

Corporate Governance Statement 2019

March 4, 2020

Terrafame



Terrafame Ltd is a non-listed company registered in Finland. Management and decision-making at Terrafame are governed by its Articles of Association, the Limited Liability Companies Act and other legislation in force, and the current Government Resolution on State Ownership Policy. Where applicable, the company's corporate governance practices comply with the requirements set out in the Securities Market Association's current Corporate Governance Code. The Code is available in full on the Association's website at www.cgfinland.fi.

This Corporate Governance Statement has been drawn up in accordance with the reporting requirements of the Securities Market Association's Corporate Governance Code 2020, which entered into force on 1 January 2020. Terrafame's Board of Directors has reviewed the Statement published as a separate report but simultaneously with the Board of Directors' Report for the financial period 1 January–31 December 2019. The Corporate Governance Statement as well as the Board of Directors' Report and company's financial statements are available at www.terrafame.com.

Terrafame's auditor, KPMG Oy, has checked that the Statement has been issued and that the Statement's description of the main features of the internal control and risk management system related to the company's financial reporting process is consistent with the description in the company's financial statements.

The deviations from compliance with the Corporate Governance Code are related to the company's general meeting (recommendations 1–4), and the organisation of related party governance required of listed companies.

The deviations from the Corporate Governance Code's recommendations are because the company's securities are not publicly traded.

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The General Meeting of Shareholders, Board of Directors and CEO are responsible for Terrafame's corporate governance and operations. A shareholder agreement on the use of proprietary rights and decision-making in the company, the terms of which correspond to predominant market practice, has been concluded between the company's shareholders.



General Meeting

The General Meeting is held to confirm the company's financial statements, decide on the distribution of profits and the election of Board members, the auditor and the fees thereof, and discharge the members of the Board of Directors and CEO from liability. The Chair of the Board of Directors and Vice Chair, if needed, are also elected at the General Meeting.

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Board of Directors

Duties and responsibility

In accordance with the Limited Liability Companies Act, Terrafame's Board of Directors is responsible for the company's governance and the appropriate organisation of its operations. The Board of Directors must also ensure that the company's accounting and financial management are appropriately supervised. The Board of Directors' role is to promote the interests of the company and its shareholders. One of the Board's main duties is to make significant decisions relating to the company's operating principles, strategy, investments, organisational structure and finances.

According to the Articles of Association, the Board of Terrafame shall have between three (3) and seven (7) members. The members are elected at the Annual General Meeting for a term ending at the close of the next Annual General Meeting.

Preparation of the composition of the Board

The major shareholders of the company submit their proposals for the composition of the Board in accordance with the shareholder agreement. Thus, Suomen Malmijalostus Oy (Finnish Minerals Group) has the right to nominate candidates for up to five Board positions and the Galena funds have the right to nominate candidates for up to two Board positions.

Diversity

The composition of the Board of Directors seeks to ensure that the Board has extensive expertise, experience and knowledge of both the factors related to Terrafame's production process and the company's line of business. This will enable the Board to carry out its duties as efficiently as possible, especially those related to the company's strategy, finances and risk management. The Board's diversity with respect to competence and gender will enable the achievement of Terrafame's business objectives.

In 2019, the Board had seven (7) members, one (1) of whom was a woman. The Board's composition is a representation of multidisciplinary and diverse experience in both national and international business activities. The Board members' educational background also helps to ensure the achievement of Terrafame's business objectives. Of the Board members, five (5) were Finnish, one (1) was French and one (1) was Spanish.

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Key content of the Board's Rules of Procedure

The Board of Directors has confirmed Rules of Procedure for itself, the key content of which is described below, and which define the duties of the Board, its Chairman and the committees.

The Rules of Procedure include the following issues: composition of the Board of Directors, election of Board members, responsibilities of the members and the Chairman, meetings and decision-making of the Board, disqualification of members, committees, self-assessment of operations, as well as remuneration of the members.

The Board's responsibilities include:

Approving the annual operating plan, business plan and budget.	Approving the financial reports and annual accounts.	Approving the organisational structure and remuneration system.
Appointing and dismissing the Chief Executive Officer.	Appointing the Management Team.	Deciding on the terms of employment and remuneration payable to the CEO and other key personnel.
Appointing committee members and confirming the committees' Rules of Procedure.	Directing and supervising the executive management.	Supervising the company's operations with respect to compliance with laws and regulations.
Approving long-term objectives and strategies.	Approving the company's values, principles and practices concerning the control and risk management system.	Convening the General Meeting.

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Board meetings

The Board of Directors has a quorum when more than half of its members participate in a meeting, either by being present or via telephone/video conference. In current matters, the Board may also make unanimous written decisions by email. The Board seeks to achieve consensus in its decision-making on all occasions. If this cannot be sensibly achieved, the decisions of the Board shall be made in accordance with the provisions of the Limited Liability Companies Act. According to the Act, the decisions of the Board require a simple majority. In the event of a tie, the Chairman shall cast the deciding vote. With regards to disqualification of Board members, the provisions of the Limited Liability Companies Act shall be observed.

The Board of Directors convenes around ten times per year in accordance with an agreed schedule. If necessary, the Board will hold additional meetings.

The Board assesses its activities and working methods annually.

Board committees

The Board of Directors, at its discretion, may establish an Audit Committee and a joint Organisational Structure and Remuneration Committee, as well as elect Chairs for these committees.

Management of the company

Terrafame has one business area with the following operational activities: mining, metals production, battery chemicals plant, maintenance and commercial operations. The company's support functions include finance, HR management, project operations, sustainable development and communications. As agreed in the shareholder agreement, the company has three committees, as well as a Steering Committee set up by the Board of Directors to support and monitor the progress of the battery chemicals plant project.

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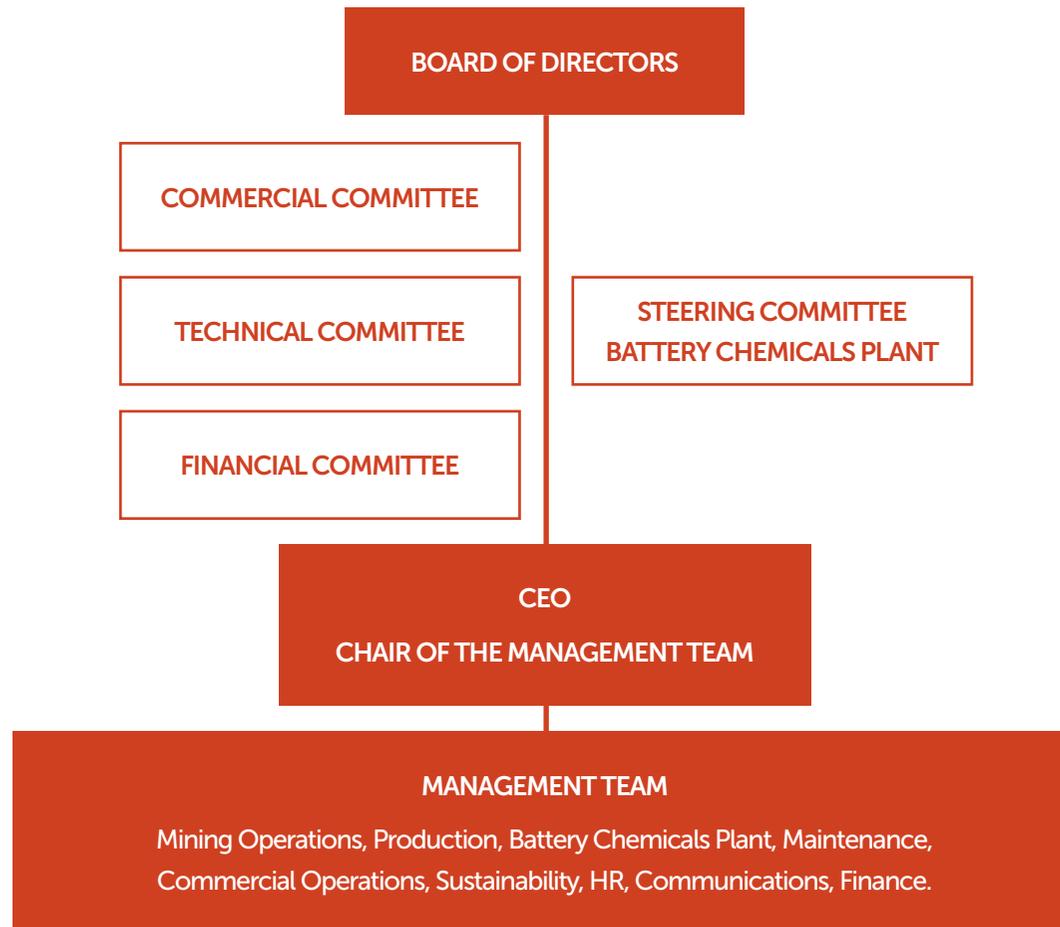
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Chief Executive Officer

The CEO is responsible for the day-to-day management of the company in accordance with the guidelines and regulations given by the Board of Directors (general authority). The CEO is responsible for ensuring the legal compliance of accounting practices and the reliable organisation of asset management.

The CEO of Terrafame is responsible for the operational management of the business in accordance with the strategic plans, budgets, action plans, guidelines and regulations approved by the Board. The CEO presents operational issues to the Board and is responsible for the implementation of decisions made by the Board.

Management Team

Terrafame's Management Team assists the CEO in achieving the company's operational and financial objectives and managing the company's business operations. The Management team handles the preparation of matters submitted to the Board for consideration, such as the strategy, budgeting and major business-related investments.

The Management Team reports to Terrafame's CEO and meets on a regular basis every other week.

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Committees

The shareholder agreement concerning the company provides for establishing three committees:

- The tasks of the Commercial Committee include the evaluation, monitoring and planning of commercially relevant issues of the company, as well as the acquisition of information related to them.
- The tasks of the Technical Committee include the evaluation, monitoring and planning of topical issues related to the company's production, operations of the mine and metals production plant and development projects, as well as the acquisition of information related to them.
- The tasks of the Finance Committee include the evaluation and monitoring of the company's finance position and the planning and preparation of initiatives to improve the position, as well as the acquisition of information related to them.

The members of the Committees are appointed in accordance with the shareholder agreement. The Committees operate in accordance with separate Rules of Procedure confirmed by the Board. No independent decision-making or representation powers have been assigned to the Committees.

Board's Steering Committee for the battery chemicals plant project

In autumn 2017, the Board of Directors of Terrafame decided to establish a Steering Committee for the battery chemicals plant project, tasked with supporting the project and monitoring its progress. The purpose of the Steering Committee is to monitor the progress of the project at regular monthly intervals, or more frequently as needed, and to support and guide the preparation of the project on key issues. Separate Rules of Procedure have not been confirmed for the Steering Committee, and no independent decision-making or representation powers have been assigned to it in the company. The Steering Committee reports regularly to the Board.

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The Board of Directors is responsible for the arrangement of internal control, risk management and internal auditing. Terrafame's Board has confirmed the company's principles concerning internal control and risk management. Considering the scope of the company's business, no internal audit organisation has been set up for the company.

Description of the main features of risk management systems

Terrafame assesses risks and opportunities as part of its business planning and decision-making processes. In order to limit unnecessary and excessive risk-taking, risks related to the company's operating environment, operational activities, environment, and financial position are assessed regularly when planning and managing business operations. The Board of Directors regularly reviews the risk information collected by the operational management.

Description of internal control procedures

The aim of Terrafame's internal control is to ensure that the company's operations are efficient and results will be achieved, business risks are adequately and appropriately managed, and the information produced is reliable. The internal control system is also used to monitor compliance with the company's policies and guidelines.

Main features of the internal control and risk management systems related to the financial reporting process

Terrafame seeks to ensure that the company's financial reporting complies with the requirements in force in such a way that the company's financial statements provide a true and fair view of the company's activities and financial position. The system for monitoring compliance with the requirements is based on the management's very exact and transparent reporting process and company-related values, as well as its corporate culture of emphasising honest and transparent activities.

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Principles for related-party transactions

Terrafame's Board of Directors has confirmed that the firm complies with parent company Suomen Malmijalostus Oy's (Finnish Minerals Group) policy for organising related party governance and dealing with related party transactions.

The related parties of Terrafame include members of the Board, CEO and management team members, persons responsible for Terrafame Ltd's commercial agreements, and immediate family members of persons referred to here, as well as entities over which they or their immediate family members have control.

The key related parties of Terrafame Ltd include the following entities: Finnish Minerals Group, the State of Finland, Galena Private Equity Resources Investment 2 L.P. and Galena Private Equity Resources Investment 3 L.P. funds, as well as Trafigura Ventures V B.V. Terrafame's related parties also include entities in which the Government of Finland exercises control or considerable influence.

According to the related party policy, the Board's exclusive competence includes all significant transactions involving the company's related parties, who/which may be natural persons or organisations. Decisions on transactions with related parties comply with the provisions of the Finnish Limited Liability Companies Act (624/2006). Terrafame applies an exemption pursuant to which it only reports significant transactions with State-related companies.

Terrafame's financial administration maintains a register of the firm's related parties (organisations and natural persons).

Auditing

The task of the statutory external audit is to verify that the financial statements and report of the Board of Directors provide accurate and adequate information on the company's result and financial position. In addition, auditing includes an audit of the company's accounting and administration.

The auditor has issued a statutory auditor's report to the shareholders of Terrafame in connection with the company's financial statements and has reported on his findings to the company's Board of Directors.

According to the Articles of Association, the auditor of Terrafame shall be an audit firm authorised by the Finnish Patent and Registration Office. The auditor's term of office expires at the close of the next Annual General Meeting following the auditor's election.

Governance in 2019

General Meeting

In 2019, the Annual General Meeting was held on 21 March, 2019.

Board of Directors

The Annual General Meeting of 2019 decided to re-elect all the members of the current Board of Directors. Lauri Ratia was elected Chair of the Board and Matti Hietanen as Vice Chair of the Board. The other members of the Board are Esa Lager, Tuomo Mäkelä, Jesus Fernandez, Emmanuel Henry and Riitta Mynttinen.

Terrafame's Board had no functioning committees in the 2019 financial period.

The Board was fully in charge of the Audit Committee's tasks.

Terrafame's Board has assessed the independency of its members. Of the members, Messrs Ratia, Lager, Mäkelä and Ms Mynttinen are all independent of the company and its shareholders. Mr Hietanen is the CEO of parent company Finnish Minerals Group and therefore not independent from a major shareholder. Messrs Fernandez and Henry are employed by Trafigura Group, which includes Terrafame's minority shareholders, the Galena funds, and they are therefore not independent from a major shareholder.

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Name	Born	Citizen-ship	Education/ Degree/Title	Principal occupation	Member of the Board	Independence
Lauri Ratia, Chair of the Board	1946	Finnish	M.Sc. (Eng.), Industrial Counsellor	Professional Board Member	2015	Independent
Matti Hietanen, Vice Chair of the Board	1977	Finnish	Master of Laws trained on the bench, M.Sc. (Econ.)	CEO, Finnish Minerals Group	2017	Not independent from a major shareholder
Jesus Fernandez	1976	Spanish	M.Sc., Finance and investment	Head of Mergers and Acquisitions, Trafigura Group Pte Ltd	2017	Not independent from a major shareholder
Emmanuel Henry	1973	French	M.A.Sc., Geostatistics	Global Head of Mining at Trafigura Group Pte	2017	Not independent from a major shareholder
Esa Lager	1959	Finnish	Master of Laws, M.Sc. (Econ.)	Professional Board Member	2015	Independent
Riitta Mynttinen	1960	Finnish	B.Sc. (Chem Eng), MBA	Professional Board Member	2018	Independent
Tuomo Mäkelä	1950	Finnish	Master of Science, geologist	CEO and Senior Advisor, Mining, Escanor Oy	2015	Independent

The Board members or the entities over which they exercise control held no shares or share-based rights in Terrafame.

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In 2019, the Board of Terrafame convened 12 times, including one telephone conference. Additionally, the Board has made written decisions on current matters by email.

Acting as Secretary to the Board was the parent company Finnish Minerals Group's lawyer or lawyer's deputy.

Name	Attendance at Board meetings	Attendance rate (%)
Lauri Ratia, Chair of the Board	12/12	100
Matti Hietanen, Vice Chair of the Board	12/12	100
Jesus Fernandez	6/12	50
Emmanuel Henry	11/12	92
Esa Lager	12/12	100
Riitta Mynttinen	12/12	100
Tuomo Mäkelä	12/12	100

The starting points for the Board's work are the values defined for Terrafame's operations: safety, commitment and efficiency. In 2019, the priorities of the Board's work were monitoring the implementation of Terrafame's production and business plan and financial performance and status, monitoring the implementation of the company's strategy, and the follow-up and improvement of occupational safety practices and measures. In addition, the Board set up a Steering Committee to monitor and supervise the progress of the battery chemicals plant project.

In February 2019, the Board of Directors of Terrafame decided to establish a long-term incentive scheme for the company's management and other key personnel. The incentive scheme is described in more detail in Terrafame's Remuneration Report for 2019, which is available on the company's website at www.terrafame.fi.

CEO and Management Team

In 2019, the CEO of Terrafame was Joni Lukkaroinen, b. 1965, M.Sc. (Tech.).

The members of Terrafame's Management Team in 2019 were:

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Name	Area of responsibility	Born	Education	Further information
Joni Lukkaroinen	Chief Executive Officer	1965	M.Sc. (Tech.)	
Antti Arpalahhti	Chief Production Officer	1983	M.Sc. (Tech.)	
Kristian Granit	Chief Refining Officer	1976	M.Sc. (Tech.)	Member of the Management Team since October 1, 2019.
Veli-Matti Hilla	Chief Sustainability Officer	1971	M.Sc. (Biology)	
Janne Palosaari	Chief Commercial Officer	1976	M.Sc. (Tech.)	
Petri Parjanen	Chief HR Officer	1969	M.Sc., Psychology, MBA	
Sanna Päiväniemi	Chief Communications Officer	1965	M.Sc., Agriculture and Forestry	Member of the Management Team since February 1, 2019.
Matti Rautiainen	Chief Maintenance Officer	1963	Technician	
Ville Sirviö	Chief Financial Officer	1982	M.Sc. (Econ.)	
Reijo Uusitalo	Chief Mining Officer	1955	M.Sc. (Tech.)	

Acting as the Secretary to the Management Team was Terrafame's department manager for project operations. The CEO and other members of the Management Team or the entities over which they exercise control held no shares or share-based rights in Terrafame at the end of the 2019 financial period.

Related party transactions

Transactions between the company and its related parties in 2019 are described in the section Financing arrangements of Terrafame's report for the financial period and in note 5 to the financial statements.

Committees

Commercial Committee

The Commercial Committee comprised Joni Lukkaroinen (Chair), Janne Palosaari, Jawad Benkhadra, Trafigura, Socrates Economou, Trafigura, and Gonzalo De Olazaval, Trafigura, and it convened three times in 2019.

Technical Committee

The Technical Committee comprised Harri Natunen (Chair), Antti Arpilahi and Jean Joubert, Trafigura, and it convened three times in 2019.

Finance Committee

The composition of the Finance Committee was not established, and no meetings of the committee were convened during 2019.

Board's Steering Committee for the battery chemicals plant project

The Board's Steering Committee for the battery chemicals plant project comprised Lauri Ratia (Chair), Tuomo Mäkelä and Emmanuel Henry. The Steering Committee convened once a month in 2019.

The Board's Steering Committee's meetings were also attended by the Steering Committee for the battery chemicals plant's construction project which included Joni Lukkaroinen (Chair), Harri Natunen, Antti Arpilahi and Kristian Granit, and the shareholders' experts Piritta Salonen, Finnish Minerals Group, and Greg Morris, Trafigura. The Project Steering Committee convened weekly in 2019.

Auditing

Terrafame's auditor is the Authorised Public Accountants KPMG, with Antti Kääriäinen, APA, as principal auditor.

The auditor's fee and possible expenses are reimbursed in accordance with an invoice approved by the company. In 2019, the fees paid to the auditor were as follows:

Fees paid to the auditor, EUR	2019	2018
For the audit	91,000	82,000
Non-audit services	19,000	50,000

In addition, EUR 27,515 which has been paid to the Authorised Public Accountants KPMG regarding a system development project for the financial administration, has been booked into investments.

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The background of the slide features a black and white photograph of industrial pipes and structures, likely from a refinery or chemical plant. The pipes are arranged in a complex, geometric pattern, with some running vertically and others horizontally or diagonally. The lighting creates strong shadows and highlights, emphasizing the metallic texture and industrial nature of the scene. The image is partially obscured by a large white triangular shape that points towards the center of the slide.

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