



Remuneration Report

Remuneration principles

The primary objective of remuneration is to attract, retain and motivate key personnel, as well as to provide a competitive remuneration package in the prevailing market situation. To ensure that compensation elements are aligned with shareholder interests, remuneration is based on the achievement of specific individual targets and corporate goals. Furthermore, remuneration levels are systematically compared to the industry's general remuneration practices, and long-term incentive schemes are based on the positive development of the Company's share price. Talvivaara has a remuneration policy that covers all managers and senior salaried employees.

The decision-making process for remuneration

The General Meeting of Shareholders decides on the remuneration payable for Board and Committee work, as well as the basis of its determination.

The Board of Talvivaara has nominated a Remuneration Committee from among its members, which comprises

of at least three Directors independent of the Company. Committee members serve for a term of one year. The Remuneration Committee has been chaired by Mr. Niiva. Its other members have been Mr. Haslam, Mr. Järvinen and Mr. Titcombe. The CEO attends meetings of the Committee by invitation. During 2010, the Remuneration Committee met twice. All members of the Committee and the CEO attended both meetings. The CEO did not attend when the Committee considered his remuneration package.

Within the framework of its terms of reference, the Remuneration Committee is responsible for making recommendations to the Board of Directors on Talvivaara's senior management remuneration policy. It makes similar recommendations on the performance of Executive Directors and the senior management of Talvivaara and its subsidiaries, and on determining specific remuneration packages for Directors and senior management members. These may include pension rights, any compensation payments and the implementation of executive incentive schemes. Moreover, the Remuneration Committee ensures that Talvivaara's remuneration prac-



tics comply with the UK Combined Code, that remuneration levels are sufficient and well-sized and that remuneration is based on the achievement of specific individual targets and corporate goals.

Remuneration and other benefits

The remuneration of Talvivaara's key personnel consists of the base salary, an annual performance-based bonus scheme and long-term stock-based incentives.

The monthly base salary of the Chief Executive Officer and members of the Executive Committee is based on the executive's position, skills and experience, and individual performance. To ensure the appropriate remuneration level, Talvivaara regularly gathers and evaluates information on market-based remuneration levels for the mining sector and comparable listed companies in Finland and the UK market. To ensure that compensation elements are aligned with shareholder interests, remuneration is based on the achievement of specific individual targets and corporate goals. Furthermore, long-term remuneration levels are based on the positive development of the Company's share price. Total remuneration development is regularly compared to general remuneration developments within the industry.

Directors' service contracts

The service contracts entered into with the CEO and the CFO of the Company are valid until further notice and may be terminated by either party with six months' notice. Upon termination by the Company, for a reason other than substantial breach of the service agreement or gross misconduct, the CEO and the CFO are entitled to additional compensation equal to six months' salary and fringe benefits for that period. Accordingly, upon said termination, the CEO and the CFO may receive a maximum payment of 12 months' salary.

Remuneration of the Board of Directors

The Board of Directors' compensation consists of annual compensation and long-term stock-based incentives. The annual compensation decided by the AGM 2010 is as follows: Chairman of the Board of Directors EUR 153,000, Deputy Chairman (Senior Independent Director) EUR 64,000, Chairman of the Audit Committee EUR 64,000, other Non-executive Directors and executive directors EUR 48,000. The Annual General Meeting of Shareholders decides on the remuneration of members of the Board of Directors.

Salaries, bonuses and other remuneration of the Board of Directors¹ (EUR '000)

		2010	2009	2008
G. Edward Haslam	Chairman of the Board	153	153	163
Pekka Perä	CEO, Board Member	403	279	413
Saila Miettinen-Lähde	CFO, Board Member	303	209	310
Graham Titcombe	Deputy Chairman of the Board	64	64	68
Eileen Carr	Board Member	64	64	68
Eero Niiva	Board Member	48	48	48
Roland Junck	Board Member	32	–	–
Tapani Järvinen	Board Member	32	–	–
Antti Aaltonen ²	Board Member	16	48	48
		1 115	865	1 118

1) The composition of the Board of Directors was changed by a decision of the AGM of 15 April 2010.
2) Board member until 15 April 2010.

Share ownership and options of the Board* (as at 31 December 2010)

		Shares 2010	Options 2010
G. Edward Haslam	Chairman of the Board	301 086	28 000
Pekka Perä	CEO, Board Member	56 573 460	142 276
Saila Miettinen-Lähde	Board Member	445 140	148 278
Graham Titcombe	Deputy Chairman of the Board	60 000	28 000
Eileen Carr	Board Member	28 000	28 000
Eero Niiva	Board Member	1 299 950	28 000
Roland Junck	Board Member	–	–
Tapani Järvinen	Board Member	8 650	–
		58 716 286	402 554

* Figures include the holdings of persons closely associated with the shareholder, and corporations over which the shareholder exercises control, excluding Talvivaara Management Oy's holding of 1,104,000 shares.

The Company granted options to Non-Executive members of the Board as part of the 2007 Option Scheme. These options were granted in 2007 prior to the Company's initial public offering and the subsequent listing of its shares on the London Stock Exchange ("LSE"). The options granted were disclosed in the pathfinder and the final prospectus, and published in connection with the listing of the Company's shares on the LSE Main Market. Thereafter, no options have been granted to Non-Executive Directors, nor has the Company any intention of granting such options to Non-Executive Directors in the foreseeable future.

In 2010, the Company allocated a total of 35,554 2007A Options and 48,000 2007B Options to Executive members of the Board.

Remuneration of the executive Committee members

Talvivaara's Executive Committee manages the Company's operations, the construction of the mine site and the conduct of its mining operations. The Executive Committee meets 1–3 times a month. Talvivaara's

Executive Committee consists of two Executive Directors, the Group Chief Executive Officer and Chief Financial Officer and nine executives.

Talvivaara has a general remuneration policy that covers all managers and senior salaried employees. Some key items of the Executive Committee's employment agreement terms are covered in the following.

All Executive Committee members are eligible to receive an annual bonus, whose maximum amount ranges from 0 to 50% of the annual individual base salary. Bonus criteria can be based on Company's financial and operative results, as well as on each individual's performance targets. Annual Company level criteria, as well as individual performance targets for Executive Directors and other senior management, are decided at the Board of Directors' meeting, based on the recommendation by the Remuneration Committee of the Company. Before giving its recommendation, the Committee hears the CEO. A person cannot participate in decisions making regarding his/her own remuneration.

Talvivaara's Executive Committee members' pension benefits are determined on the basis of statutory employment pension cover. Executive Committee members do

Key management compensation (EUR '000)

	2010	2009	2008
Salaries and other short-term employee benefits	1 589	1 196	1 590
Share-based payments	599	579	567
	2 188	1 775	2 157

Key management consists of the Executive Committee.

Details of the 2007 Option Scheme

Option	Number of Options	Number of Shares under One Option	Exercise Price (Share Subscription Price)	Subscription period	Expiry Date
2007A	2,333,100	1	£2.25	1 April 2010	31 March 2012
2007B	2,333,100	1	£2.625	1 April 2011	31 March 2013
2007C	2,333,100	1	£2.75	1 April 2012	31 March 2014

not have pension benefits exceeding this. The mandatory retirement age is 68 years for all members of the Executive Committee. According to the Employment Pension Act in force, the optional retirement age varies from 63 to 68 years of age. In cases of employment termination, the period of notice is 6 months. For all agreements, the non-competition period is also 6 months.

Executive Directors and other members of the Executive Committee are entitled to a daily allowance for business trips, in accordance with the tax guidelines of the Finnish Tax Administration and the maximum amounts decided by the Ministry of Finance from time to time.

Other remuneration, including selected fringe benefits, typically consists of insurances e.g. liability insurance, traveler's insurance and some other benefits related to the usage of mobile communication and media.

Monthly remunerations and bonuses

The monthly total remuneration levels of Executive Directors and other Executive Committee members have been reviewed, based on the available reports and comparisons from Finnish listed companies and from UK listed metals and mining companies. According to Finnish statistics, Talvivaara's Executive Directors and other Executive Committee members are compensated above median levels, when the Company's turnover and personnel are applied as comparison criteria, but slightly below the median when the balance sheet is so applied. According to statistics regarding UK listed metals and mining companies, Talvivaara's Executive Directors and other members of the Executive Committee are compensated at a lower level than the Company's closest peers. It is recognised that differences exist between living costs, working environments, duties, local taxation, etc. that make direct comparisons with UK listed companies

somewhat challenging. These differences will be taken into consideration in future compensation reviews.

The Executive Directors' and other Executive Committee members' monthly remunerations were not increased in 2010. Their remuneration development therefore fell short of that of other senior salaried employees, who received a 1.5% salary increase based on a collective agreement concluded in August 2010.

In 2010 the Company's Board of Directors allocated a total of 160,000 Talvivaara 2007A options to those members of the Executive Committee who were employed by the Company during its construction phase in 2008 and 2009. This allocation included a partial share subscription and holding obligation. Furthermore, based on the recommendation of the Remuneration Committee, in 2010 the Board of Directors allocated 110,300 2007B Options to members of the Executive Committee.

The maximum bonus potential of Talvivaara's Executive Directors' and other Executive Committee members can be considered to correspond well to those of Finnish listed companies, but to be below those of UK listed metals and mining companies. Similarly to monthly remunerations, when setting each individual's bonus criteria careful consideration was given to the transformation from a project company to a production company. Since Talvivaara's annual production of saleable metals, and therefore revenues from operations, do not yet reflect the eventual size and potential of the steady state full production, it was considered fair that bonus criteria for all Executive Directors and other Executive Committee members in 2010 be based on a combination of Health and Safety, as well as discretionary evaluations of individual performances made by the Remuneration Committee and the Board of Directors of Talvivaara.

Share Option Plan

By a resolution passed at the General Meeting of Shareholders on 28 February 2007, the Company resolved to issue free stock options to key personnel of the Company and its subsidiaries, entitling them, after the 1:70 split of the Company's shares, to subscribe for a maximum of 6,999,300 new shares in the Company (2007 Option Scheme). Pursuant to the terms and conditions of the 2007 Option Scheme, the Board of Directors shall decide upon the distribution of the stock options.

During 2010, based on the recommendation of the Remuneration Committee, the Board of Directors allocated 176,600 2007A Options, 245,100 2007B Options and 663,000 2007C Options, conferring an entitlement to subscribe for a total of 1,084,700 new shares in the Company, to the personnel of Talvivaara and its subsidiaries. Of the options allocated during previous years, 312,000 options were returned to the Company in 2010. At the end of 2010, the number of options for allocation under the 2007 Option Scheme was 874,100 2007C Options. The voting rights attached to the shares to be issued against the outstanding share options amount to 2.4% of the Company's total share capital.

The management holding company Talvivaara Management Oy

On 14 December 2010, the Board of Directors of Talvivaara decided on a new shareholding plan directed at members of the Talvivaara Executive Committee and the key personnel of Talvivaara Mining Company Plc (Participants). This plan enables Participants to acquire a considerable long-term shareholding in Talvivaara. Through this plan, the Participants will invest their own funds in Talvivaara's shares. The Participants partly finance their investments themselves and partly through a loan provided by Talvivaara. Actual owner risk will be borne personally by the Participants, with respect to their personal investment in the plan.

For the purposes of share ownership, the Participants have acquired a limited liability company named Talvivaara Management Oy (Talvivaara Management), whose

entire share capital they own. Talvivaara Management acquired a total of 1,104,000 Talvivaara shares. These acquisitions were financed by equity investments in Talvivaara Management on the part of the Participants, to a total amount of EUR 1,432,000, as well as by a loan of EUR 5,728,000 provided by Talvivaara. Some of the Participants financed their equity investments in Talvivaara Management by transferring part or all of their Talvivaara shares to Talvivaara Management. Through Talvivaara Management, the Participants hold approximately 0.4% of Talvivaara shares.

As part of the plan, the Board of Directors of Talvivaara decided to grant Talvivaara Management an interest-bearing loan of a maximum amount of EUR 6,000,000, to finance the acquisition of the Talvivaara shares. The loan will be repaid in full by 31 March 2014, at the latest. Under the applicable terms, should the plan be continued by one year at a time in 2013 or 2014, the term of the loan will be extended correspondingly. Talvivaara Management has the right to repay the loan prematurely at any time. It is also obliged to repay the loan prematurely by selling any Talvivaara shares it holds, in a situation where the quoted price of the Talvivaara share exceeds the average price of the Talvivaara shares acquired for the plan, multiplied by two (2), during a predetermined number of consecutive trading days.

The plan will be valid until the publication of Talvivaara's financial statements 2013, after which the intention is to dissolve the plan in a manner to be determined later. The plan may be dissolved e.g. by merging Talvivaara Management with Talvivaara, or by selling the Talvivaara shares held by Talvivaara Management in some other manner. The plan will be continued one year at a time, in case the Talvivaara share price after the publication of Talvivaara's financial statements 2013 is lower than the average price which Talvivaara Management paid for its Talvivaara shares.

During the plan's period of validity, the transfer of Talvivaara shares held by Talvivaara Management is restricted.