

Terrafame's net sales in Q1/2021 amounted to EUR 93,4 million - company is preparing to start the Battery Chemicals plant

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

January-March 2021 in brief

- Nickel production was 7,286 (8,362) tonnes which is 12.9% less than in the previous year. Zinc production was 12,212 (15,542) tonnes. Electricity supply problems limited production in January.
- During the review period, the average price of nickel on the London Metal Exchange increased by 38% and was 17,554 (12,723) USD/t.
- The average price of zinc on the London Metal Exchange increased by 29% during the review period and was 2,749 (2,128) USD/t.
- Net sales in the review period were EUR 93.4 (96.1) million.
- Decrease in net sales was especially due to lower production volumes than in the comparison period.
- EBITDA in the review period was EUR 9.6 (11.3) million, or 10.3% (11.7) of net sales.
- The operating result was EUR -0.7 (1.6) million in the review period.
- Free cash flow from operating activities was EUR -21.9 (25.3) million.
- The combined lost-time injury frequency rate (LTIFR) of Terrafame and all its partners was 8.4 (14.3).

Financial and production key figures

	2021 Q1	2020 Q1	Change, %	2020
Financial figures				
Net sales, EUR million	93.4	96.1	-2.8 %	338.3
EBITDA, EUR million	9.6	11.3	-15.0 %	23.8
Operating result, EUR million	-0.7	1.6	na	-16.9
Work in progress, EUR million ⁽¹⁾	192.6	186.3	3.4 %	190.2
Free cash flow, EUR million ⁽²⁾	-21.9	25.3	na	13.8
Capital expenditure, total, EUR million	32.7	43.3	-24.5 %	201.8
Sustaining capex, EUR million	6.3	8.5	-25.9 %	39.5
Development and growth capex, EUR million	26.4	34.8	-24.1 %	162.3
Equity, EUR million	475.6	415.5	14.5 %	442.1
Total assets, EUR million	925.5	863.2	7.2 %	918.5
Metals production				
Nickel produced, tonnes	7,286	8,362	-12.9 %	28,740
Zinc produced, tonnes	12,212	15,542	-21.4 %	55,100

1) Free cash flow from operating activities after sustaining capital expenditure = EBITDA - change in net working capital - sustaining capital expenditure without right-of-use assets.

Joni Lukkaroinen, CEO of Terrafame:

“The sales of electric vehicles were strong during the review period. The global sales of electric vehicles almost doubled in January–February 2021 compared with the corresponding period in 2020 and were around 603,000 (314,000) units. The impacts of the coronavirus pandemic are reflected in the comparison figures for 2020, with vehicle manufacturers around the world discontinuing production to prevent the spread of the pandemic. However, after the sharp decline in early 2020, the sales of electric vehicles recovered rapidly and it is estimated that this year the sales of electric vehicles will increase by almost 50%.

The timing of the start-up of our battery chemicals plant is excellent. The coronavirus pandemic has caused some delays in the delivery of materials and equipment and the completion of installation work, but the project has generally progressed almost perfectly in line with its original schedule and budget. At the end of March, the completion level of the construction and commissioning was 97%, and ramp-up measures have been proceeding in all process areas.

Our net sales in the first quarter of 2021 were EUR 93.4 (96.1) million. Production volumes decreased year-on-year, with electricity supply problems caused by very cold weather with high minus degrees limiting production in January. EBITDA was EUR 9.6 (11.3) million in the review period.

Safety is one of our key values. We are closely monitoring the development of the coronavirus pandemic and continuing our active measures to prevent the spread of the epidemic to our industrial site. We are also continuing our work to strengthen the safety culture on our industrial site. The project started at the end of 2020 to develop operating models has already produced results, and Terrafame employees had no lost-time accidents during the first quarter of 2021. The combined rolling 12-month lost-time injury frequency rate (LTIFR) of Terrafame and its partners decreased markedly year-on-year and was 8.4 (14.3) at the end of the review period.”

Market environment

Electric vehicle and battery markets

According to Rho Motion, the global sales of electric vehicles almost doubled in January–February 2021 compared with the corresponding period in 2020 and were around 603,000 (314,000) units. In February 2020, the impact of the coronavirus caused the sales of electric vehicles to decrease significantly in China, with OEM manufacturers announcing production ramp-downs. In Europe, the sales of electric vehicles continued at a strong level for the first two months of 2020.

Including all vehicle categories, the sales-weighted average pack size was 43 kWh in February 2021, representing a slight decrease from the previous year (44 kWh). The market share of batteries with a high nickel content continued to grow rapidly in early 2021. The market share of NCM 811 batteries increased to around 11% in January–February 2021 from around 5% in the corresponding period in 2020. The market share of NCM 622 batteries was around 30% in January–February 2021 (around 43% in January–February 2020). The market share of NCM 712 batteries, which were introduced in the summer of 2020, was 6% in February 2021.

Nickel and zinc

The prices of base metals on the London Metal Exchange (LME) increased strongly during the review period. The average market price of nickel in the first quarter of 2021 was USD 17,556 (12,723) USD/t, which is 38% higher than in the corresponding period of 2020. The average price of nickel was around 10% higher in the review period than in the last quarter of 2020 (15,930).

The average market price of zinc also rose strongly on the LME during the review period. The average price of zinc in the review period was 2,749 (2,218) USD/t, which is 29% higher than in the corresponding period of 2020 and 5% higher than in the last quarter of 2020 (2,628).

The total combined nickel stocks on the London Metal Exchange (LME) and the Shanghai Futures Exchange (SHFE) stood at 269,874 tonnes at the end of the review period. The stocks increased somewhat from the end of 2020 (267,012) and the end of the first quarter of 2020 (257,439). The stock level corresponds to demand for around 5 (5.5) weeks. Zinc stocks stood at 389,529 tonnes at the end of the review period, corresponding to demand for less than 2 weeks (around 1 week). The stock level increased markedly from the end of the first quarter of 2020 (234,008) and the end of the last quarter of 2020 (231,154).

Currency exchange rate

The US dollar weakened in relation to the euro early in the year. The average EUR/USD exchange rate for the review period was 1.20 (1.10 in the first quarter of 2020 and 1.19 in the last quarter of 2020).

Metal production

Nickel production decreased by 12.9% in the review period, totalling 7,286 (8,362) tonnes. Zinc production decreased by 21.4%, totalling 12,212 (15,542) tonnes. Electricity supply problems caused by very cold weather with high minus degrees limited production in January.

The planned annual maintenance shutdown at the metals recovery plant will take place in May.

Net sales and financial performance

Net sales in the review period decreased by 2.8% and were EUR 93.4 (96.1) million. Decrease in net sales was especially due to lower production volumes than in the comparison period.

EBITDA in the review period was EUR 9.6(11.3) million, or 10.3% (11.7) of net sales. Preparing for the start-up of the battery chemicals plant increased costs compared with the previous year.

The operating result for the review period EUR –0.7 (1.6) million, and the free cash flow from operating activities* was -21.9 (25.3) million. The cash flow was burdened by the EUR 25.2 million increase in the net working capital.

* Free cash flow from operating activities after sustaining capital expenditure = EBITDA – change in net working capital – sustaining capital expenditure without right-of-use assets.

Financing arrangements

In the beginning of the year, Terrafame drew out a total of around EUR 46 million of the equity financing (EUR 115 million in total) negotiated with the Finnish Minerals Group and Galena in August 2020. Around EUR 46 million of the financing remained unused at the end of March.

At the end of the review period, the shareholders' holdings were distributed as follows:

Finnish Minerals Group	66.9%
Galena Funds (Trafigura)	31.3%
Sampo plc	1.9%

Capital expenditure

Capital expenditure totalled EUR 32.7 (43.3) million in the review period. Of this total, EUR 26.4 (34.8) million was used to improve productivity and increase capacity, and EUR 6.3 (8.5) million was used to sustain production.

The most important investments in increasing capacity were related to the construction of the battery chemicals plant.

At the end of March, the completion level of the construction and commissioning was 97%.

The most significant investment projects related to sustaining production were the construction of the new waste rock area, the purchase of spare parts for mining equipment and ore crushing lines, changes to the conveyors in the secondary leaching area, and the start-up of the construction of the new roof of the intermediate storage building.

Personnel and partner network

Terrafame had 883 (804) employees at the end of the review period, which represents an increase of 9.8% year-on-year. This includes 69 people participating in a two-year apprenticeship training programme leading to a vocational qualification in the process industry. The programme is organised by Terrafame in cooperation with Kainuu Vocational College and Educational Consortium OSAO.

An average of around 150 long-term partner companies operated on Terrafame's industrial site during the review period. An average of 1,085 (937) people employed by contractors and subcontractors worked on the site during the review period (FTE). This also includes the people who worked on the construction project of the battery chemicals plant.

Sustainability

Sustainability is an important part of Terrafame's strategy. Terrafame operates fully in accordance with the laws and regulations issued by the authorities. The company is committed to the UN Global Compact principles in its operations. We also respect the ILO Declaration on Fundamental Principles and Rights at Work in our operations. In addition, Terrafame's employees and partners, as well as its suppliers of raw materials, must comply with the Code of Conduct and the principles of the sustainability policy. Policy implementation is supported by Terrafame's certified management system (ISO 9001, ISO 45001 and ISO 14001) and more detailed operating guidelines.

Sustainability programme

Terrafame's purpose is to enhance low-carbon mobility with responsible battery chemicals. We started a sustainability programme in 2020, setting ambitious numerical and qualitative targets for the development of our operations for 2020–2024. The themes and targets of the sustainability programme are linked to the UN Sustainable Development Goals as far as applicable. The implementation of the sustainability programme is monitored annually in our sustainability report, which is published in the spring. More information about the sustainability programme is available on our website at www.terrafame.fi -> Terrafame Ltd -> Responsibility

Competence development and operating culture

Highly competent employees are an important asset to Terrafame.

Summer workers, as well as trainees from educational institutions and students writing their thesis with us, are an important group for us, alongside our permanent staff. Our summer workers and trainees come from a wide area, which also increases general awareness of our industry and our company's operations. This summer, Terrafame aims to hire around 90 summer workers, despite the exceptional arrangements caused by the coronavirus pandemic. Our summer workers are prospective future employees of Terrafame.

On 31 March 2021, the first group of students completed the apprenticeship training programme started in 2019. Of the 20 students, 17 are continuing to work for the company under employment

relationships that are valid until further notice. A total of 49 students are participating in the apprenticeship training programme in groups that started in the autumn of 2019 and spring of 2020.

Terrafame expects its partners to make a commitment to the Code of Conduct, high-quality operations, safety and continuous improvement of efficiency. Terrafame assesses the operations of its partner companies through regular audits conducted during the contract period, after the completion of work and when selecting new partners through competitive bidding.

In January–March 2021, a total of 3 (4) supplier audits were conducted using the supplier evaluation tool introduced in June 2020. During the first three months of the year, three partner meetings were held to discuss the company's operating principles, the principles of the UN Global Compact initiative and the zero tolerance rules adopted by the company as part of enhanced safety work in 2020. A total of 150 representatives of partner companies participated in the meetings.

Safety at work

Safety is one of the core values at Terrafame, and continuous development of a safety culture has been one of the main priorities since the company was established. Operations within the industrial site must be safe for both the company's own employees and those of its partners in all circumstances and situations. We aim for zero accidents.

Occupational safety indicators, 12-month LTIFR1	Q1/2021	Q1/2020	Change, %	2020
Accident frequency rate, Terrafame employees	6.6	8.3	-20.5	8.3
Accident frequency rate, partner companies	9.4	18.8	-50.0	10.6
Total accident frequency rate on the industrial site	8.4	14.3	-41.3	9.8

Towards the end of 2020, the company started a project to further develop operating models for the company to ensure the continuous improvement of safety at work and reliable production. The project has already produced results, and Terrafame employees had no lost-time accidents during the first quarter of 2021.

The environment and environmental permits

Terrafame monitors the state of the environment around the industrial site in accordance with the permit decisions and the monitoring programme approved by the authorities. The essential parts of the monitoring reports for 2020 are available in Finnish on the company's website at

www.terrafame.fi -> Terrafame Oy -> Ympäristövaikutukset ja -tarkkailu ->

Ympäristötarkkailuraportit. The summary and self-monitoring report, as well as the appendices of the fish monitoring report that are still being finished will be added to the website as soon as they have been completed, no later than by the end of May. The monitoring report for the first quarter of 2021 is expected to be available on the website in May. Production in January–March 2021 was within the permit limits.

On 20 January 2021, the Regional State Administrative Agency for Northern Finland granted an environmental permit to Terrafame for its battery chemicals plant.

Governance

Board of Directors

On 11 March 2021, Terrafame Ltd's Annual General Meeting (AGM) decided to elect Jyrki Vainionpää, 44, MSc (Econ.), as a new member of the Board of Directors. He currently serves as the CEO of Adven Group. He is independent of the company and its significant shareholders. Esa Lager, who has served as a Board member since 2015, had announced that he was no longer available for re-election.

The AGM confirmed the number of Board members as seven (7). The following Board members were re-elected: Lauri Ratia (Chair), Matti Hietanen (Vice Chair), Riitta Mynttinen, Tuomo Mäkelä, Jesus Fernandez ja Emmanuel Henry.

Management Team

On 5 January 2021, Terrafame announced that Heini Hämäläinen, MSc (Tech.), had been appointed as Chief HR Officer and a member of the Management Team as of 25 January 2021. Her predecessor, Petri Parjanen, MSc (Psych.), MBA, left the company on 9 August 2020.

Near-term outlook

The price development of metals always involves uncertainty.

The planned annual maintenance shutdown at the metals recovery plant will take place in May.

Commercial production at the battery chemicals plant is starting. The production of battery chemicals is expected to increase the company's net sales from late 2021.

Terrafame continues to invest in improving its safety culture, production and cost-effectiveness.

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Terrafame's purpose is to enhance low-carbon mobility with responsible battery chemicals. Terrafame's integrated production process – which begins in its own mine and ends with battery chemicals on one industrial site – is a unique and energy-efficient production chain that provides customers with battery chemicals that have a markedly smaller carbon footprint than the industry average.

Terrafame Ltd was founded in 2015. Its net sales in 2020 were EUR 338 million, and around 2,000 people worked on its industrial site, slightly more than half of whom worked there through partner companies.

www.terrafame.fi