

Terafame's operating profit EUR 23.5 million in the third quarter

The financial information presented about Terafame Ltd in this bulletin consists of unaudited FAS figures. The figures in brackets refer to the corresponding period in the previous year unless otherwise stated.

July–September 2023 in brief:

- Net sales from the battery chemicals business decreased to EUR 28.0 (39.1) million, or around 20% of the company's total net sales. The decrease resulted from a decrease in the market price of nickel sulphate. A shutdown at the battery chemicals plant until the beginning of August decreased production volume and net sales.
- Net sales from the metal intermediates business totalled EUR 114.0 (100.4) million. Net sales increased as a result of higher production volumes, while the decrease in the market prices for nickel and zinc had a negative impact on net sales.
- Total net sales were EUR 142.0 (139.5) million, representing an increase of 1.8% year-on-year.
- EBITDA increased to EUR 38.7 (32.5) million, or 27.3% (23.3) of net sales.
- The operating result was EUR 23.5 (18.0) million.
- Free cash flow from operating activities was EUR -25.5 (0.4) million.

January–September 2023 in brief:

- Net sales from the battery chemicals business decreased to EUR 126.3 (136.5) million, or around 31% of the company's total net sales.
- Net sales from the metal intermediates business totalled EUR 279.8 (262.2) million.
- Total net sales were EUR 406.1 (398.7) million, representing an increase of 1.9% year-on-year.
- EBITDA decreased to EUR 63.5 (92.6) million, or 15.6% (23.2) of net sales.
- The operating result was EUR 18.2 (49.4) million.
- Free cash flow from operating activities was EUR -47.5 (-6.9) million.
- The total accident frequency rate on the industrial site was 5.1 (7.5).

Financial key figures	7-9 2023	7-9 2022	Change	1-9 2023	1-9 2022	Change	2022
Net sales, EUR million	142.0	139.5	1.8%	406.1	398.7	1.9 %	584.4
Battery chemicals business	28.0	39.1	-28.4%	126.3	136.5	-7.5%	207.1
Metal intermediates business	114.0	100.4	13.5%	279.8	262.2	6.7%	377.3
EBITDA, EUR million	38.7	32.5	19.1%	63.5	92.6	-31.4%	152.1
Operating result, EUR million	23.5	18.0	30.6%	18.2	49.4	63.2%	93.9
Work in progress, EUR million	252.1	235.6	7.0%	252.1	235.6	7.0%	241.8
Free cash flow from operating activities, EUR million ¹	-25.5	0.4	N/A	-47.5	-6.9	N/A	9.8
Capital expenditure, total, EUR million	37.1	19.2	93.2%	96.3	58.5	64.5%	83.0
Sustaining capital expenditure, EUR million	28.1	17.2	63.4%	78.8	48.4	62.9%	69.9
Investments in productivity improvement and capacity growth, EUR million	9.0	2.0	350.0%	17.5	10.1	73.7%	13.1
Shareholders' equity, EUR million				581.8	433.9	34.1%	439.1
Balance sheet total, EUR million				1,207.3	1,060.6	13.8%	1,128.1
Own personnel, active				806	786	2.5%	763
Partner companies' personnel, FTE				1,044	717	45.6%	783
Accident frequency rate, 12-month LTIFR1				5.1	7.5	-32.0%	6.4
Own personnel				4.8	5.7	-15.8%	4.3
Partner companies' personnel				5.2	9.4	-44.7%	8.5

1) Free cash flow from operating activities after sustaining capital expenditure = EBITDA – change in net working capital – sustaining capital expenditure

Joni Lukkaroinen, CEO of Terrafame:

Terrafame resumed to positive operating result in the third quarter of 2023 after a drop in the previous quarter. The Chinese electric car market returned to the growth track, and we restarted production in our battery chemicals plant in August following a shutdown of more than two months. Our base production volumes have continued to be strong throughout the year and were slightly higher than the previous year's record high level in the review period.

The drop in the Chinese electric car market earlier this year and the destocking that ensued throughout the supply chain have also decreased the demand for and prices of battery chemicals. The spot price (SPOT China) of the nickel sulphate continued to decrease in the third quarter of 2023 and was significantly lower than in the third quarter of 2022. The prices of nickel and zinc (LME) were also lower than in the comparison period. Price hedging softened the impact of lower prices on our net sales to some degree.

Terrafame's third-quarter net sales increased by 1.8% to EUR 142.0 (139.5) million, supported by the strong volumes in our metal intermediates business. The shutdown at the battery chemicals plant until

the beginning of August and the decrease in market prices had a negative impact on net sales. However, compared with the second quarter of 2023, our net sales increased by 55%. EBITDA increased by 19% year-on-year and was EUR 38.7 (32.5) million.

In August, we made a significant decision to invest over EUR 200 million in a new secondary leaching area, which is expected to be taken into use in 2026. New secondary leaching areas are required to be ready before the old ones become full.

Preparations to start uranium recovery by the summer of 2024 have progressed as planned. We have completed the recruitment process and will start training in the fourth quarter of the year.

At the end of September, the rolling 12-month lost-time injury frequency rate was 5.1 (7.5). The long-term trend has continued to be positive, but we need to sharpen our focus to ensure that the weak development in recent months can be turned around. The continuous development of our safety culture has been one of the main priorities since the company was established.

We are continuing the determined implementation of our strategy, with the aim of lowering the carbon footprint of transport as a responsible producer of battery materials. We are committed to achieving carbon neutrality in our own operations by the end of the next decade.

The global production of electric cars is currently strongly concentrated in China. However, we can see that the production of cathode materials (pCAM/CAM), battery cells and electric cars will increase significantly in the coming years in Europe, which will become Terrafame's main market area.

Market environment

Electric vehicle and battery markets

According to Rho Motion's EV & Battery Quarterly Outlook Q3 2023 report, a total of around 8.2 (5.9) million electric passenger cars and light commercial vehicles were sold worldwide in January–August 2023. This represents an increase of around 39% year-on-year.

Around 4.6 (3.5) million electric passenger cars and light commercial vehicles were sold in China in January–August 2023. This represents around 57% of their global sales. The sales of electric cars in China increased by around 33% from January–August 2022. In the second quarter of 2023, sales increased by 38% compared with the first quarter of the same year. In January–March, sales decreased by 32% from the fourth quarter of 2022.

The sales of electric cars were particularly strong in the United States and Canada, where the total sales of electric passenger cars and light commercial vehicles increased by 65% in January–August 2023. In Europe, the sales of these vehicle categories grew by 30% year-on-year. EV battery cell and cathode material producers have announced several investments in gigafactories to strengthen North American and European battery market development.

According to Rho Motion, the global sales of electric cars are expected to continue to increase in 2023. Sales are expected to increase by 32% to 13.8 million cars. In 2022, a total of 10.5 million electric cars were sold.

In August 2023, including all vehicle categories, the sales-weighted average pack size was 52.0 (48.0) kWh.

The electric car battery market is clearly becoming divided between high-nickel-content NCM batteries and LFP batteries. The market share of NCM 811 batteries, which have a high nickel content, increased

from 19% in August 2022 to 22% in August 2023. The market share of LFP batteries was 42% in August 2023 (38% in August 2022).

In terms of units sold, in January–August 2023 the total sales of NCM batteries increased by around 33% to 4.3 (3.2) million from the comparison period in 2022. In terms of gigawatt hours, the sales of NCM batteries increased by 36% to 36.7 (26.9 in August 2022 GWh). The share of NCM 811 batteries increased by 65% to 13.7 (8.3) GWh. The share of LFP batteries increased by more than 62% to 26.6 (16.4) GWh.

Nickel market

The price of nickel on the London Metal Exchange (LME) in January–September 2023 was markedly lower than in the corresponding period in 2022.

The average market price of nickel in January–September 2023 was 22,895 (25,684) USD/t, which is around 12% lower than in the corresponding period in 2022. The average market price of nickel in July–September 2023 was 20,344 (22,063) USD/t, which is around 8% lower than in the corresponding period in 2022. Compared with the second quarter of 2023, the average market price of nickel decreased by around 9%.

The price (SPOT China) of the nickel sulphate decreased significantly. The average SPOT price in January–September was 19,780 USD/t, which is around 27% lower than in the corresponding period in 2022. The average SPOT price of nickel sulphate in July–September was 17,749 USD/t, which is around 18% lower than in the corresponding period in the previous year and 8% lower than in the second quarter in 2023. The spot price (SPOT China) of nickel sulphate has not been fully linked to the LME price since 2022.

The total combined nickel stocks on the London Metal Exchange (LME) and the Shanghai Futures Exchange (SHFE) at the end of September 2023 were 49,674 tonnes, which is around 10% lower than in the corresponding period in 2022 (55,080). However, the strong decrease in nickel stocks, which began in the second quarter of 2021, turned around in the third quarter of 2023, and the stocks at the end of September were around 19% higher than at the end of the second quarter of 2023 (41,641). The stock level at the end of September 2023 corresponded to demand for 0.8 (1.2) weeks.

Net sales and financial performance

July–September 2023

Net sales in July–September were EUR 142.0 (139.5) million, representing an increase of 1.8% year-on-year. Net sales from the battery chemicals business totalled EUR 28.0 (39.1) million, or around 20% (28) of the company's total net sales. The decrease resulted from a drop in the market price of nickel sulphate.

Net sales from the metal intermediates business totalled EUR 114.0 (100.4) million. Net sales increased as a result of higher production volumes, while the decrease in the market prices for nickel and zinc had a negative impact on net sales. Price hedging softened the impact of lower sales prices on net sales.

EBITDA was EUR 38.7 (32.5) million, or 27.3% (23.2) of net sales. The operating result was EUR 23.5 (18.0) million. EBITDA and the operating result increased as a result of higher production volumes in the metal intermediates business and the lower prices of materials.

Free cash flow from operating activities* was EUR -25.5 (0.4) million. The decrease was primarily due to increased investments compared to the comparison period and a change in working capital. The shutdown at the battery chemicals plant reduced production volumes and net sales from the battery chemicals business.

January–September 2023

Net sales in January–September were EUR 406.1 (398.7) million, representing an increase of 1.9% year-on-year. Net sales from the battery chemicals business totalled EUR 126.3 (136.5) million, or around 31% (34) of the company's total net sales. Net sales from the battery chemicals business developed favourably during the first quarter, but a decrease in the market price of nickel sulphate caused net sales to decrease in comparison to previous year. Net sales from the metal intermediates business totalled EUR 279.8 (262.2) million.

EBITDA was EUR 63.5 (92.6) million, or 15.6% (23.2) of net sales. The operating result was EUR 18.2 (49.4) million. The decrease in EBITDA and the operating result were caused mainly by the lower prices of nickel and zinc.

Free cash flow from operating activities* was EUR -47.5 (-6.9) million. The decrease was primarily due to increased investments compared to the comparison period.

* Free cash flow from operating activities after sustaining capital expenditure = EBITDA – change in net working capital – sustaining capital expenditure

Shares and shareholders

Terrafame has one series of shares. At the end of September 2023, the company had 5,197,154 (4,993,498) shares. Its share capital was EUR 2.0 (2.0) million, and shareholders' equity was EUR 581.8 (433.9) million.

On 30 June 2023, Terrafame's major shareholders, the Galena funds managed by Trafigura and Sampo plc, exercised their option rights and subscribed for a total of EUR 32.6 million in shares in Terrafame.

Sampo sold its shareholding to Mandatum Holding Ltd on 29 September 2023.

At the end of September 2023, Finnish Minerals Group (FMG), a special-assignment company of the state of Finland, owned 64.4% (66.9), Trafigura Galena Funds owned 32.9% (31.0) and Mandatum owned 2.7% (2.1) of Terrafame.

Finnish Minerals Group's holding may decrease to no lower than 50.1% in the future if Trafigura and Mandatum exercise all their option rights. In such a case, the holding of Trafigura would be around 45.0%, and that of Mandatum would be around 5.0%.

Personnel and partner network

Around 1,500 people work regularly on Terrafame's industrial site. Terrafame had 806 (786) employees at the end of September 2023.

An average of 1,044 (717) people employed by contractors and subcontractors worked on the industrial site during the review period (FTE). The increase in the number of personnel is primarily due to the scheduled maintenance shutdowns implemented during the second quarter.

Key events after the review period

Terrafame had no significant events after the review period.

Near-term outlook

- The price development of base metals and battery chemicals involves considerable uncertainty.
- Global sales of electric cars are expected to continue to grow.
- The development of operational efficiency and safety at work will continue in line with the principles of continuous improvement (Operational Excellence).
- Terrafame is preparing for the start of uranium recovery in the summer of 2024. The onboarding and training of the personnel has started in October.

For further information, please contact:

Joni Lukkaroinen, CEO, Terrafame Ltd, tel. +358 20 7130 800 (switchboard),
joni.lukkaroinen(at)terrafame.fi

A Finnish-language webcast will be held on 26 October 2023 at 2 pm. At the event, Joni Lukkaroinen, CEO of Terrafame, and Ville Sirviö, CFO, will discuss the company's performance. The webcast can be followed live at terrafame.videosync.fi/q3-2023. Questions can be submitted using the form at the bottom of the page.

Terrafame enhances low-carbon mobility by delivering responsibly produced battery chemicals to the global battery industry. One of the world's largest production lines for chemicals used in electric car batteries is located on Terrafame's industrial site. The plant is capable of producing nickel sulphate for around 1 million electric cars per year. The carbon footprint of the nickel sulphate produced by Terrafame is among the smallest in the industry.

Terrafame's integrated, unique and energy-efficient production process from the mine to battery chemicals is located on a single industrial site. It provides customers with a transparent, traceable and truly European battery chemical supply chain.

Terrafame Ltd was founded in 2015. Its net sales in 2022 were EUR 584 million. Around 1,500 people work on its industrial site, half of whom are employees of partner companies.