

Statement of non-financial information 2020

March 24, 2021

This statement of non-financial information is an extract from Terrafame Ltd's Board of Directors' Review for the financial year 2020.

Terrafame's complete Financial Review 2020, including Board of Directors' Review and Financial Statements, is available on the company's website at www.terrafame.com.

Terrafame



Statement of non-financial information

This statement has been drawn up in accordance with Chapter 3a of the Finnish Accounting Act 1336/1997, which is based on Directive 2014/95/EU of the European Parliament and of the Council. The disclosure of non-financial information is optional for TerraFame.

In addition to the topics required by the Finnish Accounting Act, the statement on non-financial information includes a description of safety management at TerraFame and the company's tax contribution in accordance with the guidance issued by the Government Ownership Steering Department on 1 October 2014.

Responsibility management

The Board of Directors of TerraFame Ltd is responsible for the organisation and integration of corporate responsibility management with TerraFame's business operations and adopting TerraFame's operating principles.

TerraFame's values – safety, commitment and efficiency – are reflected in all its operations. TerraFame is committed to delivering safely and sustainably produced high-quality products to its customers. This promise is an integral part of the company's objectives.

TerraFame operates fully in accordance with the laws and regulations issued by the authorities. The company is committed to the UN Global Compact principles in its operations. We also respect the ILO Declaration on Fundamental Principles and Rights at Work in our operations. In addition, all TerraFame employees and all partners operating within the industrial site must comply with the Code of Conduct and the principles of the sustainability policy adopted by the company's Board of Directors. Policy implementation is supported by TerraFame's certified management systems (ISO 9001, ISO 45001 and ISO 14001) and more detailed operating guidelines.

Operations within the industrial site must be safe for both the company's own employees and those of its partners in all circumstances and situations. Safety aspects must be taken into account in the tasks carried out on TerraFame's industrial and mining sites, with regard to the demanding processes, chemicals, metal ore, and large machines and equipment in particular. Occupational safety risks are related especially to maintenance and construction work.

With respect to the environment, Terrafame is committed to operating sustainably and in accordance with the environmental permits in force. The company is committed to continuously improving its environmental performance, managing all operational risks and reducing its environmental impact. The goal is to use natural resources efficiently, as well as striving to minimise the environmental impact of the company's operations. Emissions are minimised by selecting optimal and energy-efficient technological solutions.

Terrafame operates responsibly and transparently. We openly and honestly provide our employees, partners, neighbours and stakeholders with information about our operations and their impact.

Terrafame aims to ensure that its manufactured products are clean and usable. The methods used in the production chain are proven to be more environmentally friendly than many conventional methods, because they consume less energy and generate lower carbon dioxide and nutrient emissions. Production methods are continuously being made more efficient. The objective is to improve financial performance, reduce the carbon footprint and energy consumption, and mitigate environmental impacts.

Terrafame participates in the activities of the Finnish Network for Sustainable Mining through the Finnish Mining Association (FinnMin), and is committed to operating in accordance with the Finnish Towards Sustainable Mining (TSM) Standard.

In terms of responsibility, it is essential to minimise the environmental impact of Terrafame's operations to prevent any significant adverse effects on the residents of the nearby areas or the surrounding natural environment. At the beginning of the process, in mining operations, it is essential to minimise the impacts of noise, dust and vibration, while leach cycle management is essential during bioleaching. In the recovery of metals, it is important to use chemicals safely and manage the chemical processes. In terms of emissions control, it is essential to steer the process so that emissions into the air and water can be minimised.

In the spring of 2021, the company will publish a separate sustainability report with more detailed information about the environmental impact of its operations, among other aspects. The report will monitor the implementation of Terrafame's sustainability programme for 2020–2024.

Risk management related to responsibility

TerraFame complies with the risk management principles adopted by its Board of Directors. The key safety, process, environmental and operational business risks are updated annually, and the results and measures are discussed by the company's Management Team and Board of Directors. The company's assessment of its environmental, safety and process risks is updated comprehensively every three years by examining thousands of individual risks. This comprehensive process was initiated in 2019. Significant risks identified during risk assessment are reduced by technical improvement, investment and competence development, for example.

Business model and value creation

The strategic goal of TerraFame's business operations is for the company to be one of the world's most cost-effective and responsible producers of battery chemicals. The business model is based on an integrated and energy-efficient production chain and the efficient use of resources.

TerraFame's mineral resource and ore reserve estimates were updated in accordance with the JORC code (2012) in November 2020. Its measured, indicated and inferred mineral resources amount to 1 499 million tonnes, with a metal content of 3.9 million tonnes of nickel and 0.3 million tonnes of cobalt. The amount of nickel had increased by 19.4% from the previous estimate (2018). TerraFame has the largest nickel ore reserves in Europe.

In addition to relying on the company's highly professional employees, its business model is based on the extensive use of a partner network. We require our partner companies to be as strongly committed to responsible operations as TerraFame, in addition to compliance with TerraFame's Code of Conduct. We offer our partner companies the opportunity to grow and develop alongside TerraFame.

Thanks to its bioleaching-based metal processing, TerraFame has the smallest carbon footprint among nickel producers globally.

Integrated production within a single industrial site also enables the efficient use of side streams. The company is working continuously and systematically to further improve its operational excellence.

Costs of CO₂ emissions steer towards the use of carbon-neutral energy.

The share of nickel in batteries is increasing.

A strong European car industry creates the basis for own regional battery value chain.

Concerns about climate change are driving consumers to favor electric cars.

IMPACTS

Economic value added

- Wages and salaries (incl. pensions expenses) 46.5 MEUR
- Taxes and tax-like charges, receivable 12.3 MEUR
- Purchases 470.0 MEUR
- Net financial items -9.4 MEUR

Committed personnel

- New employees 145
- Training 3.1 days per person

Safe work environment

- The LTIFR of the entire industrial site decreased to 9.8 in 2020 (2019: 14.2)
- At the end of the year, a project was launched to further develop the safety culture

Fulfillment of customer promises

- Terrafame's nickel sulphate carbon footprint over 60% lower than average
- Strong sales support and logistics services
- Quality is ensured by precise process control (Statistical Process Control)

TRACEABLE PRODUCTION CHAIN, SMALL CARBON FOOTPRINT

Terrafame's integrated production from its own mine to battery chemicals in one industrial site constitutes a unique and an energy-efficient production chain that produces customers battery chemicals with a clearly lower carbon footprint than the industry average.

Financial capital

- Equity 442.1 MEUR
- Equity ratio 48.1%
- Capital expenditure 59.7% of net sales



Net sales

- 338.3 MEUR

Production

- 28,740 t nickel and 55,100 t zinc
- One of the largest in the world battery chemical production lines

RESOURCES

The largest nickel ore reserves in Europe

- 1,499 million tonnes, containing 3.9 Mt nickel and 0.3 Mt cobalt (JORC)
- Allows production to continue for decades

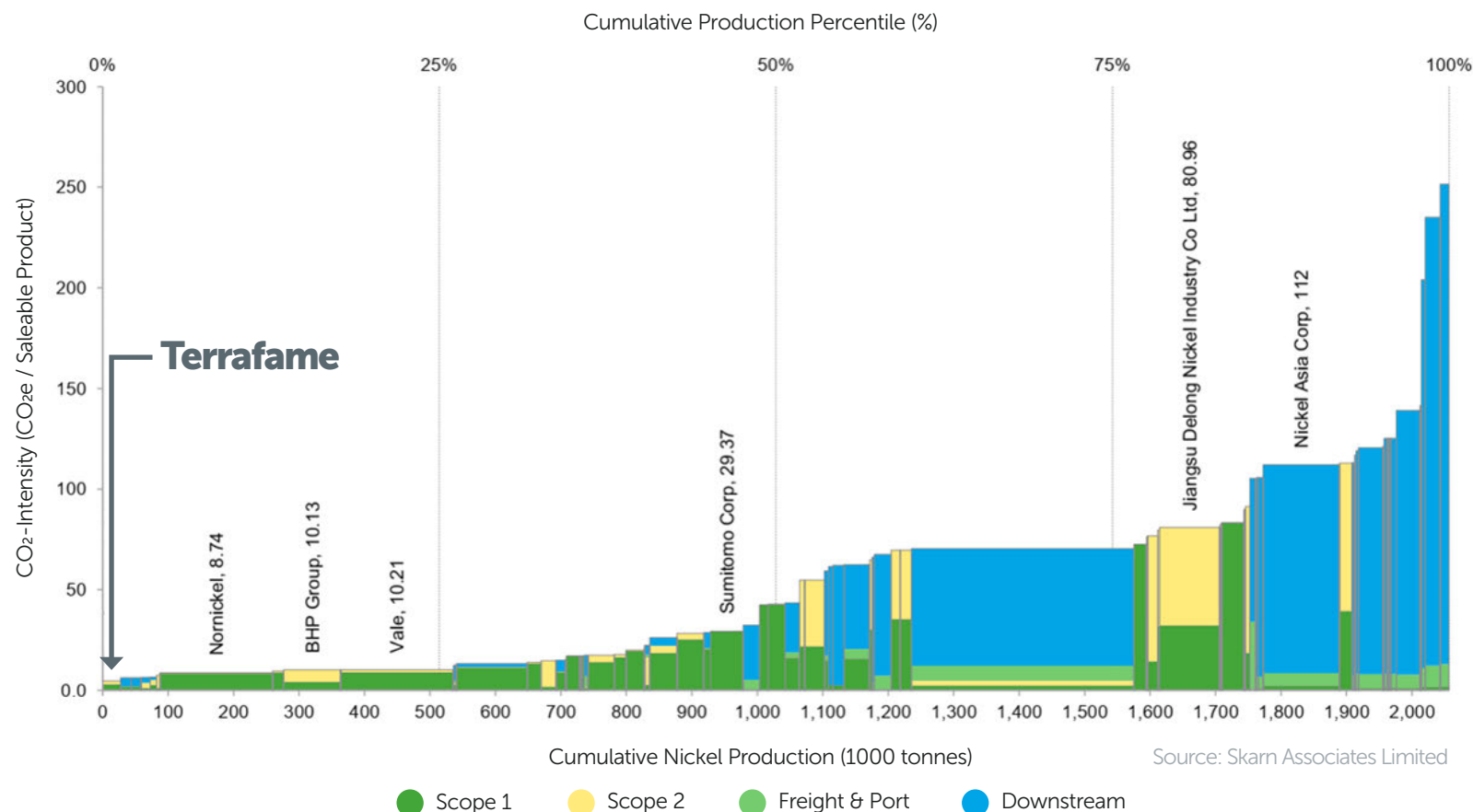
Skilled personnel

- Own personnel 870 in total
- Wide orientation and training programmes
- Certified quality and management systems

Wide partner network

- An average of 150 long-term partner companies in the industrial site
- A total of 1,166 employees of contractors and subcontractors
- Cooperation with academies and research institutes

Global nickel producers ranked by 2019 CO₂-equivalent-intensity



In 2020, its spearhead project – the construction of a battery chemicals plant – progressed to the finalisation phase. Commercial production at the plant will begin in late spring 2021. With the battery chemicals plant, the company's current main product – nickel-cobalt sulphide – will be further processed into chemicals used in the manufacture of batteries for electric cars, and the company will move forward in the value chain from being a manufacturer of metal intermediates to a special chemical company.

Concern about climate change is increasing among consumers, and electric cars are a significant way to reduce greenhouse gases. Electric cars do not generate emissions in transport. Electricity production is expected to be increasingly carbon neutral in the future, so emissions from the production of electricity for electric cars will also decrease. Around 3.2 million electric cars were sold globally in 2020, and the number is expected to increase to around 30 million by 2030.

The annual nickel sulphate capacity of TerraFame's battery chemicals plant will be sufficient for around 1 million batteries for electric vehicles, and its cobalt sulphate capacity will be sufficient for around 300,000 batteries, provided that the battery size remains at its current level (50 kWh), and that the latest battery technology (NCM 811) is used. The commercial production of TerraFame's battery chemicals plant will begin in late spring 2021, and the plant will start operation in a growing electric car market. With the battery chemicals plant, TerraFame's products will contribute to the electrification of transport, which aims to combat the ongoing climate change. In other words, climate change is not only a risk but an opportunity for the company.

An externally verified life-cycle analysis published in the autumn of 2020 shows that the carbon footprint of the nickel sulphate produced by TerraFame is more than 60% smaller than average. In terms of mileage, this means that the carbon footprint of one kilo of nickel sulphate produced by TerraFame corresponds to 10 kilometres driven in a petrol-fuelled passenger car, as opposed to 30 kilometres on average in nickel production. In practice, this means that when nickel sulphate produced by TerraFame is used in electric car batteries, the annual reduction in carbon dioxide emissions corresponds to 3,400 million kilometres driven in a petrol-fuelled car, which is around 85,000 times the distance around the world. Through its responsible production, TerraFame also significantly contributes to reducing the life-cycle impact of its customers' products. TerraFame offers a transparent and genuinely traceable European battery chemicals supply chain for the value chain for electric car batteries.

When the commercial production of battery chemicals begins, TerraFame will move forward in the value chain for electric car batteries, and the start-up of production will have significant impacts on TerraFame's business model. Up until now, more than half of the nickel intermediates produced by TerraFame have been delivered to be used as a raw material for battery chemicals through the sales network of Trafigura, one of its two principal owners. With the start-up of its own battery chemicals production, TerraFame will sell the battery chemicals that it produces directly to customers, with Trafigura serving as its sales agent. The quality and purity requirements for battery chemicals also set new requirements for the logistics chain. In 2020, the company's commercial organisation was reinforced in response to changing sales and logistics processes.

Asia and Europe will continue to be the main market areas for TerraFame's business operations. The production of battery cells and cathode active materials is currently centralised in Asia. However, several projects are in progress to build a regional battery value chain in Europe. TerraFame has good opportunities to assume a leading role in this value chain as a European manufacturer of battery chemicals.

Environment

Terrafame aims to continuously improve environmental safety and reduce its environmental load. The sulphate quota provided in the environmental permit for emissions into water was not exceeded in 2020, although the sulphate load almost doubled from the previous year. Terrafame used 80 % of its sulphate quota, or 13,067 tonnes. The increase in the sulphate load was mainly caused by precipitation, which was higher than normal in 2020.

In 2020, a total of 8.0 (4.5) million cubic metres of purified water was released from the industrial site. Unlike in previous years, the Nuasjärvi lake discharge pipe was in use throughout the year. Purified discharge water was also released through old routes to the Oulu River and Vuoksi waterways. Because of the rainy winter months, the neutralisation process to purify and reduce the process solution was used from January to March 2020. The neutralisation process increases the sulphate content in purified water, which is why the monthly limit of 2,000 mg/l for the flow-weighted average sulphate content in purified water was exceeded slightly in February (2,044 mg/l), March (2,031 mg/l) and April (2,159 mg/l). In addition, the sulphate load of 1,184 t on Nuasjärvi lake through the discharge pipe was slightly higher than the permit limit (1,000 t/month) in April. The neutralisation process was restarted in November and was in operation for the rest of the year. The sulphate content and load remained within the permit limits for the rest of the year.

The most significant environmental risks in Terrafame's operations are related to leach cycle management in bioleaching, water management and chemical management. In 2020, leach cycle management played a key role, because precipitation was higher than usual. A new gypsum pond was taken into use late in the year as a risk management measure, although the Regional State Administrative Agency for Northern Finland had not yet granted an environmental permit for its use. Terrafame had applied for the permit for the new gypsum pond already in August 2017. At the beginning of November, Terrafame filed a notification with the Kainuu Centre for Economic Development, Transport and the Economy (ELY Centre) in line with section 123 of the Environmental Protection Act (527/2014). On 19 November 2020, the Kainuu ELY Centre approved Terrafame's notification concerning the exceptional circumstances. In connection with the decision, the Kainuu ELY Centre issued regulations concerning, among other aspects, the use of gypsum ponds and the management of solution circulation. The introduction of the pond enabled the continuation of the neutralisation processes and excess water to be removed from the leach cycle. This enabled the company to ensure the environmental safety of the leach cycle despite the heavy rains.

During 2020, the Kainuu ELY Centre urged TerraFame to pay attention to the long-term development of water management, as well as to dam safety. Water management was further developed by building a two-line run model for the centralised water treatment plant to ensure that the processing of run-off water and process-based water that contains sulphates could be separated. This change will be introduced during 2021. With regard to dam safety, the monitoring of dams and dam safety documentation and reporting were developed, among other aspects.

A total of 20 environmental incidents occurred and were reported to the supervisory authorities (Kainuu ELY Centre) during 2020. The majority of the incidents were related to exceptional situations in leach cycle or water management. TerraFame has a low threshold for reporting incidents.

TerraFame has a permit process in progress with regard to the renewal of its master permit with the Regional State Administrative Agency for Northern Finland. The application was submitted in August 2017 and supplemented in July 2018. TerraFame expects a decision concerning the permit in 2021. The Regional State Administrative Agency for Northern Finland granted an environmental permit for the production of heat and steam for the battery chemicals plant in October 2020, and an environmental permit for the entire battery chemicals plant in January 2021.

The Finnish Safety and Chemicals Agency (Tukes) granted a chemical permit for the battery chemicals plant in September 2020. TerraFame initiated a new environmental permit process during 2020 by submitting an application to the Regional State Administrative Agency for Northern Finland for the construction and use of the KL1 waste rock area. TerraFame had two environmental impact assessment (EIA) procedures in progress. One concerned the final disposal of the water treatment sludge in various parts of the mining site that accumulated during the activities of the previous operator; the other concerned the use of the Kolmisoppi ore deposit and the expansion of the mining concession. Both EIA procedures were completed in early 2021 and are proceeding to the environmental permit phase with the Regional State Administrative Agency for Northern Finland.

In the spring of 2020, TerraFame and Metsähallitus signed an agreement by which TerraFame acquired land from Metsähallitus within the planned expansion area of the mining concession, as well as from the Kivijärvi lake region. The transaction settled all claims made by Metsähallitus regarding the water and land areas it owns.

On 6 February 2020, the Finnish Government decided to grant a uranium extraction permit to Terrafame. An appeal against the Government decision has been submitted to the Supreme Administrative Court. Terrafame estimates that it will take around two years before the final decision is issued on the permit.

A report was completed in 2020 to calculate the carbon footprint of nickel sulphate. The report was prepared by an international expert company, and the results were verified by an independent third-party expert. The results were compared with the results of a corresponding report by the Nickel Institute. The results were excellent: the carbon footprint of nickel sulphate, the main product of Terrafame's battery chemicals plant, was more than 60% smaller than the industry average. It was already known that the carbon footprint of nickel sulphide, Terrafame's current main product, is markedly smaller than that of traditional production methods.

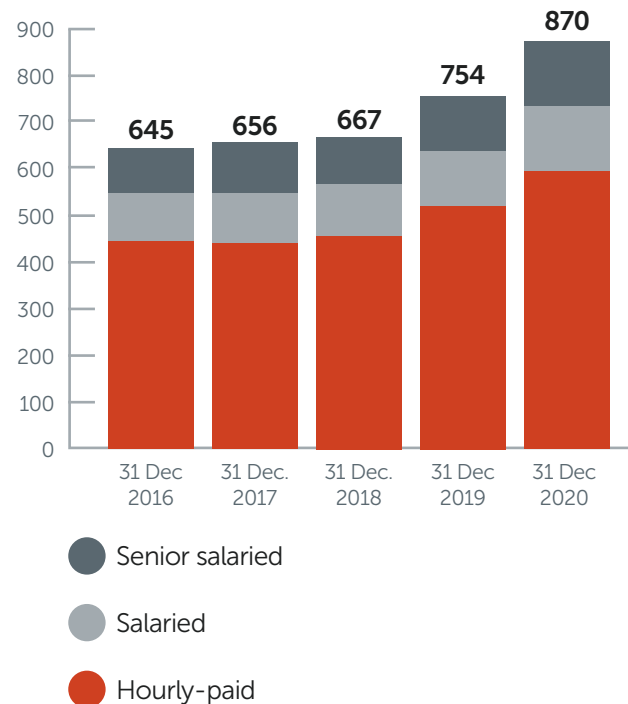
Terrafame aims to improve its energy efficiency and reduce its emissions from energy production. A new 10 MW solid fuel energy plant built by Adven, a partner company, was started up in late 2020. The plant uses renewable fuel to produce steam and heat energy for the production of battery chemicals, and for other needs in the industrial area. The partner company is also developing the energy production infrastructure and energy efficiency as a whole in the plant area. During 2020, Terrafame started a project to produce process steam using the excess energy of hydrogen plants. The project will be completed in early 2021. With the bioenergy plant and the recovery of waste energy, these measures will reduce carbon dioxide emissions by 9,000 tonnes per year, and the carbon dioxide emissions from Terrafame's heat production by 90%.

With regard to the Finnish Towards Sustainable Mining (TSM) Standard, Terrafame conducted self-assessments and internal audits concerning all assessment tools during 2020.

Social and HR affairs and respect for human rights

Nearly 2,000 people were regularly employed on Terrafame's industrial site during 2020. At the end of the year, Terrafame had 870 (754) employees, of whom 97 (77) were fixed-term employees. The company provided 52 people with a summer job. In addition to the company's own employees, an average of altogether 1,166 (735) people (FTE) employed by its contractors and sub-contractors worked within the industrial site. The number increased as a result of the people working on the construction site of the battery chemicals plant in particular. The total number of personnel increased by 15% from 2019, especially because employees were recruited for the battery chemicals plant during the summer and autumn.

Terrafamen personnel



The company's personnel strategy focuses on capacity building, competence development and skilful supervisory work, as well as on building effective internal cooperation across the company.

In 2020, the company continued to invest in personnel development. The new battery chemicals plant provided employees with opportunities for job rotation and career development. In addition to recruitment, employees were hired through apprenticeship training programmes. The employees of the battery chemicals plant were provided with intensive training to support the safe and efficient start-up of the plant.

Terrafame encourages its employees to develop their knowledge and skills through training. During the year, around 110 employees studied alongside work to complete vocational qualifications in the process industry, maintenance and electrical installation, for example, as well as specialist vocational qualifications in technology. Other training activities also continued at a solid level, although less face-to-face training was provided than before because of the coronavirus situation. In addition to vocational training, extensive training was provided in occupational safety, chemicals and first aid, for example. Supervisory work was also further developed through training and coaching. The TRFM Masters programme was started in 2020. The purpose of the course is to increase employees' understanding of the company's business operations, value creation, production process, financial position, business environment, strategy and values. The total amount of training provided was 3.1 (4.2) days per person. The total amount of supervisory training was 1.5 (4.3) days per person.

In 2020, we recruited altogether 145 (95) persons. The increase is mainly due to the new battery chemicals plant. The internal and external recruitment and training of experienced process and maintenance professionals, which began in 2019 to build a production organisation for the battery chemicals plant, was largely completed in 2020. The battery chemicals plant employs around 170 people in total, including maintenance, laboratory operations and logistics.

We continued to develop our cooperation with educational institutions and our induction process to ensure the availability and commitment of highly competent people. Our intensive one-week induction process focuses on Terrafame's operating principles, safety procedures and values in particular. The induction process for supervisors is more extensive, including guidance on management in line with our values, as well as on supervisory work practices. We cooperate closely with educational institutions, especially Kainuu Vocational College and Kajaani University of Applied Sciences. The most significant results of the cooperation include the regional reinforcement of training in the process industry, and electrical and automation engineering, for example. The concrete forms of cooperation include practical training, summer jobs, theses and teacher visits.

Two other major changes affecting the operating culture were the progress in operator-driven reliability and the change in the work culture caused by the coronavirus situation. The operator-driven reliability model improves operational reliability and efficiency, and provides employees with professional development opportunities. The training provided in 2017–2019 and the pilot project laid a strong foundation for expanding the operating model. Most TerraFame employees transferred to remote work in 2020. This change ran very smoothly for our highly professional and committed staff. Effective interaction between the employees and the employer is also an important resource in the workplace community, and cooperation activities were carried out in a good spirit. Participation opportunities were provided through various committees such as the cooperation committee, occupational health and safety committee, and the leisure committee.

The jobs and conditions offered by TerraFame are varied, which also sets requirements for measures to maintain working capacity and wellbeing at work, and to prevent their associated risks. The company offers extensive occupational healthcare services. Various exposures and working capacity risks are monitored systematically and continuously. Early support and alternative work models were actively applied. Workplace and ergonomics studies were targeted at the various task areas throughout the year. Employees' sickness absences accounted for an average of 4.8 % (5.0) of the theoretical regular working hours. To maintain mental and physical wellbeing, the company provides its employees with sporting and cultural benefits, as well as subsidised meals at work.

In its human resources management, TerraFame complies with national rules and regulations, as well as international conventions on human rights and labour markets. The company respects freedom of association and abides by legally binding collective agreements. Employee participation and consultation have been organised in accordance with national rules and regulations. The company has adopted an equality plan, which is updated periodically. TerraFame promotes equal opportunities, equal employment and career development in the spirit of the Act on Equality between Women and Men and in compliance with TerraFame's Equality Plan. TerraFame has updated its processes, policies and guidelines on the processing of personal data to comply with the EU General Data Protection Regulation (GDPR).

Partner network

Around 150 long-term partner companies operated within the Terrafame industrial site in 2020. Partner companies play a significant role in production work. During the year, an average of 1,166 (735) people (FTE) employed by contractors and sub-contractors worked on the site. The number also increased as a result of the people working on the construction site of the battery chemicals plant. Production involves significant purchases of materials such as process chemicals and fuels. Terrafame's purchases of services and materials totalled around EUR 467 (391) million in 2020. Most of this consisted of purchases of materials related to the production process, purchases of services and purchases related to the construction of the battery chemicals plant. Services and materials were purchased from more than 1,000 suppliers, most of which are located in Finland and elsewhere in the European Union.

Partners are required to commit to high-quality operations, safety and the continuous improvement of efficiency. Partners who stand out with their responsible operations are invited to participate in tendering repeatedly. Partner companies are evaluated based on basic information, and cooperation relationships are developed systematically over the long term.

Terrafame's contractual terms and conditions were updated during 2020. Terrafame requires all its partners and subcontractors to comply with its Code of Conduct, which determines general responsibilities and obligations. These are further specified by the company's policies and guidelines. Partners are expected to share the company's values and operate responsibly. In addition, all partners, service providers and subcontractors must comply with Terrafame's sustainability principles. The Code of Conduct and the sustainability policy are available on the company's website at www.terrafame.com/terrafame-ltd.html -> Sustainability.

Suppliers and all parties acting on their behalf are required to comply with current legislation on occupational health and safety. Suppliers and their subcontractors must agree to comply with all applicable national and international regulations concerning ethical and responsible business operations, such as the prevention of bribery, corruption and illegal work.

The most significant risks are related to any measures or omissions arising in the selection of partners and in the supply chain that violate company policies and may result in financial losses, in addition to the risk of sanctions and reputation risk. The company's management and purchasing organisation play the most important role in terms of risks. As far as possible, TerraFame seeks to identify any ethical risks related to business partners before establishing a partnership with them.

TerraFame assesses the operations of its partner companies through regular audits conducted during the contract period, after the completion of work and when selecting new partners through competitive bidding. The company has a system in place to maintain a real-time register of the companies operating within the industrial site, as well as their subcontractors. The system monitors the companies in terms of the requirements of the Act on the Contractor's Obligations and Liability When Work Is Contracted Out. The companies are also monitored in terms of training requirements for employees. Significant omissions and violations are subject to sanctions, while good performance that promotes safety is rewarded.

No violations related to corruption or human rights were detected or reported during the year.

Occupational and process safety

Safety is one of the core values at TerraFame, and the development of a safety culture has been one of the main priorities since the company was established. The company's management is committed to safety work, and safety is also strongly promoted by the company's Management Team and Board of Directors. TerraFame has a safety bonus system, which applies to all employees and is used to reward good safety performance.

In TerraFame's operations, the most significant occupational safety risks are related to maintenance and construction work, large machinery and the use of chemicals. However, most injuries are sustained during normal installation work, or as a result of slipping and falling in yard areas, for example.

In 2019, the rolling 12-month lost-time injury frequency rate (LTIFR), or the number of accidents resulting in absence per one million person-hours, for the companies that worked at the battery chemicals plant was 33, which is very high at TerraFame's circumstances. The rate for companies operating regularly in the area (e.g. partner companies supporting production and maintenance) was also high: 17.5. Safety work therefore focused on the development of the safety of partner companies' employees in particular.

During the year, the induction programme for partner companies' employees was updated, and the company benefitted from the safety expertise of Trafigura, one of its owners. As a result of the measures implemented during 2020, the lost-time injury frequency rate for the companies working at the battery chemicals plant decreased considerably, standing at 11.4 (32.9) at the end of 2020. The lost-time injury frequency rate for production and maintenance partners decreased as well, standing at 9.7 (17.5) at the end of the year.

In 2020, the lost-time injury frequency rate for Terrafame's own employees was 8.3 (9.6), slightly lower than in the previous year. Terrafame's own induction programme was also updated during 2020, with safety playing an even more important role than before. A safety park was built on the industrial site for training the employees of Terrafame and its partners. Terrafame's safety network was established at the end of 2020 to promote the implementation of safety guidelines for production departments and partners, for example. At the end of 2020, the ROTI project was initiated in cooperation with an international expert organisation. The project focuses on safety and operational reliability in production.

Strong efforts are being made to ensure hygiene at work. For example, all employees are subject to regular occupational hygiene measurements once a year, and inspection and counselling visits are made to various work areas. According to the biomonitoring results for 2020, the total concentration of nickel in the urine of Terrafame employees corresponds to the average concentrations in Finland. Personal protective equipment matrices were designed for the battery chemicals plant during 2020. The purpose is to minimise metal exposure at the new plant through the correct selection of protective equipment. Terrafame also requires its partner companies operating within the industrial site to organise regular biomonitoring in the same manner as Terrafame conducts the biomonitoring of its own employees.

In terms of process safety, the most significant risks are related to hydrogen sulphide plants, hydrogen plants and the use of chemicals. With regard to process safety, it is important that processes are run smoothly without any unexpected ramp-ups or shutdowns. During 2020, several measures were implemented to prepare for the start-up of the battery chemicals plant and the use of new chemicals such as ammonia. Ammonia filters were added to ventilation in safety facilities on the industrial site, and training related to ammonia was provided to the employees of Terrafame and its partners. The internal rescue plan was also updated, and rescue training was provided. Process safety is a key part of the operations of the battery chemicals plant, which has been taken into account in the design of the plant and the training of employees.

Terrafame takes the various aspects of information security into account when developing its systems. The need for data processing is assessed on a case-by-case basis in the preparation of both technical and administrative measures, and solutions are selected and operations developed to ensure that the high information security requirements are met. Various technical methods for security risk management are applied, including firewalls, email scanning, antivirus protection and multi-factor authentication. In addition, employees are kept informed and urged to be careful and maintain a healthy distrust with regard to opening links and attachments.

Tax contribution

Terrafame's commitment to accountability also extends to tax matters. Terrafame has an important social duty and a regional role to play, especially in the Kainuu region. The company only operates in Finland and does not, therefore, pay taxes in other countries.

Tax reporting is based on the guidance on tax reporting issued on 1 October 2014 by the Government Ownership Steering Department of the Prime Minister's Office. The report excludes mandatory insurance premiums that are included in salary costs. These insurance premiums, which are directly related to salaries, are dealt with as direct salary costs, due to the nature of these kinds of insurance. The company does not report small amounts of value-added tax included in foreign travel and training costs.

Terrafame started the ramp-up of production in 2015, and the companies do not yet have any taxable income. However, a considerable amount of tax expenses have accumulated due to the energy and fuel taxes related to the companies' operations. In addition, the company has paid taxes related to the acquisition and ownership of assets, as normal.

Tax categories of TerraFame Ltd in 2020 and 2019

Taxes paid, EUR 1,000	2020	2019
Direct taxes paid	1,285	829
Income taxes, operating at a loss	0	0
Asset transfer taxes	48	0
Property tax	544	454
Employer's health insurance contributions	490	257
Parafiscal charges	203	118
Indirect taxes paid	5,998	5,597
Electricity taxes, net	943	576
Electricity taxes	3039	2,819
Electricity taxes, return	-2,096	-2,243
Insurance premium tax	412	465
Fuel taxes, net	4,642	4,553
Fuel taxes	5,393	5,298
Fuel taxes, return	-750	-745
Waste tax	1	3
Taxes collected and accounted for	-10,555	18,175
Tax withheld in advance	8,562	7,798
Value-added tax, net	-19,116	10,377
Value-added tax, sales	78,267	85,072
Value-added tax, purchases	-97,384	-74,695
Total	-3,272	24,601
Ratio of tax payments to net sales	-0,97,%	7,93,%

On 31 December 2020, the company had unrecognised deferred tax assets of approximately EUR 25.3 million. This consist of the confirmed but unrecognised loss of about EUR 30.1 million for the previous fiscal years which will cover for the estimated tax of about EUR 4.8 based on the taxable result for the fiscal year 2020.



Statement of non-financial information

2020

March 24, 2021