

GOVERNMENT FUNDING TO ASSIST SAFM EXPANSION

Highlights:

- **Minas Gerais State Government has agreed to assist SAFM in funding fixed investment and working capital through the Development Bank of Minas Gerais.**
- **Agreement includes the provision of significant fiscal concessions and tax exemptions.**
- **Assistance to be extended by the State Government in the expansion licensing process.**

SAFM's Managing Director Stephen Turner commented:

"The agreement, which provides valuable fiscal and taxation concessions to the project, reflects the strong relationship that SAFM has built with the State Government of Minas Gerais over the past six years. We attribute this to the exemplary safety and environmental record that the Company has maintained, as well as the recognition by the State Government of the substantial socio and economic benefits that SAFM aims to contribute.

I would like to acknowledge the Government's strong and positive commitment throughout the process and we look forward to continuing to work in partnership over the upcoming years."

South American Ferro Metals Limited (ASX:SFZ) ("SAFM" or the "Company") is pleased to announce that it has signed an agreement with the State of Minas Gerais, through its representative body INDI, to deliver significant benefits for the development of its Ponto Verde expansion project in Brazil.

In summary, the framework of the agreement provides that the State Government will:

1. Provide support and assistance to SAFM in securing relatively low cost financing for fixed investment and working capital from the Bank of Development of Minas Gerais ("BDMG"), a large parastatal Bank in Minas Gerais that focuses on key infrastructure and development projects.
2. Provide significant fiscal concessions through exemptions of ICMS, a sales tax levied by the State on all goods sold within or imported into the state; and
3. Provide support and assistance in the licensing process to facilitate project delivery in a timely fashion.

Further detail on the State's Commitments in terms of the agreement:

1. Support and Assistance to access funding from the BDMG

The agreement provides that the State will use its best endeavours to assist SAFM in securing financing for fixed investment and working capital from BDMG. BDMG is the primary financing agent for economic development of mining industry and infrastructure projects in the State of Minas Gerais. The Bank offers financial support to companies whose focus is on direct investment, innovation and socio-environmental development.



BDMG is a significant source of funding for large development projects in Brazil, where funding is provided on the basis of reciprocal commitments by the companies in terms of direct investment and job creation in the state, as well as indirect benefits such as training and skills development. The loans are generally secured and are used to fund movable plant and equipment. Interest rates charged on the loans are at favourable rates compared to comparative sources of project financing.

2. Provision of significant fiscal concessions

The agreement also sets out large ICMS concessions, aimed at yielding significant capital and operating cost savings. The concessions are applied at varying levels on local and imported capital purchases, as well as on the procurement of raw material purchases.

The typical rate of ICMS tax is around 18%. Based on this, it is expected that the ICMS concessions will deliver cost savings of between \$30 million and \$35 million over the first 3 years of the expansion.

3. Support in the Licencing process

The State will provide support and assistance in the requisite operational and environmental licensing processes in order to ensure that the Ponto Verde project is delivered in a timely fashion. The State's role will be advisory in nature, as well as assisting in the liaison with the various regulatory and environmental bodies in Brazil.

SAFM's commitments in terms of the agreement:

As part of the agreement SAFM has undertaken a number of responsibilities, the most significant of which include committing to:

- A total investment of R\$600 million (\$285.12 million) between 2015 and 2017;
- The creation of 500 direct jobs by 2017, preferably sourced locally in the municipality of Itabirito;
- Favouring local suppliers and service providers during the project's expansion, provided they meet the Company's requirements in terms of price, quality and technical capability;
- Achieving a processing capacity of around 4 Mtpa of beneficiated product by June 2019;
- Achieving revenues of R\$360 million in the third year of operation.

SAFM is confident these undertakings can be achieved and management looks forward to further significant progress on the project resulting from this milestone partnership.

For more information:

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About South American Ferro Metals Limited:

South American Ferro Metals Limited owns 100% of the mineral rights and property of the Ponto Verde Iron Ore Project in Brazil. Ponto Verde is located in the heart of the Iron Ore Quadrilateral, 55 kilometres from the town of Belo Horizonte in the state of Minas Gerais. The Iron Ore Quadrilateral is a prolific iron ore mining area, and the Project is located proximate to established mining operations, iron and steel plants and existing infrastructure.

SAFM currently sells three iron ore products from its Ponto Verde mine to local steel producers in Brazil. The Company is currently completing its Bankable Feasibility Study (BFS) to expand Ponto



Verde to a capacity of 8 Mtpa ROM throughput, from its current 1.5 Mtpa licenced capacity. The BFS is expected to be completed by the third quarter of 2014.

Forward Looking Statements

This announcement contains certain forward looking statements which by nature, contain risk and uncertainty because they relate to future events and depend on circumstances that occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements.

Website: www.safml.com