

**LLC Ferrexpo Yeristovo Mining**

**Financial Statements**

*As at 31 December 2015 and  
for the year then ended  
with Independent Auditors' Report*

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## INDEPENDENT AUDITORS' REPORT

### To the Participants of LLC Ferrexpo Yeristovo Mining

We have audited the accompanying financial statements of LLC Ferrexpo Yeristovo Mining, which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of cash flows and statement of changes in net assets attributable to participants for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of LLC Ferrexpo Yeristovo Mining as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### Emphasis of matter

Without qualifying our opinion, we draw attention to Note 3.1 to the financial statements which indicates that the Company incurred a net loss of UAH 2,293,883 thousand during the year ended 31 December 2015 and, as at that date, the Company's current liabilities exceeded its current assets by UAH 4,325,331 thousand. These conditions, along with other matters as set forth in Note 3.1, indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

We further draw attention to Note 2 to the financial statements, which describes the current political and economic situation in Ukraine. The circumstances referred to in Note 2 could continue to adversely affect the Company's financial position and performance in a manner not currently determinable. Our opinion is not qualified in respect of this matter.

In addition, we draw attention to Note 4 to the financial statements, which discloses a significant concentration of the Company's transactions with its related parties. Our opinion is not qualified in respect of this matter.

*Ernst & Young Audit Services LLC*

31 March 2016

**STATEMENT OF FINANCIAL POSITION  
as at 31 December 2015**

	Notes	2015 UAH 000	2014 UAH 000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	5,042,244	4,841,475
Intangible assets		34,624	33,662
Value added tax receivable	6	–	32,581
Inventories	8	267,373	200,309
Prepaid income tax	6	151,687	151,687
Prepayments and other non-current assets	7	–	27,479
		<u>5,495,928</u>	<u>5,287,193</u>
<b>Current assets</b>			
Inventories	8	261,630	395,672
Accounts receivable	9	458,170	122,955
Prepayments to suppliers and other current assets	7	10,148	21,555
Value added tax and other taxes receivable	6	75,613	128,483
Cash and short-term deposits	10	4,413	534,930
		<u>809,974</u>	<u>1,203,595</u>
Assets held for sale		329	–
<b>TOTAL ASSETS</b>		<u><b>6,306,231</b></u>	<u><b>6,490,788</b></u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Net assets attributable to participants		655,403	2,087,227
Interest-bearing loans and borrowings	11	498,605	3,612,860
Provision for site restoration	12	8,347	10,377
Defined benefit liability	13	8,230	5,022
Guarantees issued	4	–	1,007
		<u>1,170,585</u>	<u>5,716,493</u>
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	11	5,009,035	136,199
Trade and other payables	14	126,610	636,590
Guarantees issued	4	–	1,506
		<u>5,135,645</u>	<u>774,295</u>
<b>TOTAL LIABILITIES</b>		<u><b>6,306,231</b></u>	<u><b>6,490,788</b></u>

Signed and authorised for release on behalf of LLC Ferrexpo Yeristovo Mining on 31 March 2016:



General Director

Finance Director

Chief Accountant

Nikolay Goroshko

Vladimir Leonov

Lyudmila Zakharchenko

The accompanying notes form an integral part of these financial statements.

**STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 31 December 2015**

	Notes	2015 <i>UAH 000</i>	2014 <i>UAH 000</i>
Revenue	4	1,507,171	828,985
Cost of sales	16	<u>(1,188,063)</u>	<u>(744,658)</u>
Gross profit		319,108	84,327
Other income	17	8,662	6,209
General and administrative expenses	18	(79,413)	(70,833)
Selling and distribution expenses	4	(31,457)	(15,963)
Value added tax recovery	20	–	132,181
Other expenses	19	(323,648)	(115,432)
Finance income	20	10,890	9,509
Finance costs	20	(290,292)	(145,520)
Foreign exchange loss, net	21	<u>(1,907,733)</u>	<u>(1,897,361)</u>
<b>Loss before tax</b>		<b>(2,293,883)</b>	<b>(2,012,883)</b>
Income tax expense	15	–	(5,947)
<b>Loss after tax</b>		<b><u>(2,293,883)</u></b>	<b><u>(2,018,830)</u></b>
Re-measurement loss on defined benefit plans		(1,378)	(335)
Income tax effect		248	60
Other comprehensive income/(loss) for the year, net of tax		<u>1,130</u>	<u>(275)</u>
<b>Total comprehensive loss for the year, net of tax</b>		<b><u>(2,295,013)</u></b>	<b><u>(2,019,105)</u></b>

*The accompanying notes form an integral part of these financial statements.*

**STATEMENT OF CASH FLOWS**  
**for the year ended 31 December 2015**

	Notes	<b>2015</b>	<b>2014</b>
		<i>UAH 000</i>	<i>UAH 000</i>
<b>OPERATING ACTIVITIES</b>			
Loss before income tax		(2,293,883)	(2,012,883)
<i>Adjustments:</i>			
Depreciation and amortisation	5	390,759	247,950
Finance income	20	(10,890)	(141,690)
Finance costs	20	290,292	145,520
Increase/(decrease) in allowance for doubtful debts		(9,740)	100,071
Net foreign exchange loss relating to investing and financing activities		1,907,733	1,897,361
(Gain)/Loss on disposal of property, plant and equipment	19	(168)	2,153
Increase in allowance for restricted cash	10	294,845	–
<i>Working capital adjustments:</i>			
Accounts receivable		(333,363)	6,889
Prepayments and other current assets		71,918	(7,335)
VAT receivable		85,451	150,437
Inventories		66,649	(299,078)
Trade and other payables including taxes, other than income tax and VAT		8,441	(20,493)
		468,044	68,902
Interest paid		(266,598)	(134,555)
Capitalised interest paid		(91,453)	(73,590)
Income taxes paid		–	(75,350)
Interest received		5,877	8,046
Loans provided to employees		–	(3,690)
Defined employee benefits paid		(97)	(36)
<b>Net cash from/(used in) operating activities</b>		<b>115,773</b>	<b>(210,273)</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment		(507,803)	(1,037,673)
Proceeds from sale of marketable securities		–	194,731
Proceeds from disposal of property, plant and equipment		5,171	12,615
Reclassification to restricted cash and deposits	10	(294,845)	–
<b>Net cash used in investing activities</b>		<b>(797,477)</b>	<b>(830,327)</b>
<b>FINANCING ACTIVITIES</b>			
Contributions from participants		174,018	1,007,139
Proceeds from borrowings		–	344,111
Repayment of borrowings		(148,164)	(277,655)
Repayment of finance lease liabilities under sale lease-back transaction		(41,315)	(14,031)
<b>Net cash from/(used in) financing activities</b>		<b>(15,461)</b>	<b>1,059,564</b>
Net increase/(decrease) in cash and cash equivalents		(697,165)	18,964
Net foreign exchange difference on cash and cash equivalents		166,648	193,542
Cash and cash equivalents at 1 January	10	534,930	322,424
<b>Cash and cash equivalents at 31 December</b>	10	<b>4,413</b>	<b>534,930</b>

The accompanying notes form an integral part of these financial statements.

## STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO PARTICIPANTS for the year ended 31 December 2015

	Issued capital <i>UAH 000</i>	Unpaid charter capital <i>UAH 000</i>	Re-measurement on defined benefit plans <i>UAH 000</i>	Accumulated losses <i>UAH 000</i>	Net assets attributable to participants <i>UAH 000</i>
<b>As at 1 January 2014</b>	<b>3,685,916</b>	–	<b>1,289</b>	<b>(468,338)</b>	<b>3,218,867</b>
Loss attributable to participants	–	–	–	(2,018,830)	(2,018,830)
Re-measurement on defined benefit plans less deferred tax effect	–	–	(275)	–	(275)
<b>Total comprehensive loss</b>	–	–	<b>(275)</b>	<b>(2,018,830)</b>	<b>(2,019,105)</b>
Change in amount of guarantees issued to secure debts of Ferrexpo Group (Note 4)	–	–	–	221	221
Capital contribution	1,171,514	(284,270)	–	–	887,244
<b>At 31 December 2014</b>	<b>4,857,430</b>	<b>(284,270)</b>	<b>1,014</b>	<b>(2,486,947)</b>	<b>2,087,227</b>
Loss attributable to participants	–	–	–	(2,293,883)	(2,293,883)
Re-measurement on defined benefit plans less deferred tax effect	–	–	(1,130)	–	(1,130)
<b>Total comprehensive loss</b>	–	–	<b>(1,130)</b>	<b>(2,293,883)</b>	<b>(2,295,013)</b>
Change in amount of guarantees issued to secure debts of Ferrexpo Group (Note 4)	–	–	–	1,532	1,532
Contribution from the Parent (Note 4)	–	–	–	687,639	687,639
Capital contribution	–	174,018	–	–	174,018
<b>At 31 December 2015</b>	<b>4,857,430</b>	<b>(110,252)</b>	<b>(116)</b>	<b>(4,091,659)</b>	<b>655,403</b>

*The accompanying notes form an integral part of these financial statements.*

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 1. Corporate information

Limited Liability Company Ferrexpo Yeristovo Mining (hereinafter referred to as "the Company") is a limited liability company incorporated under the laws of Ukraine on 14 July 2008. The registered office address of the Company is 15, Budivel'nykiv Str., Komsomolsk, Poltava region, Ukraine. As at 31 December 2015, the Company employed 1,325 employees (2014: 1,482 employees).

As at 31 December, the Company's owners and their respective interests were as follows:

Participants	Contribution		Contribution	
	2015	%	2014	%
	UAH 000		UAH 000	
Ferrexpo AG (Switzerland)	4,857,382	99.999%	4,857,382	99.999%
Ferrexpo Service LLC (Ukraine)	48	0.001%	48	0.001%
	<b>4,857,430</b>	<b>100.000%</b>	<b>4,857,430</b>	<b>100.000%</b>

Ferrexpo Service LLC is controlled by Ferrexpo AG, which is 100% owned by Ferrexpo plc ("the ultimate parent") (hereinafter referred to collectively with its subsidiaries as "Ferrexpo Group"). The majority stake in Ferrexpo plc is ultimately held by Minco Trust, which was set up to manage the controlling interest in the Company of Kostyantyn Zhevago and his immediate family.

The Company was set up for the purpose of developing Yeristovo iron ore deposit: extraction and processing of iron ore and further production of iron ore pellets. The Company reached first iron ore in the second half of 2012, which is in accordance to the development plan. The full capacity is expected to be achieved after 2017. The total estimated costs of the project approximate USD 1.5 billion, which includes construction of the open pit mine and construction of crushing, palletising, floatation and other processing facilities. Currently Ferrexpo Group provides financing in the amount required to carry out mining works according to the development plan.

### 2. Operating environment, risks and economic conditions

#### General economic conditions

The Company conducts operations in Ukraine. The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation, and significant imbalances in the public finance and foreign trade.

In 2015, Ukrainian political and economic situation deteriorated significantly. The political and social unrest combined with regional tensions has led to the secession of the Autonomous Republic of Crimea to the Russian Federation, full-fledged armed confrontations with separatists in certain parts of the Donetsk and Lugansk regions and, ultimately, to the significant deterioration of the political and economic relations of Ukraine with the Russian Federation. These factors have contributed to the decline of key economic indices, increase of the state budget deficit, depletion of the NBU's foreign currency reserves and, as a result, further downgrading of the Ukrainian sovereign debt credit ratings.

From 1 January 2015 and up to the date of the issuance of these financial statements, the Ukrainian Hryvnia (the "UAH") depreciated against major foreign currencies by approximately 167% calculated based on the National Bank of Ukraine (the "NBU") exchange rate of UAH to US Dollar (1 January 2014 to 31 December 2014: 197%). The NBU imposed certain restrictions on purchase of foreign currencies, cross border settlements, and also mandated obligatory conversion of foreign currency proceeds into UAH.

The known and estimable effects of the above events on the financial position and performance of the Company in the reporting period have been taken into account in preparing these financial statements.

The Government has committed to direct its policy towards the association with the European Union, to implement a set of reforms aiming at the removal of the existing imbalances in the economy, public finance and public governance, and the improvement of the investment climate.



## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 2. Operating environment, risks and economic conditions (continued)

Stabilisation of the Ukrainian economy in the foreseeable future depends on the success of the actions undertaken by the Government and securing continued financial support of Ukraine by international donors and international financial institutions.

Management is monitoring the developments in the current environment and taking actions, where appropriate, to minimize any negative effects to the extent possible. Further adverse developments in the political, macroeconomic and/or international trade conditions may further adversely affect the Company's financial position and performance in a manner not currently determinable.

#### 3.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The financial statements have been prepared on a historical cost basis, except for post-employment benefits, which are measured in accordance with IAS 19 *Employee Benefits*, and guarantees issued, which are measured at fair value in accordance with the requirements of IAS 39 *Financial Instruments: Recognition and Measurement*.

The financial statements are presented in UAH thousands and all values are rounded off to the nearest thousand except where otherwise indicated.

#### Going concern

As at 31 December 2015, the Company's current liabilities exceeded its current assets by UAH 4,325,331 thousand. In 2015, the Company incurred a net loss of UAH 2,293,883 thousand, which includes UAH 294,845 thousand of loss from recognition of allowance in respect of the balance in Bank Finance & Credit (Note 4) and UAH 1,907,733 thousand of net forex loss.

The Company's current liabilities include interest-bearing borrowings of UAH 4,800,133 thousand due to a Ferrexpo Group entity.

The Company started in 2014 and continued in 2015 commercial mining of the iron ore from the first component of the Yeristovo open pit mine. The Company also continues to develop further components of the open pit mine. The ability of the Company to continue its operations will be dependent on the further development of the open pit mine and completion of construction of crushing, pelletising, floatation and other processing facilities, which are currently provided by OJSC Ferrexpo Poltava Mining and also the Company's ability to raise sufficient financing for this purpose. The current stage of the project is financed by Ferrexpo Group through a variety of options including a combination of debt and equity contributions.

Ferrexpo AG which is the parent company provided a support letter stating that Ferrexpo Group entities will not require settlement of the debt in the case such settlement has a negative impact on the Company's financial position or performance. Ferrexpo AG is also the parent company to a Ferrexpo Group entity provided financing to the Company. This commitment is subject to Ferrexpo Group's ability to repay its own loan facilities when due or amend the terms of the loan facilities with lenders, if needed.

The Company's ability to continue its operations on the going concern basis is ultimately dependent on the ability of Ferrexpo Group as a whole (i) to generate sufficient cash inflows in order to repay its own loan facilities which is in its turn dependent on the iron ore prices fluctuations or (ii) to amend the terms of loan facilities with the lenders if the decrease in iron ore prices will lead to a cash deficit. The reliance on the impact of the volatility in the future level of iron ore prices represents a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. The Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial statements are prepared on the basis that the Company will continue to be a going concern. This basis of preparation presumes that the Company will be able to realise its assets and discharge its liabilities in the ordinary course of business.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 3.2 Changes in accounting policy and disclosures

Certain reclassifications have been made to the 2014 amounts for consistency of presentation with the 2015 amounts.

#### **Amendments to IFRSs and the new Interpretation that are mandatorily effective for the current year**

In 2015, the Company has applied the amendments to IFRSs and a new Interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU that are mandatorily effective in EU for an accounting period that begins on or after 1 January 2015.

#### **Annual Improvements 2011-2013 Cycle**

The Company has applied the amendments to IFRSs included in the Annual Improvements to IFRSs 2011-2013 Cycle for the first time in the current year. The Annual Improvements to IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs, which are summarised below.

#### **IFRS 1 *First-time Adoption of International Financial Reporting Standards (changes to the Basis for Conclusion only)***

The amendment to IFRS 1 clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Company, since the Company is an existing IFRS preparer.

#### **IFRS 3 *Business Combinations***

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3,
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

The Company is not a joint arrangement, and thus this amendment is not relevant for it.

#### **IFRS 13 *Fair Value Measurement***

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Company does not apply the portfolio exception in IFRS 13.

#### **IAS 40 *Investment Property***

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. This amendment did not impact the accounting policy of the Company.

#### **IFRIC 21 *Levies***

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Company as it has applied the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 3.2 Changes in accounting policy and disclosures (continued)

#### **New and revised IFRSs adopted by the EU in issue but not yet effective**

The Company has not applied the following amendments to IFRSs that have been issued and adopted by the EU but are not yet effective in the EU:

#### **Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests***

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 principles for business combinations 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 while 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 prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.

#### **Amendments to IAS 1 *Disclosure Initiative***

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, 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 OCI 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 OCI 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.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.

#### **Amendments to IAS 16 and IAS 38: *Clarification of Acceptable Methods of Depreciation and Amortisation***

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is 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 effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

#### **Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants***

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company as the Company does not have any bearer plants.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 3.2 Changes in accounting policy and disclosures (continued)

#### New and revised IFRSs adopted by the EU in issue but not yet effective (continued)

##### **Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions***

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 February 2015. This amendment is not relevant to the Company, since none of the entities within the Company has defined benefit plans with contributions from employees or third parties.

##### **Amendments to IAS 27: *Equity Method in Separate Financial Statements***

The amendments will 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 its separate financial statements will have to apply that change retrospectively.

For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Company financial statements as the Company does not have any subsidiaries.

##### **Annual Improvements 2010-2012 Cycle**

The following improvements are effective for accounting periods beginning on or after 1 February 2015. The Company has applied these improvements for the first time in these financial statements. They include:

##### **IFRS 2 *Share-based Payment***

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. The clarifications are consistent with how the Company has identified any performance and service conditions which are vesting conditions in previous periods. In addition, the Company had not granted any awards during the second half of 2014 and 2015. Thus, these amendments did not impact the Company's financial statements or accounting policies.

##### **IFRS 3 *Business Combinations***

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This amendment did not impact the Company's financial statements or accounting policies as the Company does not have any subsidiaries.

##### **IFRS 8 *Operating Segments***

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar',
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

This amendment to IFRS 8 has no impact on the Company's accounting policy.

##### **IFRS 13 *Fair value measurement***

The amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Company.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 3.2 Changes in accounting policy and disclosures (continued)

#### New and revised IFRSs adopted by the EU in issue but not yet effective (continued)

##### **IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets**

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact to the revaluation adjustments recorded by the Company during the current period.

##### **IAS 24 Related Party Disclosures**

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Company as it does not receive any management services from other entities.

##### **Annual Improvements 2012-2014 Cycle**

These improvements are effective for annual periods beginning on or after 1 January 2016. They 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 owners. The amendment clarifies 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 must be applied prospectively.

##### **IFRS 7 Financial Instruments: Disclosures**

###### **(i) Servicing contracts**

The amendment clarifies 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 done retrospectively. However, the required disclosures would not need to 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 amendment clarifies 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 must be applied retrospectively.

##### **IAS 19 Employee Benefits**

The amendment clarifies 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 must be applied prospectively.

##### **IAS 34 Interim Financial Reporting**

The amendment clarifies 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 must be applied retrospectively. These amendments are not expected to have any impact on the Company.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 3.3 Significant accounting judgments, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

#### Judgments

In process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements:

#### Restricted cash and deposits

On 17 September 2015, the National Bank of Ukraine ("the 'NBU'") announced that it had adopted a decision to declare the Company's transactional bank and a related party Bank Finance & Credit insolvent and the bank was put into temporary administration by the Deposit Guarantee Fund. The banking license was revoked by the NBU on 17 December 2015 and the bank's liquidation procedure was initiated by the Deposit Guarantee Fund.

The total balance of cash and deposits held at Bank Finance & Credit is no longer available to the Company and has therefore been reclassified from cash and cash equivalents to restricted cash and deposits.

It is expected that the liquidation of the bank will take several years and the level of potential recoverability of the remaining balance of restricted cash and deposits cannot be reasonably assessed as at 31 December 2015. As a consequence, a full allowance of the balance currently not available to the Company was recorded as at 31 December 2015 resulting in a charge of UAH 294,845 thousand recognised in the income statement.

#### Operating lease commitments – Company as a lessor

The Company leases out its equipment to the OJSC Ferrexpo Poltava Mining ("FPM"). The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these equipment and accounts for the contracts as operating leases.

#### Capitalised stripping costs

Overburden and other mine waste materials have to be removed prior to the production of the mine in order to gain access to the iron ore body. These activities are referred to as pre-production stripping costs and are capitalised under assets under construction. Production stripping costs are capitalised when the stripping activities in the production phase of a mine result in improved access to components of the ore body.

An important area of judgement is the distinction between the pre-production and production phase of a mine together with the identification of the components of the ore body and the allocation of the production stripping costs to the components of the ore body or the inventory produced. At 31 December 2015 the carrying amount of capitalised pre-production stripping costs included in assets under construction amounted to UAH 1,389,451 thousand (2014: UAH 1,047,293 thousand).

#### Weathered ore

Weathered or so called "soft" ore has the same Fe content as the normal ore, while its physical state is softer; The Ferrexpo Group has one processing plant at FPM. With the current processing facilities, FPM cannot produce pellets from "soft" grade ore due to the reason the clay clogs crushing equipment. Due to its physical characteristics it can be used in production with normal ore in dry weather conditions only.

As at 31 December 2015 the Company had stock of weathered ore totalling UAH 267,373 thousand (2014: UAH 200,309 thousand). It is the Company's intention to process weathered ore. Based on the Company's current processing plans it is not expected that the whole volume of weathered ore stockpiled will be processed within the next year. As a consequence, the Company estimated amounts to be sold within 12 months from the reporting date, and the remaining balance is classified as non-current in the Company's statement of financial position as at 31 December 2015.

As at 31 December 2015, weathered ore is valued at cost and the calculated net realisable value is above the expected cost if converted into pellets or concentrate. A potential trigger for any future impairment would be any change to the Company's plans in respect of the construction of a processing plant or the completion of the capacity upgrade programme at FPM.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 3.3 Significant accounting judgments, estimates and assumptions (continued)

#### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

#### Impairment of property, plant and equipment

The Company's impairment test for property, plant and equipment is based on value in use calculations that use a discounted cash flow model. Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset. The Company is in the development phase, and the model also takes account of the capital expenditure being incurred at the project.

The assumptions used in the model are different to those used in calculating fair value and consequently the value in use calculation is likely to give a different result (usually lower) to a fair value calculation.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups and referred to as cash generating units. Cash generating units are the smallest identifiable group of assets and liabilities that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Company identified a single cash-generating unit.

The impairment assessments are based on a range of estimates and assumptions, including:

- Future production – Proved and probable reserves, resource estimates and, in certain cases, expansion projects;
- Commodity prices – Price forecasts;
- Exchange rates – Current market exchange rates;
- Discount rates – Cost of capital risk adjusted for the resource concerned.

The key assumptions used to determine the recoverable amount, including a sensitivity analysis, are further explained in Note 5.

#### Depreciation

Management estimates are necessary to identify the useful lives of property, plant and equipment. Management uses its expertise and judgment in reassessing the remaining useful lives of major items at each reporting date.

#### Deferred tax assets

Deferred tax assets, including those arising on unused tax losses are recognised to the extent that it is probable that they will be recovered, which is dependent on the generation of sufficient future taxable profit. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. Judgments are also required about the application of income tax legislation. These judgments and estimates are subject to risks and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised at the reporting date. In such circumstances, some, or all, of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in corresponding credit or charge to the profit or loss.

#### Ore reserve and resource estimate

Ore reserves are estimates of the amount that can be economically and legally extracted from the Company's mining properties. The Company's estimates of its ore reserves and mineral resources are based on information compiled by appropriately qualified persons relating to the geological data on size, depth and shape of the ore body which require complex geological judgments to interpret the data.



## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 3.3 Significant accounting judgments, estimates and assumptions (continued)

#### Ore reserve and resource estimate (continued)

The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes

in the reserve or resource estimates may impact upon the carrying value of property, plant and equipment, provision for site restoration, recognition of deferred tax assets and depreciation charges.

#### Provision for site restoration

The Company assesses the provision for site restoration annually. Significant estimates and assumptions are made in determining the provision as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of site restoration activities, regulatory changes, changes in inflation and discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at reporting date represents management's best estimate of the present value of the future site restoration costs required. Further details on the method the Company has used to identify and estimate provision for site restoration are detailed in Note 12.

#### Employee defined benefit liability

The cost of defined benefit pension plans and other post employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate management considers the yield of government bonds because there is no deep market in corporate bonds in Ukraine. Due to the long term nature of these plans, the estimates are subject to significant uncertainty. For details refer to Note 13.

#### Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

#### Commitments and contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. For details refer to Note 22.

### 3.4 Summary of significant accounting policies

#### Functional currency

Based on the economic substance of the underlying events and circumstances relevant to the Company, the functional currency of the Company has been determined to be the Ukrainian hryvnia, which is also the Company's presentation currency. This means that transactions in currencies other than the hryvnia are treated as transactions in foreign currencies.

#### Foreign currency translation

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.



## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 3.4 Summary of significant accounting policies (continued)

#### Financial assets

##### *Initial recognition and measurement*

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 in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

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.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

##### *Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial recognition, such financial assets are measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income. The losses arising from impairment are recognised in finance costs.

#### Financial liabilities

##### *Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of loans and borrowings, directly attributable transaction costs. The Company's financial liabilities include trade and other payables, loans and borrowings and financial guarantee contracts.

##### *Subsequent measurement*

The measurement of financial liabilities depends on their classification as follows:

#### Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost.

#### Financial guarantee contracts

Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 3.4 Summary of significant accounting policies (continued)

#### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### Fair value of financial instruments

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 (bid price for long positions and ask price for short positions), without any deductions for transaction costs.

For financial instruments not traded in an active market, 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.

#### Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 3.4 Summary of significant accounting policies (continued)

#### Derecognition of financial instruments

##### *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the Company’s continuing involvement in the asset.

In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

##### *Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

#### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciation, respectively.

Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. Expenditures incurred after the properties have been put into operation, such as repairs and maintenance costs, are normally charged to the statement of comprehensive income in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of properties.

Each item’s estimated useful life has due regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located. Estimates of remaining useful lives are made on a regular basis for all mine buildings, plant and equipment, with annual reassessments for major items. Depreciation commences on the month following the date of putting the item into operation. Freehold land is not depreciated.

Major spare parts and stand-by equipment qualify as property, plant and equipment when they are expected to be used during more than one period.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 3.4 Summary of significant accounting policies (continued)

#### Property, plant and equipment (continued)

Depreciation is calculated on a straight-line basis over the estimated remaining useful life of the asset, as follows:

Buildings	30-50 years
Plant and equipment	5-15 years
Vehicles	7-15 years
Fixtures and fittings	2-10 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the year the item is derecognised.

#### *Construction in progress*

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. Construction in progress includes cost of mine construction, other construction works, cost of engineering works, other direct costs, an appropriate proportion of overheads and borrowing costs for long-term construction projects if the recognition criteria are met. On completion, the cost of construction is transferred to the appropriate category. Construction in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

#### *Mining assets*

Mining assets comprise mine exploration, evaluation and development costs incurred up to commencement of production, including mine stripping costs incurred in order to access the mineral-bearing ore deposits prior to the commencement of production, and are depreciated using the unit of production method based on the estimated economically recoverable reserves to which they relate.

#### **Stripping costs**

##### *Pre-production stripping costs*

Stripping costs incurred before production commences are capitalised as part of the cost of constructing the mine. At the point of time of the commencement of the production of the mine, these pre-production stripping costs are transferred to mining assets and depreciation commences.

##### *Production stripping costs*

Production stripping costs are for the removal of overburden in the course of production. Such stripping costs are generally not capitalised and considered to be variable production costs and included to cost of production. Production stripping costs can be capitalised as an asset if, and only if all of the following criteria are met:

- it is probable that there will be an expected future economic benefit that is clearly attributable to the capitalised production stripping costs;
- the future economic benefit will flow to the entity in more than two financial years (not including the financial year in which the stripping costs first incurred);
- the stripping costs can be measured reliably and allocated to the volume of ore to be mined;
- the period in which the future economic benefit flows to the entity can be reliably determined.

#### **Exploration and evaluation costs**

Costs incurred in relation to the exploration and evaluation of potential iron ore deposits are capitalised and classified as tangible or intangible asset depending on the nature of the expenditures. Costs associated with exploratory drilling, researching and analysing of exploration data and costs of pre-feasibility studies are included in tangible assets whereas those associated with the acquisition of licences are included in intangible assets.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 3.4 Summary of significant accounting policies (continued)

#### Exploration and evaluation costs (continued)

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation expenditure comprises costs which are directly attributable to:

- researching and analysing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- gathering exploration data through topographical, geochemical and geophysical studies;
- exploratory trenching and sampling;
- determining and examining the volume and grade of the resource;
- compiling pre-feasibility and feasibility studies.

Capitalised exploration and evaluation expenditures are carried forward as an asset as long as these costs are expected to be recouped in full through successful development and exploration in a future period.

Exploration and evaluation assets are reviewed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. In the case of undeveloped properties, there may be only inferred resources to form a basis for the impairment review. In some cases, the undeveloped properties are regarded as successors to ore bodies currently in production. It is intended that these will be developed and go into production when the current source of ore is exhausted.

An exploration and evaluation asset shall no longer be classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets shall be assessed for impairment, and any impairment loss recognised, before reclassification.

#### Development expenditure

Development expenditure is also included in "Construction in progress". As the asset is not available for use, it is not depreciated. On completion of development, any capitalised exploration and evaluation expenditure, together with the subsequent development expenditure, is classified as "Mining assets".

#### Intangible assets

Intangible assets, including mineral licences, which are acquired by the Company and which have finite useful lives, are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the statement of comprehensive income in the period in which the expenditure is incurred.

#### *Amortisation*

Intangible assets, other than goodwill, primarily comprise computer software, which are amortised on a straight-line basis over the estimated useful life of five years.

#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The Company capitalises borrowing costs for all qualifying assets where construction was commenced on or after 1 January 2009. The Company continues to expense borrowing costs relating to construction projects that commenced prior to 1 January 2009.

#### Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or the cash-generating units ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of the asset or the CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 3.4 Summary of significant accounting policies (continued)

#### Impairment of non-financial assets (continued)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations, including impairment of inventories, are recognised in the profit or loss in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

#### Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition is accounted for on first-in/first-out basis.

#### Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the statement cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

#### Net assets attributable to participants

Pursuant to Ukrainian legislation currently in force and in compliance with the Company's charter documents, the Company's net assets attributable to participants may be redeemed in cash at the request of the Company's participants. The Company's obligation to redeem participants' interest gives rise to a financial liability for the present value of the redemption amount even though the obligation is conditional on the participant exercising the right. It is impractical to determine the fair value of this liability as it is unknown when and if participants will withdraw from the Company. As a practical expedient, the Company measures the liability presented as "Net assets attributable to participants" at the carrying value of the Company's net assets.

The Company's issued capital is recognised at the value of considerations received or receivable.

#### Provisions

##### General

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit or loss net of any reimbursement. 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.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 3.4 Summary of significant accounting policies (continued)

#### Provisions (continued)

##### *Site restoration provision*

Site restoration provisions are made in respect of the estimated future costs of closure and restoration and for environmental rehabilitation costs (determined by an independent expert) in the accounting period when the related environmental disturbance occurs. The provision is discounted and the unwinding of the discount is expensed as incurred and included in finance costs. The provision for site restoration is capitalised to mining assets and depreciated over future production from the mine to which it relates. The provision is reviewed on an annual basis for changes in cost estimates, discount rates or life of operations. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

##### **Employee benefits**

The Company makes defined contributions to Ukrainian state pension scheme at the statutory rates in effect during the year, based on gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Company has a legal obligation to compensate the Ukrainian State Pension Fund for additional pensions paid to certain categories of the current and former employees of the Company. These obligations being unfunded are substantially similar to those typically existing under an unfunded defined benefit plan. Costs relating to this plan are accrued in these financial statements using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest (not applicable to the Company) and the return on plan assets (excluding net interest), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of the date of the plan amendment or curtailment, and the date that the Company recognises restructuring-related costs. Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Company recognises service cost within cost of sales and net interest expense within finance costs. If service costs relate to employees whose wage is included to cost of construction in progress, service costs are also capitalised. Service costs comprise current service costs, past-service costs, gains and losses on curtailments and non-routine settlements.

##### **Environmental liabilities**

The enforcement of environmental regulations in Ukraine is evolving, and the enforcement posture of government authorities is continually being reconsidered.

Immediate provision is made for expenditures that relate to an existing condition caused by past operations and that do not contribute to current or future earnings in order to recognize the liability in the year when the conditions are identified. Measurement of liabilities is based on current legal requirements and obligations and estimated based on existing technical standards. Actual results could vary from estimates made to the date.

##### **Contingent assets and liabilities**

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

##### **Leases**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 3.4 Summary of significant accounting policies (continued)

#### Leases (continued)

##### *Company as a lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

##### *Company as a lessor*

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

#### Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

##### *Rendering of services*

Revenue from the rendering of services is recognised when services are complete.

##### *Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

##### *Interest income*

For all financial instruments measured at amortised cost, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income.

##### *Rental income*

Rental income arising from operating leases is accounted for on a straight line basis over the lease terms.

#### Taxes

##### *Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

##### *Deferred tax*

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.



## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 3.4 Summary of significant accounting policies (continued)

#### Taxes (continued)

##### *Deferred tax (continued)*

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in net assets attributable to participants.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

##### **Value-added tax**

Revenues, expenses and assets are recognised net of the amount of value added tax ("VAT") except:

- where VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case VAT is recognised as part of the cost of acquisition of the asset or as part of expense item as applicable; and
- payables are stated with the amount of VAT included.

The net amount of VAT receivable from, or payable to, the taxation authority is included as part of payables in the statement of financial position.

### 3.5 New and revised IFRSs issued by the IASB but not yet adopted by the EU

The following standards and amendments to the existing standards have not been endorsed for use in EU yet:

#### **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.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 3.5 IFRSs and IFRIC Interpretations issued but not yet effective (continued)

#### **IFRS 9 *Financial Instruments* (continued)**

The Company plans to adopt the new standard on the required effective date. The Company has 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 analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects no significant impact on its balance sheet and equity.

#### **IFRS 14 *Regulatory Deferral Accounts***

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Company is an existing IFRS preparer, this standard would not apply.

#### **IFRS 15 *Revenue from Contracts with Customers***

IFRS 15 was issued in May 2014 and establishes a five-step model to account for 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 new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the full retrospective method. During 2015, the Company performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Company is considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments.

#### **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. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.

#### **Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception***

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 4. Related party disclosure

As at 31 December, the Company's outstanding balances with its related parties were as follows:

<b>2015</b>	<b>The Parent</b>	<b>Other Ferrexpo Group entities</b>	<b>Other related parties</b>	<b>Total</b>
	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>
Cash and short-term deposits (Note 10)	–	–	–	–
Accounts receivable	–	457,038	719	457,757
Interest-bearing loans and borrowings	–	4,816,901	–	4,816,901
Payables for materials and services	–	26,600	–	26,600

<b>2014</b>	<b>The Parent</b>	<b>Other Ferrexpo Group entities</b>	<b>Other related parties</b>	<b>Total</b>
	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>
Cash and short-term deposits (Note 10)	–	–	532,851	532,851
Accounts receivable	–	105,189	780	105,969
Interest-bearing loans and borrowings	–	3,164,728	–	3,164,728
Payables for property, plant and equipment	515,154	–	–	515,154
Payables for materials and services	–	19,062	7,009	26,071

In 2015 and 2014, the Company's transactions with its related parties were as follows:

<b>2015</b>	<b>Other Ferrexpo Group entities</b>	<b>Other related parties</b>	<b>Total</b>
	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>
Purchases of property, plant and equipment	14	–	14
Purchases of Intangible assets	921	–	921
Purchases of materials and services included in construction in progress	8,085	20,487	28,572
Capitalised interest	85,067	–	85,067
Revenues	1,507,127	–	1,507,127
Selling and distribution expenses	7,915	1,086	9,001
General and administrative expenses	460	2,892	3,352
Finance income	–	6,084	6,084
Finance costs	329,160	686	329,846

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 4. Related party disclosure (continued)

2014	Other Ferrexpo Group entities <i>UAH 000</i>	Other related parties <i>UAH 000</i>	Total <i>UAH 000</i>
Purchases of property, plant and equipment	1	–	1
Purchases of materials and services included in construction in progress	49,804	15,919	65,723
Capitalised interest	65,980	–	65,980
Revenues	825,109	–	825,109
Selling and distribution expenses	5,392	–	5,392
General and administrative expenses	589	3,424	4,013
Other income	11,183	302	11,485
Other expenses	379	1	380
Finance income	–	5,763	5,763
Finance costs	117,242	2,362	119,604

#### **Purchases, trade and other payables**

In 2015, the Company consumed services from other Ferrexpo Group entities of UAH 16,513 thousand which were capitalised into construction in progress (2014: UAH 7,894 thousand) and inventories of UAH 21,572 thousand (2014: UAH 41,910 thousand).

Accounts payables to Ferrexpo Group entities are non-interest bearing and according to the contract are payable within 30-60 days after the date of delivery of assets or rendering of services.

In 2015, the Company recognised a gain of UAH 687,639 thousand from cancellation of the accounts payable due to the Parent for consultants' services.

#### **Income and expense**

As at 31 December 2015, mining equipment and buildings with a carrying value of UAH 33,031 thousand (2014: UAH 4,267 thousand) were rented out to FPM under short-term operating lease agreements. In 2015, income from the operating lease comprised UAH 1,874 thousand (2014: UAH 2,149 thousand). Related accounts receivable were non-interest bearing and recoverable in 30-60 days.

In 2015, the Company sold iron ore to the FPM for UAH 1,471,543 thousand. In 2014, the Company sold iron ore extracted during the development phase of the open mine to FPM, with revenue UAH 700,335 thousand.

#### **Financing, relating costs and guarantees issued**

##### *Interest-bearing loans and borrowings*

In 2012 the Company obtained a USD 100,000 thousand unsecured loan facility from a Ferrexpo Group entity. In 2013 the facility was extended up to USD 300,000 thousand. As at 31 December 2015, principal of USD 200,000 thousand which is equivalent to UAH 4,800,133 thousand (2014: USD 200,000 thousand or UAH 3,153,711 thousand) was outstanding. The facility is denominated in USD, bears interest of 9.8% and is repayable in August 2016. As at 31 December 2015 equipment and mining vehicles with a carrying value of UAH 132,204 thousand were pledged as collateral against the facility provided by Ferrexpo Group entity for the purchase of these assets (2014: UAH 169,745 thousand).

In 2014 the Company obtained a USD 15,000 thousand unsecured loan facility from a Ferrexpo Group entity. The facility is denominated in USD, bears interest of 7.5% p.a. As at 31 December 2014, principal of USD 15,000 thousand was fully repaid.

The related borrowing costs of UAH 91,453 thousand in 2015 (2014: UAH 73,590 thousand) were capitalised as a part of qualifying assets (Note 5).

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 4. Related party disclosure (continued)

#### *Guarantees issued*

As at 31 December 2014, the Company recognised fair value of a free-of-charge guarantee for the total amount of USD 420,000 thousand issued in 2010 to secure debt facilities attracted by Ferrexpo Group maturing in 2016. As at 31 December 2015, the Company had no guarantees issued. The Company recognised income of UAH 2,084 thousand relating to these guarantees (2014: UAH 1,188 thousand) within finance income (Note 20).

#### *Cash and short-term deposits and relating income*

As at 31 December 2015, cash and short-term deposits were placed with a Bank Finance & Credit (Note 10). In 2015, the relating interest income of UAH 5,877 thousand was recognised in finance income (2014: UAH 8,046 thousand) (Note 20).

On 17 September 2015, the National Bank of Ukraine announced that it had adopted a decision to declare Bank Finance & Credit insolvent and the bank was put into temporary administration by the Deposit Guarantee Fund. The bank license of Bank Finance & Credit was revoked by the National Bank of Ukraine on 17 December 2015 and the liquidation was initiated by the Deposit Guarantee Fund. As a consequence, the Company recorded an allowance for its cash and deposits resulting in a charge of UAH 294,845 thousand recognised in the income statement for the balances currently not available to the Company.

#### *Commitments*

As at 31 December 2015 and 2014, the Company's commitments to related parties for purchase of property and equipment comprised:

	<u>2015</u>	<u>2014</u>
	<i>UAH 000</i>	<i>UAH 000</i>
Ferrexpo Group entities	4,890	1,565
Other related parties	543	5,338
	<u><b>5,433</b></u>	<u><b>6,903</b></u>

#### *Commitments*

##### *Leases*

In 2011 the Company entered into a non-cancellable agreement to lease a plot of land from FPM. As at 31 December 2015 the total amount of future minimum lease payments comprised UAH 592,925 thousand (2014: UAH 599,784 thousand) (Note 22).

##### *Compensation to key management personnel*

Key management personnel comprise ten persons as at 31 December 2015 (2014: ten persons). In 2015, total compensation to key management personnel included in administrative expenses amounted to UAH 11,713 thousand (2014: UAH 12,164 thousand). Compensation to the key management personnel consists of contractual salary and bonuses.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 5. Property, plant and equipment

As at 31 December, property, plant and equipment comprised:

	<b>2015</b>	<b>2014</b>
	<i>UAH 000</i>	<i>UAH 000</i>
Property, plant and equipment	5,019,204	4,739,298
Prepayments for property, plant and equipment	23,040	196,906
Allowance for prepayments for property, plant and equipment	–	(94,729)
	<u>5,042,244</u>	<u>4,841,475</u>

Movement of property, plant and equipment is as follows:

2015	Land	Mining assets	Buildings	Plant and equipment	Vehicles	Fixture and fittings	Construction in progress and uninstalled equipment	Total
	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>
<b>Cost</b>								
As at 31 December 2014	2,397	1,741,101	570,560	759,816	644,690	29,848	1,759,259	5,507,671
Additions	–	–	31,924	26,752	40,452	3,432	649,843	752,403
Transfers	–	–	22,964	25,465	61,637	27	(110,093)	–
Disposal	–	–	(2,438)	(6,347)	(2,647)	(97)	–	(11,529)
As at 31 December 2015	<u>2,397</u>	<u>1,741,101</u>	<u>623,010</u>	<u>805,686</u>	<u>744,132</u>	<u>33,210</u>	<u>2,299,009</u>	<u>6,248,545</u>
<b>Accumulated depreciation</b>								
As at 31 December 2014	–	223,019	81,338	231,292	226,950	5,774	–	768,373
Depreciation charge	–	160,003	42,349	122,456	138,664	4,022	–	467,494
Disposal	–	–	(1,377)	(3,892)	(1,207)	(50)	–	(6,526)
As at 31 December 2015	<u>–</u>	<u>383,022</u>	<u>122,310</u>	<u>349,856</u>	<u>364,407</u>	<u>9,746</u>	<u>–</u>	<u>1,229,341</u>
<b>Net book value</b>								
As at 31 December 2014	<u>2,397</u>	<u>1,518,082</u>	<u>489,222</u>	<u>528,524</u>	<u>417,740</u>	<u>24,074</u>	<u>1,759,259</u>	<u>4,739,298</u>
As at 31 December 2015	<u>2,397</u>	<u>1,358,079</u>	<u>500,700</u>	<u>455,830</u>	<u>379,725</u>	<u>23,464</u>	<u>2,299,009</u>	<u>5,019,204</u>

2014	Land	Mining assets	Buildings	Plant and equipment	Vehicles	Fixture and fittings	Construction in progress and uninstalled equipment	Total
	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>
<b>Cost</b>								
As at 31 December 2013	2,397	1,741,101	238,744	642,908	645,084	12,859	1,173,899	4,456,992
Additions	–	–	309	27,137	12,599	11,440	1,033,614	1,085,099
Transfers	–	–	333,194	89,845	2	5,800	(428,841)	–
Disposal	–	–	(1,687)	(74)	(12,995)	(251)	(19,413)	(34,420)
As at 31 December 2014	<u>2,397</u>	<u>1,741,101</u>	<u>570,560</u>	<u>759,816</u>	<u>644,690</u>	<u>29,848</u>	<u>1,759,259</u>	<u>5,507,671</u>
<b>Accumulated depreciation</b>								
As at 31 December 2013	–	101,169	47,989	157,411	164,358	3,200	–	474,127
Depreciation charge	–	136,395	34,167	74,041	66,599	2,696	–	313,898
Disposal	–	(14,545)	(818)	(160)	(4,007)	(122)	–	(19,652)
As at 31 December 2014	<u>–</u>	<u>223,019</u>	<u>81,338</u>	<u>231,292</u>	<u>226,950</u>	<u>5,774</u>	<u>–</u>	<u>768,373</u>
<b>Net book value</b>								
As at 31 December 2013	<u>2,397</u>	<u>1,639,932</u>	<u>190,755</u>	<u>485,497</u>	<u>480,726</u>	<u>9,659</u>	<u>1,173,899</u>	<u>3,982,865</u>
As at 31 December 2014	<u>2,397</u>	<u>1,518,082</u>	<u>489,222</u>	<u>528,524</u>	<u>417,740</u>	<u>24,074</u>	<u>1,759,259</u>	<u>4,739,298</u>

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 5. Property, plant and equipment (continued)

As at 31 December 2015, equipment with carrying value of UAH 56,305 thousand (2014: UAH 71,765 thousand) was held under finance lease agreement.

In 2015, borrowing costs of UAH 91,453 thousand relating to qualifying assets were capitalised (2014: UAH 73,590 thousand). In 2015, UAH 93,902 thousand of depreciation was capitalised in the cost of the mine construction (2014: UAH 72,492 thousand).

#### *Pledged assets*

As at 31 December 2015, equipment and mining vehicles with a carrying value of UAH 248,105 thousand (2014: UAH 309,723 thousand) were pledged as security under loans from foreign banks. As at 31 December 2015 equipment and mining vehicles with a carrying value of UAH 132,204 thousand were pledged as collateral for the debt of Ferrexpo Group entity for the purchase of these assets (2014: UAH 169,745 thousand).

#### *Prepayments for PPE*

In February 2014, the Company entered into two agreements for the supply of rail wagons from a related party, the prepayment amounting UAH 124,050 thousand was made. The counterparty is located inside the territory of armed conflict in Eastern Ukraine and only part of wagons was delivered. The Company accrued allowance for impairment in respect of corresponding prepayments as at 31 December 2014 (UAH 94,729 thousand). As at 31 December 2015 prepayment amounting UAH 94,729 thousand was written-off against the allowance.

#### *Impairment testing*

The Company's property, plant and equipment have been allocated for impairment purposes to a single cash-generating unit. Impairment testing was performed at 31 December 2015 based on a value-in-use calculation using cash flow projections. The impairment model accounts for capital expenditures to be incurred.

#### *Key assumptions*

The key assumptions used in the value-in-use calculations were evolution of iron ore prices, costs of raw materials and other production and distribution costs and production volume from ore. The extraction of iron ore from the first component of the open pit mine commenced in 2012; however, the Company continues to develop the next components of the open pit mine and the full capacity is expected to be achieved after 2017. The production volumes used in the model have been agreed to the feasibility study for Yeristovo deposit.

The cash flows were projected based on management expectations regarding the development of the iron ore and steel market, as well as the cost of producing and distributing the pellets.

In determining the future long-term selling price, management takes into account external and internal analysis of the long-term and short-term supply and demand dynamics in the local region and throughout the world along with costs of production of competitors and the marginal cost of incremental production in a particular market.

Cost of production and shipping is considered taking into account local inflationary pressures, and the longer-term and shorter-term trends in energy supply and demand and the effect on costs along with the expected movements in steel related commodity prices which affect the cost of certain production inputs.

Discount rate is based on weighted average cost of capital. Management believes that due to available headroom resulting from the Company's impairment testing no reasonable change in key assumptions would cause the carrying value of property, plant and equipment to materially exceed their value-in-use.

#### *Sensitivity to changes in assumptions*

Management believes that due to a high value of projects and resulting reserve base no reasonable change in the above key assumptions would cause the carrying value of the unit to materially exceed its value-in-use.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 6. Value added tax and other taxes receivable

VAT receivable is as a result of VAT paid on domestic Ukrainian purchases of capital equipment, services and goods and on the import of capital equipment, services and goods into Ukraine to the extent that this cannot be offset on VAT paid on domestic sales. The Company has started extraction of iron ore in July 2012 and sold it to FPM. However, LLC Ferrexpo Yerestovo Mining is still in process of developing of second part of an open mine pit. As a result, VAT has to be recovered from the Government tax authority and the Company is reliant on the normal functioning of this system.

In 2014, the Company received VAT cash refund of UAH 205,010 thousand and received VAT refund by issue of Government VAT bonds at UAH 241,485 thousand. In 2015, the Company didn't receive VAT cash refund as VAT receivable was utilised by VAT liabilities in respect of sales made. As a result, in 2015 the gross VAT receivable decreased from UAH 161,037 thousand to UAH 75,599 thousand.

As at 31 December 2015 the Company and tax authorities disputed VAT receivable with penalties of UAH 16,501 thousand (2014: UAH 36,793 thousand). The cases are under investigation of Ukrainian courts of different instances; however the management believes that VAT in courts will be fully recovered. The protracted procedures involved and the complexity of the system will, however, result in a delay in repayment.

Management expects the amount of gross VAT to be fully recovered. However, the exact timing of recovery and method of settlement is subject to uncertainties. Management believes the amount of VAT receivable outstanding as at 31 December 2015 to be fully set-off in 2016.

The income tax receivable balance as at 31 December is shown below:

	<u>2015</u>	<u>2014</u>
	<i>UAH 000</i>	<i>UAH 000</i>
As at 1 January – prepaid	151,687	76,337
Tax paid	–	75,350
<b>As at 31 December – prepaid</b>	<b><u>151,687</u></b>	<b><u>151,687</u></b>

### 7. Prepayments to suppliers and other assets

	<u>2015</u>	<u>2014</u>
	<i>UAH 000</i>	<i>UAH 000</i>
<b>Current</b>		
Prepaid services	9,241	14,740
Prepayments for materials and spare parts	210	1,738
Loans to employees	–	2,366
Prepaid employee costs	–	1,565
Other	697	1,146
	<b><u>10,148</u></b>	<b><u>21,555</u></b>
<b>Non-current</b>		
Prepaid employee costs	–	18,181
Loans to employees	–	9,298
	<b><u>–</u></b>	<b><u>27,479</u></b>

Since December 2011, the Company issued loans to employees at lower than market interest rates. The Company initially recognised these loans at fair value. The difference between nominal and fair value was recognised as prepaid employee costs and will be charged to the income statement over the lower of the loan term and the average service life of the employee. The Company placed with the bank a guarantee deposit totalling 100% of loans issued. Because F&C bank was declared insolvent the balance of the guarantee deposit at UAH 27,330 thousand transferred to restricted cash account in full amount.



## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 8. Inventories

	<b>2015</b>	<b>2014</b>
	<i>UAH 000</i>	<i>UAH 000</i>
<b>Current</b>		
Spare parts (at cost)	116,414	154,713
Iron ore (at cost)	52,779	118,795
Changeable equipment (at cost)	41,587	52,692
Fuel (at cost)	25,697	31,455
Raw materials (at cost)	21,771	18,974
Work in progress	–	3,724
Other (at cost)	3,382	15,319
	<u>261,630</u>	<u>395,672</u>
<b>Non-current</b>		
Weathered ore	267,373	200,309
	<u><b>529,003</b></u>	<u><b>595,981</b></u>

### 9. Accounts receivable

	<b>2015</b>	<b>2014</b>
	<i>UAH 000</i>	<i>UAH 000</i>
Receivables for iron ore	444,516	84,531
Receivables for services	15,914	17,831
Receivables for equipment	11,634	11,634
Receivables for materials	1,875	20,722
Other	69	5,504
	<u>474,008</u>	<u>140,222</u>
Allowance for non-collectability	(15,838)	(17,267)
	<u><b>458,170</b></u>	<u><b>122,955</b></u>

Trade receivables are non-interest bearing and are generally on 30-90 day terms.

As at 31 December, the ageing analysis of trade and other receivables was as follows:

	<b>Total</b>	<b>Neither past due nor impaired</b>	<b>Past due but not impaired</b>				
			<b>&lt; 30 days</b>	<b>30-60 days</b>	<b>60-90 days</b>	<b>90-120 days</b>	<b>&gt; 120 days</b>
	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>
2015	458,170	12,821	444,585	275	5	5	479
2014	122,955	32,306	86,766	1,238	824	540	1,281

Reconciliation of the allowance for non-collectability of receivables:

	<b>2015</b>	<b>2014</b>
	<i>UAH 000</i>	<i>UAH 000</i>
As at 1 January	(17,267)	(11,925)
Charge for the year	(4,007)	(5,342)
Utilised	5,436	–
<b>As at 31 December</b>	<u><b>(15,838)</b></u>	<u><b>(17,267)</b></u>

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 10. Cash and short-term deposits

	<u>2015</u>	<u>2014</u>
	<i>UAH 000</i>	<i>UAH 000</i>
Cash at banks and on hand	4,413	2,079
Short term deposits	–	532,851
	<u>4,413</u>	<u>534,930</u>

#### *Restricted cash and deposits*

	<u>2015</u>	<u>2014</u>
	<i>UAH 000</i>	<i>UAH 000</i>
Cash and short-term deposits with Bank Finance & Credit subject to liquidation process	294,845	–
Allowance on cash and deposits currently not available	(294,845)	–
	<u>–</u>	<u>–</u>

Banking services to the Company were principally provided by the Bank Finance & Credit which was controlled by Kostyantyn Zhevago. On 17 September 2015 Bank Finance & Credit was put into temporary administration. On 17 December 2015, following an unsuccessful search for investors, the banking license of Finance & Credit was revoked by the National Bank of Ukraine and the liquidation of the bank was initiated by the Deposit Guarantee Fund.

The level of recoverability of balances with Bank Finance & Credit cannot be reasonably assessed at the current time due to the complexity, uncertainties and the level of the ultimate recovery of the bank's loan portfolio net of costs during liquidation. As a result, a full allowance of UAH 294,845 thousand has been recognised.

The cash balance in Bank Finance & Credit included UAH 29,830 thousand, which was deposited as a mortgage for loans granted by the bank to the Company's employees under the Company's social loyalty program.

### 11. Interest-bearing loans and borrowings

	<u>2015</u>	<u>2014</u>
	<i>UAH 000</i>	<i>UAH 000</i>
<b><i>Current</i></b>		
Ferrexpo Group entity (Note 4)	4,800,133	–
Foreign bank	141,664	92,699
Finance lease	47,660	30,068
Interest accrued	19,578	13,432
	<u>5,009,035</u>	<u>136,199</u>
<b><i>Non-current</i></b>		
Ferrexpo Group entity (Note 4)	–	3,153,711
Foreign bank	366,952	337,582
Finance lease	131,653	121,567
	<u>498,605</u>	<u>3,612,860</u>
	<u>5,507,640</u>	<u>3,749,059</u>

#### *Loans from Ferrexpo Group entity*

In 2012, the Company obtained a USD 100,000 thousand unsecured loan facility from a Ferrexpo Group entity; in 2013 the facility was extended up to USD 300,000 thousand. The facility is denominated in USD, bears interest of 9.8% and its initial maturity date was in August 2014. In 2014 the loan was extended until August 2016. As at 31 December 2015, principal of USD 200,000 thousand which is equivalent to UAH 4,800,133 thousand (2014: USD 200,000 thousand or UAH 3,153,711 thousand) was outstanding. As at 31 December 2015 equipment and mining vehicles with a carrying value of UAH 132,204 thousand were pledged as collateral for the debt of Ferrexpo Group entity for the purchase of these assets (2014: UAH 169,745 thousand).

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 11. Interest-bearing loans and borrowings (continued)

#### Loans from a foreign bank

As at 31 December 2015 the interest rate, terms and currency split for interest-bearing loans and borrowings were as follows:

	<i>Interest rate type</i>	<i>Interest rate</i>	<i>Within one year</i> <i>UAH 000</i>	<i>From one to five years</i> <i>UAH 000</i>	<i>Total</i> <i>UAH 000</i>	
Bank loans and other borrowings, USD	(i)	Fixed	2.508%	71,657	196,532	268,189
Bank loans and other borrowings, USD	(ii)	Fixed	2.822%	52,207	143,720	195,927
Bank loans and other borrowings, EUR	(iii)	Floating	EURIBOR 6m + 2%	17,800	26,700	44,500
Accrued interest			19,577	–	19,577	
			<b>161,241</b>	<b>366,952</b>	<b>528,193</b>	

As at 31 December 2014 the interest rate, terms and currency split for interest-bearing loans and borrowings were as follows:

	<i>Interest rate type</i>	<i>Interest rate</i>	<i>Within one year</i> <i>UAH 000</i>	<i>From one to five years</i> <i>UAH 000</i>	<i>Total</i> <i>UAH 000</i>	
Bank loans and other borrowings, USD	(i)	Fixed	2.508%	47,013	175,845	222,858
Bank loans and other borrowings, USD	(ii)	Fixed	2.822%	32,631	129,098	161,730
Bank loans and other borrowings, EUR	(iii)	Floating	EURIBOR 6m + 2%	13,055	32,638	45,693
Accrued interest			13,432	–	13,432	
			<b>106,131</b>	<b>337,582</b>	<b>443,713</b>	

(i) The loan is secured by equipment and mining vehicles with a carrying value of UAH 154,462 thousand (2014: UAH 181,117 thousand) and a non-separable free of charge guarantee provided by FPM.

(ii) The loan is secured with a purchased excavator with net book value of UAH 27,507 thousand as at 31 December 2015 (2014: UAH 43,208 thousand) and a non-separable free of charge guarantee provided by Ferrexpo AG.

(iii) The loan is secured by technical equipment and machinery with a carrying value of UAH 66,136 thousand as at 31 December 2015 (2014: UAH 85,398 thousand) and a non-separable free of charge guarantee provided by OJSC Ferrexpo Poltava Mining.

#### Undrawn borrowing facilities

As at 31 December 2015, available undrawn borrowing facilities of the Company totalled UAH 5,640,157 thousand (2014: UAH 3,705,611 thousand) including undrawn facilities under loan agreements with related parties.

#### Finance lease

In 2013, the Company leased mining equipment under finance lease agreements which bear interest of 8.5% and are denominated in USD.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 11. Interest-bearing loans and borrowings (continued)

#### Finance lease (continued)

As at 31 December, the Company is committed to the following payments under the finance lease agreements:

2015	<b>Minimum lease payments</b> <i>UAH 000</i>	<b>Present value of minimum lease payments</b> <i>UAH 000</i>
Within one year	51,221	39,717
After one year but not more than five years	122,305	109,582
Total minimum lease payments	<u>173,526</u>	<u>149,299</u>
Less amounts representing finance charges	(24,227)	–
Add VAT	30,014	30,014
<b>Liabilities under finance lease</b>	<b><u>179,313</u></b>	<b><u>179,313</u></b>
Current portion	47,660	
Non-current portion	<u>131,653</u>	
	<b><u>179,313</u></b>	
2014	<b>Minimum lease payments</b> <i>UAH 000</i>	<b>Present value of minimum lease payments</b> <i>UAH 000</i>
Within one year	35,112	25,057
After one year but not more than five years	117,624	101,207
Total minimum lease payments	<u>152,736</u>	<u>126,264</u>
Less amounts representing finance charges	(26,472)	–
Add VAT	25,371	25,371
<b>Liabilities under finance lease</b>	<b><u>151,635</u></b>	<b><u>151,635</u></b>
Current portion	30,068	
Non-current portion	<u>121,567</u>	
	<b><u>151,635</u></b>	

### 12. Provision for site restoration

The Company recognised provision relating to site restoration of Yeristovo deposit to the extent of damage already caused. The costs of decommissioning open pit mines are based on the amounts determined by third party experts. The provision represents the discounted value of the estimated costs to decommission and restore the mines at the dates the deposits are expected to be depleted. The present value has been calculated using a nominal pre-tax discount rate of 16% (2014: 16%).

The liability becomes payable at the end of the useful life of the mine, currently estimated to be 2032. Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning and reclamation alternatives and the levels of discount and inflation rates.

**NOTES TO THE FINANCIAL STATEMENTS  
as at 31 December 2015**

**12. Provision for site restoration (continued)**

The movement in the site restoration provisions was as follows:

	<u>2015</u>	<u>2014</u>
	<i>UAH 000</i>	<i>UAH 000</i>
<b>As at 1 January</b>	10,377	4,371
Unwind of the discount	1,660	612
Revision of provision and effect of change in assumptions	(3,690)	5,394
<b>As at 31 December</b>	<u><b>8,347</b></u>	<u><b>10,377</b></u>

**13. Defined benefit liability**

The Company has a legal obligation to compensate the Ukrainian state pension fund for additional pensions paid to certain categories of employees mostly engaged in mining works who are eligible for early retirement with attached benefits. As at 31 December 2015, the defined benefit plan covered 600 employees (2014: 630 employees).

Changes in the present value of the defined benefit obligation were as follows:

	<u>2015</u>	<u>2014</u>
	<i>UAH 000</i>	<i>UAH 000</i>
Opening defined benefit obligation	5,022	3,074
Benefit expense	2,195	1,649
Re-measurement losses on defined benefit plans	1,378	335
Benefits paid	(365)	(36)
<b>Defined benefit liability at the end of the year</b>	<u><b>8,230</b></u>	<u><b>5,022</b></u>

**Benefit expense**

	<u>2015</u>	<u>2014</u>
	<i>UAH 000</i>	<i>UAH 000</i>
Service cost	1,442	1,255
Interest cost on benefit obligation	753	394
Past service cost	(268)	-
	<u><b>1,927</b></u>	<u><b>1,649</b></u>

**Re-measurement losses/(gains)**

	<u>2015</u>	<u>2014</u>
	<i>UAH 000</i>	<i>UAH 000</i>
Actuarial changes arising from changes in demographic assumptions	344	16
Actuarial changes arising from changes in economic assumptions	1,132	(592)
Experience adjustments	(98)	911
	<u><b>1,378</b></u>	<u><b>335</b></u>

In 2015 benefit expense of UAH 1,174 thousand (2014: UAH 1,255 thousand), excluding interest cost, was included in cost of sales. Interest cost on defined benefit obligation of UAH 753 thousand (2014: UAH 394 thousand) was included in other finance costs.

The principal assumptions used in determining defined benefit obligation are shown below:

	<u>2015</u>	<u>2014</u>
Discount rate	16.00%	16.00%
Pension indexation	5.81%	6.50%
Staff turnover	4.60%	4.60%
Future benefit increase	8.84%	5.82%

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 13. Defined benefit liability (continued)

The sensitivity analysis is given in the table below:

	<b>Increase/ (decrease) in rate</b>	<b>Effect on defined benefit obligation</b>
<b>2015</b>		
Discount rate	1%	(856)
Discount rate	-1%	1,013
Future benefit increase	1%	758
Future benefit increase	-1%	(687)
Pension indexation	1%	39
Pension indexation	-1%	(44)
Life expectancy	1%	120
Life expectancy	-1%	(118)
<b>2014</b>		
Discount rate	1%	(495)
Discount rate	-1%	578
Future benefit increase	1%	453
Future benefit increase	-1%	(397)
Pension indexation	1%	42
Pension indexation	-1%	(49)
Life expectancy	1%	71
Life expectancy	-1%	(70)

### 14. Trade and other payables

	<b>2015</b>	<b>2014</b>
	<i>UAH 000</i>	<i>UAH 000</i>
Payables for materials and services	66,492	60,965
Taxes payable, other than income tax	37,926	28,660
Payables to employees	14,945	15,048
Payables for property, plant and equipment	6,740	531,879
Other payables	507	38
	<u>126,610</u>	<u>636,590</u>

### 15. Income tax

The major components of income tax expense for the period are:

	<b>2015</b>	<b>2014</b>
	<i>UAH 000</i>	<i>UAH 000</i>
Current income tax charge	–	233
Deferred tax expense	–	5,714
<b>Income tax expense reported in profit or loss</b>	<u>–</u>	<u>5,947</u>
Income tax effect on re-measurement loss on defined benefit plans	(248)	(60)
<b>Deferred tax recognised in other comprehensive income</b>	<u>(248)</u>	<u>(60)</u>

The Company's income is subject to taxation in Ukraine only. In 2015 and 2014 Ukrainian corporate income tax was levied at a rate of 18%.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 15. Income tax (continued)

The effective income tax differs from the corporate income tax rate in Ukraine. The reconciliation between tax expense and income before taxes multiplied by the tax rate is as follows:

	2015	2014
	UAH 000	UAH 000
<b>Loss before tax</b>	<b>(2,293,883)</b>	<b>(2,012,883)</b>
Notional tax computed at the statutory tax rate of 18%	(412,899)	(362,319)
Effect of fixed assets revaluation for tax purposes	–	(79,251)
Change in unrecognised deferred tax asset	405,394	386,021
Re-assessment of tax losses carried forward	(30,896)	(24,776)
<i>Tax effect of differences that are not deductible / (not taxable) in determining taxable profit relating to:</i>		
Net foreign exchange loss	35,402	61,609
Other	2,999	24,663
<b>Income tax expense</b>	<b>–</b>	<b>5,947</b>

Deferred income tax assets and liabilities at 31 December relate to the following:

	Statement of financial position		Profit or loss	
	2015	2014	2015	2014
	UAH 000	UAH 000	UAH 000	UAH 000
<b>Deferred tax assets</b>				
Property, plant and equipment	206,119	155,466	50,653	118,331
Restricted cash	52,489	–	52,489	–
Trade and other payables	1,008	1,761	(753)	(824)
Trade and other receivables	2,146	2,146	–	–
Defined benefit liability	1,192	315	877	255
Inventories	977	–	977	–
Provision for site restoration	193	193	–	–
Losses available for offsetting against future taxable income	560,856	268,581	292,275	265,236
Unrecognised deferred tax assets	(824,980)	(419,586)	(405,394)	(386,021)
<b>Total deferred tax asset</b>	<b>–</b>	<b>8,876</b>	<b>(8,876)</b>	<b>(3,023)</b>
<b>Deferred tax liabilities</b>				
Inventories	–	(6,460)	6,460	(2,691)
Interest bearing loans and borrowings	–	(2,416)	2,416	–
<b>Total deferred tax liability</b>	<b>–</b>	<b>(8,876)</b>	<b>8,876</b>	<b>(2,691)</b>
<b>Deferred tax expense</b>			<b>–</b>	<b>(5,714)</b>
<b>Net deferred tax asset</b>	<b>–</b>	<b>–</b>		

The nature of the temporary differences is as follows:

- (i) Property, plant and equipment – differences in estimates of the remaining useful lives, differences in capitalisation principles, different cost basis;
- (ii) Allowance recognised for restricted cash and deposits
- (iii) Inventories – differences in inventories valuation models and the periods of recognition;
- (iv) Trade and other payable – differences in valuation and recognition principles;
- (v) Trade receivables, prepayments and other current assets – differences in valuation principles, including allowances for doubtful receivables, differences in the period of recognition;
- (vi) losses carried forward.

As at 31 December 2015 the deferred tax asset has not been recognised because realisation of this asset is uncertain.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 16. Cost of sales

	<b>2015</b>	<b>2014</b>
	<i>UAH 000</i>	<i>UAH 000</i>
Materials, maintenance, fuel, gas and electricity	605,054	588,922
Depreciation and amortisation	377,326	236,477
Taxes on geological surveys and stripping levy	116,239	72,734
Personnel costs	91,728	60,534
Changes in the balances of work in progress and finished goods	(2,284)	(214,009)
	<b>1,188,063</b>	<b>744,658</b>

### 17. Other income

	<b>2015</b>	<b>2014</b>
	<i>UAH 000</i>	<i>UAH 000</i>
Net gain on disposal of other inventories	4,662	–
Income from operating leases	2,989	2,649
Other income	1,011	3,560
	<b>8,662</b>	<b>6,209</b>

### 18. General and administrative expenses

	<b>2015</b>	<b>2014</b>
	<i>UAH 000</i>	<i>UAH 000</i>
Personnel costs	44,675	36,509
Depreciation and amortisation	10,186	8,670
Consulting and other professional fees	8,536	6,620
Vehicles maintenance and fuel	7,442	9,606
Bank fees	1,405	2,137
Office supplies	666	1,371
Business trip expenses	553	497
Other	5,950	5,423
	<b>79,413</b>	<b>70,833</b>

### 19. Other expenses

	<b>2015</b>	<b>2014</b>
	<i>UAH 000</i>	<i>UAH 000</i>
Allowance for restricted cash and deposits (Note 4)	294,845	–
Change in allowance for doubtful debts	(9,740)	94,729
Charity	12,992	3,822
Net loss on sale and write-off of PPE	8,943	2,153
Personnel costs - others	3,826	1,060
Depreciation - Others	3,247	2,803
Transportation	2,361	649
Taxes other than income tax	2,115	1,460
Trip tickets	107	529
Fines and penalties	74	200
Net loss on disposal of other inventories	–	2,585
Other expenses	4,878	5,442
	<b>323,648</b>	<b>115,432</b>



## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 20. Finance income and finance costs

	<b>2015</b>	<b>2014</b>
	<i>UAH 000</i>	<i>UAH 000</i>
<b>Finance income</b>		
Interest income (Note 4)	5,877	8,046
Income from guarantees (Note 4)	2,084	1,188
VAT recovery	–	132,181
Other finance income	2,929	275
	<b>10,890</b>	<b>141,690</b>
<b>Finance costs</b>		
Interest expenses on loans	272,981	131,582
Other finance costs	17,311	13,938
	<b>290,292</b>	<b>145,520</b>

### 21. Foreign exchange losses, net

	<b>2015</b>	<b>2014</b>
	<i>UAH 000</i>	<i>UAH 000</i>
Foreign exchange gains relating to cash and short-term deposits	164,934	192,550
Foreign exchange gain relating to accounts receivable	21,966	–
Net gains on currency purchase/sale	1,714	993
Foreign exchange loss relating to accounts payable	(170,320)	(250,879)
Foreign exchange loss relating to loans and borrowings	(1,926,027)	(1,840,025)
	<b>(1,907,733)</b>	<b>(1,897,361)</b>

### 22. Commitments and contingencies

#### Commitments

As at 31 December the Company's commitments for purchase of property and equipment comprised:

	<b>2015</b>	<b>2014</b>
	<i>UAH 000</i>	<i>UAH 000</i>
Other related parties (Note 4)	4,890	5,338
Ferrexpo Group entities (Note 4)	543	1,565
Third parties	34,405	272,832
	<b>39,838</b>	<b>279,735</b>

#### Guarantees issued to secure debts of Ferrexpo Group entities

In 2010, the Company issued guarantees to secure debts of Ferrexpo Group entities located outside Ukraine, which attracted financing from foreign banks. Further details are provided in Note 4.

#### Leases

The Company had entered into a non-cancellable agreement to lease a plot of land related to exploration of ore deposit from FPM. The lease term equals forty-four years. The minimum lease payments are summarised below:

	<b>2015</b>	<b>2014</b>
	<i>UAH 000</i>	<i>UAH 000</i>
In less than one year	14,189	13,625
From one to five years	55,715	54,501
More than five years	523,021	531,658
	<b>592,925</b>	<b>599,784</b>

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 22. Commitments and contingencies (continued)

#### *Tax and other regulatory compliance*

Ukrainian legislation and regulations regarding taxation and customs continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations and inconsistent enforcement by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. The uncertainty of application and the evolution of Ukrainian tax laws, including those affecting cross-border transactions, create a risk of additional tax payments having to be made by the Company, which could have a material effect on the Company's financial position and results of operations. This includes also a new transfer pricing law which significantly increased the power of the tax authorities.

The uncertainty of inconsistent enforcement and application of Ukrainian tax laws, in particular relating to transactions with related parties, creates a risk of substantial additional tax liabilities and penalties being claimed by the tax authorities. Such claims, if sustained, could have a material effect on the Company's financial position, results of operations and cash flows. Management believes that there are strong arguments to successfully defend any such challenge and does not believe that the risk is any more significant than those of similar enterprises in Ukraine. As it is not considered probable that a material claim will arise, no provision has been established in these financial statements.

At the same time there is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with passage of time. It is not practical to determine the amount of any potential claims or the likelihood of any unfavourable outcome.

#### *Dispute with the Ukrainian tax authorities*

Ferrexpo Yerestovo Mining LLC is litigating against the tax authorities' claims for additional taxes and fines imposed after tax inspections on 2012. As at 31 December 2015 the aggregate amount claimed by the Ukrainian tax authorities is UAH 346,696 thousand, including penalties totalling UAH 16,501 thousand. Management believes that the claims have little legal merit and thus expects to ultimately receive positive court decisions for these ongoing court proceedings.

### 23. Fair values of financial instruments

Set out below is the comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the financial statements:

	Carrying amount		Fair value	
	2015	2014	2015	2014
	UAH 000	UAH 000	UAH 000	UAH 000
<b><i>Financial assets</i></b>				
Accounts receivable	458,170	122,955	458,170	122,955
Cash and short-term deposits	4,413	534,930	4,413	534,930
<b><i>Financial liabilities</i></b>				
Interest-bearing loans and borrowings	5,507,640	3,749,059	5,282,692	3,528,215
Trade and other payables, excluding taxes and payroll payables	73,739	592,886	73,739	592,886
Guarantees issued	–	2,512	–	2,512

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

In assessing the fair value of financial instruments, the Company uses a variety of methods and makes assumptions based on market conditions existing at the reporting date.

The carrying values of financial assets and liabilities with a maturity of less than one year, less any estimated credit adjustments, are assumed to be their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Company for similar financial instruments.

**NOTES TO THE FINANCIAL STATEMENTS  
as at 31 December 2015**

**23. Fair values of financial instruments (continued)**

*Fair value hierarchy*

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For assets and liabilities that are recognised at fair value in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

As at 31 December, the analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels based on the degree to which the fair value is observable, is as follows:

<b>2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>

**Liabilities for which fair values are disclosed:**

Interest-bearing loans and borrowings:

Fixed rate borrowings	–	–	5,241,176	5,241,176
Floating rate borrowings	–	41,516	–	41,516

<b>2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>

**Liabilities for which fair values are disclosed:**

Interest-bearing loans and borrowings:

Fixed rate borrowings	–	–	3,502,652	3,502,652
Floating rate borrowings	–	25,563	–	25,563
Guaranties issued	–	–	2,513	2,513

**24. Financial risk management objectives and policies**

The risk management policies and procedures are centralised at the level of Ferrexpo Group. The Board of Directors of Ferrexpo Group has overall responsibility for establishment and oversight of Ferrexpo Group's risk management framework. The risk management policies of Ferrexpo Group are established to identify and analyse the risks faced, to set appropriate limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the activities of Ferrexpo Group.

The Audit Committee of Ferrexpo Group oversees how management monitors compliance with policies and procedures and reviews the adequacy of risk management framework in relation to risks faced. The Audit Committee is assisted in its oversight by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee and the CFO of Ferrexpo Group.

Ferrexpo Group operates a centralised financial risk management structure under the management of the Executive Committee, accountable to the Board. The Executive Committee delegates certain responsibilities to the CFO. The CFO's responsibilities include authority for approving all new commercial or financial transactions that create a financial risk. Additionally, the CFO controls the management of treasury risks within each of the business units in accordance with the Board approved Treasury Policy.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 24. Financial risk management objectives and policies (continued)

Risk management program of the Company focuses mainly on the unpredictability and inefficiency of Ukrainian financial markets and seeks to minimize potential adverse effects on the financial performance of the Company.

The Company's principal financial instruments comprise interest-bearing loans and borrowings, cash and short-term deposits, accounts receivable, accounts payable and financial guarantees issued which arise directly from its operations. Derivative transactions may be used for risk mitigating purposes only – speculation is not permitted under the approved Treasury Policy. The Company has not entered into any material derivative transactions.

The main risks arising from the Company's financial instruments are foreign currency risk, liquidity risk, credit risk and interest rate risk.

#### Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risks as defined by IFRS 7 arise on account of financial instruments being denominated in a currency that is not the functional currency and being of a monetary nature; translation-related risks are not taken into consideration.

In common with many other businesses in Ukraine, foreign currencies, in particular the US dollar ("USD"), play a significant role in the underlying economics of the business transactions of the Company. As at 31 December 2015, the exchange rate of UAH as established by the National Bank of Ukraine was to the UAH 24.00 US dollar (2014: UAH 15.77 to 1 US dollar).

Interest-bearing loans and borrowings and accounts payable denominated in USD and EUR give rise to foreign exchange exposure. The Company has not entered into transactions designed to hedge against these foreign currency risks.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign currency exchange rate, with all other variables held constant, of the Company's profit before tax.

<b>2015</b>	<b>Increase/ (decrease) in rate</b>	<b>Effect on loss before tax</b> <i>UAH 000</i>
UAH/USD	+18%	(991,387)
UAH/USD	-40%	2,203,083
UAH/EUR	+18%	(8,044)
UAH/EUR	-40%	17,875
<b>2014</b>	<b>Increase/ (decrease) in rate</b>	<b>Effect on loss before tax</b> <i>UAH 000</i>
UAH/USD	+29%	(1,111,394)
UAH/USD	-29%	1,111,394
UAH/EUR	+29%	(9,481)
UAH/EUR	-29%	9,481
UAH/RUR	+29%	(247)
UAH/RUR	-29%	247

**NOTES TO THE FINANCIAL STATEMENTS  
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**24. Financial risk management objectives and policies (continued)**

**Liquidity risk**

The Company's objective is to maintain continuity and flexibility of funding through the use of extended credit terms provided by its related parties. Ferrexpo Group centrally monitors its cash flow requirements and optimises cash flows between the subsidiaries. In the case of insufficient or excessive liquidity in individual entities, resources and funds are relocated among Ferrexpo Group entities to achieve optimal financing of the business needs of each entity.

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

<b>2015</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Total</b>
	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>
Interest-bearing loans and borrowings	4,901	4,975,518	383,903	5,364,322
Trade and other payables, excluding taxes and payroll payables	73,280	-	-	73,280
	<b>78,181</b>	<b>4,975,518</b>	<b>383,903</b>	<b>5,437,602</b>

  

<b>2014</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Total</b>
	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>
Interest-bearing loans and borrowings	90,232	207,863	3,759,301	4,057,396
Trade and other payables, excluding taxes and payroll payables	77,728	-	515,154	592,882
Guarantees issued	379	1,125	1,009	2,513
	<b>168,339</b>	<b>208,988</b>	<b>4,275,464</b>	<b>4,652,791</b>

**Credit risk**

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Financial instruments, which potentially subject to the significant concentrations of credit risk consist principally of cash in bank and accounts receivable. The Company's maximum exposure to credit risk at the reporting dates is the carrying value of each class of financial assets as mentioned in Note 23.

The Company's cash is primarily held with a Ukrainian bank, a related of the Company (Note 4).

**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to market risk for changes in interest rates relates primarily to the Company's interest-bearing loans and borrowings with floating interest rates. The Company's policy is to manage its interest cost using, where possible, a mix of fixed and variable rate debts. Management monitors the market interest rate with sufficient regularity to minimise the Company's exposure to interest rate risk.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2015

### 24. Financial risk management objectives and policies (continued)

The following tables demonstrates the sensitivity to a reasonably possible change in the interest rate, with all other variables held constant, of the Company's profit before tax as at 31 December.

<b>2015</b>	<b>Increase/ (decrease) in basis points</b>	<b>Effect on loss before tax</b> <i>UAH 000</i>
Change in interest rate (EURIBOR)	0.25%	112
Change in interest rate (EURIBOR)	(0.25)%	(112)

<b>2014</b>	<b>Increase/ (decrease) in basis points</b>	<b>Effect on loss before tax</b> <i>UAH 000</i>
Change in interest rate (EURIBOR)	0.07%	57
Change in interest rate (EURIBOR)	(0.07)%	(57)

#### Capital risk management

The Company considers participants' contributions, trade payables due to and loans from Ferrexpo Group as primary capital sources. In 2015 and 2014, the Company received finance mainly from Ferrexpo Group.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide financing of its operating requirements, capital expenditures and the Company's development strategy. The Company's capital management policies aim to ensure and maintain an optimal capital structure to reduce the overall cost of capital and flexibility relating to the Company's access to capital markets.

	<b>2015</b> <i>UAH 000</i>	<b>2014</b> <i>UAH 000</i>
Interest-bearing loans and borrowings (Note 11)	5,507,640	3,749,059
Trade and other payables, excluding taxes and payroll payables (Note 14)	73,739	592,882
Cash and short-term deposits (Note 10)	(4,413)	(534,930)
<b>Net debt</b>	<b>5,576,966</b>	<b>3,807,011</b>
Net assets attributable to participants	655,403	2,087,227
<b>Net assets attributable to participants and net debt</b>	<b>6,232,369</b>	<b>5,894,238</b>

Management monitors on a regular basis the Company's capital structure and may adjust its capital management policies and targets following changes in its operating environment, market sentiment or its development strategy.

### 25. Events after the reporting period

From 1 January 2016 to 31 March 2016, the Ukrainian Hryvnia devaluated by approximately 110% compared to the US Dollar; from UAH 24.00 as at 31 December 2015 to UAH 26.22 as at the date of issue of the financial statements.