

Terrafame's operating result increased to EUR 13.5 million

(The financial information presented about Terrafame Ltd in this bulletin consists of unaudited FAS figures. The figures in brackets refer to the corresponding period of the previous year unless otherwise stated.)

January–March 2022 in brief:

- Net sales from battery chemicals business were EUR 46.5 (0) million which represents around 37% of the total net sales. The ramp-up of production is progressing.
- Net sales from metal intermediate business were EUR 80.6 (93.4) million.
- Total net sales were EUR 127.0 (93.4) million, representing an increase of 36.0% year-on-year. The ramp-up of the battery chemicals business and increase in metal prices had a positive impact on net sales, although price hedging reduced the direct impact of the price of nickel in particular, which increased strongly.
- Total EBITDA increased to EUR 27.7 (9.6) million, or 21.8% (10.3) of net sales. Strong net sales partly offset the impact of higher material prices on EBITDA.
- The total operating result was EUR 13.5 (-0.7) million.
- Free cash flow from operating activities² was EUR -23.7 (26.0) million.
- The combined LTIFR in the industrial site was 9.7 (8.4). Work continues to develop the safety culture.
- Terrafame concluded its change negotiations on 28 February 2022 to annual savings of around EUR 10 million. Of this total, around EUR 3.5 million consists of personnel reductions and around EUR 6.5 million consists of the reduction and development of purchased services, for example.
- In its quarterly reporting, Terrafame has adopted the following practice: the reports for the first and third quarters of the year are presented as summaries, and more comprehensive business reviews are provided for the first and second half of the year.

Financial figures	2022 Q1	2021 Q1	Muutos, %	2021
Net sales, EUR million	127.0	93.4	36.0 %	378.4
Battery Chemicals business	46.5	-	-	27.1
Metal intermediates business	80.6	93.4	-13.8 %	351.3
EBITDA, EUR million	27.7	9.6	188.5 %	-48.8 ⁽¹⁾
EBITDA, excl. non-recurring items, EUR million	27.7	9.6	188.5 %	24.2
Operating result, EUR million	13.5	-0.7	n.a.	-95.3 ⁽¹⁾
Operating result, excl. non-recurring items, EUR million	13.5	-0.7	n.a.	-22.4

Work in progress, EUR million	208.2	192.6	8.1 %	204.0
Free cash flow, EUR million ⁽²⁾	-23.7	-26.0	n.a.	-43.2
Capital expenditure, total, EUR million	17.7	32.7	-45.9 %	117.9
Sustaining capex, EUR million	12.4	10.4	18.9 %	60.3
Development and growth capex, EUR million	5.3	22.3	-76.2 %	57.6
Equity, EUR million	306.9	475.6	-35.5 %	384.8
Total assets, EUR million	1,051.8	925.5	13.6 %	1006.7
Own personnel, FTE	827	863	-4.2 %	858
Partner companies' personnel, FTE	633	1,085	-41.7 %	883
Accident frequency rate, 12-month LTIFR1	9.7	8.4	15.5 %	8.9
Own personnel	7.1	6.6	7.6 %	5.5
Partner companies' personnel	12.2	9.4	29.8 %	11.8

¹⁾ An increase in the environmental provision had a negative impact of EUR 72.9 million on EBITDA and the operating result in the fourth quarter of 2021.

²⁾ Free cash flow from operating activities after sustaining capital expenditure = EBITDA - change in net working capital - sustaining capital expenditure

Joni Lukkaroinen, CEO of Terrafame:

“The global sales of electric cars continued to be strong in early 2022. In January–February 2022, a total of nearly 1.2 (0.6) million electric cars were sold worldwide, which represents an increase of around 90% year-on-year. In other words, the drivers of demand for electric cars remained strong and supported the ramp-up of Terrafame’s battery chemical production.

In February, however, global market mechanisms changed, and geopolitical uncertainty increased significantly as Russia attacked Ukraine. In March there were abnormal movements in the nickel price and the LME price started delinking from wider fundamentals. The average market price of nickel in January–March 2022 was 27,951 (17,570) USD/t, which is 59% higher than in the corresponding period in the previous year. The average market price of nickel in the fourth quarter of 2021 was 19,821 USD/t. In early March, speculations caused by the Russian war raised the nickel price to abnormal level and the London Metal Exchange had to suspend trading on nickel for a week continued with a Disruption Event for another week. Since then the prices have come down somewhat but are still clearly higher than at the end of 2021. Market disruption event has also separated China’s SHFE and LME nickel price quotations and there is at least a temporary disconnection between nickel sulphate premium (SPOT China) and the LME price. The price of the battery grade nickel sulphate, however, continued to increase in the first quarter, although at a more moderate pace than the underlying LME nickel price.

In addition to the price of nickel, which has a significant impact on Terrafame’s net sales, the prices of energy and chemicals have been on the increase. Industrial companies have stopped making purchases in Russia, which has increased demand for alternative sources of supply. Higher demand has caused prices to increase. Terrafame also decided to stop making purchases in Russia after the war had begun.

Terrafame’s net sales increased markedly, although price hedging reduced the direct impact of the price of nickel in particular, which increased strongly. Net sales from battery chemicals business operations,

which are in the ramp-up phase, totalled EUR 46.5 (0) million during the first quarter of the year which represents around 37% of the total net sales. Net sales from metal intermediary business operations were EUR 80.6 (93.4) million. Total net sales were EUR 127.0 (93.4) million, representing an increase of 36% year-on-year.

Production costs increased as a result of higher energy and chemicals prices, which had a negative impact on the company's EBITDA. However, thanks to strong net sales, EBITDA grew significantly year-on-year, totalling EUR 27.7 (9.6) million or 21.8% (10.3%) of net sales. In the first quarter of 2021, profitability was burdened by production volumes being lower than expected at the beginning of the year, as well as by costs arising from preparations for the start-up of the battery chemicals plant.

The ramp-up of the battery chemicals plant continues as planned. Terrafame concluded its change negotiations on 28 February 2022 to annual savings of around EUR 10 million. Of this total, around EUR 3.5 million consists of personnel reductions and around EUR 6.5 million consists of the reduction and development of purchased services, for example. The development of the combined LTIFR in the industrial site was unsatisfactory and was 9.7 (8.4). We have started, in late 2020, a continuous improvement programme which further develops Terrafame's safety and management culture and production reliability. The safety performance is definitely at heart of the programme and we have a strong focus on improving the occupational safety."

Market environment

Electric vehicle and battery markets

The global sales of electric vehicles continued to be strong. In January–February 2022, a total of nearly 1.2 (0.6) million electric cars were sold worldwide, which represents an increase of around 90% year-on-year.

China remains the largest market for electric cars. A total of around 0.7 million electric passenger cars and light commercial vehicles were sold in China in January–February 2022. Sales grew by 133% year-on-year, but were around 27% lower than in November–December 2021. Chinese New Year and the higher prices of certain electric car brands had a negative impact on sales. The sales of electric cars were also strong in the United States, Canada and Europe, compared with the corresponding period of 2021, but even in these markets, the beginning of 2022 was more modest than the strong end of 2021.

In February 2022, including all vehicle categories, the sales-weighted average pack size was 44.6 (42.1) kWh. The market share of NCM 811 batteries, which have a high nickel content, increased to around 17% in February 2022 (around 10 % in February 2021). The market share of NCM 622 batteries was around 23% in February 2022 (around 31% in February 2021). The market share of NCM 712 batteries remained at 6%.

Nickel market

The nickel price on the London Metal Exchange (LME) in the review period was clearly higher than in the corresponding period of 2021. In March there were abnormal movements in the nickel price and the LME price started delinking from wider fundamentals.

The average market price of nickel in January-March 2022 was 27,951 (17,570) USD/t, which is 59% higher than in the corresponding period in the previous year. The average market price of nickel in the

fourth quarter of 2021 was 19,821 USD/t. In early March, speculations caused by the Russian war raised the nickel price to abnormal level and the London Metal Exchange had to suspend trading on nickel for a week continued with a Disruption Event for another week. Since then the prices have come down somewhat but are still clearly higher than at the end of 2021. Market disruption event has also separated China's SHFE and LME nickel price quotations and there is at least a temporary disconnection between nickel sulphate premium (SPOT China) and the LME price. The price of the battery grade nickel sulphate, however, continued to increase in the first quarter, although at a more moderate pace than the underlying LME nickel price.

The total combined nickel stocks of the London Metal Exchange (LME) and the Shanghai Futures Exchange (SHFE) stood at 80,947 at the end of March 2022. The stock level decreased markedly compared with the end of March 2021 (269,874) as well as to the end of 2021 (106,313). Nickel stocks have been decreasing heavily since the second quarter of 2021. The stock level at the end of March 2022 corresponds to demand for around 1 (5) weeks.

Net sales and financial performance

Net sales in the review period were EUR 127.0 (93.4) million, representing an increase of 36.0% year-on-year. The increase in metal prices had a positive impact on net sales, although price hedging reduced the direct impact of the price of nickel in particular, which increased strongly.

Net sales from battery chemicals business were EUR 46.5 (0) million which represents around 37% of the total net sales. The ramp-up of production is progressing. Net sales from metal intermediate business were EUR 80.6 (93.4) million.

Total EBITDA in the review period increased to EUR 27.7 (9.6) million, or 21.8% (10.3) of net sales. Strong net sales partly offset the impact of higher material prices on EBITDA.

The total operating result for the review period was EUR 13.5 (-0.7) million.

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Free cash flow from operating activities* was EUR -23.7 (-26.0) million.

* Free cash flow from operating activities after sustaining capital expenditure = EBITDA – change in net working capital – sustaining capital expenditure

Governance

Terrafame's Annual General Meeting (AGM) was held on 17 March 2022. The AGM adopted the financial statements for 2021, decided on profit distribution in accordance with the Board of Directors' proposal and discharged the members of the Board and the CEO from liability.

The AGM confirmed the number of Board members as seven (7) and re-elected Lauri Ratia, Matti Hietanen, Tuomo Mäkelä, Jesus Fernandez, Emmanuel Henry, Riitta Mynttinen and Jyrki Vainionpää as members of the Board. Lauri Ratia was elected as Chair of the Board and Matti Hietanen as its Vice Chair.

The AGM decided to keep the Board members' fees unchanged. The annual fee for the Chair of the Board is EUR 72,000. The annual fee for each member of the Board is EUR 36,000. In addition, the Chair and members of the Board are paid a meeting fee of EUR 600 based on their attendance.

KPMG Oy Ab, Authorised Public Accountants, was elected as the auditor, with Antti Kääriäinen as the principal auditor.

Permits

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.

Outlook for 2022

- Terrafame has several significant customer negotiations and product approval processes in progress related to battery chemicals.
- The ramp-up of production in the battery chemicals plant continues systematically.
- Terrafame's production costs will increase as a result of the geopolitical situation in Europe.
- The price development of base metals and battery chemicals involves considerable uncertainty.
- Terrafame continues to improve its operational efficiency and profitability.

For further information, please contact:

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A Finnish-language webcast for the media will be held on 22 April 2022 at 1 pm. Joni Lukkaroinen, CEO of Terrafame, will review the company's result at the event. The webcast can be followed live at terrafame.videosync.fi/2022-q1. Questions can be submitted using the form at the bottom of the page.

Terrafame reduces the carbon footprint of transport by delivering responsibly produced battery chemicals to the global battery industry. One of the world's largest production lines for chemicals used in electric car batteries is located on Terrafame's industrial site. The plant is capable of producing nickel sulphate for around 1 million electric cars per year. The carbon footprint of the nickel sulphate produced by Terrafame is among the smallest in the industry.

Terrafame's integrated, unique and energy-efficient production process from the mine to battery chemicals is located on a single industrial site. It provides customers with a transparent, traceable and truly European battery chemical supply chain.

Terrafame Ltd was founded in 2015. Its net sales in 2021 were EUR 378 million. Around 1,500 people work on its industrial site, half of whom are employees of partner companies.