplementary payments would remain valid for eight years.

The District Court of Espoo gave on 2 October 2014 an interim decision relating to the draft restructuring programmes of Talvivaara and Talvivaara Sotkamo, ruling that the processing of the draft restructuring programmes filed by the Administrator on 30 September 2014 shall be continued, and that the creditors shall present their claims regarding the receivables listed in the draft restructuring programmes to the Administrator by 24 October 2014. The Administrator shall in its turn supplement the draft restructuring programmes by 2 December 2014, and the creditors will thereafter have a possibility to give their statement on the draft programmes by 19 December 2014.

On 28 November 2014, the District Court extended the deadline for the re-submission of the restructuring programme proposal until 30 January 2015.

### **Reporting basis – other than going concern**

Talvivaara's financial statements for the financial year ended 31 December 2014 have been prepared on a basis other than going concern. The chosen reporting basis results from the existence of material uncertainty that casts significant doubt upon the Company's ability to realise its assets and discharge its liabilities in the normal course of business and from the lack of visibility on the Company's operational environment twelve months beyond the date of reporting. However, Talvivaara currently finances its day-to-day operations by providing administrative and technical services and the lease of machinery and equipment critical to the bankruptcy estate of Talvivaara Sotkamo. These contractual arrangements have helped the Company to discharge all of its new liabilities as and when they fell due. Therefore, the requisite adjustments resulting from the chosen reporting basis have, where applicable, been made in the 2014 financial statements to the carrying amounts of the Company's assets and liabilities, but no reserve has been made in the Company's balance sheet for the costs relating to winding down of the operations.

Talvivaara's ability to revise its reporting basis and to regain its status as a going concern is dependent, among other things, on the successful completion of the Company's corporate reorganisation proceedings, which requires that (i) a requisite number of the Company's creditors vote in favour of the Administrator's draft restructuring programme submitted on 13 March 2015, (ii) Talvivaara succeeds in completing an arrangement that will secure the necessary cash flow for the Company to discharge all of its liabilities and the continuance of the Company's eligible business, and (iii) the shareholders of Talvivaara approve the possibility for a conversion of unsecured restructuring debts into shares in the Company as well as the financial arrangement required to discharge the remaining restructuring debts and for covering other possible liabilities to the extent the Company's other funds are not sufficient for such purpose. As of the date of the Company's financial statements 29 April 2015, there is no certainty as to whether the Company can fulfil all the set requirements within the given time frame.

Talvivaara Sotkamo has drawn down EUR 12.8 million (including interest through October 2014), in loans from Nyrstar under the Loan and Streaming Holiday Agreement of 1 April 2014 between Talvivaara, Talvivaara Sotkamo and Nyrstar. Upon the bankruptcy of Talvivaara Sotkamo, Nyrstar is entitled to declare that all or part of the loans, together with accrued interest, be payable on demand by Talvivaara Sotkamo or Talvivaara, in its capacity as the guarantor. If Nyrstar was to demand immediate repayment of the EUR 12.8 million loans guaranteed by the



Company, the Company might not have sufficient cash reserves or access to additional liquidity to make the required payment.

Furthermore, the Company has issued a guarantee for the termination sum amounting to approximately 203.4 million euros that Talvivaara Sotkamo would have to pay to Nyrstar due to a premature termination of the Zinc Streaming Agreement between the companies. On 30 March 2015, the bankruptcy estate of Talvivaara Sotkamo notified Nyrstar that it does not commit to the Zinc Streaming Agreement or the Loan and Streaming Holiday Agreement. Consequently, on 9 April 2015 Nyrstar sent a notice to the Company, reserving their right to issue a demand to the Company as a guarantor for a payment of all sums due by Talvivaara Sotkamo under the Zinc Streaming Agreement and the Loan and Streaming Holiday Agreement, should the bankruptcy estate of Talvivaara Sotkamo fail to do so. However, based on the Intercreditor Agreements binding on the Company and Nyrstar, the Company cannot make any payments to Nyrstar in relation to the termination sum if full payment has not been made to the Company's other lenders having receivables with a higher ranking priority. As the lenders having a higher ranking priority will not receive a full payment on their receivables due to Talvivaara Sotkamo's bankruptcy and the Company's restructuring proceedings, the Company cannot make payments relating to the termination sum to Nyrstar due to the subordinate position of Nyrstar's claim. Based on the above, the Administrator did not include the Company's guarantee liability for the termination sum in the restructuring debts or in the new liabilities arisen during the proceedings in his final draft restructuring programme, which decision was not contested by Nyrstar within the given time frame expiring on 27 March 2015. However, if Nyrstar was later to contest the treatment of the Company's guarantee liability successfully and thereby be allowed to demand payment from the Company under the guarantee, the Company would likely not have sufficient cash reserves or access to additional liquidity to make the required payment. In addition, any uncertainty surrounding the issue would have a significant negative effect on the Company's ability to raise new funds required for the successful fulfillment of the conditions for the entry into force of the Company's restructuring programme. Based on the above and on the applied non-going concern principle, the Company has provided the full amount of the guarantee liability as a provision on its balance sheet.

### **Business development projects**

Talvivaara acquired in 2011-2012 an approximately 60MW capacity share in the Fennovoima nuclear project in Finland. Due to the Company's ongoing corporate reorganisation proceedings, Talvivaara is currently not in a position to make further investments into the project and has therefore not been able to commit to payments that would, according to plan, fall due during the course of 2014. Talvivaara had an option until the early autumn of 2014 to recommit to Fennovoima's financing and get an ownership corresponding to 47 MW of electricity, but this option was not exercised.

### **Legal proceedings**

As at the date of the Company's financial statements on 29 April 2015, there are a number of on-going legal proceedings in relation to environmental and occupational health and safety issues concerning a number of current and former managers of Talvivaara.

Talvivaara announced on 22 September 2014 that the consideration of charges, which related to Talvivaara Sotkamo's gypsum pond leakages of November 2012 and April 2013 and the sodium, sulphate and manganese discharges that exceeded the anticipated amounts, were completed. The prosecutor decided not to bring charges against thirteen specialists and members of the middle management that were heard as suspects. Instead, charges were brought against four members of Talvivaara's management, including CEO Pekka Perä and former CEO Harri Natunen. The charges concern aggravated impairment of the environment. According to the Company, the completed pre-trial investigation and consideration of charges have given the Company no reason to change its previously announced view of no crime having been committed, and the Company does not share the prosecutor's view of the threshold for charges having been met. The Company is however looking forward to the opportunity to have the facts relating to the matter as well as the then-current operating conditions of the Company discussed in an open court.

On 22 October 2014, Talvivaara announced that the consideration of charges relating to the industrial accident of March 2012 at the Sotkamo mine were completed. Following the accident, an employee of Talvivaara Sotkamo who was not wearing appropriate safety equipment lost his life due to a localised, temporary excess gas discharge nearby

the metals recovery plant. Three former managers of Talvivaara Sotkamo's metals recovery plant are charged with involuntary manslaughter and work safety offence. The prosecutor is requesting a fine to be imposed on the accused. The persons being charged include an employee of the Company but does not include any current or former members of the Executive Committee of Talvivaara. The Company does not share the prosecutor's view of the threshold for charges having been met.

### **Risk management and key risks**

Talvivaara's near-term risk factors include particularly such risks that relate to its ongoing corporate reorganisation proceedings, financing and sufficiency of funds to meet its actual and potential liabilities:

***If an adequate overall financial solution for the continuance of Talvivaara's business operations is not found, Talvivaara's restructuring programme may not be approved and authorised and shareholders could lose their entire investment in the Company***

The approval and authorisation of the proposed restructuring programme of Talvivaara is conditional, among other things, on (i) a requisite number of the Company's creditors voting in favour of the Administrator's draft restructuring programme, (ii) Talvivaara succeeding in completing an arrangement that will secure the necessary cash flow for the Company to discharge all of its liabilities and the continuance of the Company's eligible business, and (iii) the shareholders of Talvivaara approving the possibility for a conversion of unsecured restructuring debts into shares in the Company as well as the financial arrangement required to discharge the remaining restructuring debts and to cover other possible liabilities to the extent the Company's other funds are not sufficient for such purpose. As of the date of the Company's financial statements 29 April 2015, there is no certainty as to whether the Company can fulfil all the set requirements within the given time frame. If the restructuring programme is not approved and authorised, the Company may have to file for bankruptcy and, as a result, the shareholders could lose their entire investment in the Company.

***If the corporate reorganisation proceedings of Talvivaara are not successful, shareholders could lose their entire investment in the Company***

Although the Board of Directors believes that a corporate reorganisation is a viable option for Talvivaara, there can be no assurance that the proposed restructuring programme of the Company will be approved and authorised or be ultimately successful. The corporate reorganisation process can fail for a number of reasons, including due to an insufficiency of funds to implement or complete the restructuring programme, changes in circumstances affecting the financial viability of Talvivaara, including, for example, termination of the service and lease agreements between the Company and the bankruptcy estate of Talvivaara Sotkamo, or insufficient income from the services provided to the bankruptcy estate or the contemplated new entity running the mining operations. If the corporate reorganisation fails for these or any other reasons, it could result in the bankruptcy of the Company. As a result, shareholders could lose their entire investment in the Company.

***Failure by the Company to reach final clarity on the treatment of its guarantee obligation for the termination sum set forth in the Zinc Streaming Agreement may impair or even hinder the Company's efforts to raise new funds for the successful fulfillment of the conditions for the entry into force of the Company's restructuring programme***

Whilst the Company shares the view of the Administrator on the treatment of the guarantee obligation for the termination sum under the Zinc Streaming Agreement and considers the view well-founded, there is no certainty that a competent court or a dispute resolution authority would arrive at the same outcome, should Nyrstar take legal actions to contest the chosen view. Furthermore, even if such legal actions were not initiated by Nyrstar, any uncertainty surrounding the issue would have a significant negative effect on the Company's ability to raise new funds required for the successful fulfillment of the conditions for the entry into force of the Company's restructuring programme.

***The right of conversion of debt into equity included in the restructuring programme of Talvivaara and/or the issuance of new equity instruments may lead to a significant dilution of the existing shareholding of the Company***

The right of conversion of debt into equity included in the restructuring programme of Talvivaara and/or the issuance of new equity instruments may lead to a significant dilution of the existing shareholding of the Company. The extent of dilution will eventually be determined by the aggregate amount of the restructuring debts to be converted into shares at the determined conversion rate of EUR 0.1144 per share as well as by the subscription price of the newly issued shares offered and the amount of funds raised in, the potential equity financing.

***In case Talvivaara acquires a stake in the company carrying on the Sotkamo mining operations, the Sotkamo mine may not be able to successfully address various operational, environmental and other difficulties facing the Talvivaara mine and shareholders could ultimately lose their entire investment in the Company***

The Talvivaara mine has faced various difficulties since the commissioning of the mine in 2008 and 2009. These difficulties include, among others, operational difficulties concerning the mine's production and performance, environmental issues as well as legal and administrative proceedings involving the Sotkamo mine and certain members of Talvivaara's management. Further, there can be no certainty that the financing potentially available to Talvivaara would be sufficient to ramp-up production at the Sotkamo mine or that it would ever achieve profitability. Accordingly, even if Talvivaara were able to obtain sufficient financing in order to participate in the acquisition of the Sotkamo mining operations and the restructuring programme for Talvivaara would be approved and authorized, shareholders could ultimately lose their entire investment in the Company.

## **Personnel**

### *Headcount and remuneration*

Talvivaara's headcount decreased somewhat from the previous year and was 53 at the end of 2014 (2013: 61). At the end of 2014, 49 % (2013: 46%) of Talvivaara's employees were men and 51 % (2013: 54 %) were women. The average age of the Company's employees was 40.4 years (2013: 40.3 years).

In 2014, Talvivaara decided to lay-off 3 employees for an undefined period to support the reorganization process.

Talvivaara's personnel comprises an expert organisation, the core competences of which include, for example, analytical laboratory services, bioheapleaching and other production processes, procurement, environmental safety, risk management and communications. The organisation has in the past provided critical services to Talvivaara Sotkamo and it continues to provide the same services to the bankruptcy estate of Talvivaara Sotkamo as agreed between the Company and the bankruptcy estate. The salaries and wages of Talvivaara's personnel are based on industry-wide collective agreements.

The total compensation of the key individuals has traditionally consisted of a base salary and short and long term incentive schemes based on annual bonuses, stock options and other share-based incentive schemes. The subscription periods for the Company's Stock Options 2007A, 2007B and 2007C expired on 31 March 2012, on 31 March 2013 and on 31 March 2014 respectively, and the vesting criteria set by the Board of Directors for the Company's Stock Options 2011A, 2011B and 2011C were not fulfilled and subsequently the Stock Options 2011A, 2011B and 2011C were cancelled. The group personnel fund set up to manage the earnings bonuses was dismantled following the bankruptcy of Talvivaara Sotkamo. In addition, the management holding company Talvivaara Management Oy was dismantled in December 2014. Consequently, the Company does not currently have any long term incentive schemes in place.

However, due to exceptional circumstances surrounding the Company during 2014, the Company focused on securing the engagement of its key individuals by strengthening and rewarding the engagement of the key individuals through a retention bonus scheme established in late 2013. As of 1 January 2014, the scheme concerned approximately 20 employees of the Company. The CEO of the Company did not participate in the scheme. The maximum bonus potential under the scheme equaled three or four months' base salary of a participant. The scheme expired at the end of the year 2014, and it has not been extended into the year 2015.

### *Management changes*

Lassi Lammassaari, M.Sc. (Environmental Engineering) was appointed Chief Corporate Development Officer as of 27 February 2014. In his position he is a member of the Executive Committee and reports to CEO Pekka Perä.

Chief Operating Officer Darin Cooper resigned from his position on 7 March 2014 to pursue his career outside the Company. Chief Technology Officer Pertti Pekkala subsequently assumed interim responsibility for the Sotkamo mine's operations and kept the position until the bankruptcy of Talvivaara Sotkamo on 6 November 2014.

Non-Executive Director Kirsi Sormunen announced her resignation from the Company's Board of Directors due to personal reasons on 7 March 2014.

On 30 October 2014, the Company announced that Saila Miettinen-Lähde who had been CFO of the Company since 2005 and Deputy CEO since 2012 had decided to leave the Company during the spring of 2015. In preparation for her departure, Chief Commercial Officer Pekka Erkinheimo was appointed Deputy CEO with immediate effect. The finance function has been reporting to Mr. Erkinheimo since 1 February 2015.

### **Corporate governance statement**

Talvivaara issues its Corporate Governance Statement of 2014 and publishes it on the Company's website at [www.talvivaara.com](http://www.talvivaara.com) on 30 April 2015. The Corporate Governance Statement does not form part of the Board of Directors' Report.

### **Resolutions of the Annual General Meeting**

Talvivaara's Annual General Meeting was held on 12 June 2014 in Sotkamo, Finland. All the resolutions proposed, as set out in the notice of the meeting, were duly passed. The resolutions of the AGM included:

- that no dividend be paid for the financial year 2013;
- that the annual fee payable to the members of the Board for the term until the close of the Annual General Meeting in 2015 be as follows: Chairman of the Board of Directors: EUR 84,000/year, Deputy Chairman (Senior Independent Director): EUR 48,000/year, Chairmen of the Board Committees: EUR 48,000/year, other Non-executive Directors: EUR 33,500/year and Executive Directors EUR 33,500/year. In addition to the annual fee, a fee of EUR 600 per meeting of the Board of Directors or the Board Committees taking place in the member's domicile shall be payable. Should the venue of the meeting be in a European country other than the member's domicile, the fee payable per meeting shall be EUR 1,200. However, a fee of EUR 2,400 per meeting shall be payable, if the member's domicile or the venue of the meeting is outside Europe. For teleconference meetings the fee payable shall be EUR 600 per meeting;
- that the number of Board members be seven and that Mr. Tapani Järvinen, Mr. Pekka Perä, Mr. Graham Titcombe, Mr. Edward Haslam, Mr. Stuart Murray and Ms. Maija-Liisa Friman be re-elected as Board members and Ms. Solveig Törnroos-Huhtamäki be appointed as new member of the Board;
- 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 2014;
- that the corporate reorganisation application of the Company be continued;
- that the Board of Directors be authorised to cancel the listing of the Company's shares on the official list maintained by the UK Financial Services Authority and remove such shares from trading on the main market for listed securities of London Stock Exchange plc;
- that the Articles of Association of the Company be amended. The resolution was conditional upon the completion of the cancellation of the listing of the Company's shares on the official list maintained by the UK Financial Services Authority and removing such shares from trading on the main market for listed securities of London Stock Exchange plc;
- a share issue of 190,615,000 new shares to the Company without consideration and authorization of the Board to resolve on the conveyance of such shares. The share conveyance authorisation is valid until 11 June 2019. However, the shares may not be conveyed in any debt to equity conversion in accordance with the potential corporate reorganisation plan of the Company.

- authorisation of the Board of Directors to decide on the repurchase, in one or several transactions, of a maximum of 190,615,000 of the treasury shares. The repurchase authorisation is valid until 11 December 2015.

### **Shares and shareholders**

The number of shares issued and outstanding and registered on the Euroclear Shareholder Register as of 31 December 2014 was 2,096,782,480. Including the effect of the EUR 225 million convertible bond of 16 December 2010, the authorized full number of shares of the Company amounted to 2,195,400,415.

The share subscription period for Stock Options 2007A was between 1 April 2010 and 31 March 2012. By the end of the subscription period a total of 2,279,373 Talvivaara's new shares were subscribed for under the stock option rights 2007A. A total of 53,727 Stock Options 2007A remained unexercised following the end of the subscription period and expired.

The share subscription period for Stock Options 2007B was between 1 April 2011 and 31 March 2013. By the end of the subscription period a total of 48,763 Talvivaara's new shares were subscribed for under the Stock Options 2007B. A total of 2,284,337 Stock Options 2007B remained unexercised following the end of the subscription period and expired.

After the adjustments to the terms and conditions of the Option Scheme of 2007 in April 2013, a total of 16,289,000 Stock Options 2007C were issued to employees and the subscription period for the Stock Options 2007C was between 1 April 2012 and 31 March 2014. No new shares of Talvivaara were subscribed for under the Stock Options 2007C between 1 January and 31 March 2014. A total of 16,289,000 Stock Options 2007C remained unexercised following the end of the subscription period and expired.

The vesting criteria for Stock Options 2011A were not fulfilled and the Stock Options 2011A were cancelled at the end of 2012. As the vesting criteria for Stock Options 2011B were not fulfilled the options were cancelled at the end of 2013. Similarly, the vesting criteria for Stock Options 2011C were not fulfilled and the Stock Options 2011C were cancelled at the end of 2014.

In March 2013, an Extraordinary General Meeting of Talvivaara resolved to to authorize the Board of Directors to undertake a share issue for consideration in accordance with the shareholders' pre-emptive subscription rights. The share issue was completed in April 2013 and the total number of shares in Talvivaara increased to 1,906,167,480 shares.

In June 2014, the Annual General Meeting of shareholders of Talvivaara resolved on a share issue to the Company without consideration. The 190,615,000 new shares that were issued were registered with the Finnish Trade Register on 25 July 2014. Following the registration of the treasury shares, the total number of shares in Talvivaara is 2,096,782,480. The new shares, when held in treasury by the Company, will not carry voting rights or any other shareholder rights in the Company.

In December 2014, the Board of Directors of the Company dismantled the shareholding scheme organized through Talvivaara Management Oy for members of the Talvivaara Executive Committee and other key personnel of the Talvivaara group. The scheme was dismantled by the Company acquiring all shares of Talvivaara Management Oy from the participants for a nominal purchase price. Talvivaara Management Oy was placed in liquidation on 19 December 2014. On 31 December 2014, Talvivaara Management Oy held 2,268,000 shares of the Company.

As at 31 December 2014, the only shareholders who held more than 5% of the shares and votes of Talvivaara were Solidium Oy (15.2%) and Mr. Pekka Perä (5.9%). Talvivaara held directly 9.1% and indirectly through Talvivaara Management Oy (in liquidation) 0.1 % of the shares in the Company. The shares held in treasury by the Company do not carry any voting rights.

### **Share based incentive plans**

The Annual General Meeting of Shareholders held on 3 May 2007 approved the Board of Directors' proposal to issue Stock Options to the Talvivaara group's key personnel. The number of Stock Options is 6,999,300, each entitling to subscribe one new share. A total of 2,333,100 of the Stock Options were designated 2007A, 2,333,100

were designated as 2007B and 2,333,100 were designated as 2007C. Following the rights issue completed in 2013, the subscription price and the number of shares that can be subscribed to via Stock Options 2007 were adjusted in accordance with the terms and conditions of the Option Scheme. The subscription price for the Stock Option 2007C was adjusted to GBP 0.5110 per share and the number of shares that can be subscribed for through the exercise of Stock Option 2007C was increased by 13,998,600 shares (previously 2,333,100 shares). The subscription periods for 2007A, 2007B and 2007C Stock Options expired on 31 March 2012, 31 March 2013 and 31 March 2014, respectively.

During 2014, no Stock Options were allocated and no shares with the Stock Options 2007C (by their expiration on 31 March 2014) were subscribed for. There are no further Stock Options 2007C outstanding. The vesting criteria for Stock Options 2011A were not fulfilled and the Stock Options 2011A were cancelled at the end of 2012. As the vesting criteria for Stock Options 2011B were not fulfilled the options were cancelled at the end of 2013. Similarly, the vesting criteria for Stock Options 2011C were not fulfilled and the Stock Options 2011C were cancelled at the end of 2014.

In December 2010, The Board of Directors of the Company decided on a new shareholding plan directed to members of executive management and certain other key employees. The plan enabled the participants to acquire a considerable long-term shareholding in the Company. Through this plan, the participants personally invested a significant amount of their own funds in the Company shares. Part of the investment was financed by a loan provided by the Company. The EUR 5.7 million loan granted by the Company to Talvivaara Management Oy for the purpose of acquiring Company shares carries an interest of 3.0%. The 1,104,000 shares held by Talvivaara Management Oy were pledged to the Company as security for the loan.

Originally the plan was to be valid until the publication of Talvivaara's 2013 Financial Statements, after which event the intention was to dissolve the plan and to repay the loan in full on 31 March 2014. However, based on the terms of the plan, the plan was continued for one year, as the Talvivaara share price after the publication of Talvivaara's 2013 Financial Statements was lower than the average price which Talvivaara Management paid for its Talvivaara shares. The repayment date of the loan was also postponed correspondingly.

On 19 December 2014, Talvivaara decided to dismantle the shareholding plan. The scheme was dismantled by Talvivaara acquiring all shares of Talvivaara Management Oy from the participants for a nominal purchase price.

## **Events after the review period**

### *Termination of the Zinc Streaming Agreement*

On 30 March 2015, the bankruptcy estate of Talvivaara Sotkamo notified Nyrstar that, pursuant to Chapter 3, Section 8 of the Bankruptcy Act, it does not commit to the Zinc Streaming Agreement or the Loan and Streaming Holiday Agreement. Consequently, Nyrstar has on 9 April 2015 sent a notice to the bankruptcy estate of Talvivaara Sotkamo, contesting the right of the bankruptcy estate to terminate the Zinc Streaming Agreement or the Loan and Streaming Holiday Agreement by reason of its own insolvency, and declaring that all the amounts due by Talvivaara Sotkamo under the Loan and Streaming Holiday Agreement have become immediately due and payable by Talvivaara Sotkamo. Nyrstar also gave the bankruptcy estate of Talvivaara Sotkamo a 30-day-notice under the Zinc Streaming Agreement, during which period Talvivaara Sotkamo as a seller under the Zinc Streaming Agreement should try to remedy the seller event of default, failing which the Zinc Streaming Agreement shall terminate. Simultaneously, Nyrstar sent a notice to the Company, reserving their right to issue a demand to the Company as a guarantor for a payment of all sums due by Talvivaara Sotkamo under the Zinc Streaming Agreement and the Loan and Streaming Holiday Agreement, should the bankruptcy estate of Talvivaara Sotkamo fail to do so.

However, based on the Intercreditor Agreement binding on the Company and Nyrstar, the Company cannot make any payments to Nyrstar in relation to the termination sum if full payment has not been made to the lenders having receivables with a higher ranked priority. As the lenders having a higher ranked priority will not receive a full payment on their receivables due to Talvivaara Sotkamo's bankruptcy and the Company's restructuring proceedings, the Company cannot make payments relating to the termination sum to Nyrstar, as Nyrstar's claim for termination sum is in a subordinate position. Based on the above, the Administrator did not include the Company's guarantee liability for the termination sum in the restructuring debts or in the new liabilities arisen during the proceedings in his final draft restructuring programme.

On 13 April 2015, the Facility Agent of the lenders under the Revolving Credit Line Facility Agreement, which have receivables with the highest ranking priority, notified Nyrstar, the Company and the bankruptcy estate of Talvivaara Sotkamo that an Event of Default under the Revolving Credit Line Facility Agreement has occurred and is continuing and that all payments, which would otherwise be permitted for the Company as a guarantor or Talvivaara Sotkamo as a debtor have thereby become prohibited.

*Status of the corporate reorganisation*

On 30 January 2015, the District Court of Espoo granted an extension to the deadline for re-submitting the proposal for the reorganisation programme of Talvivaara until 13 March 2015.

On 12 March 2015, Talvivaara was informed that Audley Capital Advisors LLP, a UK-based investment and capital advisory firm, has entered into a conditional asset purchase agreement to acquire the assets of Talvivaara Sotkamo from its bankruptcy estate. At the same time, the Republic of Finland, through its wholly-owned special purpose company Terrafame Ltd, has entered into an investment agreement with Audley Capital Advisors LLP. The purpose of the asset purchase agreement and the investment agreement is to re-establish the operations and continue the business of the Sotkamo mine within a new mining company that will be established in connection with the transaction. Before the transaction can close and operations at the mine can be ramped up under the direction of the new mining company, a number of steps must still be taken including the provision of the necessary regulatory permits and the obtaining of committed financing. The Company announced on 12 March 2015 that the process of selling the Sotkamo mining operations had progressed in the expected sequence, and the milestone reached by the parties to the conditional asset purchase agreement enabled the start of serious discussions on Talvivaara's potential role in the future of the Sotkamo mining operations.

On 13 March 2015, the Administrator of the corporate reorganisation of Talvivaara filed the supplemented draft restructuring programme to the District Court of Espoo. The supplemented draft restructuring programme was based on the plan presented in the original draft restructuring programme dated 30 September 2014, whereby the business operations of the mine are to be sold to a new company with which Talvivaara shall have a sufficient functional connection that is based on ownership, operations or other type of economic co-operation.

The total amount of the restructuring debts to be taken into account in the restructuring proceedings is approximately 513 million euros, out of which 508 million euros is considered unsecured debt. This amount does not include debts with lowest priority. In addition, the Company has approximately 8 million euros liability relating to a granted third-party security. The Administrator proposed that the restructuring debts be cut by 99% which would leave 1% of the amount of such debt to be repaid. The restructuring debts secured by business mortgage will not be cut and no payments would be made on debts with lowest priority. The draft restructuring programme does not include a provision on a duty to make supplementary payments. The total amount of the restructuring debts includes also approximately 31.9 million euros of conditional restructuring debt, which consists mainly of counter indemnity given as a guarantee for the guarantee insurance provided by Atradius Credit Insurance N.V to Kainuu ELY Centre. The guarantee insurance relates to the certain obligations prescribed in Talvivaara Sotkamo's environmental permit.

The term of the restructuring programme would consist of one instalment. After the 1% restructuring debt repayment has been made to the remaining restructuring creditors and after the other measures obligating the Company in the draft restructuring programme have been completed, Talvivaara would not be subject to any restriction on payment of dividends.

The Administrator's estimate is that after the completion of the above referenced restructuring measures - and assuming that none of the restructuring creditors would use their conversion right included in the draft restructuring programme - the balance sheet of the Company would include approximately 25.1 million euros of financial debt, comprising of approximately 12.5 million euros of new debts arisen during the proceedings and approximately 12.6 million euros of cut restructuring debts and other liabilities.

The confirmation and entry into force of the draft restructuring programme requires the fulfilment of all of the following conditions:

- a) Talvivaara succeeds in negotiating an agreement with the party that purchases Talvivaara Sotkamo mining operations from the bankruptcy estate based on which:
  1. Talvivaara can obtain sufficient cash flow to cover the costs of its business operations if the Company's other assets or other cash flows are not sufficient to cover said costs; and

2. Talvivaara has the right to make an investment sufficient to acquire a significant minority stake in the company engaging in the mining operations, or the parties complete a different financial and/or operative arrangement that will secure the continuance of the Company's eligible business;
- b) The general meeting of shareholders of Talvivaara:
1. approves the opportunity to be offered to all holders of unsecured restructuring debts to convert the full amount (but not a part thereof) of their unsecured restructuring debt into shares in the Company with due regard to any limitations of prohibitions set by foreign securities laws that would make the offering of the conversion right to certain foreign creditors either illegal or unreasonably difficult to implement. If all unsecured restructuring creditors exercise said opportunity, the percentage of holdings of the Company's current shareholders would be diluted by 70%. The conversion rate would be EUR 0.1144 per share; and
  2. executes or authorises the Company's Board of Directors to execute a financial arrangement (e.g. issuance of shares or bonds or execution of other financing instrument) to raise the funds needed to execute an arrangement referred to in section a) 2. and/or for paying the remaining restructuring debts and for covering other possible liabilities to the extent the Company's other funds are not sufficient for such purpose;
- c) The proceedings for converting the restructuring debts into shares in the Company have been completed in accordance with the section b) 1. above, and the new shares have been registered in the Trade Register.

A share issue or an issuance of another instrument entitling to the shares of the Company, which are among the possible means to satisfy the condition for the entry into force of the restructuring programme, would, if fully subscribed for and depending on the amount to be raised in the transaction, dilute the holdings of the existing shareholders significantly.

In addition to what has been provided on the lapse of restructuring programme and corporate reorganization, if the special conditions set for the entry into force of the restructuring programme have not been met by 13 March 2017, the Administrator will make a request to the District Court to have the restructuring proceedings interrupted. In addition, the draft restructuring programme included a specific condition entitling the Administrator to make a request to the District Court for the cancellation of the corporate reorganization in case the Company does not have the funds for paying the restructuring debts within two years of the confirmation of the programme.

Talvivaara as a debtor in the restructuring proceedings was given a similar right as the creditors of the corporate reorganisation to give a statement on the supplemented draft restructuring programme and propose changes to it by the deadline of 27 March 2015 set by the District Court of Espoo. No statement on the restructuring programme was given by Talvivaara.

On 14 April 2015, the District Court of Espoo gave a decision to initiate a creditors' voting procedure on the draft restructuring programme of the Company in accordance with section 76 of the Restructuring of Enterprises Act. By initiating the voting procedure, the creditors of the Company are given the opportunity to either support or oppose the Administrator's draft restructuring programme. The approval of the draft restructuring programme requires express support from the necessary number of creditors.

#### *Legal proceedings*

Based on the pre-trial investigation relating to the discharge of raffinate from the metals recovery plant of Talvivaara Sotkamo and dilute secondary heap solutions into the open pit during the period of 19 December 2013 - 31 January 2014, the prosecutor decided on 11 February 2015 to bring charges against CEO Pekka Perä. During the pre-trial investigation, the police moderated the type of the suspected crime to an environmental infraction (petty crime), while the prosecutor changed the type of the suspected crime back to impairment of the environment in his application for a summons. The prosecutor requested the District Court to handle the case together with the case concerning the gypsum pond leakages and the discharges into water ways. The Company does not share the prosecutor's view of the threshold for charges having been met.

On 28 April 2015, Talvivaara confirmed that a number of current and former members of Talvivaara's Board of Directors and management have been or will be heard in connection with an investigation relating to the Company's disclosure practices. Talvivaara believes that the investigation will establish the appropriateness of the Company's



conduct in all respects, and emphasizes that the Company has already in the past gone through the applied disclosure practices extensively and in great detail with the Financial Supervisory Authority. None of the inquiries has given rise to any administrative sanctions available for the Financial Supervisory Authority.

**Short-term outlook**

The operational outlook for Talvivaara is greatly dependent on the successful completion of the Company's corporate reorganisation proceedings and the success to closing, timing and extent of the necessary financing solutions currently under contemplation. Whilst the Administrator's final draft restructuring programme gives the Company reasonably ample time to fulfill the requirements set forth for the entry into force of the restructuring programme, there is no certainty that the Company can fulfill all the requirements within the given time frame.

**Board of Directors proposal for profit distribution**

The Board of Directors is proposing to the Annual General Meeting that no dividend is declared in respect of the year 2014 and that the loss of the financial period is entered into the Company's profit/loss account on the balance sheet.

Talvivaara Mining Company Plc  
Board of Directors

**STATEMENT OF FINANCIAL POSITION**

As at 31 December

(All amounts in EUR)	Note	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	5,010,758	8,949,490
Intangible assets	7	554,887	2,392,727
Investments in associates	8	0	6,967,599
Other receivables		31,094	0
Other receivables from group companies	8	0	262,260,463
Investments in group companies	8	0	16,606,591
		<b>5,596,738</b>	<b>297,176,871</b>
<b>Current assets</b>			
Trade receivables		284,466	26,726,280
Other receivables		35,336	152,166,410
Cash and cash equivalents		5,346,381	4,697,666
		<b>5,666,183</b>	<b>183,590,356</b>
<b>TOTAL ASSETS</b>		<b>11,262,921</b>	<b>480,767,226</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to the owners</b>			
Share capital	9	80,000	80,000
Share premium	9	8,085,842	8,085,842
Other reserves	9	771,648,200	771,648,200
Retained deficit	9	-1,509,757,176	-734,857,490
		-729,943,134	44,956,551
<b>Total equity</b>	9	<b>-729,943,134</b>	<b>44,956,551</b>
<b>Current liabilities</b>			
Provisions		203,444,455	0
Borrowings	10	500,720,066	422,612,956
Trade payables	11	2,759,678	3,018,008
Other payables	11	34,281,855	10,179,710
		741,206,055	435,810,675
<b>Total liabilities</b>		<b>741,206,055</b>	<b>435,810,675</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>11,262,921</b>	<b>480,767,226</b>

The notes are an integral part of the financial statements.

**INCOME STATEMENT**

(All amounts in EUR)	Note	Year ended 31 December	
		2014	2013
<b>Other operating income</b>	12	<b>12,339,864</b>	<b>15,309,461</b>
Materials and services	13	-305,207	-497,715
Personnel expenses	14	-5,316,937	-6,591,189
Depreciation and amortisation	15	-996,610	-2,246,859
Impairment charges on property, plant and equipment	16	-3,113,402	-14,232,843
Impairment charges on intangible assets	16	-1,676,000	0
Impairment charges on subsidiary investments	16	-470,596,157	-680,527,616
Other operating expenses	17	-232,984,659	-9,056,364
<b>Operating loss</b>		<b>-702,649,108</b>	<b>-697,843,126</b>
Finance income	18	37,492,941	40,891,096
Finance cost	19	-109,742,838	-47,981,001
<b>Finance cost (net)</b>		<b>-72,249,897</b>	<b>-7,089,905</b>
<b>Loss before income tax</b>		<b>-774,899,005</b>	<b>-704,933,031</b>
Income tax	20	-181	-4,168,624
<b>LOSS FOR THE FINANCIAL YEAR</b>		<b>-774,899,185</b>	<b>-709,101,655</b>
<b>Total comprehensive income</b>		<b>-774,899,185</b>	<b>-709,101,655</b>
<b>Loss attributable to the owners of the Company, (€/share)</b>		<b>2014</b>	<b>2013</b>
Diluted and undiluted	24	-0.41	-0.50

The notes are an integral part of the financial statements.

**STATEMENT OF CHANGES IN EQUITY**

EUR	Share capital	Share issue	Share premium	Other reserves	Retained deficit	Total
12/31/2012	80,000	-	8,085,842	520,821,335	-25,756,335	503,230,842
Rights issue	-	-	-	250,826,864	-	250,826,864
Total comprehensive income	-	-	-	-	-709,101,655	-709,101,655
12/31/2013	80,000	-	8,085,842	771,648,200	-734,857,990	44,956,051
Rights issue	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-774,899,185	-774,899,185
12/31/2014	80,000	-	8,085,842	771,648,200	-1,509,757,176	-729,943,134

**STATEMENT OF CASH FLOWS**

(all amounts in EUR)	<b>Year ended 31 December</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>		
Loss for the year	-774,899,185	-709,101,655
Adjustments for		
Tax	181	4,168,624
Depreciation and amortisation	996,610	2,246,859
Other non-cash income and expenses	229,395,770	0
Impairment charges on property, plant and equipment	3,113,402	14,232,843
Impairment charges on other non-current assets	472,272,157	680,527,616
Interest income	-37,492,941	-40,891,096
Interest expenses	109,742,838	47,981,001
Other adjustments	0	2,650,862
<b>Cash flow before change in working capital</b>	<b>3,128,831</b>	<b>1,815,054</b>
Change in working capital		
Decrease(+)/increase(-) in trade and other receivables	344,830	-17,707,209
Decrease(-)/increase(+) in trade and other payables	179,970	6,413,322
Change in working capital	524,801	-11,293,887
<b>Net cash used in operating activities before financing activities and taxes</b>	<b>3,653,632</b>	<b>-9,478,833</b>
Interest and other finance cost paid	-1,078,564	-44,043,967
Interest and other finance income	328,170	841,009
<b>Net cash generated (used) in operating activities</b>	<b>2,903,237</b>	<b>-52,681,791</b>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	0	-2,874,413
Purchases of intangible assets	-9,439	-70,694
Purchases of other shares	-279,702	-1,273,727
Investments to subsidiaries	-1,965,381	-157,404,606
<b>Net cash generated (used) in investing activities</b>	<b>-2,254,522</b>	<b>-161,623,440</b>
<b>Cash flows from financing activities</b>		
Proceeds from share issue	0	261,417,254
Payment of interest-bearing liabilities	0	-76,900,000
<b>Net cash generated from financing activities</b>	<b>0</b>	<b>184,517,254</b>
<b>Net (decrease)/increase in cash and bank overdrafts</b>	<b>648,715</b>	<b>-29,787,977</b>
Cash and bank overdrafts at beginning of the year	4,697,666	34,485,642
<b>Cash and bank overdrafts at end of the year</b>	<b>5,346,381</b>	<b>4,697,666</b>

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## NOTES TO THE FINANCIAL STATEMENTS

### 1. General information

Talvivaara Mining Company Plc (“Company”) is a public company incorporated on 9 September 2003 and registered in Finland with registered number of 1847894-2. The Company’s domicile is in Sotkamo, Finland, and its registered address is at Ahventie 4 B, 02170 Espoo, Finland.

The Company’s shares were publicly traded on the Main Market of the London Stock Exchange. The listing of the shares on the Official List of the United Kingdom Listing Authority was cancelled with effect from (and including) 14 July 2014. A secondary listing of the Company’s shares began on the Helsinki Stock Exchange (NASDAQ OMX Helsinki Oy) on 11 May 2009. The Company and its operating subsidiary Talvivaara Sotkamo applied for corporate reorganisation on 15 November 2013, and corporate reorganisation proceedings of these companies commenced on 29 November 2013 and 17 December 2013. Following the announcement of the bankruptcy of Talvivaara Sotkamo, trading of Talvivaara’s shares on the Helsinki Stock Exchange was suspended on 6 November 2014. The suspension of trading continues on the date of the Company’s financial statements 29 April 2015. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied to financial year ended at 31 December 2014 whereas previous financial years have not been restated.

Please refer to Board of Directors’ report regarding the status of the restructuring proceedings.

### 2. Basis of presentation and non-going concern

These financial statements of the Company are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union taking into account the corporate reorganisation proceedings that commenced in respect of the Company on 29 November 2013, and IAS 1.25 and IAS 1.26 requirements regarding the disclosure under the non-going concern basis.

Talvivaara’s financial statements for the financial year ended 31 December 2014 have been prepared on a basis other than going concern.

The financial statements for year ended 31 December 2013 have however not been restated from the condensed parent company IFRS financial information presented in the financial statements 2013 to take into account the non-going concern assumption, but presented according to going concern assumption. For the basis of presentation for the financial statements of 2013, please refer to the 2013 financial statements.

The chosen reporting basis results from the existence of material uncertainty that casts significant doubt upon the Company’s ability to realise its assets and discharge its liabilities in the normal course of business and from the lack of visibility on the Company’s operational environment twelve months beyond the date of reporting. However, Talvivaara currently finances its day-to-day operations by providing administrative and technical services and the lease of machinery and equipment critical to the bankruptcy estate of Talvivaara Sotkamo. These contractual arrangements have helped the Company to discharge all of its new liabilities as and when they fell due. Therefore, the requisite adjustments resulting from the chosen reporting basis have, where applicable, been made in the 2014 financial statements to the carrying amounts of the Company’s assets and liabilities, but no reserve has been made in the Company’s balance sheet for the costs relating to winding down of the operations.

Talvivaara’s ability to revise its reporting basis and to regain its status as a going concern is dependent, among other things, on the successful completion of the Company’s corporate reorganisation proceedings, which requires that (i) a requisite number of the Company’s creditors vote in favour of the Administrator’s draft restructuring programme submitted on 13 March 2015, (ii) Talvivaara succeeds in completing an arrangement that will secure the necessary cash flow for the Company to discharge all of its liabilities and the continuance of the Company’s eligible business, and (iii) the shareholders of Talvivaara approve the possibility for a conversion of unsecured restructuring debts into shares in the Company as well as the financial arrangement required to discharge the remaining restructuring debts and for covering other possible liabilities to the extent the Company’s other funds are not sufficient for such purpose. As of the date of the Company’s financial statements 29 April 2015, there is no certainty as to whether the Company can fulfil all the set requirements within the given time frame.

Should the restructuring programme draft be approved as proposed by the Administrator, following illustrative calculations on equity position can be drawn. First calculation assumes that none of the restructuring creditors convert their debt to equity as per the restructuring programme and latter calculation assumes that all of the non-secured creditors convert their restructuring debt to equity.

**Illustrative calculation of the Company equity, if the restructuring programme would be approved**

(Assuming none of the restructuring creditors convert to equity)

	<u>2014</u>
<b>Recognised equity</b>	-729,943,134
Debts under the restructuring programme recognised on balance sheet (including all accrued interest)	521,993,095
<b>Equity after full write down of recognised restructuring debts</b>	<u><b>-207,950,039</b></u>
Restructuring debts remaining if programme is approved	-12,586,849
Interest on secured restructuring debts during the restructuring proceedings	-205,547
<b>Equity after the approval of the restructuring programme</b>	<u><b>-220,742,435</b></u>
Reversal of Nyrstar provision	203,444,456
<b>Equity excluding Nyrstar provision</b>	<u><b>-17,297,980</b></u>

**Illustrative calculation of the Company equity, if the restructuring programme would be approved**

(Assuming all of the non-secured restructuring creditors convert to equity)

	<u>2014</u>
<b>Recognised equity</b>	-729,943,134
Debts under the restructuring programme recognised on balance sheet (including all accrued interest)	521,993,095
<b>Equity after full write down of recognised restructuring debts</b>	<u><b>-207,950,039</b></u>
Restructuring debts remaining if programme is approved	-7,500,000
Interest on secured restructuring debts during the restructuring proceedings	-205,547
<b>Equity after the approval of the restructuring programme</b>	<u><b>-215,655,586</b></u>
Reversal of Nyrstar provision	203,444,456
<b>Equity excluding Nyrstar provision</b>	<u><b>-12,211,131</b></u>

Please see Note 10 and 11 for additional information on restructuring debts.

Talvivaara Sotkamo has drawn down 12.8 million euros (including interest through October 2014), in loans from Nyrstar under the Loan and Streaming Holiday Agreement of 1 April 2014 between Talvivaara, Talvivaara Sotkamo and Nyrstar. Upon the bankruptcy of Talvivaara Sotkamo, Nyrstar is entitled to declare that all or part of the loans, together with accrued interest, be payable on demand by Talvivaara Sotkamo or Talvivaara, in its capacity as the guarantor. If Nyrstar was to demand immediate repayment of the EUR 12.8 million loans guaranteed by the Company, the Company might not have sufficient cash reserves or access to additional liquidity to make the required payment. This is recorded as liability on the balance sheet.

Furthermore, the Company has issued a guarantee for the termination sum amounting to 203.4 million euros that Talvivaara Sotkamo would have to pay to Nyrstar due to a premature termination of the Zinc Streaming Agreement between the companies. On 30 March 2015, the bankruptcy estate of Talvivaara Sotkamo notified Nyrstar that it does not commit to the Zinc Streaming Agreement or the Loan and Streaming Holiday Agreement. Consequently, on 9 April 2015 Nyrstar sent a notice to the Company, reserving their right to issue a demand to the Company as a guarantor for a payment of all sums due by Talvivaara Sotkamo under the Zinc Streaming Agreement and the Loan and Streaming Holiday Agreement, should the bankruptcy estate of Talvivaara Sotkamo fail to do so. However, based on the Intercreditor Agreement binding on the Company and Nyrstar, the Company cannot make any payments to Nyrstar in relation to the termination sum if full payment has not been made to the Company's other lenders having receivables with a higher ranking priority. As the lenders having a higher ranking priority will not receive a full payment on their receivables due to Talvivaara Sotkamo's bankruptcy and the Company's restructuring proceedings, the Company cannot make payments relating to the termination sum to Nyrstar due to the subordinate position of Nyrstar's claim. Based on the above, the Administrator did not include the Company's guarantee liability for the termination sum in the restructuring debts or in the new liabilities arisen during the proceedings in his final draft restructuring programme, which decision was not contested by Nyrstar within the given time frame expiring on 27 March 2015. Whilst the Company shares the view of the Administrator on the treatment of the guarantee obligation for the termination sum under the Zinc Streaming Agreement and considers it well-founded, there is no certainty that a competent court or a dispute resolution authority would arrive at the same outcome, should Nyrstar later take legal actions to contest the chosen view. If Nyrstar was to contest the treatment of the Company's

guarantee liability successfully and thereby be allowed to demand payment from the Company under the guarantee, the Company would likely not have sufficient cash reserves or access to additional liquidity to make the required payment. Furthermore, even if such legal actions were not initiated by Nyrstar, any uncertainty surrounding the issue would have a significant negative effect on the Company's ability to raise new funds required for the successful fulfillment of the conditions for the entry into force of the Company's restructuring programme. Based on the above and on the applied non-going concern principle, the Company has provided the full amount of the guarantee liability as a provision on its balance sheet.

*Summary of key balance sheet impacts from adoption of non-going concern principle*

Finnvera loan of 50.7 million euros (including interest) recognised as restructuring debt under the draft restructuring programme, has been recognised on the balance sheet due to the guarantee given on behalf of the debtor Talvivaara Sotkamo.

Finnvera loan of 8.0 million euros (including interest) not recognised as restructuring debt under the draft restructuring programme, has been recognised on the balance sheet due to the third-party security granted on behalf of Talvivaara Sotkamo.

Nyrstar guarantee liability of 203.4 million euros has been recognised on the balance sheet as provision due to the guarantee given for the termination sum, as explained above.

Assets of 7.2 million euros related to the shares in Majakkavoima Oy and Katternö Kärnkraft Ab, companies holding shares in Fennovoima nuclear power company, were fully written down as the Company does not recognise any value in such holdings with a view to its current business operations.

Assets of 1.6 million euros related to the process development was fully written down as the Company has prepared non-going concern financial statements and there is significant uncertainty related to the length of the service agreement under which services are currently provided to Talvivaara Sotkamo.

In addition, some of the intangible rights and construction in progress were written down related to obsolescent software and wind park development costs. These write-downs totalled 0.1 million euros.

*Summary of key balance sheet impacts from Talvivaara Sotkamo's bankruptcy*

The liability for the Nyrstar loan of 12.8 million euros has been recognised on the balance sheet as current liability due to the guarantee given for the loan, as explained above.

Due to Talvivaara Sotkamo's bankruptcy an impairment loss of EUR 436.0 million on loan receivables was recognised, an impairment loss EUR 23.4 million on shares was recognised and assets of 31.5 million euros related to receivables from Talvivaara Sotkamo were recognised as credit losses subsequent to Talvivaara Sotkamo's bankruptcy.

Assets of 3.4 million euros related to the buildings located in the Talvivaara Sotkamo site were fully written down as the Company lost control of the asset due to the real estate mortgage given by Talvivaara Sotkamo and as a result of its bankruptcy.

The Company claimed and received a refund of the VAT associated with the trade receivables of EUR 31.5 million from Talvivaara Sotkamo, which were declared as credit losses. The amount of refund was EUR 5.6 million.

### **3. Summary of significant accounting policies**

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied to all the years presented, unless otherwise stated.

**Consolidation**

Following the lost control in Talvivaara Sotkamo Oy due to the bankruptcy and public receivership, sale of Hyena Holding AB, redemption of Talvivaara Management Oy shares and initiated liquidation of other subsidiaries, the Company has not prepared consolidated financial statements.

The financials for year ended 31 December 2013 are based on the condensed parent company IFRS financial information presented in the financial statements 2013.

**Foreign currency translation***Functional and presentation currency*

Items included in the financial statements of the company are measured using the currency of the primary economic environment, in which the entity operates (the “functional currency”). The financial statements are presented in euro (EUR), which is the Company’s functional and presentation currency.

*Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange gains and losses are presented in the income statement within finance income or cost.

*Foreign currency denominated items*

Foreign currency denominated items are measured at the European Central Bank’s rate on the balance sheet date.

**Property, plant and equipment**

Property, plant and equipment, which at 31 December 2014 include among others machinery and equipment used in mining operations and laboratory equipment, are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition, construction or production of the items, including borrowing costs directly attributable to a qualifying asset. Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed. Where parts of an item of property, plant or equipment have different useful lives, they are accounted for as separate items of property, plant or equipment.

Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Intangible rights 5-10 years

Other capitalised long-term expenditure 5-10 years

Buildings 15-25 years

Machinery and equipment 4-25 years

Useful lives of assets, depreciation methods and any residual values are re-assessed at each reporting date based on the Company’s estimates of its ability to utilise the assets in its operations and other relevant matters. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other operating income or expenses, respectively, in the income statement.

**Intangible assets***Research and development*

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects and related technologies are recognised as intangible assets when the following criteria are fulfilled: it is technically feasible to complete the intangible asset so that it will be available for use or sale; management intends to complete the intangible asset and use or sell it; there is an ability to use or sell the intangible asset; it can be demonstrated how the intangible asset will generate probable future economic benefits; adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and the expenditure attributable to the



intangible asset during its development can be reliably measured. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Capitalised development costs are recorded as intangible assets and amortised on a straight-line basis over their useful lives starting from the commencement of mining activities. The useful lives of capitalised development costs are assumed as 25 years based on the Company's estimates of its ore reserves and mineral resources, production capacity and other relevant matters.

#### *Other intangible assets*

Other intangible assets that are acquired by the Group are measured at cost less accumulated amortisation and accumulated impairment charges. Other intangible assets category comprises acquired software, licences and patents, which are amortised on a straight-line basis over 5 – 10 years.

#### **Impairment of non-financial assets**

Assets that are subject to amortisation, depreciation or depletion are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Please refer to note 2 on impairment of assets based on non-going concern principles.

#### **Financial assets**

The Company classifies its financial assets into the following categories: available-for-sale financial assets, financial assets at fair value through profit or loss, loans, and receivables. The classification depends on the purpose for which the financial assets were originated. Management determines the classification of its financial assets at initial recognition. Purchases and sales of financial assets are initially recognized at fair value on the trade date, which is the date when the Company commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all assets not carried at fair value through profit or loss.

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivative financial instruments are classified as held for trading unless they are designated as effective hedging instruments. Assets in this category are classified as current assets unless the remaining maturity of the asset is more than 12 months.

Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within other operating income or expenses, in the period in which they arise.

As at 31 December 2014 and 2013 the Company had no financial assets at fair value through profit or loss.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in current assets unless management intends to hold the investment for more than 12 months after the balance sheet date. Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value of monetary securities are recognised in other comprehensive income. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. When the available-for-sale securities are sold or impaired, the accumulated fair value adjustments are included in the income statement as net realised gains/losses on financial assets. The gains/losses are presented in the income statement within other operating income or expenses, in the period in which they arise. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Following the adoption of the non-going concern principles, as at 31 December 2014 no assets have been classified as available-for-sale financial assets.

#### *Other shares*

Based on the non-going concern assumption adopted when preparing the financial statements, other shares have been fully written down as the Company cannot currently utilise the assets under its current operations.

#### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short term or that it has designated as available-for-sale. Loans and receivables are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet. Loans and receivables are carried at amortised cost using the effective interest method.

#### *De-recognition of financial assets*

Financial assets are de-recognised when the right to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

#### **Trade receivables**

Trade receivables are amounts due from customers for service sold in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at fair value and are subsequently measured at amortised cost reduced by any provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due. Any impairment is recognised in the income statement within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement. The Company derecognises trade receivables, if the contractual rights to receive the cash flows are transferred based on factoring or similar agreement. Trade receivables are derecognised only if the Company transfers substantially all the risks and rewards of ownership of trade receivables. After the derecognition, the Company recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

#### **Leases: accounting by lessee**

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand and deposits held at call with banks. Bank overdrafts are shown within borrowings in the current liabilities on the balance sheet.

#### **Share capital**

Share capital consists solely of ordinary share capital.

#### **Share based payments**

The Company operated a number of equity-settled, share-based compensation plans, under which the entity received services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options was recognised as an expense.

The total amount to be expensed is determined by reference to the fair value of the options granted including any market performance conditions (for example, an entity's share price). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to invested unrestricted equity when the options are exercised and the new shares are registered.

All stock option plans were expired or cancelled by the end of 2014.

On 19 December 2014, Talvivaara decided to dismantle the management shareholding plan. The scheme was dismantled by Talvivaara acquiring all shares of Talvivaara Management Oy from the participants for a nominal purchase price.

Please refer to the Board of Directors's review for additional information.

### **Provisions**

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Provisions for legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

#### *Provision for Nyrstar termination sum*

Please refer to Notes 2 and 5 for details on the Nyrstar termination sum provision.

### **Other operating income**

Income is recognised, net of treatment charges, from a sale when evidence of an arrangement exists, the price is determinable, the service has been delivered, the title has been transferred to the customer and collection of the sales price is reasonably assured. Net sales of the Company comprise the administration and laboratory services and equipment leases provided to the bankruptcy estate of Talvivaara Sotkamo. Invoicing of personnel resources is based on hourly rates, expenses incurred in the provision of the services are charged at cost added with an administrative margin, and for the limestone plant a monthly rent has been agreed.

Sales income is only recognised on individual sales when persuasive evidence exists that all of the following criteria are met:

- all material risks and rewards of ownership have been transferred to the buyer;
- there is no continuing managerial involvement to the degree usually associated with ownership or effective control over goods sold;
- the amount of income can be measured reliably;
- the costs incurred or to be incurred in respect of the sale can be measured reliably; and
- the flow of future economic benefits is probable.

### **Trade and other payables**

Trade payables and other payables are non-interest bearing obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. The carrying amounts of trade and other payables approximate their fair value.

**Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

The fair value of the liability portion of a convertible loan and bond are determined using a market interest rate for an equivalent non-convertible loan. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the loan. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Due to the adopted non-going concern principle, all borrowings have been classified as current liabilities.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, form part of the cost of that asset and, therefore, are capitalised. A qualifying asset is an asset that takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

**Current and deferred income taxes**

All deferred tax assets and liabilities have been written down due to the adopted non-going concern principle.

**Employee benefits***Pension obligations*

The Company has pension schemes in accordance with the local conditions and practices. The schemes are generally funded through payments to insurance companies. Currently all pension schemes are defined contribution plans.

Defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the entity does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Under defined contribution plans the payments are accounted for as an expense for the period for which the payment is due.

**Segment reporting**

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Talvivaara's Chief Executive Officer, as the Company's primary operating decision-maker, has determined that the Company currently comprises one operating segment due to the significantly limited operations due to Talvivaara Sotkamo's bankruptcy and public receivership.

**Application of new and amended standards and interpretations**

These financial statements of the Company are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union taking into account the corporate reorganisation proceedings that commenced in respect of the Company on 29 November 2013, and IAS 1.25 and IAS 1.26 requirements regarding the disclosure under the non-going concern basis. Following the adoption of the non-going concern principles, the management has assessed that new and amended standards would not have impacted the preparation of the financial statements for the year ended 31 December 2014.

**4. Financial risk management**

The objective of the Company's financial risk management is to avoid or mitigate any potential liquidity risks, and to decrease the volatility and unpredictability in the Company's financial performance caused by fluctuations in commodity, foreign exchange and interest rate markets.

The Company's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates, commodity prices and interest rates. Relevant financial risks include also those related to liquidity, outstanding financial instruments and refinancing, and credit and counterparties.

Financial risks are managed to the extent that it is considered justified economically and from a competitive perspective. The general principle is to ensure that all financial risk management measures support the Company's operations.

The Company's Board of Directors is responsible for maintaining a risk management policy, which defines risk management roles, processes and guidelines for the Company. The Board of Directors reviews and agrees policies for managing the Company's main financial risk factors at least annually. Since the commencement of the corporate reorganisation proceedings, the Company has not changed its risk management policies relative to mitigation of foreign currency, commodity price and interest rate risks. However, liquidity risk is being managed through refinancing, which at the date of these financial statements is an on-going process jointly with the Administrator. As at 31 December 2014 and 2013 the Company did not have any outstanding derivative financial positions.

#### *Foreign exchange risk*

The majority of the Company's incurred and anticipated capital expenditure and nearly all of its income streams operating expenditure are euro denominated. The Company hedges currency risks selectively, based on separate decisions, within limits laid down by its treasury policy approved by the Company's Board of Directors. All material income and cost streams of the Company were euro denominated in financial year 2014.

#### *Interest rate risk*

Interest rate risk arises when changes in market interest rates and interest margins influence finance costs, returns on financial investments and valuation of interest bearing balance sheet items. Interest rate risks are managed by balancing the ratio between fixed and floating interest rates and duration of debt and financial investments. Derivative instruments, such as interest rate swaps, may also be used. As at 31 December 2014, the Company had borrowings amounting to EUR 500.7 million with contractual maturities of the facilities ranging from 2014 to 2018 (2013: EUR 422.6 million). Following the breach of covenants or events of default stemming from the Company applying for corporate restructuring, the Company has reclassified all of its long-term borrowings as current (for more information, see Note 10). Due to the restructuring programme, the interest expense recognised is subject to significant changes, should the restructuring programme be approved. The Company has accrued the interest on the balance sheet for all borrowings despite the fact that the all interests on restructuring debts stopped when the restructuring proceedings commenced.

#### *Credit and counterparty risk*

Credit and counterparty risk is defined as the possibility of a customer or a financial counterparty not fulfilling its commitments towards the Company. The Company is currently dependent on one customer for a substantial part of its anticipated income generation.

The Company manages its counterparty risk by monitoring its customers, taking into account their financial position, past performance and other relevant factors. The Company also believes its services to be of such quality and composition that they are readily saleable to several potential customers should this become necessary.

Significant receivables may also be insured as considered necessary. As at 31 December 2014, the trade receivables amounted to EUR 0.3 million (2013: EUR 26.7 million). They were mainly from Talvivaara Sotkamo Oy. The maximum credit risk for the financial assets is their carrying amounts. As at 31 December 2014 and 2013, there were no impaired trade receivables. However, receivables related to Talvivaara Sotkamo's bankruptcy have been fully written down.

As at 31 December 2014, cash at bank and short-term bank deposits amounted to EUR 5.3 million (2013: EUR 4.7 million).

#### *Liquidity and refinancing risk*

Liquidity risk arises when a company is not able to obtain the funds it requires to comply with its commitments under financial instruments or other agreements with financial commitments

The Company's new debts arisen since the commencement of the corporate reorganisation proceedings have been financed mostly through the cash flow financing obtained from the sale of nickel and following Talvivaara Sotkamo's bankruptcy through the sales of services to the bankruptcy estate.

During the reorganisation proceedings, despite the adopted non-going concern principles, the Company seeks to secure its ability to continue as an operating company through short and long-term financing solutions, which the Company, together with the Administrator, is negotiating at the time of these financial statements. The Company's financial viability is also dependent on the development and authorisation of executable restructuring programmes, the prevailing market conditions and the Company's ability to successfully implement its business plan as the future shareholder of Talvivaara mining operations.

At the date of authorisation of these financial statements, it is not possible to foresee whether Talvivaara will be able to execute its financing, reorganisation and operational plans or whether the execution of these will improve the Company's financial condition sufficiently to allow it to continue as an operating company. However, in the Administrator's opinion, an executable restructuring programme can be set up for the Company, provided that financing solutions for an interim period and for the longer term are achieved.

The reports on the financial status of the Company and Talvivaara Sotkamo were completed by the Administrator of the corporate reorganisation on 14 April 2014. Proposals for the Company's respective reorganisation plans were submitted by the Administrator on 30 September 2014. Under the draft restructuring programme of Talvivaara Sotkamo, a one-off payment was suggested to be made to the creditors with the possibility to make supplementary payments, while a customary eight-year restructuring programme would be drafted for Talvivaara. The payments to creditors would take place during 2017-2022 so that the creditors would be paid 10% of the capital cut in accordance with the programme during each of the first two years (2017-2018) and 20% thereafter (2019-2022). The secured debts and leasing debts of Talvivaara would be paid off according to the same schedule as the unsecured debts. The Administrator estimated that the part of all the secured restructuring debt of Talvivaara Sotkamo (in aggregate EUR 130 million) that constitutes financing debt is EUR 53 million after the deduction of liquidation costs. The Administrator proposed that EUR 21.9 million of these secured debts would be payable upon execution of the realisation restructuring process. The secured creditors and the parties to the sale and purchase of Talvivaara Sotkamo's business would have to agree separately on how the remaining balance of the secured financing debt (EUR 31.1 million) would be paid.

The Administrator estimated that the amount of debt secured by a floating charge issued by Talvivaara is EUR 7.5 million and the amount of debt secured by other securities would be EUR 3 million after the deduction of liquidation costs. The Administrator proposed that the capital of unsecured debts of Talvivaara Sotkamo (in aggregate not less than EUR 956 million) and Talvivaara (in aggregate EUR 478 million) be cut by 99% for Talvivaara Sotkamo and by 97% for Talvivaara. No payments would be made on debts with lowest priority of either of the companies. Finally, the draft restructuring programmes proposed that the holders of unsecured debt of Talvivaara Sotkamo and Talvivaara would be entitled to receive supplementary payments under certain circumstances. The duty to make supplementary payments would remain valid for eight years. All financial as at 31 December 2014 and 2013 were classified as current liabilities (maturity less than 1 year). For the breakdown of financial liabilities, please see Notes 2 and 10.

## **5. Critical accounting estimates and judgment**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. For the financial year ended at 31 December 2014, the Company has adopted the non-going concern principles due to significant uncertainties related to the future events. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

### **Impairment risk of property, plant and equipment**

In accordance with the Company's accounting policy, carrying amounts of property, plant and equipment ("PP&E") are assessed for possible impairment whenever circumstances indicate a potential impairment. Following the adoption of the non-going concern principle, the Company has assessed valuation of PP&E considering discontinued

operations. Possible impairment loss is a difference between the carrying amount of an asset and its recoverable amount. Measuring recoverable amount of its PP&E, management is required to make estimates and assumptions about the expected life of the assets, discount rates and future capital expenditure required to maintain the assets in their current condition. In making these estimates and assumptions management considers historical performance and trends as well as a range of economic conditions expected to exist over the remaining useful lives of the assets. These estimates and assumptions are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. Should there be significant revisions to the above mentioned assumptions, the recoverability for the PP&E would need to be assessed. In such circumstances, some or all of the carrying amounts of the assets may be impaired with the impact recorded through the income statement.

Please refer to Note 2 regarding the impairments made under the non-going concern principle.

### **Provisions and contingent liabilities**

Company has issued a guarantee for the termination sum amounting to 203.4 million euros that Talvivaara Sotkamo would have to pay to Nyrstar due to a premature termination of the Zinc Streaming Agreement between the companies. On 30 March 2015, the bankruptcy estate of Talvivaara Sotkamo notified Nyrstar that it does not commit to the Zinc Streaming Agreement or the Loan and Streaming Holiday Agreement. Consequently, on 9 April 2015 Nyrstar sent a notice to the Company, reserving their right to issue a demand to the Company as a guarantor for a payment of all sums due by Talvivaara Sotkamo under the Zinc Streaming Agreement and the Loan and Streaming Holiday Agreement, should the bankruptcy estate of Talvivaara Sotkamo fail to do so. However, based on the Intercreditor Agreement binding on the Company and Nyrstar, the Company cannot make any payments to Nyrstar in relation to the termination sum if full payment has not been made to the Company's other lenders having receivables with a higher ranking priority. As the lenders having a higher ranking priority will not receive a full payment on their receivables due to Talvivaara Sotkamo's bankruptcy and the Company's restructuring proceedings, the Company cannot make payments relating to the termination sum to Nyrstar due to the subordinate position of Nyrstar's claim. Based on the above, the Administrator did not include the Company's guarantee liability for the termination sum in the restructuring debts or in the new liabilities arisen during the proceedings in his final draft restructuring programme. Whilst the Company shares the view of the Administrator on the treatment of the guarantee obligation for the termination sum under the Zinc Streaming Agreement and considers the view well-founded, there is no certainty that a competent court or a dispute resolution authority would arrive at the same outcome, should Nyrstar take legal actions to contest the chosen view.

Based on the above and on the applied non-going concern principle, the Company has provided the full amount of the guarantee liability as a provision on its balance sheet.

For additional information, please see Board of Director's Review and Note 2.

Talvivaara Sotkamo has covered the environmental bond requirement under the current environmental permit by a guarantee insurance provided by Atradius Credit Insurance NV ("Atradius"). The coverage currently amounts to EUR 31.9 million. According to the environmental permit, the required bond is to be placed to cover the cost of the restoration of waste areas (gypsum ponds, heap areas), which is anticipated to take place partly during the life of the mine, as waste areas are filled to their maximum levels, and partly as part of the eventual closure of the mine. In the event such restoration activities took place without Talvivaara Sotkamo carrying the cost, the expenses would initially be covered by Atradius. However, eventually Atradius would claim the cost back from the Company, which has given counter-indemnity for such costs to Atradius. The guaranteed liability is part of the Company's restructuring debt and any payments that fall due under the guarantee are finally determined in the Company's restructuring programme and repaid according to the authorized payment schedule.

Based on the Company's current understanding of the operations on Talvivaara Sotkamo's site and the status of the negotiations with Audley Capital Advisors LLP, the management does not consider it likely that restoration costs would be covered by Atradius. Hence, the counter-indemnity has been recognized as an off-balance sheet liability.

### **Recoverability of deferred tax assets**

Judgment is required in assessing whether deferred tax assets are recognised on the balance sheet. Deferred tax assets are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These future cash flow estimates depend on

estimates of future sales volumes, ore reserves, operating costs, capital expenditure, dividends and other capital management transactions. These estimates and assumptions are subject to risk and uncertainty, hence it is possible that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognised on the balance sheet and the amount of any other tax losses and temporary differences not yet recognised. If the Company's management's estimates for its plans of continued ramp-up of operations to full capacity are not achieved as projected, its profit-generation abilities could be materially adversely affected. Talvivaara's ability to generate taxable profit is also subject to general economic, financial, competitive, legislative and regulatory factors that are beyond its control. If Talvivaara generates lower future taxable profits than what management has assumed in determining the amounts of the recognized deferred tax assets, the assets would become impaired, either partly or in full. Accordingly the amounts recognized in the balance sheet could potentially be reversed through profit and loss.

Deferred tax assets were fully written down in 2014 and 2013.

## 6. Property, plant and equipment

(All amounts in EUR)	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Gross carrying amount at 1 January 2013	11,668,778	17,229,150	2,616,393	31,514,321
Additions	-	36,330	2,838,083	2,874,413
Deductions	-	-	-2,652,095	-2,652,095
Transfers	230,267	2,572,115	-2,802,381	-
Gross carrying amount at 31 December 2013	<u>11,899,045</u>	<u>19,837,595</u>	<u>-</u>	<u>31,736,640</u>
Accumulated depreciation and impairment losses at 1 January 2013	2,502,813	4,046,898	-	6,549,711
Depreciation for the year	764,674	1,239,922	-	2,004,596
Impairment losses	5,253,671	8,979,171	-	14,232,843
Accumulated depreciation and impairment losses at 31 December 2013	<u>8,521,159</u>	<u>14,265,990</u>	<u>-</u>	<u>22,787,149</u>
Carrying amount at 1 January 2013	9,165,965	13,182,253	2,616,393	24,964,610
<b>Carrying amount at 31 December 2013</b>	<b><u>3,377,885</u></b>	<b><u>5,571,605</u></b>	<b><u>-</u></b>	<b><u>8,949,490</u></b>
Gross carrying amount at 1 January 2014	11,899,045	19,837,595	-	31,736,640
Additions	-	-	-	-
Vähennykset	-	-	-	-
Transfers	-	-	-	-
Gross carrying amount at 31 December 2014	<u>11,899,045</u>	<u>19,837,595</u>	<u>-</u>	<u>31,736,640</u>
Accumulated depreciation and impairment losses at 1 January 2014	8,521,159	14,265,990	-	22,787,149
Depreciation for the year	292,173	560,847	-	853,020
Impairment losses	3,085,712	-	-	3,085,712
Accumulated depreciation and impairment losses at 31 December 2014	<u>11,899,045</u>	<u>14,826,837</u>	<u>-</u>	<u>26,725,882</u>
Carrying amount at 1 January 2014	3,377,885	5,571,605	-	8,949,490
<b>Carrying amount at 31 December 2014</b>	<b><u>0</u></b>	<b><u>5,010,758</u></b>	<b><u>-</u></b>	<b><u>5,010,758</u></b>

Please see Note 2 for additional information on the impairments carried out in 2014. In 2013 impairments related to the writedowns allocated to assets based on the Talvivaara group impairment calculations on Sotkamo's mine assets.



## 7. Intangible assets

(All amounts in EUR)	<b>Intangible rights</b>	<b>Other capitalised long-term expenditure</b>	<b>Construction in progress</b>	<b>Total</b>
Gross carrying amount at 1 January 2013	2,877,566	295,615	98,745	3,271,926
Additions	-	-	70,694	70,694
Deductions	-	-	-12,520	-12,520
Gross carrying amount at 31 December 2013	2,877,566	295,615	156,918	3,330,099
Accumulated depreciation and impairment losses at 1 January 2013	620,496	74,613	-	359,909
Depreciation for the year	184,819	57,445	-	158,463
Accumulated depreciation and impairment losses at 31 December 2013	805,314	132,058	-	937,372
Carrying amount at 1 January 2013	2,257,070	221,002	98,745	2,912,017
<b>Carrying amount at 31 December 2013</b>	<b>2,072,252</b>	<b>163,557</b>	<b>156,918</b>	<b>2,392,727</b>
Gross carrying amount at 1 January 2014	2,877,566	295,615	156,918	3,330,099
Additions	38,545	12,039	38,203	88,787
Impairment	-1,676,000	-	-107,038	-1,783,038
Gross carrying amount at 31 December 2014	1,240,111	307,654	88,083	1,635,848
Accumulated depreciation and impairment losses at 1 January 2014	805,314	132,058	-	937,372
Depreciation for the year	74,437	69,152	-	143,589
Accumulated depreciation and impairment losses at 31 December 2014	879,751	201,210	-	1,080,961
Carrying amount at 1 January 2014	2,072,252	163,557	156,918	2,392,727
<b>Carrying amount at 31 December 2014</b>	<b>360,360</b>	<b>106,444</b>	<b>88,083</b>	<b>554,887</b>

Please refer to Note 2 on impairments of PP&E and Intangible Assets.

## 8. Investments

(All amounts in EUR)

<b>Shares in group companies</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
At the beginning of the year	16,606,591	156,884,898	156,882,898
Additions	14	0	0
Impairment	-16,606,605	-140,278,307	-
At the end of the year	0	16,606,591	156,882,898

<b>Receivables from group companies</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
At the beginning of the year	262,260,463	600,125,772	463,798,688
Additions	2,350,000	157,404,606	156,122,222

Impairment	-264,610,463	-538,865,309	-
Transfer to current assets	-	-6,404,606	-20,000,000
Transfer from current assets	-	50,000,000	-
At the end of the year	<u>0</u>	<u>262,260,463</u>	<u>599,920,910</u>

<b>Other shares</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
At the beginning of the year	6,967,599	5,693,872	629,800
Additions	277,702	1,273,727	5,066,072
Impairment	-7,245,301	-	-
At the end of the year	<u>0</u>	<u>6,967,599</u>	<u>5,695,872</u>

<b>Total investments</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
At the beginning of the year	285,834,653	762,704,542	621,311,386
Additions	2,627,717	158,678,333	161,188,294
Impairment	-288,462,369	-679,143,616	-
Transfer to current assets	-	-6,404,606	-20,000,000
Transfer from current assets	-	50,000,000	-
At the end of the year	<u>0</u>	<u>285,834,653</u>	<u>762,499,680</u>

Additions in receivables from group companies consists of the loan granted to Talvivaara Sotkamo. Please refer to Note 2 on impairments.

## 9. Share capital, share issue, share premium, reserve for invested unrestricted equity and other reserves

EUR	<u>Share capital</u>	<u>Share issue</u>	<u>Share premium</u>	<u>Other reserves</u>	<u>Retained deficit</u>	<u>Total</u>
12/31/2012	80,000	-	8,085,842	520,821,335	-25,756,335	503,230,842
Rights issue	-	-	-	250,826,864	-	250,826,864
Total comprehensive income	-	-	-	-	-709,101,655	-709,101,655
12/31/2013	80,000	-	8,085,842	771,648,200	-734,857,990	44,956,051
Rights issue	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-774,899,185	-774,899,185
12/31/2014	80,000	-	8,085,842	771,648,200	-1,509,757,176	-729,943,134

### Distributable equity

EUR	<u>2014</u>	<u>2013</u>
At the beginning of the year	21,061,562	479,336,353
Loss for the year	-774,899,185	-709,101,655
Invested unrestricted equity	-	250,826,864
At the end of the year	<u>-753,837,624</u>	<u>21,061,562</u>

*Ordinary shares*

The Company's total authorised number of ordinary shares is 2,096,782,480. All issued shares are fully paid. The shares have no nominal value.

In June 2014, the Annual General Meeting of shareholders of Talvivaara resolved on a share issue to the Company without consideration. The 190,615,000 new shares that were issued were registered with the Finnish Trade Register on 25 July 2014. Following the share issue and the dismantling of the shareholding scheme organized through Talvivaara Management Oy, the Company holds directly 9.1% and indirectly through Talvivaara Management Oy (in liquidation) 0.1 % of the shares in the Company. The shares held in treasury by the Company do not carry any voting rights.

In 2013, Talvivaara completed an issue of 1,633,857,840 new shares representing approximately 86 per cent of the number of the existing shares of the Company.

In 2012, Talvivaara completed an issue of 24,589,050 new shares representing approximately 10 per cent of the number of the existing shares of the Company. In addition, a total of 1,938,787 new shares were subscribed for under the stock option rights 2007A.

*Share premium*

Share premium account was credited in connection with share issues by the amounts paid by shareholders in excess of the nominal value of the shares. The share premium account reflects share issues carried out under the previous Finnish Companies Act, which was in force until 31 August 2006.

*Reserve for invested unrestricted equity*

Reserve for invested unrestricted equity is credited, in connection with share issues, by the amounts paid by shareholders for new shares issued. Under the current Finnish Companies Act, in force since 1 September 2006, the subscription price of new shares is credited to the share capital, unless it is provided in the share issue resolution that it is to be credited in full or in part to the invested unrestricted equity reserve. Contributions to the reserve for invested unrestricted equity can also be made without share issues.

In 2013, a total of 1,633,857,840 new shares offered in the rights issue were subscribed for. The net proceeds of EUR 250.8 million were recorded into the reserve for invested unrestricted equity.

In 2012, a total of 1,938,787 new shares were subscribed for under the stock option rights 2007A. The subscription price of EUR 4.9 million was recorded into the reserve for invested unrestricted equity.

In 2011, a total of 323,671 new shares were subscribed for under the stock option rights 2007A and 2007B. The subscription price of EUR 0.8 million was recorded into the invested unrestricted equity reserve and share issue reserve. In addition 215,736 new shares were subscribed for under the convertible bonds due 2015 and the subscription price of EUR 1.8 million was recorded into the reserve for invested unrestricted equity.

*Other reserves*

Other reserves include fair value gains, net of tax, on available-for-sale assets, the equity component of convertible capital loans (reclassified as current borrowings as at 31 December 2013), net of tax, and the value of employee services recognised in equity due to share based payments.

## 10. Borrowings and capital loans

EUR	<u>2014</u>	<u>2013</u>
Restructuring loans		
Bonds	110,000,000	110,000,000
Convertible bonds	249,620,846	242,036,675
Revolving credit facility	70,000,000	70,000,000
Absolute guarantee	50,703,476	-
Interest during proceedings	7,465,075	-
Other borrowings during procedure	12,930,668	576,281
	<b><u>500,720,066</u></b>	<b><u>422,612,956</u></b>

Absolute guarantee includes a floating charge security for the loans drawn from Finnvera by Talvivaara Sotkamo, which the Company has guaranteed as its own debt. Please refer to Board of Directors's review and Note 22.

Other borrowings include Nyrstar loan facility of EUR 12.8 million.

The Company has assessed the carrying value and fair value to be equal for all borrowings and capital loans.

The Company's borrowings are denominated in euros.

Of the above tabled borrowings and capital loans, all except other borrowings during the procedure are reorganisation debts that may be restructured as part of the corporate reorganisation programme. The secured borrowings, which comprise the Revolving Credit Facility and the Investment and Working Capital Loan, may only be reduced if and to the extent the security pledged to them does not cover their nominal amount.

All amounts of reorganisation debts remain subject to change at the time of these financial statements and may only be finalised as the eventual reorganisation programmes are authorised. Total borrowings include the following:

### *Senior unsecured convertible bonds due 2013*

In May 2008 the Company completed an offering of EUR 84.9 million of senior unsecured convertible bonds due 2013. The interest rate applied to the convertible bond was 5.25%. In April and May 2012, Talvivaara conducted a buy-back for a portion amounting to a nominal value of EUR 8 million of the Company's senior unsecured convertible bonds due 2013. Talvivaara repaid the remaining convertible bonds at their nominal value of EUR 76.9 million in one instalment on the maturity date of 20 May 2013.

### *Senior unsecured convertible bonds due 2015*

In December 2010 the Company completed an offering of EUR 225.0 million of senior unsecured convertible bonds due 2015. The bonds are convertible into 98,617,935 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. The bonds are convertible into Talvivaara's ordinary shares following the resolution by the Extraordinary General Meeting of the Company's shareholders in January 2011 to issue special rights in relation to the Bonds. To the extent the bonds have not been converted into shares by 10 December 2015, Talvivaara shall repay the debt in one instalment on maturity date 16 December 2015. The value of the equity component for the senior unsecured convertible bonds due 2015 was determined after resolution of the EGM and it is recognised in equity.

The Company's application for corporate reorganisation on 15 November 2013 constituted an event of default under the convertible bonds. Therefore, as at 31 December 2013 and 2014 the convertible bonds have been reclassified as current borrowings and any unamortised costs have been expensed to the income statement accreting the loan carrying amount to the redemption value as at 31 December 2013 and 2014. The repayment schedule and amount of the convertible bonds will be decided and authorized as part of the Company's contemplated reorganisation programme.

*Senior unsecured bonds due 2017*

In March 2012, Talvivaara issued a EUR 110 million senior unsecured bond. The 5-year bond has an issue price of 100%, pays a coupon of 9.75% and is callable after 3 years. The bond issue was sold to both Finnish and international institutional and selected private investors. The bond was settled and the notes were listed on NASDAQ OMX Helsinki in April 2012. The Company's application for corporate reorganisation on 15 November 2013 constituted an event of default under the senior unsecured bonds. Therefore, as at 31 December 2013 and 2014 the bonds have been reclassified as current borrowings and any unamortised transaction costs have been expensed to the income statement accreting the loan carrying amount to the notional value.

The repayment schedule and amount of the senior unsecured bonds will be decided and authorized as part of the Company's contemplated reorganisation programme.

*Revolving credit facility*

On 30 September 2013, Talvivaara had an outstanding revolving credit facility of EUR 100 million with a carrying amount of EUR 70 million (the "Revolving Credit Facility"). With a waiver and amendment letter dated 30 October 2013, the terms of the facility were amended such that the maximum margin was increased to 4.50% from the previous range of 1.75-3.00%, the undrawn amount of EUR 30 million was cancelled, and the liquidity covenant levels were adjusted to levels relevant at the time. Despite these amendments, an event of default occurred in November 2013 as the Company and Talvivaara Sotkamo applied for corporate reorganisation. As a result, and due to the original maturity of the loan being October 2014, the loan has been reclassified as current borrowings and any unamortized transaction costs have been expensed to the income statement accreting the loan carrying amount to the notional value. The repayment schedule and amount of the revolving credit facility will be decided and authorized as part of the Company's contemplated reorganisation programme. As at 31 December 2013 and 2014, the outstanding loan amount was EUR 70 million.

## 11. Trade and other payables

EUR	<u>2014</u>	<u>2013</u>
<b>Trade payables</b>		
Restructuring loans	2,066,932	1,954,212
Other payables during procedure	692,746	1,063,796
<b>Total</b>	<b><u>2,759,678</u></b>	<b><u>3,018,009</u></b>
<b>Other payables</b>		
Value added tax included in restructuring loans	222,008	222,008
Other value added tax payables	257,484	32,524
Other payables	516,540	433,191
<b>Total</b>	<b><u>996,033</u></b>	<b><u>687,724</u></b>
<b>Accrued expenses</b>		
Restructuring loans related to personnel expenses *)	129,668	129,668
Other payables related to personnel expenses	960,903	727,584
Interest payables related to restructuring loans	6,662,627	5,647,539
Other interest payables	25,122,462	2,907,945
Other accrued expenses	410,163	79,252
<b>Total</b>	<b><u>33,285,822</u></b>	<b><u>9,491,987</u></b>

\*) Pension liabilities

The carrying amounts of trade and other payables approximate their fair value.

Approximately EUR 9.1 million of trade and other payables became restructuring debt at the time of the Company and Talvivaara Sotkamo's application for corporate reorganisation. The restructured payment terms of such payables will be decided and authorised as part of the contemplated reorganisation programmes of the respective companies.

## 12. Other operating income

EUR	<u>2014</u>	<u>2013</u>
From group companies	11,193,938	14,978,399
Other	1,145,927	331,062
	<u><b>12,339,864</b></u>	<u><b>15,309,461</b></u>

Income from group companies mainly consist of income from Talvivaara Sotkamo until 6 November 2014 and other income mainly consists of income from Talvivaara Sotkamo's bankruptcy estate from 6 November 2014 onwards.

## 13. Materials and services

EUR	<u>2014</u>	<u>2013</u>
Materials and services	-298,992	-473,157
Other	-6,214	-24,559
	<u><b>-305,207</b></u>	<u><b>-497,715</b></u>

## 14. Personnel expenses

EUR	<u>2014</u>	<u>2013</u>
Wages and salaries	-4,436,412	-5,515,461
Pension cost	-712,576	-869,057
Social security cost	-167,949	-206,671
	<u><b>-5,316,937</b></u>	<u><b>-6,591,189</b></u>

## 15. Depreciation and amortisation

EUR	<u>2014</u>	<u>2013</u>
Amortisation of development cost	-43,029	-43,029
Amortisation of intangible assets	-31,409	-141,790
Depreciation of other long-term expenditure	-69,152	-57,445
Depreciation of buildings	-292,173	-764,674
Depreciation of machinery and equipment	-560,847	-1,239,922
	<u><b>-996,610</b></u>	<u><b>-2,246,859</b></u>

## 16. Impairments

EUR	<u>2014</u>	<u>2013</u>
Impairment charges on property, plant and equipment	-3,113,402	-14,232,843
Impairment charges on intangible assets	-1,676,000	0
Impairment on shares of group companies	-16,604,605	-141,662,307
Impairment on receivables from group companies	-453,991,552	-538,865,309
	<u><b>-475,385,560</b></u>	<u><b>-694,760,459</b></u>

All receivables and shares from Talvivaara Sotkamo were fully written down subsequent to Talvivaara Sotkamo's bankruptcy. All receivables from other group companies (Talvivaara Infrastructure Oy, Talvivaara Exploration Oy and Bream Lake Energy Oy) were written down following the commencement of the liquidation process of the companies.

## 17. Other operating expenses

EUR	<u>2014</u>	<u>2013</u>
Rents	-233,664	-232,665
External services	-3,049,936	-3,704,046
IT	-188,643	-185,563
Insurance	-293,550	-202,235
Travel expenses	-220,996	-508,526
Entertainment expenses	-2,620	-32,490
Bad debts	-24,853,061	0
Provisions	-203,444,456	0
Other	-697,734	-4,190,839
	<u><b>-232,984,659</b></u>	<u><b>-9,056,364</b></u>

Bad debts include the write-down of sales receivables from Talvivaara Sotkamo of EUR 24.0 million.

Provision for the guarantee for termination consists of the EUR 203.4 million that Talvivaara Sotkamo would have to pay to Nyrstar due to a premature termination of the Zinc Streaming Agreement between the companies, which is booked as a provision due to the adoption of the non-going concern principle.

### Audit fees

EUR	<u>2014</u>	<u>2013</u>
Audit	-109,452	-112,482
Tax consultancy	-18,500	-
Audit related assignments	-75,208	-842,723
Other services	-8,800	-143,033
	<u><b>-211,960</b></u>	<u><b>-1,098,240</b></u>

## 18. Finance income

EUR	<u>2014</u>	<u>2013</u>
From group companies	37,491,590	40,654,004
Other	1,351	237,092
	<u><b>37,492,941</b></u>	<u><b>40,891,096</b></u>

**19. Finance cost**

EUR	<u>2014</u>	<u>2013</u>
From group companies	-892,500	-1,050,000
Impairment of non-current investments	-7,247,301	-1,384,027
From external debt	-29,605,363	-30,709,118
Other	-71,997,673	-14,837,857
	<u><b>-109,742,838</b></u>	<u><b>-47,981,001</b></u>

Other finance costs include items booked due to the adoption of the non-going concern principle, consisting mainly of recognition of guaranteed Finnvera and Nyrstar loans.

**20. Income tax**

**Income tax**

EUR	<u>2014</u>	<u>2013</u>
Deferred tax	-181	-4,168,624
	<u><b>-181</b></u>	<u><b>-4,168,624</b></u>

**Reconciliation of tax expense**

EUR	<u>2014</u>	<u>2013</u>
Loss before tax	-774,899,005	-704,933,031
Tax calculated at Finnish corporate tax rate 20 %	154,979,801	140,986,606
Expenses not deductible for tax purposes	-147,507,871	-138,957,816
Tax losses from previous years that have not been capitalised as deferred tax asset	-7,108,647	0
Write-down of previously capitalised tax losses	0	-6,646,225
Change in deferred tax assets not capitalised	-363,464	448,811
	<u><b>-181</b></u>	<u><b>-4,168,624</b></u>

**21. Subsidiaries and associates at 31 December 2014**

**Subsidiaries and associates at 31 December 2014**

Subsidiaries

<b>Company name</b>	<b>Ownership</b>	<b>Country</b>
Talvivaara Infrastructure Oy	100 %	Finland
Talvivaara Sotkamo Oy	84 %	Finland
Talvivaara Exploration Oy	100 %	Finland
Bream Lake Energy Oy	100 %	Finland



Talvivaara Management Oy 100 % Finland

The Company lost control of Talvivaara Sotkamo following its bankruptcy and public receivership on 1 December 2014 and in other subsidiaries following the decision on their liquidation on 19 December 2014.

Associate companies

<b>Company name</b>	<b>Ownership</b>	<b>Country</b>
Majakka Voima Oy	29 %	Finland
Katternö Kärnkraft	28 %	Finland

**22. Contingencies and commitments**

Counter indemnity given as a guarantee for the guarantee insurance provided by Atradius Credit Insurance N.V to Kainuu ELY Centre

EUR	<u>2014</u>	<u>2013</u>
Counter indemnity given as a guarantee	31,940,000	31,940,000
Yli viiden vuoden kuluttua	0	0
	<u><b>31,940,000</b></u>	<u><b>31,940,000</b></u>

The future aggregate minimum lease payments under non-cancellable operating leases

EUR	<u>2014</u>	<u>2013</u>
No later than 1 year	97,637	156,941
Later than 1 year and not later than 5 years	4,672	47,608
	<u><b>102,309</b></u>	<u><b>204,549</b></u>

The Company has not terminated lease agreements on the basis of section 27 of the Restructuring of Enterprises Act.

**Securities given by the Company under the Multicurrency Revolving Facility Agreement and the Finnvera Financing Agreements**

The securities given under the Multicurrency Revolving Facility Agreement (EUR 70 million) and the Finnvera Financing Agreements (EUR 50 million and EUR 10 million) include:

- Pledge of all shares owned by the Company in Talvivaara Sotkamo
- Pledge of floating charge notes registered over assets of the Company in the amount of EUR 300 million
- Pledge of intra-group receivables of the Company from Talvivaara Sotkamo
- Pledge of insurance receivables

In addition, the Company has guaranteed the obligations of Talvivaara Sotkamo under the Finnvera Promissary Note in the amount of EUR 60 million by a specific Surety Obligation.

Valuation of the securities under the restructuring programme proposal has been explained in more detail in Board of Directors Review and Note 2.

**23. Board of Directors' proposal for the measures to be taken owing to the loss for the financial year**

The Board of Directors proposes that the loss for the financial year of EUR -774, 899,185 will debit the retained earnings.

## 24. Earnings per share

The basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. The undiluted and diluted basic earnings per share were the same for both 2013 and 2014.

	<u>2014</u>	<u>2013</u>
Loss attributable to the owners of the Company, EUR	-774,899,185	-709,101,655
Weighted average numbers of ordinary shares in issue	1,906,068,061	1,431,677,258
Earnings per share, EUR	-0.41	-0.50

## 25. Related party transactions

### *Key management compensation*

	<u>EUR '000</u>	<u>2014</u>	<u>2013</u>
Salaries and other short-term employee benefits		1,522	1,950
Share-based payments			-35
		<u>1,522</u>	<u>1,915</u>

Key management consists of the Executive Committee

The service contract entered into with CEO Pekka Perä is valid until further notice and may be terminated by the CEO upon six months' notice. The Company may terminate the contract upon one months' notice. Upon termination by the Company for reason other than substantial breach of the service agreement, the CEO will be entitled to an additional compensation equal to twelve months' salary and fringe benefits for that period. The retirement age of the CEO is 63 years.

Pension benefits for members of Talvivaara's Executive Committee are determined on the basis of statutory employment pension cover.

### *Salaries, bonuses and other remuneration of the Board of Directors*

<b>Board of Directors</b>		<b>(EUR '000)</b>	<b>2014</b>	<b>2013</b>
Tapani Järvinen	Chairman of the Board		106	120
Graham Titcombe	Deputy Chairman of the Board		73	63
G. Edward Haslam	Board Member		64	69
Stuart Murray	Board Member		69	44
Pekka Perä 1	Board Member, CEO		314	315
Maija-Liisa Friman 2	Board Member		54	32
Solveig Törmroos-Huhtamäki 3	Board Member		24	-
Eileen Carr 4	Board Member		37	63
Kirsi Sormunen 5	Board Member		13	69
Michael Rawlinson 6	Board Member		-	44
<b>Total</b>			<b>754</b>	<b>819</b>

<sup>1)</sup> The Board fees of the CEO are included in his base salary paid in accordance with his service agreement, and therefore no Board fees are paid out separately to the CEO.

<sup>2)</sup> Board member as of 2 May 2013

<sup>3)</sup> Board member as of 12 June 2014

<sup>4)</sup> Board member until 12 June 2014

<sup>5)</sup> Board member until 7 March 2014

<sup>6)</sup> Board member until 30 November 2013

In 2014, the basis for determining the fees of the members of the Board of Directors was changed. A more detailed description can be found in the Company's Remuneration Report.

#### *Shares and Options held by the Board of Directors*

On 31 December 2014 the aggregate shareholding of the Board of Directors, CEO and companies controlled by them was 126,570,885 shares (2013: 128,589,773 shares). This corresponded to 6.0% of the total number of shares and votes (2013: 6.7%). At the end of 2014, the aggregate number of share option rights held by the Board of Directors entitled them to subscription of 0 shares (2013: 0 shares). In December 2014 the Board of Directors of the Company dismantled the shareholding scheme organized through Talvivaara Management Oy for members of the Talvivaara Executive Committee and other key personnel of the Talvivaara group. The scheme was dismantled by Talvivaara acquiring all shares of Talvivaara Management Oy from the participants for a nominal purchase price. On 31 December 2014 Talvivaara Management Oy held 2,268,000 shares of the Company. Therefore, the shares held by Talvivaara Management Oy are not included in the aggregate shareholding of the Board of Directors, CEO and companies controlled by them on 31 December 2014.

#### *Talvivaara Management Oy*

In December 2010, The Board of Directors of the Company decided on a new shareholding plan directed to members of the Talvivaara Executive Management Team. The plan enabled the participants to acquire a considerable long-term shareholding in the Company. Through this plan, the participants personally invested a significant amount of their own funds in the Company shares. Part of the investment was financed by a loan provided by the Company.

As at 31 December 2014, the EUR 5.7 million loan granted by the Company to Talvivaara Management Oy for the purpose of acquiring the Company shares and all the interest accrued thereon (EUR 0.7 million) have been fully written down. The scheme was dismantled in December 2014 by the Company acquiring all the shares of Talvivaara Management Oy from the participants for a nominal purchase price.

On 19 December 2014, Talvivaara Management Oy was placed in liquidation. Prior to the decision to liquidate Talvivaara Management Oy, all debts of Talvivaara Management Oy to the Company were converted into equity of Talvivaara Management Oy. The shares of Talvivaara Management Oy were fully written down on 31 December 2014.

## **26. Events after the balance sheet date**

### *Termination of the Zinc Streaming Agreement*

On 30 March 2015, the bankruptcy estate of Talvivaara Sotkamo notified Nyrstar that, pursuant to Chapter 3, Section 8 of the Bankruptcy Act, it does not commit to the Zinc Streaming Agreement or the Loan and Streaming Holiday Agreement. Consequently, Nyrstar has on 9 April 2015 sent a notice to the bankruptcy estate of Talvivaara Sotkamo, contesting the right of the bankruptcy estate to terminate the Zinc Streaming Agreement or the Loan and Streaming Holiday Agreement by reason of its own insolvency, and declaring that all the amounts due by Talvivaara Sotkamo under the Loan and Streaming Holiday Agreement have become immediately due and payable by Talvivaara Sotkamo. Nyrstar also gave the bankruptcy estate of Talvivaara Sotkamo a 30-day-notice under the Zinc Streaming Agreement, during which period Talvivaara Sotkamo as a seller under the Zinc Streaming Agreement should try to remedy the seller event of default, failing which the Zinc Streaming Agreement shall terminate. Simultaneously, Nyrstar sent a notice to the Company, reserving their right to issue a demand to the Company as a guarantor for a payment of all sums due by Talvivaara Sotkamo under the Zinc Streaming Agreement and the Loan and Streaming Holiday Agreement, should the bankruptcy estate of Talvivaara Sotkamo fail to do so.

However, based on the Intercreditor Agreement binding on the Company and Nyrstar, the Company cannot make any payments to Nyrstar in relation to the termination sum if full payment has not been made to the lenders having receivables with a higher ranked priority. As the lenders having a higher ranked priority will not receive a full payment on their receivables due to Talvivaara Sotkamo's bankruptcy and the Company's restructuring proceedings, the Company cannot make payments relating to the termination sum to Nyrstar, as Nyrstar's claim for termination

sum is in a subordinate position. Based on the above, the Administrator did not include the Company's guarantee liability for the termination sum in the restructuring debts or in the new liabilities arisen during the proceedings in his final draft restructuring programme.

On 13 April 2015, the Facility Agent of the lenders under the Revolving Credit Line Facility Agreement, which have receivables with the highest ranking priority, notified Nyrstar, the Company and the bankruptcy estate of Talvivaara Sotkamo that an Event of Default under the Revolving Credit Line Facility Agreement has occurred and is continuing and that all payments, which would otherwise be permitted for the Company or Talvivaara Sotkamo have thereby become prohibited.

#### *Status of the corporate reorganisation*

On 30 January 2015, the District Court of Espoo granted an extension to the deadline for re-submitting the proposal for the reorganisation programme of Talvivaara until 13 March 2015.

On 12 March 2015, Talvivaara was informed that Audley Capital Advisors LLP, a UK-based investment and capital advisory firm, has entered into a conditional asset purchase agreement to acquire the assets of Talvivaara Sotkamo from its bankruptcy estate. At the same time, the Republic of Finland, through its wholly-owned special purpose company Terrafame Ltd, has entered into an investment agreement with Audley Capital Advisors LLP. The purpose of the asset purchase agreement and the investment agreement is to re-establish the operations and continue the business of the Talvivaara mine within a new mining company that will be established in connection with the transaction. Before the transaction can close and operations at the mine can be ramped up under the direction of the new mining company, a number of steps must still take place including the provision of the necessary regulatory permits and the obtaining of committed financing. The Company announced on 12 March 2015 that the process of selling the Sotkamo mining operations had progressed in the expected sequence, and the milestone reached by the parties to the conditional asset purchase agreement enabled the start of serious discussions on Talvivaara's potential role in the future of the Sotkamo mining operations.

On 13 March 2015, the Administrator of the corporate reorganisation of Talvivaara filed the supplemented draft restructuring programme to the District Court of Espoo. The supplemented draft restructuring programme was based on the plan presented in the original draft restructuring programme dated 30 September 2014, whereby the business operations of the mine are to be sold to a new company with which Talvivaara shall have a sufficient functional connection that is based on ownership, operations or other type of economic co-operation.

The total amount of the restructuring debts to be taken into account in the restructuring proceedings is approximately 513 million euros, out of which 508 million euros is considered unsecured debt. This amount does not include debts with lowest priority. In addition, the Company has approximately 8 million euros liability relating to a granted third-party security and 7.5 million euros of restructuring debts and other liabilities secured by business mortgage. The Administrator proposed that the restructuring debts be cut by 99% which would leave 1% of the amount of such debt to be repaid. The restructuring debts secured by business mortgage will not be cut and no payments would be made on debts with lowest priority. The draft restructuring programme does not include a provision on a duty to make supplementary payments. The total amount of the restructuring debts includes also approximately 32 million euros of conditional restructuring debt, which consists mainly of counter indemnity given as a guarantee for the guarantee insurance provided by Atradius Credit Insurance N.V to Kainuu ELY Centre. The guarantee insurance relates to the certain obligations prescribed in Talvivaara Sotkamo's environmental permit.

The term of the restructuring programme would consist of one instalment. After the 1% restructuring debt repayment has been made to the remaining restructuring creditors and after the other measures obligating the Company in the draft restructuring programme have been completed, Talvivaara would not be subject to any restriction on payment of dividends.

The Administrator's estimate is that after the completion of the above referenced restructuring measures - and assuming that none of the restructuring creditors would use their conversion right included in the draft restructuring programme - the balance sheet of the Company would include approximately 25.1 million euros of debt, comprising of approximately 12.5 million euros of new debts arisen during the proceedings and approximately 12.6 million euros of cut restructuring debts and other liabilities.

The confirmation and entry into force of the draft restructuring programme requires the fulfilment of all of the following conditions:

- 
- a) Talvivaara succeeds in negotiating an agreement with the party that purchases Talvivaara Sotkamo mining operations from the bankruptcy estate based on which:
    1. Talvivaara can obtain sufficient cash flow to cover the costs of its business operations if the Company's other assets or other cash flows are not sufficient to cover said costs; and
    2. Talvivaara has the right to make an investment sufficient to acquire a significant minority stake in the company engaging in the mining operations, or the parties complete a different financial and/or operative arrangement that will secure the continuance of the Company's eligible business;
  - b) The general meeting of shareholders of Talvivaara:
    1. approves the opportunity to be offered to all holders of unsecured restructuring debts to convert the full amount (but not a part thereof) of their unsecured restructuring debt into shares in the Company with due regard to any limitations of prohibitions set by foreign securities laws that would make the offering of the conversion right to certain foreign creditors either illegal or unreasonably difficult to implement. If all unsecured restructuring creditors exercise said opportunity, the percentage of holdings of the Company's current shareholders would be diluted by 70%. The conversion rate would be EUR 0.1144 per share; and
    2. executes or authorises the Company's Board of Directors to execute a financial arrangement (e.g. issuance of shares or bonds or execution of other financing instrument) to raise the funds needed to execute an arrangement referred to in section a) 2. and/or for paying the remaining restructuring debts and for covering other possible liabilities to the extent the Company's other funds are not sufficient for such purpose;
  - c) The proceedings for converting the restructuring debts into shares in the Company have been completed in accordance with the section b) 1. above, and the new shares have been registered in the Trade Register.

A share issue or an issuance of another instrument entitling to the shares of the Company, which are among the possible means to satisfy the condition for the entry into force of the restructuring programme, would, if fully subscribed for and depending on the amount to be raised in the transaction, dilute the holdings of the existing shareholders significantly.

In addition to what has been provided on the lapse of restructuring programme and corporate reorganization, if the special conditions set for the entry into force of the restructuring programme have not been met by 13 March 2017, the Administrator will make a request to the District Court to have the restructuring proceedings interrupted. In addition, the draft restructuring programme included a specific condition entitling the Administrator to make a request to the District Court for the cancellation of the corporate reorganization in case the Company does not have the funds for paying the restructuring debts within two years of the confirmation of the programme.

Talvivaara as a debtor in the restructuring proceedings was given a similar right as the creditors of the corporate reorganisation to give a statement on the supplemented draft restructuring programme and propose changes to it by the deadline of 27 March 2015 set by the District Court of Espoo.

On 14 April 2015, the District Court of Espoo gave a decision to initiate a creditors' voting procedure on the draft restructuring programme of the Company in accordance with section 76 of the Restructuring of Enterprises Act. By initiating the voting procedure, the creditors of the Company are given the opportunity to either support or oppose the Administrator's draft restructuring programme. The approval of the draft restructuring programme requires express support from the necessary number of creditors.

#### *Legal proceedings*

Based on the pre-trial investigation relating to the discharge of raffinate from the metals recovery plant of Talvivaara Sotkamo and dilute secondary heap solutions into the open pit during the period of 19 December 2013 - 31 January 2014, the prosecutor decided on 11 February 2015 to bring charges against CEO Pekka Perä. During the pre-trial investigation, the police moderated the type of the suspected crime to an environmental infraction (petty crime), while the prosecutor changed the type of the suspected crime back to impairment of the environment in his application for a summons. The prosecutor requested the District Court to handle the case together with the case concerning the gypsum pond leakages and the discharges into water ways. The Company does not share the prosecutor's view of the threshold for charges having been met.

On 28 April 2015, Talvivaara confirmed that a number of current and former members of Talvivaara's Board of Directors and management have been or will be heard in connection with an investigation relating to the Company's disclosure practices. Talvivaara believes that the investigation will establish the appropriateness of the Company's conduct in all respects, and emphasizes that the Company has already in the past gone through the applied disclosure practices extensively and in great detail with the Financial Supervisory Authority. None of the inquiries has given rise to any administrative sanctions available for the Financial Supervisory Authority.

**SIGNATURES OF THE FINANCIAL STATEMENTS AND THE REPORT OF THE BOARD OF DIRECTORS**

Espoo 2015

Talvivaara Mining Company Plc

Tapani Järvinen  
Chairman of the Board

Pekka Perä  
Member of the Board  
Chief Executive Officer

Graham Titcombe  
Member of the Board

Gordon Edward Haslam  
Member of the Board

Solveig Törnroos-Huhtamäki  
Member of the Board

Stuart Murray  
Member of the Board

Maija-Liisa Friman  
Member of the Board