

# **AFARAK GROUP PLC**

## **The Board of Directors Report and Annual Financial Statements 1 January-31 December 2013**

Domicile: Helsinki

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# THE BOARD OF DIRECTORS REPORT

## Implementing change in view of improving profitability

Afarak's objective is to create shareholder value through delivering improved profitability and long-term, sustainable growth.

In 2013 Afarak continued to focus on improving its operative cash flow and profitability. This was achieved by implementing changes in our cost structure and increasing our trading volumes in the Ferroalloys segment following the introduction of the Mecklenburg mine in South Africa. Despite the reduction in processing volumes during the year Afarak still managed to improve the results for the period. In addition, Afarak continued making good progress in driving its production further towards specialised alloy products and growing its chrome ore resource base.

Operations at Mecklenburg commenced in the second quarter of 2013 and despite the lower chrome ore prices, this mine still contributed positively to the Group's profitability. Operations at the Stellite mine was consistent throughout the year and produced similar volumes to last year.

During the year the Group acquired property surface rights and prospecting rights in Vlakpoort, South Africa, which will enable the Group to grow its chrome ore reserves and resource. Furthermore the Group continues to assess various opportunities in this regards.

The Mogale Alloys plant in South Africa operated below full production capacity but was able to participate in Eskom's electricity buy-back program during the first half of the year. However, this period of diminished production was utilised for paving the way to plan for the new granulator and convertor project to give Afarak the ability to enter into a niche market and produce medium carbon ferrochrome.

EWV, the smelting operation located in Germany and a key component of Afarak's integrated speciality alloys business, continued to be a strong contributor to the Group. The Company believes that its strategic decision to focus on the specialised niche products continues to be a sound decision that will allow us to penetrate new markets.

Afarak continues its fully integrated strategy covering mining, processing, smelting, marketing and sales. In 2013 which was another challenging year for our industry, the Group's resilience and determination was once again demonstrated throughout value chain. RCS, the Group's marketing, sales and logistics organisation, managed the volatility of product prices and secured new long-term contracts with a number of multinational customers.

## Safety, Health and Sustainable Development

The Group's mission is to conduct its business in a responsible and ethical manner for the benefit of all its stakeholders.

Afarak strives to achieve "Zero Harm" at all of its operations and to provide its employees and contractors with a safe and healthy environment in which to work, develop and grow. During the year the Group managed a common policy for health, safety and environment across all its units. A lost time injury metrics system was conducted in conformance with internationally recognised standards. During 2013 the Group totalled approximately 2,000,000 working hours during which the Group suffered only 23 accidents that caused loss of time. On-going personnel training on health and safety awareness is conducted also as the promotion of use of safety equipment. The Company is always assessing if there is scope for technical improvement in reducing the occurrence of hazardous events.

The Group seeks to make positive contributions to the local communities in which it operates and to build long-term relationships to underpin the sustainability of its business. Afarak's current community programs are focused on children, and aimed at providing them with much-needed basic support, including nutrition, education and safety. In Turkey, this translates into education subsidies to help families pay school fees. In South Africa, the Group is supporting feeding schemes for children, a shelter for abused women and children and a teacher support program. The teacher support program is dedicated to providing support for destitute children in an informal settlement close to one of the Group's operations, guiding the development of values in children's lives, many of whom are from broken families. These programs are managed in conjunction with professional third party service providers to maximise their effectiveness and benefits. Afarak intends to further expand its community programs during 2014.

Afarak respects the environment in which it operates and aims to manage its operations in a sustainable way, minimising its footprint as much as possible to preserve the environment. As an example, in Turkey, TMS does not use chemical reagents in its production process. In addition, at Tavas operation the Company conducted a research program with an aim to recycle into the production unit the fines resulting from past years operation. This project has been approved and will result in a substantial reduction of fines stock pile as well as in a reduction of the cost of production. In South Africa, the Group has a number of initiatives in place to address its impact on the environment. At EWW the Group is investing substantial amounts into R&D to reduce the amount of waste from its production processes and the aim is to achieve 100% recycling of all materials.

EWW and Mogale, hold a ISO 9001 certification for adopting the very best in quality systems and emphasizes our commitment at Group level to continuously improve and build excellence into every process of its integrated management systems.

### 2013 Operating and Financial Performance

Turning to the Group's performance for 2013, there has been a clear improvement in its financial results year on year despite challenging and volatile market conditions.

### Group Production

Production for the year increased by 97.3% to 568,278 (288,095) tonnes, which is mainly due to having mining and processing plants in full production as from Q3 2013.

Tonnes	Q1	Q2	Q3	Q4	FY13	FY12	Change
Speciality Alloys - Mining*	16,249	16,808	18,810	19,121	<b>70,988</b>	72,098	-1.5%
FerroAlloys - Mining*	53,707	134,787	103,763	133,328	<b>425,585</b>	140,346	203.2%
Speciality Alloys - Processing	6,975	4,618	6,719	4,930	<b>23,242</b>	25,129	-7.5%
FerroAlloys - Processing	4,620	7,665	18,855	17,323	<b>48,463</b>	50,522	-4.1%

\* Including both chromite concentrate and lumpy ore production

### Sales

The Group's sales from processing, which includes all the products produced at the Mogale Alloys and EWW processing plants, were 62,626 (66,449) tonnes in 2013, a decrease of 5.75% compared to the equivalent period in 2012. Full year sales were impacted by Group's decision to restrict its production in South African processing plant and to participate in Eskom's electricity buyback program, this led to low production volumes during the first half of the year.

Sales from processing:

Tonnes	Q1	Q2	Q3	Q4	FY13	FY12	Change
Speciality Alloys - Processing	5,662	5,944	4,921	4,989	<b>21,516</b>	23,558	-8.67%
FerroAlloys - Processing	9,330	4,745	8,430	18,604	<b>41,110</b>	42,891	-4.15%
Total – Processing	14,993	10,689	13,351	23,593	<b>62,626</b>	66,449	-5.75%

### Group Revenue and Profitability

Revenue for the full year 2013 increased by 5.4% to EUR 135.5 (128.6) million. The minor increase in revenue, compared to the equivalent period in 2012, was mainly attributable to the increase in sales volumes in the FerroAlloys segment.

EBITDA for the full year was EUR 14.0 (9.2) million, increase in EBITDA was mainly due to improved profitability in the Ferroalloys segment. EBITDA margin in this segment improved to 14.4% (6.7%) and lead to an increase of 151% over 2012. Reduction in overhead cost across all our operations also helped achieving this result. Weakening of the South African Rand also affected the group results as it helped reduce our production costs in South Africa. In the fourth quarter we experienced an increase in raw material cost in the Speciality Alloys segment which led to a lower EBITDA margin for the year. The joint venture share of profit in 2013 was EUR -2.3 (-4.7) million, this negative result was mainly attributable to finance expenses of EUR -2.3 (-1.0) million and is included in EBITDA.

EBIT for the year was EUR -8.0 (-16.8) million, this was negatively affected by IFRS depreciation of EUR 18.7 (22.5) million. IFRS depreciation reduced by EUR 1.2 million per month as from November 2013.

EUR million	Q1	Q2	Q3	Q4	FY13	FY12	Change
Revenue	31.6	31.4	30.7	41.8	<b>135.5</b>	128.6	5.4%
EBITDA	4.2	6.2	2.9	0.8	<b>14.0</b>	9.2	52.2%
EBITDA margin	13.2%	19.6%	9.4%	1.9%	<b>10.4%</b>	7.2%	
EBIT	-2.1	0.0	-3.1	-2.9	<b>-8.0</b>	-16.8	
EBIT margin	-6.5%	0.1%	-10.2%	-6.9%	<b>-5.9%</b>	-13.0%	
Profit for the period	-0.0	-1.8	-1.9	-0.7	<b>-4.4</b>	-16.6	

The full year earnings per share was EUR -0.02 (-0.06).

### Balance Sheet, Cash Flow and Financing

The Group's liquidity, as at 31 December 2013, was EUR 13.8 (14.2) million. Operating cash flow in the full year was EUR 13.8 (6.2) million. Afarak's gearing at the end of the year was -6.4% (-5.4%) . Net interest-bearing debt was EUR -12.3 (-11.4) million.

One of the Group's Maltese subsidiaries has been granted a loan facility from a Maltese bank amounting US\$ 13.0 million. This loan will be utilised by the Group to finance the ferroalloy refining and granulation equipment in South Africa. The Group has provided a corporate guarantee of US\$ 13.0 million and assigned future receivables that amount to US\$ 13.0 million as collateral.

Total assets on 31 December were EUR 277.9 (304.2) million. The equity ratio was 68.5% (69.2%). Decrease in total assets value during quarter four was mainly due to the translation of the South African Rand denominated assets as the currency continued weakening in this quarter.

### Investments, acquisitions and divestments

Capital expenditure for the full year 2013 totaled EUR 10.6 (12.8) million. This relates primarily to the advance payments made in relation to ferroalloy refining and granulation equipment at Mogale Alloys, the acquisition of property surface rights and prospecting mining rights in Vlakpoort South Africa as well as sustaining capital expenditure at the Speciality Alloys segment.

On 1 July 2013 Mogale Alloys entered into a contract in relation to the installation of ferroalloy refining and granulation equipment. The equipment complements Mogale's current four furnaces producing low phosphor ferrochrome and low phosphor silicomanganese. Once the installations are complete, a significant part of the current ferrochrome production can be converted to granulated medium carbon ferrochrome. This is in line with the Company's goal to provide niche products into mature markets to increase profitability and optimise shareholder value. The project commenced in July 2013 and first production of speciality alloys is expected to commence in Q3 2014.

### Speciality Alloys Segment

The Speciality Alloys business consists of Türk Maadin Şirketi A.S ("TMS"), the mining and beneficiation operation in Turkey, and Elektrowerk Weisweiler GmbH ("EWV"), the chromite concentrate processing plant in Germany. TMS supplies EWV with high quality chromite concentrate which produces speciality products including Specialised Low Carbon and Ultra Low Carbon Ferrochrome. Excess chrome ore from TMS is exported.

### Production

The annual production decreased by a marginal 3.1% to 94,230 (97,227) tonnes.

Tonnes	Q1	Q2	Q3	Q4	FY13	FY12	Change
Mining*	16,249	16,808	18,810	19,121	<b>70,988</b>	72,098	-1.5%
Processing	6,975	4,618	6,719	4,930	<b>23,242</b>	25,129	-7.5%

\* Including both chromite concentrate and lumpy ore production

## Financial Performance

Revenue for the full year 2013 was EUR 74.5 (76.5) million, representing a decrease of 2.6% compared to the equivalent period in 2012 and EBITDA was EUR 9.0 (11.0) million. The decrease in revenue and EBITDA was due to lower sales volumes throughout the year and decreased sales prices in the last quarter of 2013.

EUR million	Q1	Q2	Q3	Q4	FY13	FY12	Change
Revenue	18.2	18.7	17.6	19.9	74.5	76.5	-2.6%
EBITDA	3.0	3.1	2.5	0.5	9.0	11.0	
EBITDA margin	16.3%	16.4%	13.9%	2.7%	12.1%	14.3%	
EBIT	-0.6	-1.3	-1.9	-1.6	-6.1	-6.7	
EBIT margin	-3.4%	-6.8%	-10.8%	-7.8%	-8.2%	-8.7%	

## FerroAlloys Segment

The FerroAlloys business consists of the processing plant Mogale Alloys and the joint ventures Stellite mine and Mecklenburg mine in South Africa. The business produces chrome ore, charge chrome, silicomanganese and stainless steel alloy for sale to global markets.

## Production

The full year production volumes increased by 148.4% to 474,048 (190,868) tonnes, this was mainly due to the fact that mining and processing plant operated in full production as from Q3 2013. During the first half of the year Mogale participated in Eskom's electricity buyback program and produced much lower volumes compared to the same period last year. Production at Mecklenburg mine ramped up as planned during the second quarter of 2013.

Tonnes	Q1	Q2	Q3	Q4	FY13	FY12	Change
Mining*	53,707	134,787	103,763	133,328	425,585	140,346	203.2%
Processing	4,620	7,665	18,855	17,323	48,463	50,522	-4.1%

\* Including both chromite concentrate and lumpy ore production

## Financial Performance

Revenue for the full year increased to EUR 61.0 (52.1) million, representing an increase of 17.2% compared to the equivalent period in 2012. The improvement in revenue was driven by the increase in demand for chrome ore and better sales prices in Q2 2013.

EBITDA for the full year was EUR 8.8 (3.5) million and included a EUR 0.1 (0.1) million non-cash expense for the share based payments. Improvement of EBITDA compared to 2012 mainly relates to increase in sale of chrome ore, and reduction in cost due to weakening of the South African Rand. The joint venture share of profit in 2013 was EUR -2.3 (-4.7), this negative result was mainly attributable to finance expenses of -2.3 (-1.0) million and is included in EBITDA.

EUR million	Q1	Q2	Q3	Q4	FY13	FY12	Change
Revenue	13.4	12.7	13.1	21.9	61.0	52.1	17.2%
EBITDA	3.6	3.7	0.9	0.6	8.8	3.5	
EBITDA margin	27.0%	28.9%	7.0%	2.7%	14.4%	6.7%	
EBIT	1.8	1.9	-0.7	-0.9	2.0	-4.8	
EBIT margin	13.2%	15.0%	-5.7%	-4.2%	3.3%	-9.3%	

The share of profit from joint ventures is made up as follows:

EUR million	Q1	Q2	Q3	Q4	FY13	FY12	Change
Revenue	0.6	3.4	2.7	2.8	9.5	6.6	44.1%
EBITDA	-0.1	0.4	0.2	0.4	0.9	-1.6	
EBITDA margin	-16.7%	12.8%	8.6%	15.8%	9.8%	-24.6%	
EBIT	-0.3	0.2	-0.2	0.1	-0.2	-2.4	
EBIT margin	-50.0%	6.1%	-6.2%	4.8%	-1.8%	-36.2%	

Afarak's share of joint ventures revenue for the full year improved to EUR 9.5 (6.6) million representing an increase of 44.1% compared to the equivalent period in 2012. The increase in revenue was mainly due to the increased sales volumes of the Mecklenburg mine material. EBITDA for the full year increased to EUR 0.9 (-1.6) million. Increase in EBITDA compared to 2012 was driven by the improved demand for chrome ore as well as improved mining methods helped in lowering mining costs.

## **GLOBAL MARKET**

### **Stainless Steel**

World Average Stainless Steel transaction values increased due to higher demand in October. Higher nickel prices during late third quarter helped the US and Asian mills to increase their prices. Despite the marginal improvement in global market activity after the return from the summer holidays season, EU selling prices decreased in some of the stainless steel grades due to lower alloy surcharges.

The Board believe that the global demand for stainless steel is set to grow steadily in the near future. The attempts by western mills to improve demand was difficult as sales volumes traditionally reduce towards the year end, due to destocking. The expectation that customers would increase purchase volumes later in the fourth quarter for delivery early in 2014 was not achieved and is expected to shift to the first quarter of 2014. As a result of this shift the increase in price at the end of the year 2013 did not materialise. Sustained revival in stainless steel transaction values is now expected in the first half of 2014.

The annual total global crude stainless steel production for 2013 is estimated to have reached an all-time high of 37.3 million tonnes. This surpasses the previous record mark, set in 2012, by 5.5 %, which is expected to continue in 2014.

The stainless steel production in Q4 2013 exceeded earlier predictions, even though, the production in South Korea, the EU and Japan was lower than in 2012. The output in Taiwan and the United States increased by about 3% compared to the previous year. Despite this, overall production in these established stainless steel producers continues to decrease due to growth in China and are significantly below the peak figures achieved in 2006. China continued to stabilize its position in the stainless steel market in 2013. The growth of the Chinese production is expected to slow down from the high production rates in recent years, however, the expectation is that it could still continue to increase by as much as 7% in 2014, faster than any other producer reaching total production of just below twenty million tonnes. This would mean that China would represent almost 50% of global stainless steel production.

Economic activity continues to recover in Japan following a weak start in 2013, this was supported by the government's stimulus measures and forex exchange rates. Production in both South Korea and Taiwan is forecasted to increase similar to Japan in 2014, which would be close to the numbers recorded in 2012. Production in the United States is expected to grow, especially on the super alloys side, into the aerospace, and Oil and Gas sector, reaching an annual outturn of about 2 million tonnes. Following the decreasing performance in 2013 EU output is expected to improve in 2014.

Stainless steel production continues to increase in the developing markets, despite existing oversupply. The general sentiment in the stainless steel industry is that 2014 should be slightly better than 2013, in terms of both business volumes and profitability. Market participants have been, for some time, expressing the view that activity and prices have been on the low side in the business cycle and that this situation is close to its end with a number of major western industrial nations showing encouraging economic indicators, such as positive GDP growth, increasing manufacturing output and falling unemployment.

### **Ferrochrome**

The Ferrochrome prices continued to remain on near four-year lows. South African ferrochrome benchmark prices in Europe were rolled-over at US\$1.125/lb Cr, and in Japan US\$1.205/lb Cr in Q4, when at the same time Chinese domestic spot high-carbon ferrochrome prices was sold at US\$84-86/lb. Indian and South African high carbon ferrochrome exporters did not manage to increase their prices in the middle of December 2013, this is now expected to move to early 2014.

World ferrochrome consumption reached a record level of 10.3Mt in 2013 with demand estimated to increase by a further 5.5% to 10.8Mt in 2014. In 2012, China overtook South Africa and became the largest ferrochrome producing

country, and continued their strong production in 2013 to increase their output of 3.12 million tons accounting for 34% of the world total, a rise from a13% in 2005.

Demand for ferrochrome closely reflects trends in the stainless steel sector, which accounts for 80% of consumption. Over the past five years, world consumption has risen by 5% per year to an estimated 10.3 million tons in 2013. Similar growth is forecast through 2018, slightly outpacing the rise in stainless steel production due to the shift towards steels with higher chromium content and marginally lower scrap ratios.

There has also been further demand for Afarak's super alloy low carbon ferrochrome (LCFeCr) products, where the Group has renewed all long term agreements and concluded other new long term agreements to the super alloy industry with increasing quantities. This was driven by growth in the gas & oil, sea drilling and especially aircraft industry with increased demand for nickel-based super alloys. The demand for special LCFeCr and chromium metal is expected to increase by more than 4% per year throughout 2018, with roll-over agreements to year 2024.

The group speciality alloy and further expansion that is scheduled for Q3 2014 is a clear indication that the company will continue being a strong player in the speciality stainless steel industry

### Other Operations

The Group's other operations include the Group's headquarters and other Group companies, which do not have significant business operations. These are reported under unallocated items. The full year EBITDA from unallocated items was EUR -3.9 (-5.3) million. The improvement in EBITDA was mainly due to the restructuring at headquarters level that took place in the first quarter of 2013.

### Human Resources

Afarak operates in a very competitive industry and the Group's ability to successfully execute its business is dependent upon the competencies and motivations of its employees, as well as its ability to attract and retain a high calibre personnel. The Group follows local legislation and applicable regulations at each of its operations in regards to its human resources management.

At the end of 2013, the Group's headcount was 779, compared to 768 in 2012. The number of employees increased especially in the Speciality Alloys segment. There has been a slight decrease in headcount in the FerroAlloys segment. Employee headcount also decreased at headquarter following the decision that the Company's management will be reorganised to be more appropriately aligned to the size of the Company's current operations and the prevailing market conditions.

	<b>31 December 2013</b>	<b>31 December 2012</b>	<b>Change</b>
Speciality Alloys	443	423	4.7%
FerroAlloys	333	335	-0.6%
Other Operations	3	10	-70.0%
<b>Total</b>	<b>779</b>	<b>768</b>	<b>1.4%</b>

Equal opportunities and diversity are important to an international company such as Afarak and the appointment of a female chairman demonstrates the Group's commitment to gender diversity within the organisation. There are a number of senior female executives across the Group's key business units.

In South Africa specifically, as part of the Group's compliance with local legislation, the FerroAlloys division monitors its employment equity and it is a vital component of the recruitment process to ensure Afarak is playing its part in the transformation of South Africa. The FerroAlloys division is aiming for an aggressive target of at least 50% of its workforce is represented by historically disadvantaged individuals.

Highly skilled, motivated and diverse employees are essential to the Group's success in implementing its business strategies and executing its objective.

### Outlook

The global economic outlook is showing signs of recovery with western industrial nations issuing positive economic indicators. Demand for commodities is also showing recovery with increase in demand for speciality alloys in United States. The ferroalloy market is expected to continue the positive trend of 2013 during which consumption reached record levels. To date, however, pricing has not responded to the increased demand. The Group continues to be prepared for significant price fluctuations and will continue to adapt its production levels accordingly. At Mogale Alloys, part of the Ferro Alloys division, the Company expects to start production of medium carbon ferrochrome



during the third quarter of 2014, which is expected to have a positive impact on our profit margins. In the Speciality Alloys division we are expecting to see an increase in our raw materials cost due to current market conditions. As a result the Group expects its financial performance for the full year 2014 to marginally improve compared to 2013.

Fluctuations of exchange rates between the Euro, the South African Rand, the Turkish Lira and the US Dollar can significantly impact the Company's financial performance.

### **Significant Risks and Uncertainties**

The purpose of risk management is to identify the threats and opportunities affecting the business and the implementation of its strategy and to ensure that the risks are proportional to the Group's risk-bearing capacity. Afarak's key risks are reviewed and assessed by the Board on a regular basis.

The risk management principles are discussed further in the Corporate Governance Statement.

Afarak has defined its main risk categories as strategic, operational and financial risks, each of which is discussed below. Additional information on financial risks and financial risk management are presented in more detail in the notes to the consolidated financial statements in the section 2.7.

### **Strategic Risks**

Afarak's business is cyclical in nature and a significant strategic risk is the Afarak's exposure to price and demand volatility in the commodities markets as well as the steel and stainless steel industries. The global market for Group's products may not progress or develop at the levels forecast and a drop in demand for the Group's products could have an adverse effect on the Group's revenues and profits. As a vertically integrated producer who sells a diverse range of products, from raw chrome ore through to premium, speciality ferroalloy products, Afarak believes it can mitigate some of this risk by using its strong customer interface and market intelligence to adjust its production volumes to match demand and adapt its diverse product mix to meet customer requirements.

Afarak has operations in South Africa and a mine development project in Zimbabwe and political risk remains as one of the key challenges in the southern African mining sector. Changes in the mining, employment and fiscal regulatory environment may materially adversely affect Afarak's business and its financial results. Operations may be affected to varying degrees by government regulations with respect to matters including, but not limited to: export controls; currency remittance; income taxes; expropriation of property; foreign investment; maintenance of claims; environmental legislation; land use; land claims of local people and water use. In South Africa, Afarak seeks to maintain good relationships through direct, regular engagement and communication with government at local, regional and national levels, the relevant regulatory departments, its local communities, the unions, its BEE partners, as well as other stakeholders.

Afarak's strategy is focused on acquisitive and organic growth. Subject to market conditions, the Company expects to continue to expand its business through acquisitions. There can be no assurance that the Group will be able to identify suitable acquisition targets, obtain the necessary financing to fund such acquisitions or acquire acquisition targets on satisfactory terms. If an acquisition has been successful, there are a number of risks involved in integrating the acquisition into the Group, including but not limited to: a failure to retain key personnel, difficulties in integrating the acquired operations in the Group's structure, risks arising from the change of control provisions in contracts of an acquired company, risk the acquisition may not become profitable and possible adverse effects on the Group's financial results.

As part of the organic growth strategy, the Group is currently investing in ferroalloy refining and granulation equipment, this equipment compliments the South African furnaces and will give the ability to produce medium carbon ferrochrome. There is a risk that the project will not perform as expected and the group will not achieve the desired future operating cash flows from this investment.

The future organic growth strategy of the Group is changing and the idea of producing niche products is taking over that of producing larger volumes. Furthermore the Group is also trying to increase its Resources and Reserves by acquiring new mines or expanding its current operations. There is a risk that Afarak might not be able to find the appropriate site, or to obtain the necessary licences to develop and operate them or to secure the required financing, either through financial institutions or through strategic partnerships. If all or some of these risks materialise it would hinder the implementation of this part of the Group's growth strategy.

## **Operational Risks**

Afarak operates in a highly competitive industry and is dependent on the technical skill and management expertise of a small number of key personnel. The loss of key personnel could have an adverse effect on Afarak's ability to operate some of its operations, particularly its processing plants, which could impact the Group's operating and financial results. Afarak's future success will depend on its ability to attract and retain suitably skilled and qualified personnel. To ensure it can compete effectively against its peers, Afarak aims to be an "employer of choice". It regularly re-assesses its remuneration policies and packages, based on Remuneration Committee guidelines, to ensure they are attractively competitive and reviews its succession plans.

There is always the risk of a severe mining and/or smelting accident at Afarak's operations, such as adverse mining conditions, fire, flooding, rock bursts, unusual weather conditions, seismic events, other natural phenomena and other conditions resulting from drilling, blasting and the removal and processing of material associated with underground and/or opencast mining, which could have a serious impact on the Group. This could affect both employees' physical wellbeing and morale, as well as the operations themselves, resulting in suspension of operations until the accident has been fully investigated and appropriate measures taken to prevent a re-occurrence. To mitigate this risk as much as possible, Afarak has adopted a policy of "Zero Harm" towards health and safety in the workplace. It has conducted baseline assessment risks at all of its operations, has developed a comprehensive set of health and safety guidelines, policies and procedures and has a programme of regular, continuous employee training. This is all overseen at the highest level in the Group by the Board of Directors.

Afarak's processing operations in Germany and South Africa are intensive users of energy, primarily electricity. Fuel and energy prices globally have been characterised by volatility coupled with general cost inflation in excess of broader measures of inflation. In South Africa the majority of the electricity supply, price and availability are all controlled by one entity, namely Eskom. Increased electricity prices and/or reduced or unreliable electricity supply or allocation may negatively impact Afarak's current operations, particularly its processing plants, which could have a consequent effect on the Group's operating and financial results. It may also impact the Group's plans to expand its operations and implement its growth strategy. Afarak currently has contracted supply in excess of its present requirements and is examining ways in which it can protect itself from future energy price risks.

Afarak's processing plants are vulnerable to interruptions such as power cuts, particularly where these events cause a stoppage, which necessitates a shutdown in operations. Stoppages in smelting, even for only a few hours, can cause the contents of furnaces to solidify, resulting in a plant closure for a significant period and expensive repairs. To mitigate this risk Afarak employs experienced operating managers and has standard operating procedures in place for most foreseeable circumstances.

Due to the nature of its business, Afarak has a large, potential exposure to environmental risks. Environmental risks relate first to direct potential harm to the environment, and second to potential post-production rehabilitation or landscaping obligations. Both these types of environmental risks are managed closely and regularly assessed. Afarak has appointed external experts to assist in identifying potential liabilities and ensuring that the different entities within the Group are compliant with the relevant environmental legislation. The Group has carried out studies regarding the environmental liabilities and concluded on that basis that the provisions in the accounts are sufficient at current level.

## **Financial Risks**

Afarak's financial risks, including liquidity, exchange rate, interest rate, credit and commodity price risk, are briefly outlined below and are described in more detail in the notes to the consolidated financial statements in the section 2.7.

Liquidity risks involve whether Afarak has enough liquidity to service and finance its operations and pay back loans. If liquidity risks materialised, it may cause overdue interest expenses and could negatively impact the Group's relationship with its goods and service suppliers as well as affect the pricing and other terms for input goods and services.

Afarak is an international business and has operations in Turkey, Germany, Malta and southern Africa so the Group has significant foreign exchange rate exposure. The risks arise from both direct risk, such as commercial cash flows and currency positions as well as indirect risk, such as changes in the Group's competitiveness as a result of its foreign exchange rate exposures compared to its competitors.

Afarak is exposed to interest rate risks where the Group's subsidiaries enter into loans or other financing agreements or make deposits and investments related to liquidity management. Changes in interest rates can influence the repayment of loans, impact the profitability of investments or alter the fair value of the Group's assets.

Credit risks are realised when the counterparties in commercial, financial or other agreements cannot take care of their obligations and cause a negative financial impact to the Group. Afarak's key customers are typically long business relationships and include major international steel and stainless steel companies and some specialty agents selling to the steel sector. As these customers are sector specific, major changes in that industry's future outlook or profitability could also increase the Group's credit risk.

Afarak is exposed to price risks on various output and input products, materials and commodities. The price risks on input materials and commodities are managed by pricing contracts so that, where possible, any changes in input materials and commodities may be absorbed in the sales prices. The Group's processing operations are exposed to the availability, quality and price fluctuations in raw materials. To diminish these risks, the Group's business units seek long-term contract agreements with known counterparties where possible.

### **Litigation**

The Company announced on 30 April 2013 that it has entered into a settlement agreement with Rautaruukki Oyj ("Rautaruukki") in relation to the dispute regarding the Company's and Rautaruukki's right to use and register trademarks and company names containing the word 'ruukki'.

According to the settlement agreement, the Company and its subsidiaries were required to change their names to ones that do not contain the word Ruukki within six months (the "Transition Period"). Rautaruukki compensated the Company in relation to the name change and both the Company and Rautaruukki bore all of their own legal and other costs incurred in connection with the dispute. Currently, Rautaruukki and the Company are in the process of withdrawing all claims and other actions that they have filed against each other.

On 11 October 2012 Afarak announced it had agreed to settle its dispute with the vendors (the "Vendors") of Mogale Alloys, which was acquired by Afarak in May 2009. As part of the settlement Afarak has paid the Vendors an aggregate cash amount of ZAR 177 million (approximately EUR 16 million) and will issue, in the aggregate, up to 16,000,000 new shares. The Vendors have transferred their entire remaining shareholding in Mogale Alloys to Afarak, whereby Afarak's ownership increased from 84.9% to 90.0%.

The share issue is expected to be completed during 2014.

### **Share Information**

Afarak Group Plc's shares are listed on NASDAQ OMX Helsinki (AFAGR) and on the Main Market of the London Stock Exchange (AFRK).

On 31 December 2013, the registered number of Afarak Group Plc shares was 248,432,000 (248,432,000) and the share capital was EUR 23,642,049.60 (23,642,049.60).

On 31 December 2013, the Company had 4,244,717 (4,297,437) own shares in treasury, which was equivalent to 1.71% (1.73%) of the issued share capital. The total amount of shares outstanding, excluding the treasury shares held by the Company on 31 December 2013, was 244,187,283 (244,134,563).

During the financial year 2013, the price of Afarak Group's share in London Stock Exchange varied between GBP 0.30 (0.32) and GBP 0.40 (0.86) and in NASDAQ OMX Helsinki between EUR 0.30 (0.38) and EUR 0.48 (1.02). Afarak's share closed in London at the end of the financial year at GBP 0.30 (0.35) and Helsinki at EUR 0.32 (0.45). The closing price on 31 December gives the Company a market capitalisation of the entire capital stock 248,432,000 (248,432,000) shares of GBP 74.5 million (87.0) and EUR 79.5 million (111.8).

Based on the resolution at the AGM on 8 May 2013, the Board is authorised to buy-back up to a maximum of 15,000,000 of its own shares. This authorisation is valid until 8 November 2014. The Company did not carry out any share buy-backs during 2013.

On 18 December 2013, the Board of Afarak announced that it has awarded 52,720 ordinary shares from the treasury to Mr Wynand van Wyk, Head of Mining South Africa. The shares were issued under the authorization given by the Company's Annual General Meeting in May 2013 and formed a part of the Company's incentive programme for senior management. Under the terms of the directed free share issue scheme, the shares were offered free of charge and in derogation of the pre-emptive subscription right of shareholders.

**2014 Annual General Meeting**

Afarak's 2014 Annual General Meeting will be held on 8 May 2014.

**Dividend Payout Proposal**

The Board of Directors proposes to the Annual General Meeting which will be held on 8 May 2014 that no dividend would be distributed but that a capital redemption of EUR 0.01 per share would be paid out of the paid-up unrestricted equity fund.

**Events after the review period**

On 20 January 2014, the Board of Afarak announced that the directed share issue to Sail Resources Pte has been cancelled as Sail Resources subscribed for nil shares by the deadline of 18 January 2014.

On 27 March 2014 the Company announced Chinese Suzhou Kaiyuan Chemical Co. Ltd has made a claim of EUR 2.66 million, at current exchange rates, which relates to a chrome ore sales agreement entered into by Chromex Mining Plc ("Chromex") prior to the acquisition of Chromex by Afarak together in a joint venture with Kermas Limited. The claim has been served on Afarak's marketing arm RCS Limited and various companies which form part of the Chromex joint venture. The place of arbitration is Shanghai, China. The Company will strongly contest the claim and aims to resolve the matter as soon as possible.

**Information Presented by Reference**

The Group's key financial figures, related party disclosures, information on share capital and option rights are presented in the notes to the consolidated financial statements. The share ownership of the parent company's Board members and Chief Executive Officer is presented in the notes to the parent company's financial statements.

The Corporate Governance Statement and the Remuneration Report are presented as separate reports.

# KEY FIGURES

## FINANCIAL INDICATORS

Continuing operations		2013	Restated 2012	Restated 2011
Revenue	EUR '000	135 509	128 582	150 126
EBITDA	EUR '000	14 050	9 229	-1 510
% of revenue		10,4 %	7,2 %	-1,0 %
Operating profit / loss (EBIT)	EUR '000	-8 024	-16 768	-28 248
% of revenue		-5,9 %	-13,0 %	-18,8 %
Profit / loss before taxes	EUR '000	-11 170	-19 590	-25 239
% of revenue		-8,2 %	-15,2 %	-16,8 %
Return on equity	%	-2,2 %	-7,4 %	9,2 %
Return on capital employed	%	0,0 %	-4,5 %	3,0 %
Equity ratio	%	68,5 %	69,2 %	60,0 %
Gearing	%	-6,4 %	-5,4 %	4,2 %
Personnel, average		779	768	781

## SHARE-RELATED KEY INDICATORS

		2013		2012		2011	
		Group	Continuing operations	Group	Continuing operations	Group	Continuing operations
Earnings per share, basic	EUR	-0,02	-0,02	-0,06	-0,06	0,09	-0,08
Earnings per share, diluted	EUR	-0,02	-0,02	-0,06	-0,06	0,08	-0,07
Equity per share	EUR	0,74	0,74	0,84	0,84	0,91	0,91
Dividends *	EUR '000	0		0		0	
Dividend per share *	EUR	0,00		0,00		0,00	
Price to earnings	EUR	neg.		neg.		9,7	
Average number of shares	1 000	244 187		244 025		241 343	
Average number of shares, diluted	1 000	248 235		251 604		271 533	
Number of shares at the end of the period	1 000	248 432		248 432		248 432	
<b>Share price information (NASDAQ OMX Helsinki)</b>							
Average share price	EUR	0,40		0,67		1,33	
Lowest share price	EUR	0,30		0,38		0,81	
Highest share price	EUR	0,48		1,02		2,03	
Market capitalisation	EUR '000	79 498		111 794		221 104	
Share turnover	EUR '000	1 826		3 773		15 138	
Share turnover	%	1,8 %		2,3 %		4,6 %	
<b>Share price information (London Stock Exchange)</b>							
Average share price	EUR	0,43		0,54		1,50	
	GBP	0,37		0,43		1,30	
Lowest share price	EUR	0,35		0,39		0,96	
	GBP	0,3		0,32		0,83	
Highest share price	EUR	0,47		1,06		1,84	
	GBP	0,40		0,86		1,6	
Market capitalisation	EUR '000	89 396		106 545		261 727	
	GBP '000	74 530		86 951		218 620	
Share turnover	EUR '000	19		154		227	
Share turnover	GBP '000	16		125		197	
Share turnover	%	0,02 %		0,1 %		0,1 %	

\* In 2012 the Company didn't distribute any dividend or capital redemption. In 2013 the Company distributed a capital redemption of EUR 0.01 per share out of the paid-up unrestricted equity reserve and no dividend was distributed. In 2014 the Board has proposed to the AGM that no dividend would be distributed but that a capital redemption of EUR 0.01 per share would be paid out of the paid-up unrestricted equity fund.

## FORMULAS FOR CALCULATION OF INDICATORS

### Financial indicators

Return on equity	$\text{Profit for the period} / \text{Total equity (average for the period)} * 100$
Return on capital employed	$(\text{Profit before taxes} + \text{financing expenses}) / (\text{Total assets} - \text{Interest-free liabilities}) \text{ average} * 100$
Equity ratio	$\text{Total equity} / (\text{Total assets} - \text{prepayments received}) * 100$
Gearing	$(\text{Interest-bearing debt} - \text{liquid funds}) / \text{Total equity} * 100$
EBITDA	Operating profit + depreciation + amortisation + impairment losses
Operating profit / loss	Operating profit is the net of revenue plus other operating income, plus gain/loss on finished goods inventory change, minus employee benefits expense, minus depreciation, amortisation and impairment and minus other operating expense. Foreign exchange gains or losses are included in operating profit when generated from ordinary activities. Exchange gains or losses related to financing activities are recognised as financial income or expense.

### Share-related key indicators

Earnings per share, basic	$\text{Profit attributable to owners of the parent company} / \text{Average number of shares during the period}$
Earnings per share, diluted	$\text{Profit attributable to owners of the parent company} / \text{Average number of shares during the period, diluted}$
Equity per share	$\text{Equity attributable to owners of the parent} / \text{Average number of shares during the period}$
Dividend per share	Dividends / Number of shares at the end of the period. In the attached table of share related key indicators, the dividend and capital redemptions are presented in that year's column on which results the pay-out are based; hence the actual payment takes place during next year.
Price to earnings	$\text{Share price at the end of the period} / \text{Earnings per share}$
Average share price	$\text{Total value of shares traded in currency} / \text{Number of shares traded during the period}$
Market capitalisation	$\text{Number of shares} * \text{Share price at the end of the period}$

# 1. CONSOLIDATED FINANCIAL STATEMENTS

## 1.1. CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

EUR '000	Note	Restated	
		1.1.-31.12.2013	1.1.-31.12.2012
<b>Revenue</b>	1	<b>135 509</b>	<b>128 582</b>
Other operating income	2	12 936	13 000
Materials and supplies		-100 916	-89 017
Employee benefits expense	3	-19 283	-22 189
Depreciation and amortisation	4	-22 074	-25 997
Other operating expenses	5	-11 863	-16 414
Share of profit from associates		6	6
Share of profit from joint ventures		-2 300	-4 740
<b>Operating profit / loss</b>		<b>-7 984</b>	<b>-16 768</b>
Finance income	6	8 016	4 839
Finance cost	6	-11 162	-7 661
<b>Profit / loss before taxes</b>		<b>-11 130</b>	<b>-19 590</b>
Income taxes	7	6 728	2 957
<b>Profit / loss for the year from continuing operations</b>		<b>-4 403</b>	<b>-16 633</b>
<b>Discontinued operations</b>			
Profit for the year from discontinued operations	8	0	0
<b>Profit / loss for the year</b>		<b>-4 403</b>	<b>-16 633</b>
Profit attributable to:			
Owners of the parent		-4 252	-15 493
Non-controlling interests		-151	-1 141
		<b>-4 403</b>	<b>-16 633</b>
Earnings per share (counted from profit attributable to owners of the parent):	9		
basic (EUR), Group total		-0,02	-0,06
diluted (EUR), Group total		-0,02	-0,06
basic (EUR), continuing operations		-0,02	-0,06
diluted (EUR), continuing operations		-0,02	-0,06



## Consolidated statement of comprehensive income

EUR '000

	<u>1.1.-31.12.2013</u>	<u>Restated 1.1.-31.12.2012</u>
<b>Profit / loss for the year</b>	<b><u>-4 403</u></b>	<b><u>-16 633</u></b>
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified to profit and loss</b>		
Remeasurements of defined benefit pension plans	-40	-4 904
<b>Items that may be reclassified to profit and loss</b>		
Exchange differences on translation of foreign operations	-22 206	-6 096
Income tax relating to other comprehensive income	7 741	1 991
<b>Other comprehensive income, net of tax</b>	<b><u>-14 505</u></b>	<b><u>-9 009</u></b>
<b>Total comprehensive income for the year</b>	<b><u>-18 908</u></b>	<b><u>-25 642</u></b>
Profit attributable to:		
Owners of the parent	-17 130	-23 853
Non-controlling interests	<u>-1 778</u>	<u>-1 789</u>
	<b><u>-18 908</u></b>	<b><u>-25 642</u></b>

## 1.2. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR '000	Note	<b>31.12.2013</b>	<b>Restated 31.12.2012</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	36 257	41 108
Goodwill	11	62 288	68 990
Other intangible assets	11	22 040	43 539
Investments in associates	12	76	75
Other financial assets	14	580	589
Receivables	14	43 525	51 252
Deferred tax assets	20	12 546	3 502
		<b>177 312</b>	<b>209 054</b>
<b>Current assets</b>			
Inventories	15	46 284	50 455
Trade and other receivables	16	40 559	30 573
Cash and cash equivalents	17	13 769	14 158
		<b>100 612</b>	<b>95 186</b>
<b>Total assets</b>		<b>277 924</b>	<b>304 240</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	18	23 642	23 642
Share premium reserve		25 740	25 740
Legal Reserve		201	0
Paid-up unrestricted equity reserve		242 725	245 167
Translation reserve		-4 773	8 045
Retained earnings		-102 574	-99 192
		<b>184 960</b>	<b>203 402</b>
Non-controlling interests		5 368	7 163
<b>Total equity</b>		<b>190 328</b>	<b>210 566</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	20	8 507	16 906
Interest-bearing debt	14	149	64
Share of joint ventures' losses	13	15 293	11 805
Pension liabilities	22	16 095	15 815
Other non-current debt	23	40	51
Provisions	21	9 739	12 893
		<b>49 823</b>	<b>57 533</b>
<b>Current liabilities</b>			
Trade and other payables	23	28 742	24 725
Provisions	21	542	596
Tax liabilities	23	7 128	8 101
Interest-bearing debt	14	1 362	2 719
		<b>37 773</b>	<b>36 141</b>
<b>Total liabilities</b>		<b>87 596</b>	<b>93 674</b>
<b>Total equity and liabilities</b>		<b>277 924</b>	<b>304 240</b>

### 1.3. CONSOLIDATED STATEMENT OF CASH FLOWS

EUR '000	<u>1.1.-31.12.2013</u>	<u>Restated 1.1.-31.12.2012</u>
<b>Operating activities</b>		
Profit / loss for the period	-4 403	-16 633
Adjustments to net profit:		
Non-cash items		
Depreciation and impairment	22 074	25 997
Finance income and cost	3 650	3 122
Income from associates	2 294	4 734
Income taxes	-6 728	-2 957
Share-based payments	1 020	922
Proceeds from non-current assets	-813	-132
Working capital changes:		
Change in trade receivables and other receivables	-9 371	9 414
Change in inventories	319	-9 745
Change in trade payables and other debt	3 560	-5 931
Change in provisions	-1 086	-1 776
Interests paid	-740	-346
Interests received	814	1 412
Other financing items	6 752	723
Income taxes paid	-3 104	-1 869
Discontinued operations	-504	-743
<b>Net cash from operating activities</b>	<u><b>13 734</b></u>	<u><b>6 191</b></u>
<b>Investing activities</b>		
Acquisitions of subsidiaries, net of cash acquired	-404	-25 070
Capital expenditure on non-current assets, net	-10 883	-4 605
Other investments, net	691	93
Disposals of subsidiaries, net of cash sold	2	0
Repayments of loan receivables and loans given, net	885	-3 919
<b>Net cash used in investing activities</b>	<u><b>-9 708</b></u>	<u><b>-33 501</b></u>
<b>Financing activities</b>		
Capital redemption	-2 442	0
Proceeds from borrowings	0	59
Repayments of borrowings	-1 405	-22 219
Repayments of finance leases	0	-75
<b>Net cash used in financing activities</b>	<u><b>-3 847</b></u>	<u><b>-22 234</b></u>
<b>Change in cash and cash equivalents</b>	<u><b>179</b></u>	<u><b>-49 545</b></u>
Cash at beginning of period	14 158	65 878
Exchange rate differences	-568	-2 175
Cash at end of period	13 769	14 158
<b>Change in the statement of financial position</b>	<u><b>179</b></u>	<u><b>-49 545</b></u>

The cash flow from investing activities includes EUR 0.0 (0.1) million deferred sales price inflow in relation to care services business which was divested in 2008.

## 1.4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR '000

A = Share capital

B = Share premium reserve

C = Paid-up unrestricted equity  
reserve

D = Translation reserve

E = Retained earnings

F = Legal reserve

G = Equity attributable to owners of the parent, total

H = Non-controlling interests

I = Total equity

EUR '000	Attributable to owners of the parent						G	H	I
	A	B	C	D	E	F			
<b>Equity at 31.12.2011</b>	<b>23 642</b>	<b>25 740</b>	<b>245 128</b>	<b>11 501</b>	<b>-80 228</b>	<b>0</b>	<b>225 783</b>	<b>14 348</b>	<b>240 173</b>
Change in IAS19					43		43	0	43
<b>Equity at 31.12.2011 (Restated)</b>	<b>23 642</b>	<b>25 740</b>	<b>245 128</b>	<b>11 501</b>	<b>-80 185</b>	<b>0</b>	<b>225 826</b>	<b>14 348</b>	<b>240 216</b>
Profit for the period 1-12/2012					-15 769		-15 769	-1 141	-16 910
Other comprehensive income				-3 456			-3 456	-651	-4 107
Total comprehensive income				-3 456	-15 769		-19 225	-1 792	-21 017
Share-based payments			39		866		905	3	908
Acquisitions and disposals of subsidiaries					524		524	-5 396	-4 871
<b>Equity at 31.12.2012</b>	<b>23 642</b>	<b>25 740</b>	<b>245 167</b>	<b>8 045</b>	<b>-94 564</b>	<b>0</b>	<b>208 030</b>	<b>7 164</b>	<b>215 193</b>
Change in IAS19					-4 628		-4 628	0	-4 628
<b>Equity at 31.12.2012 (Restated)</b>	<b>23 642</b>	<b>25 740</b>	<b>245 167</b>	<b>8 045</b>	<b>-99 192</b>	<b>0</b>	<b>203 402</b>	<b>7 164</b>	<b>210 565</b>
Profit for the period 1-12/2013					-4 291		-4 291	-151	-4 442
Other comprehensive income				-12 818			-12 818	-1 647	-14 465
Total comprehensive income				-12 818	-4 291		-17 109	-1 798	-18 907
Share-based payments					1 109		1 109	2	1 111
Capital redemption			-2 441				-2 441	0	-2 441
Other changes in equity					-201	201	0	0	0
<b>Equity at 31.12.2013</b>	<b>23 642</b>	<b>25 740</b>	<b>242 726</b>	<b>-4 773</b>	<b>-102 575</b>	<b>201</b>	<b>184 961</b>	<b>5 368</b>	<b>190 328</b>

## 2. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2.1 COMPANY INFORMATION

Afarak Group is a chrome mining and minerals producer focused on delivering sustainable growth with a speciality alloys business in southern Europe and a ferro alloys business in southern Africa. The Group's parent company is Afarak Group Plc (business ID: 0618181-8). The parent company is domiciled in Helsinki, and its registered address is Kasarmikatu 36, 00130 Helsinki, Finland. Copies of the consolidated financial statements are available at Afarak Group Plc's head office or at the Company's website: [www.afarakgroup.com](http://www.afarakgroup.com).

Afarak Group Plc is quoted on the NASDAQ OMX Helsinki Oy (trading code: AFAGR) in the industrials group, in the mid-cap category, and on the main market of the London Stock Exchange (AFRK).

### 2.2 ACCOUNTING PRINCIPLES

#### Basis of preparation

These consolidated financial statements of Afarak Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) and in conformity with the IAS and IFRS standards as well as the SIC and IFRIC interpretations in force on 31 December 2013. In the Finnish Accounting Act and the regulations issued on the basis thereof, International Financial Reporting Standards refer to the standards and their interpretations that have been approved for application within the EU in accordance with the procedure prescribed in the EU regulation (EC) 1606/2002. Notes to the consolidated financial statements also meet the requirements set forth in the Finnish accounting and company legislation.

The consolidated financial statements have been prepared on historical cost basis, unless otherwise explicitly stated. All the figures in the consolidated financial statements are given in EUR thousands.

Afarak Group Plc's Board of Directors resolved on 28 March 2014 that these financial statements are to be published. According to the Finnish Companies Act, shareholders shall endorse the financial statements in the Annual General Meeting convening after the financial statements have been published.

#### Presentation of financial statements

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is: a retrospective application of an accounting policy; a retrospective restatement; or a reclassification of items in financial statements that has a material impact on the Group.

#### Principles of consolidation

The consolidated financial statements include the parent company Afarak Group Plc, its subsidiaries, joint ventures and associated companies. Subsidiaries refer to companies controlled by the Group. The Group gains control of a company when it holds more than half of the voting rights or otherwise exercises control. The existence of potential voting rights has been taken into account in assessing the requirements for control in cases where the instruments entitling their holder to potential voting rights can be exercised at the time of assessment. Control refers to the right to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Acquired subsidiaries are consolidated from the time when the Group gained control, and divested subsidiaries until the time when control ceased. All intra-group transactions, receivables, debts, and unrealised profits, as well as internal distribution of profits, are eliminated when the consolidated financial statements are prepared. The distribution of profits between parent company owners and non-controlling owners is shown on the income statement, and the non-controlling interest of equity is shown as a separate item in the statement of financial position under shareholders' equity.

Afarak Group Plc has consolidated Elektrowerk Weisweiler GmbH to its financial statements since 1 November 2008 based on potential voting rights arising from a call option. Afarak exercised the call option on 10 May 2012 and acquired 100 % of the shares in Elektrowerk Weisweiler GmbH. The transaction has been treated as an adjustment to the cost of acquisition in accordance with the earlier IFRS 3 which was applied in 2008.

The Group holds 51% of shares of Synergy Africa Ltd. However, the shareholders of Synergy Africa Ltd have entered into a joint venture agreement with joint control over the company. Therefore, the company and its subsidiaries are not consolidated into the Group as subsidiaries but as joint ventures.

Joint ventures are entities in which each venturer has an interest and there is a contractual arrangement establishing joint control over the economic activity of the entity. Afarak Group changed the account method this year following changes in accounting standards, interests in joint ventures are now recognised using the equity method. The Group's share of net assets or liabilities in the Joint venture is recorded on one line in the balance sheet. The Group's share of net profit or loss of the Joint venture is also shown on one line in the income statement.

Associates are companies in which Afarak Group exercises significant influence. The Group exercises significant influence if it holds more than 20% of the target company's voting rights, or if the Group in other ways exercises significant influence but not control. Associates have been consolidated in the Group's financial statements using the equity method. If the Group's share of the associate's losses exceeds the carrying amount of the investment, the investment is recognised at zero value on the statement of financial position, and losses exceeding the carrying amount are not consolidated unless the Group has made a commitment to fulfil the associates' obligations. Investment in an associate includes the goodwill arising from its acquisition.

### **Translation of foreign currency items**

Figures indicating the profit or loss and financial position of Group entities are measured in the currency of each entity's main operating environment ('functional currency'). Figures in the consolidated financial statements are presented in euro, the functional and presentation currency of the Group's parent company, Afarak Group Plc.

Transactions in foreign currencies have been recorded at the functional currency using the exchange rate on the date of the transaction or mid reference rates of central banks. Monetary items denominated in foreign currencies have been translated into the functional currency using the exchange rates at the balance sheet date. Exchange rate gains and losses are included in the revenue, operational costs or financial items, corresponding to their respective origin. Hedge accounting has not been applied.

In the Group accounts, foreign subsidiaries' income statement and statement of cash flows are converted into euro by using average exchange rates for the period, and the statement of financial position is converted by using the period-end exchange rate. The translation differences arising from this are recognised in other comprehensive income. Translation differences arising from the elimination of the acquisition cost and post-acquisition equity changes are also recognised in other comprehensive income. If and when the foreign subsidiary is partially or fully divested, these accrued translation differences will be taken into account in adjusting the sales gain or sales loss.

Goodwill, other assets and liabilities arising from acquisitions of subsidiaries are recognised in the Group accounts using the functional currency of each acquired subsidiary. The balances in that functional currency have then been translated into euro using the exchange rates prevailing at the end of the reporting period.

### **Operating profit**

IAS 1 *Presentation of financial statements* does not define the concept of operating profit. Afarak Group has defined it as follows: Operating profit is the net amount derived by adding to revenue other operating income, less purchase costs adjusted with the change in inventories of finished goods and work in progress, and expenses from work performed by the enterprise and capitalised, less costs from employee benefits, depreciation and impairment losses, and other expenses. Shares of associated companies' and joint venture companies' profit or loss are included in the operating profit to the extent to which they relate to the Group's core businesses. All other items of the income statement are excluded from operating profit. Exchange differences arising from operational transactions with third parties are included in operating profit; otherwise they are recorded under financial items.

### **Revenue recognition**

Income from the sale of goods is recognised once the substantial risks and benefits associated with ownership have been transferred to the buyer. The transfer of risks depends on, among others, terms of delivery (Incoterms). The most often used term is FCA or FOB, under which the revenue is recognised when the goods are assigned to the buyer's carrier or loaded on board the vessel nominated by the buyer. As typical in the business, preliminary invoices are issued for the

mineral concentrates at the time of delivery. Final invoices are issued when quantity, mineral content and pricing have been defined for the delivery lot.

Income not generated by the Group's main businesses is accounted for as other operating income. The expenses incurred from disposals of non-current assets or a disposal group of assets are deducted from the gain on disposal.

### **Pension liabilities**

Pension arrangements in Afarak Group are classified as defined contribution plans or defined benefit plans. Payments for defined contribution plans are recognised as expenses for the relevant period. The present value of obligation for the defined benefit plans has been estimated applying the *Projected Unit Credit Method* and recognised as a non-current liability on the statement of financial position. Following the revision of the standard IAS 19 Actuarial gains and losses arising from defined benefit plans are no longer accounted for applying the corridor method, they are recognised in other comprehensive income when they occur. The revised standard and its implications have been discussed in more detail in the section "Application of new or amended IFRS standards".

### **Share-based payments**

Option rights are measured at fair value at the time they were granted and recorded as expenses on a straight-line basis during the vesting period. The expenses at the time the options were granted are determined according to the Group's estimate of the number of options expected to vest at the end of the vesting period. Fair value is determined on the basis of an applicable option pricing model (e.g. Black-Scholes). The effects of non-market-based terms and conditions are not included in the fair value of the option; instead, they are taken into account in the estimated number of options expected to vest at the end of the vesting period. The Group updates the estimated final number of options on each balance sheet date. Changes in the estimates are recorded in the income statement. When the option rights are exercised, the cash payments received from the subscriptions adjusted with potential transaction costs are recorded under paid-up unrestricted equity reserve.

The Group from time to time directs free issues of shares to the members of the Board of Directors or key executives, as approved by the AGM. The compensation is settled in shares and is accordingly recognised as share-based payment in the Group's financial statements. The fair value of the granted shares is determined based on the market price of the Afarak Group share at the grant date. The total fair value is therefore the amount of granted shares multiplied by the share market price at grant date. The cost is recognised as expense in personnel costs over the vesting periods and credited to equity (retained earnings).

### **Black Economic Empowerment (BEE) transactions**

The purpose of South African Black Economic Empowerment (BEE) regulation is to enable previously disadvantaged people meaningfully to participate in the South African economy. The Group is committed to making a positive contribution towards the objectives of BEE. Where the Group disposes of a portion of a South African based subsidiary or operation to a BEE company at a discount to fair value, the transaction is considered to be a share-based payment (in line with the principle contained in South Africa interpretation AC 503 Accounting for Black Economic Empowerment (BEE) Transactions). The discount provided or value given is calculated in accordance with IFRS 2 and recognised as an expense. Where the BEE transaction includes service conditions, the expense is recognised over the vesting period. Otherwise the expense is recognised immediately on the grant date.

### **Lease agreements (the Group as the lessee)**

Leases of tangible assets where the Group possesses a material portion of the risks and benefits of ownership are classified as financial leases. An asset acquired through a financial lease agreement is recognised at the fair value of the leased object at the beginning of the lease period, or at a lower current value of minimum lease. An asset obtained through a finance lease is depreciated over the useful life of the asset or the lease term, whichever is shorter. The leases payable are divided into financial expenses and loan repayment during the lease term so that the interest rate for the remaining loan is roughly the same each financial year. Leasing obligations are included in interest-bearing liabilities. Lease agreements in which the risks and benefits typical of ownership remain with the lessor are classified as other leases. Leases paid under other lease agreements, for instance operating leases, are recognised as expenses on a straight-line basis over the lease term.

## **Impairment**

On each balance sheet date, the Group makes an assessment of whether there are any indications of asset impairment. If such indications exist, the recoverable amount of the asset is estimated. In addition, goodwill is assessed annually for its recoverable amount regardless of whether there are any signs of impairment. Impairment is examined at the cash-generating unit level; in other words, the lowest level of entity that is primarily independent of other entities and whose cash flows can be separated from other cash flows. Impairment related to associates and other assets are tested on a company/asset basis.

The recoverable amount is the fair value of an asset less divestment costs, or the higher value in use. Value in use means the present value of estimated future cash flows expected to arise from the asset or cash-generating unit. Value in use is forecast on the basis of circumstances and expectations at the time of testing. The discount rate takes into account the time value of money as well as the special risks involved for each asset, different industry-specific capital structures in different lines of business, and the investors' return expectations for similar investments. An impairment loss is recorded when the carrying amount of an asset is greater than its recoverable amount. If the impairment loss is allocable to a cash-flow-generating unit, it is allocated first to reduce the goodwill of the unit and subsequently to reduce other assets of the unit. An impairment loss is reversed if a change has occurred in circumstances and the recoverable amount of the asset has changed since the impairment loss was recognised. An impairment loss recognised for goodwill is not reversed in any circumstances.

Goodwill is tested for impairment annually at year end; for the 2013 financial year, testing took place on 31 December 2013. Impairment testing and the methods used are discussed in more detail in section 2.4 in the 'Notes to the consolidated financial statements'.

## **Financial income and expense**

Interest income and expense is recognised using the effective interest method, and dividends are recognised when the right to dividends is established. Unrealised changes in value of items measured at fair value are recognised in the profit or loss. These items relate to currency forward contracts. Exchange rate gains or losses that arise from intercompany loans that are considered as part of the net investment in the foreign entity are included, net of any deferred tax effects, in the translation reserve within the equity. These exchange differences are recognised in other comprehensive income while accumulated exchange differences are presented in the translation reserves in the equity.

## **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset forming part of the cost of that asset, are capitalised if it is likely that they will provide future economic benefit and can be measured in a reliable manner. Other borrowing costs are recognised as an expense in the period in which they are incurred.

## **Income taxes**

Tax expenses on the income statement consist of the tax based on taxable income for the year and deferred taxes. Taxes based on taxable income for the year are calculated using the applicable tax rates. Taxes are adjusted with any taxes arising from previous years. Maltese companies' income taxes are recognised and paid applying the nominal income tax rate which is 35%. 6/7 of this tax is refunded when the company pays dividend. Consequently the effective tax rate is 5%. The tax refund is recognised when the dividend is distributed. Taxes arising from items recognised directly in the equity are presented as income tax relating to other comprehensive income.

Deferred taxes have been calculated for all temporary differences between the carrying amount and taxable amount. Deferred taxes have been calculated using the tax rates set at the balance sheet date. Deferred tax assets arising from taxable losses carried forward have been recognised up to the amount for which there is likely to be taxable income in the future, and against which the temporary difference can be used.

## **Tangible assets**

Tangible assets have been measured at historical cost less accumulated depreciation and impairment losses. The initial cost of an asset comprises its purchase price, costs directly attributable to bringing the asset into operation and the initial estimate of the rehabilitation and decommissioning obligation. Heavy production machinery often contains components with different useful lives, and therefore the component approach is applied. Material component replacements and



repairs are capitalised. The repair and maintenance of lighter machinery and other intangible items are recognised as expense when occurred.

Interest expenses are capitalised as part of the tangible asset's value if and when the Group acquires or constructs assets that satisfy the required terms and conditions.

Assets are depreciated over their useful lives using the straight-line method, except for the mineral resources and ore reserves which are depreciated based on estimated or reported consumption. Land areas are not depreciated. The estimated useful lives of assets are as follows:

Buildings	15–25 years
Machinery and equipment	3–15 years
Other tangible assets	5–10 years
Mines and mineral assets	Units-of-production method

The residual value of assets and their useful life are reviewed in connection with each financial statement and, if necessary, they will be adjusted to reflect the changes that have occurred in the expected financial benefit. The sales gains or losses arising from the decommissioning or divestment of tangible assets are included in other operating income or expenses.

### **Mines and mineral assets**

#### Measurement of mineral resources and ore reserves in business combinations

Mineral resources and ore reserves acquired in business combinations are recognised as separate assets. In the recognition and measurement of mineral resources and ore reserves the Group utilises available third party reports of the quantities, mineral content, estimated production costs and exploitation potential of the resource. The probability of the ore reserve is also an essential factor. In the mining and minerals business, the probability is commonly described by classifying a mineral resource into categories such as 'proven', 'probable', 'inferred' and 'hypothetical'. There are also generally accepted standards for the classification of mineral resources in the business, such as the standards of the South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves ('SAMREC'). The measurement of ore reserves is based on estimated market prices, estimated production costs and quantities. On the Group's statement of financial position, mineral resources and ore reserves are presented as tangible assets. Rehabilitation liabilities related to mines are included in their cost of acquisition, and corresponding provision is recognised on the statement of financial position.

#### Exploration and evaluation expenses of mineral resources

Exploration and evaluation expenditure relates to costs incurred on the exploration and evaluation of potential mineral reserves and resources when new potential ore reserves are sought, for example by exploratory drilling. Exploration and evaluation expenditure is carried forward as an asset if the Group expects such costs to be recouped in full through the successful development of the area of interest; or alternatively by its sale; or if exploration and evaluation activities in the area of interest have not yet reached a stage which permits the reasonable assessment of the existence of economically recoverable reserves and active and significant operations in relation to the area are either continuing or planned for the future. Exploration and evaluation expenditure includes material and other direct costs incurred, for instance, by exploratory drilling and surveys. Overheads are included in the exploration and evaluation asset to the degree to which they can be associated with finding and evaluating a specific mineral resource. Exploration and evaluation assets are measured at cost and are transferred to mine development assets when utilisation of the mine begins. The asset is then depreciated using the units-of-production method.

Exploration and evaluation assets are assessed for impairment if and when facts and circumstances suggest that the carrying amount exceeds its recoverable amount. In particular, the impairment tests are carried out if the period for which the Group has right to explore the specific area expires or will expire in the near future and future exploration and evaluation activities are not planned for the area.

Exploration and evaluation assets acquired in conjunction with business combinations are accounted for at fair value in accordance with the principles of IFRS 3.

### Mine establishment costs

Mine establishment costs are capitalised as part of the mine's acquisition cost and depreciated using the units-of-production method when the production of the mine begins. The costs arising from changes in mining plan after the production has begun are expensed as incurred.

### Impairment

The value of mineral resources and ore reserves acquired in business combinations is tested for impairment if there are indications of deterioration in the long-term ability to utilise the asset economically. In the test the cash flows generated by the asset are assessed based on most recent information on the technical and economic utilisation of the asset.

### **Goodwill and intangible assets identified at acquisition**

Goodwill represents the portion of acquisition cost that exceeds the Group's share of the fair value at the time of acquisition of the net assets of the acquired company. Instead of regular amortisation, goodwill is tested annually for potential impairment. For this purpose, goodwill has been allocated to cash-generating units or, in the case of an associated company, is included in the acquisition cost of the associate in question. Goodwill is measured at original acquisition cost less impairment losses. Changes in purchase considerations, for example due to earn-out arrangements, relating to acquisitions carried out before 2010 have been recognised against goodwill in accordance with the earlier IFRS 3.

The net assets of an entity acquired in a business combination are measured at fair value at the date of acquisition. In connection with business combinations, the Group also identifies intangible assets that are not necessarily recorded on the statement of financial position of the acquired entity. These assets include, for instance, customer relationships, trademarks and technology. The assets are recognised at fair value and amortised over their useful lives. The amortisation periods for these intangible assets are as follows:

Customer relationships: 2-5 years depending on contractual circumstances

Technology: 5-15 years

Trademarks: 1 year

### **Research and development costs**

Research costs are always recognised as expenses. Mine development costs are capitalised as part of mining assets and depreciated on a unit of production basis. The development costs, which primarily relate to the development of existing products, are expensed as incurred.

### **Other intangible assets**

Other intangible assets are initially recognised on the statement of financial position at cost when the costs can be reliably determined and it is probable that the expected financial benefits of those assets will be reaped by the Group. Other intangible assets mainly relate to IT software utilised in support of the Group's business operations and they are amortised over 3-5 years.

### **Inventories**

Inventories are measured at acquisition cost or a lower probable net realisable value. Acquisition costs are determined using the average cost method. The cost of finished goods and work in progress comprises raw materials, direct labour expenses, other direct expenses, and an appropriate share of fixed and variable production overheads based on the normal capacity of the production facilities. In open pit mining operations, the removal costs of overburden and waste material (stripping costs) are included in the cost of inventory. In ordinary operations, the net realisable value is the estimated selling price that is obtainable, less the estimated costs incurred in completing the product and the selling expenses.

### **Financial assets**

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets or as derivatives designated as hedging instruments, as appropriate. The Group determines the classification of its financial assets at initial recognition. All

financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group's financial assets include cash and cash equivalents, short-term deposits, money market instruments, trade and other receivables, loan and other receivables, unquoted financial instruments and derivative financial instruments.

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments that are not designated as hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance cost.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. The EIR amortisation is included in finance income. The impairment losses are recognised as finance costs.

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment.

Financial assets classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. After initial measurement, available-for-sale financial investments are subsequently measured either at fair value with unrealised gains or losses recognised as other comprehensive income until the investment is derecognised, at which time the cumulative gain or loss is recognised in finance income or cost, or determined to be impaired, at which time the cumulative loss is recognised as finance costs and removed from the available-for-sale assets.

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include: using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis; or other valuation models.

### **Derivative financial instruments and hedge accounting**

When necessary, the Group utilises derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risks and interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives are recognised on the income statement. The Group does not apply hedge accounting.

### **Treasury shares**

Own equity instruments, which are reacquired (treasury shares), are recognised at cost and deducted from the paid-up unrestricted equity reserve. No gain or loss is recognised on the purchase, sale, issue or cancellation of the Group's own equity instruments.

### **Financial liabilities**

Liabilities are classified as current and non-current, and include both interest-bearing and interest-free liabilities. Interest-bearing liabilities are liabilities that either include a contractual interest component, or are discounted to reflect the fair value of the liability. In the earlier financial years discounted non-current liabilities have included acquisition-related deferred conditional and unconditional liabilities. Certain conditional liabilities have included an earn-out component that needed to be met to make the liability unconditional and fix the amount of the future payment. Acquisition-related conditional purchase considerations that were payable in the Company's shares were presented as interest-free liabilities.

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss; loans and borrowings; or derivatives designated as hedging instruments, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value, and in the case of loans and borrowings, plus directly attributable transaction costs. The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, and derivative financial instruments.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised on the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process. Amortised cost is calculated by taking into account any discounts or premiums and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost.

### **Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive), as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

The provision for rehabilitation and decommissioning costs has arisen on operating mines and minerals' processing facilities. These costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the rehabilitation and decommissioning liability. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs of or in the discount rate applied to the rehabilitation obligation are added or deducted from the profit or loss or, respectively, decommissioning obligation adjusted to the carrying value of the asset dismantled.

### **Non-current assets held for sale and discontinued operations**

The standard IFRS 5 requires that an entity must classify a non-current asset or a disposal group as assets held for sale if the amount equivalent to its carrying amount is accumulated primarily from the sale of the item rather than from its continued use. In this case, the asset or disposal group must be available for immediate sale in its present condition under general and standard terms for the sale of such assets, and the sale must be highly probable.

### **Accounting policies requiring management discretion and key uncertainty factors for estimates**

Preparation of the financial statements requires management to make estimates, assumptions and forecasts regarding the future. Future developments may deviate significantly from the assumptions made if changes occur in the business environment and/or business operations. In addition, management is required to use its discretion in the application of the financial statements' preparation principles.

#### The scope of the financial statements

The consolidated financial statements include the parent company Afarak Group Plc, its subsidiaries, joint ventures and associated companies. Subsidiaries refer to companies in which the Group has control. The Group gains control of a company when it holds more than half of the voting rights or otherwise exercises control. The assessment of whether control is exercised requires management discretion.

The Group holds 51% of shares of Synergy Africa Limited. However, the shareholders of Synergy Africa Limited have entered into a joint venture agreement with joint control over the company. The joint venture agreement includes terms and conditions which give the other shareholder participating rights. Therefore, the Group's management has assessed, using its discretion, that the company and its subsidiaries are not consolidated into the Group as subsidiaries but as joint ventures.

#### Allocation of the cost of a business combination

In accordance with IFRS 3, the acquisition cost of an acquired company is allocated to the assets of the acquired company. The management has to use estimates when determining the fair value of identifiable assets and liabilities. Determining a value for intangible assets, such as trademarks and customer relationships, requires estimation and

discretion because in most cases, no market value can be assigned to these assets. Determining fair value for tangible assets requires particular judgment as well, since there are seldom active markets for them where the fair value could be obtained. In these cases, the management has to select an appropriate method for determining the value and must estimate future cash flows.

#### Impairment testing

Goodwill is tested annually for impairment, and assessments of whether there are indications of any other asset impairment are made at each balance sheet date, and more often if needed. The recoverable amounts of cash-generating units have been determined by means of calculations based on value in use. Preparation of these calculations requires the use of estimates to predict future developments.

The forecasts used in the testing are based on the budgets and projections of the operative units, which strive to identify any expansion investments and rearrangements. To prepare the estimates, efforts have been made to collect background information from the operative business area management as well as from different sources describing general market activity. The risk associated with the estimates is taken into account in the discount rate used. The definition of components of discount rates applied in impairment testing requires discretion, such as estimating the asset or business related risk premiums and average capital structure for each business segment.

#### Tangible and intangible assets

Afarak Group management is required to use its discretion when determining the useful lives of various tangible and intangible assets, which affects the amount of depreciation and thereby the carrying amount of the assets concerned. The capitalising of mine development assets and exploration and evaluation expenditure, in particular, requires the use of discretion. Similarly, management is required to use its discretion in determining the useful lives of intangible assets identified in accordance with IFRS 3, and in determining the amortisation period. This affects the financial result for the period through depreciation and change in deferred taxes.

#### Measurement of mineral resources and ore reserves

In the Group's mining operations, estimates have to be applied in recognising mineral resources acquired in business combinations as assets. In the recognition and measurement of mineral resources and ore reserves, the Group utilises available third party analyses of the quantities, mineral content, estimated production costs and exploitation potential of the resource. The probability of the ore reserve is also a key consideration. In the mining and minerals business, the probability is commonly described by classifying a mineral resource into categories such as 'proven', 'probable', 'inferred' and 'hypothetical'. The measurement of ore reserves is based on estimated market prices, estimated production costs and on the probability classification of the mineral resource and quantities. Therefore, the Group's management has to use its discretion in applying recognition and measurement principles for mineral resources.

#### Rehabilitation provisions

The Group assesses the rehabilitation liabilities associated with its mines and production facilities annually. The amount of provision reflects the management's best estimate of the rehabilitation costs. In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates, the expected cost to rehabilitate the area and remove or cover the contaminated soil from the site, the expected timing of those costs, and whether the obligations stem from past activity. These uncertainties may cause the actual costs to differ from the provision which has been made.

#### **Application of new or amended IFRS standards**

The Group applies new or amended IFRS standards and interpretations from their effective date or after they have been endorsed for application within the EU.

In these financial statements the Group has applied the following new or amended standards and interpretations:

- IAS 1 Financial Statement Presentation – The amendment introduced the requirement for grouping of items presented in Other Comprehensive Income. Items that are reclassified (or 'recycled') to profit or loss at a future point in time will be presented separately from items which will never be reclassified. The amendment affected the presentation of Other Comprehensive Income.

- IAS 19 Employee Benefits (Revised). The revised standard includes changes to the presentation and measurement of defined benefit plans as well as amendments to the accounting treatment of other employee benefits. The amendment has changed the determination of the applicable discount rate and also the possibility to apply the so called "corridor method" will be abolished. Consequently, actuarial gains and losses will be recognised in other comprehensive income when they occur and the net defined benefit liability or asset will be presented in full on the statement of financial position. The change has been applied retrospectively and comparative information were restated to comply with the new standard. As a result, Afarak Group's pension cost for 2012 has decreased by EUR 0.2 million and its pension liability has increased by EUR 4.6 million compared with the liability presented in these financial statements as at 31 December 2012. Afarak Group's equity has decreased by EUR 4.6 million.
- IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements (revised). The new IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements and the SIC-12 interpretation which will be withdrawn. The revised IAS 27 is limited to separate financial statements. IFRS 10 changes whether an entity is consolidated by revising the definition of control. The new standard requires more comprehensive assessment of control than the previous standard, and disclosures on the assessment and the conclusions which have been made. The amendment has not had an impact on the Group's financial statements.
- IFRS 11 Joint arrangements, IAS 28 Investments in Associates and Joint Ventures (revised). The new standard replaces the standard IAS 31 and the SIC-13 interpretation. IFRS 11 requires considering all facts and circumstances relating to joint arrangements instead of legal form only, which influences the accounting treatment of the arrangements. Under the new standard Afarak's share in Synergy Africa Limited and its subsidiaries are consolidated under the equity method instead of the proportionate method of consolidation. Synergy Africa Limited and its subsidiaries form a part of Afarak's mining operations in South Africa. The change has been applied retrospectively and comparative information were restated to comply with the new standard. Restated Afarak Group revenue decreased by EUR 1.8 million in 2012 total assets reduced by 8.2 million compared to the figure presented in the 2012 financial statements.
- IFRS 12 Disclosure of Interests in Other Entities. The new standard defines the disclosure requirements relating to subsidiaries, joint arrangements, associates and structured entities. The standard will increase the disclosures on these entities in consolidated financial statements. The amendment has not had an impact on the Group's financial statements.
- IFRS 13 Fair Value Measurement. The standard introduces a common definition of fair value for all IFRS's and approach for fair value measurement. It also increases the disclosures related to fair value measurement. The Group estimates that the new standard will not have a material effect on its financial statements. The amendment has not had an impact on the Group's financial statements.
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine. According to the interpretation, when certain conditions are met, stripping costs occurring after the mine has entered production are accounted for as a non-current asset or as a part of the cost of inventory. The interpretation also gives guidance how stripping activity assets are classified on the statement of financial position and how they should be expensed. The Group has assessed that the interpretation will not have a material effect on its financial statements as the principles which Group has previously applied correspond the principles of the new interpretation. The amendment has not had an impact on the Group's financial statements.

The Group will apply the following new or amended standards and interpretations in the financial statements for the year 2014 or subsequent financial years:

IAS32 Financial Instruments – Presentation amendment to Netting Financial assets and Liabilities (effective for financial periods beginning on or after 1 January 2014). The amendment clarifies the rules concerning the presentation of financial assets and liabilities as net amounts and provides further application guidance. The amendment will not have a material effect on the Group's financial statements, The standard has not yet been endorsed for application in the EU.

- IAS36 Impairment of assets amendment to Recoverable Amount Disclosures for Non-Financial Assets (effective for financial periods beginning on or after 1 January 2014). The amendment clarifies the

disclosure requirements relating to those cash-generating units, which were subject to impairment charges. The standard has not yet been endorsed for application in the EU.

- IFRS 9 Financial Instruments – Classification and Measurement. The new standard replaces the standard IAS 39 and will have impact on classification and measurement of financial assets and liabilities as well as hedge accounting. The new standard will be effective for annual periods beginning on or after 1 January 2015 and will be applied prospectively; however the transitional requirements will entail some additional disclosures on the effects of the transition.
- IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements (revised). The new IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements and the SIC-12 interpretation which will be withdrawn. The revised IAS 27 is limited to separate financial statements. IFRS 10 changes whether an entity is consolidated by revising the definition of control. The new standard requires more comprehensive assessment of control than the previous standard, and disclosures on the assessment and the conclusions which have been made. The new standard will not have an impact on the Group's financial statements in its current structure. The new standard and the revised standard will be effective within the EU for annual periods beginning on or after 1 January 2014 with early application permitted for annual periods beginning on or after 1 January 2013 and they will be applied retrospectively.
- IFRS 12 Disclosure of Interests in Other Entities. The new standard defines the disclosure requirements relating to subsidiaries, joint arrangements, associates and structured entities. The standard will increase the disclosures on these entities in consolidated financial statements. The new standard will be effective within the EU for annual periods beginning on or after 1 January 2014 with early application permitted for annual periods beginning on or after 1 January 2013 and it will be applied retrospectively.

## **2.3 BUSINESS COMBINATIONS AND ACQUISITION OF NON-CONTROLLING INTERESTS**

### **2.3.1 Financial Year 2013**

Afarak did not carry out any acquisitions during the financial year 2013.

### **2.3.2 Financial Year 2012**

#### **Elektrowerk Weisweiler GmbH**

In April 2012 Afarak signed an agreement with Kermas Limited ("Kermas") for the acquisition of Elektrowerk-Weisweiler GmbH ("EWW"). In addition Afarak and Kermas agreed to terminate the profit and loss sharing arrangement in relation to Türk Maadin Sirketi A.S ("TMS") and RCS Limited ("RCS") and certain other arrangements which were entered into in October 2008.

Under the terms of the agreements Afarak acquired 100% of the shares in EWW for approximately EUR 17.3 million in cash; the profit and loss sharing arrangement in relation to TMS and RCS was terminated for EUR 8 million in cash; the remaining 70,194,518 options granted to Kermas relating to the profit and loss sharing arrangement were cancelled and the restrictions regarding the sale or transfer of Afarak's shares in TMS and RCS were cancelled. The steps completed the consolidation of the Group's ownership and control over its Speciality Alloys business in Europe.

EWW's financial statements have been consolidated in Afarak's financial statements in 2008-2011 based on a purchase option. Consequently, the acquisition was not treated as a new business combination and no purchase price allocation was made. The difference between the option liability and acquisition cost was recognised against the acquisition cost of EWW. Following the acquisition, the non-controlling interest on EWW's equity is no longer recognised (earlier 100%).

#### **Mogale Alloys (Pty) Ltd**

In October 2012 Afarak and vendors of Mogale Alloys ("Vendors") agreed to settle disputes in relation to unpaid portion of the purchase consideration for Mogale Alloys acquired in May 2009.

As outlined in the original acquisition agreement, 30% of the total purchase price (ZAR 600 million) was conditional and deferred upon certain conditions being met. The parties agreed to settle all outstanding disputes and claims by an arrangement whereby Afarak paid the Vendors an aggregate cash amount of ZAR 177 million and issued up to 16,000,000 new shares. Simultaneously, the Vendors transferred their entire remaining shareholding in Mogale Alloys to Afarak, whereby Afarak's ownership increased from 84.9% to 90.0%.

In the consolidated financial statements the difference between the original purchase consideration and the settlement price has been accounted for as an adjustment of the acquisition cost of Mogale Alloys in accordance with the earlier IFRS 3. The change in the non-controlling interest representing the increased ownership in Mogale Alloys was recognised within the equity.

## 2.4 IMPAIRMENT TESTING

### General principles of impairment testing

Afarak Group has carried out impairment testing on goodwill and other assets as of 31 December 2013. The following cash generating units were defined for the impairment testing:

- Speciality Alloys business (Türk Maadin Sirketi and Elektrowerk Weisweiler) with a vertically integrated mining-beneficiation-smelting-sales operation in the specialty grade ferrochrome business;
- South African minerals processing business (Mogale Alloys) which has ferroalloys smelting operations with four furnaces; and
- Southern African mining business (Chromex) which has mines in South Africa and mine development project in Zimbabwe. Each mine has been treated as a separate cash generating unit.

The Group assesses at each balance sheet date whether there is any indication that assets may be impaired. If any such indication exists, the recoverable amount of these assets is estimated. Moreover, the recoverable amount of any goodwill and unfinished investment projects will be estimated annually, irrespective of whether there is an indication of impairment. Of the above-mentioned cash generating units, Southern African mining business did not have any goodwill on its statement of financial position at the end of the financial year 2013. The Group assessed, however, that there is indication of impairment due to the weak situation in the chrome market, and the assets of the business were tested for impairment. As a result, no impairment was recognised.

At the end of 2013, there were no indications of impairment of any other assets, such as shares in associated companies.

### Changes in goodwill during 2013

During the financial year 2013, the total goodwill of the Group decreased by EUR 6.7 million to a total of EUR 62.3 million compared to the end of the financial year 2012. The changes are described below:

EUR '000	Speciality Alloys Business	FerroAlloys Business	Group Total
<b>Goodwill 1.1.2013</b>	<b>54 690</b>	<b>14 300</b>	<b>68 990</b>
Changes in acquisition costs	404	0	<b>404</b>
Exchange rate movement	2 011	-9 116	<b>-7 106</b>
<b>Goodwill 31.12.2013</b>	<b>57 105</b>	<b>5 184</b>	<b>62 288</b>

Change in acquisition cost during the period relates to real estate transfer tax payment made on the final transfer of EWW to Afarak Group, this payment was made in May 2013.



The changes in goodwill during 2012 are presented below:

EUR '000	Speciality Alloys Business	FerroAlloys Business	Group Total
<b>Goodwill 1.1.2012</b>	<b>49 087</b>	<b>47 182</b>	<b>96 269</b>
Changes in acquisition costs	5 958	-28 464	<b>-22 506</b>
Exchange rate movement	-355	-4 418	<b>-4 773</b>
<b>Goodwill 31.12.2012</b>	<b>54 690</b>	<b>14 300</b>	<b>68 990</b>

Goodwill as a ratio of the Group's equity on 31 December 2013 and 31 December 2012 was as follows:

EUR '000	31.12.2013	31.12.2012
Goodwill	62 288	68 990
Equity	190 328	210 566
Goodwill/Equity, %	33 %	33 %

#### Methodology applied in impairment testing

For the cash generating units that were tested, the test was carried out by calculating their value in use. Value in use has been calculated by discounting estimated future net cash flows based on the conditions and assumptions prevailing at the time of the testing. Future cash flows have been projected for a five-year period, after which a growth rate equalling projected long-term inflation has been applied (Speciality Alloys: 2%, South African minerals processing: 6%). For the terminal year after the five-year estimation period, the essential assumptions (e.g. revenue, variable costs and fixed costs) have been based at the estimation period's previous year's figures.

The weighted average cost of capital (WACC) has been calculated separately for each cash generating unit and testable asset, taking into account each business's typical capital structures, investors' average required rate of return for similar investments and company size and operational location related factors, as well as risk-free interest rates and margins for debt financing. The Group has used publicly available information on the peer group companies' capital structure, risk premium and other factors. The market interest rates reflect the rates applicable on 31 December 2013.

The information used in the 31 December 2013 impairment testing is based on business units' management future forecasts, on general third-party industry expert or analyst reports where available, and to the extent possible on the current business and asset base excluding any non-committed expansion plans. Forecasted sales volumes and profitability are based on the management's view on future development while also taking past performance into account. Price forecasts are based on independent market forecasts. The cash flow models have been prepared at constant foreign exchange rates. The management's approach in preparing cash flow forecasts has not changed significantly from the previous impairment testing.

These pre-tax discount rates applied in 2013 impairment testing were the following:

<u>Cash Generating Unit</u>	<u>Pre-tax discount rate</u>	
	2013	(2012)
Speciality Alloys	13.1%	(12.2%)
South African minerals	20.4%	(19.3%)

The key reasons for the changes in the discount rates compared to 2013 were the changes in risk-free interest rates in both cash-generating units.

The results of impairment testing have been evaluated by comparing the cash generating units' recoverable amount to the corresponding carrying amount based on the following judgment rules:

Recoverable amount divided by the carrying amount:

< 100%  
101-120%  
121-150%  
> 150%

Conclusion:

Impairment  
Slightly above  
Clearly above  
Significantly above

**Test results 31 December 2013**

The impairment test results were as follows:

Cash generating unit	Goodwill (MEUR), pre-testing	Goodwill (MEUR), post-testing	Carrying amount (MEUR), pre-testing	Conclusion
Speciality Alloys	57.1	57.1	101.9	Significantly above
South African minerals business	5.2	5.2	48.7	Significantly above

The testable asset base includes goodwill, intangible and tangible assets and net working capital less provisions and deferred tax liabilities (in relation to purchase price allocation entries).

Key background and assumptions used in the cash flow forecasts of the impairment testing process are summarised in the following table:

Cash generating unit	Sales volume	Sales prices	Costs
Speciality Alloys business	FeCr: 24,000-26,500 t/a  lumpy Cr ore: 35,000 – 37,500 t/a	LC/ULC ferrochrome with average Cr content of 70 %, based on external experts (Heinz Pariser) price forecasts	Raw material costs generally change in line with sales price. Other costs growing at inflation rate.
South African minerals business	Metal alloys: 69,500-77,000 t/a	Based on external experts (Heinz Pariser) metal alloys price forecasts	Raw material costs generally change in line with sales price. Other costs growing at inflation rate.

Moreover, the USD/ZAR foreign exchange rate affects significantly the testing of the South African minerals business. The foreign exchange rate used in the test was 10.57.

**Sensitivity analysis of the impairment tests**

The Group has analysed the sensitivity of the impairment test results by estimating how the essential assumptions should change in order for the recoverable amount to be equal to the carrying amount. The results of this sensitivity analysis as of 31 December 2013 are given below:

Cash generating unit	Change in pre-tax discount rate (compared to the level used in testing)	Change in free cash flow (annual average)	Change in CGU's average EBITDA margin
Speciality Alloys	14.9 %-points	-57.1%	-15.5 %-points
South African minerals business	32.8 %-points	-73.4%	-22.0 %-points

## 2.5 OPERATING SEGMENTS

Afarak Group has two operating segments, FerroAlloys and Speciality Alloys, which are also the reporting segments. The operating segments are organised based on their products and production processes. The current reporting structure was adopted in 2011. The Group's executive management reviews the operating results of the segments for the purpose of making decisions on resource allocation and performance assessment. Segment performance is measured based on revenue as well as earnings before interest, taxes, depreciation and amortisation (EBITDA) as included in the internal management reports and defined consistently with the consolidated EBITDA.

The FerroAlloys business consists of the processing plant Mogale Alloys and the joint ventures Stellite mine and Mecklenburg mine in South Africa. The business produces chrome ore, charge chrome, silicomanganese and stainless steel alloy for sale to global markets.

The Speciality Alloys business consists of Türk Maadin Şirketi A.S ("TMS"), the mining and beneficiation operation in Turkey, and Elektrowerk Weisweiler GmbH ("EW"), the chromite concentrate processing plant in Germany. TMS supplies EW with high quality chromite concentrate which produces speciality products including Specialised Low Carbon and Ultra Low Carbon Ferrochrome. Excess chrome ore from TMS is exported.

The revenue and costs of the Group's sales and marketing arm RCS is allocated to the segments in proportion to their sales. Afarak's other operations, including the Group's headquarters and other Group companies that do not have significant operations, are presented as unallocated items.

Intercompany transactions are carried out on an arm's length basis. The transactions between the segments have been limited but the parent company has provided funding and administrative services to the Group's subsidiaries.

The accounting policies applied in the operating segment information are the same as those in the consolidated financial statements.

### Operating segment information 2013

Year ended 31.12.2013 EUR '000	Speciality Alloys	FerroAlloys	Segments total	Unallocated items	Eliminations	Consolidated Group
External revenue						
Rendering of services	0	40	40	38	0	78
Sale of goods	74 461	60 971	135 432	0	0	135 432
Total external revenue	74 461	61 011	135 472	38	0	135 509
Inter-segment revenue	0	0	0	304	-304	0
<b>Total revenue</b>	<b>74 461</b>	<b>61 011</b>	<b>135 472</b>	<b>342</b>	<b>-304</b>	<b>135 509</b>
Items related to associates (core)	3	3	6	0	0	6
Items related to joint ventures (core)	0	-2 300	-2 300	0	0	-2 300
<b>Segment EBITDA</b>	<b>9 083</b>	<b>8 794</b>	<b>17 877</b>	<b>-3 787</b>	<b>0</b>	<b>14 090</b>
Depreciation and amortisation	-15 179	-6 791	-21 970	-105	0	-22 074
Impairment	0	0	0	0	0	0
<b>Segment operating profit / loss</b>	<b>-6 096</b>	<b>2 003</b>	<b>-4 093</b>	<b>-3 891</b>	<b>0</b>	<b>-7 984</b>
Finance income						8 016
Finance cost						-11 162
Income taxes						6 728
<b>Profit / loss for the period</b>						<b>-4 403</b>

<b>Segment's assets <sup>2</sup></b>	<b>143 952</b>	<b>97 503</b>	<b>241 455</b>	<b>21 308</b>	<b>15 161</b>	<b>277 924</b>
<b>Segment's liabilities <sup>2</sup></b>	<b>64 684</b>	<b>43 172</b>	<b>107 856</b>	<b>5 669</b>	<b>-25 929</b>	<b>87 596</b>
<b>Other disclosures</b>						
Gross capital expenditure <sup>3</sup>	2 211	8 011	10 222	21	0	<b>10 244</b>
Investments in associates	57	19	76	0	0	<b>76</b>
Investment in joint ventures	0	-15 293	-15 293	0	0	<b>-15 293</b>
Provisions	3 832	6 198	10 030	250	0	<b>10 280</b>

1. Inter-segment items are eliminated on consolidation.
2. The assets and liabilities of the segments represent items that these segments use in their activities or that can be reasonably allocated to them.
3. Investments consist of increases in tangible and intangible assets whose life is longer than one financial year.

## Operating segment information 2012

<b>Year ended 31.12.2012</b> <b>EUR '000 Restated</b>	<b>Speciality Alloys</b>	<b>FerroAlloys</b>	<b>Segments total</b>	<b>Unallocated items</b>	<b>Eliminations</b>	<b>Consolidated Group</b>
External revenue						
Rendering of services	0	586	586	76	0	661
Sale of goods	76 456	51 465	127 920	0	0	127 921
Total external revenue	76 456	52 050	128 506	76	0	128 582
Inter-segment revenue	0	0	0	836	-836	0
<b>Total revenue</b>	<b>76 456</b>	<b>52 050</b>	<b>128 506</b>	<b>912</b>	<b>-836</b>	<b>128 582</b>
Items related to associates (core)	3	3	6	0	0	6
Items related to joint ventures (core)	0	-4 740	-4 740	0	0	-4 740
<b>Segment EBITDA</b>	<b>10 954</b>	<b>3 504</b>	<b>14 458</b>	<b>-5 259</b>	<b>30</b>	<b>9 229</b>
Depreciation and amortisation	-17 632	-8 323	-25 955	-42	0	-25 997
Impairment	0	0	0	0	0	0
<b>Segment operating profit / loss</b>	<b>-6 677</b>	<b>-4 820</b>	<b>-11 497</b>	<b>-5 300</b>	<b>30</b>	<b>-16 768</b>
Finance income						4 746
Finance cost						-7 569
Income taxes						2 957
<b>Profit / loss for the period</b>						<b>-16 633</b>
<b>Segment's assets <sup>2</sup></b>	<b>172 655</b>	<b>125 222</b>	<b>297 877</b>	<b>21 308</b>	<b>-6 702</b>	<b>312 483</b>
<b>Segment's liabilities <sup>2</sup></b>	<b>53 975</b>	<b>48 360</b>	<b>102 334</b>	<b>5 669</b>	<b>-10 740</b>	<b>97 264</b>
<b>Other disclosures</b>						
Gross capital expenditure <sup>3</sup>	3 420	1 106	4 527	1	0	<b>4 528</b>
Investments in associates	59	16	75	0	0	<b>75</b>
Investment in joint ventures	0	-11 805	-11 805	0	0	<b>-11 805</b>
Provisions	4 912	8 328	13 239	250	1 346	<b>14 835</b>

1. Inter-segment items are eliminated on consolidation.
2. The assets and liabilities of the segments represent items that these segments use in their activities or that can be reasonably allocated to them.
3. Investments consist of increases in tangible and intangible assets whose life is longer than one financial year.

## Geographical information

### *Revenues from external customers*

<b>EUR '000</b>	<b>2013</b>	<b>Restated 2012</b>
Other EU countries	54 541	85 316
United States	30 057	11 232
China	12 345	10 206
Africa	23 748	9 144
Finland	3 533	2 015
Other countries	11 285	10 669
<b>Total revenue</b>	<b>135 509</b>	<b>128 582</b>

Revenue figures are based on the location of the customers.

The largest customer of the Group is in the Speciality Alloys business segment and represents approximately 15% (12%) of the Group's revenue in 2013. In the FerroAlloys business segment the largest customer represents 9% (7%) of the Group's revenue in 2013.

### *Non-current assets*

<b>EUR '000</b>	<b>2013</b>	<b>Restated 2012</b>
Africa	72 807	92 524
Other EU countries	45 243	56 748
Finland	36	70
Other countries	2 576	4 370
<b>Total</b>	<b>120 662</b>	<b>153 711</b>

In presenting geographical information, assets are based on the location of the assets. Non-current assets consist of property, plant and equipment, intangible assets and investments in associates.

## 2.6. NOTES TO THE INCOME STATEMENT

### 1. Revenue

EUR '000	2013	Restated 2012
Sale of goods	135 432	127 921
Rendering of services	78	661
<b>Total</b>	<b>135 509</b>	<b>128 582</b>

### 2. Other operating income

EUR '000	2013	Restated 2012
Gain on disposal of tangible and intangible assets	83	9
Gain on disposal of investments	735	125
Gain on disposal of non-current assets	818	134
Rental income	317	296
Electricity buyback programme	9 755	11 300
Other	2 045	2 000
<b>Total</b>	<b>12 936</b>	<b>13 730</b>

### 3. Employee benefits

EUR '000	2013	Restated 2012
Salaries and wages	-15 805	-19 113
Share-based payments	-1 125	-910
Pensions, defined contribution plans	-894	-720
Other employee related costs	-1 458	-1 436
<b>Total</b>	<b>-19 283</b>	<b>-22 178</b>

Average personnel during the accounting period	2013	Restated 2012
Speciality Alloys business	439	431
FerroAlloys business	329	355
Group Management and other operations	5	9
<b>Total</b>	<b>773</b>	<b>795</b>

Personnel at the end of the accounting period	2013	Restated 2012
Speciality Alloys business	443	423
FerroAlloys business	333	335
Group Management and other operations	3	10
<b>Total</b>	<b>779</b>	<b>768</b>

#### 4. Depreciation, amortisation and impairment

EUR '000	2013	Restated 2012
<b>Depreciation / amortisation by asset category</b>		
Intangible assets		
Clientele and technology	-16 240	-19 556
Other intangible assets	-415	-491
<b>Total</b>	<b>-16 655</b>	<b>-20 047</b>
Property, plant and equipment		
Buildings and constructions	-470	568
Machinery and equipment	-3 497	-4 614
Other tangible assets	-1 452	-1 904
<b>Total</b>	<b>-5 419</b>	<b>-5 950</b>
<b>Impairment by asset category</b>		
Machinery and equipment	0	0
Other intangible assets	0	0
Other assets	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

#### 5. Other operating expenses

EUR '000	2013	Restated 2012
Loss on disposal of non-current assets	-5	-2
Rental costs	-894	-551
External services	-3 222	-6 012
Travel expenses	-681	-1 150
Other operating expenses	-7 060	-8 699
<b>Total</b>	<b>-11 863</b>	<b>-16 414</b>

Audit fees paid to EY totalled EUR 438 (2012: 501) thousand in the financial year. The fees for non-audit services totalled EUR 12 (2012: 233) thousand.

## 6. Financial income and expense

EUR '000	2013	Restated 2012
<b>Finance income</b>		
Interest income on loans and trade receivables	1 891	3 130
Foreign exchange gains	5 777	1 599
Gain on assets at fair value	345	87
Other finance income	4	25
<b>Total</b>	<b>8 016</b>	<b>4 841</b>
<b>Finance expense</b>		
Interest expense on financial liabilities measured at amortised cost	-717	-495
Foreign exchange losses	-8 685	-4 441
Loss on assets at fair value	-948	-784
Unwinding of discount, provisions	-634	-1 330
Other finance expenses	-178	-667
<b>Total</b>	<b>-11 162</b>	<b>-7 717</b>
<b>Net finance income/expense</b>	<b>-3 146</b>	<b>-2 876</b>

## 7. Income taxes

EUR '000	2013	Restated 2012
Income tax for the period	-4 801	-6 232
Income tax for previous years	4 445	3 044
Deferred taxes	7 103	6 145
<b>Income tax for continuing operations</b>	<b>6 748</b>	<b>2 957</b>
Income tax for discontinued operations	0	0
<b>Total</b>	<b>6 748</b>	<b>2 957</b>

In 2013 previous year taxes include EUR 4.5 million tax refund for intra group dividends that have been included in 2013 profit and loss as a result of declaring dividends already as of December 2013. Previously this dividend declaration was made in the following year.



EUR '000	2013	Restated 2012
<b>Profit before taxes</b>	<b>-11 170</b>	<b>-19 590</b>
<b>Income tax calculated at income tax rate</b>	<b>2 737</b>	<b>4 800</b>
Tax exempt income	526	362
Difference between domestic and foreign tax rates	1 020	690
Items recognised only for taxation purposes	-536	-1 993
Income tax for previous years	4 445	3 044
Income from associates	-561	-1 160
Impairment losses	0	0
Deferred tax asset write-offs	0	-2 133
Tax losses not recognised as deferred tax assets	-161	-125
Non-tax deductible expenses	-742	-1 413
Previously unrecognised tax losses now recognised	19	885
<b>Total adjustments</b>	<b>4 011</b>	<b>-1 843</b>
<b>Income tax recognised</b>	<b>6 748</b>	<b>2 957</b>

Taxes for previous years include tax refunds and reversals of tax accruals made during previous financial years. Deferred taxes are positive mainly due to diminished deferred tax liabilities. On 31 December 2013 the Group companies had unused tax losses totalling EUR 22.1 (26.6) million for which the Group has not recognised deferred tax assets.

## 8. Discontinued operations

Discontinued operations items during 2013 related to expenses in connection with the warehoused sawmill machinery which was absorbed by deferred revenue that derived from the discontinued wood business.

## 9. Earnings per share

	2013			Restated 2012		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Profit attributable to owners of the parent company (EUR '000)	-4 292	0	-4 292	-15 493	0	-15 493
Weighted average number of shares, basic (1 000)	244 135	244 135	244 135	244 025	244 025	244 025
<b>Basic earnings per share (EUR) total</b>	<b>-0,02</b>	<b>0,00</b>	<b>-0,02</b>	<b>-0,06</b>	<b>0,00</b>	<b>-0,06</b>

  

	2013			Restated 2012		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Profit attributable to owners of the parent company (EUR '000)	-4 292	0	-4 292	-15 493	0	-15 493
Weighted average number of shares, basic (1 000)	244 135	244 135	244 135	244 025	244 025	244 025
Effect of share options on issue (1 000)	4 397	4 397	4 397	7 579	7 579	7 579
Weighted average number of shares, diluted (1 000)	248 532	248 532	248 532	251 604	251 604	251 604
<b>Diluted earnings per share (EUR) total</b>	<b>-0,02</b>	<b>0,00</b>	<b>-0,02</b>	<b>-0,06</b>	<b>0,00</b>	<b>-0,06</b>

Basic earnings per share is calculated by dividing profit attributable to the owners of the parent company by weighted average number of shares during the financial year.

When calculating the diluted earnings per share, all convertible securities with a potential dilutive effect are assumed to be converted into shares. Share options have a dilutive effect if the exercise price is lower than the share price. The diluted number of shares is the number of shares that will be issued free of charge when share options are exercised since with the funds received from exercising options, the Company is not able to issue the same number of shares at fair value. The fair value of shares is based on average share price of the period.

## 2.7. NOTES TO THE STATEMENT OF FINANCIAL POSITION

### 10. Property, plant and equipment

EUR '000	Land and water property	Buildings and constructions	Machinery and equipment	Mines and mineral assets	Other tangible assets	Total
Balance at 1.1.2013	855	6 997	44 689	11 961	2 972	67 473
Additions	1 484	174	4 649	886	94	7 287
Business combinations				0		0
Disposals of subsidiaries						0
Disposals		-51	-135		-7	-193
Reclass between items		94	133	707	-108	826
Transfer to assets held for sale	0	0	0		0	0
Effect of movements in exchange rates	-56	-1 066	-9 615	-2 462	-449	-13 648
<b>Balance at 31.12.2013</b>	<b>2 283</b>	<b>6 148</b>	<b>39 721</b>	<b>11 092</b>	<b>2 502</b>	<b>61 745</b>
Accumulated depreciation and impairment 1.1.2013		-2 576	-16 223	-5 859	-1 707	-26 365
Depreciation		-470	-3 497	-1 334	-118	-5 419
Disposals		51	-55		52	48
Reclass between items		0	145			145
Effect of movements in exchange rates		410	3 895	1 391	410	6 106
<b>Accumulated depreciation and impairment at 31.12.2013</b>	<b>0</b>	<b>-2 585</b>	<b>-15 735</b>	<b>-5 802</b>	<b>-1 363</b>	<b>-25 485</b>
<b>Carrying amount at 1.1.2013</b>	<b>855</b>	<b>4 421</b>	<b>28 466</b>	<b>6 102</b>	<b>1 264</b>	<b>41 108</b>
<b>Carrying amount at 31.12.2013</b>	<b>2 283</b>	<b>3 563</b>	<b>23 986</b>	<b>5 290</b>	<b>1 138</b>	<b>36 260</b>
Balance at 1.1.2012	810	6 233	45 475	10 101	2 944	65 564
Additions	59	114	2 218	929	92	3 412
Business combinations				552		552
Disposals			-579		-15	-594
Reclass between items		579	-113		86	551
Effect of movements in exchange rates	-14	71	-2 311	378	-136	-2 013
<b>Balance at 31.12.2012 (Restated)</b>	<b>855</b>	<b>6 997</b>	<b>44 689</b>	<b>11 961</b>	<b>2 972</b>	<b>67 473</b>
Accumulated depreciation and impairment 1.1.2012		-2 508	-12 934	-3 933	-1 738	-21 112
Depreciation		568	-4 614	-1 811	-93	-5 950
Disposals			477		8	486
Reclass between items		-579	-15			-594
Effect of movements in exchange rates		-58	863	-115	115	806
<b>Accumulated depreciation and impairment at 31.12.2012 (Restated)</b>	<b>0</b>	<b>-2 576</b>	<b>-16 223</b>	<b>-5 859</b>	<b>-1 707</b>	<b>-26 365</b>
<b>Carrying amount at 1.1.2012</b>	<b>810</b>	<b>3 726</b>	<b>32 541</b>	<b>6 168</b>	<b>1 206</b>	<b>44 451</b>
<b>Carrying amount at 31.12.2012</b>	<b>855</b>	<b>4 421</b>	<b>28 466</b>	<b>6 102</b>	<b>1 264</b>	<b>41 108</b>

Machinery and equipment include the prepayments made for them.

## 11. Intangible assets

EUR '000	Goodwill	Intangible assets identified in acquisitions	Other intangible assets	Exploration and evaluation assets	Total
Balance at 1.1.2013	127 326	118 670	3 388	354	249 738
Additions	404		2 827	50	3 281
Disposals	0		-61		-61
Business combinations				0	0
Reclass between items			-934	0	-934
Effect of movements in exchange rates	-19 563	-10 780	-639	-75	-31 057
<b>Balance at 31.12.2013</b>	<b>108 167</b>	<b>107 890</b>	<b>4 581</b>	<b>329</b>	<b>220 967</b>
Accumulated amortisation and impairment at 1.1.2013	-58 336	-77 710	-1 163	0	-137 209
Amortisation		-16 240	-415		-16 655
Impairment		0	0		0
Business combinations		0	0		0
Disposals			123		123
Reclass between items			-143		-143
Transfer to assets held for sale	0	0	0	0	0
Effect of movements in exchange rates	12 457	4 541	248	0	17 246
<b>Accumulated amortisation and impairment at 31.12.2013</b>	<b>-45 879</b>	<b>-89 409</b>	<b>-1 350</b>	<b>0</b>	<b>-136 638</b>
<b>Carrying amount at 1.1.2013</b>	<b>68 990</b>	<b>40 960</b>	<b>2 225</b>	<b>354</b>	<b>112 529</b>
<b>Carrying amount at 31.12.2013</b>	<b>62 288</b>	<b>18 481</b>	<b>3 231</b>	<b>329</b>	<b>84 329</b>
Balance at 1.1.2012	161 537	121 714	2 266	204	285 721
Additions	7 701		971	145	8 817
Disposals	-30 208		-46		-30 253
Business combinations				7	7
Reclass between items			123	-10	113
Effect of movements in exchange rates	-11 705	-3 044	74	8	-14 668
<b>Balance at 31.12.2012 (Restated)</b>	<b>127 326</b>	<b>118 670</b>	<b>3 388</b>	<b>354</b>	<b>249 738</b>
Accumulated amortisation and impairment at 1.1.2012	-65 268	-59 261	-722	0	-125 252
Amortisation		-19 556	-491		-20 047
Disposals			46		46
Reclass between items			15		15
Effect of movements in exchange rates	6 932	1 108	-11	0	8 028
<b>Accumulated amortisation and impairment at 31.12.2012 (Restated)</b>	<b>-58 336</b>	<b>-77 710</b>	<b>-1 163</b>	<b>0</b>	<b>-137 209</b>
<b>Carrying amount at 1.1.2012</b>	<b>96 269</b>	<b>62 453</b>	<b>1 544</b>	<b>204</b>	<b>160 470</b>
<b>Carrying amount at 31.12.2012</b>	<b>68 990</b>	<b>40 960</b>	<b>2 225</b>	<b>354</b>	<b>112 529</b>

Other intangible assets include the prepayments made for them.

## 12. Investments in associates

EUR '000	Domicile	Balance sheet value	Ownership (%)	Balance sheet date	Assets	Liabilities	Revenue	Profit/loss
<b>2013</b>								
<b>Core associates</b>								
Specialty Super Alloys SSA Inc	United States	76	20,0	31.12.2013	467	85	811	30
		<b>76</b>						
<b>Non-core associates</b>								
Incap Furniture Oy **	Finland	0	24,1					
Valtimo Components Oyj **	Finland	0	24,9					
		<b>0</b>						

EUR '000	Domicile	Balance sheet value	Ownership (%)	Balance sheet date	Assets	Liabilities	Revenue	Profit/loss
<b>2012</b>								
<b>Core associates</b>								
Specialty Super Alloys SSA Inc	United States	75	20,0	31.12.2012	566	192	836	31
		<b>75</b>						
<b>Non-core associates</b>								
Incap Furniture Oy **	Finland	0	24,1					
Valtimo Components Oyj **	Finland	0	24,9					
		<b>0</b>						

\*\* Incap Furniture Oy and Valtimo Components Oyj are in a corporate restructuring process.

The income statement related items of associated companies of Speciality Alloys and FerroAlloys business segments ('core-associates') are presented above EBIT; the non-core associates in financial items.

<b>Movements in 2013</b>		
<b>EUR '000</b>		
<b>1.1.2013</b>		<b>75</b>
Share of profit		6
Exchange rate differences		-4
<b>31.12.2013</b>		<b>76</b>

During the financial year 2013, Afarak did not acquire or dispose holdings in associates.

<b>Movements in 2012</b>		
<b>EUR '000</b>		
<b>1.1.2012</b>		<b>77</b>
Disposals		
PGR Manganese (Pty) Ltd		0
Share of profit		6
Exchange rate differences		-8
<b>31.12.2012</b>		<b>75</b>

During the financial year 2012, Afarak disposed of its holdings in PGR Manganese (Pty) Ltd.

### 13. Investments in joint ventures

At the end of the financial year 2013, the Group had joint control over one jointly controlled entity, Synergy Africa Ltd, in which the Group has a 51% interest. The acquisition of Chromex Mining Ltd, a UK company with mining operations and prospecting rights in southern Africa, was carried out by this joint venture company. Chromex Group has been consolidated as a joint venture company in the financial reporting of the Group starting at 31 December 2010. Following changes in accounting standards the company change the accounting method from proportionate consolidation method to equity method during this period. Comparative figures have been restated to conform with to the current year's presentation.

Summarised financial statement information (100% share) of the joint venture, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in the Group's consolidated financial statements are set out below:

	<b>2013</b>	<b>Restated 2012</b>
EUR '000		
<b>Revenue</b>	<b>18 725</b>	<b>12 987</b>
Other operating income	756	1 653
Materials and supplies	-14 457	-14 035
Employee benefits expense	-1 451	-1 707
Depreciation and amortisation	-2 167	-1 511
Other operating expenses	-1 735	-2 088
<b>Operating profit / loss</b>	<b>-328</b>	<b>-4 702</b>
Finance income	73	1 746
Finance cost	-4 592	-3 746
<b>Profit / loss before taxes</b>	<b>-4 847</b>	<b>-6 701</b>
Income taxes	338	-2 592
<b>Profit / loss for the year</b>	<b>-4 509</b>	<b>-9 294</b>
<b>Group's share of profit for the year</b>	<b>-2 300</b>	<b>-4 740</b>
Profit attributable to:		
Owners of the parent	-1 914	-3 786
Non-controlling interests	-386	-954
	<b>-2 300</b>	<b>-4 740</b>

<b>Assets and liabilities</b>		
<b>EUR '000</b>	<b>2013</b>	<b>Restated 2012</b>
Non-current assets		
Intangible assets	3 518	2 596
Property, plant and equipment	37 213	50 966
<b>Non-current assets total</b>	<b>40 732</b>	<b>53 562</b>
Current assets		
Inventories	1 906	2 549
Trade and other receivables	3 341	655
Cash and cash equivalents	678	1 289
<b>Current assets total</b>	<b>5 925</b>	<b>4 493</b>
<b>Total assets</b>	<b>46 656</b>	<b>58 055</b>
Non-current liabilities		
Interest-bearing debt	55 191	58 898
Provisions	1 695	2 639
Other non-current liabilities	13 395	15 815
<b>Non-current liabilities total</b>	<b>70 281</b>	<b>77 352</b>
Current liabilities		
Trade and other payables	6 357	3 782
Provisions	6	0
Other current liabilities	0	67
<b>Current liabilities total</b>	<b>6 362</b>	<b>3 850</b>
<b>Total liabilities</b>	<b>76 643</b>	<b>81 202</b>
<b>Net Liability</b>	<b>-29 987</b>	<b>-23 148</b>
Proportion of Group's Ownership	51 %	51 %
<b>Carrying amount of Joint venture</b>	<b>-15 293</b>	<b>-11 805</b>

At the end of 2013, Chromex Group had 62 (52) employees. The average number of employees in full year 2013 was 60 (65).

## 14. Financial assets and liabilities

31.12.2013, EUR '000					
	Assets available- for-sale	Assets held-to- maturity	Loans and other receivables	Liabilities measured at amortised cost	Total carrying amount
<b>Non-current financial assets</b>					
Non-current interest-bearing receivables		580	39 456		40 036
Trade and other receivables			149		149
Other financial assets					0
<b>Current financial assets</b>					
Current interest-bearing receivables			8 133		8 133
Trade and other receivables *			23 050		23 050
Other financial assets			1 805		1 805
Cash and cash equivalents			13 769		13 769
<b>Carrying amount of financial assets</b>	0	580	86 362		86 942
<b>Fair value of financial assets</b>	0	580	86 362		86 942
<b>Non-current financial liabilities</b>					
Non-current interest-bearing liabilities				149	149
Other non-current liabilities				40	40
<b>Current financial liabilities</b>					
Current interest-bearing liabilities				1 362	1 362
Trade and other payables *				20 500	20 500
Derivatives				2 535	2 535
<b>Carrying amount of financial liabilities</b>				24 586	24 586
<b>Fair value of financial liabilities</b>				24 586	24 586



31.12.2012 (Restated) , EUR '000

	Assets available- for-sale	Assets held-to- maturity	Loans and other receivables	Liabilities measured at amortised cost	Total carrying amount
<b>Non-current financial assets</b>					
Non-current interest-bearing receivables		589	28 981		29 570
Trade and other receivables			3 340		3 340
Other financial assets					0
<b>Current financial assets</b>					
Current interest-bearing receivables			6 005		6 005
Trade and other receivables *			20 776		20 776
Other financial assets			2 535		2 535
Cash and cash equivalents			14 158		14 158
<b>Carrying amount of financial assets</b>	0	589	75 795		76 384
<b>Fair value of financial assets</b>	0	589	75 795		76 384
<b>Non-current financial liabilities</b>					
Non-current interest-bearing liabilities				64	64
Other non-current liabilities				51	51
<b>Current financial liabilities</b>					
Current interest-bearing liabilities				2 719	2 719
Trade and other payables *				16 217	16 217
Derivatives				1 502	1 502
<b>Carrying amount of financial liabilities</b>				20 552	20 552
<b>Fair value of financial liabilities</b>				20 552	20 552

\* Non-financial assets and liabilities are not included in the figures.

## Fair value hierarchy

31.12.2013, EUR '000	Carrying amounts at the end of the reporting period		
Financial assets at fair value	Level 1	Level 2	Level 3
Derivatives			
Other financial assets			
<b>Total</b>			
<b>Available-for-sale financial assets</b>			
Other financial assets			
<b>Financial liabilities at fair value</b>			
Derivatives		2 535	
<b>Total</b>		<b>2 535</b>	

31.12.2012 (Restated), EUR '000	Carrying amounts at the end of the reporting period		
Financial assets at fair value	Level 1	Level 2	Level 3
Derivatives			
Other financial assets			
<b>Total</b>			
<b>Available-for-sale financial assets</b>			
Other financial assets			
<b>Financial liabilities at fair value</b>			
Derivatives		1 502	
<b>Total</b>		<b>1 502</b>	

31.12.2013, EUR '000	
<b>Level 3 reconciliation</b>	
<b>Acquisition cost at 1.1.2013</b>	<b>40</b>
<b>Acquisition cost at 31.12.2013</b>	<b>40</b>
Accumulated impairment losses at 1.1.2013	-40
Accumulated impairment losses at 31.12.2013	-40
<b>Carrying amount at 31.12.2013</b>	<b>0</b>

31.12.2012 (Restated), EUR '000	
<b>Level 3 reconciliation</b>	
<b>Acquisition cost at 1.1.2012</b>	<b>40</b>
<b>Acquisition cost at 31.12.2012</b>	<b>40</b>
Accumulated impairment losses at 1.1.2012	-40
Accumulated impairment losses at 31.12.2012	-40
<b>Carrying amount at 31.12.2012</b>	<b>0</b>

## Interest-bearing debt

EUR '000	2013	Restated 2012
<b>Non-current</b>		
Bank loans	11	34
Subordinated loans	5	5
Finance lease liabilities	133	24
<b>Total</b>	<b>149</b>	<b>64</b>
<b>Current</b>		
Bank loans	1 362	2 715
Cheque account with overdraft facility	0	4
<b>Total</b>	<b>1 362</b>	<b>2 719</b>
<b>EUR '000</b>	<b>2013</b>	<b>2012</b>
<b>Finance lease liabilities, minimum lease payments</b>		
No later than 1 year	0	0
Later than 1 year and not later than 5 years	133	24
	<b>133</b>	<b>24</b>
<b>Finance lease liabilities, present value of minimum lease payments</b>		
No later than 1 year	0	0
Later than 1 year and not later than 5 years	133	24
	<b>133</b>	<b>24</b>
<b>Future finance charges</b>	<b>0</b>	<b>0</b>
<b>Total minimum lease payments</b>	<b>133</b>	<b>24</b>

## Financial risks and risk management

The Board of Directors of Afarak Group Plc has outlined the key risks of the Group in the Board of Directors' Report. In the following section, the financial and commodity risks are presented in more detail with the related sensitivity analyses.

### Summary on financial assets and loan arrangements

Financial assets 31 December 2013

In addition to the operating result and the cash flow generated from it the factors described below have most significantly affected the year-on-year change in the Group's financial assets at the 2013 closing date:

The Group's financial assets decreased in consequence of various capital expenditure project that the Group conducted during the year. The main investments were the acquisition of property surface right and prospecting mining right in South Africa and the start of the ferroalloy refining and granulation equipment project at Mogale Alloys. The cash flow effect for Capital expenditure totalled EUR 10.9 million during the year.

Also repayments of financial liabilities reduced the Group's financial assets during the year.

On 31 December 2013, the cash and cash equivalents were invested mainly in interest-bearing EUR, ZAR and USD denominated bank accounts. The Group companies have given pledged deposits for EUR 2.6 (3.9) million. Other financial assets comprise interest-bearing loans and other receivables.

## Interest-bearing debt 31 December 2013

- Floating rate loans from financial institutions total EUR 1.5 (2.7) million. Fixed rate loans total EUR 0.1 (0.1) million.
- The interest rate of the South African loans is tied to the market rate of JIBAR. The interest rate on 31 December 2013, based on market interest rates at that date, was 5.13 % (5.08%). The interest rate margin for floating rate notes was 3.0% (3.0%) p.a.
- The interest rate of the Maltese bank loan facility is tied to the market rate of LIBOR. The interest rate on 31 December 2013, based on market interest rates at that date, was 0.24 % (0.0%). The interest rate margin for floating rate notes was 3.75% (0.0%) p.a.

Included in interest-free liabilities there is the unpaid part of the Vendors settlement agreement of Mogale Alloys that amount to ZAR 87 million (EUR 5.8 million) as at 31 December 2013. This amount will be paid by Afarak Group Plc's shares.

## Capital Management

The Group's capital management objective is to maintain the ability to continue as a going concern and to optimise the cost of capital in order to enhance value to shareholders. As part of this objective, the Group seeks to maintain access to loan and capital markets at all times. The Board of Directors reviews the capital structure of the Group on a regular basis.

Capital structure and debt capacity are taken into account when deciding on new investments. Practical tools to manage capital include the application of dividend policy, capital redemption, share buybacks and share issues. Debt capital is managed considering the requirement to secure liquidity. The Group's internal capital structure is reviewed on a regular basis with the aim of optimising the structure by applying measures such as internal dividends and equity adjustments.

The Group's long term target for capital structure is to keep the equity ratio in the region of about 50%. At the balance sheet date 31 December 2013, the Group's equity ratio stood at 68.5% (69.2%).

## Financial Risk Management

In its normal operations, the Group is exposed to various financial risks. The main financial risks are liquidity risk, foreign exchange rate risk, interest rate risk, credit risk and commodity price risk. The objective of the Group's risk management is to identify and, to as far as reasonably possible, mitigate the adverse effects of changes in the financial markets on the Group's results. The general risk management principles are accepted by Afarak Group Plc's Board of Directors and monitored by its Audit and Risk Management Committee. The managements of the Group and its subsidiaries' are responsible for the implementation of risk management policies and procedures. Group management monitors risk positions and risk management procedures on a regular basis, and supervises that the Group's policies and risk management principles are followed in all day-to-day operations. Risks and risk management are regularly reported to the Audit and Risk Management Committee.

The Group's significant financial instruments comprise bank loans and overdrafts, finance leases, other long-term liabilities, cash and short-term deposits and money market investments. The main purpose of these financial instruments is to finance the Group's acquisitions and ongoing operations. The Group also has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations

### (i) Liquidity risk

The Group regularly assesses and monitors its investment and working capital needs and financing, so that it has enough liquidity to serve and finance its operations and pay back loans. The availability and flexibility of financing are targeted to be guaranteed by using multiple financial institutions in the financing and financial instruments, and to agree on financial limit arrangements.

The Group's short-term liquidity at the end of the financial year was good. At the end of 2013, the Group's unused credit facilities amounted to EUR 49.3 (46.2) million.

If the liquidity risks were to be realised, it would probably result in overdue interest expenses and damage the relations with suppliers. Consequently, the pricing and other terms for input goods and services and for financing could be affected.

The maturity distribution of the Group debt at the end of the financial year was as follows:

**31.12.2013, EUR '000**

31.12.2013, EUR 000								
Financial liabilities	Carrying amount	Contractual cash flows					More than 5 years	
		6 months or less	6-12 months	1-2 years	2-5 years	years		
Secured bank loans	1 362	-1 455	-59	-1 392	-5	0	0	
Finance lease liabilities	133	-133	-42	-42	-49	0	0	
Trade and other payables	22 139	-22 139	-21 150	-428	-401	-160	0	
Bank overdraft	0	0	0	0	0	0	0	
Total	23 634	-23 728	-21 251	-1 862	-455	-160	0	

**31.12.2012 restated, EUR '000**

31.12.2012 Restated, EUR '000								
Financial liabilities	Carrying amount	Contractual cash flows					More than 5 years	
		6 months or less	6-12 months	1-2 years	2-5 years	years		
Secured bank loans	2 749	-3 073	-486	-669	-1 260	-658	0	
Finance lease liabilities	24	-24	-24	0	0	0	0	
Trade and other payables	16 196	-16 196	-14 674	-502	-1 020	0	0	
Bank overdraft	4	-4	-4	0	0	0	0	
<b>Total</b>	<b>18 973</b>	<b>-19 297</b>	<b>-15 188</b>	<b>-1 171</b>	<b>-2 280</b>	<b>-658</b>	<b>0</b>	

(ii) Foreign exchange rate risk

The Group operates internationally, including in Turkey, Malta and South Africa, and is therefore exposed to foreign exchange rate risks. The risks arise both directly from the outstanding commercial cash flows and currency positions, and indirectly from changes in competitiveness between various competitors. The foreign exchange differences arising from inter-company loans designated as net investments in foreign subsidiaries has been recognised in the translation difference in the equity.

The Group is exposed to currency-derived risks that affect its financial results, financial position and cash flows. In particular the exchange rate of the South African Rand against the Euro and the US Dollar has a significant impact on the Euro-denominated profitability of its South African operations. The cash inflows of the business are denominated in US Dollars, whereas a significant portion of the costs are denominated in the South African Rand. The Rand fluctuated significantly during the financial year, which has had an impact on the Group's profit and loss as well as on the Group's assets and liabilities. The Group has hedged part of the open foreign currency positions by using currency derivatives. In its risk management, the Group aims to match its cash inflows and outflows as well as receivables and liabilities in terms of the currency in which these items are denominated.

At the end of the financial year the Group had USD/ZAR foreign currency forward contracts hedging the commercial cash flows. The nominal value of the contracts was EUR 31.7 (30.8) million.

The foreign exchange risk relating to ZAR has reduced during 2013 as the amount of ZAR-denominated liabilities has decreased.

The following tables present the currency composition of receivables and debt, and changes thereby relative to the previous year-end. As at 31 December 2013, the major open foreign exchange rate risk was against the USD and TRY.

31.12.2013 , EUR '000	EUR exchange rate				
	1	1,3791	0,8337	2,9605	14,566
	EUR	USD	GBP	TRY	ZAR
Cash and cash equivalents (EUR)	2 426	9 417	139	48	1 739
Trade and other receivables (EUR)	15 040	12 799			4 596
Loans and other financial assets (EUR)	43 705			399	
Trade and other current payables (EUR)	-8 392	-3 903	-99	-675	-4 574
Loans and other liabilities (EUR)	-524	-26		-560	-441
Currency derivatives (EUR)		-31 700			
Currency exposure, net (EUR)	52 255	-13 412	41	-788	1 320
Currency exposure, net in currency ('000)	52 255	-18 497	34	-2 334	19 228

31.12.2012 (Revised), EUR '000	EUR exchange rate				
	1	1,3194	0,8161	2,3551	11,1727
	EUR	USD	GBP	TRY	ZAR
Cash and cash equivalents (EUR)	5 394	5 297	154	272	3 042
Trade and other receivables (EUR)	11 283	6 562	0	793	4 203
Loans and other financial assets (EUR)	48 135	0	0	131	3 574
Trade and other current payables (EUR)	-11 883	0	-8	-1 385	-2 147
Loans and other liabilities (EUR)	8 252	0	0	-46	-11 039
Currency derivatives (EUR)	0	-30 780	0	0	0
Currency exposure, net (EUR)	61 182	-18 922	146	-235	-2 367
Currency exposure, net in currency ('000)	61 182	-24 965	120	-554	-26 445

The effect on the 31 December 2013 currency denominated net assets by changes in foreign exchange rates compared with the rates used in the Group consolidation is presented below. Due to the high market volatility of the exchange rates, the range of change was kept at +/- 20%.

The Group's foreign exchange rate risks decreased during 2013 over 2012, risks relating to USD and ZAR are expected to remain significant also in the future.

31 December 2013		USD	GBP	TRY	ZAR
20 %	strengthening	-16 765	51	-986	1 650
15 %	strengthening	-15 779	48	-928	1 553
10 %	strengthening	-14 902	45	-876	1 467
5 %	strengthening	-14 118	43	-830	1 390
0 %	no change	-13 412	41	-788	1 320
-5 %	weakening	-12 773	39	-751	1 257
-10 %	weakening	-12 193	37	-717	1 200
-15 %	weakening	-11 663	35	-686	1 148
-20 %	weakening	-11 177	34	-657	1 100

<b>31 December 2012</b>					
		USD	GBP	TRY	ZAR
20 %	strengthening	-23 652	183	-294	-2 959
15 %	strengthening	-22 261	172	-277	-2 785
10 %	strengthening	-21 024	163	-262	-2 630
5 %	strengthening	-19 918	154	-248	-2 492
0 %	no change	-18 922	146	-235	-2 367
-5 %	weakening	-18 021	140	-224	-2 254
-10 %	weakening	-17 202	133	-214	-2 152
-15 %	weakening	-16 454	127	-205	-2 058
-20 %	weakening	-15 768	122	-196	-1 972

(iii) Interest rate risk

The Group is exposed to interest rate risk when Group companies take loans, or make other financing agreements or deposits and investments related to liquidity management. In addition, changes in interest rates can alter the fair values of the Group's assets. The Group's revenue and operative cash flows are mainly independent of the changes in market interest rates.

To manage interest rate risks, the Group has used both fixed and floating rate debt instruments and derivative instruments, such as interest rate swaps, when needed. At the end of 2013, the Group's interest-bearing debt was mainly based on floating interest rates; and there were no interest rate swaps in place. The Group aims to match the loan maturities with the businesses' needs and to have the maturities spread over various periods so that the Group's interest rate risks are somewhat diversified. Floating rate financing is mainly tied to the market rates of different countries (United Kingdom, South Africa), changes to which will then influence the Group's total financing cost and cash flows.

The short-term interest-bearing receivables of the Group are mainly loan receivables and receivables on past asset disposals. The Group's interest-bearing liabilities have been discussed above.

The split of interest-bearing debt and receivables, also classified into fixed rate and floating rate instruments on 31 December 2013 and 31 December 2012 was as follows:

**Interest rate profile of interest-bearing financial instruments (EUR '000)**

		<b>Restated</b>
<b>Fixed rate instruments</b>	<b>31.12.2013</b>	<b>31.12.2012</b>
Financial assets	11 456	13 760
Financial liabilities	-341	-59
<b>Fixed rate instruments, net</b>	<b>11 116</b>	<b>13 701</b>
<b>Variable rate instruments</b>		
Financial assets	36 714	21 816
Financial liabilities	-1 362	-2 715
<b>Variable rate instruments, net</b>	<b>35 352</b>	<b>19 101</b>
<b>Interest-bearing net debt</b>	<b>46 468</b>	<b>32 802</b>

The following table presents the approximate effect of changes in market interest rates on the Group's income statement should the deposits' and loans' interest rates change. The analysis includes floating rate financial assets and liabilities. The sensitivity analysis is illustrative in nature and applicable for the forthcoming 12 month period if the period's asset and liability structure were to be equal to that of 31 December 2013, and if there were no changes in exchange rates.

### 31 December 2013

Interest rate change	Change in interest income	Change in interest expense	Net effect
-2,00 %	-734	27	-707
-1,50 %	-551	20	-530
-1,00 %	-367	14	-354
-0,50 %	-184	7	-177
0,00 %	0	0	0
0,50 %	184	-7	177
1,00 %	367	-14	354
1,50 %	551	-20	530
2,00 %	734	-27	707

### 31 December 2012 Restated

Interest rate change	Change in interest income	Change in interest expense	Net effect
-2,00 %	-436	54	-382
-1,50 %	-327	41	-287
-1,00 %	-218	27	-191
-0,50 %	-109	14	-96
0,00 %	0	0	0
0,50 %	109	-14	96
1,00 %	218	-27	191
1,50 %	327	-41	287
2,00 %	436	-54	382

#### (iv) Credit risk

Credit risk can be realised when the counterparties in commercial, financial or other agreements cannot take care of their obligations and thus cause financial damage to the Group. The Group's operational policies define the creditworthiness requirements for customers and for counterparties in financial and derivative transactions, as well as the principles followed when investing liquidity. In the case of major sales agreements, the counterparty's credit rating is checked. To date, the Group has not faced any major losses due to this reason.

The Group's key customers are major international stainless steel companies, and a number of specialist agents selling to the steel sector, with typically long and successful business histories. Since the customers represent one sector of industry, major changes in that industry's profitability could increase the credit risk.

The Board of Directors of Afarak Group Plc has determined a cash management policy for the Group's parent company, according to which the excess cash reserves are deposited for a short-term only and with sound financial institutions with which the Group has established business relations. The credit rating of all significant counterparties is analysed from time to time.



During the financial year, credit losses booked through the profit and loss were not significant. The maximum credit risk is equal to the carrying value of the receivables as of 31 December, and is split as follows:

Category	<b>Restated</b>	
	EUR million 31.12.2013	EUR million 31.12.2012
<b>Interest-bearing</b>		
Cash and cash equivalents	13.8	14.2
Receivables from related parties	35.3	29.7
Other interest bearing receivables	12.9	5.8
<b>Interest-bearing, total</b>	<b>62.0</b>	<b>49.7</b>
<b>Interest-free</b>		
Trade receivables	20.4	14.9
Othershort-term receivables	2.9	1.8
Long-term receivables	4.1	22.3
<b>Interest-free, total</b>	<b>27.4</b>	<b>39.0</b>
<b>Total</b>	<b>89.4</b>	<b>88.7</b>

(v) Commodity risks

The Group is exposed to price risks on various output and input products, materials and commodities. Also, securing the availability of raw materials without any serious disruptions is vital to its businesses.

The price risks on input materials and commodities are managed by pricing policies so that changes in input materials and commodities can be moved into sales prices. This, however, is not always possible or there may be delays as a result of contractual or competitive reasons.

The Group's units that have production operations are exposed to availability, quality and price fluctuations in raw materials and commodities. To diminish these risks, the Group's business units seek to enter into long-term agreements with known counterparties; although this is not always possible due to the tradition and practice of the business. For the most part, because it is not possible or economically feasible to hedge commodity price risks in the Group's business sectors with derivative contracts, the Group did not have any commodity derivative contracts in place as of 31 December 2013.

Sensitivity Analysis - Speciality Alloys business

The effect of changes in the sales price of special grade ferrochrome, produced by the Group's Speciality Alloys business, to the Group's operating profit and equity is illustrated below, assuming that the EUR/USD rate were constant. The analysis is based on December 2013 price level. Since the products are priced in USD, the exchange rate changes could have a major effect on the Group's profitability in EUR. Full capacity for simulation purposes is set at 30,000 t/a, and it is also assumed that only one ferrochrome quality is produced. Various raw materials are used in ferrochrome production, including chrome concentrate and ferrosilicochrome. The purchase prices of the main raw materials typically in the same direction as the sales prices, although the correlation is not perfect and the timing may differ. In practice, therefore the net effect on the Group's profitability most probably would be lower than shown below. Electricity usage is also substantial, and hence changes in electricity prices have a significant effect on profitability; electricity prices do not correlate with changes in commodity prices.

**Financial year 2013**

Change in Sales price (USD / lb Cr)		Change in Operating Profit	Change in Group's Equity
2,60	20 %	14 570	13 841
2,50	15 %	10 927	10 381
2,39	10 %	7 285	6 921
2,28	5 %	3 642	3 460
2,17	0 %	0	0
2,06	-5 %	-3 642	-3 460
1,95	-10 %	-7 285	-6 921
1,84	-15 %	-10 927	-10 381
1,74	-20 %	-14 570	-13 841

**Financial Year 2012**

Change in Sales price (USD / lb Cr)		Change in Operating Profit	Change in Group's Equity
2,70	20 %	15 790	15 001
2,59	15 %	11 843	11 251
2,48	10 %	7 895	7 500
2,36	5 %	3 948	3 750
2,25	0 %	0	0
2,14	-5 %	-3 948	-3 750
2,03	-10 %	-7 895	-7 500
1,91	-15 %	-11 843	-11 251
1,80	-20 %	-15 790	-15 001

**Sensitivity Analysis – FerroAlloys business**

The FerroAlloys business's smelting operation, Mogale Alloys, is able to change its product mix quite rapidly and flexibly, and so only rough estimates on its sensitivity to commodity price changes can be given. Its full production capacity is about 100,000 metric t/a of various metal alloys. Assuming, for simplicity, that all of the Mogale capacity was used for charge chrome production only, and using the year-end 2013 sales price indications for charge chrome, the following table represents a rough proxy of the sales price sensitivities. It should also be taken into account that the profitability of the smelting operations can be substantially impacted by changes in the USD and ZAR exchange rates and in electricity prices, as well as changes in market prices.

**Financial Year 2013**

Change in Sales price (USD/lb Cr)		Change in Operating Profit	Change in Group's Equity
1,35	20 %	18 344	13 208
1,29	15 %	13 758	9 906
1,24	10 %	9 172	6 604
1,18	5 %	4 586	3 302
1,13	0 %	0	0
1,07	-5 %	-4 586	-3 302
1,01	-10 %	-9 172	-6 604
0,96	-15 %	-13 758	-9 906
0,90	-20 %	-18 344	-13 208

**Financial Year 2012**

<b>Change in Sales price (USD/lb Cr)</b>		<b>Change in Operating Profit</b>	<b>Change in Group's Equity</b>
1,32	20 %	18 748	13 498
1,27	15 %	14 061	10 124
1,21	10 %	9 374	6 749
1,16	5 %	4 687	3 375
1,10	0 %	0	0
1,05	-5 %	-4 687	-3 375
0,99	-10 %	-9 374	-6 749
0,94	-15 %	-14 061	-10 124
0,88	-20 %	-18 748	-13 498

**15. Inventories**

<b>EUR '000</b>	<b>2013</b>	<b>Restated 2012</b>
Goods and supplies	18 839	39 808
Unfinished products	181	151
Finished products	27 263	8 433
Prepayments	0	2 062
<b>Total</b>	<b>46 284</b>	<b>50 455</b>

**16. Trade and other current receivables**

<b>EUR '000</b>	<b>2013</b>	<b>Restated 2012</b>
Trade receivables	20 930	15 622
Loan receivables	2 042	1 090
Interest-bearing receivables	6 543	6 005
Prepaid expenses and accrued income	2 100	3 014
Income tax receivables	4 819	3 064
Other receivables	4 126	1 778
<b>Total</b>	<b>40 559</b>	<b>30 573</b>

Prepaid expenses and accruals mainly relate to rental contracts, personnel expenses, VAT receivables and accrued interest for loans. Balance sheet values of receivables closely correspond to the monetary value of maximum credit risk, excluding the fair value of received guarantees, in the potential case where the counterparties cannot fulfil their commitments. There is no significant credit risk concentration related to receivables.

**The aging of trade receivables at the balance sheet date**

<b>EUR '000</b>	<b>2013</b>	<b>Restated 2012</b>
Not past due	10 796	11 566
Past due 0-30 days	8 730	2 956
Past due 31-60 days	45	464
Past due 61-90 days	396	102
Past due more than 90 days	1 053	533
<b>Trade receivables total</b>	<b>20 930</b>	<b>15 622</b>

## 17. Cash and cash equivalents

<b>EUR '000</b>	<b>2013</b>	<b>Restated 2012</b>
<b>Cash and bank balances</b>	<b>13 410</b>	<b>12 245</b>
Pledged deposits	2 622	3 882

Cash and cash equivalents in the cash flow statement:

<b>EUR '000</b>	<b>2013</b>	<b>Restated 2012</b>
Cash and bank balances	13 410	12 245
Short-term money market investments	359	1 913
Cash and cash equivalents held for sale	0	0
<b>Total</b>	<b>13 769</b>	<b>14 158</b>

## 18. Notes to equity

	<b>Number of registered shares</b>	<b>Number of shares on issue</b>	<b>Share capital, EUR '000</b>
<b>31.12.2011</b>	<b>248 432 000</b>	<b>244 017 318</b>	<b>23 642</b>
Treasury shares granted	0	117 245	0
<b>31.12.2012</b>	<b>248 432 000</b>	<b>244 134 563</b>	<b>23 642</b>
Treasury shares granted	0	52 720	0
<b>31.12.2013</b>	<b>248 432 000</b>	<b>244 187 283</b>	<b>23 642</b>

There is no nominal value for the Company's share.

The equity reserves are described below:

### Share premium reserve

Related to the old Finnish Companies Act, the Company has a share premium reserve in relation to old share issues, where the premium in excess of the par value of the shares subscribed has been recognised in the share premium reserve.

### Paid-up unrestricted equity reserve

Paid-up unrestricted equity reserve comprises other equity investments and subscription price of shares to the extent that it is not recognised in the share capital based on a specific decision.

### Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of financial statements of foreign operations.

### Share subscriptions based on option rights

There were no share subscriptions based on option rights during financial year 2013.

### Treasury shares

A total of 52,720 ordinary shares in the Company were granted to Mr Wynand van Wyk, head of Mining South Africa. The shares were issued under the authorisation given by the Company's Annual General Meeting in May 2013 and form a part of the Company's incentive programme for senior management. Under the terms of the directed free share issue scheme, the shares were offered free of charge and in derogation of the pre-emptive subscription right of shareholders.

On 31 December 2013 the Company had altogether 4,244,717 (4,297,437) of its own shares, which was equivalent to 1.71 (1.73) % of all registered shares. The total number of shares outstanding, excluding the treasury shares held by the Company on 31 December 2013 was 244,187,283 (244,134,563).

The Company's subsidiaries do not hold any of Afarak Group Plc's shares.

### Share Issue Authorisations given to the Board of Directors

The Annual General Meeting held on 8 May 2013 resolved the Board of Directors to decide on the share issue and on the issuing of stock options and other special rights that entitle to shares. By virtue of the authorisation shares can be emitted in one or more tranches in total a maximum of 24,843,200 new shares or shares owned by the Company. This

equates to approximately 10% of the Company's registered shares on 31 December 2013. The authorisation replaces all previous authorisations and it is valid two years from the decision of the Annual General Meeting.

### Directed free issue of shares

A total of 52,720 ordinary shares in the Company were granted to Mr Wynand van Wyk, head of Mining South Africa. The shares were issued under the authorisation given by the Company's Annual General Meeting in May 2013 and form a part of the Company's incentive programme for senior management. Under the terms of the directed free share issue scheme, the shares were offered free of charge and in derogation of the pre-emptive subscription right of shareholders.

### Trading Information

Afarak Group Plc's shares are listed on the main market of the London Stock Exchange and on NASDAQ OMX Helsinki. Afarak shares are traded on the London Stock Exchange under the trading code AFRK and on the NASDAQ OMX Helsinki under code AFAGR. The ISIN code is FI0009800098 and the trading takes place in Pound Sterling (GBP) and in Euros (EUR).

### Share Performance and Trading

During the financial year 2013, the price of Afarak Group's share in London Stock Exchange varied between GBP 0.30 (0.32) and GBP 0.40 (0.86) and in NASDAQ OMX Helsinki between EUR 0.30 (0.38) and EUR 0.48 (1.02). Afarak's share closed in London at the end of the financial year at GBP 0.30 (0.35) and Helsinki at EUR 0.32 (0.45). The closing price on 31 December gives the Company a market capitalisation of the entire capital stock 248,432,000 (248,432,000) shares of GBP 74.5 million (87.0) and EUR 79.5 million (111.8).

A total of 44,600 (287,500) Afarak shares were traded in London and 4,554,022 (5,600,329) shares in Helsinki during the financial year, representing 0.02% (0.1%) of stock in London and 1.8% (2.3%) in Helsinki.

### Shareholders

On 31 December 2013, the Company had a total of 4,148 shareholders (4,048 shareholders on 31 December 2012), of which nine were nominee-registered. The registered number of shares on 31 December 2012 was 248,432,000 (248,432,000).

Largest shareholders on 31 December 2013

Shareholder	Shares	%
1 Kermas Limited	70 795 967	28.5
2 Atkey Limited	51 426 401	20.7
3 Finaline Business Ltd	27 000 000	10.9
4 Nordea Bank Finland Plc nominee-registered	24 319 499	9.8
5 Evli Bank Plc nominee-registered	18 588 311	7.5
6 Hino Resources Co. Ltd	14 219 903	5.7
7 Kankaala Markku	7 066 116	2.8
8 Moncheur & Cie	6 654 172	2.7
9 Skandinaviska Enskilda Banken Ab nominee-registered	6 496 973	2.6
10 Hukkanen Esa	4 293 048	1.7
Total	230 860 390	92.9
Other Shareholders	17 571 610	7.1
Total shares registered	248 432 000	100.0

Afarak Group Plc's Board members and Chief Executive Officer owned in total 78,078,926 (78,610,463) Afarak Group Plc shares on 31 December 2013, including shares owned either directly, through persons closely associated with them or through controlled companies. This corresponds to 31.4% (31.6%) of the total number of registered shares on 31 December 2013.

Shareholders by category 31 December 2013

Shares	Number of shareholders	% share of shareholders	Number of shares held	% of shares held
1-100	778	18.76	48 463	0.02
101-1,000	2 210	53.28	1 161 326	0.47
1,001-10,000	1 016	24.49	3 164 171	1.27
10,001-100,000	120	2.89	2 636 740	1.06
100,001-1,000,000	12	0.29	3 316 193	1.33
1,000,001-10,000,000	6	0.15	31 755 026	12.78
in excess of 10,000,000	6	0.15	206 350 081	83.06
Total	4 148	100.00	248 432 000	100.00
of which nominee-registered	9		52 362 030	20.44
Total outstanding			248 432 000	100.00

#### Shareholders by shareholder type on 31 December 2013

	% of share capital
Finnish shareholders	9.80 %
of which:	
Companies and business enterprises	2.10 %
Banking and insurance companies	0.00 %
Non-profit organisations	0.00 %
Households	7.70 %
Foreign shareholders	90.20 %
Total	100 %
of which nominee-registered	20.43 %

## 19. Share-based payments

The Company has three incentive-related option schemes, known as I/2005, I/2008 and I/2011.

Option rights relating to the I/2005 scheme are granted to the Group's Executive Management Team and other key employees and to non-executive directors, as recommended by the Board. The scheme entitles option holders to subscribe for a maximum of 2,700,000 shares in the Company. The share subscription period is from 1 July 2007 to 30 June 2015 for various options series denoted with different letters, and the subscription price range is EUR 0.32 – 0.78 (with dividend and capital redemption adjustment). As a result of subscriptions made with the I/2005 options, Afarak Group Plc's number of shares may be increased by a maximum of 2,700,000 new shares. In accordance with the terms of the option scheme the subscription prices will be recognised in the paid-up unrestricted equity reserve.

Option rights relating to the I/2008 scheme were granted to the Group's previous CEO, Alwyn Smit, in October 2008. The scheme entitles the option holder to subscribe for a maximum of 2,900,000 shares in the Company for a subscription price of EUR 2.18 per share (with dividend and capital redemption adjustment). The share subscription period for 1,450,000 share options commenced on 1 October 2009 and on 1 October 2010 for the remaining 1,450,000 options. The subscription period matures on 31 December 2015. As a result of the subscriptions made with the options, Afarak Group Plc's number of shares may be increased by a maximum of 2,900,000 new shares.

Option rights relating to the I/2011 scheme are granted to the key personnel of the Company, as recommended by the Board. The scheme entitles the option holders to subscribe for a maximum of 6,900,000 shares in the Company. The vesting period is 1 July 2014 to 1 August 2017 for various option series denoted with different letters and years. The share subscription price is calculated by a formula based on the Volume Weighted Average Price of the Company's share and varies between the option series.

Of the option scheme I/2005, options on A, B, C, D, E and F series have been issued to Afarak's management totalling 1,175,000 option rights, of the option scheme I/2008 a total of 2,900,000 options. Of the option scheme I/2011 a total of 6,291,997 options were issued and 99,999 options were forfeited leaving a balance of 6,191,998 options. All options have been treated according to the principles set forth in IFRS 2 Share-based Payments standard. Share options will be expired if not redeemed as agreed in the terms of options. The main terms of the option arrangements are detailed in the tables below.

A total of 52,720 ordinary shares in the Company were granted to Mr Wynand van Wyk, head of Mining South Africa. The shares were issued under the authorisation given by the Company's Annual General Meeting in May 2013 and form a part of the Company's incentive programme for senior management. Under the terms of the directed free share issue scheme, the shares were offered free of charge and in derogation of the pre-emptive subscription right of shareholders. The compensation plans are recognised as share-based payments on the Group's financial statements. The fair value of the granted shares is determined based on the market price of Afarak Group's share at the grant date. The total fair value is therefore the amount of granted shares multiplied by the share market price at the grant date. The cost is recognised as an expense in personnel costs over the vesting periods and credited to equity.



Share option plan	Share options, granted to employees in 2012	Share options, granted to CEO in 2008	Share options, granted to CEO in 2008	Share options, granted to employees in 2010	Share options, granted to employees in 2009	Share options, granted to employees in 2008	Share options, granted to employees in 2007
Nature of the plan	Share options issued	Share options issued	Share options issued	Share options issued	Share options issued	Share options issued	Share options issued
Grant date	1.4.2012	28.10.2008	28.10.2008	17.5.2010	6.8.2009	28.10.2008	17.10.2007
Number of options	6 191 998	1 450 000	1 450 000	100 000	175 000	225 000	225 000
Options series	I/2011	I/2008	I/2008	F (I/2005)	E (I/2005)	D (I/2005)	C (I/2005)
Exercise period	1.7.2014-1.8.2017	1.10.2010- 31.12.2015	1.10.2009- 31.12.2015	1.7.2012-30.6.2015	1.7.2011-30.6.2014	1.7.2010-30.6.2013	1.7.2009-30.6.2012
Dividend adjustment	yes	yes	yes	yes	yes	yes	yes
Exercise price (with dividend and capital redemption adjustment)	0.00 - 0.86	2.18	2.18	0.78	0.68	0.58	0.48
Share price at grant date	0.90	1.26	1.26	1.00	1.75	1.26	2.86
Option life	1.1 - 3.1	5.3	6.3	3.0	3.0	3.0	3.0
Conditions	Employment until the vesting date and target share price	Employment until the vesting date	Employment until the vesting date	Employment until the vesting date	Employment until the vesting date	Employment until the vesting date	Employment until the vesting date
Execution	In shares	In shares	In shares	In shares	In shares	In shares	In shares
Expected volatility	45 %	44 %	44 %	56 %	46 %	44 %	44 %
Expected option life at grant date (years)	5.3 years	5.0 years	5.0 years	5.1 years	4.9 years	4.7 years	4.7 years
Risk free rate, Euribor 12 months	2.24%	4.33%	4.33%	3.11%	3.66%	4.33%	4.10%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.40%
Expected personnel reductions	0	0	0	0	0	0	0
Fair value at grant date (EUR)	0.14 - 0.46	0.33	0.33	1.06	1.20	0.77	2.17
Valuation model	Up and in Call	Black & Scholes	Black & Scholes	Black & Scholes	Black & Scholes	Black & Scholes	Black & Scholes

Changes in share options issued and in weighted average exercise prices:

	<b>Weighted average exercise price (with dividend and capital redemption adjustment)</b>	<b>Number of options</b>
	<b>EUR/share</b>	
At the beginning of 2012	1,86	3 625 000
Granted new options	N/A	6 291 997
Forfeited options	0,48	225 000
At the end of 2012	0,85	9 691 997
Exercisable at the end of 2012	1,96	3 400 000
At the beginning of 2013	0,85	9 691 997
Forfeited options	0,58	225 000
Forfeited options	0,26	99 999
At the end of 2013	0,00	9 366 998
Exercisable at the end of 2013	2,05	3 175 000

There were no share subscriptions based on option rights during financial year 2013.

The exercise prices of existing share options and their years of forfeiting are presented below:

Year of forfeiting	Exercise price (EUR)	Number of shares
2013	0.58	225 000
2014	0.68	175 000
2015	0.78	100 000
2015	2.18	2 900 000
2017	0.00-0.86	6 900 000

The exercise price above represents the original contractual exercise price adjusted by dividends and capital redemptions before the 2014 AGM.

## 20. Deferred tax assets and liabilities

Movements in deferred taxes in 2013

EUR '000	31.12.2012	Exchange rate differences	Recognised in P & L	Recognised in equity	Business combinations and divestments	31.12.2013
<b>Deferred tax assets:</b>						
Unrealised expenses	1 744	-431	510			1 824
Tax loss carry forward	0	0	0			0
Pension liabilities	1 160		-108			1 052
From translation difference	0		1 081	7 741		8 822
Group eliminations	598	348	-96			849
Assets held for sale	0		0			0
<b>Total</b>	<b>3 502</b>	<b>-83</b>	<b>1 386</b>	<b>7 741</b>	<b>0</b>	<b>12 546</b>

### Deferred tax liabilities:

Assets at fair value in acquisitions	15 622	-2 348	-5 941		0	7 332
Translation difference	0			0		0
Other timing differences	1 284	-334	224			1 175
<b>Total</b>	<b>16 906</b>	<b>-2 682</b>	<b>-5 717</b>	<b>0</b>	<b>0</b>	<b>8 507</b>

Movements in deferred taxes in 2012 (Restated)

EUR '000	31.12.2011	Exchange rate differences	Recognised in P & L	Recognised in equity	Business combinations and divestments	31.12.2012
<b>Deferred tax assets:</b>						
Unrealised expenses	760	85	899	0	0	1 744
Tax loss carry forward	2 149	-14	-2 135	0	0	0
Pension liabilities	1 021	0	139	0	0	1 160
From translation difference	0	0	0	0	0	0
Group eliminations	396	48	153	0	0	598
<b>Total</b>	<b>4 326</b>	<b>120</b>	<b>-944</b>	<b>0</b>	<b>0</b>	<b>3 502</b>

### Deferred tax liabilities:

Assets at fair value in acquisitions	22 418	164	-7 115	0	155	15 622
	0	0	0	0	0	0
Translation difference	1 991	0	0	-1 991	0	0
Other timing differences	1 343	-84	25	0	0	1 284
<b>Total</b>	<b>25 752</b>	<b>80</b>	<b>-7 090</b>	<b>-1 991</b>	<b>155</b>	<b>16 906</b>

## 21. Provisions

<b>EUR '000</b>	Environment al and rehabilitation provisions	Other provisions	Total
Balance at 1.1.2013	11 586	1 903	13 489
Additions	2	212	214
Releases and reversals	-954	-289	-1 243
Unwinding of discount	538	0	538
Exchange differences	-2 439	-279	-2 718
<b>Balance at 31.12.2013</b>	<b>8 733</b>	<b>1 547</b>	<b>10 280</b>

<b>EUR '000</b>	<b>2013</b>	<b>Restated 2012</b>
Long-term provisions	9 739	12 893
Short-term provisions	542	596
<b>Total</b>	<b>10 281</b>	<b>13 489</b>

The long-term provisions in the statement of financial position relate to environmental and rehabilitation provisions of the Group's production facilities and mines. The provisions are based on expected liability. The amount of environmental provisions decreased during 2013 following environmental studies which were carried out to re-estimate the liability.

## 22. Pension liabilities

### Defined benefit pension plans

The majority of the Group's pension plans are defined contribution plans for which a total expense of EUR 1.2 (1.0) million has been recognised on the 2013 income statement. In addition, the Group's German subsidiary has defined benefit plans. The obligations relating to the plans have been defined by actuarial calculations. The pension scheme is arranged by recognising a provision on the statement of financial position. The present value of the obligation less fair value of plan assets totalled EUR 16.1 (11.2) million on 31 December 2013. The Group has considered that the value on 31 December also corresponds with the amount of net obligation at the balance sheet date. The Group does not own the assets of the pension plans.

<b>Retirement benefit obligation EUR '000</b>	<b>2013</b>	<b>Restated 2012</b>
Present value of funded obligation	20 187	19 579
Fair value of plan assets	-4 092	-3 764
<b>Net liability</b>	<b>16 095</b>	<b>15 815</b>

<b>Movements in defined benefit obligation EUR '000</b>	<b>2013</b>	<b>Restated 2012</b>
Defined benefit obligations at 1.1.	19 579	14 600
Benefits paid by the plan	-675	-670
Current service costs	324	237
Interest expense	652	784
Actuarial (gains) losses	-48	4 628
Past service cost - amendments		
<b>Closing balance at 31.12.</b>	<b>20 187</b>	<b>19 579</b>

<b>Movements in the fair value of the plan assets</b>		
<b>EUR '000</b>	<b>2013</b>	<b>Restated 2012</b>
Fair value of the plan assets at 1.1.	3 764	3 805
Expected return on plan assets	120	8
Benefits paid by the plan	-87	-89
Asset gains (losses)	88	277
Contributions paid into the plan	384	317
<b>Closing balance at 31.12.</b>	<b>4 092</b>	<b>3 764</b>

The funded pension plan has been financed through an insurance company and therefore asset specification is not available.

<b>Expense recognised in profit or loss</b>		
<b>EUR '000</b>	<b>2013</b>	<b>Restated 2012</b>
Current service cost	-324	-237
Interest cost	-652	-784
Expected return on plan assets	120	8
Recognition of net (gain)/loss	-355	0
	<b>-1 212</b>	<b>-1 013</b>

Actual return on plan assets totalled EUR -0.09 (-0.3) million in 2013.

<b>Principal actuarial assumptions</b>		
	<b>2013</b>	<b>Restated 2012</b>
Discount rate	3,40 %	3,40 %
Expected return on plan assets	0,8 %	4,1 %
Inflation	2,25 %	2,25 %

The expected retirement age has been assumed to be in accordance with German legislation (RVAGAnpG 2007). Similarly, the expected pension increases have been assumed to be in line with the German legislation, and mortality expectancy in accordance with the German "Richttafeln 2005 G" has been applied in the valuations.

<b>Historical information</b>		
<b>EUR '000</b>	<b>2013</b>	<b>Restated 2012</b>
Present value of defined benefit obligation	-20 187	-19 579
Fair value of plan assets	4 092	3 764
<b>Deficit in the plan</b>	<b>-16 095</b>	<b>-15 815</b>
Experience adjustments arising on plan liabilities	-48	-198
Experience adjustments arising on plan assets	-88	-277
Adjustments due to change in actuarial assumptions	0	4 825

#### **Provision for retirement pay liability in Turkey**

In accordance with existing social legislation in Turkey, the Turkish subsidiary of the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. The computation of the liability was based on the retirement pay ceiling announced by the Turkish government. On 31 December 2013, the employee severance indemnity recognised in accordance with IAS 19 the financial statements totalled EUR 1.0 (0.8) million.

## 23. Trade payables and other interest-free liabilities

EUR '000	2013	Restated 2012
<b>Non-current</b>		
Other liabilities	40	51
<b>Total non-current</b>	<b>40</b>	<b>51</b>
<b>Current</b>		
Purchase price liabilities (paid as shares)	6 432	8 976
Trade payables	11 205	6 447
Payables to associated companies	2 364	0
Accrued expenses and deferred income	8 735	9 297
Income tax liability	7 128	8 101
Other liabilities	6	6
<b>Total current</b>	<b>35 870</b>	<b>32 826</b>

In 2013 financial statements the liability to Mogale vendors has been classified as current interest-free debt.

## 2.8 RELATED PARTY DISCLOSURES

### 2.8.1 Group structure on 31 December 2013

#### Subsidiaries

Name	Country of incorporation	Group's ownership and share of votes (%)	Afarak Group Plc's direct ownership and share of votes (%)
Arafak Energy (Pty) Ltd	South Africa	100.00	0.00
Afarak Holdings Ltd	Malta	100.00	0.00
Afarak Investments Ltd	Malta	100.00	99.99
Afarak Mining Ltd	South Africa	100.00	0.00
Afarak South Africa (Pty) Ltd	South Africa	100.00	0.00
Afarak Suisse SA	Switzerland	100.00	100.00
Auburn Avenue Trading 88 (Pty) Ltd	South Africa	74.00	0.00
Destiny Spring Investments 4 (Pty) Ltd	South Africa	100.00	0.00
Destiny Spring Investments 11 (Pty) Ltd	South Africa	100.00	0.00
Destiny Spring Investments 12 (Pty) Ltd	South Africa	100.00	0.00
Dezzo Trading 184 (Pty) Ltd	South Africa	100.00	0.00
Didox (Pty) Ltd	South Africa	100.00	0.00
Duoflex (Pty) Ltd	South Africa	74.00	0.00
Elektrowerk Weisweiler GmbH	Germany	100.00	0.00
Green Coal (Pty) Ltd	South Africa	100.00	0.00
Intermetal Madencilik ve Ticaret A.S.	Turkey	99.00	0.00
LP Kunnanharju Oy	Finland	100.00	0.00
Metal ve Maden ic ve Dis Pazarlama Tic Ltd, Sti	Turkey	97.76	0.00
Mogale Alloys (Pty) Ltd	South Africa	90.00	0.00
PGR17 Investments (Pty) Ltd	South Africa	100.00	0.00
RCS Ltd	Malta	100.00	0.00
Rekylator Oy	Finland	100.00	100.00
Ruukki International Ltd	Malta	50.08	0.00
Rekylator Invest Oy	Finland	100.00	0.00
Rekylator Wood Oy	Finland	100.00	0.00

Rekylator Yhtiöt Oy	Finland	100.00	100.00
Türk Maadin Sirketi A.S.	Turkey	98.75	98.75

#### Joint ventures

Synergy Africa Ltd	United Kingdom	51.00	0.00
Chromex Mining Ltd	United Kingdom	51.00	0.00
Chromex Mining Company (Pty) Ltd	South Africa	37.74	0.00
Ilitha Mining (Pty) Ltd	South Africa	41.05	0.00
Mkhombi Stellite (Pty) Ltd	South Africa	44.24	0.00
Waylox Mining (Pvt) Ltd	Zimbabwe	51.00	0.00

#### Associated companies

Specialty Super Alloys SSA Inc.	United States	20.00	0.00
Incap Furniture Oy	Finland	24.06	12.45
Valtimo Components Oyj	Finland	24.90	24.90

Afarak's share of ownership in Valtimo Components Oyj can increase to 39.23% if the shares sold earlier, held as pledge, are not paid in cash to Afarak.

Ruukki International Ltd is in the process of being liquidated and is expected to be stuck-off in the first quarter of 2014.

#### 2.8.2 Related party transactions

Afarak Group Plc defines the related parties as:

- companies, entities or persons having common control or considerable voting power in Afarak Group
- subsidiaries
- joint ventures
- associates
- Afarak Group Plc's and the above mentioned entities' top management

#### Related party transactions with persons belonging to the Group's Board and management

*Finnish accounting legislation, KPA 2:8 § 4 paragraph disclosure requirement*

EUR '000		2013			2012		
		Salaries	Fees	Share-based remuneration	Salaries	Fees	Share-based remuneration
Baum Philip	Board member 21.4.2010 - 16.8.2012					64	193
Everard Paul	Board member 21.4.2010 - 11.2.2013		16	97		115	97
Hoyer Thomas	CEO 4.5.2011 - 11.2.2013, Board member 11.5.2011 - 11.2.2013	386		548	436		195
Kankaala Markku	Board member 30.6.2003 onwards		56	160		104	64
Koncar Danko	CEO since 11.2.2013, Board member 11.8.2010 onwards Acting Managing Director from 14.10.2010 to 3.5.2011	240			280		
Lillja Michael	Board member 11.2.2013 onwards	212					
Manojlovic Jelena	Board member 11.7.2008 onwards, Chairperson 17.6.2009 onwards		59	192		126	97
Parodi Afredo	Board member 11.2.2013 onwards		41				
Pointon Christopher	Board member 21.4.2010 - 11.2.2013		19	97		127	97
Rourke Barry	Board member 21.4.2010 - 11.2.2013		19	97		130	97
Smart Bernice	Board member 11.2.2013 onwards		41				
<b>Total</b>		<b>838</b>	<b>251</b>	<b>1 190</b>	<b>716</b>	<b>665</b>	<b>839</b>

As some of the Board members have also had executive management roles, both the Board fees and the salaries in relation to the executive role have been presented above.

In 2011 the Company has transferred 950,000 shares to the members of the Board as part of their remuneration. The issued shares are subject to a three year lock-up period which ended in 2013.

The CEO receives an annual salary of EUR 240,000 and he is not entitled to any bonus plans, share-based incentives or severance pay in addition to the salary for the notice period.

The Group makes no pension arrangements for the CEO beyond the statutory pension coverage, and there is no set retirement age.

### Management remuneration

EUR '000	2013	2012
Short-term employee benefits	505	872
Post-employment benefits	27	72
Termination benefits	192	0
Share-based payments	333	166
<b>Total</b>	<b>1 057</b>	<b>1 110</b>

The table includes the Executive Management Team remuneration excluding the CEO. The CEO and Board members compensation has been presented separately.

### Business reorganisations

Afarak announced in January 2013 that the Company's management was reorganised to be more appropriately aligned to the size of the Company's current operations and the prevailing market conditions. The Company also reviewed its cost base with a view to identify other restructuring opportunities including larger structural and organisational developments. As part of the restructuring both the Company's board of directors and executive management team were materially downsized. The Executive Management of Afarak was reorganised as follows: Mr. Thomas Hoyer, CEO; Mr. Markus Kivimäki General Manager: Corporate Affairs; and Mr. Kalle Lehtonen, General Manager: Finance left their positions.

### Financing arrangement with related parties

Afarak Group Plc has entered into a USD 55 million standby loan facility agreement with its major shareholder Kermas Ltd. The facility is available until 31 December 2014 and the loan term will be from the first draw-down until 31 December 2015. The agreement replaced the old agreement for the same amount and was due 31 December 2011. At the end of the financial year 2013, the Group has not drawn down any of the loan. The expenses recognised for the facilities were EUR 0.0 (0.1) million.

The Group has a EUR 34.5 (37.2) million loan receivable and EUR 5.1 (4.8) million trade and other receivables from its joint venture companies. Trade and other payables to joint venture companies amounted to EUR 2.4 (0) million. Interest income from a joint venture company totalled EUR 1.1 (1.9) million during the financial year 2013.

The Group had on 31 December 2013 a EUR 10.0 (10.0) million receivable from Kermas Ltd, EUR 3 million will be paid in first quarter of 2014.

### Other related party transactions

The Group has sold its products and rendered services to related parties and joint ventures for a total value of EUR 0.3 (0.6) million. The Group has also made raw material purchases from a joint venture amounting to EUR 12.1 (4.3) million.

Dividends received from associated companies totalled EUR 0.0 (0.0) million.

On 31 December 2013 the Group's parent company had short-term loan receivables from the members of the Board amounting to EUR 0.2 (0.3) million.



## **2.9 COMMITMENTS AND CONTINGENT LIABILITIES**

### **2.9.1 Mortgages and guarantees pledged as security**

On 31 December 2013 the Group had a loan from a financial institution totalling EUR 1.5 (2.7) million. The Group has provided real estate mortgages and other assets as collaterals for total carrying value of EUR 59.8 (41.1) million. Moreover, the Group companies have given cash deposits totalling EUR 2.1 (3.9) million as security for their commitments. The value of other collaterals totalled EUR 0.6 (0.8) million as at 31 December 2013. Afarak Group Plc has given guarantees for third party loans totalling EUR 1.3 (1.3) million.

### **2.9.2 Covenants included in the Group's financing agreements**

One of the Group's South African subsidiaries, Mogale Alloys, has drawn a loan from a South African bank with the principal amount of EUR 1.4 million as at 31 December 2013. The loan agreement includes financial covenants which were not breached during 2013.

One of the Group's Maltese subsidiaries, RCS Ltd, has been granted a loan facility from a Maltese bank amounting US\$ 13.0 million. As at 31 December 2013 the Company had not started making use of this facility. This loan agreement also includes financial covenants which were not breached during 2013

### **2.9.3 Rental agreements**

Liabilities associated with rental and operating lease agreements totalled some EUR 0.8 (0.9) million for the period. Typically, the rental agreements maturity varies between two to five years, and normally there is a possibility to continue these agreements beyond the original maturity date. For these contracts, their price indexing, renewal and other terms differ contract by contract. As guarantees for these rental agreements, the Group companies have made cash deposits of approximately EUR 0.1 (0.1) million as at 31 December 2013.

### **2.9.4 Collaterals given by Afarak Group Plc**

Afarak Group Plc has given guarantees in connection with certain borrowings of Junnikkala Oy, the Group's former subsidiary which it sold in June 2011. These guarantees will continue to be in force until 30 June 2018. Under the terms of the disposal it has been agreed that Junnikkala will pay a fee of 2% per annum to Afarak Group Plc in consideration for the continuation of these guarantees. At 31 December 2013 the indebtedness subject to these guarantees was EUR 1.3 (1.3) million in aggregate.

## **2.10 EVENTS AFTER THE REPORTING PERIOD**

On 20 January 2014, the Board of Afarak announced that the directed share issue to Sail Resources Pte has been cancelled as Sail Resources subscribed for nil shares by the deadline of 18 January 2014.

On 27 March 2014 the Company announced Chinese Suzhou Kaiyuan Chemical Co. Ltd has made a claim of EUR 2.66 million, at current exchange rates, which relates to a chrome ore sales agreement entered into by Chromex Mining Plc (“Chromex”) prior to the acquisition of Chromex by Afarak together in a joint venture with Kermas Limited. The claim has been served on Afarak’s marketing arm RCS Limited and various companies which form part of the Chromex joint venture. The place of arbitration is Shanghai, China. The Company will strongly contest the claim and aims to resolve the matter as soon as possible.

### 3. PARENT COMPANY'S FINANCIAL STATEMENTS (FAS)

#### 3.1 INCOME STATEMENT (FAS)

EUR '000	Note	1.1.2013 - 31.12.2013	1.1.2012 - 31.12.2012
<b>REVENUE</b>	1	<b>347</b>	<b>12 780</b>
Other operating income	2	250	121
Materials and services			
Goods, materials and supplies		0	0
Purchases during the period		0	-11 940
Goods, materials and supplies total		0	-11 940
Materials and services total		0	-11 940
Personnel expenses			
Salaries and wages		-1 269	-1 752
Social security expenses			
Pension expenses		-157	-195
Other social security expenses		-20	-22
Social security expenses total		-177	-217
Personnel expenses total		-1 446	-1 969
Depreciation and amortisation	3	0	0
Depreciation and amortisation according to plan		-33	-42
Depreciation and amortisation total		-33	-42
Other operating expenses	4	-1 557	-3 424
<b>OPERATING PROFIT (LOSS)</b>		<b>-2 439</b>	<b>-4 474</b>
Financial income and expenses:	5		
Impairment of non-current investments		0	-60 000
Other financial income			
From Group companies		2 669	9 939
From others		272	372
Interests and other financial expenses			
To Group companies		-60	-60
To others		-270	-217
Financial income and expenses total		2 612	-49 966
<b>PROFIT (LOSS) BEFORE EXTRAORDINARY ITEMS</b>		<b>172</b>	<b>-54 440</b>
<b>PROFIT BEFORE TAXES</b>		<b>172</b>	<b>-54 440</b>
Income taxes	6		
Income taxes		-60	-578
<b>NET PROFIT</b>		<b>112</b>	<b>-55 018</b>

### 3.2 BALANCE SHEET (FAS)

EUR '000

	Note	31.12.2013	31.12.2012
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Intangible assets	7		
Intangible rights		2	23
<b>Total intangible assets</b>		<b>2</b>	<b>23</b>
Property, plant and equipment	7		
Machinery and equipment		35	46
<b>Total property, plant and equipment</b>		<b>35</b>	<b>46</b>
Investments	8		
Shares in Group companies		164 926	59 099
Shares in associated companies		0	0
Receivables from Group companies		8 015	8 015
<b>Total investments</b>		<b>172 941</b>	<b>67 114</b>
<b>Total non-current assets</b>		<b>172 977</b>	<b>67 183</b>
<b>CURRENT ASSETS</b>			
Receivables	9		
Non-current receivables			
Receivables from Group companies		111 042	211 155
Other interest-bearing receivables		0	1 500
Other interest-free receivables		128	128
<b>Total non-current receivables</b>		<b>111 169</b>	<b>212 783</b>
Current receivables			
Trade receivables		27	124
Receivables from Group companies		1 326	4 251
Receivables from Holding companies		899	
Other interest-bearing receivables		53	84
Other non interest-bearing receivables		26	27
Prepaid expenses and accrued income		224	906
<b>Total current receivables</b>		<b>2 556</b>	<b>5 392</b>
<b>Cash and cash equivalents</b>		<b>150</b>	<b>4 081</b>
<b>Total current assets</b>		<b>113 875</b>	<b>222 255</b>
<b>TOTAL ASSETS</b>		<b>286 853</b>	<b>289 439</b>

EUR '000			
	Note	31.12.2013	31.12.2012
<b>EQUITY AND LIABILITIES</b>			
<b>SHAREHOLDERS' EQUITY</b>	10		
Share capital		23 642	23 642
Share premium reserve		25 223	25 223
Paid-up unrestricted equity reserve		249 101	251 542
Retained earnings		-13 756	41 263
Profit for the period		112	-55 018
<b>Total shareholders' equity</b>		<b>284 322</b>	<b>286 652</b>
<b>LIABILITIES</b>	11		
Non-current liabilities			
Liabilities to Group companies		1 614	1 500
Loans from associated companies		5	5
<b>Total non-current liabilities</b>		<b>1 619</b>	<b>1 505</b>
Current liabilities			
Liabilities to Group companies		247	137
Accounts payable		156	149
Accounts payable to Group companies		211	0
Earn-out purchase consideration liabilities		0	0
Other liabilities		24	71
Accrued expenses and deferred income		272	925
<b>Total current liabilities</b>		<b>911</b>	<b>1 282</b>
<b>Total liabilities</b>		<b>2 530</b>	<b>2 787</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>286 853</b>	<b>289 439</b>

### 3.3 STATEMENT OF CASH FLOWS (FAS)

<b>EUR '000</b>	<b>1.1.2013 - 31.12.2013</b>	<b>1.1.2012 - 31.12.2012</b>
<u>Cash flow used in operating activities</u>		
Profit for the period	112	-55 018
Adjustments:		
Depreciation and amortisation	33	42
Capital gains and losses from investments	0	-121
Impairment	0	60 000
Unrealised foreign exchange gains and losses	34	-17
Financial revenue and expense excluding impairment	-2 612	-10 034
Income taxes	60	578
Share-based payments	0	39
Cash flow before change in working capital	-2 372	-4 532
Change in working capital:		
Change in current trade receivables	1 614	-1 268
Change in current trade payables	48	-1 512
Operating cash flow before financing items and taxes	-710	-7 311
Interests received and other financing items	243	455
Interests paid and other financing items	-170	-112
Income taxes paid	-641	97
<b>Cash flow used in operating activities</b>	<b>-1 277</b>	<b>-6 872</b>
<u>Cash flow used in investing activities</u>		
Capital expenditure on tangible and intangible assets	0	-1
Acquisition of subsidiaries and associates	0	-12 000
Payments for earn-out liabilities	0	-8 000
Disposals of subsidiaries, associates and other investments	0	121
<b>Cash flow used in investing activities</b>	<b>0</b>	<b>-19 880</b>
<u>Cash flow from financing activities</u>		
Acquisition of own shares	-2 441	0
Non-current loans from Group companies	114	0
Short-term loans to Group companies	-10	-1 250
Short-term loans to others	0	-52
Repayments of non-current loans from Group companies	1 500	0
Non-current loans to Group companies	-1 825	-10 600
Repayments of non-current loans given to Group companies	0	312
Repayments of current loan receivables	9	70
<b>Cash flow from financing activities</b>	<b>-2 653</b>	<b>-11 520</b>
<b>Change in cash and cash equivalents</b>	<b>-3 931</b>	<b>-38 272</b>
Cash at the beginning of the period	4 081	42 327
Cash at the end of the period	150	4 081
Cash received from subsidiaries' dissolution	0	26
Change in cash and cash equivalents	<b>-3 931</b>	<b>-38 272</b>

### **3.4 NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)**

#### **3.4.1 Accounting Policies**

##### **Scope of financial statements and accounting policies**

The parent company has prepared its separate financial statements in accordance with Finnish Accounting Standards. Consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. Consolidated financial statements are presented separately as a part of these financial statements.

Information on holdings in subsidiaries and associated companies and information on their consolidation is presented in the notes to the financial statements.

All figures are presented in thousand Euros, unless otherwise explicitly stated.

##### **Valuation principles and methods**

Investments in associated companies and debt instruments are valued at acquisition cost, less eventual impairment. Dividends received from Group companies and associates have been recorded as financial income.

The balance sheet value of property, plant and equipment is stated at acquisition cost, less accumulated depreciation. Other assets have been stated in the balance sheet at the lower of acquisition cost or their likely realisable value. Debt items are valued at acquisition cost. Loan receivables from subsidiaries and Group companies have been valued at acquisition cost.

##### **Depreciation methods**

Acquisition costs of property, plant and equipment are depreciated over their useful lives according to plan. Depreciation plans have been defined based on practice and experience.

Asset	Depreciation method and period
Intangible rights	5 years straight line
IT equipment	2 years straight line
Other machinery and equipment	5 years straight line

##### **Translations of foreign currency items**

Balance sheet items denominated in foreign currency are translated into functional currency using the exchange rates of the balance sheet date. Income statement items are translated applying the exchange rates prevailing at the date of the transaction.

##### **Comparability of the reported financial year and the previous year**

The reported financial year and the previous year were both calendar years and are thus comparable. The Company has been actively restructuring its business, which has required various ownership and financial arrangements. The transactions have had significant non-recurring effects on the Company's income statement, balance sheet and financial position, which make comparison of financial statements and estimating the future more difficult.

### 3.4.2 Notes to the income statement

#### 1. Revenue

EUR '000

	2013	2012
<u>By business line:</u>		
Services	347	839
Other revenue	0	11 940
<b>Total</b>	<b>347</b>	<b>12 780</b>
<u>By geography:</u>		
Finland	3	3
EU countries	152	12 271
Other countries	192	505
<b>Total</b>	<b>347</b>	<b>12 780</b>

#### 2. Other operating income

EUR '000

	2013	2012
Gain on disposal of property, plant and equipment	0	121
Other income	250	0
<b>Total</b>	<b>250</b>	<b>121</b>

#### 3. Depreciation, amortisation and impairment

EUR '000

	2013	2012
<u>Depreciation and amortisation according to plan</u>		
Intangible rights	-22	-28
Machinery and equipment	-12	-14
<b>Total</b>	<b>-33</b>	<b>-42</b>

#### 4. Other operating expenses

EUR '000

	2013	2012
Voluntary employee benefits	-21	-74
Premise expenses	-116	-133
Machinery and equipment expenses	-153	-187
Travelling expenses	-104	-637
Representation expenses	-4	-22
Marketing expenses	-15	-102
Administration expenses	-913	-2 170
Other operating expenses	-233	-99
<b>Total</b>	<b>-1 557</b>	<b>-3 424</b>



## 5. Financial income and expense

EUR '000

	2013	2012
Impairment on investments		
Impairment on holdings in subsidiaries	0	-60 000
Reversal of impairment from loans to Group companies	0	0
Other financial income		
From Group companies	2 669	9 939
From others	272	372
Other financial expense		
To Group companies	-60	-60
To others	-270	-217
<b>Total</b>	<b>2 612</b>	<b>-49 966</b>

## 6. Income taxes

EUR '000

	2013	2012
Profit for the period	112	-55 018
Adjustments for tax calculation	53	57 450
<b>Taxable income</b>	<b>165</b>	<b>2 432</b>
Tax advances paid	-43	0
Tax deferral based on taxable income	40	-578
<b>Income tax of the period</b>	<b>-2</b>	<b>-578</b>
Tax loss carryforward used	0	0
<b>Net income taxes</b>	<b>-2</b>	<b>-578</b>
Income tax receivable	2	0
Income tax payable	0	578

### 3.4.3 Notes to assets

#### 7. Fixed assets

EUR '000	2013	2012
<b>Intangible rights</b>		
Acquisition cost 1.1.	245	245
Acquisition cost 31.12.	245	245
Accumulated depreciation 1.1.	222	194
Depreciation for the period	22	28
Accumulated depreciation 31.12.	243	222
Book value 31.12.	2	23
<b>Machinery and equipment</b>		
Acquisition cost 1.1.	283	282
Additions	0	1
Acquisition cost 31.12.	283	283
Accumulated depreciation 1.1.	237	223
Depreciation for the period	12	14
Impairment for the period	0	0
Accumulated depreciation 31.12.	248	237
Book value 31.12.	35	46
	<b>2013</b>	<b>2 012</b>
<b>Other tangible assets</b>		
Acquisition cost 1.1.	2	2
Acquisition cost 31.12.	2	2
Accumulated depreciation 1.1.	2	2
Accumulated depreciation 31.12.	2	2
Book value 31.12.	0	0

#### 8. Investments

	Shares in Group companies	Shares in associated companies		Receivables from Group companies	Total
Acquisition cost 1.1.2013	129 147	8 153		19 618	156 917 894
Additions	105 827				105 827 462
Acquisition cost 31.12.2013	234 974	8 153		19 618	262 745 356
Accumulated depreciation and impairment 1.1.2013	-70 048	-8 153		-11 603	-89 804 279
Impairment	0				0
Accumulated depreciation and impairment 31.12.2013	-70 048	-8 153		-11 603	-89 804 279
<b>Book value 31.12.2013</b>	<b>164 926</b>	<b>0</b>		<b>8 015</b>	<b>172 941 077</b>

## Holdings in Group and other companies

Name	Country of incorporation	Group's ownership and share of votes (%)	AfarakGroup Plc's direct ownership and share of votes (%)
Arafak Energy (Pty) Ltd	South Africa	100.00	0.00
Afarak Holdins Ltd	Malta	100.00	0.00
Afarak Investments Ltd	Malta	100.00	99.99
Afarak Mining Ltd	South Africa	100.00	0.00
Afarak South Africa (Pty) Ltd	South Africa	100.00	0.00
Afarak Suisse SA	Switzerland	100.00	100.00
Auburn Avenue Trading 88 (Pty) Ltd	South Africa	74.00	0.00
Destiny Spring Investments 4 (Pty) Ltd	South Africa	100.00	0.00
Destiny Spring Investments 11 (Pty) Ltd	South Africa	100.00	0.00
Destiny Spring Investments 12 (Pty) Ltd	South Africa	100.00	0.00
Dezzo Trading 184 (Pty) Ltd	South Africa	100.00	0.00
Didox (Pty) Ltd	South Africa	100.00	0.00
Duoflex (Pty) Ltd	South Africa	74.00	0.00
Elektrowerk Weisweiler GmbH	Germany	100.00	0.00
Green Coal (Pty) Ltd	South Africa	100.00	0.00
Intermetal Madencilik ve Ticaret A.S.	Turkey	99.00	0.00
LP Kunnanharju Oy	Finland	100.00	0.00
Metal ve Maden ic ve Dis Pazarlama Tic Ltd, Sti	Turkey	97.76	0.00
Mogale Alloys (Pty) Ltd	South Africa	90.00	0.00
PGR17 Investments (Pty) Ltd	South Africa	100.00	0.00
RCS Ltd	Malta	100.00	0.00
Rekylator Oy	Finland	100.00	100.00
Ruukki International Ltd**	Malta	50.08	0.00
Rekylator Invest Oy	Finland	100.00	0.00
Rekylator Wood Oy	Finland	100.00	0.00
Rekylator Yhtiöt Oy	Finland	100.00	100.00
Türk Maadin Sirketi A.S.	Turkey	98.75	98.75

## Joint ventures

Synergy Africa Ltd	United Kingdom	51.00	0.00
Chromex Mining Ltd	United Kingdom	51.00	0.00
Chromex Mining Company (Pty) Ltd	South Africa	37.74	0.00
Ilitha Mining (Pty) Ltd	South Africa	41.05	0.00
Mkhombi Stellite (Pty) Ltd	South Africa	44.24	0.00
Waylox Mining (Pvt) Ltd	Zimbabwe	51.00	0.00

## Associated companies

Special Super Alloys SSA Inc.	United States	20.00	0.00
Incap Furniture Oy	Finland	24.06	12.45
Valtimo Components Oyj *	Finland	24.90	24.90

\* Afarak's ownership can increase to 39.23% if the shares sold earlier, held as pledge, are not paid in cash to Afarak..

\*\* Ruukki International Ltd is in the process of being liquidated and is expected to be stuck-off in the first quarter of 2014.

## 9. Receivables

### Receivables from Group companies

EUR '000	2013	2012
<u>Non-current</u>		
Loan and other receivables	76,764	179,508
Interest receivables	34,278	31,647
<b>Total</b>	<b>111,042</b>	<b>211,155</b>
<u>Current</u>		
Loan receivables	10	1,250
Trade receivables	1,248	2,170
Interest receivables	36	22
Prepayments and accrued income	33	809
<b>Total</b>	<b>1,326</b>	<b>4,251</b>

### Other interest-bearing receivables

EUR '000	2013	2012
<u>Non-current</u>		
Receivables from disposals of Group companies	0	1,500
<b>Total</b>	<b>0</b>	<b>1,500</b>
<u>Current</u>		
Loan receivables	43	52
VAT receivable	10	33
<b>Total</b>	<b>53</b>	<b>84</b>

### Other interest-free receivables

EUR '000	2013	2012
<u>Non-current</u>		
Other prepaid expenses and accrued income	128	128
<b>Total</b>	<b>128</b>	<b>128</b>
<u>Current</u>		
Trade receivables	27	124
Receivables from associated companies	899	
Other receivables	27	27
<b>Total</b>	<b>953</b>	<b>151</b>

Prepaid expenses and accrued income	2013	2012
Income tax receivable	2	0
Accrued interest income	7	38
Other prepaid expenses and accrued income	214	867
<b>Total</b>	<b>224</b>	<b>906</b>

### 3.4.4 Notes to equity and liabilities

#### 10. Shareholders' equity

EUR '000

Share capital	2013	2012
Share capital 1.1.	23 642	23 642
<b>Share capital 31.12.</b>	<b>23 642</b>	<b>23 642</b>
<b>Share premium reserve</b>	<b>2013</b>	<b>2012</b>
Share premium reserve 1.1.	25 223	25 223
<b>Share premium reserve 31.12.</b>	<b>25 223</b>	<b>25 223</b>
<b>Paid-up unrestricted equity reserve</b>	<b>2013</b>	<b>2012</b>
Paid-up unrestricted equity reserve 1.1.	251 542	251 504
Capital redemption to the shareholders	-2 441	0
Purchase of own shares	0	0
Share-based payments	0	39
<b>Paid-up unrestricted equity reserve 31.12.</b>	<b>249 101</b>	<b>251 542</b>
<b>Retained earnings</b>	<b>2013</b>	<b>2 012</b>
Retained earnings 1.1.	41 263	-11 949
Profit for the previous financial year	-55 018	53 212
<b>Retained earnings 31.12.</b>	<b>-13 756</b>	<b>41 263</b>
<b>Profit for the financial year</b>	<b>112</b>	<b>-55 018</b>
<b>Total shareholders' equity</b>	<b>284 322</b>	<b>286 652</b>
<b>Distributable funds</b>	<b>2013</b>	<b>2 012</b>
Retained earnings 1.1.	-13 756	41 263
Profit for the financial year	112	-55 018
<b>Retained earnings 31.12.</b>	<b>-13 644</b>	<b>-13 756</b>
Paid-up unrestricted equity reserve	249 101	251 542
<b>Distributable funds 31.12.</b>	<b>235 457</b>	<b>237 787</b>

#### 11. Liabilities

Non-current liabilities

EUR '000

<b>Non-current interest bearing debt</b>	<b>2013</b>	<b>2012</b>
Loans from Group companies	1,614	1,500
<b>Total</b>	<b>1,614</b>	<b>1,500</b>
<b>Non-current interest-free debt</b>		<b>2012</b>
Loans from associated companies	5	5
Earn-out purchase consideration liabilities	0	0
<b>Total</b>	<b>5</b>	<b>5</b>

## Current liabilities

EUR '000

Current interest bearing debt	2013	2012
Other debt to Group companies	50	0
<b>Total</b>	<b>50</b>	<b>0</b>
Current interest-free debt	2013	2012
Accounts payable	156	149
Payables to Group companies	211	0
Other debt	24	71
Other debt to Group companies	197	137
Accrued expenses and deferred income	272	925
<b>Total</b>	<b>861</b>	<b>1,282</b>

In May 2012 Afarak settled the earn-out liability in connection with the acquisition of Elektrowerk-Weisweiler GmbH (EWW). The total settlement price of the earn-out liability totalled EUR 8 million and was paid in cash. As a result, the Company has no longer earn-out liabilities at the end of 2012.

## Option rights

The Company's option schemes are presented in the notes to the consolidated financial statements. The Company has option schemes I/2005 (maximum 2,700,000 shares), I/2008 (maximum 2,900,000 shares, all options granted to the Group's previous CEO) and I/2011 (maximum 6,900,000 shares).

### 3.4.5 Pledges and contingent liabilities

As at 31 December 2013, Afarak Group Plc's pledges and contingent liabilities in relation to rental and leasing liabilities were EUR 0.3 (0.5) million, of which EUR 0.1 (0.2) million will mature in less than one year and the rest in 1-5 years.

## Pension liabilities

The Company's pension liabilities are directly in accordance with the statutory TyEL-system.

### 3.4.6 Other notes

## Related party loans

The Company has short-term loan receivables from the members of the Board amounting to EUR 217 (293) thousand.

## Information on the personnel

Personnel, annual average (all employees)	2013	2012
Employees	3	10
Management remuneration	2013	2012
Chief Executive Officer	240	280
Board members	2 039	1 940

The annual basic salary of the CEO is EUR 240,000 and he is not entitled to any bonus plans, share-based incentives or severance pay in addition to the salary for the notice period..

## Information on shares and shareholders

### Changes in the number of shares and share capital

On 31 December 2013, the registered number of Afarak Group Plc shares was 248,432,000 (248,432,000) and the share capital was EUR 23,642,049.60 (23,642,049.60).

On 31 December 2013, the Company had 4,244,717 (4,297,437) own shares in treasury, which was equivalent to 1.71% (1.73%) of the issued share capital. The total amount of shares outstanding, excluding the treasury shares held by the Company on 31 December 2013, was 244,187,283 (244,134,563).

On 18 December 2013, the Board of Afarak announced that it has awarded 52,720 ordinary shares from the treasury to Mr Wynand van Wyk, Head of Mining South Africa. The shares were issued under the authorization given by the Company's Annual General Meeting in May 2013 and formed a part of the Company's incentive programme for senior management. Under the terms of the directed free share issue scheme, the shares were offered free of charge and in derogation of the pre-emptive subscription right of shareholders.

More information on shares, share capital and shareholders have been presented in the notes to the consolidated financial statements.

### Information obligated to a Group company

The Company is the Group's parent company.

Afarak Group Plc, domicile Helsinki (address: Kasarmikatu 36, 00130 Helsinki)

### Board members' and Chief Executive Officer's ownership

Afarak Group Plc's Board members and Chief Executive Officer owned in total 78,078,926 (78,610,463) Afarak Group Plc shares on 31 December 2013 when including shares owned either directly, through persons closely associated with them or through controlled companies. This corresponds to 31.4% (31.6%) of all outstanding shares that were registered in the Trade Register on 31 December 2013.

#### 31.12.2013

##### Board and CEO total:

Danko Koncar	CEO
Jelena Manojlovic	Chairman
Bernice Smart	Non-Executive Director
Markku Kankaala	Non-Executive Director
Michael Lillja	Executive Director
Alfredo Parodi	Non-Executive Director

##### Board and CEO total

All shares outstanding  
Proportion of all shares

shares	options
70 815 639	0
150 000	0
0	0
7 090 616	0
71	200 000
22 600	0
<b>78 078 926</b>	<b>200 000</b>
248 432 000	248 432 000
31,4 %	0,1 %

On 31 December 2012 the total number of registered shares was 248,432,000 and the Board and CEO's ownership corresponded to 31.6% of the total number of registered shares.

**Auditor's fees**

EUR '000	2013	2012
Ernst & Young Oy		
audit	258	258
other services	11	224
Total	269	482

**Board's dividend proposal**

The Board of Directors proposes to the Annual General Meeting which will be held on 8 May 2014 that no dividend would be distributed but that a capital redemption of EUR 0.01 per share would be paid out of the paid-up unrestricted equity fund.



## **4. SIGNATURES TO THE BOARD OF DIRECTORS REPORT AND THE FINANCIAL STATEMENTS**

Helsinki 28 March 2014

Jelena Manojlovic  
Chairman

Danko Koncar  
Member of the Board, Chief Executive Officer

Markku Kankaala  
Member of the Board

Michael Lillja  
Member of the Board

Alfredo Parodi  
Member of the Board

Bernice Smart  
Member of the Board

## **5. THE AUDITOR'S NOTE**

Our auditor's report has been issued today.

Helsinki 28 March 2014

Ernst & Young Oy

Tomi Englund  
Authorised Public Accountant