

Remuneration policy

March 4, 2020

Terrafame



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1. Introduction

Terrafame Ltd. ("Terrafame" or the "Company") is a non-listed company registered in Finland.

The Company's parent company is Suomen Malmijalostus Oy (Finnish Minerals Group), which is wholly owned by the State of Finland.

The administration and decision-making of the Company are, in addition to the Company's Articles of Association and the applicable legislation, governed by the Government Resolution on State Ownership Policy of 13 May 2016. (The said State Ownership Policy, together with any new or revised state ownership policy or other remuneration guidelines or principles which the State of Finland may publish after the presentation of this Policy to the AGM, is below referred to as the "Ownership Policy"). At the time this remuneration policy is presented to the Company's Annual General Meeting of Shareholders the Company is categorized as an unlisted commercially operating company in the Ownership Policy.

In remuneration, including in the remuneration of the Members of the Board of Directors and the Chief Executive Officer, Terrafame abides by the Ownership Policy.

Based on the Ownership Policy, the Company despite its status as an unlisted company complies, as applicable, with the Finnish Corporate Governance Code for listed companies approved by the Finnish Securities Market Association (the "CG Code"). The previous CG Code of 2015 has been replaced by a new CG Code effective as of the beginning of the year 2020. The remuneration reporting rules of the previous CG Code are replaced by the new CG Code in phases during a transitory period which covers the years 2020 - 2021. The old and the new CG Code are available at cgfinland.fi. The term "CG Code" when used below, refers to the new CG Code, together with certain applicable rules prescribed in the previous CG Code, which are still applicable during the transitory period in 2020, or any new or revised CG Code.

Based on the rules prescribed in the CG Code, the Company shall from the year 2020 onwards prepare a remuneration policy of its governing bodies

The amendment to the EU Shareholder Rights Directive (SRD) (Directive (EU) 2017/828)) sets a duty for listed companies to prepare and maintain on their website a remuneration policy of their governing bodies. The CG Code is part of the set of rules through which SRD is implemented in Finland and sets a duty for companies to prepare and publish the remuneration policy.

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Based on the above, Terrafame has prepared this remuneration policy which sets the principles for the remuneration of its governing bodies which are the Board of Directors (the "Board" and its members below the "Board Members") and the Chief Executive Officer ("CEO") of Terrafame (the "Remuneration Policy" or "Policy").

This Policy is presented to the Company's Annual General Meeting of Shareholders (the "AGM") of the year 2020. It shall be applied until the AGM of the year 2024 unless earlier replaced with a new or revised remuneration policy presented to the AGM.

Main Principles of the Remuneration Policy of the Board

The main principles in the remuneration of the Board Members in Terrafame are openness, fairness and market consistency.

The main element of the Board Members' compensation is a fixed fee per term of office approved by the AGM. The fixed fee should be competitive enough to attract and retain high calibre individuals qualified to serve as Board Members. Among the main responsibilities of the Board are approving Terrafame's long-term objectives and strategy and monitoring their implementation. By contributing to the achievement of Terrafame's long-term and strategic targets, the Board's Remuneration Policy at the same time should contribute to Terrafame's long-term financial performance and success. The purpose of the term of office compensation, at the same time, is to sufficiently compensate for the time commitment required for the Board Members' contribution to the Board's work and for the associated responsibility.

Main Principles of the Remuneration Policy of the CEO

The main principles in the CEO's remuneration in Terrafame are rewarding for good performance, that remuneration shall be reasonable and fair as well as transparency.

Observing the above-mentioned main principles, the objectives of the remuneration for the CEO of Terrafame are to align the interests of the CEO with those of the Company's shareholders and to promote shareholder value creation in the long term. Other key objectives of the CEO's remuneration are to reward for achievements in implementing Terrafame's strategy and for achieving Terrafame's financial targets.

Consideration of the remuneration of the Company's Employees in setting up this Policy

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In conformity with the principles underlying the remuneration of the CEO, the main principles in the remuneration of Terrafame's personnel are rewarding for good performance, that remuneration shall be reasonable and fair as well as transparency. Incentive schemes and performance measures for these schemes are developed with these principles in mind.

In conformity with the above, Terrafame aims to ensure that its employees can share in the success of the Company in its operations. The goal is that besides the management, including the CEO, other personnel may be covered by a bonus plan based on the achievement of predefined targets set by the Board such as for example safety and production related targets.

Terrafame employees are offered benefits in line with the local market practices.

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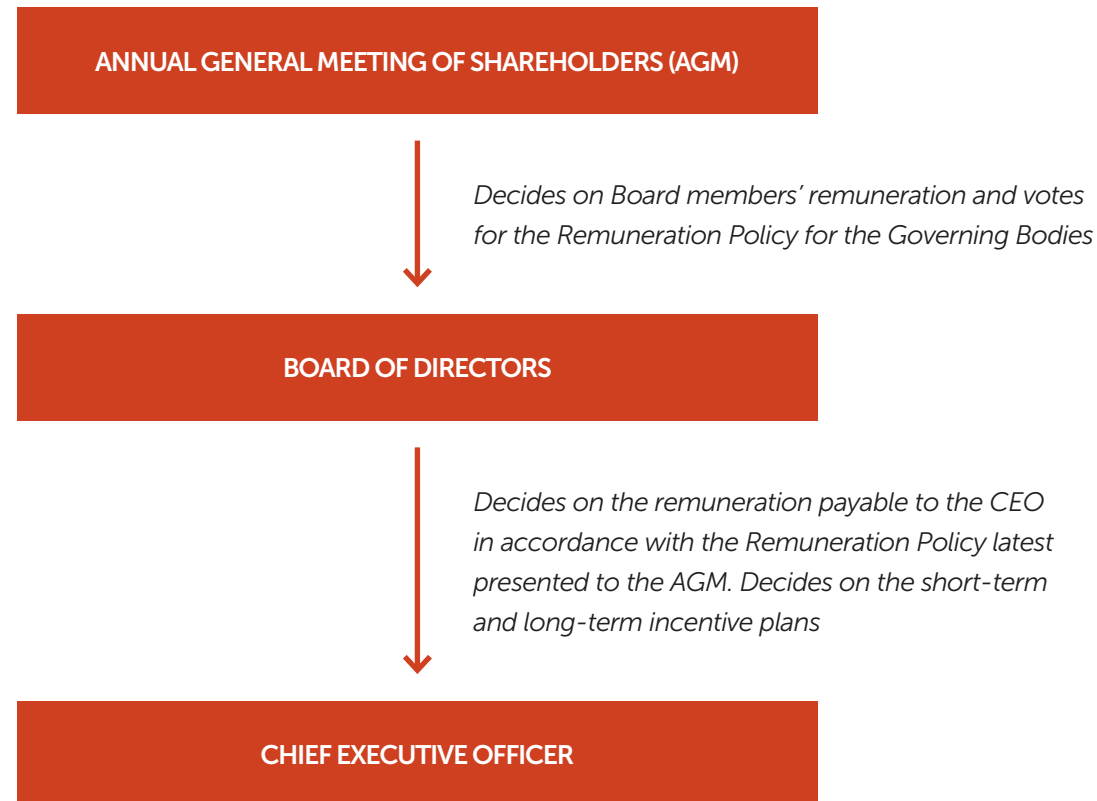
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2. Decision-making procedure in remuneration related matters

The AGM decides annually on the remuneration payable to the members of the Board of Directors and any of its committees. The Board decides on the salary and other remuneration of the CEO and on the targets of the CEO's variable pay.

The Board prepares the Remuneration Policy and presents it to the AGM for approval at least every four years. The Board prepares the report on materialized remuneration of the Board and the CEO and presents it to the AGM annually.



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Oversight of the Implementation of the Policy

The materialization of the Policy is presented in the remuneration report which is presented to the AGM and published annually. The Board regularly reviews and evaluates how the CEO's Remuneration Policy is implemented. The Board's review of the CEO's remuneration considers benchmarking of the different remuneration components to market practice and levels in corresponding positions in the relevant peer group and in the relevant local market.

Measures to prevent conflicts of interest

The Company's governance principles in decision-making on remuneration aim at ensuring the prevention and management of conflicts of interest. The underlying principle is that the corporate organ which elects the respective corporate organ also decides on its remuneration. The Company observes the rules set in its Code of Conduct, the Finnish Companies Act and the Finnish Corporate Governance Code which stipulate governance procedures and rules for the avoidance of conflicts of interest. The decision-making process described above aims at guaranteeing that the decisions are fair and unbiased.

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3. Remuneration of the Board of Directors

The AGM decides on the remuneration payable to the Board Members. Subject to as in each case decided by the AGM the Board remuneration may consist of the elements described below.

The remuneration of the Board Members may consist of a fixed fee for the term of office and meeting fees paid for each meeting attended. The fees may vary based on e.g. specific role or position in the Board or its committees, specific tasks designated to individual Board Members or the geographical location of the meeting. The fees are paid in cash. Travel expenses of independent Board Members are compensated in accordance with Company policy.

The Board Members have no share incentive plans, share-based compensation plans or pension plans. In order to safeguard the Board Members' independence in the performance of their duties, they are also excluded from the remuneration plans and incentive schemes of the executive management and other personnel.

In accordance with the above and subject to as in each case decided by the AGM there shall be no variable remuneration paid to the Board Members or any performance-based compensation. None of the above-described remuneration elements which may become payable to Board Members are regarded as variable remuneration.

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4. Remuneration of the CEO

The remuneration of the CEO aims at providing competitive rewards in line with market practice within the confines of this Policy. The fixed compensation elements consist of the fixed base salary and fringe benefits. Incentives as variable compensation elements emphasize pay-for-performance and the achievement of Terrafame's short- and long-term goals thus aligning the interests of the CEO with the interest of Terrafame's shareholders. The CEO's remuneration may consist of the elements described in the table below.

Fixed remuneration	Purpose and link to strategy	Principles and Opportunity
Fixed base salary	Provides a competitive fixed compensation.	The fixed base salary is defined as a gross salary including fringe benefits. The base salary is reviewed annually, as part of the review of the CEO's total compensation.
Fringe benefits	Provides fringe benefits for the role in line with market practices.	The CEO is entitled to benefits following the applicable Company policy as may be amended from time to time. Examples include, but are not limited to, a mobile phone benefit and internet allowance. The CEO has the same statutory insurances as the entire personnel and may be entitled to potential additional insurances customary in the position of the CEO.

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Variable remuneration	Purpose and link to strategy	Principles and Opportunity
Short-term incentives ("STI")	Rewards performance within the year, based on the achievement of annual key performance indicators thus supporting the achievement of strategic targets.	<p>The CEO is eligible for participating in Terrafame's short-term incentive scheme (STI). The performance measures, weightings and the target levels for the selected STI measures are set annually by the Board to ensure they are relevant to the CEO's position, take into account the strategy and the business plan and support long-term development and success of the Company on an annual basis.</p> <p>The measures may consist of financial and operational metrics, safety, corporate and social responsibility and environmental sustainability related metrics, key development projects, individual targets and other measures deemed relevant by the Board.</p> <p>Following the year-end, the Board reviews the STI performance and the extent to which the targets have been achieved and determines the final STI pay-out.</p> <p>The CEO's STI earning opportunity relative to his annual base salary is set by the Board.</p> <p>Within the limits of total variable pay, the CEO may exceptionally, based on a decision of the Board in each case, be paid one-off project bonuses based on key development projects where the individual's contribution is outstanding as in each case determined by the Board.</p>

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Variable remuneration	Purpose and link to strategy	Principles and Opportunity
Long-term incentives ("LTI")	Incentivizes and rewards over a longer period for sustained performance and sustainable growth and aligns the interests of the CEO with the shareholders.	<p>The CEO is eligible for participating in Terrafame's long-term incentive scheme (LTI). LTI plans are normally designed as cash-based plans and they offer a possibility to earn rewards for achieving long-term targets. The LTI performance measures may include measures linked to long-term financial targets and strategic priorities, performance against competitors, measures related to shareholder value creation, and other performance measures. The measures are set by the Board and may vary by plan.</p> <p>Following the end of the performance period, the Board reviews the LTI performance and the extent to which the targets have been achieved and determines the final LTI pay-out.</p> <p>The LTI plans may at the Board's choice either be one-time plans or based on a rolling structure in which annually commencing plan periods run in parallel and vest in an annual sequence. The length of the performance periods and plan periods will be set by the Board and are usually at least three years of length.</p> <p>The CEO's LTI earning opportunity relative to his annual base salary is set by the Board.</p>
Common variable pay principles		<p>No overlapping performance metrics are used in STI and LTI.</p> <p>Ownership Policy may set maximum limits to total variable pay or separately to individual variable pay elements.</p> <p>Terrafame abides by the variable pay principles and limits of the Ownership Policy.</p>

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Other remuneration elements	Purpose and link to strategy	Principles and Opportunity
Pension	Rewards sustained contribution.	The retirement age of the CEO and his/her pension is determined based on statutory pension.
Service contracts and loss of office payments	Ensures clear contractual terms are followed.	<p>The period of notice for the CEO is six months at the maximum. The aggregate severance package of the CEO, including the salary for the notice period and the severance pay, may be up to the equivalent of six months' salary.</p> <p>The treatment of rewards based on ongoing STI and LTI plan(s) will depend on the circumstances of the CEO's departure. In case of retirement or death or in case of termination at the initiative of the Company, the CEO may be entitled to the STI and LTI reward(s) or a portion thereof as determined by the Board based on the rules of the respective incentive scheme. If the CEO terminates his/her contract at his/her own initiative, the unvested rewards are as a main rule forfeited.</p>
Withholding and clawback of rewards	Ensures pay for performance.	The STI and LTI plan rules may allow the Board to withhold or reject payment of a reward before the reward has vested or has been paid in certain exceptional circumstances such as materially changed financial or other circumstances of the Company (e.g. a financially distressed position of the Company). In case of individual gross misconduct which has caused a misstatement of the financials based on which the performance measures have been set or the performance has been measured, the Board may cancel entitlement to the reward or claim back and recover the already paid reward (clawback).

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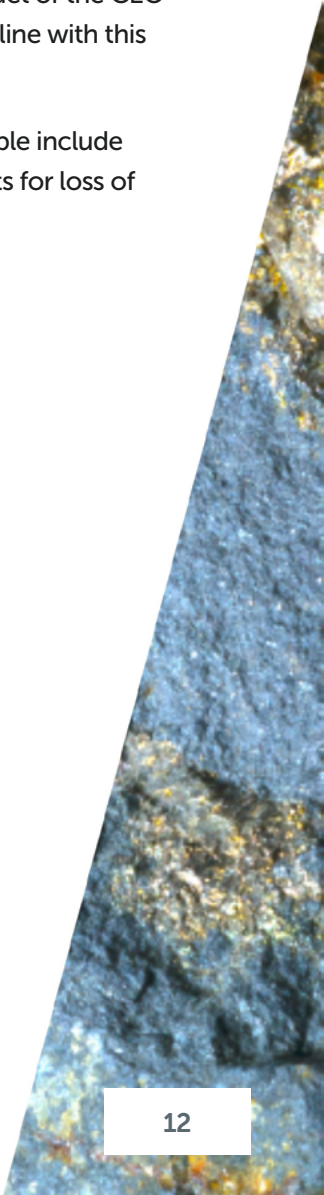
Other remuneration elements	Purpose and link to strategy	Principles and Opportunity
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Previously agreed awards

Current CEO of Terrafame started in his office prior to the presentation of this Policy to the AGM and implementation of the current ownership policy on May 13, 2016.

The Board reserves the right to make and honour any payments and terms agreed in the contract of the CEO notwithstanding that they may not be in line with this Policy.

Such payments and terms may for example include remuneration payments and/or payments for loss of office and the agreed retirement age.



5. Deviation from this Policy

If the continued adherence to the Policy would in the opinion of the AGM (with respect to Board remuneration) or in the opinion of the Board (with respect to CEO remuneration), after careful consideration, not be appropriate or well-grounded anymore due to the grounds mentioned in the next paragraph below, Terrafame may in order to safeguard its long-term interests temporarily deviate from this Policy. In the assessment of its long-term interests, Terrafame may among other aspects especially take into account its long-term financial success and performance, its competitiveness, safeguarding the undisturbed continuation of its business or the undisturbed implementation of its strategy and financial targets or the development of the shareholder value.

Among the grounds for a temporary deviation from this Policy may be:

- a revised or new Ownership Policy,
- a structural change (change in Terrafame's corporate, group, business or organizational structure or a material change in Terrafame's ownership structure),
- a personnel change (such as changes in the Board or in the top management of Terrafame or need to recruit a CEO or Deputy to the CEO),
- a material change in Terrafame's strategy or business plan,
- a material change in Terrafame's financial position or outlook,
- other exceptional or unexpected event or change or materially changed circumstances in Terrafame or in its business or operating environment,
- regulatory or judicial changes or rulings, changes in governmental or administrative orders or in taxation or taxation practice, or
- other change or circumstances not specified above,

if it is after careful consideration deemed that a deviation is necessary or advisable in order to safeguard Terrafame's long-term interests, operations or sustainability such as, without limitation, in order to ensure the continuity of the Company's management.

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The temporary deviation from this Policy may in the AGM's or the Board's full discretion, as applicable, concern any and all of the elements of this Policy and of payable remuneration, including, but not limited to, the amount, type, elements and conditions of payable remuneration and the terms applied thereto. Where necessary in case of the recruitment of a new CEO or Deputy to the CEO, additional benefits may also be provided such as, but not limited to, relocation support and expatriate allowance and other benefits which reflect local market practice and applicable legislation.

The procedure to be followed in the deviation from this Policy shall be the same as the decision-making procedure for the implementation of this Policy described above in this Policy. If the deviation concerns Board remuneration, the decision-making may involve an annual or extraordinary shareholder meeting as applicable in the individual circumstances. The deviation and its grounds shall be reported in the next annual Remuneration Report and presented to the next AGM as part thereof.



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