

**STOCK EXCHANGE RELEASE**

4 March 2009

**Talvivaara Mining Company annual accounts review for year ended 31 December 2008****Transforming a project into a mine****Highlights of 2008**

- Commercial scale mining commenced with a first blast on 1 April 2008
- Talvivaara placed an offering of EUR 84.9 million of convertible bonds on 14 May 2008
- Production scale materials handling processes, including crushing, stacking and bioheapleaching of ore, commenced during the month of July 2008
- USD 320 million project finance facility was drawn down starting 3 September 2008
- First metal sulphides from the Talvivaara mine were precipitated on 1 October 2008
- A 42% increase in measured and indicated mineral resources to 642 million tonnes was announced on 4 December 2008
- Operating loss for the year was EUR (4.3) million (2007: profit of EUR 2.3 million)
- Capital expenditure for the year was EUR 429 million (2007: EUR 134 million)
- Cash at year end EUR 82.7 million (2007: EUR 153.5 million)

**Highlights since the end of the review period**

- First lot of 100 tonnes of nickel sulphide to off-take partner Norilsk Nickel Harjavalta Oy was shipped on 19 February 2009
- Finnvera Plc has granted an up to EUR 50 million investment and working capital facility to Talvivaara Project Ltd. to be utilised during 2009
- Planning for a secondary listing on the main list of NASDAQ OMX Helsinki stock exchange ongoing

**Key figures**

		<b>2008</b>	<b>2007</b>
Operating profit (loss)	EUR '000	(4,296)	2,332
Net profit (loss)	EUR '000	5,832	(9,928)
Earnings per share	EUR	0.03	(0.06)
Return on equity		1.6%	-6.3%
Equity-to-assets ratio		48.5%	90.0%
Capital expenditure	EUR '000	429,086	134,139
Net interest-bearing debt	EUR '000	285,467	(152,036)
Debt-to-equity ratio		67.3%	-48.3%
Cash and cash equivalents at the end of the year <sup>1</sup>	EUR '000	82,713	153,466
Number of employees at the end of the year		239	64

<sup>1</sup> Includes Available-for-sale financial assets for 2007  
All reported figures in this release are unaudited.

**CEO Pekka Perä:**

*"2008 was a very difficult year for the financial markets and much of the world economy, but, despite the decline in the nickel price it was generally a good one for Talvivaara. We achieved all our planned milestones, from the start of mining in April to the first metal production, on time, in October. On top of that, we further strengthened our financial position through a successful EUR 85 million convertible bonds offering in May.*

*Like any new project, we have however had teething problems. The ramp-up process, including mining, bioheap leaching and metals recovery, has generally progressed very well, but we have faced challenges in ramping up our crushing circuit. Corrective actions with the crushing equipment have been taken, but some further de-bottlenecking still remains to be done.*

*While achieving the planned level of production remains our main focus in 2009, we are, given the present unpredictability of base metals prices, also focusing on conserving our cash resources. Accordingly, we have deferred all capital expenditure which is not necessary for achieving the budgeted production, until 2010. I am, however, very happy to confirm that we are continuing our recruitment efforts according to plan to strengthen our already skilled team of professionals. All in all, I look forward to continued delivery on our plans and making great progress in the year ahead."*

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**Presentation and live webcast on 4 March 2009 at 13:00 GMT/15:00 EET**

A combined presentation, conference call and live webcast on the Annual Results will be held on 4 March 2009 at 13:00 GMT/15:00 EET at Hotel Scandic Simonkenttä, Simonkatu 9, Helsinki, Finland. The presentation will be held in English.

[http://qsb.webcast.fi/c/customers/customers\\_2009\\_0304\\_talvivaara\\_results\\_2008/](http://qsb.webcast.fi/c/customers/customers_2009_0304_talvivaara_results_2008/)

A conference call facility will be available for a Q&A with senior management following the presentation.

**Europe & U.K Participants:** +44 (0)20 7162 0025

**US Participants:** +1 334 323 6201

**Conference ID:** 827977

Further details on the event can be found on the Talvivaara website, [www.talvivaara.com](http://www.talvivaara.com). The webcast will also be available for viewing on the Talvivaara website shortly after the event until December 2009.

### **Talvivaara - transforming a project into a mine**

In 2008, Talvivaara transformed from a project company pursuing a challenging construction project to a mine ramping up its production. The year saw mining operations commence with a first blast in April, materials handling and bioheap leaching starting in July, and the first metal sulphides being precipitated from leach solution in October. Throughout the year, construction activities also continued with almost 2,000 contractor personnel working at the mine site during the peak construction period in late summer and early autumn of 2008.

While the project milestones were all achieved on time despite the challenging project timetable, the early stages of production faced some problems in the ramping up of materials handling processes. As a result, the amount of crushed ore on the heap pad fell short of the budgeted levels which forced Talvivaara to reduce its production targets for 2009 to 15,000 -18,000 tonnes of nickel.

The geological work done at the Kuusilampi deposit resulted in a significant increase in mineral resources being reported in December 2008. The measured and indicated mineral resources increased by 42% to 642 million tonnes, while the total mineral resources grew by 76% to 1,004 million tonnes.

As Talvivaara did not yet produce commercial amounts of metal sulphides in 2008 and hence had no revenues, the financial development of the Company largely reflected construction related spending and financing transactions. At EUR 429 million, capital expenditure for the period included primarily costs related to the construction of the mine and the Talvivaara-Murtomäki railroad and was moderately higher than anticipated due to cost escalation in some earth works contracts and certain late stage design changes in the metals recovery plant. The expenditure was financed with equity during the early part of 2008, while the Project Term Loan of USD 320 million was utilised during the last four months of the year. In May 2008, the Company issued a convertible bond of EUR 84.9 million due in 2013. Cash and cash equivalents at year end amounted to EUR 82.7 million.

### **Base metals markets suffering from global economic downturn and lack of demand**

While the early months of 2008 still saw nickel prices at reasonably good levels in the long term perspective, the latter half of the year witnessed a drastic drop in prices as well as demand. Starting from a high of USD 33,185 per metric tonne (USD 15.1/lb) in early March, the London Metals Exchange ("LME") nickel cash price declined to an all-year low of USD 8,810/tonne (USD 4.0/lb) in October and recovered slightly to above USD 11,000/tonne (USD 5.0/lb) by the end of the year. In the meantime, the nickel stock levels at LME rose from slightly more than 43,000 tonnes in July to almost 79,000 tonnes at the end of year, reflecting a dramatic drop in demand stemming from the global financial crisis and continued destocking in the steel industry.

The global nickel mining industry reacted to the market development by announcing significant production cuts amounting to some 300,000 tonnes in 2009. This represents more than 25% of the previously anticipated production level for the year and is expected to bring the market closer to supply/demand balance for the time being.

The poor demand and price development has continued into the first months of 2009 with the LME nickel cash price at approximately USD 10,000/tonne (USD 4.5/lb) and stock level at above 98,000 tonnes in late February. Although no sudden improvement in the market environment is expected in the near term, the economic stimulus packages issued by numerous governments combined with the reduced supply are expected to moderately improve the market situation going into 2010.

The other metals of relevance to Talvivaara - zinc, cobalt and copper - also suffered from the market conditions. The zinc price averaged at approximately USD 1,880/tonne (USD 0.85/lb) for 2008 with the all-year low at USD 1,040/tonne (USD 0.47/lb) in early December and all-year high at USD 2,800/tonne (USD 1.27/lb) in early March. Cobalt prices dropped from the high of USD 52.5/lb in March to USD 12.5/lb in early December and have continued to decline in the early part of 2009. The copper cash price varied between USD 8,980/tonne in July and USD 2,770/tonne at the year-end. In early 2009, the price has recovered slightly, staying above USD 3,100/tonne.

Overall, the market environment has not affected Talvivaara's production plans for 2009 or beyond. In the long term, the Company expects its operations to be profitable at current present price levels. However, the first months of production in 2009 will be cash flow negative due to higher than average unit cost of production during ramp-up. This is primarily related to the production process involving bioheap leaching, in

which mining and materials handling costs during ramp-up are essentially the same as in full-scale production, but revenues from metal sulphides only grow gradually as increasing amounts of leach solution are obtained from the growing heap.

### Financial review

As the production of metal sulphides at the Talvivaara mine did not yet reach a commercially significant level before the year end, the Company had no revenues during the year ended 31 December 2008 (2007: EUR 0). The Company's other operating income, amounting in total to EUR 29.8 million (2007: EUR 13.6 million), consisted mainly of net realised gains on available-for-sale financial assets and currency option contracts, and of fair value gains in nickel and zinc forward swap contracts.

The Company's operating loss amounted to EUR (4.3) million (2007: operating profit of EUR 2.3 million). The inventories and expenses increased substantially compared to the previous period as a result of the commencement of production activities during the year. Employee benefit expenses including the value of employee services in the employee share option scheme were EUR (8.9) million (2007: EUR (4.0) million), with the increase attributable to increased number of personnel. Depreciation amounted to EUR (5.8) million (2007: EUR (0.8) million), reflecting the start of depreciation of a substantial part of the mine assets in November 2008.

The profit for the year amounted to EUR 5.8 million (2007: EUR (9.9) million). The finance income of EUR 9.2 million (2007: EUR 4.3 million) was mainly related to interest income on deposits and exchange rate gains, whereas the finance cost of EUR (13.0) million (2007: EUR (11.5) million) was largely caused by exchange rate losses and expenses related to the Project Term Loan, the senior unsecured convertible bonds due 2013 and a term loan for the railroad construction. Income tax expense was EUR 13.9 million (2007: EUR (5.0) million), reflecting recognition of deferred tax assets on the grounds that commercial production at Talvivaara had commenced and that future taxable profits were considered probable.

On the balance sheet as at 31 December 2008, the Company's current assets amounted to EUR 179.9 million (2007: 165.6 million) and the non-current assets to EUR 694.0 million (2007: EUR 184.5 million), bringing the total assets to EUR 874.0 million (2007: EUR 350.0 million). Property, plant and equipment totalled EUR 552.5 million (2007: EUR 129.7 million), with the increase over the previous year reflecting the high capital expenditure in 2008. This expenditure included primarily costs incurred as a result of the construction of the Talvivaara mine (EUR 346.8 million) and the Talvivaara-Murtomäki railroad (EUR 29.6 million), expenditure related to limestone handling equipment which was not within the scope of the mine construction plan as described in the Company's Bankable Feasibility Study of March 2007 (EUR 19.5 million), and certain production equipment which have subsequently been covered by leasing arrangements (EUR 32.4 million). The expenditure related to mine construction was moderately higher than anticipated due to cost escalation in some earth works contracts and certain late stage design changes in the metals recovery plant.

Other notable changes in the Company's assets include a substantial increase in the fair value of derivative financial instruments, in particular nickel and zinc forward swaps, the non-current portion of which amounted to EUR 116.0 million (2007: EUR 9.8 million) and current portion to EUR 40.8 million (2007: EUR 0.8 million).

Talvivaara's total equity was EUR 423.9 million (2007: EUR 315.0 million). The Company has applied hedge accounting to a substantial part of its nickel forward swap contracts, and therefore recognised the effective portion of the changes in fair value of cash flow hedges, amounting to EUR 72.3 million net of tax (2007: 0), directly in equity.

Total liabilities amounted to EUR 450.1 million (2007: EUR 35.0 million) with total borrowings representing the largest part of the liabilities at EUR 368.2 million (2007: EUR 1.4 million). The increase in the borrowings resulted largely from the offering of EUR 84.9 million of senior unsecured convertible bonds due 2013, the utilisation of the Project Term Loan amounting to EUR 229.9 million, and partial draw down of a railroad term loan facility to the amount of EUR 25.7 million. The equity component of the convertible bonds of EUR 10.9 million is included in the Company's total equity.

The net cash used in operating activities was EUR (18.8) million (2007: EUR (27.6) million) and net cash used in investing activities EUR (401.8) million (2007: EUR (133.1) million). As net cash generated in financing activities was EUR 376.7 million (2007: EUR 285.4 million), the net decrease in cash and bank

overdrafts amounted to EUR (43.8) million (2007: EUR 124.7 million). Cash and bank overdrafts at the end of the year totalled EUR 82.7 million (2007: EUR 153.5 million).

## Financing

Talvivaara closed an offering of EUR 84.9 million of senior unsecured convertible bonds due 2013 on 20 May 2008. The securities are convertible into 11.5 million fully paid ordinary shares of Talvivaara. The securities carry a coupon of 5.25% per annum, payable semi-annually in arrears. The initial conversion price is GBP 5.886, which represents a 38% premium above the reference share price of GBP 4.265. The GBP/EUR exchange rate used to determine the euro denominated proceeds was 1.255. The securities were issued at par and will redeem at par on maturity.

The USD 320 million (EUR 230 million) Project Term Loan was fully drawn between September and November 2008. The loan carries an interest rate of LIBOR + 2.75% prior to, and LIBOR + 2.00% after, economic completion, which the Company anticipates to take place in 2010. Repayments of the loan are scheduled to start in June 2010 and to extend into 2016. Certain information covenants, financial ratio covenants and other covenants customary to project finance facilities apply to the loan. As at 31 December 2008, Talvivaara was in compliance with the agreed covenants.

As required under the Project Term Loan Facility Agreement, Talvivaara has hedged nickel and zinc through forward swap contracts over the period of April 2009 through December 2011. The amount of nickel hedged is 15,961 tonnes at the weighted average price of USD 23,611 per tonne. For zinc, the corresponding figures are 38,017 tonnes at the average price of USD 1,949 per tonne.

In October 2008, Talvivaara Infrastructure Oy entered into a EUR 45 million term loan facility agreement to finance the construction of a 25 km railhead from Murtomäki to the Talvivaara mine. As at 31 December 2008, Talvivaara infrastructure had drawn down EUR 25.7 million of the loan.

Subject to agreed criteria for minimum transportation volumes on the railroad being fulfilled, the Finnish State will reimburse the construction expenses to Talvivaara Infrastructure Oy up to an amount of EUR 48.8 million (including 22% VAT) in two instalments in 2010 and 2011. Talvivaara Infrastructure Oy intends to apply this reimbursement towards repayment of the railroad term loan. As a result of the reimbursement, the railroad will become property of the Finnish State and a part of the national rail network.

In August 2008, Talvivaara entered into a financing arrangement, whereby certain production equipment will be leased by HSH Nordic Finance Talvivaara Ab ("Special Purpose Entity") to Talvivaara Project Ltd upon full acceptance of the equipment by Talvivaara Project Ltd. The lease term is anticipated to commence during the first half of 2009. The Special Purpose Entity has drawn down a EUR 32 million loan to finance the equipment and has used the loan amount to reimburse the acquisition cost of the equipment to Talvivaara Project Ltd.

## Construction project nearing completion, production ramp-up ongoing

Construction of the mine, which had started in April 2007, continued throughout 2008 with focus in the early part of the year on preparations for mining, materials handling and bioheapleaching operations, and in the latter half of the year on completion of the metals recovery plant. The project proceeded on time all through, allowing the mining operations to start on 1 April and the crushing, stacking and bioheapleaching to commence sequentially during the month of July. First metal sulphides were precipitated from the leach solution on 1 October, as planned.

Total mining during the year amounted to 3.9 million tonnes, of which 2.5 million tonnes was ore. The capacity of the mining department ramped up as planned and exceeded demand, which was curtailed by the limited crushing capacity stemming from system design problems in the secondary and tertiary crushing circuit.

The problems in the crushing circuit emerged early on in the ramp-up process, leading to numerous modifications and amendments being made to the system during the last quarter of 2008. By the end of the year satisfactory capacity had been reached, but by then the amount of crushed ore on the heap pad had fallen short of the budgeted levels to such an extent that Talvivaara was forced to reduce its production target for 2009 to 15,000-18,000 tonnes of nickel.

While the first metal sulphides from leach solution were successfully produced in October, the amount of leach solution available for metals precipitation remained too small for commercially significant production during the remainder of the year due to the smaller than budgeted amount of ore under leaching at the time. The metals recovery plant was however tested according to plan during the last months of the year to secure its operability for commercial grade and scale production in early 2009.

The bioheapleaching process performed as expected and in line with the pilot study results. The heap temperatures quickly reached levels of 90°C or more, while leach solution temperatures rose to above 50°C. The strong thermal reactions, along with the actual metal contents and bacterial counts detected from the leach solutions, gave a strong indication of the process being active and performing well. The prime challenge with the process in its first few months of operation was excess water in the circulation, which resulted from heavy rains during the autumn and the drainage pipes also from the unfilled parts of the heap pad draining waters into the collection ponds. This problem has since diminished, as a larger and larger proportion of the heap pad is covered by the growing heap, and as the amount of water flowing into the system from the surrounding areas has been substantially reduced as a result of freezing temperatures during the winter months.

While the ramp-up of production continues through 2009, the construction project is nearing its completion to the extent necessary for the planned production levels in 2009 and 2010. Capital expenditure, which is only required to achieve planned production levels in 2011 and beyond, has been deferred until 2010.

### **Infrastructure**

Construction of the 25 km Talvivaara-Murtomäki rail connection started in February 2008. The main contractor for the project is the state-owned company VR-Track Ltd. The railroad construction has progressed on schedule and within the original budget of EUR 40 million and the railhead is scheduled to be operational in August 2009.

The improvement works and partial re-routing of the regional road number 870 bypassing the mine area on its eastern side and the local road number 8714 crossing the mine area in the east-to-west direction have been largely completed during 2008.

The pipeline for the in-take of the process water from Lake Kolmisoppi was commissioned on time and has been operational since July 2008.

The Talvivaara mine was connected to the Finnish national main grid in January 2008 through a 110 kV power line constructed from the Vuolijoki substation to the mine.

### **Significant increase in mineral resource**

In December 2008, Talvivaara announced a 42% increase to 642 million tonnes in Measured and Indicated Mineral Resources, as defined by the JORC code, and a 76% increase to 1,004 million tonnes in Measured, Indicated and Inferred Resources, as defined by the JORC code, in the Kuusilampi and Kolmisoppi deposits. The increased resources contain approximately 2.2 million tonnes (up from 1.3 million tonnes) of nickel metal and 5.0 million tonnes (up from 2.9 million tonnes) of zinc metal, further reaffirming Talvivaara's position as one of the top nickel mines globally and an internationally significant zinc producer.

The resource increase resulted from a drilling campaign focused on ore boundary definition up to 300 metres north of the previously known boundaries of the Kuusilampi orebody. The Kuusilampi mineral resource now totals 505 million tonnes in Measured and Indicated Categories and 826 million tonnes with Inferred Resource included. The Kuusilampi orebody is still open at north, east, south, and at depth.

Mineral resources at the Kolmisoppi deposit remain at their previous levels, as the drilling campaign only covered the Kuusilampi deposit for mine and support area planning.

As a result of the increase in mineral resources, Talvivaara will re-evaluate its options for production expansion. Previous studies based on the mineral resource increase announced in December 2007 had indicated a production expansion to be permissible, and economically and technically feasible.

## Research and development

The joint feasibility study on manganese extraction from the Talvivaara ore continued with Outokumpu Oyj in accordance with the cooperation agreement signed on 22 June 2008. The feasibility study encompasses an evaluation of the technical and commercial feasibility of employing electrowinning technology for the extraction of manganese metal and manganese oxide from the leach solution generated from Talvivaara's bioheapleaching process.

Recent research by the Company has produced encouraging results on the electrolytic recovery of high-purity manganese metal and manganese oxide from the leach solution. The latest finding is that manganese sulphate, which is used e.g. in batteries, can also be produced.

The ore at the Talvivaara deposits has a manganese content of approximately 0.3%, which should enable annual production of more than 30,000 tonnes of manganese, according to the Company's present production plan. In the bioheapleaching process, recovery of manganese has been found to be comparable to that of nickel and zinc.

Any decisions on potential investment in commercial scale manganese production have been deferred due to the presently unpredictable base metals markets and the globally difficult financing environment.

In addition to the manganese studies, Talvivaara has continued active development and optimisation of the bioheapleaching technology, and studies related to chemical and biological iron removal from the leach solution and utilisation of gypsum residue. Many of the studies were conducted in cooperation with Tampere, Helsinki and Lappeenranta Universities of Technology, University of Oulu, the Geological Survey of Finland and several foreign universities. Research funding has been obtained from the Finnish Funding Agency for Technology and Innovation.

## Permit issues

Talvivaara's environmental and water permit issued on 29 March 2007 became final and binding through a resolution by the Supreme Administrative Court ("SAC") of Finland published on 24 November 2008.

The SAC ruling rejected all the appeals and upheld the terms of the permit issued by the Northern Finland Environmental Permitting Agency, as amended by the Appeal Court of Vaasa on 15 February 2008. The amendments to the permit introduced by the Appeal Court of Vaasa had no significant cost consequences to Talvivaara.

Talvivaara's application for the extension of the area covered by the existing mining license was approved by the Ministry of Employment and Economy in October 2006 and the decision was subsequently upheld by the SAC in October 2007. The land surveying and redemption proceedings regarding the extension have, however, been appealed both on the compensations awarded and on the proceedings themselves. The Ministry of Employment and Economy, being the competent appeal authority on procedural issues, gave its ruling on 15 August 2008, dismissing all the claims and demands asserted by the claimants. The decision by the Ministry was appealed by one group of local private persons to the SAC, where the case is still pending. The appeal process on the compensation awards is pending with the Land Court of Rovaniemi. The management does not expect either of the pending court cases to have any material bearing on the projected cost level, the conduct of the mining and metals recovery operations or further development of the project.

## Environment, health and safety

In 2008 Talvivaara continued to observe its environmental management policy based on responsibility, transparency, and continuous improvement and assessment. Despite the large scale construction activities and start-up of production during the year, the impact of Talvivaara's operations on the surrounding environment was minor.

The focus of environmental management during the year was on setting up the environmental monitoring systems, as stipulated in the environmental permit, and on constructing environmental protection structures to safeguard the environment from the effects of the mining activities. Environmental monitoring was extensive, comprising construction phase, production, emission and environmental impact monitoring. The activities were intensively supervised by the Environmental Centre of Kainuu as the supervising authority.

The massive construction works in the area increased the solid particle levels of surface waters at some locations of the mine site. Water treatment measures have therefore been stepped up by additional dam structures and clarification ponds.

No environmental compensations related to mining activities were paid in 2008. The environmental security placed for future restoration of the area amounted to EUR 13.6 million by the end of the year.

Safety is of key importance to Talvivaara and its contractors on the mining site. Safety practices at the site are based on the instructions and guidelines approved by the management and are in accordance with the Finnish industrial safety legislation. In 2008, contractors' safety practices were controlled by weekly safety rounds, and the local industrial safety authorities paid regular visits to the construction site. Safety training is provided for personnel working for contractors as well as for Talvivaara's own employees.

The safety measures were effective, with only 26 relatively minor lost time injuries to contractor personnel and 9 to Talvivaara's own employees during the period. This results in a frequency of 16 lost time injuries per one million working hours, which is substantially below the long term construction industry average 80 and mining industry average of 40.

### **Risk management**

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

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

### **Personnel**

Recruitment of new qualified personnel continued to be a significant challenge in 2008, as the total number of employees increased from 64 to 239. Recruitment processes were implemented in close cooperation with the Kainuu Employment and Economic Development Centre. Two training programmes tailored for Talvivaara's specific needs were used to train production drillers, crusher operators and process workers. All trainees who completed the course were offered a job at the Talvivaara mine. Most of the recruited personnel were hired locally from the Kainuu region.

Talvivaara promotes diversity when recruiting new personnel. As the operations are ramped up in a relatively short span of time, special attention has been given to creating as diverse a workforce as possible, as regards gender, age and work experience of employees, and yet maintaining high standard of qualifications.

The average age of Talvivaara's personnel is 38.5 years. The age distribution of employees is comparable to the industry average in Finland.

### **Social and economic impact of the project**

Talvivaara has had a major positive impact for the whole Kainuu region in Eastern Finland. The construction project created numerous new jobs both directly and indirectly, and at the peak of the construction phase the unemployment rate in the region fell to a historical low of 11.4%.

Besides contributing to the general increase in prosperity in the Kainuu region and boosting the service industries in the area, Talvivaara has also had a positive effect on a cluster of companies operating in the metals and mining and infrastructure sectors. In connection with the construction project, many companies obtained their largest ever orders for equipment or contracting, and several contractors have further passed on substantial amounts of work to local subcontractors in their respective regions. In total, the construction project has been estimated to have created work amounting to 3,500 person years.

All through the project, Talvivaara has enjoyed good cooperation with local and national authorities relating, amongst others, to recruiting, training and permitting.

### Shares and shareholders

The number of shares issued and outstanding in 2008 was 222,896,718. As a result of the convertible bond of 14 May 2008 and the Option Scheme of 2007, the authorised fully diluted share capital of the company amounted at the end of 2008 to 241,391,018 shares.

As at 31 December 2008, the shareholders who held more than 5% of the shares and votes of Talvivaara were Pekka Perä (25.59%), Varma Mutual Pension Insurance Company (8.57%) and Norilsk Nickel Holdings Ltd. (5.46%).

### Share options

By resolution passed at the general meeting of shareholders on 28th February 2007, the Company resolved to issue stock options gratuitously to the key personnel of the Company and its subsidiaries entitling, after the split of the Company's shares 1:70, 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 2008, the Board of Directors, based on the recommendation of the Remuneration Committee, allocated 2,214,000 2007B Options, giving an entitlement to subscribe for a total of 2,214,000 new shares in the Company, to the personnel of Talvivaara and its subsidiaries (excluding options granted to the Directors and members of the Executive Committee). Of the options allocated during 2007 and 2008, 56,500 2007A Options entitling to subscribe in aggregate for 56,500 shares were returned back to the Company during 2008. As no 2007A Options or 2007C Options were allocated during the year, the number of options available for allocation under the 2007 Option Scheme was at the end of 2008 as follows: 104,600 2007A Options, 119,100 2007B Options and 2,333,100 2007C Options. The voting rights of the shares to be issued against the outstanding share options amount to 2.0 % of the total share capital.

### Events after the review period

The first lot of 100 tonnes of nickel sulphide was shipped to Talvivaara's off-take partner Norilsk Nickel Harjavalta Oy on 19 February 2009, marking the commencement of commercial scale production at Talvivaara. Further shipments of increasing quantities in accordance with the progressing ramp-up are planned from March 2009 onwards.

Finnvera Plc, a specialised financing company owned by the State of Finland, has approved the grant of a nine-year investment and working capital facility in the maximum amount of EUR 50 million to Talvivaara Project Ltd. The facility will be secured by the second-ranking security over the material project assets of and the shares, held by Talvivaara, in Talvivaara Project Ltd, as well as by the parent company guarantee issued by the Company.

Modification work on Talvivaara's existing secondary and tertiary crushing circuit has continued during the first two months of 2009. Although the capacity of the system has further improved as a result, the Company has resolved to acquire additional crushing capacity, anticipated to be operational during the summer of 2009, to secure sufficient capacity in the long term and to help the Company reach its 2009 production target of 15,000-18,000 tonnes of nickel.

The additional crushing gear will be designed to allow a total capacity increase of up to 50% over the presently planned production level of 33,000 tonnes of nickel per annum. The investment can thus be considered a first step towards the capacity increase, however no decision to take any other necessary measures for the overall capacity increase has yet been made due to the prevailing market situation.

The board of Talvivaara has sanctioned a more detailed planning of a potential secondary listing of Talvivaara's shares on the main list of NASDAQ OMX Helsinki. Although no decision on the submission of a listing application to NASDAQ OMX Helsinki has been made, it is expected that the secondary listing in Helsinki could take place in late March or early April 2009.

### Short-term outlook

The visibility on the base metals markets remains poor for the time being, with price and demand development unpredictable and affected by the global economic downturn. Although the present price level of nickel is unlikely to be sustainable as based on industry costs of production globally, Talvivaara does not expect any substantial increase in the price during the first half of 2009, as demand, primarily driven by the stainless steel industry, has not yet shown notable signs of improvement.

The present levels of nickel and zinc price and the euro/US dollar exchange rate are sufficient to support Talvivaara's profitability during steady-state operation. However, in order to secure sufficient liquidity during the ongoing ramp-up period, the Company has deferred all capital expenditure which is not necessary for the planned production in 2009 and 2010.

**Board of Directors proposal for profit distribution**

The Board of Directors is proposing to the Annual General Meeting to be held on 28 April 2009 that no dividend is declared in respect of the year 2008.

**CONSOLIDATED BALANCE SHEET**

(all amounts in EUR)

	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	552,458,488	129,718,177
Biological assets	8,151,976	9,048,538
Intangible assets	7,774,274	6,202,032
Derivative financial instruments	116,004,051	9,830,966
Other receivables	9,635,067	29,651,794
	<b>694,023,856</b>	<b>184,451,507</b>
<b>Current assets</b>		
Inventories	31,691,267	-
Other receivables	24,720,816	11,352,710
Available-for-sale financial assets	-	26,965,327
Derivative financial instruments	40,805,085	779,323
Cash and cash equivalent	82,712,894	126,500,712
	<b>179,930,062</b>	<b>165,598,072</b>
<b>Total assets</b>	<b>873,953,918</b>	<b>350,049,579</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to equity holders of the parent</b>		
Share capital	80,000	15,624
Share premium	8,085,842	8,085,842
Other reserves	334,019,317	321,777,699
Hedge reserve	72,331,512	-
Retained earnings	(26,101,314)	(33,422,978)
	<b>388,415,357</b>	<b>296,456,187</b>
<b>Minority interest in equity</b>	<b>35,470,287</b>	<b>18,590,725</b>
<b>Total equity</b>	<b>423,885,644</b>	<b>315,046,912</b>
<b>Non-current liabilities</b>		
Borrowings	367,955,043	1,405,000
Derivative financial instruments	1,985,292	-
Deferred tax liabilities	23,069,639	5,326,885
Provisions	944,174	32,401
	<b>393,954,148</b>	<b>6,764,286</b>
<b>Current liabilities</b>		
Borrowings	224,384	24,600
Trade payables	45,283,508	25,982,941
Other payables	8,293,848	2,230,840
Derivative financial instruments	2,278,697	-
Provisions	33,689	-
	<b>56,114,126</b>	<b>28,238,381</b>
<b>Total liabilities</b>	<b>450,068,274</b>	<b>35,002,667</b>
<b>Total equity and liabilities</b>	<b>873,953,918</b>	<b>350,049,579</b>

**CONSOLIDATED INCOME STATEMENT**

(all amounts in EUR)	<u>2008</u>	<u>2007</u>
<b>Turnover</b>	-	-
Other operating income	29,809,709	13,563,766
Changes in inventories of finished goods and work in progress	24,006,023	-
Materials and services	(20,407,264)	(2,212,618)
Employee benefit expenses	(8,909,663)	(3,986,882)
Depreciation, amortization, depletion and impairment charges	(5,756,289)	(761,404)
Other operating expenses	(23,038,642)	(4,270,940)
	<hr/>	<hr/>
<b>Operating profit (loss)</b>	<b>(4,296,126)</b>	<b>2,331,922</b>
Finance income	9,219,704	4,265,806
Finance cost	(12,956,264)	(11,506,191)
Finance cost (net)	(3,736,560)	(7,240,385)
	<hr/>	<hr/>
<b>Loss before income tax</b>	<b>(8,032,686)</b>	<b>(4,908,463)</b>
Income tax expense	13,864,869	(5,019,933)
	<hr/>	<hr/>
<b>Profit (loss) for the year</b>	<b><u>5,832,183</u></b>	<b><u>(9,928,396)</u></b>
<b>Attributable to:</b>		
Equity holders of the Company	7,042,651	(9,383,804)
Minority interest	(1,210,468)	(544,592)
	<hr/>	<hr/>
	<b><u>5,832,183</u></b>	<b><u>(9,928,396)</u></b>
<b>Earnings per share for profit (loss) attributable to the equity holders of the Company (expressed in € per share)</b>		
Basic and diluted	0.03	(0.06)

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

all amounts in EUR)

	Attributable to equity holders of the Company								Minority interest	Total equity
	Share capital	Share premium	Invested unrestricted equity	Hedge reserve	Other reserves	Retained earnings	Total			
<b>Balance at 1 January 2007</b>	<b>1, 715</b>	<b>2,755,433</b>	<b>825,020</b>	-	<b>511,045</b>	<b>(4,991,395)</b>	<b>(887,182)</b>	<b>87,538</b>	<b>(799,644)</b>	
Fair value changes net of tax on available-for-sale financial assets	-	-	-	-	323,619	-	323,619	-	323,619	
External costs, net of tax, directly attributable to the issue of new shares	-	-	(16,901,873)	-	-	-	(16,901,873)	-	(16,901,873)	
Net income/(expense) recognized directly in equity	-	-	(16,901,873)	-	323,619	-	(16,578,254)	-	(16,578,254)	
Loss for the year	-	-	-	-	-	(9,383,804)	(9,383,804)	(544,592)	(9,928,396)	
Total recognised income and expense for 2007	-	-	(16,901,873)	-	323,619	(9,383,804)	(25,962,058)	(544,592)	(26,506,650)	
Transactions related with the sale of Talvivaara Project shares	-	-	-	-	-	(19,047,779)	(19,047,779)	(953,820)	(20,001,599)	
Issue of new shares	-	-	302,056,012	-	-	-	302,056,012	-	302,056,012	
Employee share option scheme										
- value of employee services	-	-	-	-	271,383	-	271,383	-	271,383	
Convertible capital loan										
- conversion into shares	2,909	5,330,409	-	-	-	-	5,333,318	-	5,333,318	
Convertible bond										
- conversion into shares	-	-	34,692,493	-	-	-	34,692,493	-	34,692,493	
Minority interest arising from subsidiary	-	-	-	-	-	-	-	20,001,599	20,001,599	
<b>Balance at 31 December 2007</b>	<b>15,624</b>	<b>8,085,842</b>	<b>320,671,652</b>	-	<b>1,106,047</b>	<b>(33,422,978)</b>	<b>296,456,187</b>	<b>18,590,725</b>	<b>315,046,912</b>	
<b>Balance at 1 January 2008</b>	<b>15,624</b>	<b>8,085,842</b>	<b>320,671,652</b>	-	<b>1,106,047</b>	<b>(33,422,978)</b>	<b>296,456,187</b>	<b>18,590,725</b>	<b>315,046,912</b>	
Fair value changes net of tax on available-for-sale financial assets	-	-	-	-	(450,959)	-	(450,959)	-	(450,959)	
Changes in the fair value of cash flow hedges, net of tax				72,331,512		-	72,331,512	-	72,331,512	
Net income/(expense) recognized directly in equity	-	-	-	72,331,512	(450,959)	-	71,880,553	-	71,880,553	
Profit for the year	-	-	-	-	-	7,042,651	7,042,651	(1,210,468)	5,832,183	
Total recognised income and expense for 2008	-	-	-	72,331,512	(450,959)	7,042,651	78,923,204	(1,210,468)	77,712,736	
Transfers within equity, change of the corporate form	64,376	-	(64,376)	-	-	-	-	-	-	
Convertible bond, equity component	-	-	-	-	10,893,654	-	10,893,654	-	10,893,654	
Employee share option scheme										
- value of employee services	-	-	-	-	1,863,299	-	1,863,299	-	1,863,299	
Restatement to capital expenditure, which relates to last year	-	-	-	-	-	278,165	278,165	-	278,165	
Minority interest arising from subsidiary	-	-	-	-	-	848	848	18,090,030	18,090,878	
<b>Balance at 31 December 2008</b>	<b>80,000</b>	<b>8,085,842</b>	<b>320,607,276</b>	<b>72,331,512</b>	<b>13,412,041</b>	<b>(26,101,314)</b>	<b>388,415,357</b>	<b>35,470,287</b>	<b>423,885,644</b>	

**CONSOLIDATED CASH FLOW STATEMENT**

(all amounts in EUR)

	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities</b>		
Profit (loss) for the year	5,832,183	(9,928,396)
Adjustments for		
Tax	(13,864,869)	5,019,933
Depreciation and amortization	5,756,289	761,404
Other non-cash income and expenses	4,780,348	12,031,672
Interest income	(9,219,704)	(4,265,806)
Fair value gains on financial assets at fair value through profit or loss	(24,796,562)	(9,830,966)
Interest expense	12,956,264	11,506,191
	(18,556,051)	5,294,032
Change in working capital		
Decrease(+)/increase(-) in other receivables	5,582,124	(32,049,753)
Decrease (+)/increase (-) in inventories	(31,691,267)	-
Decrease(-)/increase(+) in trade and other payables	23,773,390	25,667,182
Change in working capital	(2,335,753)	(6,382,571)
	(20,891,804)	(1,088,539)
Interest and other finance cost paid	(7,468,121)	(30,696,605)
Interest income	9,581,237	4,162,026
<b>Net cash used in operating activities</b>	(18,778,688)	(27,623,118)
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(427,187,205)	(126,547,258)
Purchases of biological assets	(25,755)	(5,688,860)
Purchases of intangible assets	(1,872,969)	(1,903,190)
Proceeds from sale of biological assets	706,871	527,712
Proceeds from government grant related to intangible assets	203,826	458,824
Purchases of available for sale financial assets	-	(24,000,000)
Proceeds from sale of available for sale financial assets	26,355,923	20,009,281
Purchases of derivative financial instruments	(1,370,918)	(951,873)
Purchases of financial assets at fair value through profit or loss	-	(104,000,000)
Proceeds from sale of financial assets at fair value through profit or loss	1,439,598	109,000,000
<b>Net cash used in investing activities</b>	(401,750,629)	(133,095,364)
<b>Cash flows from financing activities</b>		
Proceeds from share issue net of transaction costs	-	285,154,139
Proceeds from interest-bearing liabilities	396,733,499	20,281,000
Payment of interest-bearing liabilities	(20,000,000)	(20,000,000)
Capital investment by minority shareholders	8 000	-
<b>Net cash generated in financing activities</b>	376,741,499	285,435,139
<b>Net (decrease)/increase in cash and bank overdrafts</b>	(43,787,818)	124,716,657
Cash and bank overdrafts at beginning of the year	126,500,712	1,784,055
<b>Cash and bank overdrafts at end of the year</b>	82,712,894	126,500,712

**CALCULATION OF KEY FIGURES****Key financial figures of the Group**

Return on equity

$$\frac{\text{Profit (loss) for the year}}{(\text{Total equity 1 January} + \text{Total equity 31 December})/2}$$

Equity-to-assets ratio

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

Net interest-bearing debt

Interest-bearing debt - Cash and cash equivalent

Debt-to-equity ratio

$$\frac{\text{Net interest-bearing debt}}{\text{Total equity}}$$
**Share-related key figures**

Earnings per share

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

Equity per share

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