



A F A R A K  
G R O U P

# ANNUAL REPORT

## 2016

WE ARE

**AFARAK**

THE SPECIALITY ALLOY PRODUCER.





A vertically-integrated producer of speciality alloys, Afarak is a global organisation with operations in South Africa, Turkey and Germany. Afarak is listed on the Helsinki Stock Exchange and the London Stock Exchange.

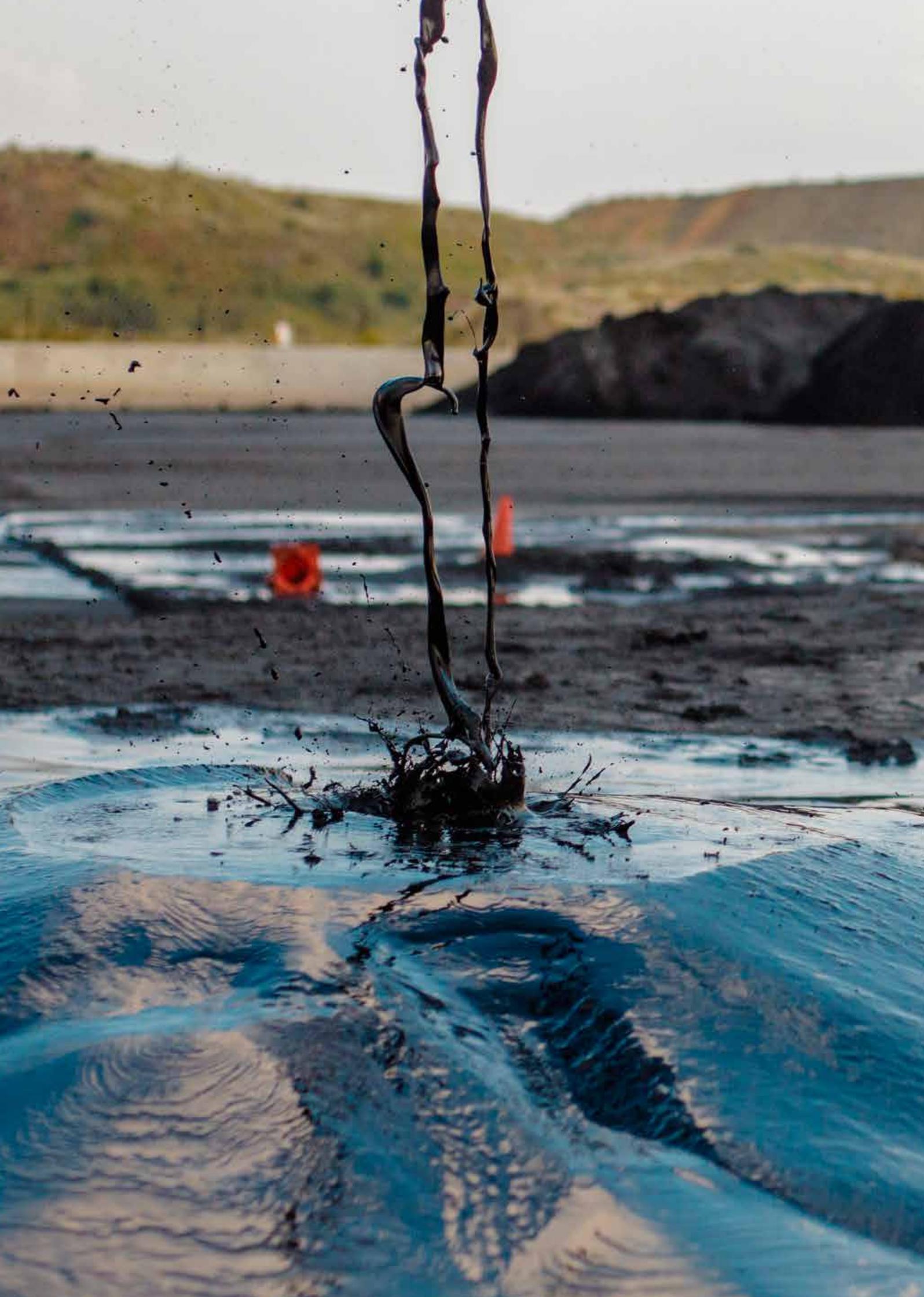
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**STRATEGIC  
REVIEW >**

# GLOBAL FOOTPRINT

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**1. HELSINKI**

Registered office, Primary listing

**2. MALTA**

Corporate Office

**3. LONDON**

Secondary listing

**4. SOUTH AFRICA**

Mines – Ferroalloys mines

**5. SOUTH AFRICA**

Mogale – Ferroalloys processing plant

**6. TURKEY**

Mines – Speciality alloys mines

**7. GERMANY**

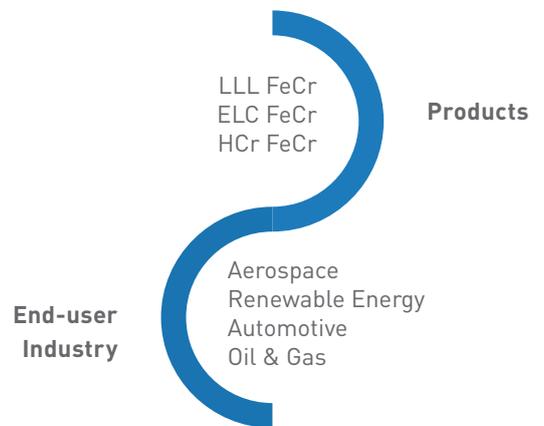
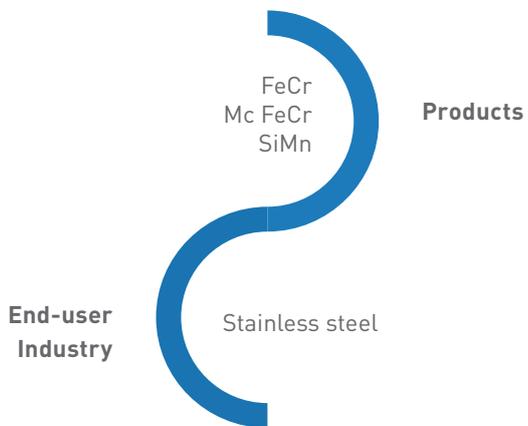
EWV – Speciality alloys processing plant



**SEGMENTS**

**FERROALLOYS**

**SPECIALITY ALLOYS**



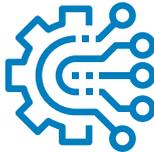


# 2016 GROUP HIGHLIGHTS

Afarak's performance in 2016 highlights its strong fundamentals.



GROUP MINING  
**262,266**  
tonnes



GROUP PROCESSING  
**95,739**  
tonnes



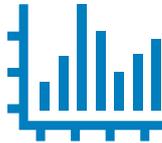
GROUP SALES  
**95,095**  
tonnes



REVENUE  
**€153.6**  
million



EBITDA  
**€5.5**  
million



EBIT  
**-€1.0**  
million



ASSETS  
**€260.2**  
million



GEARING RATIO  
**-3.3%**



INTEREST-BEARING DEBT  
**€3.7**  
million



EQUITY RATIO  
**67.7%**

# CEO REPORT

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**GUY KONSBRUCK**

CEO

## Afarak delivered a set of solid results in 2016 against a very challenging year.

The commodity market sentiment weakened considerably throughout most of the year and only improved in December. The chrome and ferrochrome market was particularly adversely affected with a good number of producers going into either business rescue or reducing their production outputs. Weakened demand and deflationary pricing pressures due to de-stocking also contributed.

### **ROBUST PERFORMANCE DESPITE DIFFICULT ENVIRONMENT.**

Against these severe headwinds, Afarak registered a solid performance. EBITDA for the year amounted to €5.5 million, compared to €17.2 million in 2015.

With prices gravitating downwards, our sales volumes were hit hard, particularly in the speciality segment. Our mining and production volumes were also lower due to the closure of Mecklenburg, safety stoppages at the mines and the temporary closure of Mogale Alloys.

Management focused its efforts on prudent capital management, debt collection, optimising production, inventory management – including the decision to temporarily stop production in our German smelter EWW, which created an opportunity for successful placing of TMS' chrome ore onto the higher priced market during quarter four.

During the fourth quarter, Afarak confirmed its responsiveness to expected market conditions. With a recovery in market prices and a strengthening in demand; Afarak responded in a timely and effective manner. As benchmark prices reached an eight-year high in December, Afarak brought on stream three projects that will enable the Company to benefit from the market upswing running into the first quarter of 2017. The Mogale plant operates as a swing plant and switched one of its silicomanganese furnaces to ferrochrome enabling better margins in the current market. During the first quarter of 2017, the last silicomanganese furnace will also start producing charge chrome. Preparations to

resume opencast mining at Mecklenburg started in December with the first successful blasts happening in March. Full production is expected to commence in April. The shaking table project at the Ilitha mine is now also in full production. These factors have allowed Afarak to register a stronger performance in the fourth quarter and confirmed the Company's entrepreneurial nature in identifying and reaping opportunities.

### **STRENGTHENING OUR BALANCE SHEET**

In response to the market conditions, our focus became prudent capital management and cash preservation.

Cash flow generated from operations totalled €9 million. During the year, we used our cash to pay €5.2 million in capital redemptions as well as to reduce external debt by €11.8 million. This brought down our debt-to-equity ratio to 2.1% from 8.2% a year earlier.

Currency effects positively affected Afarak's balance sheet due to the strengthening of the Rand.

### **GROWTH STRATEGY**

Afarak was able to deliver its results despite the challenging environment because it was focused on its long-term growth strategy. Its agility to respond quickly to changing market circumstances, its vertical-integration and a focused management team have allowed it to reap market opportunities.

We are now focused on further implementing our growth plan. We are focusing our efforts on process innovations and product development. Work is well underway to expand our product portfolio and reduce our dependency on third parties by strengthening our core capacities.

### **SUSTAINABILITY**

It is with sadness to report that during 2016 one of our colleagues lost his life at one of our plants. Any loss of life is unacceptable and we continue to strengthen our efforts in this regard. In 2017, we will be embarking on a drive to strengthen the safety culture across all our operations.

We have continued to work and engage with our host communities, especially in South Africa. Working together with local charities we continued to support various community

investments and projects. We feel privileged to be able to make a difference in people's lives through our commitments.

The environment remains an important element in our drive towards sustainability. Throughout 2016, we have focused our efforts on water management in South Africa with several initiatives and investments being undertaken.

### **LOOKING AHEAD**

The markets in which we trade remain volatile. The prices of chrome ore and ferrochrome are expected to remain strong in quarter one 2017, positively affecting Afarak's financial performance. We expect significantly better results in quarter one 2017 compared to a year earlier. It is however difficult to predict the longer-term outlook. Afarak will continue concentrating on its core activity, ferrochrome specialties. Our results for 2016 encourage us to continue moving forward with our strategy. We will always continue pursuing our drive towards an efficient and effective organisation that creates value to all our stakeholders, including our shareholders.

### **THANK YOU**

Since joining Afarak, I had the pleasure of meeting our teams across all our operations. All our colleagues played an important role in ensuring Afarak's resilience and strength throughout the challenging year. We are now focused on ensuring that Afarak remains a competitive and efficient company. The current market upswing will enable us to register positive quarter one results and allow us to pursue further efforts to consolidate our vertically-integrated business model. We continue exploring the appropriate business opportunities through continuous innovation, leveraging also of our technical expertise and the proven ability to timeously adapt to ever changing market conditions, identify and explore higher yielding strategies. Supported by our strong balance sheet, we remain well positioned to prudently take advantage of the appropriate investment opportunities.

As we look forward to the coming months, I would like to also thank all of our clients for their support and trust backed by Afarak's commitment to continue delivering the highest level quality of our products and service. Also, I would like to thank our host communities for accepting us as partners.

Lastly, I thank all the members of the Board, ably led by our Chairman, for putting their trust in me and for sharing their extensive collective expertise and insight.

# GROWTH STRATEGY

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Afarak's strategy is to grow and strengthen its business through industry acquisitions, vertical-integration, product development and continuous process innovation.

Throughout 2016, Afarak was focused on cash flow optimisation, debt reduction and working capital reduction. We are now in a position of having available capital and the opportunity to support our growth, both organically and through selected merger and acquisition activity.

Afarak's organic growth strategy is very much focused on product development and process innovation. Our shaking table technology has started to perform and is contributing to improved efficiencies and a lower cost of production in our mines in Turkey and South Africa. We are also improving our product portfolio with a focus on research & development.

Our acquisition strategy is both selective and opportunistic. We have developed a list of targets which would either increase our market share or support us in our vertical-integration efforts. Our assessment and focus is on long-term prospects of the assets considered as well as their contribution to maximising shareholder value.



# 2016 HIGHLIGHTS

## **MINING LICENCE GRANTED, TMS, TURKEY, SPECIALITY ALLOYS**

In January 2016, the Speciality Alloys mining segment, TMS, has been granted the exploitation mining licence for "Eagle Field."

## **SHAKING TABLE PROJECT COMPLETING; SOUTH AFRICA, FERROALLOYS**

The €3 million investment in a 24 shaking table project was completed. The in-house technology enables the treatment of tailing dumps for chrome.

## **AFARAK MOGALE OPERATES AS A SWING PLANT; SOUTH AFRICA, FERROALLOYS**

Mogale successfully transitioned one of its silicomanganese furnaces to ferrochrome. This enabled Afarak Group to benefit from the market upswing towards the end of the year as an additional 7,000 tonnes of on-grade ferrochrome was produced.

## **OPENCAST MINING AT MECKLENBURG TO RESTART; SOUTH AFRICA, FERROALLOYS**

Work has started towards the end of the year to increase the high-wall and restart opencast mining. It is expected that more than 200,000 tonnes of chrome ore will be mined. The project is also expected to facilitate underground mining with access to 4.5 million tonnes of chrome ore.

## **NEW EXECUTIVE MANAGEMENT TEAM, AFARAK GROUP**

Dr Alistair Ruiters resigned as Chief Executive CEO in December 2016. Guy Konsbruck was appointed as the new Chief Executive Officer and Predrag Kovacevic as Chief Financial Officer. Keith Scott also resigned as a Director.

## **TEMPORARY CLOSURE OF EWW, GERMANY, SPECIALITY ALLOYS**

Due to the weak market conditions and in a drive to reduce piling of inventory and working capital, EWW temporarily halted production during the fourth quarter.

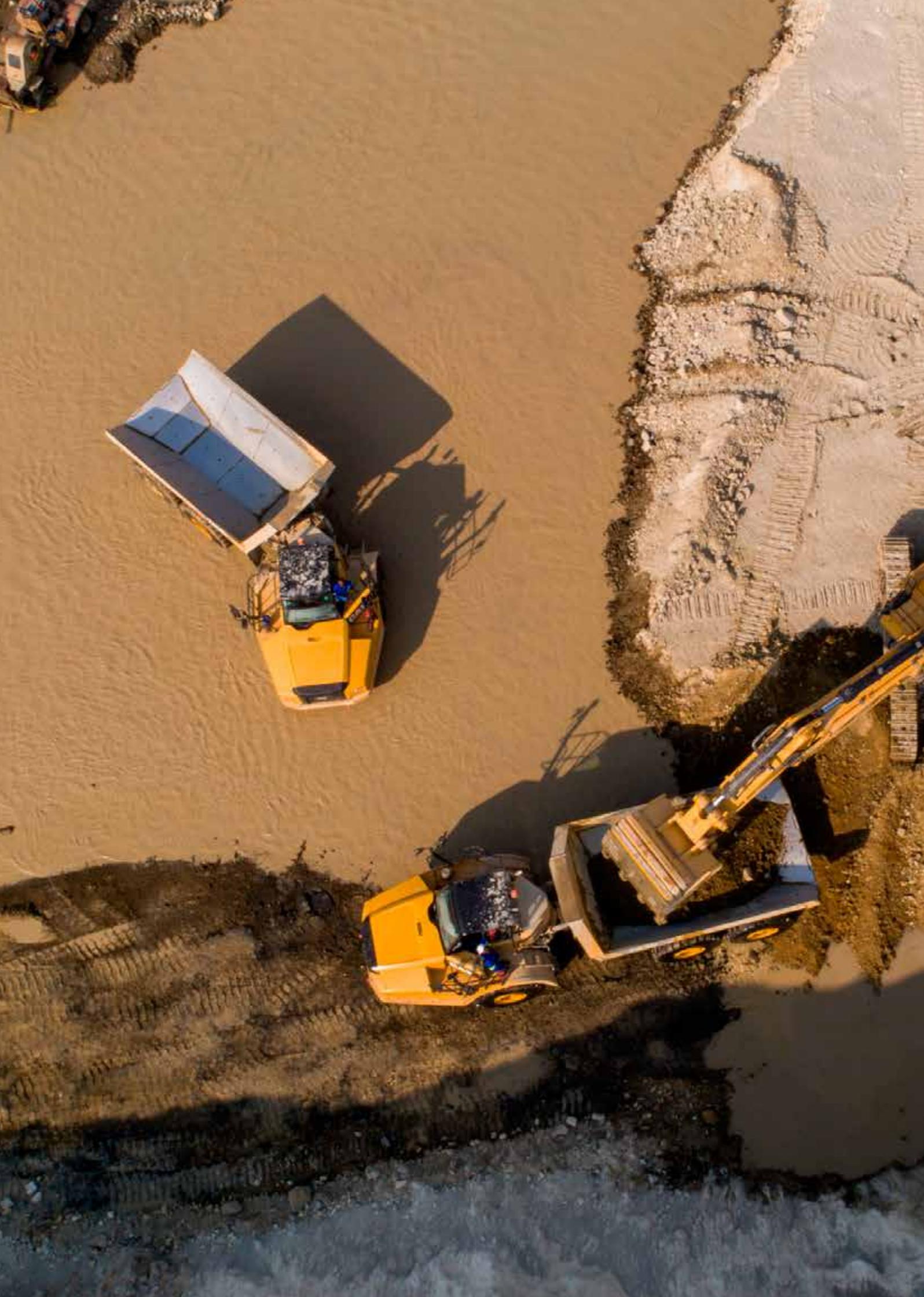
## **WATER USE LICENSE GRANTED; AFARAK MOGALE, SOUTH AFRICA, FERROALLOYS**

Afarak Mogale was granted the water use license following various investments and interventions by the Company to preserve, conserve and manage its water consumption responsibly in line with its environmental policy.

## **FATALITY AT AFARAK MOGALE, SOUTH AFRICA, FERROALLOYS**

Unfortunately, one of our colleagues succumbed to grievous injuries sustained in an accident at the Mogale Plant. The Company organised various counselling sessions and a memorial service at a plant. Following the incident, the Company has further strengthened the safety culture.





# MARKET REVIEW

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Global activity continued to improve throughout 2016, especially in the fourth quarter. Data released suggests a relatively stable expansion in advanced economies and a slight improvement in emerging market economies. The medium-term outlook for global activity remains one of strengthening growth, albeit below its pre-crisis pace. The global outlook continues to be overshadowed by several factors, including the gradual rebalancing of the Chinese economy, and policy uncertainty in the United States and the United Kingdom.

Global activity continued to improve throughout 2016, especially in the fourth quarter. Data released suggests a relatively stable expansion in advanced economies and a slight improvement in emerging market economies. The medium-term outlook for global activity remains one of strengthening growth, albeit below its pre-crisis pace. The global outlook continues to be overshadowed by several factors, including the gradual rebalancing of the Chinese economy, and policy uncertainty in the United States and the United Kingdom.

In quarter four, commodity prices in general showed an increased momentum and the main factors determining specific commodities are addressed below.

## STAINLESS STEEL MARKET

Following the prolonged period of low and depressed prices, stainless steel is picking up in price levels. The expansions seen are primarily driven by increased cost pressures, specifically raw materials such as ferrochrome and nickel. Stainless steel prices also improved following the US presidential election on account of growth-friendly policies and protectionist measures. On the other hand, Chinese producers have excess output capacity as a result of the anti-dumping policies that have been introduced in numerous markets.

## FERROCHROME MARKET

Demand for ferrochrome, reflecting the trend seen in the stainless-steel sector, continued putting upward pressures on price. On the back of increased demand, prices started to increase even as market supply continued to tighten following the cutbacks in ferrochrome production from South Africa due to several producers going into business rescue or cutting their production and in China due to environmental restrictions. The prices for ferrochrome continued to increase and towards the end of the quarter the European benchmark for South African charge chrome reached an eight-year high. The expansion is seen to persist into 2017 as demand for ferrochrome and steel continues to increase, even if we might see some correction in the price levels.

## CHROME ORE MARKET

The prices for chrome ore continued to accelerate on account of increased demand from Chinese ferro-chrome producers. With supply from South Africa still being tight, this increased demand will continue to support relatively high price levels. In addition, with the strengthening of the ZAR against the dollar and increased transportation costs; cost-push factors have also impinged on the price level.

## SILICO MANGANESE MARKET

The rapid gains in manganese ore prices seen throughout 2016 had yet to be reflected in silico-manganese prices outside of China, due to excess supply in the market and subdued demand. However, in the fourth quarter, the price of silico-manganese reversed its downward trend and started to increase due to cost-push factors started having an impact on prices. This trend reversed in Q1/2017.

# GROUP OVERVIEW

Afarak's performance in 2016 highlights its strong fundamentals. The Company registered a positive operational result despite another the highly challenging market conditions persisting for most of the year. Nevertheless, due to strategic planning and timely

capital investments, the Company was well-positioned to benefit from the market upswing towards the end of the year. During the year, the Company also managed to significantly reduce its external debt.



REVENUE

**€153.6mln**  
(€187.7mln)



PROFIT

**€-0.9mln**  
(€8.5mln)



EBIT

**€-1.0mln**  
(€9.9mln)



EBITDA

**€5.5mln**  
(€17.2mln)



EQUITY RATIO

**67.7%**  
(64.2)



GROUP SALES

**95,095mt**  
(105,777mt)



GROUP MINING

**262,266mt**  
(461,781mt)



GROUP PROCESSING

**97,095mt**  
(105,777mt)



HUMAN RESOURCES

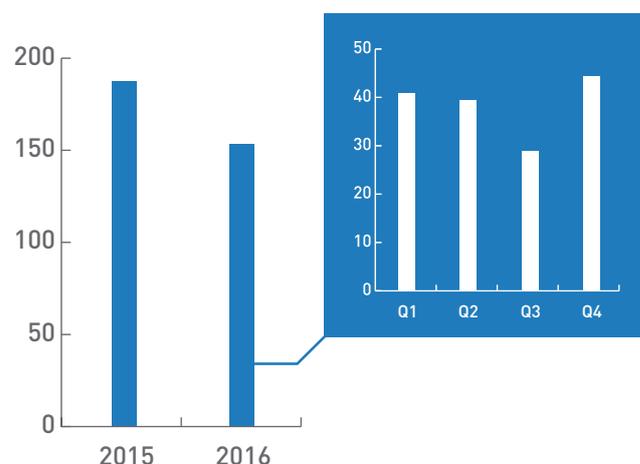
**813**  
(773)

Throughout 2016, Afarak faced largely depressed market conditions, affecting most chrome and ferrochrome producers. During the past year, a good number of South African producers either went into business rescue or reduced their ferrochrome output.

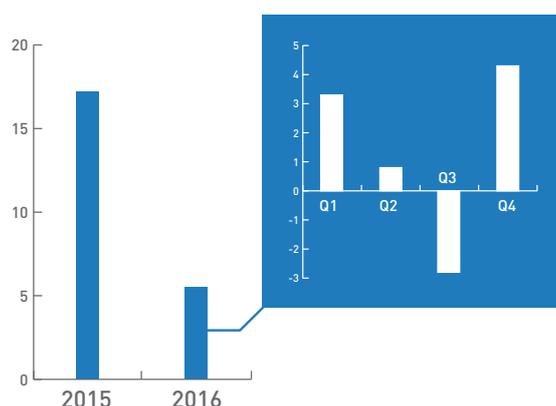
## FINANCIAL REVIEW

Due to the suppressed markets, Afarak saw its revenue decline by 18% to EUR 153.6 (187.7) million. The decrease was mostly seen in the Speciality Alloys segment which decreased by 28.1% due to lower sales volumes of processed material resulting from weak demand and excess supply as producers from BRICS countries continued destocking their positions, hence lowering prices. Revenue in the Ferro Alloys segment decreased by 8.0% due to lower sales prices of both silicomanganese and charge chrome which only recovered in the last quarter of 2016.

Revenue (EUR million)



EBITDA (EUR million)



Notwithstanding the drop in revenues and the difficult market conditions, Afarak still managed to register a positive EBITDA of EUR 5.5 (17.2) million. It was primarily driven by the positive fourth quarter on the back of a strong market recovery in ferrochrome prices in December. The difficult second and third quarter results were primarily affected by the decline in selling prices and lower sales volumes.

The Synergy joint venture managed to register a profit during 2016 amounting to EUR 0.1 (-0.1) million.

Profit from discontinued operations during 2016 amounted to EUR 1.9 (0.8) million that includes a release of EUR 0.8 (0.2) million from the provision in relation to the discontinued wood segment as the Company sold part of the saw mill equipment that was acquired in 2008.

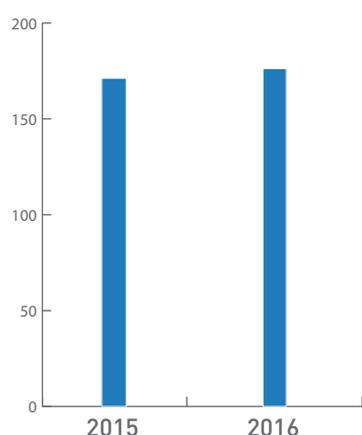
EUR MILLION	Q1	Q2	Q3	Q4	FY16	FY15
Revenue	40.8	39.5	28.9	44.4	153.6	187.7
EBITDA	3.3	0.8	-2.8	4.3	5.5	17.2
EBITDA margin	8.0%	2.0%	-9.8%	9.6%	3.6%	9.2%
EBIT	1.7	-0.9	-4.5	2.7	-1.0	9.9
EBIT margin	4.2%	-2.2%	-15.7%	6.1%	-0.7%	5.3%
<b>Profit for the period</b>	<b>0.2</b>	<b>-1.0</b>	<b>-2.2</b>	<b>2.0</b>	<b>-0.9</b>	<b>8.5</b>

The full year earnings per share was EUR 0.00 (0.03)

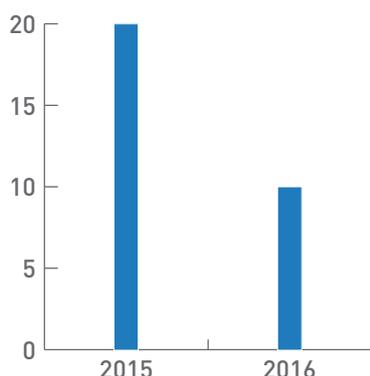
# BALANCE SHEET, CASH FLOW AND FINANCING

Throughout the year, the Group focused its efforts on strengthening its balance sheet despite the adverse market conditions. Management focused on optimising working capital and debt reduction

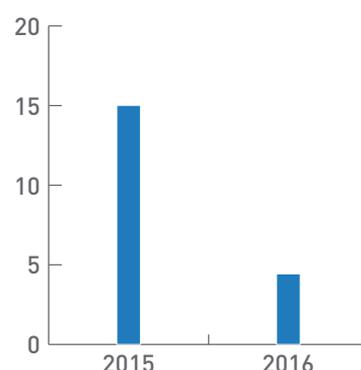
Net assets (EUR million)



Cash position (EUR million)



Interest-bearing debt (EUR million)



The Group's total assets on 31 December 2016 were EUR 260.2 (266.9) million, and net assets totalled EUR 176.2 (171.2) million. During the year, currency movements positively affected Afarak's balance sheet with the translation reserve improving by EUR 11.9 (-16.6) million mainly due to the strengthening of the South African rand on conversion of our South African investments.

The Group's cash position, as at 31 December 2016, was EUR 9.7 (19.6) million. The reduction in the cash balance is attributed to the payment of capital redemptions and to debt reduction. Interest-bearing debt stood at EUR 3.8 (15.1) million, with the equity ratio standing at 67.7% (64.2%).

One of the Group's Maltese subsidiaries has been granted a trade finance loan facility amounting to US\$ 5.0 million. The Group did not utilise the facility provided as at 31 December 2016, but has given a corporate guarantee of US\$ 5.0 million as collateral.

## INVESTMENTS, ACQUISITIONS AND DIVESTMENTS

Capital expenditure for the full year 2016 totalled EUR 2.8 (8.0) million. In the Speciality Alloys segment, capital expenditure was incurred both at TMS as the company purchased a press filter system at the new plant in Tavas mine to improve tailing concentration, and at EWW, where the de-dusting system was completed during the first quarter of the year. Capital expenditure within the Ferro Alloys segment included the replacement of the furnace refractories and the acquisition of new plant vehicles at

Mogale Alloys; and capitalisation of expenditure related to prospecting activities at the Vlakpoort mine.

During the first half of 2016 the Synergy Africa joint venture completed the shaking table plant at Ilitha mine which significantly reduced the operating cost per ton, increasing both yield and production capacity.

## RESEARCH AND DEVELOPMENT

Research and development projects at Afarak aim to ensure the Group's future growth by assessing the introduction of new products, and evaluating new technologies to improve operational efficiency and increase production. R&D work is administered separately by each operation and additionally Afarak appoints external experts for R&D.

In 2016, Afarak's R&D expenditure totalled EUR 0.4 (0.5) million. During the first half of 2016, the Synergy Africa joint venture completed the shaking table plant at Ilitha mine which significantly reduced the operating cost per ton, increasing both yield and production capacity. During the first quarter of 2017, the Group announced that it has entered into a Mining Services Agreement with Phologolwa Mining to continue the opencast mining at the Mecklenburg mine. The high wall is to increase from 40 metres to 65 metres and will allow better access to the underground mining area which has the potential to produce 4.5 million tons of chrome ore.

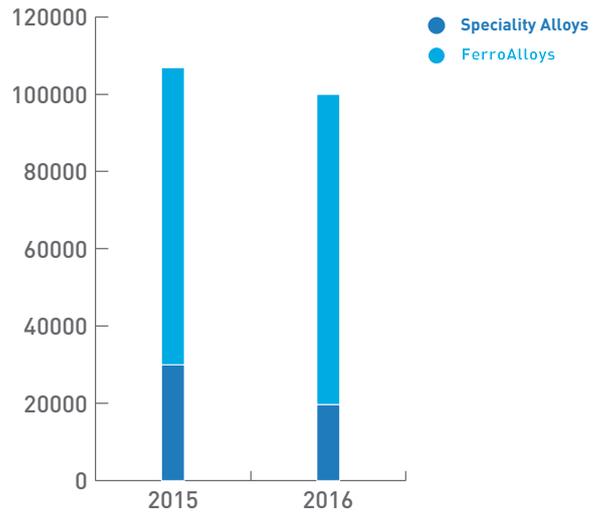
# OPERATIONAL REVIEW

In the first half of the year, Afarak faced declining prices. Sales volumes fell by 8.2% and were mainly driven by the decrease in volumes in the speciality segment.

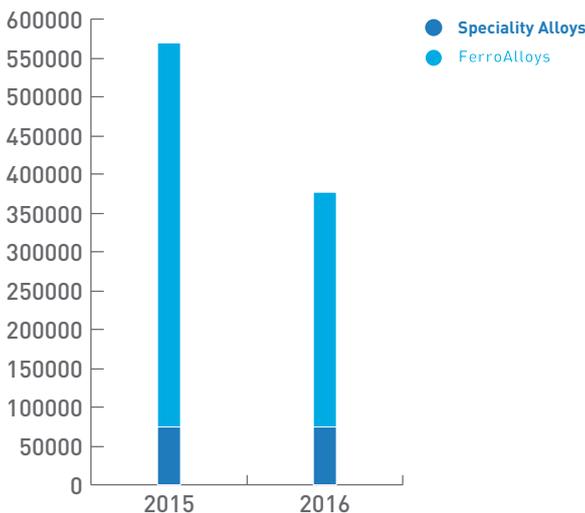
Afarak faced declining prices during most of the year. Sales volumes fell by 8.2% and were mainly driven by the decrease in volumes in the speciality segment.

Sales volumes of processed material in the Speciality Alloys segment decreased by 26.8% when compared to the previous year as a result of both lower demand as well as pricing pressures from BRICS country producers who dampened prices on account of destocking their position. Sales volumes in the FerroAlloys segment decreased marginally on account of a decrease in sales volumes of silico manganese material which was only partly offset by the increases in sales volumes of both charge chrome and medium carbon ferrochrome.

Sales volumes (tonnes)



Group production (tonnes)

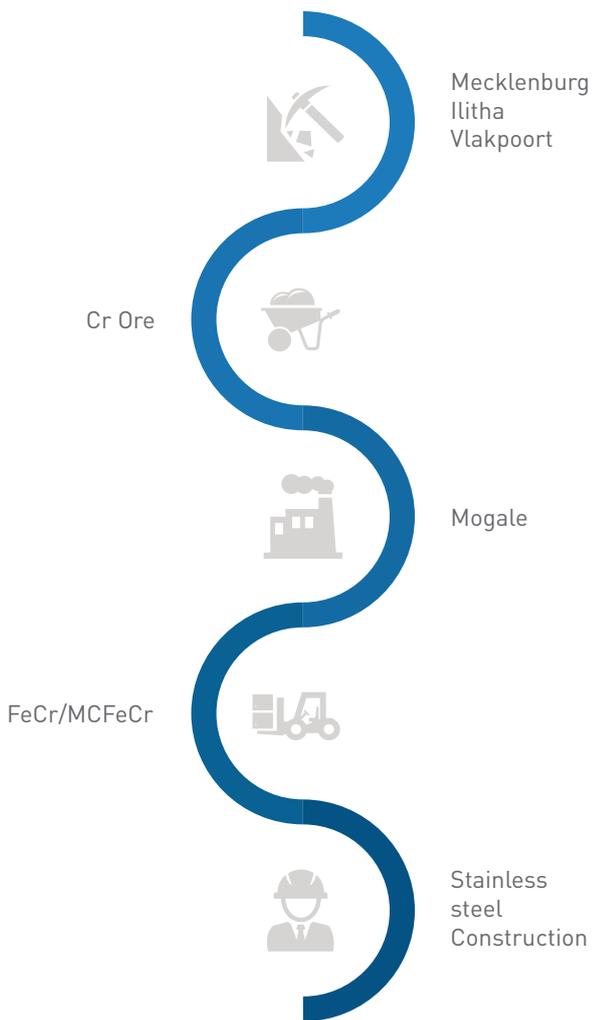


Group production for the year decreased by 36.7% to 358,005 (565,372) tonnes.

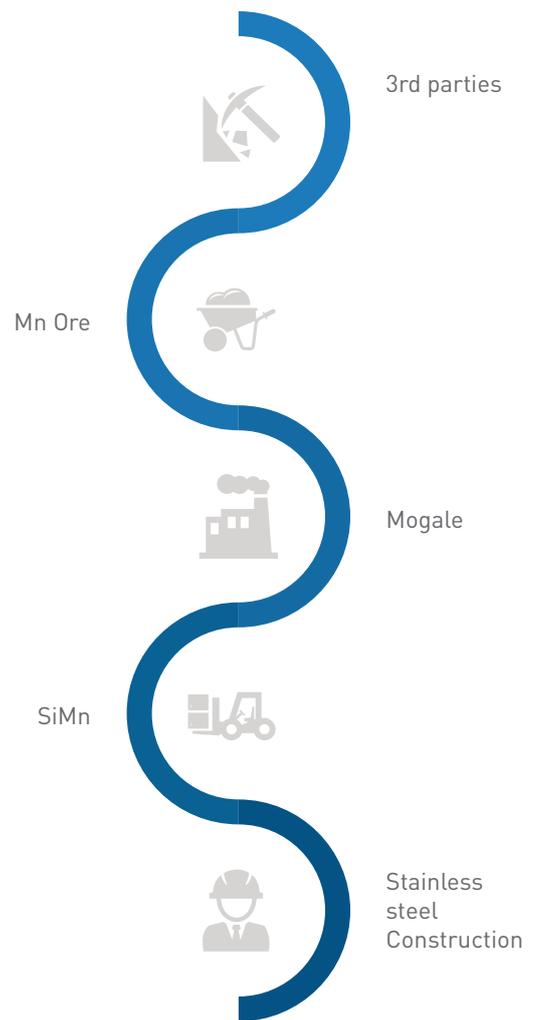
Lower mining activity in the FerroAlloy segment was the main driver due to the depletion of the open cast mining activity at Mecklenburg and idle activity at the Vlakpoort mine contrary to a year earlier. Together, these factors led to a halving of mining activity when compared to 2015. The subdued market activity, particularly in the Speciality Alloys segment, contributed to a shrinkage in processing levels in the Speciality Alloy segment following a decision by management not to produce during the fourth quarter to reduce piling of inventory. These reductions were partly offset by the increase in mining activity in the Speciality Alloys segment due higher concentrate production levels at the Turkish mine of Tavas.

# FERROALLOYS SEGMENT OVERVIEW

## FERROCHROME PRODUCTION PROCESS



## SILICOMANGANESE PRODUCTION PROCESS



Extraction



Processing plant



End-user



Raw material



Processed material

### VLAKPOORT MINE – SOUTH AFRICA

The Vlakpoort Mine is situated on the Northern part of the western limb of the Bushveld complex in South Africa. The surface right acquired in 2011 after the prospecting right was granted to Afarak by the DMR.

Since then extensive exploration work was conducted which include geological drilling, trenching and a bulk sample of the LG5 and LG 6 seams that were taken to test the market. The property has a resource of in excess of 6.656m tons including UG of Chrome and 330,314 ounces of PGMs. The resource consists of the LG1-6, MG1-4 and the UG1- 2 and Merensky reefs outcropping on the property. Afarak has applied to have the prospecting right converted into a mining right.

### THE STELLITE MINE – SOUTH AFRICA

The Stellite mine was acquired in late 2010, as part of the Chromex acquisition and will be the primary concentrate ore supply to Mogale Alloys, thereby integrating the FerroAlloys business. Excess concentrate ore and a small amount of lumpy chrome ore mined at Stellite is exported directly to China.

Stellite is located on the western limb of the Bushveld complex in South Africa, where 70% of the world's chrome resources are located and 40% of chrome production is sourced. The mine has a chromite resource of 28.318Mt comprising of four seams, namely the LG6, MG1, MG3 and MG4. All four seams outcrop on the property.

### MECKLENBURG MINE – SOUTH AFRICA

The Mecklenburg Mine, also acquired as part of the Chromex transaction, is located on the Eastern Limb of the Bushveld Complex, well known for hosting much of the world's known resources of platinum, but also a major source of chromite. The Mecklenburg mine started full production in July 2013. The Company is currently evaluating underground mining at Mecklenburg. Following the depletion of the open cast mine to a 40m high wall in November 2015, Afarak commenced preparatory works in December 2016 to restart opencast by raising the high-wall to 65m with a projected 240,000 tons to be mined in the opencast. The mine has a chromite resource of 8.656Mt comprising of mainly of the LG6 and LG6A seam. It is expected to produce 5.2million tons of saleable Run of Mine material.

### AFARAK MOGALE PLANT – SOUTH AFRICA

Afarak acquired Mogale in 2009, providing it with access to the bulk minerals processing sector in South Africa. The acquisition marked a strategic step forward for the Group by providing access to direct current (DC) furnace technology, which has been in operation at Mogale since 1983 and is considered to be a centre of excellence.

Mogale operates four furnaces; two submerged arc furnaces and two DC furnaces, with a total production capacity of 110,000 tonnes per annum. These furnaces are capable of producing four key products: silico manganese, plasma ferrochrome, charge ferrochrome and stainless steel alloy (chromium-iron-nickel alloy). Towards the end of December 2014, the company finalized an investment of €13 million in a ferroalloy refining and granulation plant. In 2016, the plant started operating as a swing plant as one of its furnaces was switched from producing SiMn to FeCr. The fourth furnace will also be switched from silicomanganese to charge chrome.

The remaining active furnace will also be switched from silicomanganese to charge chrome and the company is planning on possibly switching on the fourth furnace in



# 2016 IN REVIEW

2017 to further bolster its FeCr producing capacity taking advantage of the notably improved market conditions. The FerroAlloys segment faced a challenging year primarily due to the depressed markets for chrome ore.

Following the market upswing towards the end of the year, the segment registered a very positive fourth quarter. In terms of operational performance, mining activity was significantly lower due to the temporary cessation of



SALES OF  
PROCESSED MATERIALS

**77,092mt**  
(78,441mt)



PRODUCTION

**278,833mt**  
(75,386mt)



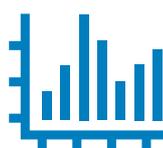
REVENUE

**€84.5mln**  
(€91.8mln)



EBITDA

**€5.0mln**  
(€7.5mln)



EBIT

**€0.9mln**  
(€2.8mln)



HUMAN RESOURCES

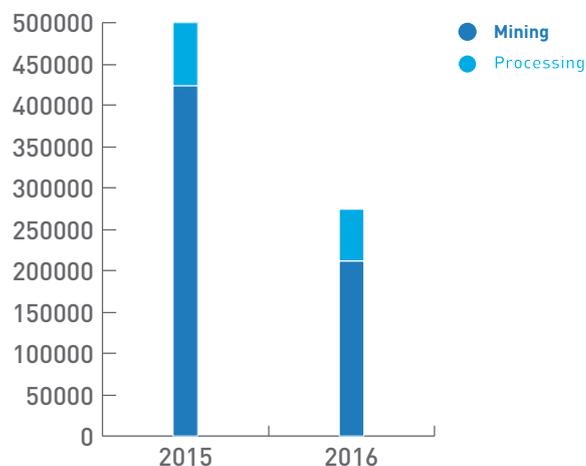
**369**  
(365)

2016 was a particularly challenging year for ferrochrome producers in South Africa, with a number of producers either going into business rescue or drastically reducing their ferrochrome output. With prices gravitating downwards, Afarak's FerroAlloys Segment was not immune to these challenges with specific circumstances affecting both the mining and the processing arms of the Segment.

Annual production decreased to 278,833 (489,986) tonnes, representing a decrease of 43.1% when compared to the previous year.

Mining operations decreased significantly due to the temporary cessation of open cast mining activity at Mecklenburg together with the idle activity at the Vlakpoort mine. Annual processing levels at Mogale Alloys were marginally lower than those registered during the previous year. In response to market conditions, management decided to switch one of the silicomanganese furnaces at Mogale to charge chrome. The shaking table project at Ilitha mine came on stream and started contributing to a lower cost of production. These contributed to Afarak's positive fourth quarter.

FerroAlloys Production (tonnes)

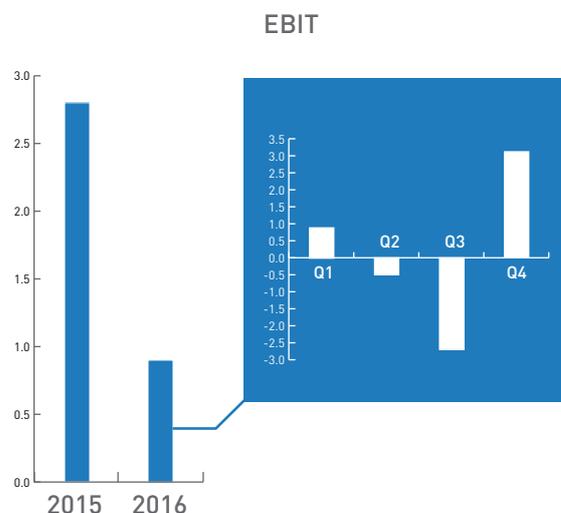
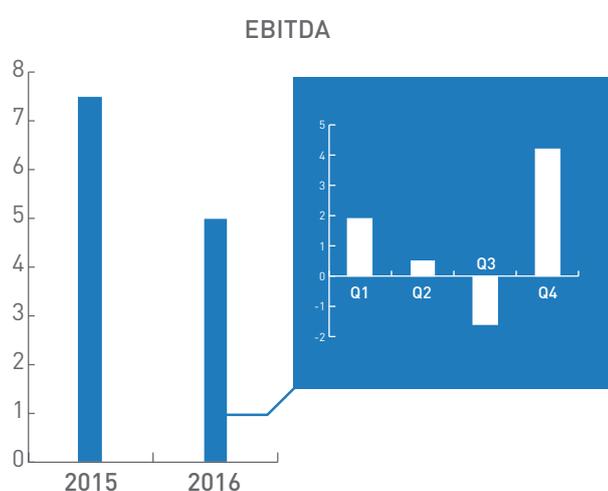




Revenue for the full year decreased to EUR 84.5 (91.8) million, representing a decrease of 8.0% compared to the equivalent period in 2015. Revenue decreased as a result of lower selling prices of both silicomanganese and charge chrome in the first three quarters of 2016. Lower selling prices together with a significant increase in both manganese ore cost and

energy tariffs during the second half of 2016 caused EBITDA to decrease to EUR 5.0 (7.5) million and EBIT to decrease to 0.9 (2.8) million. During the last quarter of 2016 prices of charge chrome recovered significantly and contributed to a positive end-of-year result in this segment. The joint venture share of profit for 2016 amounted to EUR 0.1 (-0.1) million.

EUR MILLION	Q1	Q2	Q3	Q4	FY16	FY15
Revenue	22.3	21.1	17.5	23.6	<b>84.5</b>	91.8
EBITDA	1.9	0.5	-1.6	4.2	<b>5.0</b>	7.5
EBITDA margin	8.6%	2.4%	-9.1%	17.9%	<b>5.9%</b>	8.1%
EBIT	0.9	-0.5	-2.7	3.1	<b>0.9</b>	2.8
EBIT margin	4.2%	-2.4%	-15.2%	13.2%	<b>1.0%</b>	3.0%



Afarak's share of joint ventures revenue for the full year decreased to EUR 5.3 (9.7) million representing a decrease of 45.4% compared to the equivalent period in 2015. Sales volumes at the joint venture decreased significantly following the depletion of open cast mining activity at the Mecklenburg mine in November 2015. Sales volumes at the Stellite mine increased primarily due to an increase in the sales volumes of concentrate material as a result of the Shaking Tables investment. Share of joint venture EBITDA

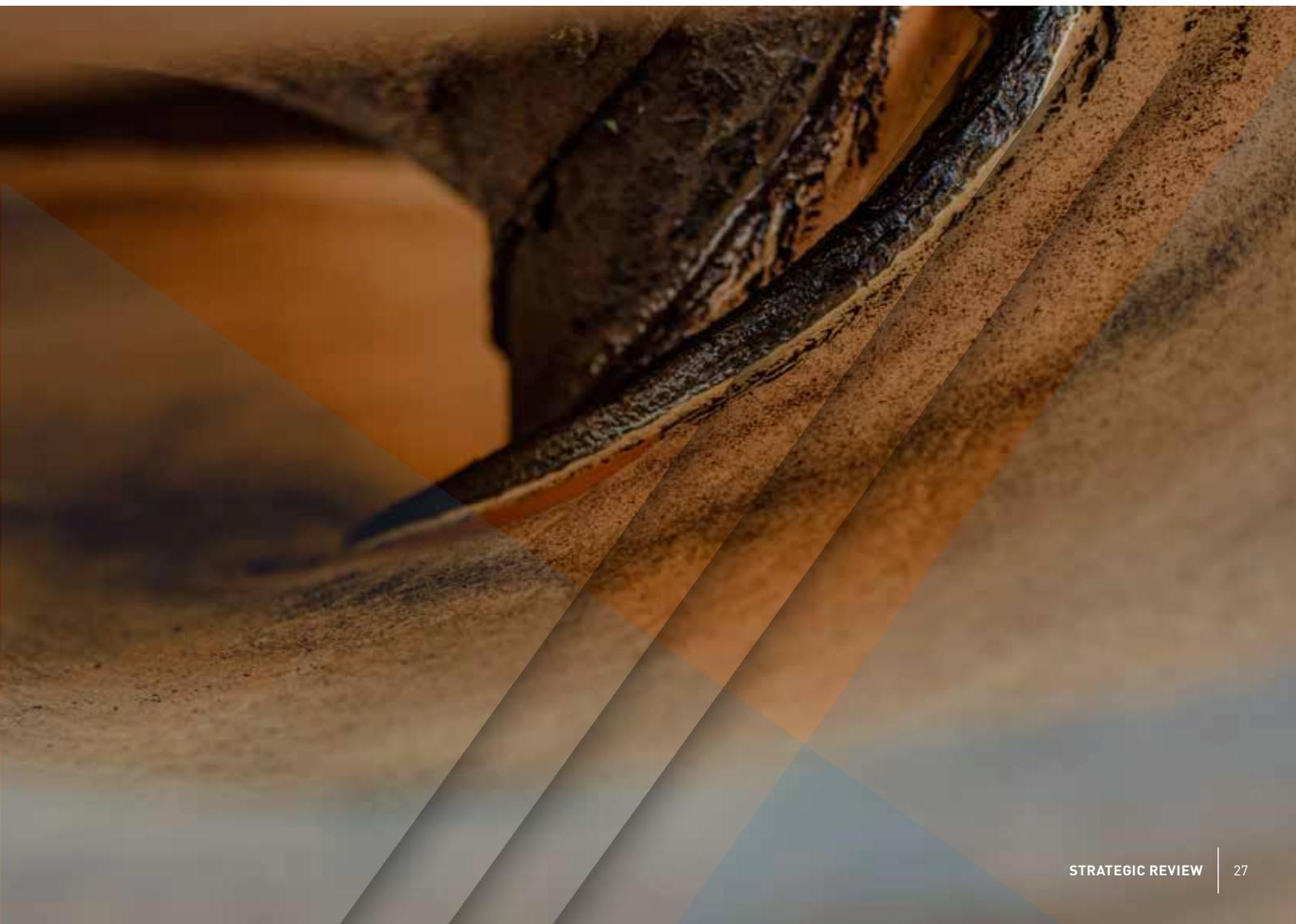
for the full year amounted to EUR 1.3 (1.3) million. EBITDA was negatively affected by an increase in the rehabilitation provision during the fourth quarter amounting to EUR 1.0 (0.1) million which was caused by a change in legislation. This negative impact on EBITDA was offset by the recovery in the chrome ore market in the fourth quarter of 2016, as well as to a reversal of an asset write-down on the assets of Stellite mine amounting to EUR 1.1 (0.0) million. Share of joint venture profits amounted to EUR 0.1 (-0.1) million.

EUR MILLION	Q1	Q2	Q3	Q4	FY16	FY15
Revenue	0.8	0.9	0.7	2.8	5.3	9.7
EBITDA	-0.1	0.1	-0.1	1.4	1.3	1.3
EBITDA margin	-11.9%	5.6%	-9.3%	50.1%	24.4%	13.2%
EBIT	-0.2	-0.0	-0.2	1.3	0.8	0.3
EBIT margin	-20.6%	-5.3%	-29.6%	45.1%	15.7%	3.4%

## LOOKING AHEAD

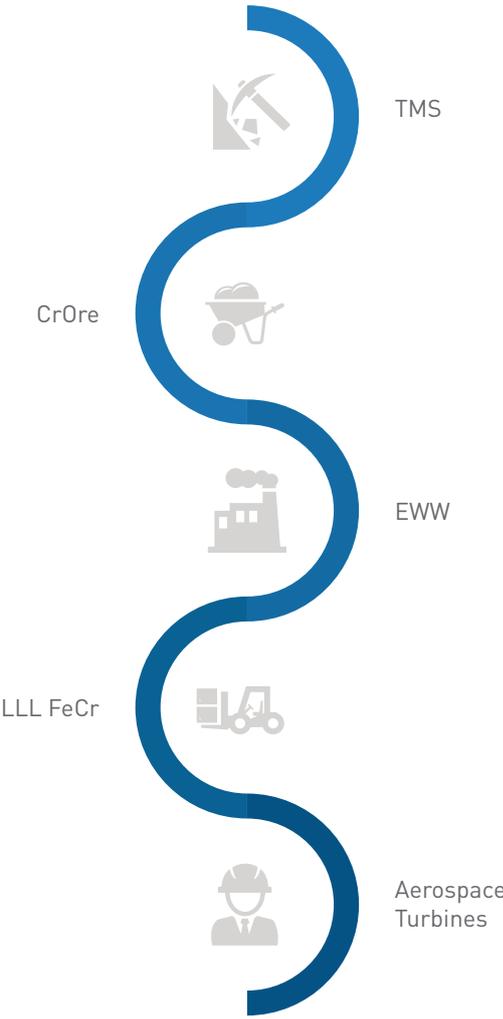
Towards the end of the year, the market for ferrochrome experienced an upswing. To this end, Afarak started preparations to convert yet another furnace from silicomanganese to charge chrome. Opencast mining

has restarted at Mecklenburg with the first successful blasts taking place in March. Full operation is set to start in April and a total of 200,000 tonnes of chrome ore are expected to be mined. Afarak is also working to strengthen its in-house ore capabilities thus reducing its dependence from third parties.



# SPECIALITY ALLOYS SEGMENT OVERVIEW

## LOW LOW LOW FERROCHROME PRODUCTION PROCESS

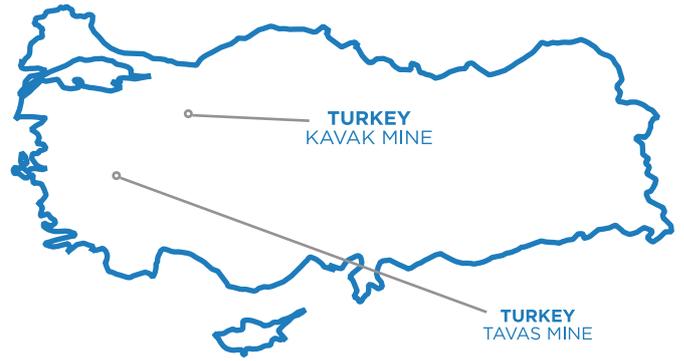
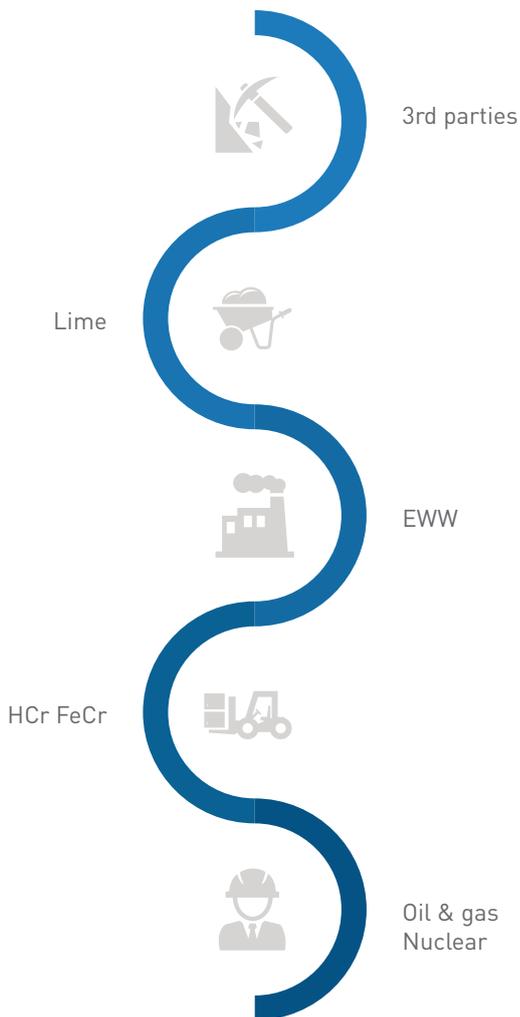


## EXTRA LOW CARBON FERROCHROME PRODUCTION PROCESS



	Extraction		Processing plant		End-user
	Raw material		Processed material		

## HIGH CHROME FERROCHROME PRODUCTION PROCESS



### TMS - TURKEY

TMS operations consist of open pit and underground mining, as well as ore enrichment facilities equipped with primary and secondary crushing, milling and concentration tables. The production facilities are located in Kavak, in the Eskisehir province, and in Tavas, in the Denizli province. It also holds 27 licences, of which 12 are exploitation licences.

TMS produces two chrome ore types: special grade chromite concentrates and lumpy chrome ore.



### EWW - GERMANY

EWW is a world-renowned processing facility with state-of-the-art facilities and laboratories. With a heritage in processing spanning close to 100 years, EWW has a reputation of being a highly specialised smelting operation producing a range of specialist products, such as specialised Low Carbon and Ultralow Carbon Ferrochrome. The products are sold internationally to customers in the automotive, aerospace and power generation industries.

# 2016 IN REVIEW

The Speciality Alloys segment was not immune to the challenges faced by the industry at large. Sales were hit particularly hard during the first half of the year due to falling prices. Management took decisive action in the third quarter by temporarily stopping production in its

German smelter EWW in a drive towards prudent capital management, production optimisation and inventory management. This temporary stoppage created an opportunity for the successful placing of TMS' chrome ore onto the higher priced market during the fourth quarter.



SALES OF  
PROCESSED MATERIALS

**20,003mt**  
(27,336mt)



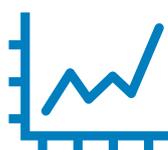
PRODUCTION

**79,172mt**  
(75,386mt)



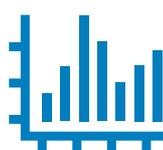
REVENUE

**€68.7mIn**  
(€95.6mIn)



EBITDA

**€5.4mIn**  
(€12.7mIn)



EBIT

**€3.1mIn**  
(€10.1mIn)



HUMAN RESOURCES

**438**  
(402)

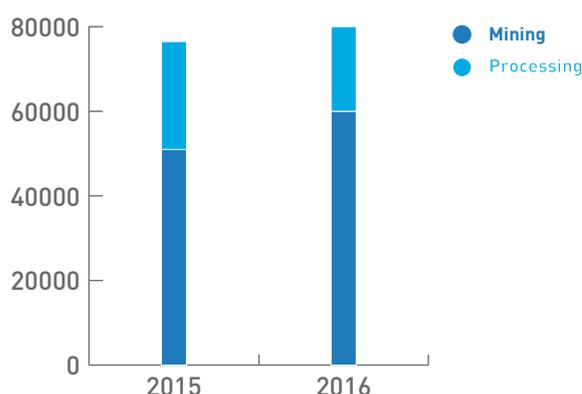
The subdued market conditions led to a significant fall in the sales volumes of Afarak's speciality alloys on account of lower demand as well as due to pricing pressures from BRICS country producers who destocked their positions.

prices on account of increased pressure by BRICS producers who reduced their prices to destock their positions of low carbon ferrochrome.

Despite the temporary closure of EWW, annual production during 2016 increased by 5.0% to 79,172 (75,386) tonnes.

The increase is solely derived from higher concentrate production levels at the Turkish mine of Tavas which benefited from the development of the new plant during the previous year. Towards the end of the year, a market opportunity for TMS' chrome ore opened up further driving production. On the other hand, processing levels decreased significantly at EWW due to the temporary stoppage during the fourth quarter as part of a wider plan to optimise production and manage inventory. Revenue for the full year 2016 was EUR 68.7 (95.6) million, representing a decrease of 28.1% when compared to the previous year. The decrease in revenue is mainly attributable to lower sales volumes of processed material on the back of weak demand, as well as the subdued

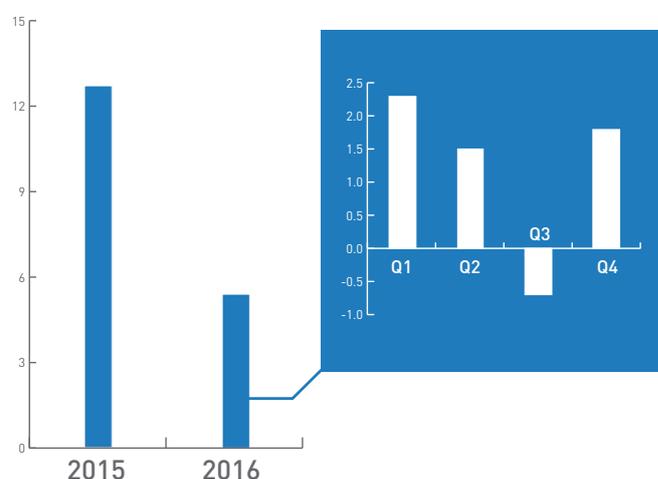
Speciality Alloys Production (tonnes)



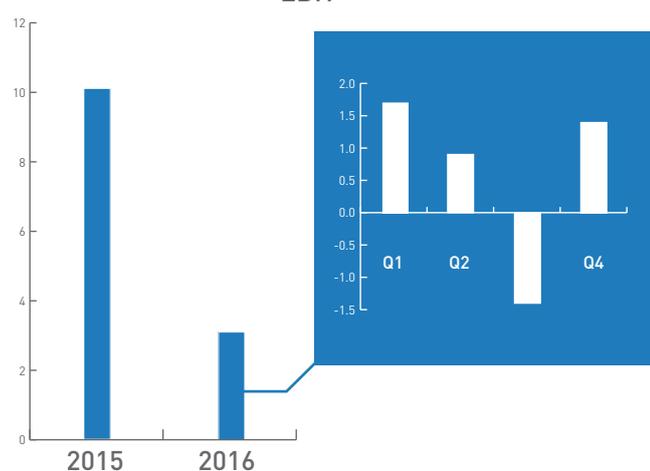
EUR MILLION	Q1	Q2	Q3	Q4	FY16	FY15
Revenue	18.4	18.4	11.4	20.5	68.7	95.6
EBITDA	2.3	1.5	-0.7	1.8	5.4	12.7
EBITDA margin	12.3%	8.4%	-6.5%	8.8%	7.8%	13.3%
EBIT	1.7	0.9	-1.4	1.4	3.1	10.1
EBIT margin	9.2%	4.9%	-12.1%	6.6%	4.4%	10.6%

Despite the market pressures, Afarak's Speciality Alloys segment still registered a positive EBITDA and EBIT, albeit lower than the previous year. EBITDA was EUR 5.4 (12.7) million and EBIT for the year was EUR 3.1 (10.1) million.

### EBITDA



### EBIT



### LOOKING AHEAD

Afarak will continue concentrating on its core activity, ferrochrome specialities. Management is focused on optimising production and prudent capital management. The Company is focused on expanding its product portfolio throughout 2017. Various avenues of production optimisation, cost reduction and long-term investments are being investigated at present.

# RISK MANAGEMENT

Afarak's prudent approach to risk management is a crucial component of our continued success and is present in managing all aspects of our performance. By understanding and managing risk, we provide greater certainty and confidence for our shareholders, employees, customers, suppliers and host communities. In fact, we believe that successful risk management can be a source of competitive advantage.

Our risks are viewed and managed on a Group-wide basis. As a truly global operation, managing diversity in our operations, portfolio of products, geographies, economies and currencies is a key characteristic of our risk management approach.

Risk management is one of the key responsibilities of the Board and its Audit and Health & Safety Committees.

## 2016 DEVELOPMENTS

The market risk stemming from the significant fall in commodity prices for most of the year was the key feature of 2016. The price declines in ferrochrome have impacted our marketing and financial performance. In response to

this challenge, the Management and the Board responded by focusing on prudent working capital management, including temporarily halting production in Germany.

As part of its risk management mandate, the Audit Committee embarked on a continued assessment of the Group's key performance indicators and fundamentals, including adequate levels of liquidity, credit risk and management of any undue currency exposure. A formal hedging policy is in process of being finalised aimed at systematically managing the company's natural exposure to financial effects of fluctuating currencies in different markets.

The Board has also embarked on prioritising health and safety matters at its plants and units through a gap analysis of policies and a number of interventions to ensure that the goal of 'Zero Harm' is adhered to.

## PRINCIPAL RISKS

While a number of different risks may have an effect the results and operations to various degrees, the following describes the key types of risks faced by Afarak in the normal course of business.

## EXTERNAL RISKS

RISK	Consequences	Controls to mitigate risk
Foreign exchange exposure	<ul style="list-style-type: none"> <li>• <b>Direct risk – commercial cash flows and currency positions</b></li> <li>• <b>Indirect risk – loss of competitiveness within the industry</b></li> </ul>	The Group constantly evaluates the need to enter into forward contract arrangements
Interest rate risks	<p><b>Changes in interest rates can</b></p> <ul style="list-style-type: none"> <li>• <b>Influence the repayment of loans</b></li> <li>• <b>Impact the profitability of investments</b></li> <li>• <b>Alter the fair value of the Group's assets</b></li> </ul>	The Group constantly evaluates the need to enter into forward contract arrangements
Volatility of energy costs	<b>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 plans to expand its operations and implement its growth strategy</b>	The Group constantly evaluates the need to enter into financial arrangements to mitigate such risk
Political and social risks	<ul style="list-style-type: none"> <li>• <b>Changes in the mining, employment and fiscal regulatory environment may materially adversely affect the business and its financial results</b></li> <li>• <b>Operations may be affected to varying degrees by government regulations</b></li> </ul>	Afarak seeks to maintain good relationships with stakeholders

Price risks	<b>The Group's processing operations are exposed to the availability, quality and price fluctuations in raw materials</b>	<ul style="list-style-type: none"> <li>• The price risks on input materials and commodities are management by pricing contracts so that, where possible, any changes in input materials and commodities may be absorbed in the sales prices</li> <li>• The Group's business units seek long-term contract agreements with known counterparties where possible</li> </ul>
Price and demand volatility in the commodities markets	<b>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</b>	<ul style="list-style-type: none"> <li>• Using its strong customer interface and market intelligence to adjust its production volumes to match demand</li> <li>• Adapting its diverse product mix to meet customer requirements</li> </ul>

## FINANCIAL RISKS

RISK	Consequences	Controls to mitigate risk
Liquidity risk - whether Afarak has sufficient liquidity to service and finance its operations and pay back loans	<b>Materialised liquidity risks may cause</b> <ul style="list-style-type: none"> <li>• <b>Overdue interest expenses</b></li> <li>• <b>Negative impact to the Group's relationship with its goods and service suppliers</b></li> <li>• <b>Affect the pricing and other terms for input goods and services</b></li> </ul>	<ul style="list-style-type: none"> <li>• The Group continuously assesses its' working capital to ensure that it has sufficient funds to meet its liabilities</li> <li>• Prepares and assess forecast reports</li> </ul>
Credit risks	<ul style="list-style-type: none"> <li>• <b>Afarak's key customers are typically long business relationships including major international steel and stainless steel companies and some specialty agents selling to the steel sector.</b></li> <li>• <b>Major changes in that industry's future outlook or profitability could increase the Group's credit risk</b></li> </ul>	<ul style="list-style-type: none"> <li>• Afarak assesses the likelihood that a borrower will default on the debt obligations</li> <li>• Analyse credit limit</li> </ul>
Acquisition and organic growth strategy risk	<ul style="list-style-type: none"> <li>• <b>There is a risk that the investment will not perform as expected and the group will not achieve the desired future operating cash flows and profitable results from the investment</b></li> <li>• <b>There is a risk that the Group might not be able to find the appropriate site or to obtain the necessary licences to develop and operate or to secure the required financing</b></li> </ul>	The Group's policy is to carry out extensive R&D to mitigate the risk that such investment will not be successful

## OPERATIONAL RISKS

RISK	Consequences	Controls to mitigate risk
Loss of key suppliers	<b>Adverse effect on operations, which could impact the Group's operating and financial results</b>	<ul style="list-style-type: none"> <li>• Afarak carry out continuous financial health checks of key suppliers</li> <li>• Evaluations of key supplier controls in order to minimize the impact associate with disruption</li> <li>• Assess safety and security stock levels</li> <li>• Understand alternate supply options and how long it will take to employ alternatives</li> </ul>

Competition & Rivalry	<b>May negatively impact Afarak's current operations which could have a consequent effect on the Group's operating and financial results. It may also impact the plans to expand its operations and implement its growth strategy</b>	The future success depend on the ability to attract and retain suitably skilled and qualified personnel. Afarak regularly re-assesses its remuneration policies.
Distribution network risk	<b>This may have adverse effect on operations which could impact the Group's operating and financial results</b>	To mitigate this risk Afarak has standard operating procedures in place for most foreseeable circumstances
Technology risk	<b>There may be advances in technology which the company is not aware off or has not kept abreast with which may eventually hinder the operating activity of the company and affect the financial results</b>	Afarak regularly assesses the latest technological equipment and software available on the market
Loss of key personnel or the engagement of inappropriate personnel	<b>Adverse effect on operations, particularly its processing plants, which could impact the Group's operating and financial results</b>	<ul style="list-style-type: none"> <li>• Regularly re-assesses its remuneration policies and packages to attract and retain suitably skilled and qualified personnel</li> <li>• The remuneration committee is focused on attracting and retaining such talent</li> </ul>

## COMPLIANCE RISKS

RISK	Consequences	Controls to mitigate risk
Legal risks	<b>Legal disputes may relate to contractual or other liabilities or environmental or other regulatory matters</b>	Currently there is no significant legal case pending and the group policy is to publish all significant legal cases and their outcomes
Employment legislation	<b>If not observed may negatively impact Afarak's financial results</b>	Afarak regularly re-assesses its policies in terms of employment legislations
Tax risks	<b>Changes in tax laws and regulation, or a change in interpretation of the tax authorities in the different jurisdiction we operate in could have an adverse impact on Afarak's financial results</b>	Afarak keeps abreast with changes in tax regulation and external experts are appointed to assist in identifying potential tax liabilities and ensuring compliance with the tax legislation
Data protection risk	<b>If data protection legislation is not observed the business may be adversely affected and have an impact on the financial results</b>	Data protection law is closely and regularly assessed in terms of the Group operations

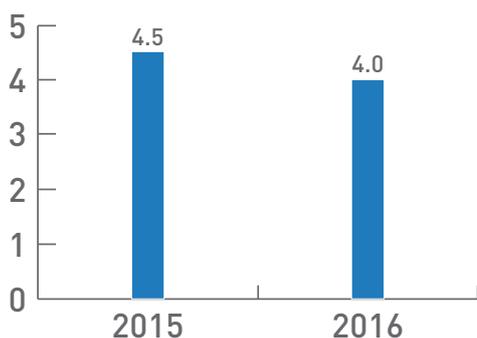
## SUSTAINABILITY RISKS

RISK	Consequences	Controls to mitigate risk
Risk of mining and smelting accidents (fire, flooding, rock bursts, weather conditions, seismic events and other natural phenomena)	<b>This could affect both employees' and operations, resulting in suspension of operations</b>	<ul style="list-style-type: none"> <li>• "Zero Harm" policy</li> <li>• Health and safety guidelines, policies and procedures</li> <li>• Continuous employee training</li> </ul>
Social risk	<b>Industry or social unrest and labour actions may materially adversely affect the business and its financial results by temporarily closing down operations.</b>	Afarak seeks to resolve the matters with all stakeholders to reduce the impact on it operation
Environmental risks	<ul style="list-style-type: none"> <li>• <b>Direct potential harm to the environment</b></li> <li>• <b>Potential post-production rehabilitation or landscaping obligations</b></li> </ul>	<ul style="list-style-type: none"> <li>• Environmental risks are managed closely and regularly assessed'</li> <li>• Regular assessment of environmental liabilities</li> <li>• External experts are appointed to assist in identifying potential liabilities and ensuring compliance with environmental legislation</li> </ul>

# SUSTAINABILITY REVIEW

Sustainability is core to our business strategy and is integrated into our decision-making. We put health and safety first as our sustainability priority, we are environmentally responsible and take pride in supporting our host communities.

Injury Rate



## HEALTH AND SAFETY

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. Afarak has a Board committee dedicated to health and safety with the aim of integrating the Group operations to address the social, environmental, health and safety position of all stakeholders. While continuing the programme focused on pro-active safety and environmental measurements as part of aiming to achieve “Zero Harm”, the members of HSEC are defining Group standard protocols to ensure that all the Group activities are constantly managed, monitored and reported according to Group policies.

In 2016, Afarak focused on improving its reporting frameworks for health & safety and conducted a gap analysis of its policies and procedures across its units. A lost time injury metrics system was conducted in conformance with internationally recognised standards. In 2016, the number of injuries fell across the Group and in fact; the injury rate, which measures the number of injuries per 100 employees, declined marginally from a year earlier.

Unfortunately, the year was marred with the Group’s first fatality which happened in Mogale where a colleague succumbed to the grievous injuries sustained at the plant. Afarak Group had to shut-down its operations at the Mogale Alloys plant after the incident and has implemented a number of health and safety initiatives at the plant. Following the incident, management organised counselling sessions for fellow employees and a memorial service at the plant and supported the family of the deceased.

During 2016, the Group totalled approximately 1,823,806 working hours during which the Group suffered only 14 accidents that caused loss of time. Lost Time Injury (LTI) is defined as any work related injury or illness which prevents that person from doing any work the day after the accident. The Lost Time Injury Frequency Rate measures the number of LTI’s recorded per million hours worked. In 2016, the LTIFR edged slightly upwards despite the lower number of injuries as the number of hours worked by the Group was less than a year earlier.

### MOGALE

A number of safe walkways were installed around the plant. Various modifications were made at tapping pits to enhance tap-car safety. Investments were undertaken in providing staff with safety suits and shoes. The firefighting system was also extended and improved.

### TMS

Launch of a health & safety training programme and installation of a new underground electronic follow-up system.

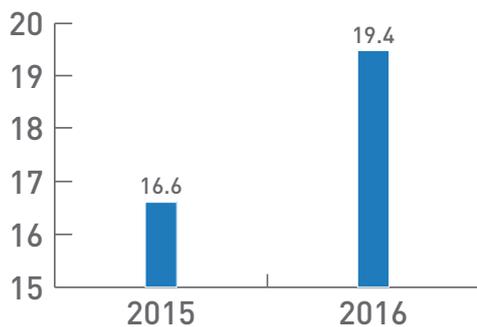
### SA MINING

The SA Mining division strengthened its health and safety units by setting up a dedicated role within the organisational set-up. Also, in Ilitha 3,000 fatality free days were celebrated.

### EWW

Together with local authorities, a new fire rescue plan and regulation was implemented in the plant. No injuries were reported in 2016.

### LTIFR



Afarak is focused on continuing to invest in its health and safety efforts and commitment. The below provide a summary of some of the most salient health and safety initiatives undertaken by the Group.

### ENVIRONMENT

We seek to demonstrate our environmental responsibility by minimising our environmental impacts and leaving lasting benefits. Our approach to environment is also integrated in our risk management processes and corporate planning.

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 Group conducted a research program with an aim to recycle into the production unit the fines resulting from past years' operation thus resulting in a substantial reduction of the 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 reduce its impact on the environment. Water conservation remains an important element in our strategy. Also, the use of shaking tables to reduce stock piles is an important initiative that the Company is championing. 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.

Both of Afarak's processing plants, EWW and Mogale Alloy, hold a ISO 9001 certification for adopting the very best in quality systems and emphasises our commitment at Group level to continuously improve and build excellence into every process of its integrated management systems.

The sustainability of our operations, especially in South Africa, relies in our ability to obtain an appropriate quality and quantity of water, use it responsibly and manage it appropriately. We recognise our role in promoting water sustainability and to this end we have continued to invest in water harvesting and recycling initiatives throughout 2016.

The below are some of the main environmental initiatives undertaken by the Group in 2016.



#### **MOGALE**

The focus for 2016 was water management. The plant managed to obtain its Water Use Licence following a number of investments and initiatives. All process water streams have been successfully linked to the water dam on-site. The Mogale plant is currently achieving a 20% reduction in municipal water consumption. It is also recycling process water. In addition, dust suppressors were also installed to minimise the environmental impact of our operations.

#### **TMS**

A press filter was installed at Tavas which will contribute to the reduction of the environmental impact of tailings.

It also reduces the water content of such tailings and will contribute to responsible water consumption.

#### **SA MINING**

The shaking table project was commissioned and started producing with the ultimate result of recycling material and reducing the amount of on-site stock piles.

#### **EWV**

A de-dusting system was commissioned and installed in the shop floor which will result in lower dust emissions thus further reducing the environmental impact of our operations.

## COMMUNITY INVESTMENT

We strive to be a valued partner in our host communities. Through our interactions, we seek to foster a long-term and meaningful relationship that respects local cultures and creates lasting benefits for the community at large. We believe

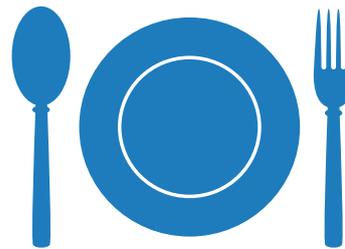
that this is a fundamental element in our business strategy.

Primarily in South Africa, we continue to invest in the broader community by supporting various local charities and educational projects. Below is a summary of key initiatives supported by Afarak Group throughout 2016.



2,000

Children fed



600,000

Meals & Food Packs Distributed

### UMEPHI JADE HOUSE, MOGALE CITY

Afarak is supporting 7 orphans who are currently residing at Jade House. The House was built as a place of safety for orphans and offers foster care to these children.

### PATRICK MASEGO CITY, MOGALE CITY

Afarak has a number of projects at Rietvallei particularly directed towards the Patrick Masego Primary school. Through Afarak's support, the school also has an extensive garden which is used to farm vegetables and fruits which are then used as part of the feeding scheme that the school operates. The Patrick Masego school provides a daily meal to close to 2,000 children including weekends and holiday periods.

### POLEKEGO CENTRE, KRUGERSDORP

Afarak supports this Centre in Krugersdorp that provides

shelter for abused women and children. The Centre can hold up to 40 mothers.

### FEEDING SCHEMES

Afarak supports 5 day-care centres in the Rietvallei area and provides daily meals to 155 children. The day-care centres are the following; Thembelihle, Ntlanta, Wise Girl, Little Achievers and Busy Bee. Similar schemes are also run in conjunction with Magda Fourie at the Paardekraal and Millenium Primary schools.

### CK TRUST

Afarak supports the CK Trust by paying a non-government teacher to provide support to destitute children at the Patrick Mashego Primary school. The teacher is specialized in supporting the emotional well-being of children who come from broken families.

## LOOKING AHEAD

Afarak will remain committed to upholding and implementing the value of sustainability in its operations. Health and safety remains a key priority for the Board and a review of safety policies & procedures is underway at Mogale with a view of improving the safety culture at the plant. Environmental concerns and investment are

important to Afarak and initiatives will continue throughout 2017 to further minimise the environmental impact of its operations. Finally, our efforts to continue investing in our host communities will continue as we are already committed to continue supporting various feeding schemes and other investments that are making a difference in people's lives.

**RESOURCE  
STATEMENT >**

Mineral Reserves <sup>1</sup> (ROM Feed numbers)				Mineral Resources (Geological Losses Applied)			
	Tonnage (kt)	Cr <sub>2</sub> O <sub>3</sub> (%)	Cr:Fe ratio		Tonnage (kt)	Cr <sub>2</sub> O <sub>3</sub> (%)	Cr:Fe ratio
<b>PROVED:</b>				<b>MEASURED:</b>			
<b>Stellite: Tailings</b>				<b>Stellite: Tailings</b>			
LG6-MG4	732	24.10	1.14	LG6-MG4	732	24.10	1.14
<b>Stellite: Underground</b>				<b>Stellite: Underground</b>			
MG4				MG4	4,810	33.59	1.24
MG3				MG3	2,830	31.51	1.19
MG1				MG1	3,460	35.30	1.28
LG6	4,568	34.98	1.36	LG6	5,680	37.70	1.41
<b>Stellite: Open Pit</b>				<b>Stellite: Open Pit</b>			
MG4	29	30.39	1.20	MG4	28	31.86	1.22
MG3	96	30.64	1.18	MG3	371	31.68	1.19
MG2	-			MG2	188	37.20	1.32
MG1	-			MG1	158	39.00	1.40
LG6+6A	70	33.68	1.37	LG6+6A	120	38.11	1.46
<b>Mecklenburg: Underground</b>				<b>Mecklenburg: Underground</b>			
LG6+6A	3,416	41.85	1.57	LG6+6A	4,188	43.36	1.59
<b>Mecklenburg: Open Pit</b>				<b>Mecklenburg: Open Pit</b>			
LG6+6A	354	40.76	1.58	LG6+6A	320	44.10	1.64
<b>Vlakpoort: Open Pit</b>				<b>Vlakpoort: Open Pit</b>			
LG1-3	23	37.30	1.74	LG1-3	32	41.57	1.82
LG5	18	39.12	1.52	LG5	42	38.77	1.55
LG6	65	36.72	1.51	LG6	151	36.85	1.53
MG1-4	52	29.72	1.25	MG1-4	131	30.01	1.29
UG1-2	101	22.40	1.14	UG1-UG2	164	21.46	1.12
<b>Vlakpoort: Underground</b>				<b>Vlakpoort: Underground</b>			
LG6				LG6	398	33.32	1.59
UG2				UG2	754	19.65	1.06
<b>Total Proved</b>				<b>Total Measured</b>			
	<b>9,524</b>	<b>36.62</b>	<b>1.42</b>		<b>24,557</b>	<b>35.62</b>	<b>1.35</b>
<b>PROBABLE:</b>				<b>INDICATED:</b>			
<b>Stellite: Underground</b>				<b>Stellite: Underground</b>			
MG4				MG4	1,490	33.80	1.25
MG3				MG3	1,040	31.88	1.20
MG1				MG1	800	36.50	1.30
LG6	1,241	34.26	1.35	LG6	1,600	37.50	1.41
<b>Stellite: Open Pit</b>				<b>Stellite: Open Pit</b>			
MG4	568	30.75	1.21	MG4	561	32.35	1.23
MG3	254	30.82	1.19	MG3	990	31.68	1.19
MG2	-			MG2	320	37.30	1.31
MG1	-			MG1	260	38.80	1.41
LG6+6A	165	33.88	1.37	LG6+6A	280	38.54	1.46

<b>Mecklenburg: Underground</b>				<b>Mecklenburg: Underground</b>			
LG6+6A	2,447	41.83	1.57	LG6+6A	3,006	43.37	1.59
<b>Mecklenburg: Open Pit</b>				<b>Mecklenburg: Open Pit</b>			
LG6+6A	-			LG6+6A	0		
<b>Vlakpoort: Open Pit</b>				<b>Vlakpoort: Open Pit</b>			
LG1-3	40	37.93	1.78	LG1-3	53	41.57	1.86
LG5	3	35.01	1.45	LG5	10	39.92	1.55
LG6	37	31.25	1.63	LG6	64	33.95	1.58
MG1-4	16	30.52	1.36	MG1-4	75	29.92	1.35
UG1-2	9	27.09	1.22	UG1-UG2	24	27.61	1.25
<b>Vlakpoort: Underground</b>				<b>Vlakpoort: Underground</b>			
LG6				LG6	793	33.92	1.58
UG2				UG2	421	19.83	1.06
<b>Total Proved</b>	<b>4,780</b>	<b>37.50</b>	<b>1.44</b>	<b>Total Indicated</b>	<b>11,787</b>	<b>36.34</b>	<b>1.38</b>
<b>Proved &amp; Probable Reserves</b>	<b>14,304</b>	<b>36.91</b>	<b>1.43</b>	<b>Measured &amp; Indicated Resources</b>	<b>36,344</b>	<b>35.86</b>	<b>1.36</b>

#### INFERRED

<b>Stellite: Open Pit</b>			
MG4	1,480	33.18	1.24
MG3	790	32.64	1.26
MG2	210	37.10	1.32
MG1	80	38.90	1.41
LG6+6A	40	37.82	1.44

#### **Mecklenburg: Underground**

LG6+6A	1,142	43.41	1.59
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#### **Mecklenburg: Open Pit**

LG6+6A			
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#### **Vlakpoort: Open Pit**

LG1-3	41	41.55	1.79
LG5			
LG6	1	33.49	1.59
MG1-4	119	28.61	1.30
UG1-UG2			

#### **Vlakpoort: Underground**

LG6	1,321	33.67	20.27
UG2	115	20.27	1.08

<b>Inferred Resources</b>	<b>5,339</b>	<b>35.37</b>	<b>1.41</b>
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Total Reserves	14,304	36.91	1.43	Total Resources (Excl Exploration Results <sup>2</sup> )	41,683	35.79	1.36
<b>Exploration Results<sup>2</sup></b>							
<b>Vlakpoort: Underground</b>							
LG6	1,243	34.16	1.60				
UG2							
<b>Vlakpoort: Open Pit</b>							
LG1	10	38.35	1.70				
LG2	7	33.51	1.75				
LG3	33	38.73	2.01				
LG5							
LG6	365	33.55	1.60				
MG1	20	39.73	2.09				
MG2							
MG3	5	27.47	1.21				
MG4+4A	264	29.70	1.23				
UG1							
UG2							
<b>Exploration Results<sup>2</sup></b>							
	<b>1,947</b>	<b>33.58</b>	<b>1.56</b>				
<b>Total (Incl Exploration Results<sup>2</sup>)</b>							
	<b>43,630</b>	<b>35.69</b>	<b>1.37</b>				

- Mineral Reserves<sup>1</sup> used in SAMREC and IMMM Codes whereas termed Ore Reserves in the JORC Code
- Exploration Target Mineralisation used in JORC Code whereas termed Exploration Results<sup>2</sup> in the SAMREC Code. The potential quantity and grade is conceptual in nature and there has been insufficient exploration to define Mineral Resources and it is uncertain if further exploration will result in the determination of a Mineral Resource.

The information in this report that relates to exploration results for Stellite, Mecklenburg and Vlakpoort is based on information compiled by the MSA Group, Andrew Scogins and Shango Solutions respectively.

The team of people involved in the Mecklenburg, MSA and Shango Solutions estimation process is listed below:

Person:	Position:	Affiliations:
Sifiso Siwela (MSA)	Exploration Project Manager	Pr.Sci.Nat, MGSSA
Mike Hall (MSA)	Mineral Resources Consultant	Pr.Sci.Nat, MGSSA, MAusIMM
Andrew Scogings (Independent)	Geological Consultant	MAusIMM, MAIG
Hendrik Pretorius (Shango)	Geological Consultant	Pr.Sci.Nat, MGSSA
Stefanie Weise (Shango)	Geological Consultant	MGSSA

**The combined Stellite, Mecklenburg and Vlakpoort Measured and Indicated Resource categories declared as at 31 December 2016, decreased from that declared in December 2015 by 0.2 million tonnes mainly due to depletion at Stellite (rounded up to nearest 0.1 million).**

**The combined total Stellite, Mecklenburg and Vlakpoort Mineral Resources declared as at 31 December 2016, decreased from that declared in December 2015, by 0.183 million tonnes but the grade and the Cr to Fe ratio remained the same.**

The Mineral Resources for Stellite declared as at 31 December 2015, decreased by 0.198 million tonnes from that declared in December 2015, mainly due to depletion in the MG4 open pit. The Mineral Resources were positively impacted by the addition of tailings material of 0.049 million tonnes.

The Mineral Resources for Mecklenburg and Vlakpoort declared as at 31 December 2016 remained the same as those declared in December 2015 because no mining was conducted during 2016.

**The combined Stellite, Mecklenburg and Vlakpoort Mineral Reserves<sup>1</sup> declared as at 31 December 2016, increased from that declared in December 2015, by 0.896 million tonnes mainly due to the increase in the highwall in the MG4 open pit at Stellite from 20 to 40m and in the LG6 open pit at Mecklenburg from 40 to 65m. The Cr2O3 grade increased by 0.13% to 36.91% Cr2O3 and the Cr to Fe ratio remained at 1.43.**

Mineral Resource and Mineral Reserve<sup>1</sup> Statement for Chromite for the Afarak Group in Southern-Africa as at 31 December 2016.

Mineral Reserves <sup>1</sup> (ROM Feed numbers)				Mineral Resources (Geological Losses Applied)			
Tonnage (kt)		2E+AU (g/t)	Ozs	Tonnage (kt)		2E+AU (g/t)	Ozs
<b>PROVED:</b>				<b>MEASURED:</b>			
<b>Stellite: Underground</b>				<b>Stellite: Underground</b>			
MG4				MG4	3,050	1.18	115,723
MG3				MG3	1,720	1.86	102,868
MG1				MG1	2,250	0.79	57,154
LG6				LG6	3,191	0.63	64,641
<b>Stellite: Open Pit</b>				<b>Stellite: Open Pit</b>			
MG4				MG4	28	1.14	1,026
MG3				MG3	221	1.46	10,375
MG2				MG2	110	1.62	5,730
MG1				MG1	60	0.71	1,370
LG6+6A				LG6+6A	39	0.49	614
<b>Vlakpoort: Open Pit</b>				<b>Vlakpoort: Open Pit</b>			
LG1-3				LG1-3	32	0.18	185
LG5				LG5	42	0.74	999
LG6				LG6	151	0.46	2,233
MG1-4				MG1-4	131	1.13	4,760
UG1-MR	159	1.40	7,158	UG1-MR	205	1.77	11,667
<b>Vlakpoort: Underground</b>				<b>Vlakpoort: Underground</b>			
LG6				LG6	398	0.43	5,503
UG2				UG2	754	4.04	97,947
MR				MR	618	2.15	42,723
<b>Total Proved</b>				<b>Total Measured</b>			
	<b>159</b>	<b>1.40</b>	<b>7,158</b>		<b>13,000</b>	<b>1.26</b>	<b>525,521</b>
<b>PROBABLE:</b>				<b>INDICATED:</b>			
<b>Stellite: Underground</b>				<b>Stellite: Underground</b>			
MG4				MG4	3,020	1.24	120,412
MG3				MG3	2,141	1.86	128,047
MG1				MG1	1,810	0.80	46,559
LG6				LG6	3,220	0.54	55,910
<b>Stellite: Open Pit</b>				<b>Stellite: Open Pit</b>			
MG4				MG4	561	1.18	21,286
MG3				MG3	690	1.59	35,277
MG2				MG2	260	1.66	13,878
MG1				MG1	130	0.74	3,093
LG6+6A				LG6+6A	70	0.48	1,080
<b>Vlakpoort: Open Pit</b>				<b>Vlakpoort: Open Pit</b>			
LG1-3				LG1-3	53	0.22	375
LG5				LG5	10	0.66	212
LG6				LG6	64	0.40	823
MG1-4				MG1-4	75	0.85	2,050
UG1-MR	9	0.19	55	UG1-UG2	24	0.31	239

Vlakpoort: Underground				Vlakpoort: Underground			
LG6				LG6	793	0.43	10,964
UG2				UG2	421	4.45	60,240
MR				MR	208	2.96	19,797

<b>Total Proved</b>	<b>9</b>	<b>0.19</b>	<b>55</b>	<b>Total Indicated</b>	<b>13,550</b>	<b>1.19</b>	<b>520,241</b>
<b>Proved &amp; Probable Reserves</b>	<b>168</b>	<b>1.34</b>	<b>7,213</b>	<b>Measured &amp; Indicated Resources</b>	<b>26,550</b>	<b>1.22</b>	<b>1,045,762</b>

#### INFERRED

##### Stellite: Tailings

LG6-MG4	732	1.37	32,246
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##### Stellite: Underground

MG4	200	1.59	10,225
MG3	20	1.86	1,196
MG1	190	0.78	4,765
LG6	860	0.48	13,273

##### Stellite: Open Pit

MG4	1,970	1.27	80,447
MG3	1,240	1.51	60,206
MG2	310	0.76	7,576
MG1	140	0.63	2,836
LG6+6A	490	0.47	7,405

##### Vlakpoort: Open Pit

LG1-3	41	0.23	303
LG5			-
LG6	1	0.42	14
MG1-4	119	1.00	3,826
UG1-MR			

##### Vlakpoort: Underground

LG6	1,321	0.42	17,840
UG2	115	4.78	17,675
MR			-

<b>Inferred Resources</b>	<b>7,749</b>	<b>1.04</b>	<b>259,833</b>
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<b>Total Resources (Excl Exploration Results<sup>2</sup>)</b>	<b>34,299</b>	<b>1.18</b>	<b>1,305,595</b>
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<b>Total Reserves</b>	<b>168</b>	<b>1.34</b>	<b>7,213</b>
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#### Exploration Results<sup>2</sup>

##### Vlakpoort: Underground

LG6	1,243	0.41	16,387
UG2			-
MR			-

<b>Vlakpoort: Open Pit</b>			
LG1	10	0.30	96
LG2	7	0.17	38
LG3	33	0.27	286
UG2			-
LG5			-
LG6	365	0.42	4,929
MG1	20	0.85	547
MG2			-
MG3	5	1.67	268
MG4+4A	264	0.87	7,385
UG1			
MR			
<b>Exploration Results<sup>2</sup></b>	<b>1,947</b>	<b>0.48</b>	<b>29,938</b>
<b>Total (Incl Exploration Results<sup>2</sup>)</b>	<b>36,246</b>	<b>1.15</b>	<b>1,335,533</b>

- Mineral Reserves<sup>1</sup> used in SAMREC and IMMM Codes whereas termed Ore Reserves in the JORC Code
- Exploration Target Mineralisation<sup>2</sup> used in JORC Code whereas termed Exploration Results in the SAMREC Code. The potential quantity and grade is conceptual in nature and there has been insufficient exploration to define Mineral Resources and it is uncertain if further exploration will result in the determination of a Mineral Resource.
- The PGM rights at Mecklenburg do not belong to Afarak and therefore do not satisfy all requirements for reporting.
- No Mineral Reserves could be declared for Stellite yet as the feasibility study to extract PGMs, are still in progress.

The Measured and Indicated Mineral Resources for Stellite declared as at 31 December 2016, decreased from that declared in December 2014 due to depletion in the MG4 open pit.

The Measured and Indicated Mineral Resources for Vlakpoort declared as at 31 December 2016 remained the same as that declared in December 2015 because no mining was conducted during 2016.

**The combined Stellite and Vlakpoort Mineral Resources declared as at 31 December 2016, increased from that declared in December 2015, by 0.027 million tonnes, but the PGM grade remained the same. The depletion in the MG4 open pit at Stellite was positively impacted by the addition of tailings material.**

The information in this statement that relates to Exploration Results and Mineral Resources is based on information compiled by Hermanus Berhardus Swart, a Competent Person who is a Professional Natural Scientist registered with South African Council for Natural Scientific Professions accredited (No. 400101/00) and a Member of the Geological Society of South Africa, each of which is a "Recognised Professional Organisation" (RPO) that is included in a list that is posted on the ASX website from time to time. The Competent Person is employed by Dunrose Trading 186 (PTY) Ltd trading as Shango Solutions, which provides services as geological consultants. The Competent Person has sufficient experience which is relevant to the style of mineralisation and types of deposits under consideration, and to the activity which has been undertaken, to qualify as a Competent Person as defined by the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC), the 2001 Code for reporting of Mineral Exploration Results, Mineral Resources and Mineral Reserves in the United Kingdom, Ireland and Europe (IMMM) as well as the 2007 edition of the South African Code for Reporting of Exploration Results, Mineral Resources and Mineral Reserves (SAMREC). The Competent Person consents to the inclusion of the matters based on his information in the form and context in which it appears.



H.B. Swart  
Pr.Sci.Nat and FGSSA  
Principal Geologist – Shango Solutions



**GOVERNANCE  
REVIEW >**

# CHAIRMAN'S LETTER

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**IVAN JAKOVIC**  
Chairman

Dear Shareholders,

2016 was a challenging year for companies operating in the ferrochrome sector, as prices continued to decline for most of the year. It was only towards the very end of the year, particularly in December, that a market turn-around was registered. Despite these adverse market conditions, Afarak managed to have a positive EBITDA and to further reduce its debt.

As the scale of the challenges became clearer during the year, your Board acted decisively in a timely and effective manner.

Afarak takes a disciplined approach towards market fundamentals. This year, your Board has been involved in making a number of difficult decisions, including the temporary halting of production at our EWW plant in Germany. These decisions have not been made lightly, however they proved pivotal. Following the market's upswing towards the fourth quarter, the Company managed to close the year with a stronger balance sheet.

Afarak's unique position as a vertically-integrated producer of speciality alloys; acting as a miner, producer and marketer of commodities, enables it to extract value at every stage of the commodity chain. As a result, your Company is better positioned than many to withstand the downward pressures and the number of firms that went into business rescue in South Africa is a testimony to this.

On behalf of the Board, I would like to thank all the local teams that have worked hard throughout the year. Their effort and dedication supported the Board throughout these challenging times.

The Board has embarked on prioritising health and safety matters. We are continuing our efforts to strengthen our safety culture at all our operations and I am confident that our ambition to achieve Zero Harm is achievable.

Further on in the report, we have set out the main activities of the Board and its Committees during the year. I would like to highlight in particular:

- \* the work of the Audit Committee, particularly on currency exposure and on improving financial reporting at Group level;
- \* the work with executive management and subsidiaries concerning the Group's ongoing strategy and balance sheet strengthening;
- \* the focus on health & safety by the Board.

Afarak Group follows the Finnish Corporate Governance Code. As a Board, we are committed to our obligations as a publicly listed company and management is focused on strengthening the company's structure. Throughout 2016, we have enhanced our communication efforts as a Group and have published various releases on our ongoing projects and initiatives. Last year's AGM and Question and Answer session with investors was well received and will be replicated this year. You may have seen some negative comments and even untruths that were recently spread about the Company in the Finnish press. Afarak remains an open company that adheres to the highest standards of ethics, professionalism and corporate governance as required by listing authorities. We are proud of our multi-national and multi-cultural team. We will continue working together as a team with deep mutual respect and will not be perturbed by any unjust and unfounded comments.

As a business, we are committed to delivering shareholder value. Our distribution policy remains unchanged from last year and that includes prudence in deciding on our distributions, based on budgets and cash flows. Following the 2016 loss and in the light of lower cash reserves and an uncertain market, in line with our policy, a decision was made not to propose a distribution.

In line with the Group's policy, distributions to shareholders will be reviewed depending on the results of the first half of 2017. 2016 was a positive year for the Afarak share in Helsinki. Trading increased and the closing share price at end 2016 was close to double the price at end-2015. Shareholders experienced a 94% increase in the value of their shares throughout the year.

We recognise that we will also be able to successfully deliver this commitment through creating long-term sustainable benefits for all our stakeholders. To this end, your Board is proud of its continued efforts to support host communities in South Africa through numerous social investments and initiatives, our continuous efforts to maintain highest possible safety standards, our respect for the environment and continuous investment in ever cleaner production tools and methods.

In conclusion, our response to the considerable challenges that the Group faces over the past year reflects the strong leadership of the Group's management team and the continued effort of all our colleagues in our operations, who are all working together to ensure the ongoing success of your Company. Following the resignation of Dr Alistair Ruiters in December, Mr Guy Konsbruck became Chief Executive Officer in January. The role of Chief Financial Officer was also created and Predrag Kovacevic was appointed to serve this function.

We remain focused and committed on operating efficient, low-cost and safe operations which give us confidence that the Company's medium and long-term fundamentals remain strong.

I, and my fellow Directors, thank you for your continued support.

**Ivan Jakovčić**  
Chairman

# 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 in this Annual Report.

For the purposes of United Kingdom Listing Authority listing rules ("LR") 9.8.4C R, the information required to be disclosed by LR 9.8.4 R can be found in the following locations:

SECTOR	TOPIC	LOCATION
(1)	<b>Interest capitalised</b>	1.7. Notes to the statement of financial position, 10. Property, plant and equipment.
2	<b>Publication of unaudited financial information</b>	Not applicable
4	<b>Details of long-term incentive schemes</b>	1.7. Notes to the statement of financial position, 19. Share-based payments
5	<b>Waiver of emoluments by a director</b>	Not applicable
6	<b>Waiver of future emoluments by a director</b>	Not applicable
7	<b>Non pre-emptive issues of equity for cash</b>	Not applicable
8	<b>Item (7) in relation to major subsidiary undertakings</b>	Not applicable
9	<b>Parent participation in a placing by a listed subsidiary</b>	Not applicable
10	<b>Contracts of significance</b>	1.7. Notes to the statement of financial position, 1.8.2 Related party transactions
11	<b>Provision of services by a controlling shareholder</b>	Not applicable
12	<b>Shareholder waivers of dividends</b>	Not applicable
13	<b>Shareholder waivers of future dividends</b>	Not applicable
14	<b>Agreements with controlling shareholders</b>	Not applicable

*All the information cross-referenced above is hereby incorporated by reference into this Board of Directors report.*



# OUR PEOPLE: THE BOARD OF DIRECTORS

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## CHAIRMAN



### > **Ivan Jakovčić**

BA (Foreign Trade Faculty) Born 1950

Ivan Jakovčić is a Croatian politician and a member of the European Parliament where he is in the Committee on Regional Development, Committee on Agriculture and Rural Development and the Committee of the Regions of the European Union. Prior to joining the European Parliament, Mr Jakovčić has held numerous political positions in Croatia where he has been a member of the Croatian Parliament, the President of the Istrian Democratic Assembly and served as Minister of European Integration. Mr Jakovčić was appointed to the Board of Afarak on 11 February 2013 and appointed Chairman on 11 May 2015.

## EXECUTIVE DIRECTOR



### > **Dr Alistair Ruiters**

BA Hons (Economic History), Ph.D. (Sociology) Born 1964

Dr Ruiters served as a public servant in the South African Democratic Government between 1994 and 2005. He has held numerous senior positions in Government, including the Commissioner of the Competition Commission and the Director General of the Department of Trade and Industry. After leaving the public sector, Dr Ruiters started his own company and also served on numerous Boards. He joined Afarak in October 2009 as a consultant and in 2010 was appointed to head the South African operations. He served as the Group's Chief Executive Officer between May 2015 and December 2016. He holds degrees from the University of Cape Town and a Doctorate from Oxford University.

## DEPENDENT NON-EXECUTIVE DIRECTOR



### > **Dr Jelena Manojlovic**

Ph.D. (Medicine), Clin. D. (Psychology), MA (Psychotherapy) Born 1950

Jelena Manojlovic has been a member of the Board since 11 July 2008, and has acted as Chairperson of the Board since 16 June 2009. She is also a member of the Remuneration and Nomination Committee. She is an established university lecturer and organizational consultant and has 35 years' experience in the human resources field and 20 years' in management positions in a diverse range of organisations, including the UK's National Health Service, universities and other companies. She was previously Human Resources Director of Kermas Limited (a major shareholder in the Company). Manojlovic is independent of the Company but through a controlled entity of her husband Danko Koncar, she is dependent on a major shareholder of the Company.

## INDEPENDENT NON-EXECUTIVE DIRECTORS



### > **Barry Rourke**

FCA Born 1950

Barry Rourke was a member of the Afarak Board, the Chairman of the Audit Committee and a member of the Remuneration Committee from April 2010 to February 2013. Previously, he was an Audit Partner at PWC's for 17 years from 1984 to 2001 where he specialised in the Oil & Gas and Mining sectors. He currently holds a number of non-executive directorships and positions on the audit committees in other listed companies.



### > **Mr Markku Kankaala**

B.Sc. (Eng.) Born 1963

Markku Kankaala has been a member of the Board since 30 June 2003. He is also a member of the Audit and Risk Management and Nomination and Remuneration Committees. He was also the CEO of the Group from 2003 to 2004 and worked as a Branch Director in Ruukki Group Plc (currently, Afarak Group Plc) until 31 August 2006. Previously he worked for 10 years as an entrepreneur in the wood products industry and before that in different positions in Ahlstrom and Rautaruukki. Markku Kankaala resigned from the Board of Afarak on 17 March 2017.



### > **Mr Milan Djakov**

M.Sc (Global Banking & Finance); BA (Hons) International Business

Milan Djakov is a graduate in banking and finance. Following his studies, Milan gained considerable experience working in the public sector in Serbia particularly with the Ministry of Agriculture, Forestry and Water Management. Following his experience in the public-sector Milan moved to the private sector and joined Afarak Group. He has been actively involved in the running of the Company and worked on a number of diverse projects.

# OUR PEOPLE: THE EXECUTIVE MANAGEMENT TEAM

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The Group's Executive Management Team ("EMT") assists the Group CEO in effectively accomplishing his duties. The EMT is an advisory body which was set up by the Board of Directors in November 2009. It has neither authority, based on laws or the Articles of Association, nor any

independent decision-making rights. Decisions on matters discussed by the EMT are taken by the CEO, the EMT member responsible for the matter in question or the Group's Board of Directors, as appropriate.



➤ **Dr Alistair Ruiters**

CEO till 15 January 2017  
BA Hons (Economic History), Ph.D. (Sociology)



➤ **Guy Konsbruck**

Chief Executive Officer BA (Hons); MBA (SHU Fairfield); MA (Strasbourg);  
Born 1965

Guy Konsbruck was appointed Chief Executive Officer of Afarak on 15 January 2017. He has previously served as an Executive Vice-President of MFC Industrial since 2014. Before that he served as CEO of FESIL's global sales companies and was also the co-founder of Luxalloys.



➤ **Predrag Kovacevic**

Chief Financial Officer  
BA (Hons), MA (Business Administration & Economics) Born 1974

Predrag Kovacevic is a corporate finance expert with 17 years of broad international experience. He joined Afarak in the beginning of 2016 with a focus on finance and business development and was appointed the CFO in December 2016. Prior to joining Afarak, Mr Kovacevic held a number of senior advisory and leadership positions in both government and private sector, including acting as a Special Advisor to Ministers of Finance and Economy in Serbia and a Director of Financial Advisory Services at Deloitte Central Europe. He lived for over 10 years in South Africa completing his studies and worked as the Vice President – Head of Banking in an international credit rating agency.



➤ **Dr Danko Koncar**

Business Development Director  
Diploma (Engineering), M.Sc. (Engineering), Ph.D. (Engineering) Born 1942

Dr Danko Koncar was appointed as a member of the Board at the Extraordinary General Meeting on 11 August 2010 and as the CEO on 11 February 2013. He was also the Acting Managing Director of the Company between October 2010 and April 2011. He has extensive experience in minerals processing and trading, including 20 years in ferrochrome processing with six years of experience in application of direct current technology to ferrochrome processing. He has served as Chairman of Samancor Chrome and General Director of RCS Limited and is still General Director of Kermas.



➤ **Michael Lillja**

Executive Director, Head of Marketing and Sales  
M.Sc (Economics) Born 1962

Michael Lillja is currently the Head of Marketing of Afarak Trading Limited, the marketing arm of Afarak. Prior to Afarak Trading, Mr. Lillja has served for decades in several different positions in the mining and metals industry, the energy sector, and in international trade for companies such as, Alloy 2000 SA/ENRC-Kazakhstan, International Ferro Metals Ltd, and SamChrome Ltd/Samancor Cr.

# OUR PEOPLE: THE CORPORATE MANAGEMENT TEAM

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The Company's Corporate Management includes, in addition to the Executive Management Team, the following personnel responsible for corporate functions:

## > **Willem Smith**

Managing Director, Afarak Mogale  
B. Eng Metallurgy; MA Business Leadership Born 1976

Willem Smith is a metallurgist by profession and joined Afarak Mogale in 2006. He was appointed General Manager of Afarak Mogale 2012. Prior to joining Afarak Group, Willem gained extensive experience in the steel and ferroalloys sector working at ArcelorMittal and Samancor Chrome.

## > **Seyda Caglayan**

Managing Director, Afarak TMS  
MSc Mining Engineering Born 1958

Seyda Caglayan joined Afarak TMS in December 2007. Prior to joining Afarak, she held a number of senior management and directorate positions in the mining and chrome industry including the Istanbul Mineral Exporters' Association and the International Chromium Development Association (ICDA). Seyda currently serves as Member of the Board of Turkish Miners Association, Member of Chrome Committee of ICDA and Member of the Board of Trustees of the Turkish Mining Development Foundation.

## > **Christoph Schneider**

Managing Director, Afarak EWW  
MA Economics Born 1964

Christoph Schneider is currently the Managing Director of Afarak EWW. He joined EWW in 1992 as Sales Manager. Over the years, Christoph rose the ranks of EWW and was appointed as Managing Director in December 2003.

## > **Dr Kurt Maske**

Acting Managing Director, Afarak SA Mining  
PhD (Minerals Engineering) Born 1955

Kurt Maske is the acting General Manager for the SA Mining Operations and manages the South African marketing and logistics processes. Prior to joining Afarak in 2011, Kurt was with BHP Billiton for nearly 25 years where he started his career as a Process Engineer responsible for developing the DC arc furnace technology for FeCr production at what is now Mogale Alloys. After serving as Works Manager he was transferred to Samancor's marketing team to globally manage the sale of the group's low and medium carbon ferrochrome products.



➤ **Melvin Grima**

Finance Director  
ACCA, MIA, CPA Born 1982

Melvin Grima joined Afarak in 2013 as Group Finance Manager. He was responsible of the relocation of the Group's corporate finance function to Malta and its setup. He was promoted to Finance Director in 2015. Prior to joining Afarak, he held a number of management positions including Group Accountant of a hotel Group and Finance Manager of a Group trading in the petroleum industry.

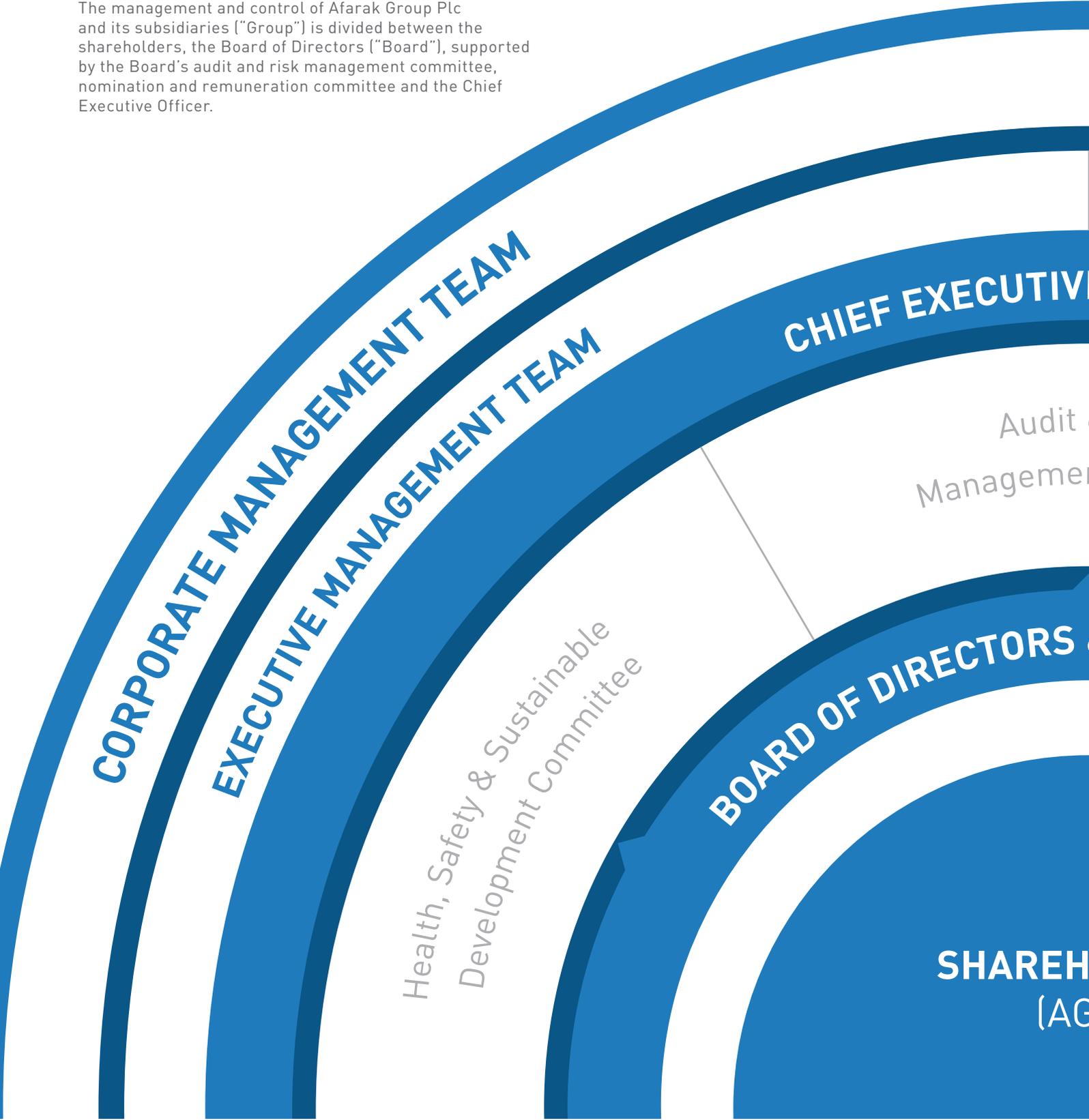
➤ **Jean Paul Fabri**

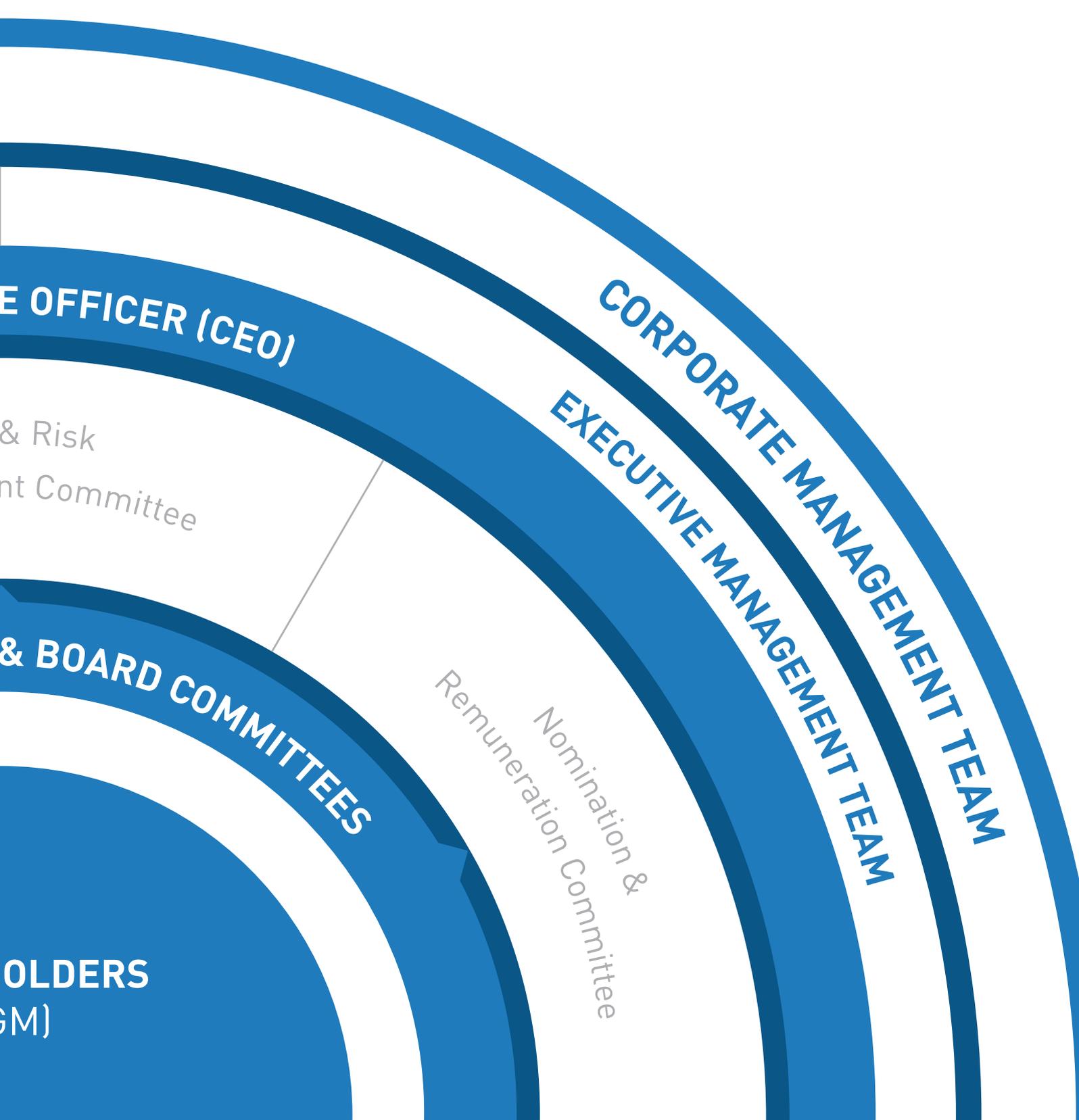
Investor Relations & Communications Manager  
BA (Hons) Economics; MA (Economics) Born 1983

Jean Paul Fabri joined Afarak in 2016 as Investor Relations and Communications Manager. Prior to joining Afarak, he worked as a speechwriter & press secretary to the former Prime Minister of Malta and Governor of the Central Bank. He also served as a Technical Consultant to The Commonwealth Secretariat and is a visiting assistant lecturer at the University of Malta.

# GOVERNANCE STRUCTURE

The management and control of Afarak Group Plc and its subsidiaries ("Group") is divided between the shareholders, the Board of Directors ("Board"), supported by the Board's audit and risk management committee, nomination and remuneration committee and the Chief Executive Officer.





## GENERAL MEETING

Afarak's ultimate decision-making body is the shareholders' General Meeting which convenes once a year and is held within six months of the end of the financial year. Pursuant to the Company's Articles of Association, the convening notice for a General Meeting will be published on the Group's website and in a stock exchange release no earlier than two months, and no later than 21 days, prior to the General Meeting or nine days prior to the record date of the General Meeting.

The notice of a General Meeting, the proposals for resolutions, and the documents to be submitted to the General Meeting, such as the financial statements, the annual report and the auditor's report, will be available on the Group's website and at the Group's office in Helsinki at least three weeks before the meeting. The resolutions passed by the General Meeting will be published as a stock exchange release without undue delay and will be available on the Group's website, along with the minutes of the General Meeting, no later than two weeks after the meeting.

Shareholders have the right to add items falling within the scope of the Annual General Meeting to the meeting's agenda. The request must be submitted to the Board of Directors in advance so that the item can be included to the notice. Afarak publishes the details of how and when to submit the requests to the Board on its website.

The Company uses the Annual General Meeting to develop an understanding of the views of its shareholders about the Company.

An Extraordinary General Meeting can be convened if the Board of Directors deems it necessary or if the auditor of the Company or the shareholders owning at least 10 percent of the shares demand one in writing in order to deal with a specific matter, or if it is required by law or other regulations.

The most significant items on the Annual General Meeting's agenda include:

- Approving the year's financial statements;
- Confirming the financial year's profit or loss, the dividend distribution or other distribution, such as

capital redemption;

- Determining the number of directors on the Board of Directors, their remuneration and electing those directors to the Board; and
- Electing the auditor or auditors and approving their fees. In addition, certain significant matters (such as amending the Articles of Association or deciding on a capital increase) require a resolution by the shareholders in a General Meeting.

General Meetings are organised in a manner that permits shareholders to exercise their ownership rights effectively. A shareholder wishing to exercise his or her ownership rights shall register for a General Meeting in the manner stated in the notice of meeting. All the shareholders who have been registered in the Company's shareholder register, maintained by Euroclear Finland Ltd, on the record date of the meeting have the right to attend a General Meeting, provided they have delivered a proper notice to attend the meeting. Holders of nominee registered shares may be registered temporarily on the shareholder register, and they are advised to request further instructions from their custodian bank regarding the temporary registration and issuing of a proxy document.

Resolutions by a General Meeting usually require a simple majority. Certain resolutions, however, such as amending the Articles of Association and directed share issues require a qualified majority represented by shares, and the votes conferred by the shares, at the General Meeting.

The majority of the Board members, if not all, attend General Meetings together with the CEO and the auditor. In addition, if a person is proposed for election as a director for the first time, he or she will also attend the General Meeting.

## GENERAL MEETINGS IN 2016

The Annual General Meeting was held on 11 May 2016 at Restaurant Palace in Helsinki, Finland.

All the resolutions of the above-mentioned General Meeting can be found at:  
<http://www.afarak.com/en/investors/shareholder-meetings/2016/>

# THE BOARD OF DIRECTORS

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## TASKS AND RESPONSIBILITIES

The Board of Directors is composed of between three and nine members who are elected by the General Meeting of shareholders, which also approves their remuneration. The tenure of each Board member is for one year and expires at the end of the next annual General Meeting immediately following their election. The Board elects a chairman from among its members. None of the non-executive directors has a service contract with the Company and none of the directors has waived or agreed to waive any emoluments from the Company or any subsidiary undertaking.

The duties of a Board member are specified in the Finnish Companies Act. The Afarak Board also has a written charter governing its functions.

The Board of Directors oversees the administration of the Group and is responsible for the internal control of its assets, finances and accounts on behalf of shareholders. Its specific responsibilities include:

- Formulating the Group's business strategy and overseeing its implementation;
- Deciding on the Group's capital structure;
- Making decisions on significant investments, divestments, credits and collaterals, guarantees and other commitments;
- Approving the quarterly interim reports, the Board of Directors Report, the annual financial results and future forecasts and/or outlook;
- Deciding on the Group's organisational structure;
- Appointing the CEO and approving his or her service agreement and remuneration; and
- Convening and submitting proposals to the shareholders' General Meeting.

Key elements of the Board's charter and operations are:

- It convenes on prearranged dates, with a view to meeting approximately once a month, or more often if necessary. Meetings can be arranged as conference calls;
- Matters to be dealt with by the Board are presented by the Chairman, the CEO or another person who has participated directly in assessing and preparing the issue for consideration;
- It aims to make unanimous decisions;
- It prepares an annual plan for its operation; and
- It acts at all times in the interest of the Group and all of its shareholders.

The Board oversees all communications and other requirements stipulated by the rules of the relevant

stock exchanges and financial supervision authorities and conducts regular self-assessments to ensure these requirements continue to be fulfilled. The Group has established specific targets for the development of its administrative functions and processes, and continues to implement these.

The Board also evaluates and decides on acquisitions and disposals of subsidiaries and associated companies. To ensure the efficiency of board and committee work, the Board regularly evaluates the operations and working methods of each committee and the Board. The evaluation is conducted as internal self-evaluation. The Board is also regularly in contact with the major shareholders of the Company to ensure that the Board is aware of their views.

The 2016 Annual General Meeting elected seven members to Dr Jelena Manojlovic, Mr Barry Rourke, Mr Markku Kankaala, Mr Ivan Jakovic and Dr Alistair Ruiters were re-elected and Mr Keith Scott and Mr Milan Djakov were newly elected. Mr Keith Scott resigned from the Board in December 2016. Mr Markku Kankaala resigned from the Board in March 2017.

## DIRECTOR SKILLS, EXPERIENCE AND ATTRIBUTES

The Board considers that a diversity of skills, backgrounds, knowledge, experience, geographic location, nationalities and gender is required to effectively govern the business. The Board and its Nomination and Remuneration Committee work to ensure that the Board continues to have the right balance of skills, experience, independence and Group knowledge necessary to discharge its responsibilities in accordance with the highest standards of governance.

To govern the Group effectively, Non-Executive Directors must have a clear understanding of the Group's overall strategy, together with knowledge about the Group and the industries in which it operates. Non-Executive Directors must be sufficiently familiar with the Group's core business to be effective contributors to the development of strategy and to monitor performance.

The Board requires that Directors commit to the collective decision-making processes of the Board. Individual Directors are required to debate issues openly and constructively, and are free to question or challenge the opinions of others. Each Director must ensure that no decision or action is taken that places his or her interests in front of the interests of the Company.

## CURRENT BOARD PROFILE

The Board considers that each of the Non-Executive Directors has the following attributes:

time to undertake the responsibilities of the role;

- unquestioned honesty and integrity;
- a willingness to understand and commit to the highest standards of governance;
- knowledge of commodity markets and mining
- an ability to think strategically
- a preparedness to question, challenge and critique
- experience of managing in the context of uncertainty, and an
- understanding of the risk environment of the Group, including the potential for risk to impact our health and safety, environment, community, reputation, regulatory, market and financial performance;
- knowledge of world capital markets.

## SENIOR INDEPENDENT DIRECTOR

During the year under review, Barry Rourke held the

role of Senior Independent Director of Afarak Group in accordance with the UK Corporate Governance Code. He acted independently in the best interests of the Group. His expertise and broad international experience materially enhanced the skills and experience profile of the Board. He is available to shareholders who have concerns that cannot be addressed through the Chairman, CEO or CFO. As Senior Independent Director, he also provides a sounding board for the Chairman and serves as an intermediary for other Directors if necessary.

## BOARD INDEPENDENCE

The Finnish Corporate Governance Code requires that the majority of the directors are independent of the Company. In addition, at least two of the directors representing this majority must be independent of the significant shareholders of the Company. The Company believes that Mr Barry Rourke, Mr Ivan Jakovic, Mr Milan Djakov and Mr Markku Kankaala are independent of the Company and significant shareholders whilst Dr Jelena Manojlovic is dependent of the Company.

	Current Position	Appointed to the Board	Status	Audit & Risk Management Committee	Nomination & Remuneration Committee	Health & Safety Committee
Ivan Jakovic	Chairman	11 February 2013	Independent	Member	Member	-
Jelena Manojlovic	NED	11 July 2008	Dependent	Member	Chair	-
Barry Rourke	NED	8 May 2015	Independent	Chair	-	Member
Markku Kankaala	N/A	30 June 2003 to 17 March 2017	Independent	N/A	N/A	N/A
Keith Scott	N/A	11 May 2016 to 08 December 2016	Independent	N/A	N/A	N/A
Milan Djakov	NED	11 May 2016	Independent	-	-	Member
Alistair Ruiters	Executive	08 May 2015	Independent	-	-	Chair

# THE BOARD IN 2016

The new Board of Directors made it a priority to review various elements relating to the operation and corporate governance of Afarak. Highlights of the main discussions and decisions are presented below. A strategic workshop was held by the Board soon after election and various elements relating to Afarak's core business were reviewed.

## CORPORATE STRUCTURE & GOVERNANCE

The Board focused on implanting the provisions under the Market Abuse Directives in 2016. It continued reviewing corporate structures and streamlining management and information flows within the organisation. Work has also commenced on a review of the Company's IT systems. The Board also supported the strengthening of internal processes and procedures especially those relating to health & safety as well as the annual budget process.

## RISK MANAGEMENT

Given the market's volatility, the Board focused on main factors that constituted risk to the company. Various measures mitigating such risks were implemented and a detailed review of currency exposures and risk was undertaken.

## HEALTH & SAFETY

The Board highlighted health & safety as a key priority. An in-depth review and gap analysis of all health & safety policies and procedures was initiated. The Board is working closely with the respective units to strengthen the health & safety culture within the Company. The Board is committed to continue investing in training, equipment and reporting to ensure that its policy of 'Zero Harm' is practiced throughout the Company.

## REVIEW OF POLICIES & PROCEDURES

Throughout the year, the Board continued with its in-depth review of the Company's policies & procedures. The Board has taken a very holistic approach and in line with its risk management efforts, it is currently drawing up a set of policies & procedures that will mitigate some of the largest risk factors that the Company faces. A manual for employees is also being drawn up as part of this initiative.

## COMPANY PERFORMANCE

As part of the focus to improve the Company's performance, it was decided to strengthen the oversight of subsidiaries as

well as reporting frameworks. Through various initiatives, the Company is today leaner and more able to respond in a timely manner to changing market circumstances. The Board supported Mogale in becoming a swing-plant and during the year, the plant embarked on a process of switching its silicomanganese furnaces to charge chrome.

A total of 11 meetings of the Board were held during the reporting period and the attendance of the directors is tabled below:

Meetings attended	
Ivan Jakovcic	10/11
Jelena Manojlovic	11/11
Barry Rourke	11/11
Markku Kankaala	11/11
Alistair Ruiters	11/11
Milan Djakov	7/7
Keith Scott	4/6
Alfredo Parodi	4/4
Michael Lillja	4/4

*A total of 11 meetings were held during the reporting period. The differences in the meetings attended, related to the changes in Board composition.*

## REMUNERATION

The Annual General Management resolved that the Chairman of the Board shall be paid EUR 4,500 per month, the Chairman of the Audit and Risk Management Committee shall be paid EUR 5,550 and all Board Members are paid EUR 3,500 per month. Non-executive Board Members who serve on the Board's Committees shall be paid additional EUR 1,500 per month for committee work. The executive Board members shall not be paid remuneration for their work on the Board of Directors.

Those members of the Board of Directors that are executives of the Company are not entitled to receive any remuneration for Board membership.

During the financial year 2016, the Board members received a total of EUR 363,000 and Committee membership fees.

# BOARD COMMITTEES

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## AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee had two members till 31 December 2016: Barry Rourke (Chairman) and Markku Kankaala. The third member, Keith Scott, resigned from the Board and from the Committee on December 8. Following Markku Kankaala's resignation from the Board and Committee on 17 March 2017, Dr Jelena Manojlovic and Ivan Jakovcic were nominated to the Committee.

The Board has defined the Committee's duties in accordance with the recommendations of the Finnish and the UK Corporate Governance Codes. The Audit and Risk Management Committee reviews the auditors' work and monitors the Group's financial position and the appropriateness of its financial reporting. The Committee oversees risk management procedures and internal controls, maintaining contact with auditors and evaluating their reports. The Committee reports regularly to the Board.

In 2016, the Committee continued to oversee the Group's financial performance and reporting. The Committee also worked with management to continue improving the management information flow to the Board. Regular scrutiny of the Group's compliance with laws, regulations and best practice was also an area of focus and during the year, the Committee was particularly focused on implementing the directives that fall under the Market Abuse Regulations.

Throughout the year, the Committee continued reviewing and analysing in-depth its corporate cost structures and together with management it worked on improving the internal budgeting and forecasting models and processes. The committee is currently reviewing the Group's exposure to exchange rate risks and how these risks can be mitigated.

The committee also reviewed each quarterly report before release and recommended changes where necessary, before recommending the reports to the Board.

## NOMINATION AND REMUNERATION COMMITTEE

The combined Nomination and Remuneration Committee of the Company had three members till 31st December 2016 Dr Jelena Manojlovic (committee chairman), Markku

Kankaala and Ivan Jakovcic. Mr Markku Kankaala resigned from the Committee on 17 March 2017.

The Committee leads the process for making appointments to the Board and the executive management and submits recommendations to the Board in this regard. The Committee also leads the process relating to the remuneration of the executive management and the Board, and makes recommendations to the Board and to the General Meeting in relation to the Board's remuneration.

Following the resignation of Dr Alistair Ruiters as Chief Executive Officer, the Committee has conducted the process of recruiting a new Chief Executive Officer and supported the creation of the new role of Chief Financial Officer to complement the executive management of the Group.

## THE COMMITTEE FOR HEALTH, SAFETY AND SUSTAINABLE DEVELOPMENT

The combined Nomination and Remuneration Committee of the Company had three members till 31st December 2016 Dr Alistair Ruiters, Barry Rourke, Markku Kankaala and Milan Djakov. Dr Ruiters replaced Keith Scott who served as Chairman before resigning from his post as Director in December 2016. Mr Markku Kankaala resigned from the Committee on 17 March 2017.

The Committee's stated mission is to ensure that Afarak conducts its business in a responsible and ethical manner for the benefit of all its stakeholders. Throughout 2016, the Committee conducted a gap analysis of all its safety policies and procedures within its subsidiaries and set-out to start addressing the gaps. Reporting frameworks are also being updated as part of this exercise. Following the fatality at Mogale, the Committee is currently focused on enhancing the safety culture at the plant.

Afarak is continuously investing in environmental initiatives and projects. We are committed to rehabilitating our mines and installing technologies that reduce the impact on the environment. The Committee also continued to monitor Afarak's work and social investment programmes with local communities, particularly in South Africa.

# CORPORATE GOVERNANCE STATEMENT

Afarak Group Plc (“Afarak”, the “Company” or the “Group”) is a Finnish public limited company listed on the NASDAQ Helsinki Stock Exchange (AFAGR) and the Main Market of the London Stock Exchange (AFRK).

Afarak’s corporate governance is based on, and complies with, the laws of Finland, the Articles of Association of the Company, the Finnish Corporate Governance Code and the regulations of the Finnish Financial Supervisory Authority,

the UK Listing, Disclosure and Transparency Rules, the NASDAQ Helsinki Stock Exchange and the London Stock Exchange. As Afarak primarily follows the Finnish Corporate Governance Code, certain sections of the UK Corporate Governance Code issued in September 2012 (“UK CG”) are not strictly complied with. However, in the areas that the Company diverges from the UK CG the Company believes that its policies are acceptable for the reasons which are set out below:

UK CG Section	Description	The Reason for Non-Compliance
C.3.8	A separate section of the annual report should describe the work of the Audit committee in discharging its responsibilities	While this report includes a description of the work of the audit and risk management committee, the contents requirements of this section under the UK GC are not the same as those under the Finnish CG and, therefore some information required under the UK GC is not included.
E.2.1	For each resolution, proxy appointment forms should provide shareholders with the option to direct their proxy to vote either for or against the resolution or to withhold their vote.	The Company’s AGM is arranged in accordance with the Finnish Companies Act so certain procedural and other matters differ from the UK CG recommendation. The Company does not provide proxy voting forms.
E.2.2	Miscellaneous general meeting procedures	The Company’s AGM is arranged in accordance with the Finnish Companies Act so certain procedural and other matters differ from the UK CG recommendation.

Afarak’s foreign subsidiaries operate under the local laws and regulations of the countries in which they are located, including but not limited to local accounting and tax legislation as well as exchange controls. This Corporate Governance Statement for the financial period 1 January to 31 December 2016 is issued as a separate report to the Board of Directors’ Report and is available on the Group’s website at [www.afarak.com](http://www.afarak.com). It has

been prepared pursuant to the Finnish Corporate Governance Code 2010 and the guideline of the Securities Market Association dated 1 December 2010. Afarak complies with the Finnish Corporate Governance Code which can be found on the Securities Market Association’s website at [www.cgfinland.fi](http://www.cgfinland.fi). Afarak has made no exceptions in its Finnish Corporate Governance Code compliance.

# INTERNAL CONTROL

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The principles of internal control are confirmed by the Board. The Group's EMT members are in charge of the day-to-day business management and administrative control in their respective responsibility areas.

## MAIN PRINCIPLES OF RISK MANAGEMENT AND INTERNAL CONTROL

The purpose of risk management is to identify, evaluate and mitigate the potential risks that could impact the Group's business and the implementation of its strategy, and to ensure that risks are proportional to the Group's risk-bearing capacity.

The Group's risk management policy is approved by the Board of Directors and defines the objectives, approaches and areas of responsibility of risk management activities. The Group's key risks are reviewed and assessed by the Board on a regular basis. The Group's business segments, and the business units within those segments, are primarily responsible for managing their risks, their financial performance and their compliance with the Group's risk management policies and internal control procedures.

The Board of Directors is responsible for organising and maintaining adequate and effective internal control performed by the senior and executive management as well as other Afarak personnel, and assisted by third-party experts when appropriate.

The Board of Directors decides on the Group's management system and the corporate and organisational structure required by each business unit with a view to providing solid foundations for effective internal control. Internal control and risk management related to financial reporting at the Group level are performed in a coordinated way by a function independent of the business areas. Each subsidiary's executive management is responsible for the implementation of internal control and risk management to the agreed Group principles and guidelines.

The system of internal control provides reasonable rather than absolute assurance that Afarak's business objectives will be achieved within the risk tolerance levels defined by the Board.

Internal control refers to elements of financial and operational management which are designed to ensure:

- Achievement of defined performance targets;
- Efficient use of resources and protection of assets;

- Effective management of risks;
- Accurate, timely and continuous delivery of financial and operational information;
- Full compliance with laws and regulations as well as internal policies; and
- Business continuity through secure systems and stable operating procedures.

## THE STRUCTURE OF INTERNAL CONTROL SYSTEMS

The main structural elements of the Group's internal control system are:

- The risk management and internal control policies and principles defined by the Board;
- Implementation of the policies and principles under the supervision of Group management;
- Supervision of the efficiency and functionality of the business operations by Group management;
- Supervision of the quality and compliance of the financial reporting by the Group finance department;
- An effective control environment within all organisational levels and business units, including tailored controls for each business process; and
- Internal audits conducted as and when needed.

## THE INTERNAL CONTROL OF THE FINANCIAL REPORTING PROCESS

The Group's financial organisation is structured so that each business unit has its own finance function, but overall financial management including accounting, taxation and financing is centralised within the Group's parent company.

The Group finance department is responsible for ensuring the compliance, quality and timeliness of the Group's external and internal financial reporting. The internal control mechanisms are based on the policies, procedures and authorisations established and approved by the Board. In addition to control mechanisms, training and sharing of knowledge are also significant tools of internal control.

Each business unit has its own finance function which reports to the Group Finance. The business unit's finance function is responsible for the unit's accounting and daily financial operations and internal reporting. The finance function and administration is overseen by the unit's management team and reports to the head of the business unit's segment.

The tasks of the Group Finance consist, among other things, of monthly consolidation of the Group's accounts, preparation of the quarterly interim reports and consolidated financial statements, financing of the Group, and tax planning.

Consolidated financial statements are prepared by using consolidation software. The accounting of the Company's subsidiaries is carried out by accounting systems and the accountants within each subsidiary enter the accounting information directly into the consolidation system, or in some cases send the information in a predefined format to the Group's financial administration to be consolidated.

## **ROLES AND RESPONSIBILITIES REGARDING RISK MANAGEMENT AND INTERNAL CONTROL**

### **Board of Directors**

The Board of Directors is ultimately responsible for the administration and the proper organisation of the Group's operations and approves all internal control, risk management and corporate governance policies. The Board establishes the risk-taking level and risk-bearing capacity of the Group and reassess them on a regular basis as part of the Group's strategy and goal-setting process. The Board reports to the shareholders of the Company.

### **Audit and Risk Management Committee**

The Audit and Risk Management Committee is responsible for the following internal control related activities:

- Monitoring the reporting process of the financial statements;
- Supervising the financial reporting process;
- Monitoring the efficiency of the Group's internal control, internal audit and risk management systems; and
- Monitoring the statutory audit of the financial statements and consolidated financial statements.

### **Group Management**

The Group's management is in charge of the day-to-day management of the Group in accordance with the instructions and orders given by the Board. It sets the framework of the internal control environment and is in charge of the Group's risk management process and its continuous development. This includes allocation of

resources to the work and continuous review of the risk management policies, as well as defining the principles of operation and overall processes.

### **External Audit**

According to the Articles of Association, the Annual General Meeting of shareholders elects the Company's auditor, which must be a firm authorised by the Finnish Central Chamber of Commerce; otherwise the Company will have one main auditor and one deputy auditor. The auditor's term is for one year and finishes at the end of the first General Meeting following election.

On Afarak's General Meeting elected Authorised Public Accountant Ernst & Young Oy ("EY") as auditor, with Authorised Public Accountant Erkka Talvinko having the principal responsibility. EY is also the local auditor of all of the Group companies.

In 2016, the Group paid EUR 369,000 (EUR365,000) for audit fees and EUR 51,000 (EUR29,000) for non-audit services to EY.

# INSIDER ADMINISTRATION

The Company complies with the legal provisions applying to the management of insiders as defined by the Market Abuse Regulations (EU) No. 596/2014, the Guidelines for Insiders issued by the NASDAQ Helsinki Stock Exchange and the stipulations and guidelines of the Finnish Financial Supervision Authority.

## PUBLIC INSIDER REGISTER

The Company's permanent public insiders comprise the Board members, the CEO, the Executive Management Team and the auditors. All permanent public insiders and the statutory information about them, their related parties and the entities controlled by them or in which they exercise influence, have been entered into the Company's public insider register which is published on the Group's website.

Afarak imposes a restriction on trading for insiders which forbids trading in the Company's shares for 30 days before the publication of financial reports. Prior to the preliminary announcement of the Company's annual results and the publication of its annual financial report the closed period is 60 days or, if shorter, the period from the end of the

relevant financial year up to and including the time of the announcement.

Compliance with the insider regulations is monitored by taking samples at certain intervals of trading by insiders in the Company's shares.

## COMPANY-SPECIFIC INSIDER REGISTER

In addition to the public insider register, the Company holds a company-specific insider register of persons who regularly receive information that can have material impact on the value of its securities. These persons include all Afarak Group Plc employees, corporate management and subsidiary and other third-party service providers who regularly obtain insider information.

When necessary, the Company sets up a separate project-specific insider register. Project-specific insiders are those who, in connection with the insider project receive information that might have material impact on the value of the Company's shares. The establishment of a project is decided by the Board or the CEO.

## Shareholdings of the Public Insiders at 31 December 2016

Members of the Board	Title	Shares	Related Party Shares	Options
Ivan Jakovcic	Chairman	0	0	0
Barry Rourke	Non-Executive Director	150,000	0	0
Jelena Manojlovic	Non-Executive Director	150,000	0	0
Markku Kankaala	Non-Executive Director	7,066,116	0	0
Milan Djakov	Non-Executive Director	0	0	0
Alistair Ruiters	Executive Director	900,000	0	600,000
<b>Auditors</b>				
Erkka Talvinko	Auditor	0	0	0
<b>Other Insiders</b>				
Danko Koncar	Executive	0	70,945,967	800,000

# ANNUAL GENERAL MEETING

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## RESOLUTIONS OF 2016 ANNUAL GENERAL MEETING

The Company's Annual General Meeting ("AGM") was held on 11 May 2016. The AGM adopted the financial statements. The AGM resolved that no dividend would be paid for 2015. The AGM agreed to a new dividend policy that the Company will in future review its distributions to shareholders either through a capital redemption or dividend twice yearly at the time of full year and the half year announcements. This new policy will allow the Board to take prudent decisions based on market conditions whilst continuing to share its positive results with shareholders.

In line with this new policy, the AGM resolved that a capital redemption of EUR 0.01 per share for the year ended on 31 December 2015. The capital redemption was paid from the company's fund for invested unrestricted equity EUR 2.6 (5.1) million on 20 May 2016 and EUR 2.6 (0.0) million on 16 September 2016.

The AGM authorized the Board of Directors to decide on its discretion on additional dividend from the Company's profits and/or on the distribution of assets from the invested unrestricted equity fund or from both as follows: the total amount of the additional dividend/capital redemption shall be a maximum of EUR 0.01 per share.

The AGM resolved that the Chairman of the Board would be paid EUR 4,500 per month, the Chairman of the Audit and Risk Management Committee would be paid EUR 5,550 and all Board Members are paid EUR 3,500 per month. Non-executive Board Members who serve on the Board's Committees shall be paid additional EUR 1,500 per month for committee work. The executive Board members shall not be paid remuneration for their work on the Board of Directors.

The AGM resolved that the Board of Directors comprises of seven members. Mr Markku Kankaala, Dr Jelena Manojlovic, Mr Barry Rourke, Dr Alistair Ruiters and Mr Ivan Jakovic were re-elected. Mr Keith Scott and Mr Milan Djakov were elected. The Board appointed, from its among its members, the following Directors to the Committees:

The Board Committees and their composition are as follows:

### Audit Committee

Barry Rourke (Chairman),  
Markku Kankaala  
Keith Scott

### Nomination and Remuneration Committee

Dr Jelena Manojlovic (Chairperson),  
Markku Kankaala  
Ivan Jakovic

### Health, Safety and Sustainable Development Committee

Keith Scott (Chairman)  
Markku Kankaala  
Milan Djakov  
Barry Rourke

The AGM resolved that authorised public accountant firm Ernst & Young Oy was re-elected as the Auditor of the Company for the year 2016.

The AGM authorised the Board of Directors to resolve upon acquiring a maximum of 15,000,000 of the Company's own shares. The authorisation replaces all previous authorisations and it is valid for 18 months from the decision of the Annual General Meeting.

## 2017 ANNUAL GENERAL MEETING

Afarak's 2017 Annual General Meeting will be held on 23 May 2017 in Helsinki, Finland.

## DIVIDEND PROPOSAL

Due to the net loss for the year 2016, the Board of Directors will propose to the Annual General Meeting, which will be held on 23 May 2017 that no capital redemption or dividend would be distributed. In line with the Group's policy, distributions to shareholders will be reviewed at the time of the half year announcement.

# ADDITIONAL INFORMATION

## SHARE INFORMATION

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

On 31 December 2016, the registered number of Afarak Group Plc shares was 263,040,695 (263,040,695) and the share capital was EUR 23,642,049.59 (23,642,049.59).

On 31 December 2016, the Company had 3,744,717 (4,244,717) own shares in treasury, which was equivalent to 1.42% (1.61%) of the issued share capital. The total amount of shares outstanding, excluding the treasury shares held by the Company on 31 December 2016, was 259,295,978 (258,795,978).

At the beginning of the period under review, the Company's share price was EUR 0.43 on NASDAQ Helsinki and GBP 0.33 on the London Stock Exchange. At the end of the review period, the share price was EUR 0.78 and GBP 0.38 respectively. During the fourth quarter of 2016 the Company's share price on NASDAQ Helsinki ranged from EUR 0.40 to 0.90 per share and the market capitalisation, as

at 31 December 2016, was EUR 203.9 (1 January 2016: 105.7) million. For the same period on the London Stock Exchange the share price ranged from GBP 0.35 to 0.38 per share and the market capitalisation was GBP 98.6 (1 January 2016: 85.5) million, as at 31 December 2016.

Based on the resolution at the AGM on 11 May 2016, the Board is authorised to buy-back up to a maximum of 15,000,000 of its own shares. This authorisation is valid until 12 November 2017. The Company did not carry out any share buy-backs during the fourth quarter of 2016.

## FLAGGING NOTIFICATIONS

On 21 June 2016, Afarak has received a flagging notification in accordance with Chapter 9, Section 5 of the Finnish Securities Markets Act from Hino Resources Co. Ltd ("Hino"), a company incorporated and existing under the laws of Hong Kong, regarding the shares of Afarak. In accordance with the flagging notification, Hino has completed a sale of shares in Afarak Group Plc and the transaction has resulted in Hino decreasing its shareholding in the Company to under 15 per cent and becoming a 14.06% per cent holder of the shares and voting rights in Afarak.



# REMUNERATION REPORT

This report sets out the remuneration policy and practices for Afarak's Board and Executive Management Team ("EMT"), and provides details of their remuneration and share interests for the year ended 31 December 2016.

## REMUNERATION POLICY

Afarak operates in a very competitive sector in terms of human capital with a shortage of highly qualified and experienced executives. The Group's remuneration policy is designed to attract, retain and incentivise high-calibre executives to implement its business strategy and enhance shareholder value.

The policy seeks to align the interests of the business and shareholders by rewarding executives appropriately for achieving individual and group targets and thereby ensuring long-term value creation for the benefit of all shareholders.

## NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee makes recommendations to the Board regarding executive remuneration, and submits proposals to the Annual General Meeting of shareholders regarding the Board's remuneration.

The committee is responsible for the overall direction of the remuneration policy, as well as determining, within agreed terms of reference, the specific remuneration packages of the EMT. This includes pension rights, executive incentive schemes and any compensation payments. To ensure that the Group's remuneration packages are both appropriate and competitive, the committee evaluates information on market-based remuneration levels for comparable companies.

The members of the committee in 2016 were Dr Jelena Manojlovic (Chairman), Mr Markku Kankaala and Mr Ivan Jakovic.

## CEO SERVICE AGREEMENT

The Board appoints the Chief Executive Officer (CEO) to manage, develop, guide and supervise the Group's activities and leads the EMT. The Board decides upon the CEO's remuneration based on the recommendations made by the Committee.

The CEO receives an annual salary of EUR 360,000. He shall also receive 500,000 Company shares as an incentive for each completed year of service acting as CEO. Dr Alistair Ruiters received one share transfer in 2016, and the shares were paid on 14th September 2016.

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

Dr Alistair Ruiters resigned from his post on December 8, and the new CEO's agreement is the same as above.

## NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

The remuneration of members of the Board of Directors is agreed at the Company's General Meetings. Directors' remuneration consists of monthly fixed fees. The Annual General Meeting held on 11 May 2016 approved that the Chairman of the Board would be paid EUR 4,500 per month, the Chairman of the Audit and Risk Management Committee would be paid EUR 5,550 and all Board Members are paid EUR 3,500 per month. Non-executive Board Members who serve on the Board's Committees shall be paid additional EUR 1,500 per month for committee work. The executive Board members shall not be paid remuneration for their work on the Board of Directors.

Those members of the Board of Directors that are executives of the Company are not entitled to receive any remuneration for Board or committee membership.

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

## RELATED PARTY TRANSACTION WITH PERSONS BELONGING TO GROUP BOARD AND MANAGEMENT

EUR '000		2016			2015		
		Salaries	Fees	Share-based remuneration	Salaries	Fees	Share-based remuneration
<b>Jakovcic Ivan</b>	Board member 8.5.2015 onwards, Chairman 12.5.2016 onwards		68			39	0
<b>Ruiters Alistair</b>	Board member 8.5.2015 onwards, CEO 21.5.2015 - 9.12.2016	360	0	178	242	0	183
<b>Rourke Barry</b>	Board member 8.5.2015 onwards		80			47	0
<b>'Manojlovic Jelena</b>	Board member 11.7.2008 onwards, Chairperson 17.6.2009 - 7.5.2015		60			58	0
<b>Djakov Milan</b>	Board member 12.5.2016 onwards		35				
<b>Scott Keith</b>	Board member 12.5.2016 - 9.12.2016		35				
<b>'Kankaala Markku</b>	Board member 30.6.2003 - 17.03.2016		60			58	0
<b>'Koncar Danko</b>	CEO 11.2.2013 - 20.5.2015, Board member 11.8.2010 - 7.5.2015	0			86		
<b>'Lillja Michael</b>	Board member 11.2.2013 - 12.5.2016	54			120		
<b>'Parodi Afredo</b>	Board member 11.2.2013 - 12.5.2016, Chairman 8.5.2015 - 12.5.2016		26			66	
<b>Smart Bernice</b>	Board member 11.2.2013 - 7.5.2015					19	0
<b>Total</b>		<b>414</b>	<b>363</b>	<b>178</b>	<b>448</b>	<b>286</b>	<b>183</b>

## OTHER EMT MEMBERS' SERVICE CONTRACTS

As Afarak operates within highly competitive environment, its performance depends on the individual contributions of the executive directors and other senior employees. The remuneration packages are designed to attract, motivate and retain executives to manage the Group's operations effectively and to reward them for enhancing shareholder value.

The EMT remuneration package is a combination of a base salary and long-term based incentives, fringe benefits include liability insurance, traveler's insurance and

telephony services.

There are no early retirement options in the EMT's employment contracts and the notice period and/or non-compete period is normally six months, unless otherwise agreed.

The table below includes the EMT but excludes the CEO since the compensation for Board members and CEO has been presented separately.

None of Afarak's executive directors have received any compensation for serving as a NED in other companies.

### Management remuneration

EUR '000	2016	2015
Short-term employee benefits	366	258
<b>Total</b>	<b>366</b>	<b>258</b>

## SHARE-BASED COMPENSATION

### Share options

The Company has three incentive-related option schemes, known as I/2003, I/2008 and I/2011.

Option rights relating to the I/2005 scheme are granted to the EMT 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 – 0.82 (with dividend and capital redemption adjustment). To date, options on A, B, C, D, E and F series of the I/2005 scheme have been issued totaling 1,175,000 option rights.

Option rights relating to the I/2008 scheme were granted to the Company's previous CEO, Alwyn Smit, in October 2008. The scheme entitled 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 matured on 31 December 2015, and

the maximum number of 2,900,000 options has been issued.

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. To date, the total of 6,291,997 options have been issued. 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.

In May 2015 the Group has granted the outgoing CEO, Alistair Ruiters 1,000,000 shares in the Company. The agreement provided that these would be awarded in two tranches and vested based on completed year of service. The first 500,000 Company shares have effectively been received on 14 September 2016. The second 500,000 Company shares had to be received by the employee on 22 May 2017 after completing his second year as CEO. As the full term was not completed the second 500,000 will be given prorata over the second year which results to 322,581 shares. These shares have a lock-up period of two years from subscription date. The fair value of the granted shares is determined based on the market price of Afarak Group share at the grant date which was EUR 0.40 per share. The value at year end of the unvested portion EUR 121,505.

## DIRECTORS' AND EMT MEMBERS' SHAREHOLDINGS AND OPTIONS AT 31 DECEMBER 2016

Members of the Board	Title	Shares	Related Party Shares	Options
Ivan Jakovcic	Chairman	0	0	0
Alistair Ruiters	Executive Director	900,000	0	600,000
Jelena Manojlovic	Non-Executive Director	150,000	0	0
Markku Kankaala	Non-Executive Director	7,066,116	0	0
Barry Rourke	Non-Executive Director	150,000	0	0
Milan Djakov	Non-Executive Director	0	0	0
<b>Auditors</b>				
Erkka Talvinko	Auditor	0	0	0
<b>Other Insiders</b>				
Danko Koncar	Executive	0	70,945,967	800,000



# SHARES AND SHAREHOLDERS

## SHARES AND SHARE CAPITAL

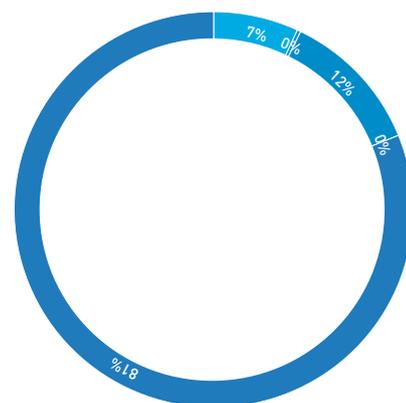
Afarak's shares are listed on the NASDAQ Helsinki Small Cap list under the trading code AFAGR. All shares in Afarak carry equal voting and dividend rights.

### SHAREHOLDERS BY GROUP ON DECEMBER 31, 2016

	Shares	%
Non-financial corporations and housing corporations	18,021,195	6.9
Financial and insurance corporations	754,564	0.3
Households	30,763,180	11.7
Non-profit institutions serving households	2,001	0.0
International and nominee registered	213,499,755	81.2
<b>Total</b>	<b>263,040,695</b>	<b>100.0</b>

As of December 31, 2016, the total number of Afarak shares was 263,040,695 of which 3,744,717 shares belonged to Afarak.

### Shareholders by group on December 31, 2016



- Non-financial corporations and housing corporations
- Financial and insurance corporations
- Households
- Non-profit institutions serving households
- International and nominee registered



## PRINCIPAL SHAREHOLDERS ON DECEMBER 31, 2016

	Shares	%
Hino Resources Co Ltd	36,991,903	14.1
Joensuun Kauppa ja Kone Oy	12,176,240	4.6
Hanwa Company Limited	9,000,000	3.4
Kankaala Markku Olavi	7,066,116	2.7
Hukkanen Esa Veikko	4,164,848	1.6
Lemmetti Juhani	1,065,034	0.4
Kakkonen Kari Heikki Ilmari	1,000,000	0.4
	71,464,141	27.2
Nominee accounts held by custodian banks	167,328,388	63.6
Treasury shares	3,744,717	1.4
Other shareholders	20,503,449	7.8
<b>Total</b>	<b>263,040,695</b>	<b>100</b>

## DISTRIBUTION OF SHAREHOLDERS ON DECEMBER 31, 2016

Number of shares	Number of shareholders	% of shareholders	Total shares	% of share capital
1-100	806	15.7	48,707	0.0
101-1000	2,372	46.1	1,272,843	0.5
1001-10000	1,632	31.8	5,786,185	2.2
10001-100000	287	5.6	7,801,039	3.0
100001-1000000	32	0.6	7,176,798	2.7
1000001-10000000	8	0.2	31,596,324	12.0
10000001-	3	0.1	209,358,799	79.6
<b>Total</b>	<b>5,140</b>	<b>100.0</b>	<b>263,040,695</b>	<b>100.0</b>
<i>of which Nominee registered</i>	<b>9</b>	<b>0.2</b>	<b>167,328,388</b>	<b>63.6</b>

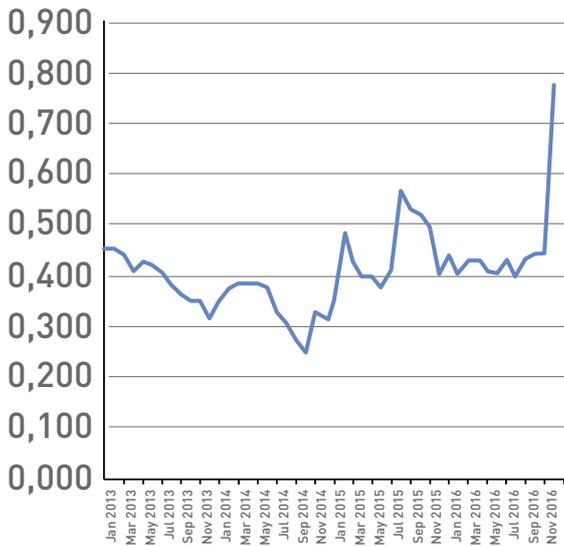
Afarak's shares are also listed on the London Stock Exchange Main Market under the trading code AFRK.

## AFARAK IN THE CAPITAL MARKETS

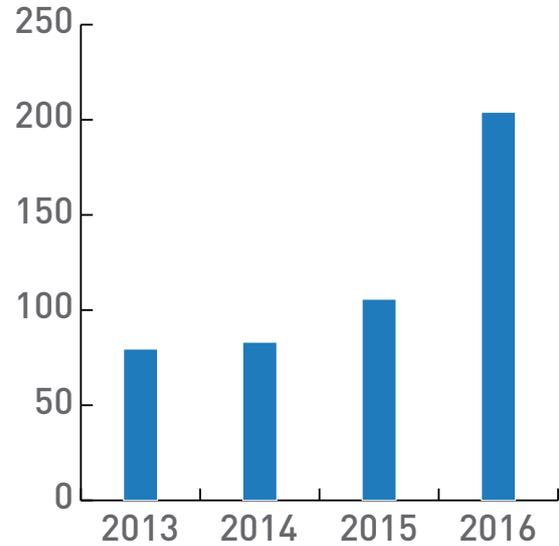
Afarak continued its dialogue with investors and financial advisors in 2016. Several conference calls and meetings were held during the year and Afarak held its Annual General Meeting in Helsinki, Finland. An interactive workshop session was held with shareholders as part of the AGM and this will

be replicated during 2017. The Company kept regular contact through various releases focusing on specific initiatives and investments. Looking ahead, Afarak has appointed Inderes as its Analyst and will be rolling out various initiatives to increase communication with its shareholders. Shareholders can also contact the company on its dedicated email for shareholders (investors@afarak.com).

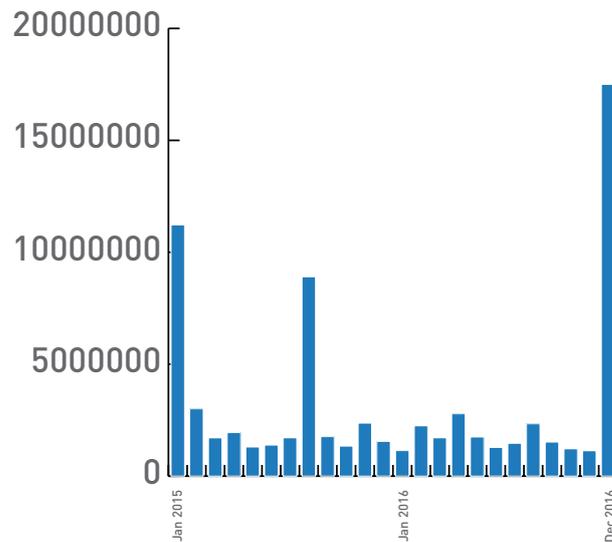
Share price development (EUR)



Market capitalisation (EUR million)



Monthly trading volumes



**SHARE PRICE DEVELOPMENT AND MARKET CAPITALISATION**

During 2016, the price of the Afarak share peaked at EUR0.90 and was EUR0.39 at its lowest (2015 high/low: EUR0.67/ EUR0.33). The Afarak share price closed at the end of the year at EUR0.78 marking an increase of 95% from the closing price of 2015 (Dec 31, 2015: EUR0.40).

At the end of 2016, the Company’s market capitalisation was EUR 203.8 million, compared to EUR 105.7 million at the previous year’s end.

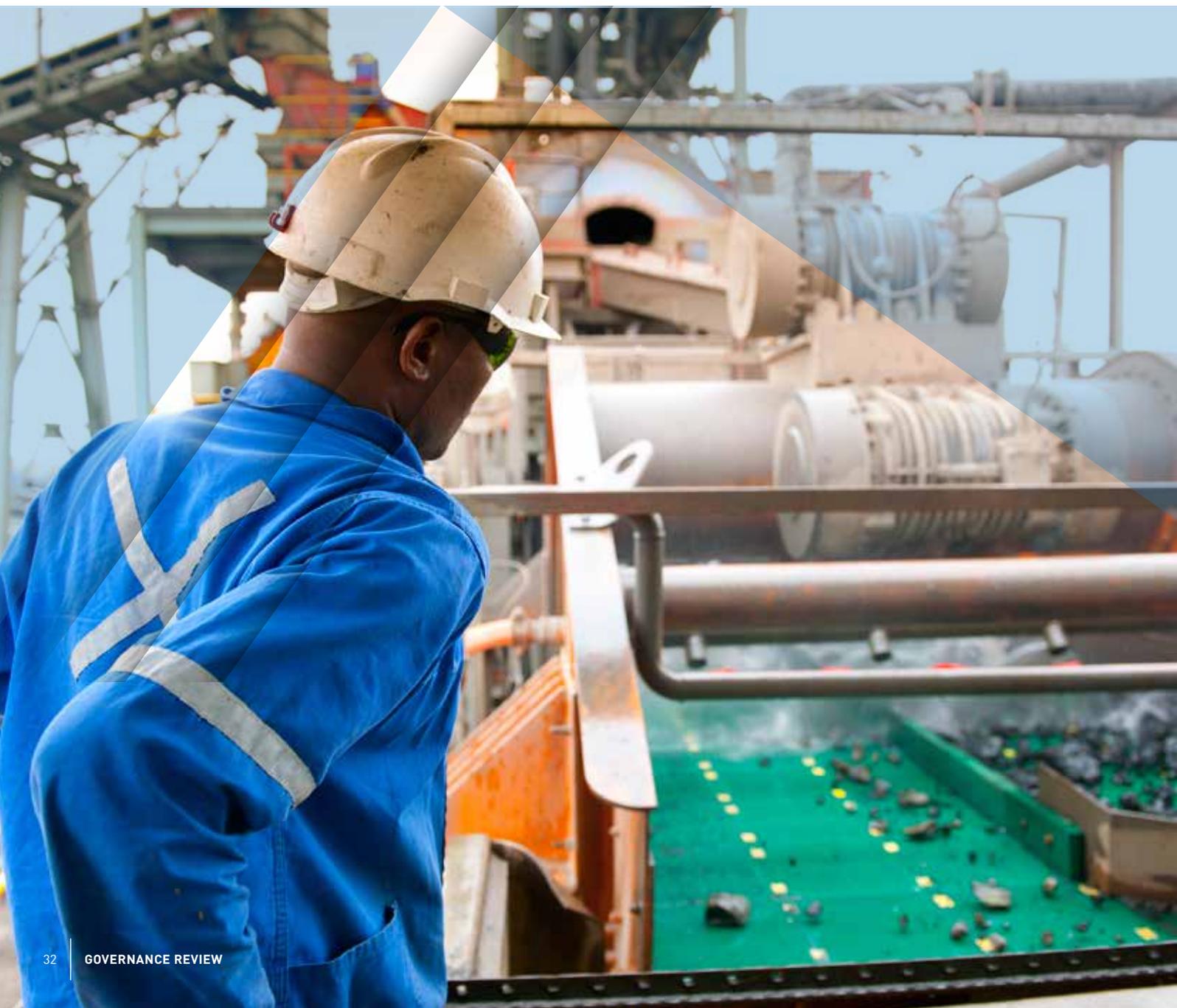
In 2016, EUR 18.3 million were traded in Afarak shares on the NASDAQ Helsinki compared to EUR 16.9 million a year earlier with trading spiking in December 2016.

## DISTRIBUTION POLICY

Afarak is committed to delivering shareholder value. We have always aimed at making a distribution to shareholders and did so prudently to safeguard the Company's fundamentals. Due to the net loss for the year 2016, lower cash reserves

and an uncertain market, in line with our policy, the Board of Directors decided to propose to the Annual General Meeting, which will be held on 23 May 2017 that no distribution would be made. However, in line with the Group's policy, distributions to shareholders may be reviewed depending on results during the first half of 2017.

	2016	2015	2014	2013
EBIT (EUR million)	-1.0	9.9	1.7	-7.9
Cash & cash equivalents (EUR million)	9.6	19.6	13.3	13.8
Distribution (EUR million)	-	5.2	5.2	4.8
Distribution per share (EUR)	-	0.02	0.02	0.02



**FINANCIAL  
STATEMENTS** >

# KEY FIGURES

## FINANCIAL INDICATORS

Continuing Operations		2016	2015	2014
Revenue	EUR'000	153,570	187,711	172,669
EBITDA	EUR'000	5,478	17,190	8,447
% of revenue		3.6 %	9.2%	4.9%
Operating profit / loss (EBIT)	EUR'000	-1,010	9,888	1,725
% of revenue		-0.7 %	5.3%	1.0%
Profit / loss before taxes	EUR'000	-3,137	6,520	460
% of revenue		-2.0 %	3.5%	0.3%
Return on equity	%	-1.6 %	4.4%	1.2%
Return on capital employed	%	0.9 %	9.3%	3.1%
Equity ratio	%	67.7 %	64.2%	62.8%
Gearing	%	-3.3 %	-2.6%	-0.7%
Personnel at the end of the accounting period		813	773	698

# KEY FIGURES

## SHARE-RELATED KEY INDICATORS

		2016		2015		2014	
		Group	Continuing Operations	Group	Continuing Operations	Group	Continuing Operations
Earnings per share, basic	EUR	0.00	-0.01	0.03	0.03	0.01	0.00
Earnings per share, diluted	EUR	0.00	-0.01	0.03	0.03	0.01	0.00
Equity per share	EUR	0.66	0.66	0.65	0.65	0.69	0.69
Distribution*	EUR'000	0		5,176		5,106	
Distribution per share*	EUR	N/A		0.02		0.02	
Price to earnings	EUR	-328.6		11.7		27.9	
Average number of shares	1000	258,945		256,652		249,280	
Average number of shares, diluted	1000	259,796		259,849		253,077	
Number of shares at the end of the period	1000	263,040		263,040		259,562	

### Share price information (NASDAQ Helsinki)

Average share price	EUR	0.51	0.44	0.32
Lowest share price	EUR	0.39	0.33	0.21
Highest share price	EUR	0.90	0.67	0.42
Market capitalisation	EUR'000	203,857	105,742	83,060
Share turnover	EUR'000	18,315	16,936	6,638
Share turnover	%	13.7 %	14.5%	8.1%

### Share price information (London Stock Exchange)

Average share price	EUR	0.37	0.45	0.37
	GBP	0.30	0.33	0.30
Lowest share price	EUR	0.34	0.34	0.30
	GBP	0.28	0.25	0.24
Highest share price	EUR	0.46	0.45	0.39
	GBP	0.38	0.33	0.32
Market capitalisation	EUR'000	115,210	116,479	84,144
	GBP'000	98,640	85,488	65,540
Share turnover	EUR'000	902	6	9
	GBP'000	739	4	7
Share turnover	%	0.9 %	0.0%	0.0%

\* In 2015 the Company distributed a capital redemption of EUR 0.02 per share out of the paid-up unrestricted equity fund. In 2016 the Company distributed a capital redemption of EUR 0.01 per share out of the paid-up unrestricted equity fund which were paid in two tranches of EUR 0.01 per share in May 2016 and August 2016. In 2017 the Board will propose to the AGM that no capital redemption or dividend should be distributed.

# KEY FIGURES

## 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	$\text{Equity attributable to owners of the parent} / \text{Average number of shares during the period}$
Distribution per share	Distribution / 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	$\text{Number of shares} * \text{Share price at the end of the period}$

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

EUR '000	Note	1.1.- 31.12.2016	1.1.- 31.12.2015
<b>Revenue</b>	1	<b>153,570</b>	<b>187,711</b>
Other operating income	2	1,705	2,331
Materials and supplies		-117,185	-142,349
Employee benefits expense	3	-19,976	-17,836
Depreciation and amortisation	4	-6,488	-7,302
Other operating expenses	5	-12,752	-11,928
Loss on disposal on investment in associate	12	0	-327
Share of profit from associates	12	0	2
Share of profit / (loss) from joint ventures	13	116	-414
<b>Operating (loss) / profit</b>		<b>-1,010</b>	<b>9,888</b>
Finance Income	6	2,610	7,906
Finance Expense	6	-4,737	-11,274
<b>(Loss) / Profit before taxes</b>		<b>-3,137</b>	<b>6,520</b>
Income taxes	7	339	1,236
<b>(Loss) / Profit for the year from continuing operations</b>		<b>-2,798</b>	<b>7,756</b>
<b>Discontinued operations</b>			
Profit for the year from discontinued operations	8	1,861	783
<b>(Loss) / Profit for the year</b>		<b>-937</b>	<b>8,539</b>
<b>(Loss) / Profit attributable to:</b>			
Owners of the parent		-615	8,854
Non-controlling interests		-322	-315
		<b>-937</b>	<b>8,539</b>
<b>Earnings per share (counted from (loss) / profit attributable to owners of the parent):</b>	9		
basic (EUR), Group total		0.00	0.03
diluted (EUR), Group total		0.00	0.03
basic (EUR), continuing operations		-0.01	0.03
diluted (EUR), continuing operations		-0.01	0.03

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

EUR '000	1.1.- 31.12.2016	1.1.- 31.12.2015
<b>(Loss) / Profit for the year</b>	<b>-937</b>	<b>8,539</b>
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified to profit and loss</b>		
Remeasurements of defined benefit pension plans	-1,609	986
<b>Items that may be reclassified to profit and loss</b>		
Exchange differences on translation of foreign operations - Group	5,736	-18,844
Exchange differences on translation of foreign operations - Associate and Joint Ventures	6,797	-3,126
Income tax relating to other comprehensive income	0	4,552
<b>Other comprehensive income, net of tax</b>	<b>10,924</b>	<b>-16,432</b>
<b>Total comprehensive income for the year</b>	<b>9,987</b>	<b>-7,893</b>
<b>(Profit)/(Loss) attributable to:</b>		
Owners of the parent	9,681	-6,790
Non-controlling interests	306	-1,103
	<b>9,987</b>	<b>-7,893</b>

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR '000	Note	31.12.2016	31.12.2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	45,131	43,559
Goodwill	11	63,780	58,349
Other intangible assets	11	18,311	17,015
Other financial assets	14	172	597
Receivables	14	34,040	38,638
Deferred tax assets	20	4,439	3,260
		<b>165,873</b>	<b>161,418</b>
<b>Current assets</b>			
Inventories	15	48,424	45,153
Trade and other receivables	16	36,292	40,779
Cash and cash equivalents	17	9,651	19,644
		<b>94,367</b>	<b>105,576</b>
<b>Total assets</b>		<b>260,240</b>	<b>266,994</b>

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR '000	Note	31.12.2016	31.12.2015
<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		160	187
Paid-up unrestricted equity reserve		235,242	240,240
Translation reserve		-16,787	-28,692
Retained earnings		-95,963	-93,755
		<b>172,034</b>	<b>167,362</b>
Non-controlling interests		4,151	3,845
<b>Total equity</b>		<b>176,185</b>	<b>171,207</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	20	5,857	5,949
Interest-bearing debt	14	29	2,975
Share of joint ventures' losses	13	16,234	23,218
Pension liabilities	22	20,097	18,734
Other non-current debt	23	4,170	1,969
Provisions	21	10,691	9,309
		<b>57,078</b>	<b>62,155</b>
<b>Current liabilities</b>			
Trade and other payables	23	18,459	15,364
Provisions	21	99	99
Tax liabilities	23	4,655	6,036
Interest-bearing debt	14	3,764	12,133
		<b>26,977</b>	<b>33,632</b>
<b>Total liabilities</b>		<b>84,055</b>	<b>95,787</b>
<b>Total equity and liabilities</b>		<b>260,240</b>	<b>266,994</b>

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF CASH FLOWS

EUR '000	1.1.-31.12.2016	1.1.-31.12.2015
<b>Operating activities</b>		
(Loss) / Profit for the year	-937	8,539
Adjustments for:		
Non-cash items		
Depreciation and impairment	6,488	7,302
Finance income and expense	2,127	3,191
Income from joint ventures	-116	414
Income taxes	-339	-1,236
Share-based payments	194	103
Proceeds from non-current assets	-1,093	-563
Working capital changes:		
Change in trade receivables and other receivables	7,792	-5,525
Change in inventories	-1,490	12,234
Change in trade payables and other debt	-189	-9,148
Change in provisions	-192	-145
Interest paid	-876	-1,796
Interest received	207	369
Other financing items	-2,667	-218
Income taxes paid	-831	-1,163
Discontinued operations	925	177
<b>Net cash from operating activities</b>	<b>9,003</b>	<b>12,535</b>
<b>Investing activities</b>		
Acquisitions of subsidiaries, net of cash acquired	0	-201
Capital expenditure on non-current assets, net	-2,596	-7,317
Other investments, net	414	-239
Disposals of subsidiaries, net of cash sold	0	212
Disposals of associated companies	0	109
Repayments of loan receivables and loans given, net	54	3,517
<b>Net cash used in investing activities</b>	<b>-2,128</b>	<b>-3,919</b>
<b>Financing activities</b>		
Capital redemption	-5,176	-5,106
Proceeds from borrowings	7,093	8,728
Repayments of borrowings	-18,802	-5,649
Repayments of finance leases	-65	-71
<b>Net cash used in financing activities</b>	<b>-16,950</b>	<b>-2,098</b>

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONT.)

EUR '000	1.1.-31.12.2016	1.1.-31.12.2015
<b>Change in cash and cash equivalents</b>	<b>-10,075</b>	<b>6,518</b>
Cash at beginning of period	19,644	13,332
Exchange rate differences	82	-206
Cash at end of period	9,651	19,644
<b>Change in the statement of financial position</b>	<b>-10,075</b>	<b>6,518</b>

The cash flow from operating activities in 2016 includes discontinued operations relating to cash received during 2016 of Eur 1,080 thousand and rental income of Eur 14 thousand, less the storage costs of the saw mill equipment of Eur 61 thousand and commissions of Eur 108 thousand. The cash flow from operating activities in 2015 includes discontinued operations relating to cash received in December 2015 of Eur 560 thousand less the storage costs of the saw mill equipment of Eur 327 thousand and commissions of Eur 56 thousand.

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

### ATTRIBUTABLE TO OWNERS OF THE PARENT

EUR '000	A	B	C	D	E	F	G	H	I
<b>Equity at 31.12.2014</b>	<b>23,642</b>	<b>25,740</b>	<b>243,424</b>	<b>-12,061</b>	<b>-103,657</b>	<b>210</b>	<b>177,298</b>	<b>4,947</b>	<b>182,245</b>
Profit for the period 1-12/2015					8,854		8,854	-315	8,539
Other comprehensive income				-16,631	986		-15,645	-788	-16,433
<b>Total comprehensive income</b>				<b>-16,631</b>	<b>9,840</b>		<b>-6,791</b>	<b>-1,103</b>	<b>-7,894</b>
Share-based payments			183		91		274	1	275
Share Issue			1,739				1,739		1,739
Capital redemption			-5,106				-5,106		-5,106
Acquisitions and disposals of subsidiaries					-29		-29		-29
Other changes in equity						-23	-23		-23
<b>Equity at 31.12.2015</b>	<b>23,642</b>	<b>25,740</b>	<b>240,240</b>	<b>-28,692</b>	<b>-93,755</b>	<b>187</b>	<b>167,362</b>	<b>3,845</b>	<b>171,207</b>
Profit for the period 1-12/2016					-615		-615	-322	-937
Other comprehensive income				11,905	-1,609		10,296	628	10,924
<b>Total comprehensive income</b>				<b>11,905</b>	<b>-2,224</b>		<b>9,681</b>	<b>306</b>	<b>9,987</b>
Share-based payments			178		16		194		194
Capital redemption			-5,176				-5,176		-5,176
Other changes in equity						-27	-27		-27
<b>Equity at 31.12.2016</b>	<b>23,642</b>	<b>25,740</b>	<b>235,242</b>	<b>-16,787</b>	<b>-95,963</b>	<b>160</b>	<b>172,034</b>	<b>4,151</b>	<b>176,185</b>

# 1. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 1.1 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 Unioninkatu 20-22, 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.afarak.com](http://www.afarak.com).

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

## 1.2 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 2016. 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 the 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 30 March 2017 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 in the statement of comprehensive income, 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 was 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. The Group's share of net assets or liabilities in the Joint venture is recorded on one line in the statement of financial position. 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**

Amounts 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 end of each reporting period. 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 statements and statements 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.

In accordance with IAS 21, any foreign exchange difference arising from Intra-group loans for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation. This is recognised in the group's other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

## **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 materials and supplies, 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. Exchange differences arising from operational transactions with third parties are included in operating profit; otherwise they are recorded under financial items.

All other items of the income statement are excluded from operating profit.

IAS 1 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.

## **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 (Germany and Turkey). 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. The standard IAS 19 was revised and 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" has been abolished. Consequently, actuarial gains and losses are recognised in other comprehensive income when they occur and the net defined benefit liability or asset are presented in full on the statement of financial position.

## **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 at the end of each reporting period. Changes in the estimates are recorded in the statement of comprehensive income. 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**

At the end of each reporting period, 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 2016 financial year, testing took place on 31 December 2016. Impairment testing and the methods used are discussed in more detail in section 1.4 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 statement of comprehensive income. 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 in the statement of comprehensive income 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%. Six sevenths of this tax is refunded when the company pays a dividend. Consequently the effective tax rate is 5%. The tax refund is recognised when the dividend is declared. Taxes arising from items recognised directly in 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 end of the reporting period. 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 an 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	15–50 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. In 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. 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 and 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.

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.

### 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 end of reporting period, 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.

### STANDARDS AND INTERPRETATIONS EFFECTIVE AND ADOPTED IN THE CURRENT YEAR

The Group applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Several other amendments apply for the first time in 2016. However, they do not impact the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group and, hence, have not been disclosed.

The nature and the effect of these changes are disclosed below. Although the new standards and amendments applied for the first time in 2016, they did not have a material impact on the annual consolidated financial statements of the Group. Other than the changes described below, the accounting policies adopted are consistent with those of the previous financial year.

#### » IFRS 11 JOINT ARRANGEMENTS: ACCOUNTING FOR ACQUISITIONS OF INTERESTS IN JOINT OPERATIONS – AMENDMENTS TO IFRS 11

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

#### » IAS 16 AND IAS 38: CLARIFICATION OF ACCEPTABLE METHODS OF DEPRECIATION AND AMORTISATION

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The amendments are applied prospectively and did not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

#### » IAS 27: EQUITY METHOD IN SEPARATE FINANCIAL STATEMENTS – AMENDMENTS TO IAS 27

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively. These amendments do not have any impact on the Group's consolidated financial statements.

### ANNUAL IMPROVEMENTS 2012-2014 CYCLE

These improvements include:

#### » IFRS 5 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendments clarify that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.

#### » IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES

##### (i) Servicing contracts

The amendments clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in

IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be performed retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

#### (ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendments clarify that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

#### » IAS 19 EMPLOYEE BENEFITS

The amendments clarify that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

#### » IAS 34 INTERIM FINANCIAL REPORTING

The amendments clarify that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively.

#### » IAS 1 DISCLOSURE INITIATIVE – AMENDMENTS TO IAS 1

The amendments to IAS 1 clarify, rather than significantly change, the existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

### STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

The Group will apply the following new or amended standards and interpretations in the financial statements for the year 2017 or subsequent financial years:

#### » IFRS 9: FINANCIAL INSTRUMENTS

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

During 2016, the Group performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analysis or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its statement of financial position or equity from the adoption of IFRS 9.

**(a) Classification and measurement**

The Group does not expect a significant impact on its statement of financial position and equity on applying the classification and measurement requirements of IFRS 9. However, there could be some changes impacting trade receivables relating to provisionally priced sales.

**(b) Impairment**

IFRS 9 requires the Group to now use an expected credit loss model for its trade receivables measured at amortised cost. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables measured at amortised cost. The Group does not expect these changes will have a significant impact.

**(c) Hedge accounting**

The changes in IFRS 9 relating to hedge accounting will have no impact as the Group does not currently apply hedge accounting.

**» IFRS 15: REVENUE FROM CONTRACTS WITH CUSTOMERS**

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.

The Group plans to adopt the new standard (including the clarifications issued by the IASB in April 2016) on the required effective date using the full retrospective method. During 2016, the Group commenced its preliminary assessment of IFRS 15 and some of the key issues it has identified, and its initial views and perspectives, are set may be subject to changes as more detailed analysis is completed and as interpretations evolve more generally. Furthermore, the Group is considering and will continue to monitor any further development in relation to the key issues such as provisionally priced sales.

Revenue is recognized when the Group transfers the control to customer either over time or at the point of time. The transfer of control depend on, among other, terms of delivery (incoterms). The most often used terms are FCA and FOB. Based on the preliminary assessment of IFRS 15 the Group expects that the adoption will have no material impact on the timing of the revenue recognition. Presentation requirement will increase the volume of disclosures in Group's financial statements.

**» AMENDMENTS TO IFRS 10 AND IAS 28: SALE OR CONTRIBUTION OF ASSETS BETWEEN AN INVESTOR AND ITS ASSOCIATE OR JOINT VENTURE**

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

The Group will apply these amendments when they become effective.

### » IAS 7 DISCLOSURE INITIATIVE – AMENDMENTS TO IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods.

These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted.

Application of the amendments will result in additional disclosures provided by the Group.

### » IAS 12 RECOGNITION OF DEFERRED TAX ASSETS FOR UNREALISED LOSSES – AMENDMENTS TO IAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in the opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact.

These amendments are not expected to have any impact on the Group.

### » IFRS 2 CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS — AMENDMENTS TO IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met.

The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted.

These amendments are not expected to have any impact to the Group.

### » IFRS 16 LEASES

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use

the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

## 1.3 BUSINESS COMBINATIONS AND ACQUISITION OF NON-CONTROLLING INTERESTS

### 1.3.1 FINANCIAL YEAR 2016

Afarak did not carry out any acquisitions during the financial year 2016.

### 1.3.2 FINANCIAL YEAR 2015

Afarak did not carry out any acquisitions during the financial year 2015.

## 1.4 IMPAIRMENT TESTING

### GENERAL PRINCIPLES OF IMPAIRMENT TESTING

Afarak Group has carried out impairment testing on goodwill and other assets as of 31 December 2016. The following cash generating units were defined for the impairment testing:

- » Speciality Alloys business (Türk Maden Sirketi and Elektrowerk Weisweiler) with a vertically integrated mining-beneficiation-smelting-sales operation in the specialty grade ferrochrome business; and
- » South African minerals processing business (Mogale Alloys) which has ferroalloys smelting operations with four furnaces;

The Group assesses at the end of each reporting period 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. As a result, no impairment was recognised.

At the end of 2016, there were no indications of impairment of any other assets, such as shares in associated companies.

The joint venture Synergy Africa owns and operates mines in South Africa. These have been tested for impairment at the joint venture level. This is further explained in note 13.

## CHANGES IN GOODWILL DURING 2016

During the financial year 2016, the total goodwill of the Group increased by EUR 5.4 million to a total of EUR 63.8 million. The increase was entirely attributable to an exchange rate movement of EUR 5.4 million. In 2014, the synergy goodwill identified in the Mogale acquisition, related to Afarak Trading acting as a global sales entity for the whole Group, was initially tested within Speciality Alloys segment, into which segment Afarak Trading was included. To reflect the change in segments, where Afarak Trading is now divided to both segments to reflect the nature of serving the whole Group, the Afarak Trading synergy related goodwill is now considered as a group asset and also annually allocated to both segments based on their relative revenue, reflecting the volume of Afarak Trading related benefits enjoyed by the CGU. The changes are described below:

EUR '000	Speciality Alloys Business	FerroAlloys Business	Group Total
Goodwill 1.1.2016	40,434	17,915	58,349
Exchange rate movement	2,337	3,094	5,431
<b>Goodwill 31.12.2016</b>	<b>42,771</b>	<b>21,009</b>	<b>63,780</b>

The changes in goodwill during 2015 are presented below:

EUR '000	Speciality Alloys Business	FerroAlloys Business	Group Total
Goodwill 1.1.2015	41,412	21,639	63,051
Disposal of investment in associate	-307	0	-307
Exchange rate movement	-671	-3,724	-4,395
<b>Goodwill 31.12.2015</b>	<b>40,434</b>	<b>17,915</b>	<b>58,349</b>

Goodwill as a ratio of the Group's equity on 31 December 2016 and 31 December 2015 was as follows:

EUR '000	31.12.2016	31.12.2015
Goodwill	63,780	58,349
Equity	176,185	171,207
<b>Goodwill/Equity, %</b>	<b>36%</b>	<b>34%</b>

## 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 assets being tested, 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 2016.

The information used in the 31 December 2016 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 2016 impairment testing were the following:

Cash Generating Unit	Pre-tax discount rate	
	2016	2015
Speciality Alloys	12.1%	11.9%
South African minerals processing	22.7%	24.1%

The key reasons for the changes in the discount rates compared to 2015 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:	Conclusion:
< 100%	Impairment
101-120%	Slightly above
121-150%	Clearly above
> 150%	Significantly above

## TEST RESULTS 31 DECEMBER 2016

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	42.8	42.8	63.1	Significantly above
South African minerals processing	21.0	21.0	69.2	Significantly above

The testable asset base (carrying amount) 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: 23,500 t/a Cr ore: 21,000 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 processing	Metal alloys: 91,000 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 13.72.

## 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 2016 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	15.9% - points	-59.7%	11.2% - points
South African minerals processing	49.0% - points	-70.7%	20.7% - points

## 1.5 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, Vlakpoort mine and the joint ventures, the Stellite mine and Mecklenburg mine in South Africa. The business produces chrome ore, charge chrome, medium carbon ferrochrome and silicomanganese 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 ("EWW"), the chromite concentrate processing plant in Germany. TMS supplies EWW with high quality chromite concentrate which produces speciality products including specialised low carbon and ultra low carbon ferrochrome. Chrome ore from TMS that is not utilised for the production of specialised low carbon ferrochrome is sold to the market.

The revenue and costs of the Group's sales and marketing arm Afarak 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 2016

Year ended 31.12.2016 EUR '000	Speciality Alloys	Ferro Alloys	Segments total	Unallocated items	Eliminations	Consolidated Group
<b>External revenue</b>						
Rendering of services	0	321	321	129	0	450
Sale of goods	68,679	84,152	152,831	289	0	153,120
Total external revenue	68,679	84,473	153,152	418	0	153,570
Inter-segment revenue	1,052	48	1,100	1,349	-2,449	0
<b>Total revenue</b>	<b>69,731</b>	<b>84,521</b>	<b>154,252</b>	<b>1,767</b>	<b>-2,449<sup>1</sup></b>	<b>153,570</b>
Items related to joint ventures (core)	0	116	116	0	0	116
<b>Segment EBITDA</b>	<b>5,363</b>	<b>5,024</b>	<b>10,387</b>	<b>-4,909</b>	<b>0</b>	<b>5,478</b>
Depreciation and amortisation	-2,312	-4,161	-6,473	-15	0	-6,488
<b>Segment operating profit/loss</b>	<b>3,051</b>	<b>863</b>	<b>3,914</b>	<b>-4,924</b>	<b>0</b>	<b>-1,010</b>
Finance income						2,610
Finance cost						-4,737
Income taxes						339
<b>Profit / loss for the period from continuing Operations</b>						<b>-2,798</b>
Profit for the period from discontinued operations						1,861

<b>Profit / loss for the period</b>						<b>-937</b>
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<b>Segment's assets <sup>2</sup></b>	<b>135,743</b>	<b>135,359</b>	<b>271,102</b>	<b>12,641</b>	<b>-23,503</b>	<b>260,240</b>
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<b>Segment's liabilities <sup>2</sup></b>	<b>44,777</b>	<b>56,959</b>	<b>101,736</b>	<b>2,737</b>	<b>-20,418</b>	<b>84,055</b>
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#### Other disclosures

Gross capital expenditure <sup>3</sup>	1,427	1,331	2,758	39	0	<b>2,797</b>
Investment in joint ventures <sup>4</sup>	0	-16,234	-16,234	0	0	<b>-16,234</b>
Provisions <sup>4</sup>	2,481	8,309	10,790	0	0	<b>10,790</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. Capital expenditure consists of net increase in the year.

4. Balance sheet values.

#### Operating segment information 2015

Year ended 31.12.2015 EUR '000	Speciality Alloys	Ferro Alloys	Segments total	Unallocated items	Eliminations	Consolidated Group
<b>External revenue</b>						
Rendering of services	0	259	259	125	0	384
Sale of goods	95,555	91,515	187,070	257	0	187,327
Total external revenue	95,555	91,774	187,329	382	0	187,711
Inter-segment revenue	924	0	924	1,133	-2,058	0
<b>Total revenue</b>	<b>96,480</b>	<b>91,774</b>	<b>188,254</b>	<b>1,516</b>	<b>-2,058<sup>1</sup></b>	<b>187,711</b>

Items related to joint ventures (core)	0	-414	-414	0	0	-414
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<b>Segment EBITDA</b>	<b>12,740</b>	<b>7,467</b>	<b>20,207</b>	<b>-3,017</b>	<b>0</b>	<b>17,190</b>
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Depreciation and amortisation	-2,617	-4,678	-7,295	-7	0	-7,302
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#### Segment operating profit / (loss)

	<b>10,123</b>	<b>2,789</b>	<b>12,912</b>	<b>-3,024</b>	<b>0</b>	<b>9,888</b>
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Finance income						7,906
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Finance cost						-11,274
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Income taxes						1,236
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<b>Profit / (loss) for the period from continuing Operations</b>						<b>7,756</b>
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<b>Profit / loss for the period</b>							<b>8,539</b>
<b>Segment's assets</b> <sup>2</sup>	<b>150,216</b>	<b>129,187</b>	<b>279,403</b>	<b>12,519</b>	<b>-24,929</b>	<b>266,994</b>	
<b>Segment's liabilities</b> <sup>2</sup>	<b>52,367</b>	<b>58,855</b>	<b>111,222</b>	<b>2,565</b>	<b>-18,000</b>	<b>95,787</b>	
<b>Other disclosures</b>							
Gross capital expenditure <sup>3</sup>	4,035	3,952	7,988	0	0	<b>7,988</b>	
Investment in joint ventures <sup>4</sup>	0	-23,218	-23,218	0	0	<b>-23,218</b>	
Provisions <sup>4</sup>	2,954	6,455	9,408	0	0	<b>9,408</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. Capital expenditure consists of net increase in the year.

4. Balance sheet values.

#### Geographical information - Revenues from external customers

EUR '000	2016	2015
Other EU countries	83,251	74,945
United States	24,420	42,244
China	2,644	15,407
Africa	18,121	23,834
Finland	4,596	5,704
Other countries	20,538	25,577
<b>Total revenue</b>	<b>153,570</b>	<b>187,711</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 5.5% (13.5%) of the Group's revenue in 2016. In the FerroAlloys business segment the largest customer represents 5.2% (4.6%) of the Group's revenue in 2016.

#### Non-current assets

EUR '000	2016	2015
Africa	50,591	46,183
Other EU countries	6,988	6,636
Finland	1	14
Other countries	5,862	7,741
<b>Total</b>	<b>63,442</b>	<b>60,574</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.

## 1.6 NOTES TO THE INCOME STATEMENT

### 1. Revenue

EUR '000	2016	2015
Sale of goods	153,120	187,327
Rendering of services	450	384
<b>Total</b>	<b>153,570</b>	<b>187,711</b>

### 2. Other operating income

EUR '000	2016	2015
Gain on disposal of tangible and intangible assets	2	50
Gain on disposal of investments	0	57
Rental income	295	307
Other	1,408	1,917
<b>Total</b>	<b>1,705</b>	<b>2,331</b>

### 3. Employee benefits

EUR '000	2016	2015
Salaries and wages	-17,741	-16,330
Share-based payments	-195	-293
Pensions costs	-531	237
Other employee related costs	-1,509	-1,450
<b>Total</b>	<b>-19,976</b>	<b>-17,836</b>

### Average personnel during the accounting period

	2016	2015
Speciality Alloys business	417	372
FerroAlloys business	355	365
Group Management and other operations	7	5
<b>Total</b>	<b>779</b>	<b>742</b>

### Personnel at the end of the accounting period

	2016	2015
Speciality Alloys business	438	402
FerroAlloys business	369	365
Group Management and other operations	6	6
<b>Total</b>	<b>813</b>	<b>773</b>

#### 4. Depreciation, amortisation and impairment

EUR '000	2016	2015
<b>Depreciation / amortisation by asset category</b>		
Intangible assets		
Clientele and technology	-1,517	-1,740
Other intangible assets	-283	-350
<b>Total</b>	<b>-1,800</b>	<b>-2,090</b>
Property, plant and equipment		
Buildings and constructions	-520	-523
Machinery and equipment	-2,784	-3,280
Other tangible assets	-1,384	-1,409
<b>Total</b>	<b>-4,688</b>	<b>-5,212</b>

#### 5. Other operating expenses

EUR '000	2016	2015
Rental costs	-390	-673
External services <sup>1</sup>	-2,808	-3,122
Travel expenses	-1,001	-1,059
Other operating expenses <sup>2</sup>	-8,553	-7,074
<b>Total</b>	<b>-12,752</b>	<b>-11,928</b>

1. Audit fees paid to EY totalled EUR 369 (2015: 365) thousand in the financial year. The fees for non-audit services totalled EUR 51 (2015: 29) thousand.

2. Other operating expenses include shutdown costs of EUR 2,879 (2015: 2,093) thousand in the financial year.

#### 6. Financial income and expense

EUR '000	2016	2015
<b>Finance income</b>		
Interest income on loans and trade receivables	967	1,327
Foreign exchange gains	1,632	6,530
Other finance income	11	49
<b>Total</b>	<b>2,610</b>	<b>7,906</b>
<b>Finance expense</b>		
Interest expense on financial liabilities measured at amortised cost	-833	-1,734
Impairment losses on receivables	0	-1
Foreign exchange losses	-3,186	-8,867
Loss on disposal, assets available for sale	0	-113
Unwinding of discount, provisions	-579	-642
Other finance expenses	-138	83
<b>Total</b>	<b>-4,737</b>	<b>-11,274</b>
<b>Net finance expense</b>	<b>-2,127</b>	<b>-3,368</b>

## 7. Income taxes

EUR '000	2016	2015
Income tax for the period	-1,809	494
Income tax for previous years	6	0
Deferred taxes	2,142	742
<b>Total</b>	<b>339</b>	<b>1,236</b>
<b>EUR '000</b>	<b>2016</b>	<b>2015</b>
<b>(Loss) / Profit before taxes</b>	<b>-1,276</b>	<b>7,303</b>
<b>Income tax calculated at parent company income tax rate</b>	<b>255</b>	<b>-1,461</b>
Tax exempt income	0	60
Difference between domestic and foreign tax rates	-74	-1,542
Tax credit	286	3,717
Items recognised only for taxation purposes	922	723
Income tax for previous years	6	0
Income from JV and associates	23	-83
Tax losses not recognised as deferred tax assets	-83	-352
Non-tax deductible expenses	-1,486	-96
Previously unrecognised tax losses now recognised	490	270
<b>Total adjustments</b>	<b>84</b>	<b>2,697</b>
<b>Income tax recognised</b>	<b>339</b>	<b>1,236</b>

On 31 December 2016 the Group companies had unused tax losses totalling EUR 30.0 (26.2) million for which the Group has not recognised deferred tax assets.

## 8. Discontinued operations

The discontinued operation items relate to expenses in connection with the sawmill machinery and environmental cleaning costs. The Group sold part of the saw mill equipment which positively affected profit by EUR 1.9 (2015: 0.8) million that includes a release of EUR 0.8 (2015: 0.2) million from the provision in relation to the discontinued wood business.

EUR '000	2016	2015
Other operating income	828	580
Other operating expenses	-47	-357
Gain on disposal from discontinued operations	1,080	560
<b>Profit for the period</b>	<b>1,861</b>	<b>783</b>

## 9. Earnings per share

	2016			2015		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
(Loss) / Profit attributable to owners of the parent company (EUR '000)	-2,476	1,861	-615	8,071	783	8,854
Weighted average number of shares, basic (1,000)	258,945	258,945	258,945	256,652	256,652	256,652
<b>Basic earnings per share (EUR) total</b>	<b>-0.01</b>	<b>0.01</b>	<b>0.00</b>	<b>0.03</b>	<b>0.01</b>	<b>0.03</b>
(Loss) / Profit attributable to owners of the parent company (EUR '000)	-2,476	1,861	-615	8,071	783	8,854
Weighted average number of shares, basic (1,000)	258,945	258,945	258,945	256,652	256,652	256,652
Effect of share options on issue (1,000)	851	851	851	3,197	3,197	3,197
Weighted average number of shares, diluted (1,000)	259,796	259,796	259,796	259,849	259,849	259,849
<b>Diluted earnings per share (EUR) total</b>	<b>-0.01</b>	<b>0.01</b>	<b>0.00</b>	<b>0.03</b>	<b>0.00</b>	<b>0.03</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.

## 1.7 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 1.1.2016	2,049	7,500	50,134	10,931	3,328	73,942
Additions		785	1,041	243	170	2,239
Disposals			-162			-162
Reclass between items			2		409	411
Effect of movements in exchange rates	243	-202	6,158	-1,449	242	4,992
<b>Balance at 31.12.2016</b>	<b>2,292</b>	<b>8,083</b>	<b>57,173</b>	<b>9,725</b>	<b>4,149</b>	<b>81,422</b>
Accumulated depreciation and impairment 1.1.2016		-3,326	-18,027	-7,554	-1,476	-30,383
Depreciation		-520	-2,784	-1,148	-238	-4,690

Disposals			2	0	0	2
Effect of movements in exchange rates	164	-2,297	1,193	-280	-1,220	
<b>Accumulated depreciation and impairment at 31.12.2016</b>	<b>0</b>	<b>-3,682</b>	<b>-23,106</b>	<b>-7,509</b>	<b>-1,994</b>	<b>-36,291</b>
<b>Carrying amount at 1.1.2016</b>	<b>2,049</b>	<b>4,174</b>	<b>32,107</b>	<b>3,377</b>	<b>1,852</b>	<b>43,559</b>
<b>Carrying amount at 31.12.2016</b>	<b>2,292</b>	<b>4,401</b>	<b>34,067</b>	<b>2,216</b>	<b>2,155</b>	<b>45,131</b>
Balance at 1.1.2015	2,346	6,515	54,475	11,802	2,915	78,053
Additions		1,520	4,971	437	408	7,336
Disposals			-893		-5	-898
Reclass between items			-28		339	311
Effect of movements in exchange rates	-297	-535	-8,391	-1,308	-329	-10,860
<b>Balance at 31.12.2015</b>	<b>2,049</b>	<b>7,500</b>	<b>50,134</b>	<b>10,931</b>	<b>3,328</b>	<b>73,942</b>
Accumulated depreciation and impairment 1.1.2015		-3,060	-18,256	-7,230	-1,534	-30,080
Depreciation		-523	-3,280	-1,164	-245	-5,212
Disposals			54		3	57
Effect of movements in exchange rates		257	3,455	840	300	4,852
<b>Accumulated depreciation and impairment at 31.12.2015</b>	<b>0</b>	<b>-3,326</b>	<b>-18,027</b>	<b>-7,554</b>	<b>-1,476</b>	<b>-30,383</b>
<b>Carrying amount at 1.1.2015</b>	<b>2,346</b>	<b>3,455</b>	<b>36,219</b>	<b>4,572</b>	<b>1,381</b>	<b>47,973</b>
<b>Carrying amount at 31.12.2015</b>	<b>2,049</b>	<b>4,174</b>	<b>32,107</b>	<b>3,377</b>	<b>1,852</b>	<b>43,559</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 1.1.2016	98,454	102,893	4,368	1,121	206,836
Additions			169	388	557
Disposals			-96		-96
Reclass between items			-1		-1
Effect of movements in exchange rates	11,514	5,265	129	133	17,041
<b>Balance at 31.12.2016</b>	<b>109,968</b>	<b>108,158</b>	<b>4,569</b>	<b>1,642</b>	<b>224,337</b>
Accumulated amortisation and impairment at 1.1.2016	-40,105	-89,441	-1,914	-12	-131,472
Amortisation	0	-1,517	-274	-10	-1,801
Effect of movements in exchange rates	-6,083	-3,132	244	-2	-8,973

<b>Accumulated amortisation and impairment at 31.12.2016</b>	<b>-46,188</b>	<b>-94,090</b>	<b>-1,944</b>	<b>-24</b>	<b>-142,246</b>
<b>Carrying amount at 1.1.2016</b>	<b>58,349</b>	<b>13,452</b>	<b>2,454</b>	<b>1,109</b>	<b>75,364</b>
<b>Carrying amount at 31.12.2016</b>	<b>63,780</b>	<b>14,068</b>	<b>2,625</b>	<b>1,618</b>	<b>82,091</b>
Balance at 1.1.2015	110,481	109,232	4,863	699	225,275
Additions			123	529	652
Disposals	-307		-3		-310
Reclass between items			30		30
Effect of movements in exchange rates	-11,720	-6,339	-645	-107	-18,811
<b>Balance at 31.12.2015</b>	<b>98,454</b>	<b>102,893</b>	<b>4,368</b>	<b>1,121</b>	<b>206,836</b>
Accumulated amortisation and impairment 1.1.2015	-47,430	-92,683	-1,753	0	-141,866
Amortisation		-1,740	-338	-12	-2,090
Effect of movements in exchange rates	7,325	4,982	174		12,481
<b>Accumulated amortisation and impairment at 31.12.2015</b>	<b>-40,105</b>	<b>-89,441</b>	<b>-1,914</b>	<b>-12</b>	<b>-131,472</b>
<b>Carrying amount at 1.1.2015</b>	<b>63,051</b>	<b>16,549</b>	<b>3,110</b>	<b>699</b>	<b>83,409</b>
<b>Carrying amount at 31.12.2015</b>	<b>58,349</b>	<b>13,452</b>	<b>2,454</b>	<b>1,109</b>	<b>75,364</b>

Other intangible assets include the prepayments made for them. Exploration and evaluation assets consist of mine projects in various mining projects in Turkey and South Africa.

## 12. Investments in associates

EUR '000	Domicile	Value at reporting date	Ownership (%)	Reporting date	Assets	Liabilities	Revenue	Profit
<b>2016</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	Value at reporting date	Ownership (%)	Reporting date	Assets	Liabilities	Revenue	Profit
<b>2015</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.

During the financial year 2016, Afarak did not acquire or dispose holdings in associates.

#### Movements in 2016

EUR '000	1.1.2016	0
Share of profit		0
Exchange rate differences		0
Proceeds from disposal		0
	<b>31.12.2016</b>	<b>0</b>

During the financial year 2015, Afarak divested its holding in the associated company Speciality Super Alloys Inc. This led to a loss on sale of investment in associate of EUR 0.3 million.

#### Movements in 2015

EUR '000	1.1.2015	92
Share of profit		2
Exchange rate differences		15
Proceeds from disposal		-109
	<b>31.12.2015</b>	<b>0</b>

### 13. Investments in joint ventures

At the end of the financial year 2016, 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. Synergy Africa Group has been consolidated as a joint venture company in the financial reporting of the Group starting at 31 December 2010. Following the 2012 changes in the accounting standards the company changed the accounting method from proportionate consolidation method to equity method.

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:

EUR '000	2016	2015
<b>Revenue</b>	<b>10,355</b>	<b>18,954</b>
<b>Other operating income</b>	<b>83</b>	<b>289</b>
Materials and supplies	-4,348	-13,595
Employee benefits expense	-1,199	-1,124
Depreciation and amortisation	-906	-1,855
Other operating expenses	-4,487	-2,017
Impairment, net	2,127	0
<b>Operating profit / loss</b>	<b>1,625</b>	<b>652</b>
Finance income	1,214	1,891
Finance expense	-2,190	-3,093
<b>Profit/(loss) before taxes</b>	<b>649</b>	<b>-549</b>
Income taxes	-422	306
<b>Profit/(loss) for the year</b>	<b>227</b>	<b>-243</b>
<b>Group's share of profit/(loss) for the year</b>	<b>116</b>	<b>-124</b>
Profit/(loss) attributable to:		
Joint venture owners	248	-86
Non-controlling interests	-132	-38
	<b>116</b>	<b>-124</b>
<b>Assets and liabilities</b>		
<b>EUR '000</b>	<b>2016</b>	<b>2015</b>
Non-current assets		
Intangible assets	5,656	4,187
Mines and mineral assets	30,875	24,543
Property, plant and equipment	3,016	2,824
<b>Non-current assets total</b>	<b>39,547</b>	<b>31,555</b>
Current assets		
Inventories	304	1,239
Trade and other receivables	3,643	419
Trade and other receivables from JV owners	2,999	747
Cash and cash equivalents	1,653	1,264
<b>Current assets total</b>	<b>8,599</b>	<b>3,669</b>

<b>Total assets</b>	<b>48,146</b>	<b>35,224</b>
Non-current liabilities		
Interest-bearing debt	22,651	26,423
Interest-bearing debt to JV owners	28,134	32,573
Provisions	3,837	1,665
Deferred tax liability	8,738	7,046
Other non-current liabilities to JV owners	5,549	5,624
<b>Non-current liabilities total</b>	<b>68,909</b>	<b>73,332</b>
Current liabilities		
Trade and other payables	8,655	5,255
Trade and other payables to JV owners	2,413	2,163
<b>Current liabilities total</b>	<b>11,068</b>	<b>7,418</b>
<b>Total liabilities</b>	<b>79,977</b>	<b>80,750</b>
<b>Net Liability</b>	<b>-31,831</b>	<b>-45,526</b>
Proportion of Group's Ownership	51 %	51 %
<b>Carrying amount of Joint venture</b>	<b>-16,234</b>	<b>-23,218</b>

At the end of 2016, Synergy Africa Group had 80 (65) employees. The average number of employees in full year 2016 was 72 (63).

## IMPAIRMENT REVIEW OF JOINT VENTURE

### General principles of impairment testing

Synergy Africa Ltd, the South African mining business which operates Stellite and Mecklenburg mines has carried out impairment testing on assets as at 31 December 2016.

The statement of financial position of Synergy Africa has been assessed 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 is estimated annually, irrespective of whether there is an indication of impairment. The South African mining business did not have any goodwill on its statement of financial position at the end of the financial year 2016. Similarly to 2015, Synergy Group assessed whether there is any indication of impairment and consequently the assets of the business were tested for impairment. Subsequent to the impairment assessment made on the assets of Synergy Group, a reversal of the impairment previously recognised during 2014 was effected in view of more favourable market conditions.

### 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 the life of mine with a 6% growth rate equalling projected long-term inflation has been applied.

The weighted average cost of capital (WACC) has been calculated taking into account the 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. Synergy Africa 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 2016.

The information used in the 31 December 2016 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 underground production in the models does not solely come from reserves, as some come from resources that are not yet converted to reserves. This increases the risk that some of the grades may differ, and tonnes could possibly not be economically extractable. There is also the risk that costs could be different than anticipated even though due care was taken in the cost evaluation.

The pre-tax discount rates applied in 2016 impairment testing was 28.31% for Mecklenburg mine and 26.89% for Stellite mine. The cash flows in the Stellite mine impairment test review include both opencast and recycling of tailing dam by way of using the shaking table technology. The cash flows in the Mecklenburg mine impairment test review includes both opencast and underground operation. The Stellite mine model has a life of mine of 17 years whereas the Mecklenburg mine model has a life of mine of 14 years.

The results of impairment testing have been evaluated by comparing the cash generating units' recoverable amount to the corresponding carrying amount.

#### Test results 31 December 2016

As a result of the tests carried out Synergy Africa reversed the net write down amounting to ZAR 26 million equivalent to EUR 1.8 million in relation to the Stellite mine due to favourable market conditions. Mecklenburg mine was also reviewed at the end of the reporting period and the impairment tests indicated that the recoverable amounts from the mine exceed the carrying amount and consequently no impairment was required.

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

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 13.72.

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
Stellite mine	<p>Concentrate: Opencast mining averaging 289,000t/a as from 2017 till 2033</p> <p>PGM: 4,465oz t/a from 2017 till 2027; decreasing to an average of 1,550oz t/a from 2028 to 2033</p>	<p>SA Chrome Ore – UG2 CIF adjusted for FOM, based on external experts (Heinz Pariser) price forecasts</p> <p>2018 forecast price for PGM based on current market price</p>	<p>The costs applied for opencast operation is based on the current historical cost adjusted for a reduction in production cost per ton as a result of higher recoveries due to the implementation of new technology. This cost has been estimated and adjusted for inflation for the opencast life of mine. The cost over the life of mine excluding inflation is estimated to be ZAR 1,060 per saleable ton of chrome.</p>
Mecklenburg mine	<p>ROM: Opencast mining of 219,300t/a in 2017; Underground 38,300t/a in 2017; 308,000t/a in 2018; and is planned to increase to an average of 391,000t/a as from 2019 till 2030</p>	<p>SA Chrome Ore – Lumpy CIF adjusted for FOM, based on external experts (Heinz Pariser) price forecasts</p>	<p>The costs for underground are based on past experiences of our mining team in underground operations adjusted for inflation rate. The cost over the life of mine excluding inflation is estimated to be ZAR 658 per saleable ton of chrome.</p>

Synergy Africa 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 2016 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 Cost of Production	Change in CGU's average EBITDA margin
Stellite Mine	49.8% - points	-73.1%	3.7%	-13.9%- points
Mecklenburg Mine	25.4% - points	-66.2%	11.2%	-30.9% - points

## 14. Financial assets and liabilities

31.12.2016, EUR '000

<b>Non-current financial assets</b>	<b>Assets available-for-sale</b>	<b>Assets held-to-maturity</b>	<b>Loans and other receivables</b>	<b>Liabilities measured at amortised cost</b>	<b>Total carrying amount</b>
Non-current interest-bearing receivables		172	28,134		28,306
Trade and other receivables *			359		359
<b>Current financial assets</b>					
Current interest-bearing receivables			3,512		3,512
Trade and other receivables *			25,930		25,930
Other Financial Assets			487		487
Cash and cash equivalents			9,651		9,651
<b>Carrying amount of financial assets</b>		<b>172</b>	<b>68,073</b>		<b>68,245</b>
<b>Fair value of financial assets</b>		<b>172</b>	<b>68,073</b>		<b>68,245</b>
<b>Non-current financial liabilities</b>					
Non-current interest-bearing liabilities				29	29
Other non-current liabilities				4,170	4,170
<b>Current financial liabilities</b>					
Current interest-bearing liabilities				3,764	3,764
Trade and other payables *				14,110	14,110
<b>Carrying amount of financial liabilities</b>				<b>22,073</b>	<b>22,073</b>
<b>Fair value of financial liabilities</b>				<b>22,073</b>	<b>22,073</b>
<b>31.12.2015, EUR '000</b>					
<b>Non-current financial assets</b>	<b>Assets available-for-sale</b>	<b>Assets held-to-maturity</b>	<b>Loans and other receivables</b>	<b>Liabilities measured at amortised cost</b>	<b>Total carrying amount</b>
Non-current interest-bearing receivables		597	33,165		33,763
Trade and other receivables *			441		441

### Current financial assets

Current interest-bearing receivables			3,519		3,519
Trade and other receivables *			23,407		23,407
Cash and cash equivalents			19,644		19,644

### Carrying amount of financial assets

	0	597	80,176	0	80,773
<b>Fair value of financial assets</b>	<b>0</b>	<b>597</b>	<b>80,176</b>	<b>0</b>	<b>80,773</b>

### Non-current financial liabilities

Non-current interest-bearing liabilities				2,975	2,975
Other non-current liabilities				1,969	1,969

### Current financial liabilities

Current interest-bearing liabilities				12,133	12,133
Trade and other payables *				11,783	11,783

### Carrying amount of financial liabilities

				28,860	28,860
<b>Fair value of financial liabilities</b>				<b>28,860</b>	<b>28,860</b>

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

## FAIR VALUE HIERARCHY

31.12.2016, 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>			

### Available-for-sale financial assets

Other financial assets			
------------------------	--	--	--

### Financial liabilities at fair value

Derivatives	0
<b>Total</b>	<b>0</b>

31.12.2015, EUR '000

**Carrying amounts at the end of the reporting period**

<b>Financial assets at fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Derivatives			
Other financial assets			
<b>Total</b>			

**Available-for-sale financial assets**

Other financial assets

**Financial liabilities at fair value**

Derivatives	0
<b>Total</b>	<b>0</b>

31.12.2016, EUR '000

**Level 3 reconciliation**

<b>Acquisition cost at 1.1.2016</b>	<b>40</b>
<b>Acquisition cost at 31.12.2016</b>	<b>40</b>
Accumulated impairment losses at 1.1.2016	-40
Accumulated impairment losses at 31.12.2016	-40
<b>Carrying amount at 31.12.2016</b>	<b>0</b>

31.12.2015, EUR '000

**Level 3 reconciliation**

<b>Acquisition cost at 1.1.2015</b>	<b>40</b>
<b>Acquisition cost at 31.12.2015</b>	<b>40</b>
Accumulated impairment losses at 1.1.2015	-40
Accumulated impairment losses at 31.12.2015	-40
<b>Carrying amount at 31.12.2015</b>	<b>0</b>

**Interest-bearing debt**

<b>EUR '000</b>	<b>2016</b>	<b>2015</b>
<b>Non-current</b>		
Bank loans	0	2,970
Subordinated loans	0	5

Finance lease liabilities	29	0
<b>Total</b>	<b>29</b>	<b>2,975</b>
<b>Current</b>		
Bank loans	3,515	5,071
Finance lease liabilities	76	22
Cheque account with overdraft facility	173	4,532
Other interest-bearing liabilities	0	2,508
<b>Total</b>	<b>3,764</b>	<b>12,133</b>
<b>EUR '000</b>		
	<b>2016</b>	<b>2015</b>
<b>Finance lease liabilities, minimum lease payments</b>		
No later than 1 year	76	22
Later than 1 year and not later than 5 years	29	0
	<b>105</b>	<b>22</b>
<b>Finance lease liabilities, present value of minimum lease payments</b>		
No later than 1 year	76	70
Later than 1 year and not later than 5 years	29	20
	<b>105</b>	<b>90</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 OF FINANCIAL ASSETS AND LOAN ARRANGEMENTS

#### Financial assets 31 December 2016

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 2016 closing date:

The Group's financial assets decreased in consequence of various capital expenditure projects that the Group conducted during the year. Capital expenditure within the Speciality Alloys segment included the completion of the new dust exhaustion at EWW and the purchase of a press filter system at the new plant in Tavas, Turkey. Capital expenditure within the Ferro Alloys segment included the replacement of the furnace refractories and the acquisition of new plant vehicles at Mogale Alloys and the capitalisation of expenditure related to prospecting activities at the Vlakpoort mine. The cash flow effect for capital expenditure totalled EUR 2.6 million during the year.

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

On 31 December 2016, 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 0.0 (0.6) million. Other financial assets comprise interest-bearing loans and other receivables.

One of the Group's Maltese subsidiaries has been granted a trade finance loan facility amounting to US\$ 5.0 million. The Group did not utilise the facility provided as at 31 December 2016, but has given a corporate guarantee of US\$ 5.0 million as collateral.

#### Interest-bearing debt 31 December 2016

- » Floating rate loans from financial institutions total EUR 3.5 (7.8) million. Fixed rate loans total EUR 0.2 (7.5) million.
- » The interest rate of the South African loans is tied to the market rate of JIBAR. The interest rate on 31 December 2016, based on market interest rates at that date, was 5.50% (6.63%). 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 2016, based on market interest rates at that date, was 0.98% (0.54%). The interest rate margin for floating rate notes was 3.75% (3.75%) p.a.
- » The interest rate of the Turkish bank loan facility is tied to the market rate of LIBOR. The interest rate on 31 December 2016, based on market interest rates at that date, was 0.69% (0.45%). The interest rate margin for the fixed rate notes was 0.75% (0.75%) p.a.

#### 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 above 50%. At the end of the reporting period, the Group's equity ratio stood at 67.7% (64.2%).

The Group's loans from financial institutions include financial covenants that if breached might have a negative effect on the financial position of the Company. The covenants that the Group is exposed to are: Interest cover ratio of Afarak Trading Limited must not be lower than 5; Debt cover ratio of Afarak Trading Limited must be greater than 3; leverage ratio of Afarak Trading Limited must be lower than 1; the Group's Net Asset Value must be greater than US\$ 175 million; Debt service cover of Mogale Alloys must be greater than 1.4 and Net Debt to EBITDA of Mogale Alloys must be lower than 1.5. Management review these covenants regularly and are in correspondence with the relevant bank if there is indication of breach. In the discussions with the banks the Company would do the utmost to clarify the reason for such breach and present the financial plans to remain within the covenant limits. As at the end of the reporting period there has not been any breach of covenants at both Afarak Trading Limited and at Mogale Alloys.

#### 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.

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:

#### 31.12.2016, EUR '000

Financial liabilities	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Secured bank loans	3,515	-3,674	-3,430	-164	-80	0	0
Finance lease liabilities	105	-105	-38	-38	-29	0	0
Trade and other payables	18,280	-18,280	-14,110	0	-4,170	0	0
Bank overdraft	173	-173	-173	0	0	0	0
<b>Total</b>	<b>22,073</b>	<b>-22,232</b>	<b>-17,751</b>	<b>-202</b>	<b>-4,279</b>	<b>0</b>	<b>0</b>

#### 31.12.2015, EUR '000

Financial liabilities	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Secured bank loans	8,042	-8,527	-2,744	-2,314	-3,469	0	0
Finance lease liabilities	22	-22	-12	-10	0	0	0
Trade and other payables	13,310	-13,310	-11,243	-82	-1,984	0	0
Bank overdraft	4,532	-4,532	-4,532	0	0	0	0
<b>Total</b>	<b>25,904</b>	<b>-26,391</b>	<b>-18,530</b>	<b>-2,407</b>	<b>-5,454</b>	<b>0</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 have been recognised in the translation reserve 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 rates of US Dollar and South African Rand against the Euro have a significant impact on the Euro-denominated profitability of the Group. 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 fluctuation of the South African Rand has a significant impact on the Group's profit and loss as well as on the Group's assets and liabilities. 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.

The following tables present the currency composition of receivables and debt, and changes thereby relative to the previous year-end.

31.12.2016, EUR '000	EUR exchange rate	1	1.0541	0.8562	3.7072	14.4570
		EUR	USD	GBP	TRY	ZAR
Cash and cash equivalents (EUR)		1,943	5,537	121	235	1,815
Trade and other receivables (EUR)		4,282	21,182		217	1,346
Loans and other financial assets (EUR)				32,924	181	1,108
Trade and other current payables (EUR)		-1,216	-660		-588	-11,307
Loans and other liabilities (EUR)		-173	-3,067		-154	-4,569
Currency exposure, net (EUR)		4,836	22,991	33,045	-109	-11,607
<b>Currency exposure, net in currency ('000)</b>		<b>4,836</b>	<b>24,235</b>	<b>28,292</b>	<b>-405</b>	<b>-167,802</b>

31.12.2015, EUR '000	EUR exchange rate	1	1.0887	0.7340	3.1765	16.9530
		EUR	USD	GBP	TRY	ZAR
Cash and cash equivalents (EUR)		4,026	13,768	118	227	1,504
Trade and other receivables (EUR)		4,514	22,521		41	3,048
Loans and other financial assets (EUR)		28,895	821	913	377	8,229
Trade and other current payables (EUR)		-3,784	-828	-15	-473	-5,258
Loans and other liabilities (EUR)		-1,913	-8,061		-335	-6,768
Currency exposure, net (EUR)		31,738	28,222	1,016	-162	755
<b>Currency exposure, net in currency ('000)</b>		<b>31,738</b>	<b>30,725</b>	<b>746</b>	<b>-515</b>	<b>12,807</b>

The effect on the 31 December 2016 currency denominated net assets which would be caused 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%.

### 31 December 2016

	USD	GBP	TRY	ZAR
20% strengthening	5,748	8,261	-27	-2,902
15% strengthening	4,057	5,831	-19	-2,048
10% strengthening	2,555	3,672	-12	-1,290
5 % strengthening	1,210	1,739	-6	-611
0% no change	0	0	0	0
-5% weakening	-1,095	-1,574	5	553
-10% weakening	-2,090	-3,004	10	1,055
-15% weakening	-2,999	-4,310	14	1,514
-20% weakening	-3,832	-5,507	18	1,934

### 31 December 2015

	USD	GBP	TRY	ZAR
20% strengthening	7,055	254	-41	189
15% strengthening	4,980	179	-29	133
10% strengthening	3,136	113	-18	84
5 % strengthening	1,485	53	-9	40
0% no change	0	0	0	0
-5% weakening	-1,344	-48	8	-36
-10% weakening	-2,566	-92	15	-69
-15% weakening	-3,681	-132	21	-99
-20% weakening	-4,704	-169	27	-126

## DERIVATIVES

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency).

Operative foreign currency derivatives that are valued at fair value on the reporting date cause timing differences between the changes in the derivative's fair values and hedged operative transactions. Changes in fair values for derivatives designated to hedge future cash flow but are not accounted for according to the principles of hedge accounting impact the Group's operating profit for the financial year. The underlying foreign currency transactions will realise in future periods.

### (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 2016, 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 2016 and 31 December 2015 was as follows:

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

	31.12.2016	31.12.2015
<b>Fixed rate instruments</b>		
Financial assets	3,500	3,500
Financial liabilities	-212	-7,521
<b>Fixed rate instruments, net</b>	<b>3,288</b>	<b>-4,021</b>
<b>Variable rate instruments</b>		
Financial assets	28,300	33,184
Financial liabilities	-3,476	-7,755
<b>Variable rate instruments, net</b>	<b>24,541</b>	<b>25,429</b>
<b>Interest-bearing net debt</b>	<b>27,829</b>	<b>21,408</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 2016, and if there were no changes in exchange rates.

#### 31 December 2016

Interest rate change	Change in interest income	Change in interest expense	Net effect
-2.00%	-566	70	-496
-1.50%	-424	52	-372
-1.00%	-283	35	-248
-0.50%	-141	17	-124
0.00%	0	0	0

0.50%	141	-17	124
1.00%	283	-35	248
1.50%	424	-52	372
2.00%	566	-70	496

### 31 December 2015

Interest rate change	Change in interest income	Change in interest expense	Net effect
-2.00%	-664	155	-509
-1.50%	-498	116	-381
-1.00%	-332	78	-254
-0.50%	-166	39	-127
0.00%	0	0	0
0.50%	166	-39	127
1.00%	332	-78	254
1.50%	498	-116	381
2.00%	664	-155	509

#### (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 EUR 1.6 (0.0) million. The maximum credit risk is equal to the carrying value of the receivables as of 31 December, and is split as follows:

Category	EUR '000 31.12.2016	EUR '000 31.12.2015
<b>Interest-bearing</b>		
Cash and cash equivalents	9,651	19,644
Receivables from related parties	31,634	36,073
Other interest bearing receivables	166	611
<b>Interest-bearing, total</b>	<b>41,451</b>	<b>56,328</b>
<b>Interest-free</b>		
Trade receivables	21,508	23,407
Other short-term receivables	5,671	6,507
Trade and other receivable from associate	2,925	2,289
Long-term receivables	5,926	6,070
<b>Interest-free, total</b>	<b>36,007</b>	<b>38,273</b>
<b>Total</b>	<b>77,458</b>	<b>94,601</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 2016.

#### 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 2016 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 36,000 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 2016

Change in Sales price (USD / lb Cr)		Change in Operating Profit	Change in Group's Equity
		EUR '000	EUR '000
2.64	20%	23,190	22,031
2.53	15%	17,393	16,523
2.42	10%	11,595	11,015
2.31	5%	5,798	5,508
2.20	0%	0	0
2.09	-5%	-5,798	-5,508
1.98	-10%	-11,595	-11,015
1.87	-15%	-17,393	-16,523
1.76	-20%	-23,190	-22,031

## Financial year 2015

Change in Sales price (USD / lb Cr)		Change in Operating Profit	Change in Group's Equity
		EUR '000	EUR '000
2.72	20 %	23,129	21,973
2.61	15 %	17,347	16,480
2.49	10 %	11,565	10,986
2.38	5 %	5,782	5,493
2.27	0 %	0	0
2.15	-5 %	-5,782	-5,493
2.04	-10 %	-11,565	-10,986
1.93	-15 %	-17,347	-16,480
1.81	-20 %	-23,129	-21,973

### 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 110,000 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 2016 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. In South Africa the majority of the electricity supply, price and availability are controlled by one entity, Eskom. Mogale Alloys may participate in Eskom's electricity buyback program in the foreseeable future.

**Financial year 2016**

Change in Sales price (USD / lb Cr)		Change in Operating Profit	Change in Group's Equity
1.44	20%	28,160	20,275
1.38	15%	21,120	15,206
1.32	10%	14,080	10,137
1.26	5%	7,040	5,069
1.20	0%	0	0
1.14	-5%	-7,040	-5,069
1.08	-10%	-14,080	-10,137
1.02	-15%	-21,120	-15,206
0.96	-20%	-28,160	-20,275

**Financial year 2015**

Change in Sales price (USD / lb Cr)		Change in Operating Profit	Change in Group's Equity
1.10	20%	20,903	15,050
1.06	15%	15,677	11,288
1.01	10%	10,451	7,525
0.97	5%	5,226	3,763
0.92	0%	0	0
0.87	-5%	-5,226	-3,763
0.83	-10%	-10,451	-7,525
0.78	-15%	-15,677	-11,288
0.74	-20%	-20,903	-15,050

**15. Inventories**

EUR '000	2016	2015
Goods and supplies	21,552	16,389
Unfinished products	83	117
Finished products	26,789	28,647
<b>Total</b>	<b>48,424</b>	<b>45,153</b>

## 16. Trade and other current receivables

EUR '000	2016	2015
Trade receivables	21,508	23,407
Loan receivables	487	415
Interest-bearing receivables	3,512	3,519
Prepaid expenses and accrued income	3,664	3,307
Income tax receivables	2,699	5,058
Other receivables	4,422	5,073
<b>Total</b>	<b>36,292</b>	<b>40,779</b>

Prepaid expenses and accruals mainly relate to rental contracts, personnel expenses, VAT receivables and accrued interest for loans. The values of receivables at the end of the reporting period 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.

### The aging of trade receivables at the end of the reporting period

EUR '000	2016	2015
Not past due	11,624	12,708
Past due 0-30 days	8,108	10,936
Past due 31-60 days	651	96
Past due 61-90 days	211	99
Past due more than 90 days	914	-432
<b>Total</b>	<b>21,508</b>	<b>23,407</b>

## 17. Cash and cash equivalents

EUR '000	2016	2015
<b>Cash and bank balances</b>	<b>9,609</b>	<b>18,793</b>
Pledged deposits	3	508

Cash and cash equivalents in the cash flow statement:

EUR '000	2016	2015
Cash and bank balances	9,609	18,793
Short-term money market investments	42	851
<b>Total</b>	<b>9,651</b>	<b>19,644</b>

## 18. Notes to equity

	Number of registered shares	Number of shares on issue	Share capital, EUR '000
<b>31.12.2014</b>	<b>259,562,434</b>	<b>255,317,717</b>	<b>23,642</b>
Subscriptions based on option rights	3,478,261	3,478,261	0
<b>31.12.2015</b>	<b>263,040,695</b>	<b>258,795,978</b>	<b>23,642</b>
Subscriptions based on share based payment	0	500,000	0
<b>31.12.2016</b>	<b>263,040,695</b>	<b>259,295,978</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.

### TREASURY SHARES

On 31 December 2016 the Company had altogether 3,744,717 (4,244,717) of its own shares, which was equivalent to 1.42 (1.61) % of all registered shares. The total number of shares outstanding, excluding the treasury shares held by the Company on 31 December 2016 was 259,295,978 (258,795,978).

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 11 May 2016 resolved to authorise the Board of Directors to decide on the acquiring of company's own shares.

By virtue of the authorization for the acquisition of own shares, a maximum of 15,000,000 own shares could be acquired with the funds from the Company's unrestricted shareholders' equity, however, in such a way that the total number of own shares, which the Company and its subsidiaries have in their possession or as a pledge, does not exceed one tenth of all shares in accordance with Section 11 of Chapter 15 of the Finnish Companies Act. The authorization covers acquisition of shares in public trade in NASDAQ Helsinki Oy and also outside of the public trade. The compensation paid for acquired shares shall be based on the market value.

Derivative contracts, share loan agreements or other agreements may be made within laws and regulations if they are customary to capital market. The authorization entitles the Board of Directors to make a resolution on acquisition otherwise than in the relation of the shares owned by the shareholders (directed acquisition) according the preconditions set forth in the Companies Act.

The AGM resolved that the authorization concerning the acquisition of own shares would among other things be used in developing the company's capital structure, in financing and executing corporate acquisitions and other arrangements, in executing the company's share-based incentive systems or otherwise in being transferred or cancelled. The acquisition of shares reduces the company's distributable non-restricted shareholders' equity.

The AGM resolved that the authorization replaces all previous authorizations and that it is valid 18 months as from the decision of the General Meeting.

## **TRADING INFORMATION**

Afarak Group Plc's shares are listed on the main market of the London Stock Exchange and on NASDAQ Helsinki. Afarak shares are traded on the London Stock Exchange under the trading code AFRK and on the NASDAQ 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 2016, the price of Afarak Group's share in London Stock Exchange varied between GBP 0.28 (0.25) and GBP 0.38 (0.33) and in NASDAQ Helsinki between EUR 0.39 (0.33) and EUR 0.90 (0.67). Afarak's share closed in London at the end of the financial year at GBP 0.38 (0.33) and Helsinki at EUR 0.78 (0.40). The closing price on 31 December gives the Company a market capitalisation of the entire capital stock 263,040,695 (263,040,695) shares of GBP 98.6 (85.5) million and EUR 203.9 (105.7) million.

A total of 2,451,925 (13,248) Afarak shares were traded in London and 36,108,050 (38,224,080) shares in Helsinki during the financial year, representing 0.93% (0.01%) of stock in London and 13.73% (14.53%) in Helsinki.

## **SHAREHOLDERS**

On 31 December 2016, the Company had a total of 5,140 shareholders (4,433 shareholders on 31 December 2015), of which nine were nominee-registered. The registered number of shares on 31 December 2016 was 263,040,695 (263,040,695).

### Largest shareholders on 31 December 2016

Shareholder	Shares	%
1 Nordea Bank Finland Plc	160,190,656	60.9
2 Hino Resources Co. Ltd *	36,991,903	14.1
3 Joensuun Kauppa ja Kone Oy	12,176,240	4.6
4 Hanwa Company Limited	9,000,000	3.4
5 Kankaala Markku Olavi	7,066,116	2.7
6 Hukkanen Esa Veikko	4,164,848	1.6
7 Afarak Group Plc	3,744,717	1.4
8 Skandinaviska Enskilda Banken AB	3,714,181	1.4
9 Clearstream Banking S.A.	1,791,530	0.7
10 Lemmetti Juhani	1,065,034	0.4
<b>Total</b>	<b>239,905,225</b>	<b>91.2</b>
Other Shareholders	23,135,470	8.8
<b>Total shares registered</b>	<b>263,040,695</b>	<b>100.0</b>

\*According to the latest flagging notification of Hino Resources Co. Ltd ("Hino") published 21 June 2016, the total holdings of Hino are 36,991,903 shares representing 14.06 % of the total number of shares.

Afarak Group Plc's Board members and Chief Executive Officer owned in total 8,266,116 (7,813,287) Afarak Group Plc shares on 31 December 2016, including shares owned either directly, through persons closely associated with them or through controlled companies. This corresponds to 3.2% (3.0%) of the total number of registered shares on 31 December 2016.

### Shareholders by category 31 December 2016

Shares	Number of shareholders	% share of shareholders	Number of shares held	% of shares held
1-100	806	15.68	48,707	0.02
101-1,000	2,372	46.15	1,272,843	0.48
1,001-10,000	1,632	31.75	5,786,185	2.20
10,001-100,000	287	5.58	7,801,039	2.97
100,001-1,000,000	32	0.62	7,176,798	2.73
1,000,001-10,000,000	8	0.16	31,596,324	12.01
in excess of 10,000,000	3	0.06	209,358,799	79.59
<b>Total</b>	<b>5,140</b>	<b>100.00</b>	<b>263,040,695</b>	<b>100.00</b>
of which nominee-registered	9	0.18	167,328,388	63.61
<b>Total outstanding</b>			<b>263,040,695</b>	<b>100.00</b>

## Shareholders by shareholder type on 31 December 2016

	% of share capital
<b>Finnish shareholders</b>	<b>18.83%</b>
of which:	
Companies and business enterprises	6.85%
Banking and insurance companies	0.29%
Households	11.70%
<b>Foreign shareholders</b>	<b>81.17%</b>
<b>Total</b>	<b>100.00%</b>
of which nominee-registered	63.61%

### 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.

In May 2015 the Group has granted the outgoing CEO, Alistair Ruiters 1,000,000 shares in the Company. The agreement provided that these would be awarded in two tranches and vested based on completed year of service. The first 500,000 Company shares have effectively been received on 14 September 2016. The second 500,000 Company shares had to be received by the employee on 22 May 2017 after completing his second year as CEO. As the full term was not completed the second 500,000 will be given pro rata

over the second year which results to 322,581 shares. These shares have a lock-up period of two years from subscription date. The fair value of the granted shares is determined based on the market price of Afarak Group share at the grant date which was EUR 0.40 per share. The value at year end of the unvested portion EUR 121,505.

On 14 August 2015, Afarak announced that it has resolved to offer 3,478,261 new ordinary shares in the Company ("New Shares") to Gujo Investment (Pty) Limited, one of the vendors of Mogale Alloys (a company acquired in May 2009) under the settlement agreement announced on 11 October 2012. Following completion of the share issue, the consideration for the acquisition was fully satisfied. All of the New Shares were subscribed for and the subscriptions have been approved by the Board of Directors. The total subscription price of EUR 1,739,130 (EUR 0.5 per share) has been fully satisfied through offset against the settlement receivables of the Vendor related to the Mogale Alloys acquisition.

In December 2016 the Group has granted the new CEO, Guy Konsbruck 1,000,000 shares in the Company. These will be awarded in two tranches and vested based on completed year of service. The first 500,000 Company shares shall be received once the first vesting period has lapsed, on 15 January 2018. The second 500,000 Company shares shall be received by the employee on 15 January 2019. These shares have a lock-up period of two years from subscription date. The fair value of the granted shares is determined based on the market price of Afarak Group share at the grant date which was EUR 0.81 per share. The value at year end was EUR 0 as the effective date of service is 15 January 2017.

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
Nature of the plan	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
Number of options	6,191,998	1,450,000	1,450,000	100,000
Options series	I/2011	I/2008	I/2008	F (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
Dividend adjustment	yes	yes	yes	yes
Exercise price (with dividend and capital redemption adjustment)	0.00 - 0.86	2.18	2.18	0.78
Share price at grant date	0.90	1.26	1.26	1.00
Option life	1.1 - 3.1	5.3	6.3	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
Execution	In shares	In shares	In shares	In shares
Expected volatility	45 %	44 %	44 %	56 %

Expected option life at grant date (years)	5.3 years	5.0 years	5.0 years	5.1 years
Risk free rate, Euribor 12 months	2.24%	4.33%	4.33%	3.11%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%
Fair value at grant date (EUR)	0.14-0.46	0.33	0.33	1.06
Valuation model	Up and in Call	Black & Scholes	Black & Scholes	Black & Scholes

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

	Weighted average exercise price (with dividend and capital redemption adjustment)	Number of options
	EUR/share	
At the beginning of 2015	0.83	9,191,998
Forfeited options	0.78	100,000
Forfeited options	2.18	2,900,000
<b>At the end of 2015</b>	<b>0.26</b>	<b>6,191,998</b>
Exercisable at the end of 2015	0.26	2,100,000
At the beginning of 2016	0.26	6,191,998
<b>At the end of 2016</b>	<b>0.26</b>	<b>6,191,998</b>
Exercisable at the end of 2016	0.26	2,100,000

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

Year of forfeiting	Exercise price (EUR)	Number of shares
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 2017 AGM.

## 20. Deferred tax assets and liabilities

### Movements in deferred taxes in 2016

EUR '000	31.12.2015	Exchange rate differences	Recognised in income statement	Business combinations and divestments	31.12.2016
<b>Deferred tax assets:</b>					
Unrealised expenses	608	-12	934		1,530
Pension liabilities	815		6		964
From translation difference	1,127		-3		1,124
Group eliminations	710	-35	289		964
<b>Total</b>	<b>3,260</b>	<b>-47</b>	<b>1,226</b>	<b>0</b>	<b>4,439</b>

**Deferred tax liabilities:**

Assets at fair value in acquisitions	4,947	704	-805		4,846
Other timing differences	1,002	120	-111		1,011
<b>Total</b>	<b>5,949</b>	<b>824</b>	<b>-916</b>	<b>0</b>	<b>5,857</b>

**Movements in deferred taxes in 2015**

EUR '000	31.12.2014	Exchange rate differences	Recognised in income statement	Business combinations and divestments	31.12.2015
<b>Deferred tax assets:</b>					
Unrealised expenses	1,587	-7	-972		608
Pension liabilities	988		-173		815
From translation difference	983		187	-43	1,127
Group eliminations	608	-30	132		710
<b>Total</b>	<b>4,166</b>	<b>-37</b>	<b>-826</b>	<b>-43</b>	<b>3,260</b>

**Deferred tax liabilities:**

Assets at fair value in acquisitions	6,395	-504	-944		4,947
Other timing differences	1,805	-182	-621		1,002
<b>Total</b>	<b>8,200</b>	<b>-686</b>	<b>-1,565</b>	<b>0</b>	<b>5,949</b>

**21. Provisions**

EUR '000	Environmental and rehabilitation provisions	Other provisions	Total
Balance at 1.1.2016	8,177	1,231	9,408
Additions	133	445	578
Releases and reversals	-242	-412	-654
Unwinding of discount	642	0	642
Exchange differences	937	-121	816
<b>Balance at 31.12.2016</b>	<b>9,647</b>	<b>1,143</b>	<b>10,790</b>

EUR '000	2016	2015
Long-term provisions	10,691	9,309
Short-term provisions	99	99
<b>Total</b>	<b>10,790</b>	<b>9,408</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.

**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 0.8 (0.8) million has been recognised on the 2016 statement of comprehensive income. 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 20.1 (18.7) million on 31 December 2016. The Group has considered that the value on 31 December also corresponds with the amount of net obligation at the end of the reporting period. The Group does not own the assets of the pension plans.

#### Retirement benefit obligation

EUR '000	2016	2015
Present value of funded obligation	25,896	24,101
Fair value of plan assets	-5,799	-5,367
<b>Net liability</b>	<b>20,097</b>	<b>18,734</b>

#### Movements in defined benefit obligation

EUR '000	2016	2015
Defined benefit obligations at 1.1.	24,101	24,454
Benefits paid	-783	-781
Current service costs	364	393
Interest expense	524	510
Actuarial (gains) / losses	1,690	-475
<b>Closing balance at 31.12.</b>	<b>25,896</b>	<b>24,101</b>

#### Movements in the fair value of the plan assets

EUR '000	2016	2015
Fair value of the plan assets at 1.1.	5,367	4,500
Interest income on plan assets	122	98
Benefits paid by the plan	-144	-131
Return on plan assets greater/(less) than discount rate	81	511
Contributions paid into the plan	374	389
<b>Closing balance at 31.12.</b>	<b>5,799</b>	<b>5,367</b>

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

### Expense recognised in statement of comprehensive income

EUR '000	2016	2015
Current service cost	-364	-393
Net interest on net defined benefit liability/(asset)	-402	-412
	<b>-766</b>	<b>-805</b>

### Expense recognised in other comprehensive income (OCI)

EUR '000	2016	2015
Actuarial (gains)/losses due to liability experience	-205	-82
Return on plan assets (greater)/less than discount rate	-81	-511
Actuarial (gains)/losses due to liability assumption changes	1,895	-393
	<b>1,609</b>	<b>-986</b>

Actual return on plan assets totalled EUR 0.08 (0.50) million in 2016.

### Principal actuarial assumptions

	2016	2015
Discount rate	1.75 %	2.22 %
Expected retirement age	63	63
Expected return on plan assets	3.69 %	1.83 %
Expected rate of salary increase	3.00%	3.00%
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.

### 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 2016, the employee severance indemnity recognised in accordance with IAS 19 totalled EUR 0.8 (0.8) million.

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

EUR '000	2016	2015
<b>Non-current</b>		
Other liabilities	4,170	1,969
<b>Total non-current</b>	<b>4,170</b>	<b>1,969</b>

<b>Current</b>		
Current liabilities to related parties	6	6
Trade payables	13,291	9,673
Payables to associated companies	339	209
Accrued expenses and deferred income	4,349	4,797
Current advances received	200	100
Income tax liability	4,655	6,036
Other liabilities	274	579
<b>Total Current</b>	<b>23,114</b>	<b>21,400</b>

## 1.8 RELATED PARTY DISCLOSURES

### 1.8.1 Group structure on 31 December 2016

<b>Name</b>	<b>Country of incorporation</b>	<b>Group's ownership and share of votes (%)</b>	<b>Afarak Group Plc's direct ownership and share of votes (%)</b>
Afarak doo Belgrade	Serbia	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 Services Sagl	Switzerland	100.00	0.00
Afarak South Africa (Pty) Ltd	South Africa	100.00	0.00
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
Duoflex (Pty) Ltd	South Africa	74.00	0.00
Elektrowerk Weisweiler GmbH	Germany	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
Afarak Trading Ltd	Malta	100.00	0.00
Rekylator Oy	Finland	100.00	100.00
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 Maden 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

### Associated companies

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.

Afarak disposed Afarak Suisse in 2015.

Afarak divested its holding in the associated company Speciality Super Alloys Inc in 2015. This led to a loss on sale of investment in associate of EUR 0.3 million.

Dezzo Trading 184 (Pty) Ltd, Didox (Pty) Ltd, PGR 17 Investments (Pty) Ltd, and Waylox Mining (Pty) Ltd were deregistered as at 31 December 2015.

### 1.8.2 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		2016			2015		
		Salaries	Fees	Share-based remuneration	Salaries	Fees	Share-based remuneration
Kankaala Markku	Board member 30.6.2003 onwards		60		58		
Koncar Danko	CEO 11.2.2013 – 20.5.2015, Board member 11.8.2010 – 7.5.2015	0		86			
Lillja Michael	Board member 11.2.2013 – 12.5.2016	54		120			
Manojlovic Jelena	Board member 11.7.2008 onwards, Chairperson 17.6.2009 - 7.5.2015		60		58		

Parodi Afredo	Board member 11.2.2013 – 12.5.2016, Chairman 8.5.2015 – 12.5.2016		26		66	
Smart Bernice	Board member 11.2.2013 – 7.5.2015				19	
Ruiters Alistair	Board member 8.5.2015 onwards, CEO 21.5.2015 – 9.12.2016	360	178	242		183
Rourke Barry	Board member 8.5.2015 onwards		80		47	
Jakovic Ivan	Board member 8.5.2015 onwards, Chairman 12.5.2016 onwards		68		39	
Scott Keith	Board member 12.5.2016 – 9.12.2016		35			
Djakov Milan	Board member 12.5.2016 onwards		35			
<b>Total</b>		<b>414</b>	<b>363</b>	<b>178</b>	<b>448</b>	<b>287</b>
						<b>183</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.

The outgoing CEO received an annual salary of EUR 360,000. On 14 September 2016 he received 500,000 Company Shares as an incentive for the first year of service acting as the Chief Executive Officer. The second 500,000 Company shares had to be received by the employee on 22 May 2017 after completing his second year as CEO. As the full term was not completed the second 500,000 will be given prorata over the second year which results to 322,581 shares. He is not entitled to any bonus plans 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	2016	2015
Short-term employee benefits	366	258
<b>Total</b>	<b>366</b>	<b>258</b>

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

#### FINANCING ARRANGEMENT WITH RELATED PARTIES

The Group has a EUR 28.1 (32.6) million loan receivable and EUR 8.5 (7.9) million trade and other current and non-current receivables from its joint venture companies. Trade and other payables to joint venture companies amounted to EUR 0.3 (0.2) million. Interest income from a joint venture company totalled EUR 0.8 (1.0) million during the financial year 2016.

The Group had on 31 December 2016 a EUR 3.5 (3.5) million receivable from Kermas Ltd.

#### 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 0.4 (0.4) million. The Group has also made raw material purchases from a joint venture amounting to EUR 4.6 (12.0) million.

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

On 31 December 2016 the Group's parent company had short-term loan receivables from the members of the Board amounting to EUR 0.0 (0.0) million.

## 1.9 COMMITMENTS AND CONTINGENT LIABILITIES

### 1.9.1 MORTGAGES AND GUARANTEES PLEDGED AS SECURITY

On 31 December 2016 the Group had loans from financial institutions totalling EUR 3.5 (8.0) million. The Group has provided real estate mortgages and other assets as collaterals for total carrying value of EUR 53.6 (64.2) million. Moreover, the Group companies have given cash deposits totalling EUR 0.1 (0.1) million as security for their commitments. The value of other collaterals totalled EUR 0.0 (0.5) million as at 31 December 2016. Afarak Group Plc has given guarantees for third party loans totalling EUR 0.2 (1.3) million.

### 1.9.2 COVENANTS INCLUDED IN THE GROUP'S FINANCING AGREEMENTS

One of the Group's Maltese subsidiaries, Afarak Trading Ltd, was granted a loan facility from a Maltese bank in 2013. As at year end 2016 the balance was US\$ 3.2 (EUR 3.1) million and the financial covenants attached to this loan were not breached at the end of the reporting period. The Group's South African subsidiary, Mogale Alloys also had bank facilities with local banks amounting to ZAR 5.9 (EUR 0.4) million at year end and are disclosed as current financial liability in the financial statements. The financial covenants attached to this loan were not breached at the end of the reporting period.

### 1.9.3 RENTAL AGREEMENTS

Liabilities associated with rental and operating lease agreements totalled some EUR 0.4 (0.7) 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 0.0 (0.0) million as at 31 December 2016.

### 1.9.4 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 2016 the indebtedness subject to these guarantees was EUR 0.2 (1.3) million in aggregate.

## 1.10 EVENTS AFTER THE REPORTING PERIOD

On 12 January 2017, Afarak announced that it has entered into a Mining Services Agreement with Pholagolwa Mining to continue the opencast mining Mecklenburg. Work is currently underway on increasing the high wall to 65 metres from 40 metres. The first tonnages are expected shortly and full production is expected to be reached by April for a period of six months. Full production will be 30,000 tons of chrome ore per month and the total opencast for the project is expected to be just over 200,000 tons of chrome ore. This will also allow better access to the underground mining area which has the potential to produce 4.5 million tons of chrome ore. Development of the shaft is scheduled to start later this year.

On 18 January 2017, Afarak announced that an agreement was made between Afarak Mogale and the Mogale Alloys Workers Trust on the purchase of all the shares the Trust holds in Afarak Mogale. In 2009; Ruukki Group, today Afarak Group, acquired 90% of Afarak Mogale. The remaining 10% was held by the Mogale Alloys Workers Trust. For the past 5 years, numerous requests have been made by the beneficiaries of the Mogale Alloys Workers Trust for Afarak Group to acquire the additional 10%. After several years of negotiation, an agreement was reached between the Trust and Afarak Mogale, with the approval of the majority of the beneficiaries of the Trust. Afarak Mogale has put forward an offer of ZAR 64.9 million to acquire the remaining 10% in a share buy-back scheme that will see the shares transferred to Afarak Mogale over an 8-year period which was accepted by the trust.

On 17 March 2017, Afarak has received a flagging notification in accordance with Chapter 9, Section 5 of the Finnish Securities Markets Act from shareholders Joensuun Kauppa ja Kone Oy and Esa Hukkanen (the "shareholders"). In accordance with the flagging notification, the shareholders have agreed to use their voting rights together in Afarak Group Plc and their agreement has resulted in them having their shareholding to be above 5% becoming a 6.05% per cent holder of the shares and voting rights in Afarak.

On 17 March 2017, Afarak announced that Mr Markku Kankaala has resigned from Afarak Group's Board of Directors. Consequently, the Board of Directors of Afarak will have five members up until the next shareholders' meeting.

On 22 March 2017, Afarak has received a flagging notification in accordance with Chapter 9, Section 5 of the Finnish Securities Markets Act from a group of shareholders (the "shareholders"). In accordance with the flagging notification, the shareholders have agreed to use their voting rights together in Afarak Group Plc and their agreement has resulted in them having their shareholding to be above the 10% benchmark, becoming a 10.01% per cent holder of the shares and voting rights in Afarak. Their total of shares and voting rights stands at 26,325,048.

# PARENT COMPANY'S FINANCIAL STATEMENTS

## INCOME STATEMENT

EUR '000	Note	1.1. - 31.12.2016	1.1. - 31.12.2015
<b>Revenue</b>	1	1,482	1,259
Other operating income	2	0	57
<b>Personnel expenses</b>			
Salaries and wages		-1,401	-861
Pension expenses		-8	-4
Other social security expenses		-19	-30
<b>Social security expenses total</b>		<b>-27</b>	<b>-34</b>
<b>Personnel expenses total</b>		<b>-1,068</b>	<b>-895</b>
<b>Depreciation and amortisation</b>	3		
Depreciation and amortisation according to plan		-12	-5
<b>Depreciation and amortisation total</b>		<b>-12</b>	<b>-5</b>
Other operating expenses	4	-2,265	-1,951
<b>OPERATING LOSS</b>		<b>-1,863</b>	<b>-1,535</b>
<b>Financial income and expenses:</b>	5		
Other financial income			
From Group companies		1,882	1,093
From others		20	488
Interests and other financial expenses			
To Group companies		-51	-51
To others		-175	-110
<b>Financial income and expenses total</b>		<b>1,676</b>	<b>1,420</b>
<b>LOSS BEFORE TAXES</b>		<b>-186</b>	<b>-115</b>
<b>Income taxes</b>	6		
Income taxes		0	0
<b>LOSS FOR THE YEAR</b>		<b>-186</b>	<b>-115</b>

# PARENT COMPANY'S FINANCIAL STATEMENTS

## STATEMENT OF FINANCIAL POSITION

EUR '000	Note	31.12.2016	31.12.2015
<b>Assets</b>			
<b>Non Current Assets</b>			
Property, plant and equipment	7		
Machinery and equipment		1	14
<b>Total property, plant and equipment</b>		<b>1</b>	<b>14</b>
Investments	8		
Shares in Group companies		215,931	215,931
Receivables from Group companies		8,015	8,015
<b>Total investments</b>		<b>223,946</b>	<b>223,946</b>
<b>Total non-current assets</b>		<b>223,947</b>	<b>223,960</b>
<b>Current Assets</b>			
Receivables	9		
<b>Non-current receivables</b>			
Receivables from Group companies		43,105	47,965
Other interest-free receivables		0	128
<b>Total non-current receivables</b>		<b>43,105</b>	<b>48,093</b>
<b>Current receivables</b>			
Trade receivables		1	1
Receivables from Group companies		9,667	9,318
Receivables from Holding companies		1,166	1,164
Other interest-bearing receivables		31	181
Other non interest-bearing receivables		3	8
Prepaid expenses and accrued income		13	192
<b>Total current receivables</b>		<b>10,881</b>	<b>10,864</b>
<b>Cash and cash equivalents</b>		<b>291</b>	<b>603</b>
<b>Total current assets</b>		<b>54,277</b>	<b>59,560</b>
<b>Total Assets</b>		<b>278,224</b>	<b>285,520</b>
EUR '000	Note	31.12.2016	31.12.2015

# PARENT COMPANY'S FINANCIAL STATEMENTS

## BALANCE SHEET (FAS)

EQUITY AND LIABILITIES			
<b>SHAREHOLDERS' EQUITY</b>		10	
Share capital		23,642	23,642
Share premium reserve		25,223	25,223
Paid-up unrestricted equity reserve		241,257	246,433
Retained earnings		-13,953	-13,839
Profit for the period		-186	-115
<b>Total shareholders' equity</b>		<b>275,983</b>	<b>281,344</b>
<b>LIABILITIES</b>		11	
<b>Non-current liabilities</b>			
Liabilities to Group companies		1,248	1,248
Loans from associated companies		0	5
<b>Total non-current liabilities</b>		<b>1,248</b>	<b>1,253</b>
<b>Current liabilities</b>			
Liabilities to Group companies		162	113
Accounts payable		11	77
Accounts payable to Group companies		150	86
Other liabilities		458	441
Accrued expenses and deferred income		212	206
<b>TOTAL CURRENT LIABILITIES</b>		<b>993</b>	<b>923</b>
<b>TOTAL LIABILITIES</b>		<b>2,241</b>	<b>2,176</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>278,224</b>	<b>283,520</b>

# PARENT COMPANY'S FINANCIAL STATEMENTS

## STATEMENT OF CASH FLOWS (FAS)

EUR '000	1.1. - 31.12.2016	1.1. - 31.12.2015
<b>Operating activities</b>		
Loss for the year	-186	-115
Adjustments:		
Depreciation and amortisation	12	5
Impairment, net	-809	0
Unrealised foreign exchange gains and losses	142	-60
Finance income and expense	-894	-1361
Cash flow before working capital changes	-1,735	-1,530
Working capital changes:		
Change in current trade receivables	6	-1,134
Change in current non interest-bearing debt	8	-324
Cash flow before financing items and taxes	-1,721	-2,988
Interests received from Group companies	945	1,014
Interests received and other financing items	20	166
Interests paid and other financing items	-225	-110
Income taxes paid	34	1
<b>Net cash used in operating activities</b>	<b>-947</b>	<b>-1,917</b>
<b>Investing activities</b>		
Acquisition of subsidiaries and associates	0	6
Proceeds from sale of tangible and intangible assets	2	0
<b>Net cash from investing activities</b>	<b>2</b>	<b>6</b>
<b>Financing activities</b>		
Repayments of non-current loans to group companies	5,719	7,929
Repayments of current loans given to Group companies	84	10
Non-current loans to group companies	0	-555
Repayments of current loan receivables	6	15
Capital redemption	-5,176	-5,106
<b>Net cash (used in)/from financing activities</b>	<b>633</b>	<b>2,293</b>
<b>Change in cash and cash equivalents</b>	<b>-312</b>	<b>382</b>
Cash at beginning of period	603	221
Cash at end of period	291	603
<b>Change in the balance sheet</b>	<b>-312</b>	<b>381</b>

# 2. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

## 2.1 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 value of property, plant and equipment in the statement of financial position is stated at acquisition cost, less accumulated depreciation. Other assets have been stated in the statement of financial position 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 & 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

Items in the statement of financial position denominated in foreign currency are translated into functional currency using the exchange rates as at the end of the reporting year. 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 and statement of financial position, which make comparison of financial statements and estimating the future more difficult.

## 2.2 NOTES TO THE INCOME STATEMENT

### 1. Revenue

EUR '000	2016	2015
<b>By business line:</b>		
Services	1,482	1,259
<b>Total</b>	<b>1,482</b>	<b>1,259</b>
<b>By geography:</b>		
Finland	3	3
EU countries	786	616
Other countries	693	640
<b>Total</b>	<b>1,482</b>	<b>1,259</b>

### 2. Other Operating Income

EUR '000	2016	2015
Other income	0	57
<b>Total</b>	<b>0</b>	<b>57</b>

### 3. Depreciation, Amortisation and Impairment

EUR '000	2016	2015
Depreciation and amortisation according to plan		
Machinery and equipment	-12	-5
<b>Total</b>	<b>-12</b>	<b>-5</b>

### 4. Other Operating Expenses

EUR '000	2016	2015
Voluntary employee benefits	-72	-19
Premise expenses	-20	-63
Machinery and equipment expenses	-77	-77
Travelling expenses	-54	-32
Representation expenses	0	-14
Marketing expenses	0	-9
Administration expenses	-1,762	-1,720
Other operating expenses	-279	-17
<b>Total</b>	<b>-2,265</b>	<b>-1,951</b>

## 5. Financial Income and Expense

EUR '000	2016	2015
<b>Other financial income</b>		
From Group companies	1,882	1,093
From others	20	488
<b>Other financial expense</b>		
To Group companies	-51	-51
To others	-175	-110
<b>Total</b>	<b>1,676</b>	<b>1,420</b>

## 6. Income Taxes

EUR '000	2016	2015
Profit for the period	-186	-115
Adjustments for tax calculation	-784	26
<b>Taxable income</b>	<b>-970</b>	<b>-89</b>
Tax advances paid	0	-34
Tax deferral based on taxable income	0	34
<b>Income tax of the period</b>	<b>0</b>	<b>0</b>
Tax loss carryforward used	0	0
<b>Net income taxes</b>	<b>0</b>	<b>0</b>
Income tax receivable	0	34
Income tax payable	0	0

## 2.3 NOTES TO ASSETS

### 7. Fixed Assets

EUR '000	2016	2015
<b>Machinery and equipment</b>		
Acquisition cost 1.1.	277	283
Disposals	-2	-6
Acquisition cost 31.12.	275	277
Accumulated depreciation 1.1.	263	258
Depreciation for the period	11	5
Accumulated depreciation 31.12.	274	263
<b>Book value 31.12.</b>	<b>1</b>	<b>14</b>

## 8. Investments

	Shares in Group companies	Shares in associated companies	Receivables from Group companies	Total
Acquisition cost 1.1.2016	285,979	8,153	19,618	313,750
Acquisition cost 31.12.2016	285,979	8,153	19,618	313,750
Accumulated depreciation and impairment 1.1.2016	-70,048	-8,153	-11,603	-89,804
Accumulated depreciation and impairment 31.12.2016	-70,048	-8,153	-11,603	-89,804
<b>Book value 31.12.2016</b>	<b>215,931</b>	<b>0</b>	<b>8,015</b>	<b>223,946</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 (%)
Afarak doo Belgrade	Serbia	100.00	0.00
Afarak Holdings Ltd	Malta	100.00	0.00
Afarak Investments Ltd	Malta	100.00	99.99
Afarak Mining (Pty) Ltd	South Africa	100.00	0.00
Afarak Services Sagl	Switzerland	100.00	0.00
Afarak South Africa (Pty) Ltd	South Africa	100.00	0.00
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
Duoflex (Pty) Ltd	South Africa	74.00	0.00
Elektrowerk Weisweiler GmbH	Germany	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
Afarak Trading Ltd	Malta	100.00	0.00
Rekylator Oy	Finland	100.00	100.00
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

## Associated companies

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.

Afarak disposed of Afarak Suisse in 2015.

Afarak divested its holding in the associated company Speciality Super Alloys Inc in 2015. This led to a loss on sale of investment in associate of EUR 0.3 million.

Dezzo Trading 184 (Pty) Ltd, Didox (Pty) Ltd, PGR 17 Investments (Pty) Ltd, and Waylox Mining (Pty) Ltd were deregistered as at 31 December 2015.

## 9. Receivables

EUR '000	2016	2015
<b>Receivables from group companies</b>		
<i>Non-current</i>		
Loan and other receivables	43,105	47,887
Interest receivables	0	78
<b>Total</b>	<b>43,105</b>	<b>47,965</b>
<i>Current</i>		
Loan receivables	7,304	7,304
Trade receivables	2,345	1,967
Interest receivables	3	35
Prepayments and accrued income	15	12
<b>Total</b>	<b>9,667</b>	<b>9,318</b>
<b>Other interest-bearing receivables</b>		
EUR '000	2016	2015
<i>Current</i>		
Loan receivables	12	19

VAT receivable	19	162
<b>Total</b>	<b>31</b>	<b>181</b>

#### Other interest-free receivables

EUR '000	2016	2015
<b>Non-current</b>		
Other prepaid expenses and accrued income	0	128
<b>Total</b>	<b>0</b>	<b>128</b>

#### Current

Trade receivables	1	1
Receivables from associated companies	1,166	1,164
Other receivables	3	8
<b>Total</b>	<b>1,170</b>	<b>1,174</b>
<b>Prepaid expenses and accrued income</b>		
Income tax receivable	0	34
Accrued interest income	1	1
Other prepaid expenses and accrued income	12	157
<b>Total</b>	<b>13</b>	<b>192</b>

## 2.4 NOTES TO EQUITY & LIABILITIES

### 10. Shareholders' equity

EUR '000	2016	2015
<b>Share capital</b>		
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>		
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>		
Paid-up unrestricted equity reserve 1.1.	246,433	249,800
Share Issue	0	1,739
Capital redemption to the shareholders	-5,176	-5,106
<b>Paid-up unrestricted equity reserve 31.12</b>	<b>241,257</b>	<b>246,433</b>
<b>Retained earnings</b>		
Retained earnings 1.1.	-13,839	-13,644
Profit for the previous financial year	-115	-195

<b>Retained earnings 31.12.</b>	<b>-13,953</b>	<b>-13,839</b>
<b>Loss for the financial year</b>	<b>-186</b>	<b>-115</b>
<b>Total shareholders' equity</b>	<b>275,983</b>	<b>281,344</b>
<b>Distributable funds</b>	<b>2016</b>	<b>2015</b>
Retained earnings 1.1.	-13,953	-13,839
Profit for the financial year	-186	-115
<b>Retained earnings 31.12.</b>	<b>-14,139</b>	<b>-13,953</b>
Paid-up unrestricted equity reserve	241,527	246,433
<b>Distributable funds 31.12.</b>	<b>227,388</b>	<b>232,480</b>

## 11. Liabilities

### Non-current liabilities

EUR '000

<b>Non-current interest bearing debt</b>	<b>2016</b>	<b>2015</b>
Loans from Group companies	1,248	1,248
<b>Total</b>	<b>1,248</b>	<b>1,248</b>
<b>Non-current interest-free debt</b>	<b>2016</b>	<b>2015</b>
Loans from associated companies	0	5
<b>Total</b>	<b>0</b>	<b>5</b>

### Current Liabilities

EUR '000

<b>Current interest bearing debt</b>	<b>2016</b>	<b>2015</b>
Other debt to Group companies	50	50
<b>Total</b>	<b>50</b>	<b>50</b>
<b>Current interest-free debt</b>	<b>2016</b>	<b>2015</b>
Accounts payable	11	77
Payables to Group companies	150	86
Other debt	458	441
Other debt to Group companies	112	63
Accrued expenses and deferred income	212	206
<b>Total</b>	<b>942</b>	<b>872</b>

### 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).

## 2.5 PLEDGES AND CONTINGENT LIABILITIES

EUR million	31.12.2016	31.12.2015
Commitments on behalf of subsidiaries		
Guarantees	3.1	11.9
Commitments on behalf of others		
Guarantees	0.2	1.3
<b>Commitments and contingent liabilities total</b>	<b>3.3</b>	<b>13.2</b>

### Pension liabilities

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

## 2.6 OTHER NOTES

### Related party loans

The Company has short-term loan receivables from the members and past members of the Board amounting to EUR 13 (102) thousand.

### Information on the personnel

Personnel, annual average (all employees)	2016	2015
Employees	3	3

### Management remuneration

	2016	2015
Chief Executive Officer	360	425
Board members	363	286

The outgoing CEO received an annual salary of EUR 360,000. On 14 September 2016 he received 500,000 Company Shares as an incentive for the first year of service acting as the Chief Executive Officer. The second 500,000 Company shares had to be received by the employee on 22 May 2017 after completing his second year as CEO. As the full term was not completed the second 500,000 will be given prorata over the second year which results to 322,581 shares. These shares have a lock-up period of two years from subscription date. The fair value of the granted shares is determined based on the market price of Afarak Group share at the grant date which was EUR 0.40 per share. The value at year end of the unvested portion EUR 121,505. He is not entitled to any bonus plans 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.

## INFORMATION ON SHARES AND SHAREHOLDERS

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

On 31 December 2016, the registered number of Afarak Group Plc shares was 263,040,695 (263,040,695) and the share capital was EUR 23,642,049.59 (23,642,049.59).

On 31 December 2016, the Company had 3,744,717 (4,244,717) own shares in treasury, which was equivalent to 1.42% (1.61%) of the issued share capital. The total amount of shares outstanding, excluding the treasury shares held by the Company on 31 December 2016, was 259,295,978 (258,795,978).

On 14 September 2016, Afarak announced that it had completed the transfer of 500,000 ordinary shares (the "Shares") from the treasury to Dr Alistair Ruiters, CEO. The Shares were issued under the authorization given by the Company's Annual General Meeting in May 2016 and form a part of the CEOs service based remuneration package.

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: Unioninkatu 20-22, 00130 Helsinki)

## BOARD MEMBERS' AND CHIEF EXECUTIVE OFFICER'S OWNERSHIP

Afarak Group Plc's Board members and Chief Executive Officer owned in total 8,266,116 (7,813,287) Afarak Group Plc shares on 31 December 2016 when including shares owned either directly, through persons closely associated with them or through controlled companies. This corresponds to 3.2% (3.0 %) of all outstanding shares that were registered in the Trade Register on 31 December 2016.

**31.12.2016**

<b>Board and CEO total:</b>		<b>Shares</b>	<b>Options</b>
Alistair Ruiters	Executive Director	900,000	600,000
Jelena Manojlovic	Dependent Non-Executive Director	150,000	0
Markku Kankaala	Non-Executive Director	7,066,616	0
Barry Rourke	Non-Executive Director	150,000	0
Ivan Jakovcic	Chairman & Non-Executive Director	0	0
Milan Djakov	Non-Executive Director	0	0
<b>Board and CEO total</b>		<b>8,266,116</b>	<b>600,000</b>
All shares outstanding		263,040,695	263,040,695
Proportion of all shares		3.1%	0.2 %

On 31 December 2016 the total number of registered shares was 263,040,695 and the Board and CEO's ownership corresponded to 3.1% of the total number of registered shares.

**Auditor's fees**

EUR '000	<b>2016</b>	<b>2015</b>
Ernst & Young Oy		
Audit	189	201
Other services	51	28
<b>Total</b>	<b>240</b>	<b>229</b>

**BOARD'S DIVIDEND PROPOSAL**

In 2017 the Board will propose to the AGM that no capital redemption or dividend would be distributed. In line with the Group's policy, distributions to shareholders will be reviewed at the time of the half year announcement.

# SIGNATURES TO THE BOARD OF DIRECTORS REPORT AND THE FINANCIAL STATEMENTS

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HELSINKI 30 MARCH 2017

**IVAN JAKOVIC**  
Chairman

**GUY KONSBRUCK**  
CEO

**BARRY ROURK**  
Member of the Board

**JELENA MANOJLOVIC**  
Member of the Board

**ALISTAIR RUITERS**  
Member of the Board

**MILAN DJAKOV**  
Member of the Board



# THE AUDITOR'S NOTE

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Our auditor's report has been issued today.

**HELSINKI 30 MARCH 2017**  
**ERNST & YOUNG OY**

**ERKKA TALVINKO**  
Authorised Public Accountant

**AUDITOR'S  
REPORT >**

## AUDITOR'S REPORT (Translation of the Finnish original)

To the Annual General Meeting of Afarak Group Oy

### Report on the Audit of Financial Statements

#### Opinion

We have audited the financial statements of Afarak Group Oyj (business identity code 0618181-8) for the year ended 31 December, 2016. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

#### Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of Financial Statements* section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

##### 1) Goodwill

*We refer to accounting principles and notes 1.4 and 13.*

The Group is required to annually test the amount of goodwill for impairment. At the balance sheet date 31 December 2016, the value of goodwill amounted to 63,8 M€ representing 24 % of the total assets and 36 % of the total equity (2015: 58,3 M€, 22% of the total assets, 34 % of the total equity). Procedures over management's annual impairment test were significant to our audit due to the complexity of the assessment process and significant judgments and assumptions involved. The Group

management uses assumptions in respect of future market and economic conditions such as, economic growth, discount rates, expected inflation rates, revenue and margin developments.

Our audit procedures included, among others, involving valuation specialists to assist us in evaluating and comparing to the relevant peer group the assumptions and methodologies used by the Group, in particular those relating to the weighted average cost of capital. We compared the market expectations management used to the external market forecast providers to gain an understanding of the assumptions used. We focused on the sensitivity in the available headroom by Cash Generating Unit and whether any reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount. We also assessed the historical accuracy of managements' estimates but due to the very high volatility and distressed market situation within the industry, we performed also our own sensitivity analysis based on a prolonged poor market conditions.

We assessed the Group's disclosures in notes 1.4 and 13 in the financial statements about the assumptions to which the outcome of the impairment tests were more sensitive.

## 2) Environmental Obligations

*We refer to accounting principles and note 21.*

The provision for rehabilitation and decommissioning costs relates to mines and processing facilities. At the balance sheet date 31 December 2016, the value of the provision amounted to 9,6 M€ (2015: 8,2 M€). The calculation of the provisions require significant management's judgment because of the inherent complexity in estimating future costs. These costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The provisions are subject to the effects of any changes in local regulations, management's expected approach to decommissioning and discount rates, along with the effects of changes in exchange rates.

As at 31 December 2016, we reviewed the assumptions used by management in their calculations and inspected the calculations and assessed the assumptions used. We also recalculated the provision based on these assumptions used by management for the discount rates, areas to be rehabilitated, the nature of expenses to be incurred (i.e. related to asset or expense). We assessed the competence of the work of management's expert, who produced the cost estimates.

We assessed the Group's disclosures in the financial statements in respect of environmental and rehabilitation provisions.

## 3) Valuation of inventory

*We refer to accounting principles and note 15.*

The total value of inventory as of December 31, 2016 amounted to 48,4 M€ representing 19 % of the total assets (2015: 45,2 M€, 17 % of the total assets). Inventories are measured the lower of cost and net realisable value, taking into consideration also the usage based depreciation of the mineral resources originating from the business combination. The inventory is material to our audit because the inventory is exposed to price and exchange rate fluctuation due to which the net realisable value of inventory can fluctuate significantly, increasing the risk of inventory overvaluation. Inventory costing was considered a significant risk also because variable and fixed costs are allocated to inventory.

Our audit procedures involved assessing the Group's accounting policies over recognizing inventory in compliance with applicable accounting standards. We tested the costing of the inventory and performed net realizable value testing to assess whether the cost of the inventory exceeds net realizable value and whether the variable and fixed costs are allocated to the inventory based on normal capacity of the production. An analytic review was also performed on inventory.

We assessed the Group's disclosures in the financial statements in respect of inventory.

### **Responsibilities of the Board of Directors and the Managing Director for the Financial Statements**

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of Financial Statements**

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Other Reporting Requirements**

### **Other information**

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our report thereon. We obtained the report of the Board of Directors prior to the date of the auditor's report, and the Annual Report is expected to be made available to us after the date of the auditor's report.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement in the information included in the report of the Board of Directors, we are required to report this fact. We have nothing to report in this regard.

Helsinki 30 March 2017

Ernst & Young Oy  
Authorized Public Accountant Firm

Erkka Talvinko  
Authorized Public Accountant

