

Corporate Governance Statement 2020

March 24, 2021

Terrafame



Introduction

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, as well as 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 at www.cgfinland.fi/en.

This Corporate Governance Statement has been prepared in accordance with the reporting guidelines 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, which will be published at the same time as, but separately from, the Board of Directors' Report for the financial year 1 January – 31 December 2020. The Corporate Governance Statement, as well as the Board of Directors' Report and the company's financial statements, are available at www.terrafame.com.

The corporation of authorized public accountants KPMG Oy Ab, acting in its capacity as the elected auditor of Terrafame Oy for the financial year 2020, has checked to ensure that the statement has been issued and that its 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 provided 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 based on the fact that the company's securities are not publicly traded.

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Governing bodies

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



General Meeting

The General Meeting is held annually to confirm the company's financial statements, decide on the distribution of profits, decide on the election of Board members and the auditor and determine their fees, 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.

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 key duties is to make significant decisions related to the company's operating principles, strategy, investments, organisational structure and finances.

According to the Articles of Association, the Board of Terrafame has 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 with regard to Terrafame's production process and line of business. In addition, the completion of Terrafame's battery chemicals plant project highlights the importance of expertise in chemistry and the automotive industry and its subcontracting networks. This enables the Board to carry out its duties as efficiently as possible, particularly those related to the company's strategy, finances and risk management. The Board's diversity with respect to competence and gender enables the achievement of Terrafame's business objectives. Both genders are represented on Terrafame's Board of Directors.

In 2020, 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 backgrounds also serve 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 Chair and the Board committees.

The Rules of Procedure cover the following aspects: 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 and 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	Preparing the remuneration policy and remuneration report
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 or videoconferencing. On 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 reasonably achieved, the decisions of the Board will 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 Chair casts the deciding vote. The provisions of the Limited Liability Companies Act are observed with regard to the disqualification of Board members.

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 has not established any committees from among its members.

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Management of the company

Terrafame has one business area with the following operational activities: mining, metals production, a battery chemicals plant and commercial operations. The company's support functions include finance, HR, factory services, technology, project operations, sustainable development and communications. As agreed in the shareholder agreement, the company has three committees, as well as the Board's Steering Committee, which supports and monitors the progress of the battery chemicals plant project.



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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 issued by the Board of Directors (general authority). The CEO is responsible for ensuring the legal compliance of the company's accounting practices and the reliable organisation of its asset management.

The CEO of Terrafame is responsible for the operational management of business operations in accordance with the strategic plans, budgets, operational plans, guidelines and regulations approved by the Board. The CEO presents operational matters 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 its business operations. The Management Team is responsible for preparing matters to be submitted to the Board for consideration, such as strategy, budgeting and major business-related investments.

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

Committees

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

- The duties of the Commercial Committee include the evaluation, monitoring and planning of commercially relevant matters of the company, as well as the acquisition of information related to them.
- The duties of the Technical Committee include the evaluation, monitoring and planning of topical matters related to the company's production, operations of the mine and the metals production plant and development projects, as well as the acquisition of information related to them.
- The duties of the Finance Committee include the evaluation and monitoring of the company's position in terms of funding 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 the autumn of 2017, Terrafame's Board of Directors decided to establish a Steering Committee for the battery chemicals plant project. The Board's Steering Committee is responsible for supporting the project and monitoring its progress. The purpose of the Steering Committee is to monitor the progress of the project regularly at monthly intervals, or more frequently as needed, and to support and guide the preparation of the project in terms of key aspects. No separate Rules of Procedure have been confirmed for the Steering Committee, and no independent decision-making or representation powers have been assigned to the committee in the company. The Steering Committee reports regularly to the Board.

Control systems

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 operations, 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. 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, that business risks are adequately and appropriately managed, and that 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 operations 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 company complies with its parent company's (Suomen Malmijalostus Oy – Finnish Minerals Group) policy for organising related party governance and processing related party transactions.

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

Terrafame's key related parties include the following entities: Suomen Malmijalostus Oy – 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 State 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 disqualification 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 company's related parties (organisations and natural persons).

Auditing

The purpose of the statutory external audit is to verify that the financial statements and the Board of Directors' Report provide accurate and adequate information about the company's performance and financial position. In addition, the auditing includes an audit of the company's accounting and governance.

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 their findings to the company's Board of Directors.

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

Governance in 2020

General Meeting

In 2020, the Annual General Meeting was held on 4 March 2020.

Board of Directors

The Annual General Meeting of 2020 decided to re-elect all the members of the current Board of Directors. Lauri Ratia was elected as Chair of the Board and Matti Hietanen as its Vice Chair. 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 2020 financial period.

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

Terrafame's Board has assessed the independency of its members. Of the members, Lauri Ratia, Esa Lager, Tuomo Mäkelä and Riitta Mynttinen are all independent of the company and its shareholders. Matti Hietanen is the CEO of the parent company, Suomen Malmijalostus Oy – Finnish Minerals Group, and therefore not independent of a major shareholder. Jesus Fernandez and Emmanuel Henry are employed by Trafigura Group, which includes Terrafame's minority shareholders, the Galena funds. Therefore, they are not independent of a major shareholder.

Members of the Board

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Name	Year of birth	Nationality	Education/ Degree/Title	Principal occupation	Member of the Board	Independence
Lauri Ratia, Chair	1946	Finnish	MSc (Technology), Industrial Counsellor	Board professional	2015	Independent
Matti Hietanen, Vice Chair	1977	Finnish	Master of Laws trained on the bench, MSc (Economics)	CEO, Suomen Malmi- jalostus Oy – Finnish Minerals Group	2017	Not independent of a major shareholder
Jesus Fernandez	1976	Spanish	MSc (Finance and Investment)	Head of M&A, Trafigura Group Pte	2017	Not independent of a major shareholder
Emmanuel Henry	1973	French	MASc (Geostatistics)	Co-Head of Mining Group, Trafigura Group Pte	2017	Not independent of a major shareholder
Esa Lager	1959	Finnish	Master of Laws, MSc (Economics)	Board professional	2015	Independent
Riitta Mynttinen	1960	Finnish	Chemical Engineer, MBA	Board professional	2018	Independent
Tuomo Mäkelä	1950	Finnish	MSc, 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 2020, the Board of Terrafame convened 12 times, of which altogether 10 meetings were virtual. In addition, the Board has made written decisions on current matters by email.

Acting as Secretary to the Board was the parent company's (Suomen Malmijalostus Oy – Finnish Minerals Group) lawyer or their deputy.

Member	Attendance at meetings	Attendance rate, %
Lauri Ratia, Chair	12/12	100
Matti Hietanen, Vice Chair	12/12	100
Jesus Fernandez	9/12	75
Emmanuel Henry	12/12	100
Esa Lager	12/12	100
Riitta Mynttinen	12/12	100
Tuomo Mäkelä	12/12	100

The Board's work is based on the values determined for Terrafame's operations: safety, commitment and efficiency. In 2020, the Board's work focused on monitoring the implementation of Terrafame's production and business plan and its financial performance and position, monitoring the implementation of the company's strategy, and monitoring and improving 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.

CEO and Management Team

Joni Lukkaroinen served as the CEO of Terrafame in 2020.

In 2020, Terrafame's Management Team consisted of the following members:

Name	Area of responsibility	Year of birth	Education	Further information
Joni Lukkaroinen	Chief Executive Officer	1965	MSc (Technology)	
Antti Arpalahti	Chief Production Officer	1983	MSc (Technology)	
Kristian Granit	Manager of the battery chemicals plant	1976	MSc (Technology), engineer	
Veli-Matti Hilla	Chief Sustainability Officer	1971	MSc	
Janne Palosaari	Chief Commercial Officer	1976	MSc (Technology)	
Petri Parjanen	Chief HR Officer	1969	MSc (Psychology), MBA	Member of the Management Team until 9 August 2020
Sanna Päiväniemi	Chief Communications Officer	1965	MSc (Agriculture and Forestry)	
Matti Rautiainen	Chief Maintenance Officer	1963	Technician	
Ville Sirviö	Chief Financial Officer	1982	MSc (Economics)	
Reijo Uusitalo	Chief Mining Officer	1955	MSc (Technology)	Member of the Management Team until 18 June 2020
Seppo Voutilainen	Chief Mining Officer	1971	MSc (Technology)	Member of the Management Team since 1 September 2020

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 2020 financial period.

Related party transactions

Transactions between the company and its related parties in 2020 are described in the “Financing arrangements” section of the Board of Directors’ Report and in Note 5 to the financial statements.

Committees

Commercial Committee

In 2020, the Commercial Committee closely monitored the company’s preparations for the commercialisation of battery chemicals products. The committee convened once in every two months on average. The Commercial Committee consisted of Joni Lukkaroinen (Chair) and Janne Palosaari, as well as Jawad Benkhadra, Socrates Economou and Gonzalo de Olazaval (Trafigura).

Technical Committee

The Technical Committee consisted of Antti Arpalahti (Chair) and Harri Natunen and Piritta Salonen (Suomen Malmijalostus Oy – Finnish Minerals Group), as well as Jean Joubert (Trafigura). The committee convened four times in 2020.

Finance Committee

The Finance Committee consisted of Lauri Ratia (Chair), Matti Hietanen, Esa Lager and Jesus Fernandez, who are Board members, as well as Joni Lukkaroinen and Ville Sirviö as representatives of the company. The Finance Committee convened four times in 2020.

Board’s Steering Committee for the battery chemicals plant project

In 2020, the Board’s Steering Committee for the battery chemicals plant projects consisted of Lauri Ratia (Chair), Tuomo Mäkelä and Emmanuel Henry. The Steering Group met once a month.

The meetings of the Board’s Steering Group were also attended by the members of the Steering Committee for the battery chemicals plant construction project, including Joni Lukkaroinen (Chair), Harri Natunen, Antti Arpalahti, Kristian Granit and Pertti Pekkala, as well as Piritta Salonen (Suomen Malmijalostus Oy – Finnish Minerals Group) and Greg Morris (Trafigura) as experts representing the company’s shareholders. The Steering Committee convened weekly in 2020.

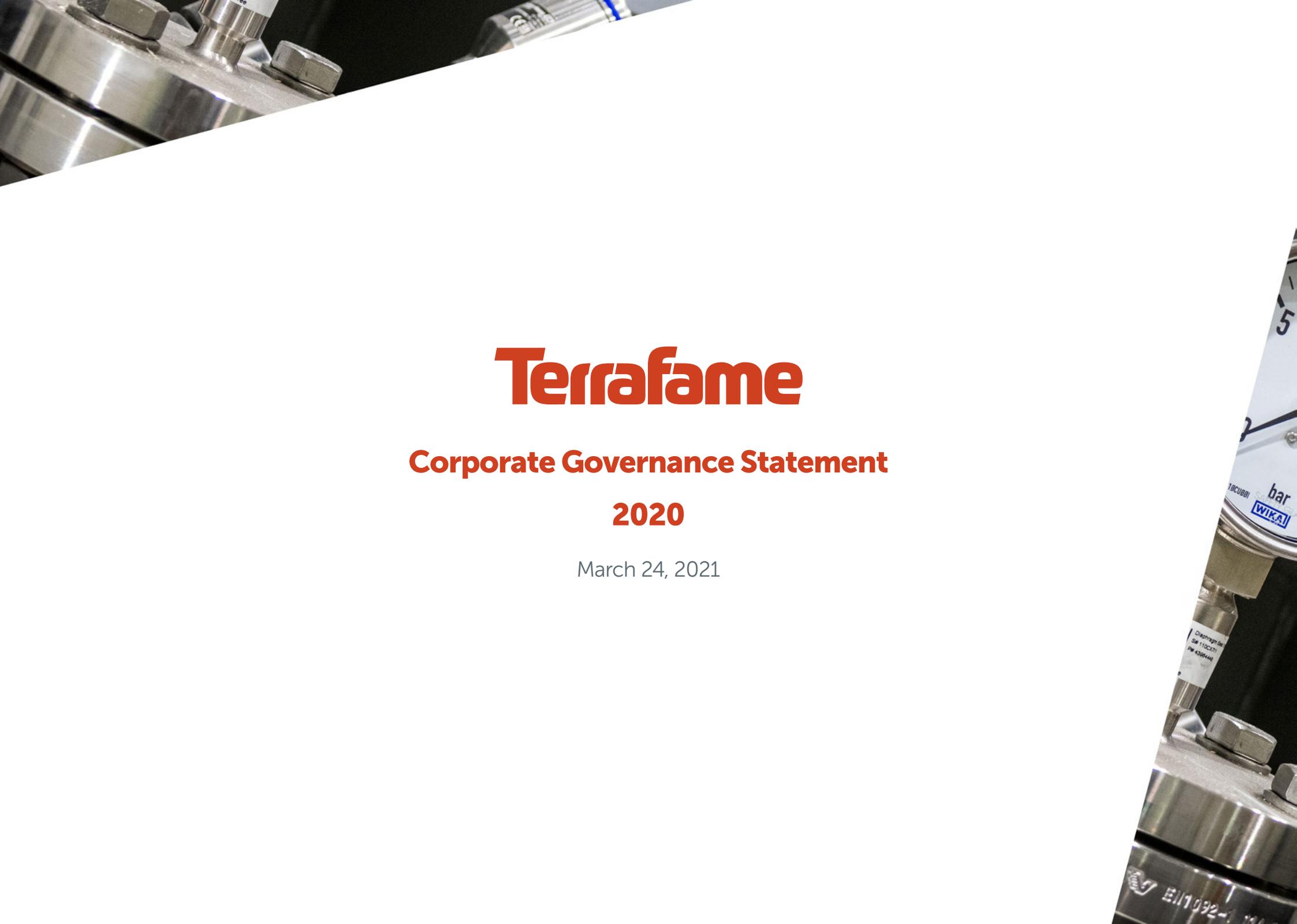
Audit

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

The auditor's fee is paid and expenses are reimbursed in accordance with an invoice approved by the company. In 2020, the fees paid to the auditor were as follows:

Fees paid to the auditor, EUR	2020	2019
For the audit	92,000	91,000
Non-audit services	52,400	19,000

In addition, a total of EUR 53,600 was paid to KPMG with regard to a financial management system development project. This amount is recognised in investments.

The background of the slide features a close-up, high-angle view of industrial machinery, likely a pressure vessel or a large-scale testing apparatus. The machinery is made of polished metal, possibly stainless steel, and includes various components such as bolts, nuts, and cylindrical sections. On the right side, a pressure gauge is visible, showing a scale with the number '5' and the unit 'bar'. The gauge has a blue and white label with the 'WIKAI' logo. Below the gauge, there is a small white label with black text that reads 'Diagnostik für', 'Ser. 1100071', and 'PW 4301441'. At the bottom right, another part of the machinery is visible with the text 'E117092-'. The overall lighting is bright, highlighting the metallic surfaces and creating a professional, industrial atmosphere.

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