**Stock Exchange Release**
**Talvivaara Mining Company Plc**
**14 February 2013**

# Talvivaara Mining Company annual results review for the year ended 31 December 2012

## Production and operations impacted by water balance situation

## Financing arrangements to secure liquidity for continued ramp-up to full capacity

**Highlights of Q4 2012**

- Nickel production of 2,317t and zinc production of 4,106t
- Production impacted by gypsum pond leakage in November and continuing challenging water balance situation throughout the fourth quarter
- Metals plant operations stabilized following leakage
- Pekka Perä returned as CEO in November 2012
- Further increase in total Mineral Resources announced in November 2012; updated resources contain an estimated 3.0Mt of nickel in Measured and Indicated categories confirming Talvivaara's long mine life

**Highlights of 2012**

- Nickel production of 12,916t and zinc production of 25,867t
- Heavy rainfall and rapid spring melt aggravated water balance situation and impacted production throughout the year
- Ore production temporarily suspended since September 2012; anticipated cost savings have been realized
- Continued improvement in equipment utilization rates and availabilities across processes
- A number of measures have been taken to manage the water balance in the future, including a new water recycling system and investments in reverse osmosis technology; over the medium term, the Company continues to target a nearly closed water circulation system

**Highlights after the reporting period**

- Kainuu ELY Centre has on 12 February 2013 decided to allow Talvivaara to pursue the treatment and release of excess waters from the mine area; mining operations expected to re-commence in July 2013
- Temporary lay-offs of 184 employees between 18 February and 30 June 2013 to support Talvivaara's cost saving initiatives
- Promising development in production processes:
  - All-time record average flow-rate of 1,422 $m^3/h$ through the metals plant in January
  - 98% process availability of the metals plant in January
  - Strong evidence of leaching performance quickly improving in heap sections from which excess water has been removed
- Actual year-to-date nickel production of 1,448t until 12 February

**Financing arrangements**

Talvivaara has sought a number of financing arrangements to de-risk the Company's balance sheet, secure liquidity for the continued ramp-up of operations towards full capacity and provide an appropriate capital structure to enable repayment or refinancing of short- and medium-term indebtedness.

The financing transactions consist of:

- Underwritten rights issue to raise approximately EUR 260 million in gross proceeds
- Renegotiated EUR 100 million revolving credit facility
- Increase of advance payment from Cameco by USD 10 million to USD 70 million
- EUR 12 million up-front payment from Nyrstar

The financing transactions are described in more detail in the corresponding Stock Exchange Release published simultaneously with this announcement and a Shareholder Circular expected to be published in the afternoon of 14 February 2013 on Talvivaara's website, www.talvivaara.com.

**Guidance for 2013**

Talvivaara anticipates producing approximately 18,000t of nickel and 39,000t of zinc in 2013. Metals production will continue to be impacted by the water balance issues in the first half of the year, but is expected to return to a clear ramp-up during the remainder of the year driven by the re-start of ore production in July. The operational expenditure including leasing for 2013 is estimated at approximately EUR 230 million, including EUR 10-15 million budgeted for the treatment and release of excess waters from the mine area. Capital expenditure is anticipated to amount to EUR 60 million, including approximately EUR 20 million to be spent in water management with the target of reaching a sustainable water balance situation at the mine site.

**Key figures**

| EUR million | **Q4 2012** | Q4 2011 | **FY 2012** | FY 2011 |
|---|---|---|---|---|
| Net sales | **25.7** | 66.5 | **142.9** | 231.2 |
| Operating profit (loss) | **(57.0)** | 14.9 | **(83.6)** | 30.9 |
| % of net sales | **(221.9%)** | 22.5% | **(58.5)%** | 13.4% |
| Profit (loss) for the period | **(59.4)** | 3.7 | **(103.9)** | (5.2) |
| Earnings per share, EUR | **(0.22)** | 0.01 | **(0.38)** | (0.04) |
| Equity-to-assets ratio | **24.3%** | 27.9% | **24.3%** | 27.9% |
| Net interest bearing debt | **563.8** | 455.7 | **563.8** | 455.7 |
| Debt-to-equity ratio | **183.8%** | 141.3% | **183.3%** | 141.3% |
| Capital expenditure | **29.6** | 21.6 | **97.5** | 79.1 |
| Cash and cash equivalents at the end of the period | **36.1** | 40.0 | **36.1** | 40.0 |
| Number of employees at the end of the period | **588** | 461 | **588** | 461 |

**CEO Pekka Perä comments:** *"We have today announced a holistic financing arrangement to de-risk Talvivaara's balance sheet and significantly improve our liquidity position. The challenges encountered over the past year have resulted in production shortfalls, and combined with a weak nickel price environment, resulted in the need to raise additional capital. Through the measures announced today, we are both securing Talvivaara's liquidity position as we resolve our remaining operational challenges, but also put in place a more appropriate capital structure for the longer term as we resume the ramp-up of production.*

*Our fundamental strengths and opportunities remain unchanged. Talvivaara's current resources contain an estimated 4.5 million tonnes of nickel, sufficient to support decades of operations. We have proven that the bioheapleaching process works as expected, provided that it is managed optimally, and a number of process and organizational changes have been implemented to ensure delivery of consistent and improved leaching results. Our clear vision remains for Talvivaara to become a Finnish mining champion of considerable international significance. Talvivaara also plays an important role for the Kainuu region in Finland, and we employed close to 600 people at the end of 2012 with significant additional benefits through contractors and follow-on effects. The announced capital raise is critical to secure resources to achieve our vision for Talvivaara, and continue to create growth in Finland and the local region in particular.*

*Notwithstanding our longer-term targets, near-term challenges remain that we are addressing. The water balance situation caused by a year of historically heavy rainfall and rapid snow melt had a material impact on our production in 2012, and ultimately culminated in the gypsum pond leakage in November. We expect to continue to see the water balance issues impacting our production in the coming months, and our nickel production target of 18,000 tonnes for 2013 reflects a more material production ramp-up only during the second half of the year. We are taking a number of measures to implement a sustainable longer-term water balance with the target of operating a closed circuit, but this will take some time. On 12 February we received a key decision from the monitoring authority allowing the discharge of purified* *excess water from the mine site, which is a central next step to moderate the water balance and lower operational risk levels. While the discharged waters are neutralized of metals and harmful substances, regrettably some sulphate remains expected to cause a temporary increase in the sulphate content of the nearest lakes.*

*Our disappointing financial result for the year, and in particular for the fourth quarter, mirrors the lower-than-expected production and EUR 23 million of costs and provisions for the gypsum pond leakage and water balance management measures. Further, the nickel price environment was relatively weak throughout the year, with nickel recording the weakest performance across base metals. Whilst the backdrop of a rapidly unfolding European economic crisis and the prospect of weakening demand from China depressed market sentiment in 2012, we remain confident of the long-term trajectory for nickel driven by rapid production cost escalation across the industry.*

*Finally, during the fourth quarter I returned as CEO to work alongside the management team and all of our employees as we overcome Talvivaara's near-term challenges. I would like to take this opportunity to thank everyone at Talvivaara for their considerable dedication and our shareholders for their on-going support."*

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**Finnish language press conference on 14 February 2013 at 10:00 GMT / 12:00 EET**

A Finnish language press conference on the annual results and financing arrangements will be held on 14 February 2013 at 10:00 GMT / 12:00 EET at G.W. Sundmans (auditorium), Helsinki, Finland.

**English language presentation and live webcast on 14 February 2013 at 11:30 GMT / 13:30 EET**

An English language combined presentation, conference call and live webcast on the annual results and financing arrangements will be held on 14 February 2013 at 11:30 GMT / 13:30 EET at G.W. Sundmans (auditorium), Helsinki, Finland.

**The webcast can be accessed through the following link:**
http://qsb.webcast.fi/t/talvivaara/talvivaara_2013_0214_q4/

A conference call facility is available for participants joining via telephone and there will be a Q&A following the presentation.

**Listen via teleconference:**
Europe & U.K. Participants: +44 (0)20 7162 0077
US Participants: +1 334 323 6203
Finnish Participants: +358 (0)9 2313 9202

**Conference ID: 928245**

Further details on the event can be found on the Talvivaara website, www.talvivaara.com. The webcast will also be available for viewing on the Talvivaara website shortly after the event until the end of 2013.

**Talvivaara's fourth quarter review**

**Metals production stabilized after the gypsum pond leakage**

Talvivaara produced 2,317t of nickel (Q4 2011: 4,769t) and 4,106t of zinc (Q4 2011: 10,524t) in the fourth quarter of 2012. Metals production was impacted by the gypsum pond leakage in November and the continuing challenging water balance situation throughout the quarter.

On 4 November, Talvivaara announced that it had detected a leakage in the gypsum pond at the mine. The leakage was located on 7 November, the majority of it was stemmed during the following days and it was completely stopped on 14 November. While most of the water that leaked from the pond was contained within the mining concession area by existing dams and the newly built fourth safety dam, some of the leakage water was discharged into the environment while the fourth safety dam was being constructed. Most of the discharged water was however successfully neutralised with lime to precipitate metals from it and to increase its pH close to neutral. The metal precipitates were caught in a swamp area located close to the southern edge of the mining concession area. Following the leakage, Talvivaara purchased the affected area in December and commenced measures to remove and treat the contaminated soil.

Talvivaara's metals recovery plant was temporarily suspended between 4 and 21 November as a precautionary measure due to the leakage. Since the successful re-start on 21 November, plant performance continued satisfactory during the remainder of the year. However, some short term disturbances in the automation systems impacted production in December and these are being investigated to avoid future re-occurrence. Solution flow rates at the plant varied from around 800 $m^3$/h to 1,400 $m^3$/h in December outside of the short-term disturbances.

Bioheapleaching continued to suffer from the excess water in circulation which has affected the process since the spring of 2012 due to the excessive rainfall experienced. The water balance issues were further intensified in November by the gypsum pond leakage, which forced the Company to pump additional excess water into the heap circulation in order to minimize the environmental effects of the leak. As a result, nickel grades in solution pumped to metals recovery continued to decline during the fourth quarter and reached a level of around 1.3 g/l at year-end. However, the Company estimates it will take some months before substantial improvement in the grades can be expected.

As previously announced, Talvivaara's ore production has been suspended since September 2012 due to the prevailing water balance situation. The Company anticipates re-commencing mining of new ore in July 2013 once the main part of the Kuusilampi open pit has been de-watered. While ore production was suspended, some waste mining continued in the fourth quarter and the mining department produced 1.2Mt of waste rock which was used in the construction of secondary heap foundations (Q4 2011: 2.0Mt). During the quarter, the mining fleet was also used in assisting in primary heap reclaiming and safeguarding measures related to the gypsum pond leakage.

*Production key figures*

| | | **Q4 2012** | Q4 2011 | **FY 2012** | FY 2011 |
|---|---|---|---|---|---|
| **Mining** | | | | | |
| Ore production | Mt | **-** | 3.2 | **8.7** | 11.1 |
| Waste production | Mt | **1.2** | 2.0 | **5.3** | 17.0 |
| **Materials handling** | | | | | |
| Stacked ore | Mt | **-** | 3.2 | **8.7** | 11.1 |
| **Bioheapleaching** | | | | | |
| Ore under leaching | Mt | **44.3** | 35.6 | **44.3** | 35.6 |
| **Metals recovery** | | | | | |
| Nickel metal content | Tonnes | **2,317** | 4,769 | **12,916** | 16,087 |
| Zinc metal content | Tonnes | **4,106** | 10,524 | **25,867** | 31,815 |

**Financial performance in the fourth quarter of 2012**

*Net sales and financial result*

Talvivaara's net sales for nickel and cobalt deliveries to Norilsk Nickel and for zinc deliveries to Nyrstar during the quarter ended 31 December 2012 amounted to EUR 25.7 million (Q4 2011: EUR 66.5 million). In addition, Talvivaara commenced production of saleable quantities of copper sulphide in October and sold its first copper products under spot arrangements. Net sales decreased by 42.6% compared to Q3 2012 primarily due to lower production as a result of the gypsum pond leakage and depressed metal grades in leach solution. Product deliveries in Q4 2012 amounted to 2,183t of nickel, 70t of cobalt and 8,178t of zinc.

Changes in inventories of finished goods and work in progress amounted to EUR (6.4) million (Q4 2011: EUR 17.5 million). Due to discontinued mining and crushing operations no new ore was stacked during Q4 2012 and work in progress increased less in Q4 2012 than during normal operations. In addition, the inventories of finished goods were reduced due to year-end reconciliation of the inventory.

The operating loss for Q4 2012 was EUR (57.0) million (Q4 2011: profit of EUR 14.9 million), corresponding to an operating margin of (221.9%) (Q4 2011: 22.5%). During the period, materials and services amounted to EUR (20.0) million (Q4 2011: EUR (37.7) million) and other operating expenses to EUR (33.4) million (Q4 2011: EUR (13.1) million). Materials and services and other operating expenses increased by 23.7% compared to the third quarter of 2012. The increase was primarily due to the costs incurred as a result of the gypsum pond leakage and water balance management. During Q4 2012, the costs incurred as a result of the gypsum pond leakage amounted to EUR 1.7 million. Talvivaara has also recognised EUR 12.2 million in provisions for costs related to the leakage, in particular those anticipated to be incurred in the clean-up of the land contaminated with metal precipitates, and the treatment and subsequent discharge of waters stored in the safety dams. A further EUR 9.1 million provision has been recognised for the necessary water storage and pumping arrangements and waste water neutralization measures to secure a sustainable water balance at the mine site.

Loss for the period amounted to EUR (59.4) million (Q4 2011: profit of EUR 3.7 million).

*Balance sheet and financing*

Capital expenditure during the last quarter of 2012 totaled EUR 29.6 million (Q4 2011: EUR 21.6 million). The expenditure related primarily to the uranium extraction circuit, secondary leaching and pond and dam structures built to contain the gypsum pond leakage and minimise any environmental effects. Talvivaara received advance payments of EUR 9.7 million from Cameco to cover the construction costs of the uranium extraction circuit during the period.

**Base metals prices recovered slightly towards the end of 2012**

Base metals prices reached their lowest levels during 2012 in the autumn, and recovered slightly towards the end of the year as macroeconomic concerns started to abate. Nickel closed the year at approximately USD 17,000/t, and recorded an average of approximately USD 17,400/t for December.

London Metal Exchange ("LME") nickel stocks increased throughout 2012. The reported December stock level of approximately 138,000 tonnes was the highest since early 2011.

**Talvivaara's annual results review 2012**

**Nickel market impacted by macroeconomic concerns**

In 2012, the nickel market along with other base metals was impacted by concerns over global macroeconomic growth. Having started the year at around USD 20,000/t, the nickel price declined to its lowest monthly average since mid-2009 of approximately USD 15,700/t in August, as the Eurozone crisis intensified and markets reacted to concerns over lower commodities demand growth in China in particular. While the nickel price recovered to USD 17,000-18,000/t by the end of the year, nickel had the weakest price performance among the base metals complex in 2012.

Global primary nickel consumption grew by 4% to 1.66 million tonnes during the year, and Chinese consumption totaled 0.77 million tonnes representing approximately 45% of the global market. Chinese demand growth slowed down to approximately 10% in 2012, as compared to 20% in 2011. *(Source: CRU)*

On the supply side, global primary nickel supply amounted to 1.71 million tonnes in 2012, leaving the market at a surplus of some 46,000 tonnes. China continued to be a significant importer of nickel, with Chinese consumption exceeding supply by an estimated 0.31 million tonnes. Delays in the commissioning of several large greenfield nickel projects has continued to be a pertinent feature of the market. *(Source: CRU)*

The EUR/USD exchange rate was largely driven by unfolding of the Eurozone crisis during the year. The Euro traded at 1.30-1.35 U.S. dollars until the spring, and declined to its 2012 low of approximately 1.20 U.S. dollars in August before returning to the 1.30-1.35 range by the end of the year.

**Production and operations significantly impacted by water balance situation**

Talvivaara closed the year having produced 12,916t of nickel (2011: 16,087t) and 25,867t of zinc (2011: 31,815t). Over the course of 2012, Talvivaara faced increasing challenges with the water balance at the mine site, as rapid snow melt in the spring and historically heavy rainfall in the spring and summer materially increased the amount of excess water that had been accumulating at the mine site. The challenging water balance forced Talvivaara to temporarily cease the production of new ore as of September 2012, diluted metal grades in leach solution leading to reduced metals production and culminated in the gypsum pond leakage in November 2012.

Talvivaara took steps throughout the year to manage the excess water on site, starting with the installation in early 2012 of a new water recycling system reducing the need for raw water intake. In April, the Company announced that it will invest in reverse osmosis technology for purification of sulphate containing waters. The first two reverse osmosis units were subsequently commissioned in November, enabling further increase in process water recycling and substantial reduction in raw water intake. A third reverse osmosis line will be installed during the spring of 2013. Despite these measures, the water balance situation at the mine became increasingly more challenging as the year progressed, in particular due to rapid snow melt in the spring and historically heavy rainfall through the summer and early autumn. The excess water on site and in solution circulation diluted metals grades in leach solution, thereby impacting metals production. Talvivaara also decided to alter its near-term production scheme as of September 2012 by temporarily suspending the production of new ore, as excess water had to be stored in the open pit and Talvivaara already had a substantial nickel inventory under leaching.

In November, the water balance challenges culminated in the gypsum pond leakage, where a portion of the excess water on site had been stored. The leakage, which was discovered on 4 November, was located on 7 November, the majority of it was stemmed during the following days and it was completely stopped on 14 November. While most of the water that leaked from the pond was contained within the mining concession area by existing dams and the newly built fourth safety dam, some of the leakage water was discharged into the environment while the fourth safety dam was being constructed. Most of the discharged water was however successfully neutralised with lime to precipitate metals from it and to increase its pH close to neutral. The metal precipitates were caught in a swamp area located close to the southern edge of the mining concession area. Following the leakage, Talvivaara purchased the affected area in December and commenced measures to remove and treat the contaminated soil.

Talvivaara's metals recovery plant was temporarily suspended between 4 and 21 November as a precautionary measure due to the leakage. Since the successful re-start on 21 November, plant performance continued satisfactory during the remainder of the year and became increasingly stable going into 2013.

In mid-March 2012, Talvivaara experienced a fatal incident at its metals recovery plant area, caused by a localised, temporary discharge of excess hydrogen sulphide gas from the metals recovery process. Following the incident, Talvivaara immediately lowered solution flow into the metals recovery plant and subsequently also started a maintenance stoppage, which was prolonged by an unscheduled stoppage with focus on preventive occupational safety-related modifications and improvements. The metals recovery plant was re-started by mid-April 2012; however, production was restricted for most of April due to the stoppage and subsequent changes to certain operating procedures, the implementation of which slowed down early ramp-up after the re-start.

Due to the extended stoppage following the fatality and the water management issues during the spring and summer, Talvivaara reduced its nickel production guidance for 2012 from 25,000-30,000t to approximately 17,000t in August. After the gypsum pond leakage and related production suspension in November, the Company was again forced to re-assess its full-year production target, and reduced it to approximately 13,000t of nickel.

At the departmental level, mining and materials handling produced and processed 8.7Mt of ore (2011: 11.1Mt) and 5.3Mt of waste (2011: 17.0Mt) in 2012. The challenging water balance situation started to impact ore production in the summer, as excess water had to be stored in the open pit and the production of new ore was temporarily suspended as of September 2012. Despite this, a record level of 1.5 million tonnes of ore was mined and subsequently crushed in July 2012 and equipment availabilities in materials handling approached the levels required for full-scale production. During the suspension of ore production, the mining fleet has been partly mobilized to assist in primary heap reclaiming, while some waste mining has also continued.

In bioheapleaching, the excess water in circulation and reduced evaporation diluted the metal grades in leach solution, and the high water content in the heaps also negatively affected leaching performance by reducing the efficiency of aeration. As a result, the average nickel grade in the solution pumped to the metals recovery plant decreased throughout 2012, recording slightly below 2 g/l in early 2012, 1.8 g/l in the second quarter, between 1.5 and 1.6 g/l in the third quarter and 1.3 g/l in the fourth quarter. Measures to improve the leaching performance are being taken based on the findings from extensive operational bioheapleaching studies carried out during the autumn of 2012. Multiple changes are being implemented to ensure constant and balanced distribution of air within the primary heaps, and additional aeration into the secondary heaps is being introduced. Attention is also being paid to agglomeration and the quality and proper distribution of irrigation solutions. Furthermore, reclaiming and re-stacking of the existing primary heaps continues in order to enable efficient recovery of the existing nickel inventory under leaching.

In metals recovery, progress continued to be made throughout 2012 in increasing utilization rates and maintaining stability. The average flow rate at the plant reached around 1,500 $m^3/h$ for several periods and Talvivaara expects ramp-up to 1,600 $m^3/h$ in the near future. The stability of hydrogen sulphide production also improved following thorough maintenance of both hydrogen sulphide plants during the year and focus on the quality of the sulphur feed. Further, the overall improved process control helped in minimising the odour discharges such that noticeable odour discharges are now only associated with process disturbances, or start-up or shut-down phases relating to production stoppages.

Construction of the uranium recovery plant progressed according to plan during the year, with completion rate at close to 100% at year-end. Talvivaara also commenced production of saleable quantities of copper sulphide in October 2012. For the time being, the product is being sold under spot arrangements.

**Financial review**

*Net sales and financial result*

Talvivaara’s net sales for nickel and cobalt deliveries to Norilsk Nickel and for zinc deliveries to Nyrstar during 2012 amounted to EUR 142.9 million (2011: EUR 231.2 million). Net sales decreased by 38.2%

compared to 2011 mainly due to lower deliveries and the lower nickel price. Production was impacted by the challenging water situation at the mine throughout the year, the fatality at the metals recovery plant area in March and the gypsum pond leakage in November. Product deliveries amounted to 12,641t of nickel, 29,256t of zinc and 355t of cobalt (2011: 15,795t of nickel, 35,935t of zinc, 400t of cobalt).

The Group's other operating income amounted to EUR 4.1 million (2011: EUR 2.3 million) and mainly consisted of indemnities on losses and fair value gains on biological assets.

Materials and services were EUR (117.8) million in 2012 (2011: EUR (135.0) million) and other operating expenses were EUR (81.2) million (2011: EUR (55.2) million). The largest cost items were production chemicals, external services, electricity and maintenance. The costs of the gypsum pond leakage and water balance management measures amounted to EUR 23.0 million, including provisions.

Employee benefit expenses were EUR (28.1) million (2011: EUR (25.5) million). The increase was attributable to the increased number of personnel.

The operating loss for 2012 was EUR (83.6) million (2011: profit of EUR 30.9 million). The operating margin for 2012 was (58.5%) and was in particular affected by the water balance challenges and gypsum pond leakage in November (2011: 13.4%).

Finance income for 2012 was EUR 0.8 million (2011: EUR 1.2 million) and consisted mainly of exchange rate gains. Finance costs of EUR (46.5) million (2011: EUR (39.1) million) mainly resulted from interest and related financing expenses on borrowings.

The loss for the 2012 amounted to EUR (103.9) million (2011: EUR (5.2) million) reflecting the challenging nickel price, elevated costs due to the water balance challenges and gypsum pond leakage and lower than anticipated level of product deliveries. Earnings per share was EUR (0.38) (2011: EUR (0.04).

The total comprehensive income for 2012 was EUR (103.9) million (2011: EUR (14.6) million). In 2011, it included a reduction in hedge reserves resulting from the occurrence of the hedged sales.

*Balance sheet*

Capital expenditure in 2012 totaled EUR 97.5 million (2011: EUR 79.1 million). The expenditure related primarily to the uranium extraction circuit, earthworks in secondary leaching and secondary heap foundations and the dam and pond structures constructed due to the gypsum pond leakage. In addition, major investments were made in environmental technology to improve the quality of effluent waters and limit dust emissions. On the consolidated statement of financial position as at 31 December 2012, property, plant and equipment totaled EUR 809.5 million (31 December 2011: EUR 762.0 million).

In the Group's assets, inventories amounted to EUR 297.8 million on 31 December 2012 (31 December 2011: EUR 240.4 million). The increase in inventories reflects the ramp-up of production and the consequent increase in the amount of ore stacked on heaps, valued at cost. The temporary alteration to the near-term production scheme also affected the amount of inventories in the second half of 2012. The inventories of finished goods were reduced due to year-end reconciliation of the inventory.

Trade receivables amounted to EUR 32.2 million on 31 December 2012 (31 December 2011: EUR 64.0 million). The trade receivables decreased due to the suspension of metals production in connection with the gypsum pond leakage, which led to reduced product deliveries to customers during the last quarter of 2012.

On 31 December 2012, cash and cash equivalents totaled EUR 36.1 million (31 December 2011: EUR 40.0 million).

In equity and liabilities, total equity amounted to EUR 306.8 million on 31 December 2012 (31 December 2011: EUR 322.6 million). Talvivaara raised EUR 81.5 million, net of transaction costs, from an issue of 24,589,050 new shares in Q1 2012. In addition, interest cost of EUR 2.8 million of a perpetual capital loan was capitalized in equity. A total of 1,830,087 new shares were subscribed and paid for in 2012 under the company's stock option rights 2007A and the entire subscription price amounting to EUR 4.9 million was recognized in equity.

Borrowings increased from EUR 495.7 million on 31 December 2011 to EUR 599.8 million at the end of December 2012. The changes in borrowings during 2012 mainly resulted from the issue of a senior unsecured bond of EUR 110 million, a draw-down of EUR 20 million from the revolving credit facility, a repayment of commercial paper notes amounting to EUR 8.5 million and a buy-back of senior unsecured convertible bonds due 2013 with a nominal value of EUR 8 million.

Total advance payments as at 31 December 2012 amounted to EUR 273.7 million, representing an increase of EUR 26.5 million from EUR 247.3 million on 31 December 2011. During 2012, Talvivaara received a total of EUR 32.1 million in advance payments from Cameco based on the uranium off-take agreement between the companies, whilst the advance payment from Nyrstar was amortised by EUR 5.6 million as a result of zinc deliveries.

Total equity and liabilities as at 31 December 2012 amounted to EUR 1,260.8 million (31 December 2011: EUR 1,156.7 million).

*Financing*

In June, Talvivaara's EUR 130 million revolving credit facility was amended. In December, Talvivaara requested and was granted a covenant holiday from the banks. In addition, the total commitments of the revolving credit facility were reduced to EUR 100 million. As at 31 December 2012, EUR 70 million of the facility was drawn.

In April and May, Talvivaara conducted a buy-back for a portion amounting to a nominal value of EUR 8 million of the Company's senior unsecured convertible bonds due 2013. The remaining convertible bonds have a nominal value of EUR 76.9 million and are due in May 2013.

In March, Talvivaara issued a EUR 110 million senior unsecured bond. The 5-year bond has an issue price of 100%, pays a coupon of 9.75% and is callable after 3 years. The bond issue was sold to both Finnish and international institutional and private investors. The bond was settled and the notes were listed on NASDAQ OMX Helsinki in April.

In February, Talvivaara completed an issue of 24,589,050 new shares representing approximately 10 per cent of the number of the existing shares of the Company. The proceeds of the share issue amounted to EUR 82.6 million before commissions and expenses and to EUR 81.5 million net of costs. An Extraordinary General Meeting of Talvivaara Mining Company Plc resolved to approve the share issue in March, and the new shares were subsequently registered in the Finnish Trade Register.

**Going concern**

The Group's financial statements for the financial year 2012 have been prepared on a going concern basis taking account of the Group's on-going financing transactions, production forecasts and financial projections, and reasonably possible changes in production, metal prices and foreign exchange rates.

The Group has experienced a number of operational challenges in 2012, the prevailing water balance issues are continuing to impact production, and the recent nickel price environment has been weak. The Group is taking a number of measures to overcome its near-term operational challenges, but the full effect of these actions will only materialise over several months. Therefore, the Board believes that the Group must secure additional funds in order to be able to finance its operations and to repay its debts over the coming 12 months.

In order to address its liquidity situation, the Group has taken measures to reduce its costs and improve its overall efficiency, including temporarily suspending ore production since September 2012 and undertaking temporary layoffs due to the suspension of ore production. Further, the Company has renegotiated its EUR 100 million revolving credit facility and entered into an amended facility agreement on 14 February 2013, which, among other things, amended the financial and production covenants in the previous facility agreement to be more appropriate for the Group's current operations and, therefore, reduces the Company's risk in relation to compliance with its covenants. The amended facility remains subject to certain conditions subsequent, including the completion of the proposed rights issue discussed below and the Company receiving net proceeds therefrom of at least EUR 240 million by 30 April 2013.

To improve its liquidity and capital structure, the Company is also undertaking a rights issue. In connection with the proposed rights issue, the Company has on 14 February entered into a standby underwriting letter with banks, pursuant to which the banks have undertaken to underwrite, subject to certain conditions, such portion of the proposed rights issue that is not subject to shareholder commitments. The Company's three key shareholders have given their irrevocable commitments to subscribe in total 31.06 per cent of the proposed rights issue, which the Board is confident will be able to raise approximately EUR 260 million in gross proceeds. Proceeding with and completion of the rights issue remains subject to shareholder approval at an Extraordinary General Meeting to be held on 8 March 2013.

In order to ensure that the Group has sufficient liquidity until the Company receives the proceeds from the proposed rights issue, Talvivaara Sotkamo has on 12 February 2013 entered into an amendment agreement with Cameco concerning the uranium take-in-kind agreement pursuant to which the amount of the up-front investment that Cameco is to pay to Talvivaara Sotkamo for the construction of the uranium extraction facility was increased by USD 10 million to USD 70 million, and the duration of the agreement extended to 31 December 2017 and commercial terms revised accordingly. In addition, Talvivaara Sotkamo has on 14 February 2013 entered into an amendment agreement with Nyrstar regarding the zinc in concentrate streaming agreement pursuant to which Nyrstar is to make an up-front payment of EUR 12 million to Talvivaara Sotkamo in return for Talvivaara Sotkamo agreeing not to charge Nyrstar the EUR 350 per tonne extraction and processing fee on the next 38,000 tonnes of zinc in concentrate delivered to Nyrstar as was agreed in the original zinc in concentrate streaming agreement.

The Board believes that taking into account receipt of the proceeds of the proposed rights issue and subject to the conditions subsequent under the amended facility agreement having been satisfied, the Group has sufficient working capital for its present purposes, that is for at least 12 months from the date of these financial statements.

**Business development and commercial arrangements**

*Planned uranium extraction and uranium off-take agreement with Cameco*

Talvivaara is preparing for the recovery of uranium as a by-product of the Company's existing operations. Uranium occurs naturally in small concentrations in the Talvivaara area and leaches into the process solution along with Talvivaara's main products. Annual uranium production is estimated at 350tU (ca. 770,000 pounds), corresponding to approximately 410t (900,000 pounds) of yellow cake ($UO_4$). Talvivaara's entire uranium production will be sold under a long-term agreement to Cameco.

Following receipt of the construction permit in August 2011, Talvivaara commenced construction of the uranium recovery facility, which was close to completion at the end of 2012. The permitting process for uranium production is on-going and the start of uranium production is further subject to, among others, environmental permit approval and chemical authorisation. The decision on the environmental permit is expected in the first half of 2013 in connection with the general update of the mine's environmental permit.

*Production expansion - Operation Overlord*

Conceptual studies relating to production expansion beyond 50,000tpa of nickel continued during the year, with a particular emphasis on permitting and the on-going Environmental Impact Assessment. The scoping studies are based on the target of doubling the presently planned production to approximately 100,000tpa of nickel. Whilst studies relating to various processing options continue, it appears relatively likely that a substantial part of the expanded production would be LME-quality nickel metal, i.e. Talvivaara would integrate its production one step further downstream.

No investment decisions relating to the production expansion have yet been taken and are unlikely to be taken in the near term.

*Energy strategy*

Talvivaara's energy strategy is focused on building an environmentally sound portfolio of low-cost capacity allowing the Company to be energy self-sufficient in the longer term. Talvivaara's electricity need is currently approximately 45MW, and is expected to increase significantly if the Company proceeds with the planned capacity expansion and further refining of nickel into LME-quality metal.

Talvivaara increased its capacity share in the Fennovoima nuclear project in Finland from approximately 10MW to approximately 60MW in 2012. The Company is also studying, amongst others, on-site windpower production, bioenergy and utilization of energy generated in the production process.

**Geology**

Talvivaara updated its total Mineral Resources estimation in November 2012. The total Mineral Resources, as defined by the JORC code, increased by 32% to 2,053Mt from the total of 1,550Mt announced in October 2010. The increased resources contain 4.5Mt of nickel and 10.3Mt of zinc, up from 3.4Mt and 7.6Mt in 2010, respectively. Contained nickel and zinc in the Measured and Indicated categories amount to 3.0Mt and 6.6Mt, respectively. Talvivaara's current total Mineral Resources are presented in the table below.

| Category | Year | Mt | Nickel % | Cobalt % | Copper % | Zinc % | Uranium % |
|---|---|---|---|---|---|---|---|
| **Measured** | **2012** | **504.0** | **0.23** | **0.02** | **0.13** | **0.50** | **0.0017** |
| | *2010* | *432.2* | *0.23* | *0.02* | *0.13* | *0.50* | *0.0017* |
| **Indicated** | **2012** | **800.5** | **0.23** | **0.02** | **0.13** | **0.51** | **0.0017** |
| | *2010* | *689.2* | *0.23* | *0.02* | *0.13* | *0.50* | *0.0018* |
| **Subtotal** | **2012** | **1,304.5** | **0.23** | **0.02** | **0.13** | **0.50** | **0.0017** |
| | *2010* | *1,121.4* | *0.23* | *0.02* | *0.13* | *0.50* | *0.0018* |
| **Inferred** | **2012** | **748.3** | **0.21** | **0.02** | **0.12** | **0.49** | **0.0018** |
| | *2010* | *428.8* | *0.20* | *0.02* | *0.12* | *0.47* | *0.0017* |
| **Total** | **2012** | **2,052.8** | **0.22** | **0.02** | **0.13** | **0.50** | **0.0017** |
| | *2010* | *1,550.2* | *0.22* | *0.02* | *0.13* | *0.49* | *0.0017* |

The resource increase further confirms the long mine life of the Talvivaara deposits. Further excellent exploration potential remains around the currently known ore body, and 2013 exploration targets focus on infill drilling at the Southern and Northern parts of the Kolmisoppi deposit and the area between the Kuusilampi and Kolmisoppi deposits.

Talvivaara has undertaken a project to also update its ore reserves estimates and anticipates announcing the new reserves during the second half of 2013.

**Research and development**

Talvivaara's research and development activities in 2012 focused on water management, enhancing bioheapleaching performance and further optimization of the metals plant operations.

During the year, Talvivaara carried out an extensive study to further identify the factors impacting leaching performance, and as a result identified a number of additional measures to improve leaching results. As part of the study, production heap sections were opened to determine leaching properties within the heap. Whilst some areas in the opened sections had been well oxidized and leaching results were optimal, several other areas were found where aeration had been inefficient and where the ore remained clearly unreacted. Multiple changes are being implemented to ensure constant and balanced distribution of air within heaps, including the elimination of aeration pipe blockages, alterations in the physical design of future primary heaps and aeration pipes, and an improved drainage system.

Development work is also on-going to improve agglomeration quality, as the moisture content and stability of agglomerates is a key factor affecting leaching times and recovery rates. Copper heap leaching operations have reported up to 30-50% improvements in leaching times depending on the quality of agglomerates. Leaching results may also be impacted in part by the accumulation of certain elements in the solution circulation, the impact of which is being managed by controlling their concentration in irrigation solution.

Talvivaara also continued to conduct pilot heap tests throughout the year to determine the impact of various process conditions on leaching performance and test new measurement technologies. Localized tests were also carried out with production leaching pads.

At the metals recovery plant, research and development activities focused on pilot-testing of the reverse osmosis –based water treatment plant, which was commissioned for operational use in November 2012. Talvivaara also continued to study and test catalytic burners for metals recovery plant ventilation gases containing hydrogen sulphide and carbon dioxide.

Talvivaara participates in various co-operation and networking projects with universities, research centres and other companies. The research and development function was re-organized in July 2012 and the plant laboratory was included in research and development.

**Sustainable development, safety and permitting**

*Sustainable development and environment*

Whilst Talvivaara continued to make underlying progress in the area of sustainable development during 2012, significant challenges were faced in the area of water management. Due to a persistently challenging water balance situation throughout the year, the Company had to store excess water in solution circulation, process ponds, the open pit and the gypsum ponds. The gypsum pond leakage that occurred in November resulted in elevated nickel concentrations in the nearby waters, but the effects were only seen in the vicinity of the mining concession area. Talvivaara and the authorities continue to monitor the situation and expect to be able to determine the eventual impact of the leak during the summer of 2013.

Despite the water management challenges faced during the year, Talvivaara continued to develop its operations in line with its sustainable development policy which focuses on continuous improvement and operational excellence. In 2012, the Company paid special attention to improved control of water discharges, dust emissions, odour emissions, active stakeholder communication and continued implementation of management systems supportive of sustainable development.

Talvivaara continued to make significant progress in reducing its sulphate and sodium discharges into nearby lakes as a result of process improvements and increased water recycling. Furthermore, the new reverse osmosis –based water treatment plant was commissioned in November, reducing the need for raw water intake from the environment. In the medium term, Talvivaara's goal is to implement a closed water circulation system, which is expected to reduce the risk of weather conditions impacting Talvivaara's operations or environmental safety. Key elements of the targeted closed water circulation system include additional purification of process waters and more efficient separation of process waters and captured rain and natural run-off water.

During the year, dust emissions were further reduced through a new dust removal system at the materials handling screening hall, implemented in the summer. Talvivaara also continues to study new technologies for further reducing odour emissions, including catalytic burning of hydrogen sulphide gases. Odour complaints from nearby residents decreased from 131 in 2011 to 77 in 2012, and only isolated complaints have been received in recent months.

Talvivaara again took part in the CDP carbon footprint reporting initiative. This data gathering and reporting exercise will help the Company to optimize its greenhouse gas emissions in the future. Talvivaara also continued to develop its Global Reporting Initiative (GRI) reporting and related data verification.

Talvivaara prepared for ISO 9001 standard compliant quality management system and OHSAS 18001 standard compliant occupational health and safety management system during the year. Certification for both management systems is currently expected to be sought later in 2013. Talvivaara was awarded ISO

14001 certification for its environmental management system in 2010. The Company has also commenced implementation of a risk management system in accordance with the ISO 31000 standard.

The environmental security placed for future restoration of the area and monitoring obligations amounted to EUR 31.9 million at the year-end (2011: EUR 31.2 million).

During the year, Talvivaara continued to focus on its community programme. Meetings with the local residents continued, and a new, locally focused internet site (www.paikanpaalla.fi) was launched in early 2012 to provide up-to-date environmental information and a discussion and feedback channel for the local residents. Talvivaara also commenced regular sessions in nearby cities and towns to review recent events and the Company's performance with a particular focus on local communities.

*Safety*

With respect to safety issues Talvivaara's goal is a safe and healthy working environment, and the Company continued to develop its safety culture based on zero accident philosophy.

In March 2012, one of Talvivaara's employees regrettably lost his life in the vicinity of the metals recovery plant. Increased hydrogen sulphide concentrations had been detected in the area, and work had been suspended in accordance with occupational safety guidelines. The fatality has been distressing for everyone at Talvivaara, and crisis counselling was made available for personnel. The Company held an unscheduled stoppage in late March and early April with focus on preventative occupational safety-related improvements.

In order to further improve occupational safety and minimise the risk of incidents at the mine site, a number of measures were implemented in 2012. Operationally, safety instructions were further refined and developed, access practices in the vicinity of the metals recovery were altered and additional fixed gas detectors were installed. Occupational safety-related modifications in the metals recovery process include, among others, increased scrubbing of hydrogen sulphide gases and improved control of hydrogen sulphide feed into the process.

The injury frequency in 2012 was 16.6 lost time injuries/million working hours (2011: 16.1 lost time injuries/million working hours).

*Permitting*

In January 2012, Talvivaara received a positive opinion on its uranium recovery process from the European Commission under the Euratom Treaty. In its opinion, the European Commission considered that uranium recovery at the Talvivaara mine complies with the goals set by the Euratom Treaty and may improve the supply security of nuclear fuel in the European Union. In March, Talvivaara also received a licence from the Finnish Government to extract uranium as a by-product from its existing operations pursuant to the Nuclear Energy Act. The permit is valid throughout the life of the mine, however, no longer than until the end of 2054.

In April 2012, Talvivaara was informed by the Northern Finland Regional State Administrative Agency that the Company's environmental permit for uranium extraction and the general update of Talvivaara mine's environmental permit are to be processed together. Decisions on the permits are expected during the first half of 2013. Talvivaara continues to operate under the Company's existing environmental permit until the renewal process is completed. Talvivaara aims to start uranium recovery as soon as all the necessary permits have been obtained.

Following completion of the Environmental Impact Assessment ("EIA") programme, the EIA process for the potential expansion of the Talvivaara mine was initiated during the first quarter of 2012. The EIA covers options to expand production capacity up to 100,000t of nickel per annum, and also the option to refine nickel sulphide into LME-quality nickel metal. Talvivaara expects to submit the environmental permit application for production expansion in 2013 following completion of the EIA process.

**Risk management and key risks**

In line with current corporate governance guidelines on risk management, Talvivaara carries out an on-going process endorsed by the Board of Directors to identify risks, measure their impact against certain assumptions and implement the necessary proactive steps to manage these risks.

Talvivaara's operations are affected by various risks common to the mining industry, such as risks relating to the development of Talvivaara's mineral deposits, estimates of reserves and resources, infrastructure risks, and volatility of commodity prices. There are also risks related to counterparties, currency exchange ratios, management and control systems, historical losses and uncertainties about the future profitability of Talvivaara, dependence on key personnel, effect of laws, governmental regulations and related costs, environmental hazards, and risks related to Talvivaara's mining concessions and permits.

In the short term, Talvivaara's key operational risks continue to relate to the on-going ramp-up of operations. While the Company has demonstrated that all of its production processes work and can be operated on industrial scale, the rate of ramp-up is still subject to risk factors including the reliability and sustainable capacity of production equipment, and eventual speed of leaching and rates of metals recovery in bioheapleaching. In addition, there may be production and ramp-up related risks that are currently unknown or beyond the Company's control.

The market price of nickel has historically been volatile and in the Company's view this is likely to persist, driven by shifts in the supply-demand balance, macroeconomic indicators and variations in currency exchange ratios. Nickel sales currently represent close to 90% of the Company's revenues and variations in the nickel price therefore have a direct and significant effect on Talvivaara's financial result and economic viability. Talvivaara is, since February 2010, unhedged against variations in metal prices. Full or substantially full exposure to nickel prices is in line with Talvivaara's strategy and supported by the Company's view that it can operate the Talvivaara mine, once it has been fully ramped up, profitably also during the lows of commodity price cycles.

Talvivaara's revenues are almost entirely in US dollars, whilst the majority of the Company's costs are incurred in Euro. Potential strengthening of the Euro against the US dollar could thus have a material adverse effect on the business and financial condition of the Company. Talvivaara hedges its exposure to the US dollar on a case by case basis with the aim of limiting the adverse effects of US dollar weakness as considered justified from time to time.

Liquidity and refinancing risks may arise as a result of the Company's inability to produce sufficient volumes of its saleable products, particularly nickel, unexpected increase in production costs, and sudden or substantial changes in the prices of commodities or currency exchange rates. Talvivaara seeks to reduce liquidity risk by close monitoring of liquidity in order to detect any threat of adverse changes in advance so as to allow for sufficient time to secure access to adequate credit or other funding on reasonable terms. Talvivaara also seeks to maintain a balanced maturity profile of its long-term debt in order to mitigate refinancing risks.

**Personnel**

The growth in Talvivaara's personnel continued in 2012, with the total number of employees increasing from 461 to 588. The personnel is mostly recruited locally from the Kainuu region, where Talvivaara is the largest provider of new job opportunities. The Company also employed approximately 90 summer trainees.

The average age of Talvivaara's personnel was 38 years. In its recruitment process, Talvivaara seeks to maintain a representative staff age structure.

The salaries and wages of Talvivaara's personnel are based on industry-wide collective agreements. The total compensation consists of base salary and short and long term incentive schemes. Annual short term incentive metrics include personal performance and company-wide criteria. The Company's long term incentive schemes comprise Talvivaara's Stock Options 2007, Stock Options 2011 and Group personnel fund to manage the earnings bonuses paid by Talvivaara. In addition, the management holding company Talvivaara Management Oy is owned by executive management and certain other key employees.

During the year, Talvivaara held its first organization-wide employee satisfaction review to identify organizational strengths and key areas for improvement. Human resources processes were also defined and developed and leadership training was increased. Personnel development is based on annual training and development plans, and all employees attend performance appraisal discussions with their managers. All Talvivaara personnel participate in induction training with work safety as a key component. The Company's target is also that all of its employees will have first aid competence.

**Corporate governance statement**

Talvivaara issues its Corporate Governance Statement of 2012 and publishes it on the Company's website at www.talvivaara.com on the date of this announcement. The Corporate Governance Statement does not form part of the Board of Directors' Report.

**Resolutions of the Annual General Meeting**

Talvivaara's Annual General Meeting was held on 26 April 2012 in Sotkamo, Finland. The resolutions of the AGM included:

- that no dividend be paid for the financial year 2011;
- that the annual fee payable to the members of the Board for the term until the close of the Annual General Meeting in 2013 be as follows: Executive Chairman of the Board EUR 280,000, Deputy Chairman (Senior Independent Director) EUR 69,000, Chairmen of the Board Committees EUR 69,000 and other Non-executive Directors EUR 48,000;
- that the number of Board members be eight and that Mr. Edward Haslam, Ms. Eileen Carr, Mr. D. Graham Titcombe, Mr. Tapani Järvinen and Mr. Pekka Perä be re-elected as Board members and Mr. Stuart Murray, Mr. Michael Rawlinson and Ms. Kirsi Sormunen be appointed as new members of the Board;
- that the auditor be reimbursed according to the auditor's approved invoice and authorised public accountants PricewaterhouseCoopers Oy be elected as the Company's auditor for the financial year 2012;
- that the Board be authorised to decide on the repurchase, in one or several transactions, of a maximum of 10,000,000 of the Company's own shares. The authorisation is valid until 25 October 2013 and replaces the authorisation to repurchase 10,000,000 shares granted by the Annual General Meeting of 28 April 2011; and
- that the Board be authorised to decide on the conveyance, in one or several transactions, of a maximum of 10,000,000 of the Company's own shares. The shares may be conveyed to the Company's shareholders in proportion to their present holding or by waiving the pre-emptive subscription rights of the shareholders and the authorisation is valid until 25 April 2014.

**Shares and shareholders**

The number of shares issued and outstanding and registered on the Euroclear Shareholder Register as of 31 December 2012 was 272,309,640. Including the effect of the EUR 85 million convertible bond of 14 May 2008, the EUR 225 million convertible bond of 16 December 2010, the Option Schemes of 2007 and 2011 and share subscriptions registered during 2012, the authorised full number of shares of the Company amounted to 321,285,376.

The share subscription period for stock options 2007A was between 1 April 2010 and 31 March 2012. By the end of the subscription period a total of 2,279,373 Talvivaara Mining Company's new shares were subscribed for under the stock option rights 2007A. A total of 53,727 stock option rights 2007A remained unexercised following the end of the subscription period and expired.

The share subscription period for stock options 2007B is between 1 April 2011 and 31 March 2013. No new shares of Talvivaara were subscribed for under the stock option rights 2007B in 2012 and a total of 2,284,337 stock option rights 2007B remain unexercised. A total of 2,327,000 option rights 2007C have been issued to 250 key employees and the subscription period for stock options 2007C is between 1 April 2012 and 31 March 2014. A total of 2,327,000 stock options 2007C remain unexercised.

In February 2012, Talvivaara completed an issue of 24,589,050 new shares. An Extraordinary General Meeting of Talvivaara Mining Company Plc. resolved on 12 March 2012 to approve the proposal by the Board of Directors on the share issue in deviation from the shareholders' pre-emptive subscription rights. The new shares were registered with the Finnish Trade Register on 13 March 2012.

In addition, the Board of Directors has resolved, on the basis of the authorisation granted by the Extraordinary General Meeting held on 12 March 2012, to issue special rights entitling to subscribe up to 184,428 new shares, in order to carry out an adjustment to the conversion price, as a result of the equity placing, in accordance with the terms and conditions of the convertible bonds due 2013. Accordingly the maximum number of ordinary shares that may be issued upon conversion is 11,677,591 shares. Due to an adjustment to the conversion price of the convertible bonds due 2015, as a result of the placing, the maximum number of ordinary shares that may be issued upon conversion is 27,180,708 shares.

As at 31 December 2012, the shareholders who held more than 5% of the shares and votes of Talvivaara were Pekka Perä (20.7%), Solidium Oy (8.9%), Varma Mutual Pension Insurance Company (8.7%) and Ilmarinen Mutual Pension Insurance Company (8.7%).

**Share based incentive plans**

The Annual General Meeting held on 3 May 2007 approved the Board of Directors' proposal to issue share options to the Group's key personnel. The number of share options is 6,999,300, each entitling to subscribe one new share. A total of 2,333,100 of the share options are designated 2007A, 2,333,100 are designated as 2007B and 2,333,100 are designated as 2007C.

The Annual General Meeting held on 28 April 2011 approved the Board of Directors' proposal to issue share options to the Group's key personnel. The number of share options is 5,500,000, each entitling to subscribe one new share. A total of 2,500,000 of the share options are designated 2011A, 1,500,000 are designated as 2011B and 1,500,000 are designated as 2011C. The share subscription periods for stock options 2011A, 2011B and 2011C are between 1 April 2014 and 31 March 2016, 1 April 2015 and 31 March 2017 and 1 April 2016 and 31 March 2018.

In December 2010, The Board of Directors of the Company decided on a new shareholding plan directed to members of executive management and certain other key employees. The plan enabled the participants to acquire a considerable long-term shareholding in the Company. Through this plan, the participants personally invested a significant amount of their own funds in the Company shares. Part of the investment is financed by a loan provided by the Company.

The EUR 5.7 million loan granted by the Company to Talvivaara Management Oy for the purpose of acquiring Company shares carries an interest of 3.0% and shall be repaid in full by 2014. The 1,104,000 shares held by Talvivaara Management Oy have been pledged to the Company as security for the loan.
During 2011, the Board of Directors, based on the recommendation of the Remuneration Committee, allocated 952,000 2007C options, giving an entitlement to subscribe for a total of 952,000 new shares in the Company, to the personnel of Talvivaara and its subsidiaries. Of the options allocated since 2007, 78,000 2007C options entitling to subscribe for 78,000 shares were returned back to the Company during 2011. In 2011, a total of 274,908 new shares were subscribed for under the stock option rights 2007A and 48,763 with 2007B. At the end of 2011, 100 2007C options were available for allocation under the 2007 Option Scheme. The voting rights of the shares to be issued against the outstanding share options amount to 2.6% of the total share capital.

During 2012, the Board of Directors, based on the recommendation of the Remuneration Committee, allocated 42,000 2007C options, giving an entitlement to subscribe for a total of 42,000 new shares in the Company, and 1,347,500 2011B options, giving an entitlement to subscribe for a total of 1,347,500 new shares in the Company, to the personnel of Talvivaara and its subsidiaries. Of the options allocated since 2007, 48,000 2007C options entitling to subscribe for 48,000 shares were returned back to the Company during 2012. In 2012, a total of 1,938,787 new shares were subscribed for under the stock option rights 2007A. At the end of 2012, 2,500,000 2011A options, 152,500 2011B options and 1,500,000 2011C options were available for allocation under the 2011 Option Scheme. The voting rights of the shares to be issued against the outstanding share options amount to 2.1% of the total share capital.

**Events after the review period**

*Notification under the Environmental Protection Act §62 to treat and release excess waters from the mine area*

Talvivaara submitted on 22 January 2013 a notification to the Kainuu Centre for Economic Development, Transport and the Environment ("Kainuu ELY Centre") under the Environmental Protection Act §62 to treat and release excess waters from the mine area. Under the notification, Talvivaara intends to treat and release to nature by 30 June 2013 approximately 3.8 million m3 of water currently stored in emergency dams and the open pit. The water will be treated with neutralization agents, primarily lime compounds, to remove metals from it and to increase its pH close to neutral. The Group considers treatment and release of the water necessary in order to mitigate the risk of flooding or uncontrolled leakages during the spring melt. De-watering of the open pit is also necessary for the Group to be able to re-start its ore production, which has been suspended since September 2012 due to the prevailing water balance situation.

Kainuu ELY Centre has on 12 February 2013 permitted Talvivaara to discharge 1.8 million m3 of neutralised waste water into the Vuoksi and Oulujoki waterways, such that 0.9 million m3 is discharged into each direction by 30 June 2013. Additionally Talvivaara can direct 0.5 million m3 of waters currently in the open pit into the Kuusilampi pond in the vicinity of the pit, and continue to discharge within the 1.3 million m3 discharge quota in its existing environmental permit.

Talvivaara's original notification under Section 62 of the Environmental Protection Act proposed a discharge requirement of 3.8 million m3 in total. However, Talvivaara considers these arrangements and the 1.3 million m3 quota in the existing environmental permit to enable the commencement of planned water management arrangements and their implementation in the short term. Talvivaara will commence the neutralisation and discharge of waters from the mine site without delay in accordance with the Kainuu ELY Centre decision.

*Temporary lay-offs*

Talvivaara announced on 16 January 2013 that to support the Group's cost savings initiatives and overall efficiency, and to adjust the level of personnel to the temporarily suspended ore production, Talvivaara is considering temporary lay-offs. Co-operation consultations with employee representatives were held between 17 and 31 January 2013 concerning all personnel groups in all three corporate entities, Talvivaara Mining Company Plc, Talvivaara Sotkamo Ltd and Talvivaara Exploration Ltd.

Following the consultations, Talvivaara will temporarily lay off 184 employees between 18 February and 30 June 2013. The maximum duration of the lay-off period is 90 days per individual employee. Talvivaara currently employs approximately 580 people in total.

*Recent operational highlights*

Promising development in production processes:

- All-time record average flow-rate of 1,422 $m^3$/h through the metals plant in January
- 98% process availability of the metals plant in January
- Strong evidence of leaching performance quickly improving in heap sections from which excess water has been removed

Actual year-to-date nickel production of 1,448t until 12 February.

*Management re-organisation*

The Company has re-organised its management during January and February as follows:

- Mr Pertti Pekkala, formerly General Manager, Research and Development, was appointed Chief Production Officer (Metals Recovery);
- Mr Kari Vyhtinen, formerly Chief Investment Officer, was appointed Chief Mining Officer;
- Mr Mikko Korteniemi, formerly Chief Production Officer (Metals Recovery), was appointed Chief Maintenance Officer with responsibility for maintenance, procurement and warehousing; and
- Ms Maija Vidqvist was appointed General Manager, Water Management (position previously held by Mr Jari Voutilainen).

All four appointees are members of the Executive Committee, with Mr Pertti Pekkala and Ms Maija Vidqvist being new additions to it. Pertti Pekkala, Kari Vyhtinen and Mikko Korteniemi report to the COO, Mr Harri Natunen, and Ms Maija Vidqvist reports to the CEO, Mr Pekka Perä

Ms Maija Vidqvist, M. Sc. (Chem. Eng.), appointed General Manager of Water Management, is Managing Director of Teollisuuden Vesi Oy since 2003. Ms Vidqvist has extensive experience in environmental and water treatment technologies and processes across various industries and countries, including e.g. membrane technology and reverse osmosis –based water treatment.

With the reorganisation and formation of a central maintenance unit comprising procurement, warehousing and all maintenance activities, Iniesta aims to optimise its maintenance operations and increasingly focus on preventive maintenance for increased operational and cost efficiency.

*Financing arrangements*

Proposed rights issue

To improve its liquidity and capital structure, the Company is undertaking an underwritten Rights Issue. In connection with the proposed Rights Issue, the Company has on 14 February 2013 entered into a Standby Underwriting Letter with a group of banks, pursuant to which the banks have undertaken to underwrite such portion of the proposed Rights Issue that is not subject to shareholder commitments. The Company’s three key shareholders have given their irrevocable commitments to subscribe in total 31.06 per cent of the proposed Rights Issue, which the Board is confident will be able to raise approximately EUR 260 million in gross proceeds. Proceeding with and completion of the Rights Issue remains subject to shareholder approval at an Extraordinary General Meeting to be held on 8 March 2013.

Revolving credit facility

The Company has renegotiated its EUR 100 million Revolving Credit Facility and entered into an amended Facility Agreement on 14 February 2013, which, among other things, amended the financial and production covenants in the previous Facility Agreement to be more appropriate for the Group’s current operations and, therefore, reduces the Company’s risk in relation to compliance with its covenants. Successful completion of the Company’s proposed Rights Issue is a Condition Subsequent to the amended Facility.

Amendment Agreement with Cameco

In order to ensure that the Group has sufficient liquidity until the Company receives the proceeds from the proposed Rights Issue, Talvivaara Sotkamo has on 12 February 2013 entered into an amendment agreement with Cameco concerning the uranium take-in-kind agreement pursuant to which the amount of the up-front investment that Cameco is to pay to Talvivaara Sotkamo for the construction of the uranium extraction facility was increased by USD 10 million to USD 70 million, and the duration of the agreement extended to 31 December 2017 and commercial terms revised accordingly.

Amendment Agreement with Nyrstar

Talvivaara Sotkamo has on14 February 2013 entered into an amendment agreement with Nyrstar regarding the zinc in concentrate streaming agreement pursuant to which Nyrstar is to make an up-front payment of EUR 12 million to Talvivaara Sotkamo in return for Talvivaara Sotkamo agreeing not to charge Nyrstar the EUR 350 per tonne extraction and processing fee on the next 38,000 tonnes of zinc in concentrate delivered to Nyrstar as was agreed in the original zinc in concentrate streaming agreement.

**Short-term outlook**

*Market outlook*

The LME nickel price has somewhat recovered in recent months, having reached its lowest monthly average since mid-2009 of approximately USD 15,700/t in August. In late January and early February 2013, nickel has traded at around USD 18,000/t. Talvivaara expects volatility to remain high in the near term, and nickel price development to be driven by global growth prospects and forecast Chinese commodity demand in particular.

Talvivaara foresees the nickel industry fundamentals to support favourable nickel price development in the longer term, driven by increasing marginal cost of production across the nickel industry and lack of new committed nickel projects to replace depleting supply after the next few years. Talvivaara continues to see the longer term nickel price support level at around USD 20,000/t.

*Operational outlook*

Talvivaara anticipates producing approximately 18,000t of nickel and 39,000t of zinc in 2013. Metals production will continue to be impacted by the water balance issues in the first half of the year, but is expected to return to a clear ramp-up during the remainder of the year driven by the re-start of ore production in July. The operational expenditure including leasing for 2013 is estimated at approximately EUR 230 million, including EUR 10-15 million budgeted for the treatment and release of excess waters from the mine area. Capital expenditure is anticipated to amount to EUR 60 million, including approximately EUR 20 million to be spent in water management with the target of reaching a sustainable water balance situation at the mine site.

**Board of Directors proposal for profit distribution**

The Board of Directors is proposing to the Annual General Meeting to be held on 25 April 2013 that no dividend is declared in respect of the year 2012.

Talvivaara Mining Company Plc
Board of Directors

## CONSOLIDATED INCOME STATEMENT

| (all amounts in EUR '000) | Unaudited three months to 31 Dec 12 | Unaudited three months to 31 Dec 11 | Audited twelve months to 31 Dec 12 | Audited twelve months to 31 Dec 11 |
|---|---|---|---|---|
| **Net sales** | **25,694** | **66,492** | **142,948** | **231,226** |
| Other operating income | 65 | 268 | 4,061 | 2,304 |
| Changes in inventories of finished goods and work in progress | (6,425) | 17,491 | 50,264 | 59,727 |
| Materials and services | (20,057) | (37,687) | (117,848) | (135,022) |
| Personnel expenses | (7,470) | (6,353) | (28,132) | (25,482) |
| Depreciation, amortization, depletion and impairment charges | (15,424) | (12,158) | (53,698) | (46,642) |
| Other operating expenses | (33,390) | (13,121) | (81,183) | (55,211) |
| **Operating profit (loss)** | **(57,007)** | **14,932** | **(83,588)** | **30,900** |
| Finance income | 31 | 236 | 811 | 1,196 |
| Finance cost | (13,794) | (11,279) | (46,515) | (39,060) |
| Finance income (cost) (net) | (13,763) | (11,043) | (45,704) | (37,864) |
| **Profit (loss) before income tax** | **(70,770)** | **3,889** | **(129,292)** | **(6,964)** |
| Income tax expense | 11,380 | (161) | 25,381 | 1,748 |
| **Profit (loss) for the period** | **(59,390)** | **3,728** | **(103,911)** | **(5,216)** |
| **Attributable to:** | | | | |
| Owners of the parent | (57,644) | 1,915 | (98,460) | (8,263) |
| Non-controlling interest | (1,746) | 1,813 | (5,451) | 3,047 |
| | **(59,390)** | **3,728** | **(103,911)** | **(5,216)** |
| **Earnings per share for profit (loss) attributable to the owners of the parent (expressed in EUR per share)** | | | | |
| Basic and diluted | (0,22) | 0,01 | (0,38) | (0,04) |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| (all amounts in EUR '000) | Unaudited three months to 31 Dec 12 | Unaudited three months to 31 Dec 11 | Audited twelve months to 31 Dec 12 | Audited twelve months to 31 Dec 11 |
|---|---|---|---|---|
| **Profit (loss) for the period** | **(59,390)** | **3,728** | **(103,911)** | **(5,216)** |
| **Other comprehensive income, items net of tax** | | | | |
| Cash flow hedges | - | (1,983) | - | (9,368) |
| **Other comprehensive income, net of tax** | **-** | **(1,983)** | **-** | **(9,368)** |
| **Total comprehensive income** | **(59,390)** | **1,745** | **(103,911)** | **(14,584)** |
| **Attributable to:** | | | | |
| Owners of the parent | (57,644) | 249 | (98,460) | (16,132) |
| Non-controlling interest | (1,746) | 1,496 | (5,451) | 1,548 |
| | **(59,390)** | **1,745** | **(103,911)** | **(14,584)** |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| (all amounts in EUR '000) | **Audited as at 31 Dec 12** | **Audited as at 31 Dec11** |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Property, plant and equipment | 809,452 | 761,985 |
| Biological assets | 9,125 | 7,688 |
| Intangible assets | 7,014 | 7,371 |
| Investments in associates | 5,694 | - |
| Deferred tax assets | 52,588 | 26,398 |
| Other receivables | 2,940 | 2,902 |
| Available-for-sale financial assets | 2 | 630 |
| | 886,815 | 806,974 |
| **Current assets** | | |
| Inventories | 297,761 | 240,436 |
| Trade receivables | 32,174 | 64,027 |
| Other receivables | 7,980 | 5,249 |
| Derivative financial instruments | - | 10 |
| Cash and cash equivalent | 36,058 | 40,019 |
| | 373,973 | 349,741 |
| **Total assets** | **1,260,788** | **1,156,715** |
| **EQUITY AND LIABILITIES** | | |
| **Equity attributable to owners of the parent** | | |
| Share capital | 80 | 80 |
| Share issue | - | 278 |
| Share premium | 8,086 | 8,086 |
| Other reserves | 539,559 | 449,532 |
| Retained earnings | (251,365) | (151,129) |
| | 296,360 | 306,847 |
| Non-controlling interest in equity | 10,392 | 15,733 |
| **Total equity** | 306,752 | 322,580 |
| **Non-current liabilities** | | |
| Borrowings | 506,028 | 467,161 |
| Advance payments | 265,847 | 235,568 |
| Other payables | 228 | - |
| Provisions | 11,290 | 6,036 |
| | 783,393 | 708,765 |
| **Current liabilities** | | |
| Borrowings | 93,793 | 28,515 |
| Advance payments | 7,857 | 11,684 |
| Trade payables | 25,577 | 33,678 |
| Other payables | 27,178 | 51,478 |
| Provisions | 16,238 | - |
| Derivative financial instruments | - | 15 |
| | 170,643 | 125,370 |
| **Total liabilities** | 954,036 | 834,135 |
| **Total equity and liabilities** | **1,260,788** | **1,156,715** |

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| (all amounts in EUR '000) | Share capital | Share issue | Share premium | Hedge reserve | Invested unrestricted equity | Other reserves | Retained earnings | Total | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **1 Jan 11** | **80** | **91** | **8,086** | **7,494** | **401,612** | **31,400** | **(80,068)** | **368,695** | **16,894** | **385,589** |
| Profit (loss) for the period | - | - | - | - | - | - | (8,263) | (8,263) | 3,047 | (5,216) |
| Other comprehensive income | | | | | | | | | | |
| - Cash flow hedges | - | - | - | (7,869) | - | - | - | (7,869) | (1,499) | (9,368) |
| **Total comprehensive income for the period** | **-** | **-** | **-** | **(7,869)** | **-** | **-** | **(8,263)** | **(16,132)** | **1, 548** | **(14,584)** |
| **Transactions with owners** | | | | | | | | | | |
| Stock options | - | 187 | - | - | 657 | - | - | 844 | - | 844 |
| Senior unsecured convertible bonds due 2015 | - | - | - | - | 1,800 | - | - | 1,800 | - | 1,800 |
| Acquisition of subsidiary | - | - | - | 375 | - | 997 | (60,907) | (59,535) | (2,349) | (61,884) |
| Perpetual capital loan | - | - | - | - | - | - | (1,891) | (1,891) | (360) | (2,251) |
| Incentive arrangement for Executive Management | - | - | - | - | - | 94 | - | 94 | - | 94 |
| Senior unsecured convertible bonds due 2015, equity component | - | - | - | - | - | 9,018 | - | 9,018 | - | 9,018 |
| Employee share option scheme | | | | | | | | | | |
| - value of employee services | - | - | - | - | - | 3,954 | - | 3,954 | - | 3,954 |
| Total contribution by and distribution to owners | - | 187 | - | 375 | 2,457 | 14,063 | (62,798) | (45,716) | (2,709) | (48,425) |
| **Total transactions with owners** | - | 187 | - | 375 | 2,457 | 14,063 | (62,798) | (45,716) | (2,709) | (48,425) |
| **31 Dec 11** | **80** | **278** | **8,086** | **-** | **404,069** | **45,463** | **(151,129)** | **306,847** | **15,733** | **322,580** |
| **1 Jan 12** | **80** | **278** | **8,086** | **-** | **404,069** | **45,463** | **(151,129)** | **306,847** | **15,733** | **322,580** |
| Profit (loss) for the period | - | - | - | - | - | - | (98,460) | (98,460) | (5,451) | (103,911) |
| Other comprehensive income | | | | | | | | | | |
| - Cash flow hedges | - | - | - | - | - | - | - | - | - | - |
| **Total comprehensive income for the period** | **-** | **-** | **-** | **-** | **-** | **-** | **(98,460)** | **(98,460)** | **(5,451)** | **(103,911)** |
| **Transactions with owners** | | | | | | | | | | |
| Stock options | - | (278) | - | - | 5,198 | - | - | 4,920 | - | 4,920 |
| Senior unsecured convertible bonds due 2013 | - | - | - | - | - | (252) | - | (252) | - | (252) |
| Perpetual capital loan | - | - | - | - | - | 2,354 | (1,776) | 578 | 110 | 688 |
| Share issue | - | - | - | - | 81,482 | - | - | 81,482 | - | 81,482 |
| Incentive arrangement for Executive Management | - | - | - | - | - | 94 | - | 94 | - | 94 |
| Employee share option scheme | | | | | | | | | | |
| - value of employee services | - | - | - | - | - | 1,151 | - | 1,151 | - | 1,151 |
| Total contribution by and distribution to owners | - | (278) | - | - | 86,680 | 3,347 | (1,776) | 87,973 | 110 | 88,083 |
| **Total transactions with owners** | - | (278) | - | - | 86,680 | 3,347 | (1,776) | 87,973 | 110 | 88,083 |
| **31 Dec 12** | **80** | **-** | **8,086** | **-** | **490,749** | **48,810** | **(251,365)** | **296,360** | **10,392** | **306,752** |

**CONSOLIDATED STATEMENT OF CASH FLOWS**

| (all amounts in EUR '000) | Unaudited three months to 31 Dec 12 | Unaudited three months to 31 Dec 11 | Audited twelve months to 31 Dec 12 | Audited twelve months to 31 Dec 11 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Profit (loss) for the period | (59,390) | 3,728 | (103,911) | (5,216) |
| Adjustments for | | | | |
| Tax | (11,380) | 161 | (25,381) | (1,748) |
| Depreciation and amortization | 15,424 | 12,158 | 53,698 | 46,642 |
| Other non-cash income and expenses | 16,526 | (8,171) | (2,813) | (34,987) |
| Interest income | (31) | (235) | (811) | (1,196) |
| Fair value gains on financial assets at fair value through profit or loss | 11 | (195) | (5) | (522) |
| Interest expense | 13,794 | 11,279 | 46,515 | 39,060 |
| | (25,046) | 18,725 | (32,708) | 42,033 |
| Change in working capital | | | | |
| Decrease(+)/increase(-) in other receivables | 19,043 | (16,762) | 29,336 | (2,379) |
| Decrease (+)/increase (-) in inventories | 4,166 | (15,398) | (57,325) | (65,075) |
| Decrease(-)/increase(+) in trade and other payables | (12,440) | (8,430) | (37,843) | (404) |
| Change in working capital | 10,769 | (40,590) | (65,832) | (67,858) |
| | (14,277) | (21,865) | (98,540) | (25,825) |
| Interest and other finance cost paid | (15,279) | (10,579) | (28,654) | (24,666) |
| Interest and other finance income | 78 | 274 | 554 | 1,329 |
| Income taxes paid | - | (15) | - | (15) |
| **Net cash generated (used) in operating activities** | (29,478) | (32,185) | (126,640) | (49,177) |
| **Cash flows from investing activities** | | | | |
| Acquisition of subsidiary, net of cash acquired | - | (398) | - | (61,885) |
| Investments in associates | (93) | - | (5,066) | - |
| Purchases of property, plant and equipment | (29,531) | (21,511) | (97,171) | (78,833) |
| Purchases of biological assets | (55) | (18) | (55) | (82) |
| Purchases of intangible assets | (12) | (54) | (225) | (229) |
| Proceeds from sale of property, plant and equipment | - | - | 18 | 19,995 |
| Proceeds from sale of biological assets | 207 | - | 308 | 257 |
| Proceeds from sale of intangible assets | - | - | - | 5 |
| Purchases of financial assets at fair value through profit or loss | - | - | - | (12,010) |
| Purchases of available-for-sale financial assets | - | - | - | (167) |
| Proceeds from sale of financial assets at fair value through profit or loss | - | - | - | 12,022 |
| **Net cash generated (used) in investing activities** | (29,484) | (21,981) | (102,191) | (120,927) |
| **Cash flows from financing activities** | | | | |
| Proceeds from share issue net of transactions costs | - | - | 81,108 | - |
| Realised stock options | - | 278 | 4,920 | 845 |
| Proceeds from interest-bearing liabilities | - | 59,226 | 130,000 | 70,242 |
| Perpetual capital loan | - | - | - | (3,042) |
| Proceeds from advance payments | 9,731 | 7,381 | 32,080 | 14,381 |
| Buy-back of convertible bonds | - | - | (8,168) | - |
| Payment of interest-bearing liabilities | (2,017) | (11,255) | (15,070) | (37,858) |
| **Net cash generated (used) in financing activities** | 7,714 | 55,630 | 224,870 | 44,568 |
| **Net increase (decrease) in cash and cash equivalents** | (51,248) | 1,464 | (3,961) | (125,536) |
| Cash and cash equivalents at beginning of the period | 87,306 | 38,555 | 40,019 | 165,555 |
| **Cash and cash equivalents at end of the period** | 36,058 | 40,019 | 36,058 | 40,019 |

**NOTES**

## 1. Basis of preparation

This year-end report has been prepared in compliance with IAS 34.

The interim financial information set out herein has been prepared on the same basis and using the same accounting policies as were applied in drawing up the Group's statutory financial statements for the year ended 31 December 2012.

## 2. Property, plant and equipment

| (all amounts in EUR '000) | Machinery and equipment | Construction in progress | Land and buildings | Other tangible assets | Total |
|---|---|---|---|---|---|
| Gross carrying amount at 1 Jan 12 | 361,245 | 41,344 | 273,921 | 224,796 | 901,306 |
| Additions | 2,464 | 98,108 | 28 | - | 100,600 |
| Disposals | (35) | - | - | - | (35) |
| Transfers | 13,067 | (25,074) | 7,260 | 4,683 | (64) |
| Gross carrying amount at 31 Dec 12 | 376,741 | 114,378 | 281,209 | 229,479 | 1,001,807 |
| Accumulated depreciation and impairment losses at 1 Jan 12 | 66,791 | - | 32,644 | 39,886 | 139,321 |
| Disposals | (17) | - | - | - | (17) |
| Depreciation for the period | 29,903 | - | 12,274 | 8,321 | 50,498 |
| Accelerated depreciation charges | - | - | - | 2,553 | 2,553 |
| Accumulated depreciation and impairment losses at 31 Dec 12 | 96,677 | - | 44,918 | 50,760 | 192,355 |
| Carrying amount at 1 Jan 12 | 294,454 | 41,344 | 241,277 | 184,910 | 761,985 |
| **Carrying amount at 31 Dec 12** | **280,064** | **114,378** | **236,291** | **178,719** | **809,452** |

## 3. Trade receivables

(all amounts in EUR '000)

| | 31 Dec 12 | 31 Dec 11 |
|---|---|---|
| Nickel-Cobalt sulphide | 25,254 | 55,258 |
| Zinc sulphide | 6,912 | 8,769 |
| Copper sulphide | 8 | - |
| **Total trade receivables** | **32,174** | **64,027** |

## 4. Inventories

(all amounts in EUR '000)

| | 31 Dec 12 | 31 Dec 11 |
|---|---|---|
| Raw materials and consumables | 21,077 | 14,016 |
| Work in progress | 272,775 | 213,629 |
| Finished products | 3,909 | 12,791 |
| **Total inventories** | **297,761** | **240,436** |

## 5. Borrowings

(all amounts in EUR '000)

| **Non-current** | **31 Dec 12** | **31 Dec 11** |
|---|---|---|
| Capital loans | 1,405 | 1,405 |
| Investment and Working Capital loan | 51,600 | 57,863 |
| Senior Unsecured Bonds due 2017 | 108,683 | - |
| Revolving Credit Facility | 69,451 | 49,110 |
| Senior Unsecured Convertible Bonds due 2015 | 225,875 | 217,138 |
| Senior Unsecured Convertible Bonds due 2013 | - | 80,796 |
| Finance lease liabilities | 30,748 | 37,444 |
| Other | 18,266 | 23,405 |
| | **506,028** | **467,161** |
| **Current** | | |
| Investment and Working Capital loan | 6,430 | 1,430 |
| Senior Unsecured Convertible Bonds due 2013 | 75,805 | - |
| Commercial papers | - | 8,481 |
| Finance lease liabilities | 11,558 | 18,604 |
| | **93,793** | **28,515** |
| **Total borrowings** | **599,821** | **495,676** |

| **Non-current** | **31 Dec 12** | **31 Dec 11** |
|---|---|---|
| Deferred zinc sales revenue | 219,385 | 221,187 |
| Deferred uranium sales revenue | 46,462 | 14,381 |
| | **265,847** | **235,568** |
| **Current** | | |
| Deferred zinc sales revenue | 7,790 | 11,684 |
| Other | 67 | - |
| | **7,857** | **11,684** |
| **Total advance payments** | **273,704** | **247,252** |

## 6. Advance payments

(all amounts in EUR '000)

| **Non-current** | **31 Dec 12** | **31 Dec 11** |
|---|---|---|
| Deferred zinc sales revenue | 219,385 | 221,187 |
| Deferred uranium sales revenue | 46,462 | 14,381 |
| | **265,847** | **235,568** |
| **Current** | | |
| Deferred zinc sales revenue | 7,790 | 11,684 |
| Other | 67 | - |
| | **7,857** | **11,684** |
| **Total advance payments** | **273,704** | **247,252** |

### 7. Provisions

| | Gypsum pond leakage | Water balance management | Environmental restoration | Mining fee | Total |
|---|---|---|---|---|---|
| **31 Dec 10** | **-** | **-** | **3,784** | **151** | **3,935** |
| Charged/(credited) to the income statement: | | | | | |
| Additional provisions | - | - | 2,098 | - | 2,098 |
| Unused amounts reversed | - | - | - | (40) | (40) |
| Unwinding of discount | - | - | 43 | - | 43 |
| **31 Dec 11** | **-** | **-** | **5,925** | **111** | **6,036** |
| Charged/(credited) to the income statement: | | | | | |
| Additional provisions | 12,156 | 9,082 | 216 | 43 | 21,497 |
| Unwinding of discount | - | - | (5) | - | (5) |
| **31 Dec 12** | **12,156** | **9,082** | **6,136** | **154** | **27,528** |

The non-current and current portions of provisions are as follows:

| | 2012 | 2011 |
|---|---|---|
| **Non-current** | | |
| Gypsum pond leakage | 5,000 | - |
| Environmental restoration | 6,136 | 5,925 |
| Mining fee | 154 | 111 |
| | 11,290 | 6,036 |
| **Current** | | |
| Gypsum pond leakage | 7,156 | - |
| Water balance management | 9,082 | - |
| | 16,238 | - |
| **Total** | **27,528** | **6,036** |

### 8. Changes in the number of shares issued

| | Number of shares |
|---|---|
| **31 Dec 11** | **245,781,803** |
| Stock options 2007A | 1,938,787 |
| Share issue | 24,589,050 |
| **31 Dec 12** | **272,309,640** |

### 9. Contingencies and commitments

(all amounts in EUR '000)

**The future aggregate minimum lease payments under non-cancellable operating leases**

| | 31 Dec 12 | 31 Dec 11 |
|---|---|---|
| Not later than 1 year | 1,910 | 1,919 |
| Later than 1 year and not later than 5 years | 1,036 | 929 |
| Later than 5 years | 47 | 37 |
| | 2,993 | 2,885 |

**Capital commitments**

At 31 December 2012, the Group had capital commitments amounting to EUR 15.1 million (31 December 2011: EUR 14.5 million) principally relating to the completion of the Talvivaara mine, improving the reliability and expansion of production capacity. These commitments are for the acquisition of new property, plant and equipment.

**Talvivaara Mining Company Plc**
**Key financial figures of the Group**

| | | **Three months to 31 Dec 12** | **Three monthsto 31 Dec 11** | **Twelve months to 31 Dec12** | **Twelve months to 31 Dec 11** |
|---|---|---|---|---|---|
| Net sales | EUR '000 | 25,694 | 66,492 | 142,948 | 231,226 |
| Operating profit (loss) | EUR '000 | (57,007) | 14,932 | (83,588) | 30,900 |
| Operating profit (loss) percentage | | -221,9 % | 22,5 % | -58,5 % | 13,4 % |
| Profit (loss) before tax | EUR '000 | (70,770) | 3,889 | (129,292) | (6,964) |
| Profit (loss) for the period | EUR '000 | (59,390) | 3,728 | (103,911) | (5,216) |
| Return on equity | | -17,7 % | 1,2 % | -33,0 % | -1,5 % |
| Equity-to-assets ratio | | 24,3 % | 27,9 % | 24,3 % | 27,9 % |
| Net interest-bearing debt | EUR '000 | 563,763 | 455,657 | 563,763 | 455,657 |
| Debt-to-equity ratio | | 183,8 % | 141,3 % | 183,8 % | 141,3 % |
| Return on investment | | -4,9 % | 1,9 % | -6,7 % | 4,0 % |
| Capital expenditure | EUR '000 | 29,598 | 21,583 | 97,451 | 79,144 |
| Property, plant and equipment | EUR '000 | 809,452 | 761,985 | 809,452 | 761,985 |
| Derivative financial instruments | EUR '000 | - | (5) | - | (5) |
| Borrowings | EUR '000 | 599,821 | 495,676 | 599,821 | 495,676 |
| Cash and cash equivalents at the end of the period | EUR '000 | 36,058 | 40,019 | 36,058 | 40,019 |

**Share-related key figures**

| | | Three months to 31 Dec 12 | Three months to 31 Dec 11 | Twelve months to 31 Dec 12 | Twelve months to 31 Dec 11 |
|---|---|---|---|---|---|
| Earnings per share | EUR | (0,22) | 0,01 | (0,38) | (0,04) |
| Equity per share | EUR | 1,11 | 1,25 | 1,11 | 1,25 |
| Development of share price at London Stock Exchange | | | | | |
| Average trading price[1] | EUR | 1,35 | 2,57 | 2,50 | 4,22 |
| | GBP | 1,09 | 2,20 | 2,02 | 3,66 |
| Lowest trading price[1] | EUR | 1,03 | 2,28 | 1,03 | 2,25 |
| | GBP | 0,83 | 1,95 | 0,83 | 1,95 |
| Highest trading price[1] | EUR | 1,99 | 2,98 | 4,43 | 7,17 |
| | GBP | 1,61 | 2,55 | 3,59 | 6,22 |
| Trading price at the end of the period[2] | EUR | 1,25 | 2,39 | 1,25 | 2,39 |
| | GBP | 1,02 | 2,00 | 1,02 | 2,00 |
| Change during the period | | -32,8 % | -20,6 % | -48,8 % | -66,4 % |
| Price-earnings ratio | | neg. | 463,2 | neg. | neg. |
| Market capitalization at the end of the period[3] | EUR '000 | 341,597 | 588,487 | 341,597 | 588,487 |
| | GBP '000 | 278,777 | 491,564 | 278,777 | 491,564 |
| Development in trading volume | | | | | |
| Trading volume | 1000 shares | 23,737 | 25,743 | 103,218 | 67,799 |
| In relation to weighted average number of shares | | 8,9 % | 10,5 % | 38,7 % | 27,6 % |
| Development of share price at OMX Helsinki | | | | | |
| Average trading price | EUR | 1,31 | 2,55 | 2,31 | 4,33 |
| Lowest trading price | EUR | 1,08 | 2,27 | 1,08 | 2,27 |
| Highest trading price | EUR | 2,00 | 2,98 | 4,35 | 7,34 |
| Trading price at the end of the period | EUR | 1,24 | 2,49 | 1,24 | 2,49 |
| Change during the period | | -34,5 % | -16,2 % | -50,2 % | -64,8 % |
| Price-earnings ratio | | neg. | 459,3 | neg. | neg. |
| Market capitalization at the end of the period | EUR '000 | 338,209 | 612,488 | 338,209 | 612,488 |
| Development in trading volume | | | | | |
| Trading volume | 1000 shares | 62,472 | 73,918 | 209,565 | 190,901 |
| In relation to weighted average number of shares | | 23,4 % | 30,1 % | 78,5 % | 77,7 % |
| Adjusted average number of shares | | 266,846,084 | 245,601,204 | 266,846,084 | 245,601,204 |
| Fully diluted average number of shares | | 265,742,084 | 244,497,204 | 265,742,084 | 244,497,204 |
| Number of shares at the end of the period | | 272,309,640 | 245,781,803 | 272,309,640 | 245,781,803 |

1) Trading price is calculated on the average of EUR/GBP exchange rates published by the European Central Bank during the period.
2) Trading price is calculated on the EUR/GBP exchange rate published by the European Central Bank at the end of the period.
3) Market capitalization is calculated on the EUR/GBP exchange rate published by the European Central Bank at the end of the period.

**Employee-related key figures**

| | | Three months to 31 Dec 12 | Three months to 31 Dec 11 | Twelve months to 31 Dec 12 | Twelve months to 31 Dec 11 |
|---|---|---|---|---|---|
| Wages and salaries | EUR '000 | 5,982 | 5,385 | 23,080 | 21,574 |
| Average number of employees | | 584 | 451 | 547 | 445 |
| Number of employees at the end of the period | | 588 | 461 | 588 | 461 |

**Other figures**

| | Three months to 31 Dec 12 | Three months to 31 Dec 11 | Twelve months to 31 Dec 12 | Twelve months to 31 Dec 11 |
|---|---|---|---|---|
| Share options outstanding at the end of the period | 5,958,837 | 6,501,151 | 5,958,837 | 6,501,151 |
| Number of shares to be issued against the outstanding share options | 5,958,837 | 6,501,151 | 5,958,837 | 6,501,151 |
| Rights to vote of shares to be issued against the outstanding share options | 2,1 % | 2,6 % | 2,1 % | 2,6 % |

**Key financial figures of the Group**

Return on equity

$$\frac{\text{Profit (loss) for the period}}{\text{(Total equity at the beginning of period + Total equity at the end of period)/2}}$$

Equity-to-assets ratio

$$\frac{\text{Total equity}}{\text{Total assets}}$$

Net interest-bearing debt: Interest-bearing debt - Cash and cash equivalent

Debt-to-equity ratio

$$\frac{\text{Net interest-bearing debt}}{\text{Total equity}}$$

Return on investment

$$\frac{\text{Profit (loss) for the period + Finance cost}}{\text{(Total equity at the beginning of period + Total equity at the end of period)/2 + (Borrowings at the beginning of period + Borrowings at the end of period)/2}}$$

**Share-related key figures**

Earnings per share

$$\frac{\text{Profit (loss) attributable to equity holders of the Company}}{\text{Adjusted average number of shares}}$$

Equity per share

$$\frac{\text{Equity attributable to equity holders of the Company}}{\text{Adjusted average number of shares}}$$

Price-earnings ratio

$$\frac{\text{Trading price at the end of the period}}{\text{Earnings per share}}$$

Market capitalization at the end of the period: Number of shares at the end of the period * trading price at the end of the period