

**TALVIVAARA MINING COMPANY PLC**  
**INTERIM FINANCIAL STATEMENTS 30 JUNE 2016**

<b>BOARD OF DIRECTORS' REVIEW FOR THE REPORTING PERIOD 1 JANUARY- 30 JUNE 2016</b> .....	<b>3</b>
BALANCE SHEET .....	12
INCOME STATEMENT .....	13
STATEMENT OF CASHFLOWS .....	14
STATEMENT OF CHANGES IN EQUITY .....	15
NOTES TO THE INTERIM FINANCIAL STATEMENTS .....	16
1. General information.....	16
2. Basis of presentation and non-going concern .....	16
3. Summary of significant accounting policies.....	17
4. Financial risk management .....	19
5. Critical accounting estimates and judgment.....	20
DETAILED NOTES.....	21
6. Illustrative calculation of the Company equity, if the restructuring programme is confirmed.....	21
7. Property, Plant & Equipment .....	23
8. Intangible assets.....	24
9. Trade and other receivables .....	25
10. Shareholders' equity .....	25
11. Borrowings .....	26
12. Trade and other payables .....	28
13. Other operating income.....	29
14. Materials and services.....	29
15. Personnel expenses and number of employees .....	30
16. Depreciation and amortisation .....	30
17. Impairments .....	30
18. Other operating expenses.....	31
19. Finance income .....	31
20. Finance cost.....	31
21. Income tax.....	31
22. Associates at 30 June 2016 .....	32
23. Contingencies and commitments .....	32
24. Earnings per share.....	33
25. Related party transactions .....	33
SIGNATURES OF THE INTERIM FINANCIAL STATEMENTS AND THE REPORT OF THE BOARD OF DIRECTORS .....	34

---

**BOARD OF DIRECTORS' REVIEW FOR THE REPORTING PERIOD 1 JANUARY- 30 JUNE 2016****Introduction**

Following the bankruptcy of Talvivaara Mining Company Plc's ("Talvivaara" or the "Company") operating subsidiary Talvivaara Sotkamo Ltd ("Talvivaara Sotkamo") on 6 November 2014, trading of Talvivaara's shares on the Helsinki Stock Exchange was suspended. The suspension of trading continues on the date of the Company's Interim Financial Statements 22 September 2016.

Talvivaara has been in corporate reorganisation throughout the review period of 1 January 2016 – 30 June 2016. During the corporate reorganisation proceedings, all major decisions and decisions outside the ordinary course of business have required consent of the administrator of the corporate reorganisation proceedings (the "Administrator").

Talvivaara's Interim Financial Statements for the reporting period 1 January – 30 June 2016 have not been prepared on a going concern basis. The chosen reporting basis results from the existence of material uncertainties that cast significant doubt upon the Company's ability to realise its assets and discharge its liabilities in the normal course of business and from the lack of visibility on the Company's operational environment twelve months beyond the date of reporting. Talvivaara's ability to revise its reporting basis and to regain its status as a going concern is dependent on the successful completion of the Company's corporate reorganisation proceedings, which in turn requires that the Company is able to complete an arrangement that secures the necessary cash flow for the Company to discharge all of its liabilities and the continuance of the Company's viable business. The arrangement concluded with Terrafame Oy on 30 June 2016 will, in the view of the Company, materially improve the possibility for the completion of Talvivaara's corporate restructuring proceedings and facilitate the development of Talvivaara's new business opportunities. For more information, please refer to section '*Review of Operations*' and Note 6.

**Review of Operations**

Talvivaara and the bankruptcy estate of Talvivaara Sotkamo entered into the Administration and Laboratory Services Agreement and the Agreement on Lease of Lime and Limestone Handling Plant and Reception Station on 19 November 2014. The agreements detailed the Company's personnel resources and equipment that are available and critical for the environmentally and occupationally safe operations at the Sotkamo mine and state the agreed pricing for the services provided. The rights and obligations of the bankruptcy estate of Talvivaara Sotkamo under the aforementioned agreements were transferred to Terrafame Oy, a 100% subsidiary of the state-owned company Terrafame Group Oy on 13 August 2015. The transfer of the mining business from the bankruptcy estate of Talvivaara Sotkamo to Terrafame Oy was completed on 14 August 2015.

On 27 January 2016, Talvivaara, Terrafame Group Oy and its subsidiaries, Terrafame Oy and Winttal Oy, signed a letter of intent ("Letter of Intent"), in which the parties provisionally agreed on the essential terms and conditions for the sale of Talvivaara's assets related to the Sotkamo mining operations. Assets to be sold would have included, among others, the lime plant needed in the Sotkamo operations, laboratory business, as well as ownership of the geological and production data associated with the mine.

The transactions under the Letter of Intent would have consisted of two separate phases. In the first phase, Terrafame Oy would have bought the laboratory business required in the production process, and the geological and production data associated with the Sotkamo mine. The laboratory personnel would have been transferred to Terrafame Oy as old employees. In addition, the parties would have agreed on the possibility for Talvivaara's key personnel working at the mine to transfer to Terrafame Oy's service. In the first phase of the arrangement, Terrafame Oy would have paid a purchase price of EUR 3.8 million to Talvivaara. Upon completion of the second phase of the arrangement, Terrafame Oy would have bought from Talvivaara the lime plant required in the production process of the mine. Terrafame Oy would have paid to Talvivaara a purchase price of EUR 12.5 million. Simultaneously, Talvivaara would have paid to Winttal Oy EUR 3.8 million as a full and final settlement of Talvivaara's debts and liabilities, which were transferred to Winttal Oy from Nyrstar in November 2015. These debts and liabilities comprise of Talvivaara's guarantee liability of approximately EUR 12.8 million under the Streaming Holiday Agreement and a guarantee liability for a termination sum of approximately EUR 203.4 million under the Streaming Agreement, which thereby would have been considered fully and finally settled upon completion of the arrangement.

In addition, as part of the arrangements, Terrafame Group Oy would have acquired debts of Talvivaara from certain commercial banks and Finnvera Plc. The nominal value of these debts is approximately EUR 129.6 million in aggregate. These debts are considered restructuring debts under Talvivaara's draft restructuring programme, which will receive a payment of EUR 7.5 million under the business mortgage claims, whilst the unsecured part of the debts will be paid approximately EUR 1.2 million. Upon completion of the second phase of the arrangements, Talvivaara would have paid to Terrafame Group Oy for the debts transferred by the commercial banks and Finnvera Plc a total sum of EUR 8.7 million in accordance with the final restructuring programme.

Based on the transactions contemplated by the Letter of Intent, the difference between the total purchase price and the sums payable by Talvivaara to Terrafame entities on the basis of Talvivaara's debts would have been EUR 3.8 million, which Terrafame Oy would have paid to Talvivaara as a net purchase price for all assets transferred. The arrangements remained conditional on the approval by Talvivaara's General Meeting of Shareholders and on confirmation of Talvivaara's restructuring programme with a targeted dead line of 30 April 2016. The whole arrangement under the Letter of Intent was also conditional on a favorable decision by the Vaasa Administrative Court on the Nuasjärvi discharge pipe line, enabling the continuation of Terrafame Oy's mining operations.

On 3 February 2016, the Company announced that the parties have agreed to extend the deadline set for the finalization and approval of the detailed agreements under the Letter of Intent until the decision of the Administrative Court has been received.

On 28 April 2016, the Vaasa Administrative Court gave its ruling, among others, on the Nuasjärvi discharge pipe line. The outcome of the ruling deviated adversely from the one applied for by Terrafame Oy, in addition to which the ruling changed the essential environmental permits of the Sotkamo mining operations into temporary permits. The Company and Terrafame started assessing the decision and its effects on the contemplated arrangement under the Letter of Intent.

On 2 June 2016, the Terrafame -entities informed the Company that they would no longer pursue the contemplated arrangement under the Letter of Intent of 28 January 2016. Terrafame Oy also informed the Company that Winttal Ltd had assigned to Terrafame Oy all its rights, title, benefit and interest under the Streaming Agreement and the Streaming Holiday Agreement and requested the Company to immediately pay the receivable under the Streaming Holiday Agreement amounting in total to approximately 12.8 million euros. The liability of the Company under the Streaming Holiday Agreement was based on the guarantee issued by the Company for the due payment of loans drawn by Talvivaara Sotkamo from Nyrstar under the Streaming Holiday Agreement. Furthermore, Terrafame Oy stated that, given lack of immediate repayment, it would offset the above mentioned receivables against the receivables of the Company from Terrafame Oy under the service and lease agreements between the parties.

On 30 June 2016, Talvivaara and Terrafame Oy signed agreements, in which the parties agreed on the sale of Talvivaara's assets related to the Sotkamo mining operations and settlement of Talvivaara's guarantee liabilities under the Streaming Holiday Agreement, with the principal amount of approximately EUR 14 million (including interest up until 30 June 2016), and the Streaming Agreement, amounting to approximately EUR 203.4 million. The assets sold include, among others, the lime plant needed for the Sotkamo operations, laboratory, as well as rights to the geological, laboratory and production related data associated with the Sotkamo mine. The purchase price for the assets sold consisted of two components: (i) a full and final settlement of the guarantee liabilities of the Company under the Holiday Agreement and the Streaming Agreement, and (ii) a cash component of EUR 1.4 million payable by Terrafame Oy at closing. The agreement had no effect on the identified restructuring debts of the Company, including the receivables of certain commercial banks and Finnvera Plc.

The parties had further agreed on the transfer of the laboratory personnel to Terrafame as old employees, as well as on the possibility for Terrafame to recruit certain of Talvivaara's personnel currently providing services related to operation of the mine. The parties agreed to terminate the service agreement and the lime plant lease agreement of 19 November 2014, which were transferred to Terrafame Oy on 14 August 2015, with immediate effect as of 30 June 2016.

The agreements included a cancellation clause whereby the transactions under the agreements would become null and void in the event the extraordinary general meeting of shareholders of Talvivaara did not approve the

transactions under the agreements. The extraordinary general meeting of shareholders of Talvivaara approved the transactions at its meeting held on 11 August 2016. For further information, please refer to section '*Events after the review period*'.

Under the agreements, all main assets of Talvivaara previously generating income for Talvivaara were transferred to Terrafame Oy. Even though the concluded agreements provided less beneficial terms than those contemplated under the Letter of Intent, the arrangement materially improved the possibility for the completion of Talvivaara's corporate restructuring proceedings and facilitated the development of Talvivaara's new business opportunities.

To date, the Company continues to identify and assess new business opportunities and to develop its business outside the Sotkamo mine. The Company is also focused on fulfilling all the remaining special conditions set for the confirmation and entry into force of the draft restructuring programme.

## **Financial review**

### *Financial result*

The operating profit for the review period was EUR 215.9 million (1-6/2015: EUR (0.5) million). Revenues of the Company consist of income generated from equipment leases as well as laboratory and consultancy services rendered to Terrafame, capital gains crystallised from the sale of the Company's mining-related assets to Terrafame (EUR 11 million), and of the reversal of the EUR 203.4 million provision, which is reported as an adjustment to the other operating expenses. The costs are mainly personnel and other operating expenses.

Finance income for the review period was EUR 0.01 million (1-6/2015: EUR 0.002 million) and consisted mainly of interest on deposits and receivables. Finance costs of EUR (8.2) million (1-6/2015: EUR (14.5) million) resulted mainly from accrued interest and related financing expenses accrued on borrowings.

The profit for the review period amounted to EUR 207.7 million (1-6/2015: EUR (15.0) million). Earnings per share were EUR 0.10 (1-6/2015: EUR (0.01)).

### *Liquidity*

As at 30 June 2016, the Company's cash and cash equivalents amounted to EUR 4.2 million (EUR 4.4 million as at 30 June 2015).

To date, the Company finances its day-to-day operations from its cash reserves.

### *Financing*

During the review period, the Company has financed its operations entirely with operative cash flow.

### *Equity*

Following Talvivaara Sotkamo's bankruptcy in 2014, the Company fully wrote off its receivables from, and the shares held in, Talvivaara Sotkamo. As a result, Talvivaara forfeited its equity, which was acknowledged by the Company's Board and notified to the trade register. Talvivaara had already recognised the weakening of its financial position in November 2013 and took measures to mitigate this by applying for corporate reorganisation.

### *Provisions and other items recognised based on restructuring programme*

In the Company's 2014 Financial Statements, Talvivaara recorded a provision of EUR 203.4 million for the potential termination sum guarantee towards Nyrstar. The guarantee concerns the consequences of a premature termination of the Streaming Agreement between Nyrstar and Talvivaara Sotkamo, which as of 1 April 2014 was guaranteed by the Company. The Company provided the full amount as a provision in 2014 and decided to leave the provision on the balance sheet in the 2015 Financial Statements. As a result of the transactions concluded with Terrafame Oy on 30 June 2016, the guarantee liability was finally settled and confirmed terminated. Consequently, the provision of EUR 203.4 million was reversed from the Company's balance sheet as of 30 June 2016.

In addition, the Company has issued a floating charge security for the loans drawn from Finnvera by Talvivaara Sotkamo, amounting in aggregate to EUR 58.7 million, including accrued interest. The aggregate amount consists of two parts: EUR 50.7 million the Company has guaranteed as its own debt, and EUR 8.0 million the Company has

secured with a floating charge security issued as a third-party-security. In the Administrator's final draft restructuring programme, the EUR 8.0 million liability of the Company under the floating charge security to Finnvera has been valued to EUR 3.4 million. This is a liability referred to in section 3(3) of the Restructuring of Enterprises Act, and it is subject to the same rules as the secured debt of the Company. As Finnvera's EUR 8.0 million claim is not the Company's own debt, it has not been taken into account as restructuring debt. However, this liability has been taken into account in the calculation of the amount of secured and business mortgage debt, and payments will be made on it in the same manner as on the Company's debts secured by collateral and business mortgages. However, due to the applied non-going concern principle, the Company has also recognised the full EUR 8.0 million as a liability on the balance sheet. Upon completion of the restructuring proceedings, the part of the Finnvera loans taken into account as secured debt (EUR 3.4 million) would be finally and fully discharged, whilst the remaining balance would be treated as unsecured debt in the Company's restructuring programme and repaid according to the authorized payment schedule.

#### *Off-balance sheet and contingent liabilities*

Talvivaara Sotkamo largely met its environmental bond requirement under the environmental permit through guarantee insurance provided by Atradius Credit Insurance NV ("Atradius"). As at 31 December 2015, the coverage amounted to EUR 31.9 million. In the event restoration of the mine's waste areas (gypsum ponds, heap areas) would have taken place without Talvivaara Sotkamo carrying the cost, the expenses would have initially been covered by Atradius and eventually Atradius would have claimed the cost back from the Company, which has given counter-indemnity for such costs to Atradius. However, as a result of Terrafame Oy replacing the guarantee insurance placed by Talvivaara Sotkamo with a new environmental bond on 21 January 2016, Atradius notified the Company that the original guarantee insurance and the corresponding counter-indemnity were terminated on 21 January 2016 and that the beneficiaries, Kainuun ELY-keskus or Atradius, have no claims against Talvivaara Sotkamo or the Company on the basis of the guarantee insurance or the counter-indemnity issued by the Company. Therefore, the full amount of the liability under the counter-indemnity given by the Company has been removed from the Company's restructuring debts, and no payment will be made on it under the authorised payment schedule.

Following the authorisation by the Espoo District Court of the Company's corporate reorganization proceedings in accordance with the Administrator's final draft restructuring programme, the Company will pay one percent of the aggregate amount of the Company's unsecured restructuring debts not converted into equity, and a total of EUR 7.5 million for the debts secured with the business mortgage issued by the Company. The exact amount of the total payment on the unsecured restructuring debts will depend on the extent to which such debts have been converted into equity of the Company.

#### *Assets*

On the statement of financial position as at 30 June 2016, property, plant and equipment totalled EUR 0.02 million (30 June 2015: EUR 5.0 million). Intangible assets totalled EUR 0 (30 June 2015: EUR 0.5 million). Due to the applied non-going concern reporting basis, the Company has written down the value of its shares in Fennovoima.

#### **Corporate reorganisation**

The Company and Talvivaara Sotkamo applied for corporate reorganisation on 15 November 2013 by filing related applications with the District Court of Espoo, Finland. The District Court of Espoo took the decision to commence a corporate reorganisation process in respect of the Company on 29 November 2013 and in respect of Talvivaara Sotkamo on 17 December 2013. The District Court of Espoo appointed Mr. Pekka Jaatinen, Attorney-at-Law, from Castrèn & Snellman Attorneys to act as the Administrator in respect of the corporate reorganisation of both the Company and Talvivaara Sotkamo. In reorganisation proceedings governed by the Finnish Restructuring of Enterprises Act (47/1993, as amended), both the business operations and the debts of a company may be reorganised and restructured. As a result of such reorganisation, a company can either continue its operations or, if the reorganisation fails, initiate bankruptcy proceedings.

Following the asset deal concluded with Terrafame Oy on 30 June 2016, the Company is currently focusing on fulfilling the remaining special conditions set for the confirmation and entry into force of the draft restructuring programme. For further information, please refer to section '*Events after the review period*'.

**Reporting basis**

Talvivaara's interim financial statements for the first six months of 2016 have not been prepared on a going concern basis. The basis for preparation is that the operations of the Company may end in near future. This results from material uncertainties that cast significant doubt upon the Company's ability to realise its assets and discharge its liabilities in the normal course of business. There is also lack of visibility on the Company's operational environment twelve months beyond the date of reporting.

Talvivaara's ability to revise its reporting basis and to regain its status as a going concern is to a paramount extent dependent on the successful completion of the Company's corporate reorganisation proceedings, which requires that:

- i. Talvivaara succeeds in completing an arrangement that will secure the necessary cash flow for the Company to discharge all of its liabilities and the continuance of the Company's viable business, and
- ii. the District Court of Espoo authorizes the execution of the Company's debt restructuring in accordance with the Administrator's final draft restructuring programme of 10 April 2015.

**Business development projects**

Talvivaara acquired in 2011-2012 an approximately 60MW capacity share in the Fennovoima nuclear project in Finland. Due to the Company's ongoing corporate reorganisation proceedings, Talvivaara is currently not in a position to make further investments into the project and has therefore not been able to commit to further funding of the project.

**Legal proceedings***Investigation on Talvivaara's disclosure practices*

In April 2015, Talvivaara confirmed that a number of current and former members of Talvivaara's management have been heard in connection with an investigation relating to the Company's disclosure practices. On 16 May 2016 the Company was informed that the consideration of charges had been completed and that the prosecutor had decided to bring charges for security markets information offence against CEO Pekka Perä, former CEO Harri Natunen and former CFO and Deputy CEO Saila Miettinen-Lähde. The prosecutor also requests a corporate fine of 500 000 euros to be imposed on Talvivaara. Should any corporate fine be imposed on the Company in the final and binding decision such fine would be considered unsecured restructuring debt and cut and paid out in accordance with the restructuring programme of the Company. For further information on the payments under the restructuring programme, please refer to Note 6.

The Company has already in the past gone through the applied disclosure practices extensively and in great detail with the Financial Supervisory Authority and the Company's view is that no crime has been committed.

*Alleged misuse of insider information*

The Company was notified on 20 October 2015 that charges have been brought against a member of its Executive Committee in the Helsinki District Court on a case concerning alleged misuse of insider information. The Company is not a party to the case. In the Company's view, the charges have no impact on the Company, its financial position or on the employment of the member of the Executive Committee in the Company

*Gypsum pond leakages and discharges into water ways*

On 13 May 2016 the District Court of Kainuu ("the District Court") gave its ruling on the case concerning the gypsum pond leakages of the Sotkamo mine in November 2012 and April 2013 and the sodium, sulphate and manganese discharges that exceeded the anticipated amounts stated in the original environmental permit application of the Sotkamo mine. Originally the charges were brought against four members of Talvivaara's management, including CEO Pekka Perä and former CEO Harri Natunen. The charges concern aggravated impairment of the environment. Harri Natunen has not been employed by the Company since the autumn of 2015.

The case concerning the discharge of raffinate from the metals recovery plant and dilute secondary heap solutions into the open pit during the period of 19 December 2013 - 31 January 2014 was handled together with the above mentioned case. The charges were brought against CEO Pekka Perä for impairment of the environment.

The District Court dismissed the charge concerning aggravated impairment of the environment and moderated the type of the crime to impairment of the environment. Penalties in the form of a fine were imposed on Pekka Perä, Harri Natunen and the former chief operations officer of the mine, who acts as a member of the Executive Committee of the Company. The prosecutor's demands concerning a suspended prison sentence and compensation for the benefit obtained from the crime were dismissed in relation to the private defendants. All charges were dismissed in relation to the fourth defendant. The charges concerning the discharge of raffinate from the metals recovery plant and dilute secondary heap solutions into the open pit made against Pekka Perä were dismissed.

Talvivaara has not been a party to the court case.

The decision is not yet final and binding. The three defendants and the prosecutor have appealed the case to the Court of Appeal.

### **Risk management and key risks**

Talvivaara's near-term risk factors include particularly such risks that relate to the corporate reorganisation proceedings, financing and sufficiency of funds to meet its actual and potential liabilities:

***If an adequate overall financial solution for the continuance of Talvivaara's business operations is not found, Talvivaara's restructuring programme may not be completed and stakeholders could lose their entire investment in the Company***

The authorisation of the proposed restructuring programme of Talvivaara is conditional, among other things, on Talvivaara succeeding in completing an arrangement that will secure the necessary cash flow for the Company to discharge all of its liabilities and restructuring debts and the continuance of the Company's viable business. Although completion of the sale of the Company's mining-related assets to Terrafame Oy and the simultaneous settlement and discharge of the Company's guarantee liabilities under the Streaming Agreement and the Streaming Holiday Agreement on 30 June 2016 materially facilitated achieving such target, there is, as of the date of the Company's Interim Financial Statements 22 September 2016 no certainty as to whether the Company can fulfil the remaining special conditions set under the restructuring programme within the given time frame. If the restructuring programme is not authorised, the Company may have to file for bankruptcy and, as a result, the shareholders and creditors of the Company could lose their entire investment in the Company.

***If the corporate reorganisation proceedings of Talvivaara are not successful, stakeholders could lose their entire investment in the Company***

Although the Board of Directors believes that a corporate reorganisation is a viable option for Talvivaara, there can be no assurance that the proposed restructuring programme of the Company will ultimately be successful. The corporate reorganisation process can fail for a number of reasons, including due to an insufficiency of funds to implement or complete the restructuring programme, changes in circumstances affecting the financial viability of Talvivaara, or insufficient income or cash reserves. If the corporate reorganisation fails for these or any other reasons, it could result in the bankruptcy of the Company. As a result, shareholders and creditors could lose their entire investment in the Company.

***The right of conversion of debt into equity included in the restructuring programme of Talvivaara and/or the issuance of new equity instruments will lead to a significant dilution of the existing shareholding of the Company***

The right of conversion of debt into equity included in the restructuring programme of Talvivaara and/or the issuance of new equity instruments may lead to a significant dilution of the existing shareholding of the Company. The extent of dilution will eventually be determined by the aggregate amount of the restructuring debts to be converted into shares at the determined conversion rate of EUR 0.1144 per share as well as by the subscription price of the newly issued shares offered and the amount of funds raised in the potential equity financing.

---

**Personnel***Headcount and remuneration*

Talvivaara's personnel comprises an expert organisation, the core competences of which include, for example, production processes, procurement, environmental safety, risk management and communications. The salaries of Talvivaara's personnel are based on industry-wide collective agreements. The total compensation of the key individuals has traditionally consisted of a base salary and short and long term incentive schemes based on annual bonuses, stock options and other share-based incentive schemes. However, due to exceptional circumstances surrounding the Company there are currently no short term or long term incentive schemes in place.

As a result of the sale of assets concluded on 30 June 2016, Talvivaara's headcount decreased substantially and was 16 at the end of the review period on 30 June 2016 (1-6/2015: 51). 69 % (1-6/2015: 51 %) of Talvivaara's employees were men and 31 % (1-6/2015: 49 %) were women. The average age of the Company's employees was 44 years (1-6/2015: 41 years).

**Resolutions of the Annual General Meeting**

Talvivaara's Annual General Meeting was held on 15 June 2016 in Espoo, Finland. All the resolutions proposed, as set out in the notice of the meeting, were duly passed. The resolutions of the AGM included:

- that no dividend be paid for the financial year 2015;
- that the annual fee payable to the members of the Board for the term until the close of the Annual General Meeting in 2017 be as follows: Chairman of the Board of Directors EUR 84,000/year and other Non-executive Directors: EUR 48,000/year. No separate meeting fees are paid for the Board or the Committee work. The remuneration of the Executive Directors is included in their base salary, and it is not paid out separately;
- that the number of Board members be four (4) and that Mr. Tapani Järvinen, Mr. Pekka Perä, Mr. Stuart Murray and Ms. Solveig Törnroos-Huhtamäki were re-elected;
- that the auditor be reimbursed according to the approved auditor's invoice and authorised public accountants PricewaterhouseCoopers Oy be elected as the Company's auditor;
- that article 2§ of the Articles of Association of the Company concerning the line of business be amended in accordance with the proposal by the Board of Directors. The line of business was made more versatile to cover also the development of new types of businesses. The amended article 2§ of the Articles of Association concerning the line of business reads as follows:  
"The line of business of the Company is to engage in ore exploration, exploitation, excavation and other mining activities and in metals, machine, chemical and construction industries and any business activities supporting them. The Company may also engage in the business operations based on know-how acquired in aforementioned sectors or related to or compatible with them. The Company may operate either directly or through subsidiaries, associated companies or joint ventures."

At its constituent meeting on 15 June 2016, the Board of Directors re-elected Mr. Tapani Järvinen as the chairman of the Board.

**Shares and shareholders**

By the end of 2015 Talvivaara received conversion notices pursuant to which the bonds amounting in aggregate to EUR 21,100,000 were to be converted to a total of 9,336,276 new Talvivaara shares. These new Talvivaara shares were registered in the Trade Register on 14 January 2016.

The number of shares issued and outstanding and registered on the Euroclear Shareholder Register as of 31 December 2015 was 2,098,817,876. Including the effect of the EUR 225 million convertible bond of 16 December 2010, the authorized full number of shares of the Company amounted to 2,195,543,540.

As at 31 December 2015, the shareholders who held more than 5% of the shares and votes of Talvivaara were Solidium Oy (15.2%) and Mr. Pekka Perä (5.9%).

As at 30 June 2016 the shares held in treasury by the Company amounted to in aggregate 192,883,000 (9.2% of the shares in the Company). The shares held in treasury by the Company do not carry any voting rights.

**Share based incentive plans**

As at 30 June 2016, the Company has no share based incentive schemes in place.

**Events after the review period***Approval by the EGM of the sale of assets*

The extraordinary general meeting of shareholders of the Company held on 11 August 2016 approved the resolution proposed by the Board of Directors concerning the sale by Talvivaara of its assets related to the Sotkamo mining operations to Terrafame Oy. Whilst all the income generating assets of Talvivaara were transferred to Terrafame, the Company believes that the arrangement has materially improved the possibility for the successful completion of Talvivaara's corporate restructuring proceedings, and facilitated the development of Talvivaara's new business opportunities.

*Corporate reorganisation proceedings*

The Administrator of Talvivaara's corporate restructuring proceedings has on 20 September 2016 confirmed his view, according to which the following special conditions set for the entry into force of the Company's draft restructuring programme are still to be fulfilled at the date of these Interim Financial Statements 22 September 2016:

- Special condition (b) (2):  
The general meeting of Talvivaara arranges or authorises the Company's board of directors to arrange a financing arrangement (e.g. a share issue, bond or other financial instrument) to raise the funds to make the investment necessary for carrying out the arrangement referred to in special condition (a) (2) of the final draft restructuring programme and/or to pay the claims of those creditors who did not exercise their right to convert their restructuring debt claims into shares in the Company in the manner provided for in the restructuring programme and to cover other possible liabilities to the extent the Company's other funds are not sufficient for this purpose; and
- Special condition (c):  
The proceedings for converting the restructuring debts into shares in the Company have been completed, and the new shares have been registered in the Trade Register.

In addition, in the Administrator's view, due compliance with all the special conditions and Restructuring Act will require that one or more of the Company's new business opportunities is developed sufficiently so as to provide more tangible prospects for future viable business operations.

Currently, the Company is focusing on fulfilling all the remaining special conditions set for the entry into force of the draft restructuring programme.

The Company announced on 20 September 2016 that the Company has started preparations for the share issue in accordance with the special condition (c) of the restructuring programme. The Company also announced that it will continue investigating and developing its new projects into concrete business opportunities. The new business opportunities of the Company include projects, amongst others, in the recycling and energy saving sectors.

**Short-term outlook**

The operational outlook for Talvivaara is greatly dependent on the authorisation and a successful completion of the Company's corporate reorganisation proceedings within the prescribed time frame, and the materialisation and further development of the Company's new income generating business opportunities currently under contemplation. To facilitate this, a new line of business of the Company was approved by the Annual General Meeting in June 2016 enabling the Company to develop new business opportunities also outside the mining industry.

Whilst the Administrator's final draft restructuring programme gives the Company reasonably ample time to complete the reorganization proceedings, there is no certainty that the Company will be successful in developing its new business opportunities and, ultimately, in completing the corporate reorganisation proceedings through due

payments. For further information on the Company's equity position after the contemplated debt-to-equity conversion set forth in the final draft restructuring programme, please refer to Note 6.

Talvivaara Mining Company Plc  
Board of Directors

**BALANCE SHEET**

(All amounts in EUR)	Notes	As at 30 Jun 2016	As at 30 Jun 2015	As at 31 Dec2015
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	7	21,592	4,999,546	4,692,782
Intangible assets	8	-	497,088	94,547
Other receivables		26,822	30,926	27,640
<b>Total non-current assets</b>		<b>48,414</b>	<b>5,527,559</b>	<b>4,814,970</b>
<b>Current assets</b>				
Trade receivables	9	898,184	63,678	37,850
Other receivables	9	1,432,458	46,599	188,138
Cash and cash equivalents		4,193,678	4,432,729	4,662,572
<b>Total Current assets</b>		<b>6,524,320</b>	<b>4,543,006</b>	<b>4,888,559</b>
<b>TOTAL ASSETS</b>		<b>6,572,734</b>	<b>10,070,565</b>	<b>9,703,529</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to the owners</b>				
Share capital	10	80,000	80,000	80,000
Share premium	10	8,085,842	8,085,842	8,085,842
Other reserves	10	797,348,200	771,648,199	797,348,200
Retained deficit	10	(1,328,054,020)	(1,524,313,624)	(1,535,766,741)
<b>Total equity</b>	<b>10</b>	<b>(522,539,978)</b>	<b>(744,499,583)</b>	<b>(730,252,700)</b>
<b>Current liabilities</b>				
Provisions	18	-	203,444,456	203,444,456
Borrowings	11	465,042,831	503,955,559	477,845,205
Trade payables	12	2,162,258	2,743,335	2,723,003
Other payables	12	61,907,624	44,426,799	55,943,564
<b>Total liabilities</b>		<b>529,112,712</b>	<b>754,570,148</b>	<b>739,956,228</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>6,572,734</b>	<b>10,070,565</b>	<b>9,703,529</b>

Financials for the period ended on 30 June 2016 and for the financial year ended on 31 December 2015 are audited.  
Financials for the period ended on 30 June 2015 are unaudited.

The notes are an integral part of the financial statements.

**INCOME STATEMENT**

(All amounts in EUR)	Notes	Period ended 30 Jun 2016	Period ended 30 Jun 2015	Year ended 31 Dec 2015
<b>Other operating income</b>	<b>13</b>	<b>14,019,322</b>	<b>3,436,664</b>	<b>6,702,480</b>
Materials and services	14	(174,762)	(138,698)	(257,536)
Personnel expenses	15	(1,512,874)	(2,132,041)	(3,807,345)
Depreciation and amortisation	16	(299,324)	(342,470)	(971,024)
Impairment charges on intangible assets	17	(93,626)	-	-
Impairment charges on investments	17	-	-	421,333
Other operating expenses	18	203,931,287	(1,314,824)	(2,267,625)
<b>Operating profit/loss</b>		<b>215,870,023</b>	<b>(491,368)</b>	<b>(179,717)</b>
Finance income	19	9,338	1,620	12,841
Finance cost	20	(8,166,640)	(14,488,035)	(25,842,689)
<b>Finance cost (net)</b>		<b>(8,157,302)</b>	<b>(14,486,415)</b>	<b>(25,829,848)</b>
<b>Profit/Loss before income tax</b>		<b>207,712,721</b>	<b>(14,977,782)</b>	<b>(26,009,565)</b>
Income tax	21	-	-	-
<b>PROFIT/LOSS FOR THE FINANCIAL PERIOD</b>		<b>207,712,721</b>	<b>(14,977,782)</b>	<b>(26,009,565)</b>
<b>Profit/Loss attributable to the owners of the Company,</b>				
<b>(€/share)</b>		<b>Period ended 30 Jun 16</b>	<b>Period ended 30 Jun 2015</b>	<b>Year ended 31 Dec 15</b>
Diluted and undiluted	10	0,10	(0,01)	(0,01)

Financials for the period ended on 30 June 2016 and for the financial year ended on 31 December 2015 are audited. Financials for the period ended on 30 June 2015 are unaudited.

The notes are an integral part of the financial statements.

**STATEMENT OF CASHFLOWS**

(all amounts in EUR)	<b>Period ended 30 Jun 2016</b>	<b>Period ended 30 Jun 2015</b>	<b>Year ended 31 Dec 2015</b>
<b>Cash flows from operating activities</b>			
Profit/Loss for the period	207,712,721	(14,977,782)	(26,009,565)
Adjustments for			
Depreciation and amortisation	299,324	342,470	971,024
Other non-cash income and expenses	(216,005,213)	-	215,257
Impairment charges on investments	-	-	(421,333)
Interest income	(9,338)	(1,620)	(12,841)
Interest expenses	8,166,640	14,488,035	25,842,689
<b>Cash flow before change in working capital</b>	<b>257,760</b>	<b>(148,898)</b>	<b>585,230</b>
Change in working capital			
Decrease(+)/increase(-) in trade and other receivables	203,656	211,314	98,898
Decrease(-)/increase(+) in trade and other payables	(864,554)	(891,319)	(1,287,347)
Change in working capital	(660,898)	(680,005)	(1,188,449)
<b>Net cash used in operating activities before financing activities and taxes</b>	<b>(403,139)</b>	<b>(828,903)</b>	<b>(603,219)</b>
Interest and other finance cost paid	(65,785)	(84,749)	(91,801)
Interest and other finance income	30	-	11,211
<b>Net cash generated (used) in operating activities</b>	<b>(468,894)</b>	<b>(913,652)</b>	<b>(683,809)</b>
<b>Cash flows from investing activities</b>			
<b>Net cash generated (used) in investing activities</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Cash flows from financing activities</b>			
<b>Net cash generated from financing activities</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net (decrease)/increase in cash and bank overdrafts</b>	<b>(468,894)</b>	<b>(913,652)</b>	<b>(683,809)</b>
Cash and bank overdrafts at beginning of the year	4,662,572	5,346,381	5,346,381
<b>Cash and bank overdrafts at end of the period</b>	<b>4,193,678</b>	<b>4,432,729</b>	<b>4,662,572</b>

Financials for the period ended on 30 June 2016 and for the financial year ended on 31 December 2015 are audited.  
Financials for the period ended on 30 June 2015 are unaudited.

**STATEMENT OF CHANGES IN EQUITY**

EUR	Share capital	Share issue	Share premium	Other reserves	Retained deficit	Total
<b>31 Dec 2014</b>	80,000	-	8,085,842	771,648,200	(1,509,757,176)	(729,943,134)
Absorption of subsidiaries	-	-	-	-	421,333	421,333
Profit (loss) for the period	-	-	-	-	(14,977,782)	(14,977,782)
<b>30 Jun 2015</b>	80,000	-	8,085,842	771,648,200	(1,524,313,625)	(744,499,583)
Conversion of convertible bonds	-	-	-	25,700,000	-	25,700,000
Reversal of absorption of subsidiaries to income statement	-	-	-	-	(421,333)	(421,333)
Profit (loss) for the period	-	-	-	-	(11,031,783)	(11,031,783)
<b>31 Dec 2015</b>	80,000	-	8,085,842	797,348,200	(1,535,766,741)	(730,252,700)
Profit (loss) for the period	-	-	-	-	207,712,721	207,712,721
<b>30 Jun 2016</b>	80,000	-	8,085,842	797,348,200	(1,328,054,020)	(522,539,978)

Financials for the period ended on 30 June 2016 and for the financial year ended on 31 December 2015 are audited.  
Financials for the period ended on 30 June 2015 are unaudited.

---

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### 1. General information

Talvivaara Mining Company Plc (“Company”) is a public company incorporated on 9 September 2003 and registered in Finland with registered number of 1847894-2. The Company’s domicile is in Sotkamo, Finland, and its registered address is at Ahventie 4 B, 02170 Espoo, Finland. Talvivaara has been in corporate reorganisation since 29 November 2013.

- The Company’s shares were publicly traded on the Main Market of the London Stock Exchange. The listing of the shares on the Official List of the United Kingdom Listing Authority was cancelled with effect from (and including) 14 July 2014.
- A secondary listing of the Company’s shares began on the Helsinki Stock Exchange (NASDAQ OMX Helsinki Oy) on 11 May 2009.
- The Company and its operating subsidiary Talvivaara Sotkamo applied for corporate reorganisation on 15 November 2013, and corporate reorganisation proceedings of these companies commenced on 29 November 2013 and 17 December 2013.
- Following the announcement of the bankruptcy of Talvivaara Sotkamo, trading of Talvivaara’s shares on the Helsinki Stock Exchange was suspended on 6 November 2014. The suspension of trading continues on the date of the Company’s Interim Financial Statements 22 September 2016.

### 2. Basis of presentation and non-going concern

These Interim Financial Statements of the Company are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union taking into account the corporate reorganisation proceedings that commenced in respect of the Company on 29 November 2013. In addition, the Company has taken into account IAS 1.25 and IAS 1.26 requirements regarding the disclosure under the non-going concern basis. Talvivaara's Interim Financial Statements for the period ended 30 June 2016 have not been prepared on a going concern basis. The basis of preparation is that operations may end in near future.

The chosen reporting basis results from the existence of material uncertainty that casts significant doubt upon the Company’s ability to realise its assets and discharge its liabilities in the normal course of business and from the lack of visibility on the Company’s operational environment twelve months beyond the date of reporting. The requisite adjustments resulting from the chosen reporting basis have, where applicable, been made in the 2016 Interim Financial Statements to the carrying amounts of the Company’s assets and liabilities, but no reserve has been made in the Company’s balance sheet for the costs relating to winding down of the operations.

The Administrator of Talvivaara’s corporate restructuring proceedings has confirmed his view, according to which the following special conditions set for the entry into force of the Company’s draft restructuring programme are still to be fulfilled at the date of these Interim Financial Statements 22 September 2016:

- Special condition (b) (2):  
The general meeting of Talvivaara arranges or authorises the Company's board of directors to arrange a financing arrangement (e.g. a share issue, bond or other financial instrument) to raise the funds to make the investment necessary for carrying out the arrangement referred to in special condition (a) (2) of the final draft restructuring programme and/or to pay the claims of those creditors who did not exercise their right to convert their restructuring debt claims into shares in the Company in the manner provided for in the restructuring programme and to cover other possible liabilities to the extent the Company's other funds are not sufficient for this purpose; and
- Special condition (c):  
The proceedings for converting the restructuring debts into shares in the Company have been completed, and the new shares have been registered in the Trade Register.

In addition, in the Administrator's view, due compliance with all the special conditions and Restructuring Act will require that one or more of the Company's new business opportunities is developed sufficiently so as to provide more tangible prospects for future viable business operations.

Currently, the Company is focusing on fulfilling all the remaining special conditions set for the entry into force of the draft restructuring programme.

Until 30 June 2016 the Company financed its day-to-day operations by providing administrative and technical services and the lease of machinery and equipment critical to Terrafame. These contractual arrangements helped the Company to discharge all of its new liabilities as and when they fell due. After the agreement made with Terrafame on 30 June 2016, the Company continues identifying and assessing new business opportunities and developing its business outside the Sotkamo mine.

Talvivaara's ability to revise its reporting basis and to regain its status as a going concern is dependent, among other things, on the successful completion of the Company's corporate reorganisation proceedings, which requires that:

- (i) Talvivaara succeeds in completing an arrangement that will secure the necessary cash flow for the Company to discharge all of its liabilities and the continuance of the Company's viable business, and
- (ii) the District Court of Espoo authorizes the execution of the Company's debt restructuring in accordance with the Administrator's final draft restructuring programme of 10 April 2015.

As of the date of the Company's Interim Financial Statements 22 September 2016, there is no certainty as to whether the Company can fulfill all the set requirements within the given time frame.

For more information on the effects of the draft restructuring programme, please refer to Note 6 below.

### **3. Summary of significant accounting policies**

#### **Foreign currency translation**

Items included in the Interim Financial Statements of the Company are measured using the currency of the primary economic environment, in which the entity operates (the "functional currency"). The Interim Financial Statements are presented in euro (EUR), which is the Company's functional and presentation currency. All material income and cost streams of the Company were euro denominated during the periods presented in these Interim Financial Statements.

#### **Property, plant and equipment**

As at 30 June 2016 the Company sold the lime plant and laboratory previously leased to bankruptcy estate of Talvivaara Sotkamo and subsequently to Terrafame. The assets formed majority of the Company's Property, Plant and Equipment as at 31 December 2015. Remaining Property Plant and Equipment consist mainly of office machinery as at 30 June 2016. The Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition, construction or production of the items, including borrowing costs directly attributable to a qualifying asset.

Depreciation related to machinery and equipment are calculated using the straight-line method over a 4 to 25 years period to allocate their cost to their residual values over their estimated useful lives.

Useful lives of assets, depreciation methods and any residual values are re-assessed at each reporting date based on the Company's estimates of its ability to utilise the assets in its operations and other relevant matters. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other operating income or expenses, respectively, in the income statement.

**Intangible assets**

As at 30 June 2016 the Company does not have intangible assets recognized on balance sheet. Other intangible rights and other capitalized long term expenditure during year 2015 included patents and capitalized software which were measured at cost less accumulated amortisation and accumulated impairment charges and which were amortised on a straight-line basis over 5 – 10 years.

**Impairment of non-financial assets**

Assets that are subject to amortisation, depreciation or depletion are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

**Financial assets**

The Company has trade and other receivables on the balance sheet. Talvivaara also owns shares in Majakka Voima Oy and Katternö Kärnkraft Ab, companies holding shares in Fennovoima nuclear power company. The book value of EUR 7,5 million of these shares was fully written down in the financial statements for the year 2014 as the Company does not recognise any value in such holdings with a view to its current business operations.

*Trade receivables*

Trade receivables are amounts due from customers for service sold in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at fair value and are subsequently measured at amortised cost reduced by any provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due. Any impairment is recognised in the income statement within operating expenses.

When a trade receivable is uncollectable, it is written off from trade receivables into bad debts. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement. The Company derecognises trade receivables, if the contractual rights to receive the cash flows are transferred based on factoring or similar agreement. Trade receivables are derecognised only if the Company transfers substantially all the risks and rewards of ownership of trade receivables. After the derecognition, the Company recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash in hand and deposits held at call with banks. Bank overdrafts are shown within borrowings in the current liabilities on the balance sheet.

**Share capital**

Share capital consists solely of ordinary share capital.

**Provisions**

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Provisions for legal claims are recognised when: (i) the Company has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount has been reliably estimated.

**Other operating income**

Income is recognised, net of treatment charges, from a sale when evidence of an arrangement exists, the price is determinable, the service has been delivered, the title has been transferred to the customer and collection of the sales price is reasonably assured. Net sales of the Company comprised the consultancy and laboratory services and equipment leases provided to the bankruptcy estate of Talvivaara Sotkamo and subsequently to Terrafame as well as the capital gains from the sale of the Company's mining-related assets to Terrafame. Invoicing of personnel

resources was based on hourly rates, expenses incurred in the provision of the services were charged at cost added with an administrative margin, and for the limestone plant a monthly rent was agreed.

Sales income is only recognised on individual sales when persuasive evidence exists that all of the following criteria are met:

- all material risks and rewards of ownership have been transferred to the buyer;
- there is no continuing managerial involvement to the degree usually associated with ownership or effective control over goods sold;
- the amount of income can be measured reliably;
- the costs incurred or to be incurred in respect of the sale can be measured reliably; and
- the flow of future economic benefits is probable.

#### **Trade and other payables**

Trade payables and other payables are non-interest bearing obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. The carrying amounts of trade and other payables approximate their fair value. Due to the adopted non-going concern principle, all trade and other payables have been classified as current liabilities.

#### **Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Due to the adopted non-going concern principle, all borrowings have been classified as current liabilities.

Due to the reorganisation proceedings, the interest expense recognised is subject to significant changes, should the restructuring programme be approved. Despite this fact, the Company has accrued interest on the balance sheet for all borrowings.

#### **Application of new and amended standards and interpretations**

These Interim Financial Statements of the Company are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union taking into account the corporate reorganisation proceedings that commenced in respect of the Company on 29 November 2013, and IAS 1.25 and IAS 1.26 requirements regarding the disclosure under the non-going concern basis. Following the adoption of the non-going concern principles, the management has assessed that new and amended standards would not have impacted the preparation of the Interim Financial Statements for the period ended 30 June 2016.

## **4. Financial risk management**

The objective of the Company's financial risk management is to avoid or mitigate any potential risks related to cash and cash equivalents, outstanding borrowings including accrued interests and trade and other receivables.

The Company's Board of Directors is responsible for maintaining a risk management policy, which defines risk management roles, processes and guidelines for the Company. Since the commencement of the corporate reorganisation proceedings, the Company has not changed its risk management policies relative to mitigation of foreign currency, commodity price and interest rate risks. However, liquidity risk is being managed through frequent monitoring of the cash balance. As at 30 June 2016 and 31 December 2015 the Company did not have any outstanding derivative financial positions.

All material income and cost streams of the Company were euro denominated during the period 1 January – 30 June 2016.

*Credit and counterparty risk*

Credit and counterparty risk is defined as the possibility of a customer or a financial counterparty not fulfilling its commitments towards the Company. The management considers that credit or counterparty risk is not material to the Company.

*Liquidity and refinancing risk*

Liquidity risk arises when a company is not able to obtain the funds it requires to comply with its commitments under financial instruments or other agreements with financial commitments.

During the reorganisation proceedings, despite the adopted non-going concern principles, the Company seeks to secure its ability to continue as an operating company through short and long-term financing solutions, which the Company, is negotiating at the time of these Interim Financial Statements. The Company's financial viability is also dependent on the development and authorisation of executable restructuring programme, the prevailing market conditions and the Company's ability to successfully implement its business plan.

At the date of authorisation of these Financial Statements, it is not possible to foresee whether Talvivaara will be able to execute its financing, reorganisation and operational plans or whether the execution of these will improve the Company's financial condition sufficiently to allow it to continue as an operating company.

Due to the reorganization proceedings, the realisation of the liquidity risk related to the accrued interest on the restructuring debts is remote and arise if the draft restructuring programme is not confirmed.

**5. Critical accounting estimates and judgment**

For the financial year ended at 31 December 2015 and the period ended 30 June 2016, the Company has prepared the financial statements in accordance with the non-going concern principle due to significant uncertainties related to the future events.

**Provisions and contingent liabilities**

Following the adoption of the non-going concern principle, the Company assesses carefully estimates and judgments concerning provisions and contingent liabilities. The Company's approach is conservative regarding these items in the Financial Statements.

**DETAILED NOTES**
**6. Illustrative calculation of the Company equity, if the restructuring programme is confirmed**

According to the draft restructuring programme, the creditors of the unsecured restructuring debt may convert their receivables to new shares of the Company. The unsecured restructuring debt of those creditors who decide not to exercise their conversion right would be cut by 99%. The remaining 1% of the unsecured restructuring debt would be paid in one instalment. The amount of unsecured restructuring debt to be paid can only be determined after it is known how many creditors would exercise their right to convert unsecured restructuring debt into Company shares.

The following table illustrates the Company's capital structure based on actual book values as at 30 June 2016, adjusted with the assumed conversion of all non-preferred restructuring loans (totalling EUR 453.6 million) to new shares of the Company as if the conversion would have taken place as at 30 June 2016. In addition, the adjusted capital structure assumes elimination of the accumulated accrued interest since the beginning of the restructuring proceedings amounting to EUR 67.2 million as the obligation to pay such interest will cease upon either the assumed approval of the draft restructuring programme or the conversion of the non-preferred restructuring debt.

EUR	30 June 2016			
	Actual	1) Conversion of unsecured restructuring debt	2) Elimination of the accrued interest expenses	Adjusted
Cash and cash equivalents	4,193,678	0	0	4 193 678
Equity	(522,539,820)	453,578,423	67,154,776	(1,806 622)
Borrowings and trade and other payables, of which:				
Secured restructuring debt and other liabilities to be taken into account	7,500,000	0	0	7,500,000
Unsecured restructuring debt	453,578,423	(453,578,423)	0	0
Accumulated interest since the beginning of the restructuring proceedings	67,154,776	0	(67,154,776)	0
Other payables during procedure	879,514	0	0	879,514
<b>Total liabilities</b>	<b>529,112,712</b>	<b>(453,578,423)</b>	<b>(67,154,776)</b>	<b>8,379,514</b>

The calculation is based on the assumption that all unsecured restructuring debt (totalling EUR 453.6 million) will be converted into new shares of the Company with a subscription price of EUR 0.1144 per share. Following the conversion of all unsecured restructuring debt, the equity will increase by the amount of the unsecured restructuring debt of EUR 453.6 million.

The Company has accrued interest expenses of EUR 67.2 million to the balance sheet since the beginning of the restructuring proceedings, despite the fact that the payment obligation on unsecured restructuring debt ceased when the reorganisation proceedings were started.

The calculation does not take into account the interest payable on the secured loans of in total EUR 7.5 million accrued during the restructuring proceedings, which according to the final draft restructuring programme would be 12-month EURIBOR added with 2 percent units. The interest expense on the secured debt accrued from the beginning of the restructuring proceedings 29 November 2013 until 30 June 2016 amounted to approximately EUR 0.4 million. The Company and the secured creditors may agree to adjust this interest liability in terms of the repayable amount and/or the repayment schedule. The secured restructuring loans of EUR 7.5 will remain as liabilities on the balance sheet.

If no unsecured restructuring debts were converted into new shares of the Company and the draft restructuring programme was authorised, the amount of the unsecured debts would be reduced by 99 percent based on the restructuring plan. The remaining amount of unsecured restructuring loans of EUR 4.5 million would remain as short-term debt on the balance sheet. Following the reduction of the unsecured restructuring debt, the Company's equity would increase by the amount of the reduction of the unsecured restructuring debt, EUR 449.0 million.

In the event that the restructuring programme was completed, the accumulated interest since the beginning of the restructuring proceedings accrued in the Interim Financial Statements would be derecognized, since the fulfillment of the restructuring plan will verify that the accumulation of interests ceased at the time the restructuring proceedings were started.

**7. Property, Plant & Equipment**

(All amounts in EUR)	<b>Buildings</b>	<b>Machinery and equipment</b>	<b>Total</b>
Gross carrying amount at 1 Jan 2015	11,899,045	19,837,595	31,736,640
Additions	-	266,843	266,843
Gross carrying amount at 30 Jun 2015	11,899,045	20,104,438	32,003,483
Accumulated depreciation and impairment losses at 1 Jan 2015	11,899,045	14,826,837	26,725,882
Depreciation for the period	-	278,055	278,055
Accumulated depreciation and impairment losses at 30 Jun 2015	11,899,045	15,104,892	27,003,937
Carrying amount at 1 Jan 2015	0	5,010,758	5,010,758
Carrying amount at 30 Jun 2015	0	4,999,546	4,999,546
Deductions	-	(3,463)	(3,463)
Gross carrying amount at 31 Dec 2015	11,899,045	20,100,975	32,000,020
Accumulated depreciation and impairment losses at 30 Jun 2015	11,899,045	15,104,892	27,003,937
Depreciation for the period	-	303,301	303,301
Accumulated depreciation and impairment losses at 31 Dec 2015	11,899,045	15,408,193	27,307,238
Carrying amount at 30 Jun 2015	-	4,999,546	4,999,546
Carrying amount at 31 Dec 2015	(0)	4,692,782	4,692,782
Gross carrying amount at 1 Jan 2016	11,899,045	20,100,975	32,000,020
Deductions	(11,899,045)	(20,060,775)	(31,959,820)
Gross carrying amount at 30 Jun 2016	-	40,200	40,200
Accumulated depreciation and impairment losses at 1 Jan 2016	11,899,045	15,408,193	27,307,238
Depreciation for the year	-	298,403	298,403
Deductions	(11,899,045)	(15,687,988)	(27,587,032)
Accumulated depreciation and impairment losses at 30 Jun 2016	0	18,608	18,608
Carrying amount at 1 Jan 2016	(0)	4,692,782	4,692,782
Carrying amount at 30 Jun 2016	-	21,592	21,592

Upon liquidation of Talvivaara Exploration Ltd in 2015, all its assets, rights and liabilities transferred to the Company. On 30 June 2016, Talvivaara and Terrafame Oy signed agreements, in which the parties agreed on the sale of Talvivaara's assets related to the Sotkamo mining operations and settlement of Talvivaara's guarantee liabilities under the Streaming Holiday Agreement, with the principal amount of approximately EUR 14 million (including interest up until 30 June 2016). The assets sold include, among others, the lime plant needed for the Sotkamo operations and the laboratory.

**8. Intangible assets**

(All amounts in EUR)	Intangible rights	Other capitalized long-term expenditure	Construction in progress	Total
Gross carrying amount at 1 Jan 2015	1,240,111	307,654	88,083	1,635,848
Additions	-	-	6,616	6,616
Gross carrying amount at 30 Jun 2015	1,240,111	307,654	94,698	1,642,464
Accumulated depreciation and impairment losses at 1 Jan 2015	879,751	201,210	-	1,080,961
Depreciation for the period	36,281	28,134	-	64,415
Accumulated depreciation and impairment losses at 30 Jun 2015	916,032	229,344	-	1,145,376
Carrying amount at 1 Jan 2015	360,359	106,444	88,083	554,886
<b>Carrying amount at 30 Jun 2015</b>	<b>324,080</b>	<b>78,311</b>	<b>94,698</b>	<b>497,088</b>
Additions	17,410	-	6,000	23,410
Deductions	-	-	(100,698)	(100,698)
Gross carrying amount at 31 Dec 2015	1,257,521	307,654	0	1,565,176
Accumulated depreciation and impairment losses at 30 Jun 2015	916,032	229,344	-	1,145,376
Depreciation for the period	246,942	78,310	-	325,252
Accumulated depreciation and impairment losses at 31 Dec 2015	1,162,974	307,654	-	1,470,628
Carrying amount at 30 Jun 2015	324,080	78,311	94,698	497,088
<b>Carrying amount at 31 Dec 2015</b>	<b>94,547</b>	<b>-</b>	<b>-</b>	<b>94,547</b>
Gross carrying amount at 1 Jan 2016	1,257,521	307,654	-	1,565,175
Gross carrying amount at 30 Jun 2016	1,257,521	307,654	-	1,565,175
Accumulated depreciation and impairment losses at 1 Jan 2016	1,162,974	307,654	-	1,470,628
Depreciation for the period	921	-	-	921
Impairment losses	93,626	-	-	93,626
Accumulated depreciation and impairment losses at 30 Jun 2016	1,257,521	307,654	-	1,565,175
Carrying amount at 1 Jan 2016	94,546	-	-	94,547
<b>Carrying amount at 30 Jun 2016</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Upon liquidation of Talvivaara Exploration Ltd in 2015, all its assets, rights and liabilities transferred to the Company. On 30 June 2016, Talvivaara and Terrafame Oy signed agreements, in which the parties agreed on the sale of Talvivaara's assets related to the Sotkamo mining operations and settlement of Talvivaara's guarantee liabilities under the Streaming Holiday Agreement, with the principal amount of approximately EUR 14 million (including interest up until 30 June 2016). The assets sold include, among others, the rights to the geological, laboratory and production related data associated with the Sotkamo mine.

**9. Trade and other receivables**

EUR	As at 30 Jun 2016	As at 30 Jun 2015	As at 31 Dec 2015
<b>Trade receivables</b>			
Services fees and rent from Terrafame	898,184	-	-
Other	-	63,678	37,850
<b>Total</b>	<b>898,184</b>	<b>63,678</b>	<b>37,850</b>
<b>Other receivables</b>			
Cash payment of the purchase price from Terrafame	1,400,000	-	-
Other	32,458	46,599	188,138
<b>Total</b>	<b>1,432,458</b>	<b>46,599</b>	<b>188,138</b>

**10. Shareholders' equity**

**Distributable equity**

EUR	30 Jun 2016	30 Jun 2015	31 Dec 2015
<b>At the beginning of the year</b>	<b>(779,847,189)</b>	<b>(753,837,624)</b>	<b>(753,837,624)</b>
Profit / Loss for the period	207,712,721	(14,977,782)	(26,009,565)
<b>At the end of the period</b>	<b>(572,134,468)</b>	<b>(768,815,406)</b>	<b>(779,847,189)</b>
	30 Jun 2016	30 Jun 2015	31 Dec 2015
Profit/Loss attributable to the owners of the Company, EUR	207,712,721	(14,977,782)	(26,009,565)
Weighted average numbers of ordinary shares in issue	2,107,487,275	2,096,782,480	2,096,793,633
Earnings per share, EUR	0.10	(0.01)	(0.01)

*Ordinary shares*

The number of the Company's shares issued and outstanding and registered on the Euroclear Shareholder Register as of 30 June 2016 was 2,108,154,152. All issued shares are fully paid. The shares have no nominal value.

On 30 December 2015 convertible bonds of 2010 amounting to in aggregate EUR 4,600,000 were converted to a total of 2,035,396 new Talvivaara shares and registered in the Trade Register on the same day. In addition, by the end of 2015 Talvivaara received conversion notices pursuant to which the bonds amounting to in aggregate EUR 21,100,000 were to be converted to a total of 9,336,276 new Talvivaara shares. These new Talvivaara shares were registered in the Trade Register on 14 January 2016.

The Company holds 9.2% of its own shares. The shares held in treasury by the Company do not carry any voting rights.

*Share premium*

Share premium account was credited in connection with share issues by the amounts paid by shareholders in excess of the nominal value of the shares. The share premium account reflects share issues carried out under the previous Finnish Companies Act, which was in force until 31 August 2006.

*Other reserves*

Reserve for invested unrestricted equity is credited, in connection with share issues, by the amounts paid by shareholders for new shares issued. Under the current Finnish Companies Act, in force since 1 September 2006, the subscription price of new shares is credited to the share capital, unless it is provided in the share issue resolution that it is to be credited in full or in part to the invested unrestricted equity reserve. Contributions to the reserve for invested unrestricted equity can also be made without share issues.

In 2015, a total of 11,371,672 new shares were subscribed for under the convertible bonds due 2015. The subscription price of EUR 25.7 million was recorded into the reserve for invested unrestricted equity.

**11. Borrowings**

EUR	<b>As at 30 Jun 2016</b>	<b>As at 30 Jun 2015</b>	<b>As at 31 Dec 2015</b>
Restructuring loan capital	427,500,000	453,200,000	427,500,000
Restructuring loan interest	16,510,880	18,567,844	16,510,880
Accrued interest on restructuring loans after commencement of restructuring proceedings	12,822,068	11,078,282	12,822,068
Other borrowings during procedure	8,209,883	21,109,433	21,012,257
	<b>465,042,831</b>	<b>503,955,559</b>	<b>477,845,205</b>

Following table specifies borrowings of the Company as at 30 June 2016 in accordance with the draft restructuring programme:

EUR	<b>As at 30 Jun 2016</b>
Secured restructuring debt and other liabilities to be taken into account	7,448,870
Unsecured restructuring debt	444,563,991
Accumulated interest since the beginning of the restructuring proceedings	13,029,971
<b>Total borrowings</b>	<b>465,042,831</b>

Due to the corporate restructuring proceedings, the Company has reclassified all of its borrowings as current and any unamortised transaction costs have been expensed to the income statement in previous periods in connection with the reclassification accreting the loan carrying amounts to the nominal value. The fair value of the restructuring debt can not be assessed due to the Company's corporate restructuring proceedings, as the Company does not currently have a credit rating or proper access to debt financing.

*Restructuring debt capital*

The restructuring debt capital includes the Revolving Credit Facility (EUR 70.0 million), the guarantee liability granted to Finnvera (EUR 50.7 million), the senior unsecured bonds due in 2017 (EUR 110.0 million) and the senior convertible bonds due in 2015 (EUR 197.5 million). Of the restructuring loan capital EUR 7.4 million is secured in accordance with the draft restructuring programme and EUR 428.7 million is unsecured. The details related to these debts can be found later in this section.

According to the draft restructuring programme, the secured debt is entitled to cover an amount corresponding to 50 percent of the assets of the debtor valued at the beginning of the restructuring proceedings. The capital amount of the debt secured with mortgage on the Company's assets will not be cut in the restructuring proceedings and the holder of such debt is not entitled to convert the capital amount of the secured debt into new shares of the Company.

Pursuant to the draft restructuring programme, the holders of unsecured debt are entitled to convert their receivable to new shares in the Company at the conversion rate of EUR 0.1144 per share. To the extent the unsecured creditors do not use their conversion right, the remaining unsecured debt will be cut by 99 percent whilst 1 percent of the capital of the loan will be repaid to the creditor.

#### *Restructuring loan interest*

Restructuring loan interests are unsecured debts and payable to the holders of the restructuring debt in accordance with the draft restructuring programme.

#### *Interest accumulated since the beginning of the restructuring proceedings*

In addition to the Company's restructuring debts and other liabilities to be considered, the Company's borrowings include EUR 13.0 million and trade and other payables include EUR 54 million of accumulated interest, which will fall due only in case the draft restructuring programme is not approved. The Company has accrued the interest on the balance sheet for all restructuring debt based on the original loan terms described below despite the fact that the accumulation of interest payment obligation on unsecured restructuring debt ceased when the restructuring proceedings were started. In case the restructuring plan is approved the interest accrued will not be paid, since the fulfillment of the restructuring programme will verify that the accumulation of interests ceased at the time the restructuring proceedings were started.

#### *Other short-term borrowings*

Other borrowings as at 31 December 2015 included the guarantee liability to Winttal Oy which was settled in connection with the asset deal concluded with Terrafame Oy on 30 June 2016. Currently, the other short-term borrowings consist mainly of the third-party security granted to Finnvera (EUR 8.2 million including accrued interest).

#### *Detailed information on debts under draft restructuring programme based on their original terms*

##### *Senior unsecured convertible bonds due 2015*

In December 2010 the Company completed an offering of EUR 225.0 million of senior unsecured convertible bonds due 2015. The bonds are convertible into 98,617,935 million fully paid ordinary shares of the Company. The interest rate applied to the convertible bond is 4.00% and the yield to maturity 6.50%, reflecting a redemption price of 114.5% at maturity. The bonds are convertible into Talvivaara's ordinary shares following the resolution by the Extraordinary General Meeting of the Company's shareholders in January 2011 to issue special rights in relation to the Bonds. To the extent the bonds have not been converted into shares by 10 December 2015, Talvivaara shall repay the debt in one instalment on maturity date 16 December 2015.

##### *Senior unsecured bonds due 2017*

In March 2012, 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 selected private investors. The bond was settled and the notes were listed on NASDAQ OMX Helsinki in April 2012.

##### *Revolving Credit Facility*

On 30 September 2013, Talvivaara had an outstanding revolving credit facility of EUR 100 million with a carrying amount of EUR 70 million (the "Revolving Credit Facility"). With a waiver and amendment letter dated 30 October 2013, the terms of the facility were amended such that the maximum margin was increased to 4.50% from the previous range of 1.75-3.00%, the undrawn amount of EUR 30 million was cancelled, and the liquidity covenant levels were adjusted to levels relevant at the time. As at 30 June 2016 and 2015, the outstanding loan amount was EUR 70 million.

##### *Guarantee liabilities*

Guarantee liabilities include Finnvera loan of EUR 50.7 million (including interest) recognised as unsecured restructuring debt under the draft restructuring programme due to the guarantee given on behalf of the debtor

Talvivaara Sotkamo and a third-party security granted to Finnvera in the amount of EUR 8.2 million (including accrued interest).

All amounts of reorganisation debts remain subject to change at the time of these Interim Financial Statements and may only be finalised following the confirmation of the draft restructuring programme.

## 12. Trade and other payables

EUR	<b>As at 30 Jun 2016</b>	<b>As at 30 Jun 2015</b>	<b>As at 31 Dec 2015</b>
<b>Trade payables</b>			
Restructuring loan capital	2,051,584	2,066,932	2,051,584
Other payables during procedure	110,673	676,403	671,419
<b>Total</b>	<b>2,162,257</b>	<b>2,743,335</b>	<b>2,723,003</b>
<b>Other payables</b>			
Restructuring loan capital	222,008	222,008	222,008
Other short-term borrowings	226,464	276,140	1,184,475
<b>Total</b>	<b>448,472</b>	<b>498,148</b>	<b>1,406,483</b>
<b>Accrued expenses</b>			
Restructuring loan capital *)	129,668	129,668	129,668
Restructuring loan interest	6,662,302	6,662,627	6,662,302
Accrued interest on restructuring loans after commencement of restructuring proceedings	54,124,805	36,552,866	47,198,508
Other interest payables	-	-	-
Other accrued expenses	542,377	583,490	546,603
<b>Total</b>	<b>61,459,152</b>	<b>43,928,650</b>	<b>54,537,081</b>

\*) Including pension liabilities

Unsecured restructuring loan capital includes trade payables, value added tax (other payables) and pension liabilities (Accrued expenses).

For accumulated interest since the beginning of the restructuring proceedings, see Note 11 'Borrowings' above.

The Trade and other payables of the Company as at 30 June 2016 recognised in or outside the draft restructuring programme can be divided as follows:

EUR	<b>30 Jun 2016</b>
Unsecured restructuring debt	9,014,432
Accumulated interest since the beginning of the reorganisation proceedings	54,175,935
Liabilities outside the restructuring programme	879,514
<b>Total trade and other payables</b>	<b>64,069,881</b>

**13. Other operating income**

EUR	<b>Period ended 30 Jun 2016</b>	<b>Period ended 30 Jun 2015</b>	<b>Year ended 31 Dec 2015</b>
Asset sale to Terrafame Oy	10,995,325	-	-
Other	3,023,997	3,436,664	6,702,480
	<b>14,019,322</b>	<b>3,436,664</b>	<b>6,702,480</b>

Until 30 June 2016 the operations of the Company consisted of providing administrative and technical services and leasing of machinery and equipment to Terrafame Oy, and its predecessors Talvivaara Sotkamo Oy and the bankruptcy estate of Talvivaara Sotkamo Oy. The Company has no operating segments.

**14. Materials and services**

EUR	<b>Period ended 30 Jun 2016</b>	<b>Unaudited Period ended 30 Jun 2015</b>	<b>Year ended 31 Dec 2015</b>
Materials and services	(123,190)	(125,498)	(235,604)
Other	(51,571)	(13,200)	(21,933)
	<b>(174,762)</b>	<b>(138,698)</b>	<b>(257,536)</b>

**15. Personnel expenses and number of employees**

EUR	Unaudited		
	Period ended 30 Jun 2016	Period ended 30 Jun 2015	Year ended 31 Dec 2015
Salaries	(1,283,800)	(1,775,783)	(3,206,004)
Pension cost	(205,955)	(301,641)	(498,929)
Social security cost	(23,119)	(54,617)	(102,412)
	<b>(1,512,874)</b>	<b>(2,132,041)</b>	<b>(3,807,345)</b>

  

Average number of employees	Unaudited		
	Period ended 30 Jun 2016	Period ended 30 Jun 2015	Year ended 31 Dec 2015
Salaried	34	52	50
	<b>34</b>	<b>52</b>	<b>50</b>

  

Number of employees at the end of the period	Unaudited		
	Period ended 30 Jun 2016	Period ended 30 Jun 2015	Year ended 31 Dec 2015
Salaried	16	51	39
	<b>16</b>	<b>51</b>	<b>39</b>

**16. Depreciation and amortisation**

EUR	Unaudited		
	30 Jun 2016	30 Jun 2015	31 Dec 2015
Amortisation of development cost	-	(21,514)	(233,072)
Amortisation of intangible assets	(921)	(14,766)	(50,152)
Depreciation of other long-term expenditure	-	(28,134)	(106,444)
Depreciation of machinery and equipment	(298,403)	(278,055)	(581,356)
	<b>(299,324)</b>	<b>(342,470)</b>	<b>(971,024)</b>

**17. Impairments**

EUR	Period		
	Period ended 30 Jun 2016	ended 30 Jun 2015	Year ended 31 Dec 2015
Impairment charges on intangible assets	(93,626)	-	-
Impairment on other investments	-	-	421,333
	<b>(93,626)</b>	<b>0</b>	<b>421,333</b>

**18. Other operating expenses**

EUR	Period ended 30 Jun 2016	Period ended 30 Jun 2015	Year ended 31 Dec 2015
Rents	(111,688)	(119,422)	(201,755)
External services	(402,318)	(788,006)	(1,151,746)
IT	(42,617)	(47,678)	(151,760)
Insurance	(149,891)	(145,217)	(283,560)
Travel expenses	(53,690)	(68,324)	(172,910)
Bad debts	(199,194)	(100,948)	(119,496)
Provisions	203,444,456	-	-
Other	1,446,386	(44,951)	(186,399)
	<b>203,931,287</b>	<b>(1,314,824)</b>	<b>(2,267,625)</b>

Provision for the guarantee for termination consisted of EUR 203.4 million that Talvivaara Sotkamo would have had to pay to Nyrstar due to a premature termination of the Zinc Streaming Agreement between the companies, which was booked as a provision due to the adoption of the non-going concern principle. On 30 November 2015, Nyrstar assigned all its rights, title, benefit and interest under the Streaming Agreement and the Streaming Holiday Agreement to Winttal Oy.

On 30 June 2016, Talvivaara and Terrafame signed agreements, in which the parties agreed on the sale of Talvivaara's assets related to the Sotkamo mining operations and settlement of Talvivaara's guarantee liabilities under the Streaming Holiday Agreement, with the principal amount of approximately EUR 14 million (including interest up until 30 June 2016), and the Streaming Agreement mentioned above, amounting to approximately EUR 203.4 million. As a result, the Company has reversed the provision.

**19. Finance income**

EUR	Period ended 30 Jun 2016	Period ended 30 Jun 2015	Year ended 31 Dec 2015
Other	9,338	1,620	12,841
	<b>9,338</b>	<b>1,620</b>	<b>12,841</b>

**20. Finance cost**

EUR	Period ended 30 Jun 2016	Period ended 30 Jun 2015	Year ended 31 Dec 2015
Impairment of non-current investments	(56,827)	(114,057)	(200,028)
From external debt	(6,660,880)	(14,002,426)	(24,862,080)
Other	(1,448,933)	(371,552)	(780,581)
	<b>(8,166,640)</b>	<b>(14,488,035)</b>	<b>(25,842,689)</b>

**21. Income tax**

The Company has tax losses of EUR 80.8 million for which it has not recognised deferred tax assets. These tax losses expire between years 2017 and 2025.

## 22. Associates at 30 June 2016

### Associate companies

<b>Company name</b>	<b>Ownership</b>	<b>Country</b>
Majakka Voima Oy	22%	Finland
Katternö Kärnkraft	15%	Finland

## 23. Contingencies and commitments

### Counter indemnity given as a guarantee for the guarantee insurance provided by Atradius Credit Insurance N.V to Kainuu ELY Centre

EUR	<u>30 Jun 2016</u>	<u>30 Jun 2015</u>	<u>31 Dec 2015</u>
Counter indemnity given as a guarantee	-	31,940,000	31,940,000
	<b>0</b>	<b>31,940,000</b>	<b>31,940,000</b>

Talvivaara Sotkamo largely met its environmental bond requirement under the environmental permit through guarantee insurance provided by Atradius Credit Insurance NV (“Atradius”). As at 31 December 2015, the coverage amounted to EUR 31.9 million. In the event restoration of the mine’s waste areas (gypsum ponds, heap areas) would have taken place without Talvivaara Sotkamo carrying the cost, the expenses would have initially been covered by Atradius and eventually Atradius would have claimed the cost back from the Company, which has given counter-indemnity for such costs to Atradius. However, as a result of Terrafame replacing the guarantee insurance placed by Talvivaara Sotkamo with a new environmental bond on 21 January 2016, Atradius notified the Company that the original guarantee insurance and the corresponding counter-indemnity terminated on 21 January 2016 and that the beneficiaries, Kainuun ELY-keskus or Atradius, have no claims against Talvivaara Sotkamo or the Company on the basis of the guarantee insurance or the counter-indemnity issued by the Company. Therefore, the full amount of the liability under the counter-indemnity given by the Company has been removed from the Company’s restructuring debts, and no payment will be made on it under the authorised payment schedule.

As at 31 December 2015, the coverage amounted to EUR 31.9 million. As a result of Terrafame replacing the guarantee insurance placed by Talvivaara Sotkamo with a new environmental bond, Atradius notified the Company that the original guarantee insurance and the corresponding counter-indemnity terminated on 21 January 2016.

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

EUR	<u>30 Jun 2016</u>	<u>30 Jun 2015</u>	<u>31 Dec 2015</u>
No later than 1 year	65,454	78,178	93,497
Later than 1 year and not later than 5 years	20,436	144	41,000
	<b>85,890</b>	<b>78,322</b>	<b>134,497</b>

The Company has not terminated lease agreements on the basis of section 27 of the Restructuring of Enterprises Act.

### **Securities given by the Company under the Multicurrency Revolving Facility Agreement and the Finnvera Financing Agreements**

The securities given under the Multicurrency Revolving Facility Agreement (EUR 70 million) and the Finnvera Financing Agreements (EUR 50 million and EUR 10 million) include:

- Pledge of all shares owned by the Company in Talvivaara Sotkamo
- Pledge of floating charge notes registered over assets of the Company in the amount of EUR 300 million

- Pledge of intra-group receivables of the Company from Talvivaara Sotkamo
- Pledge of insurance receivables

In addition, the Company has guaranteed the obligations of Talvivaara Sotkamo under the Finnvera Promissary Note in the amount of EUR 60 million by a specific Surety Obligation.

#### **24. Earnings per share**

The basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

#### **25. Related party transactions**

The Company's related parties include the members of the Board of Directors and the Executive Committee, the CEO and the close family members of the preceding persons, as well as those entities in which these people have control.

The service contract entered into with CEO Pekka Perä is valid until further notice and may be terminated by the CEO upon six months' notice. The Company may terminate the contract upon one months' notice. Upon termination by the Company for reasons other than substantial breach of the service agreement, the CEO will be entitled to an additional compensation equal to twelve months' salary and fringe benefits for that period. The retirement age of the CEO is 63 years.

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

##### *Shares and Options held by the Board of Directors*

On 30 June 2016, the aggregate shareholding of the Board of Directors, CEO and companies controlled by them was 127,821,266 shares (2014: 126,570,885 shares). This corresponded to 6.1% of the total number of shares and votes (2014: 6.1%). On 30 June 2016, the aggregate number of share option rights held by the Board of Directors entitled them to subscription of 0 shares (1-6/2015: 0 shares).

---

**SIGNATURES OF THE INTERIM FINANCIAL STATEMENTS AND THE REPORT  
OF THE BOARD OF DIRECTORS**

Espoo 22 September 2016  
Talvivaara Mining Company Plc

Tapani Järvinen  
Chairman of the Board

Pekka Perä  
Member of the Board  
Chief Executive Officer

Solveig Törnroos-Huhtamäki  
Member of the Board

Stuart Murray  
Member of the Board

Talvivaara Mining Company Plc

*The Auditor's Note*

A report on the interim audit performed for the period 1 January – 30 June 2016 has been issued today.

Helsinki, 22 September 2016

**PricewaterhouseCoopers Oy**

Authorised Public Accountants

Juha Wahlroos

Authorised Public Accountant (KHT)