LLC Ferrexpo Yeristovo GOK
Financial Statements

As at 31 December 2008 and
for the period from inception to 31 December 2008
with Independent Auditors' Report

CONTENT

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INDEPENDENT AUDITORS' REPORT

To the Participants and Management of LLC Ferrexpo Yeristovo GOK

We have audited the accompanying financial statements of Limited Liability Company Ferrexpo Yeristovo GOK (the "Company"), which comprise the balance sheet as at 31 December 2008 and the income statement, statement of changes in net assets attributable to participants and cash flow statement for the period from 14 July 2008 to 31 December 2008, and a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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 auditors' 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 the Company as of 31 December 2008, and its financial performance and its cash flows for the period from 14 July 2008 to 31 December 2008 in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 4 to the financial statements, which discloses a significant concentration of the Company's transactions with related parties.

Ernst & Young Audit Services LLC

Україна м. Київ * Товариство з обмеженою відповідальністю №1 «Ернст енд Янг Аудиторські Послуги» Ідентифікаційний код 33306921

17 July 2009

BALANCE SHEET
at 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

	Notes	2008
ASSETS		
Non-current assets		
Property, plant and equipment	5	60,180
Intangible assets		194
Prepayments for property, plant and equipment		2,967
Deferred tax asset	9	148
		63,489
Current assets		
Inventories	7	947
Prepaid income tax		64
Prepayments to suppliers and other current assets		446
Value added tax recoverable	6	12,790
Cash at banks	4	19,511
		33,758
TOTAL ASSETS		97,247
LIABILITIES		
Non-current liabilities		
Net assets attributable to participants		5,704
		5,704
Current liabilities		
Trade and other payables	8	91,543
		91,543
TOTAL LIABILITIES		97,247

Signed and authorised for release on behalf of LLC Ferrexpo Yeristovo GOK on 17 July 2009:

Acting General Director	Nikolay Goroshko
Acting Finance Director	Vladimir Leonov
Chief Accountant	Lyudmila Zakharchenko

«ЄРИСТІВСЬКИЙ ГІРНИЧО-ЗБАГАЧУВАЛЬНИЙ КОМБІНАТ» Ідент. код 35713283

The accompanying notes form an integral part of the financial statements

INCOME STATEMENT
for the period ended 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

	Notes	From inception to 31 December 2008
Other income		16
General and administrative expenses	10	(3,153)
Other expenses		(86)
Foreign exchange loss, net	11	(28,746)
Loss before tax		(31,969)
Income tax benefit	9	42
Loss for the period		(31,927)

The accompanying notes form an integral part of the financial statements

CASH FLOW STATEMENT
for the period ended 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

	Notes	From inception to 31 December 2008
OPERATING ACTIVITIES:		
Loss before income tax		(31,969)
Adjustments for:		
Depreciation and amortisation	10	59
Foreign exchange loss (unrealised)	11	31,501
Operating profit before working capital changes		(409)
Changes in:		
Prepayments and other current assets		(446)
Increase in VAT recoverable		(12,790)
Inventories		(947)
Trade and other payables including taxes, other than income tax		406
Cash generated from operating activities		(14,186)
Income taxes paid		(170)
Net cash flows from operating activities		(14,356)
INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment		(3,764)
Net cash used in investing activities		(3,764)
FINANCING ACTIVITIES:		
Contribution from participants		37,631
Net cash from financing activities		37,631
Net increase in cash and cash equivalents		19,511
Cash and cash equivalents at the date of inception		-
Cash and cash equivalents at 31 December	4	19,511

The accompanying notes form an integral part of the financial statements

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO PARTICIPANTS
for the period ended 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

	Issued capital	*Accumulated losses*	*Net assets attributable to participants*
At the date of inception	-	-	-
Loss attributable to participants	-	(31,927)	(31,927)
Contribution to charter capital	37,631	-	37,631
Balance at 31 December 2008	37,631	(31,927)	5,704

The accompanying notes form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

1. Corporate information

Limited Liability Company Ferrexpo Yeristovo GOK (hereinafter referred to as the "Company") is a limited liability company incorporated under the laws of Ukraine on 14 July 2008 (date of inception). The Company was set up for the sole purpose of developing Yeristovo iron ore deposit and further production of iron ore pellets. In 2008, the development works at the Yeristovo deposit were carried out by OJSC Ferrexpo Poltava Mining, the Parent and current holder of the mining license for Yeristovo field. The above mining license is supposed to be transferred to the Company in 2009 - 2010. During the period from inception until 31 December 2008 the Company had acquired a first portion of mining equipment, which has been temporary rented out to the Parent under a short-term operating lease agreement.

As at inception date and as at 31 December 2008 the Company's owners and their respective declared interests were as follows:

Participants	*Location*	*Amount*	*%*
OJSC Ferrexpo Poltava Mining	Ukraine	19,192	51.00%
Ferrexpo AG	Switzerland	18,439	49.00%
		37,631	100.00%

OJSC Ferrexpo Poltava Mining is controlled by Ferrexpo AG, which is 100% owned by Ferrexpo plc. Ferrexpo plc (hereinafter referred to collectively with its subsidiaries as "Ferrexpo Group") is ultimately held by Minco Trust, which was set up to manage the controlling interest of Mr. Kostyantyn Zhevago and his immediate family.

The registered office address of the Company is 15, Budivel'nykiv St., Komsomolsk, Poltava region, Ukraine. As at 31 December 2008 the Company employed 53 people.

2. Operating environment, risks and economic conditions

General economic conditions

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 the existence of currency controls which cause the national currency to be illiquid outside of Ukraine. The stability of the Ukrainian economy will be significantly impacted by the Government's policies and actions with regard to administrative, legal, and economic reforms. As a result, operations in Ukraine involve risks that are not typical for developed markets.

The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in considerable instability in the capital markets, significant deterioration in the liquidity of banks, much tighter credit conditions where credit is available, and significant devaluation of the national currency against major currencies.

Furthermore, in the fourth quarter of 2008, international agencies began to downgrade the country's credit ratings. Whilst the Ukrainian Government is introducing various stabilisation measures aimed at providing liquidity and supporting debt refinancing for Ukrainian banks, there continues to be uncertainty regarding access to capital and its cost for the Company and its counterparties. These factors could affect the Company's business prospects.

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

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

Availability of financing

The Company is a start-up business. The ability of the Company to continue its operations will be dependent on the development of Yeristovo open pit mine and completion of construction of crushing, pelletising, floatation and other processing facilities, which in turn is dependent on its ability to raise sufficient additional capital. Ferrexpo Group intends to find a strategic investor to complete the construction. The current stage of the project is financed by Ferrexpo Group: USD 37 million were budgeted by Ferrexpo Group's in 2009 to finance the development of Yeristovo field. Ferrexpo Group used a variety of options for financing the Company's current operations including (i) contribution to the charter capital, (ii) extension of overdue payables term, (iii) inter-company loans.

Ore reserves

The Company's future operations are dependent upon the mining and processing of iron ore from deposits in the vicinity of the Company's processing facilities in the East-Ukraine regions. The long-term economic viability of the Company is dependent on the continuing availability of sufficient, economically recoverable ore reserves.

3. Summary of significant accounting policies

3.1 Basis of preparation

The financial statements have been prepared on a historical cost basis.

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

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

3.2 Significant accounting judgments, estimates and assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts. These estimates are based on information available as at the date of the balance sheet. Actual results could differ from these estimates. The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that represents a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year are discussed below.

Deferred tax assets

Deferred tax assets, including those arising on temporary differences 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. Judgements are also required about the application of income tax legislation. These judgements 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 on the balance sheet. 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 income statement.

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

3.2 Significant accounting judgments, estimates and assumptions (continued)

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 and as a result production commences in 2013 and full capacity is expected to be achieved in 2015.

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 judgement in reassessing the remaining useful lives of major items at each balance sheet date.

3.3 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. 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 balance sheet date. All differences are taken to the income statement. 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
at 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

3.3 Summary of significant accounting policies (continued)

Financial assets

Initial recognition

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.

The Company's financial assets include cash and short-term deposits and receivables.

For the period from inception to 31 December 2008 the Company did not have any financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and derivatives.

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. Such financial assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial liabilities

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

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 only trade and other payables.

Trade and other payables

Trade and other payables are recognised and initially recognised under the policy for financial liabilities mentioned above. Subsequently, instruments with a fixed maturity are re-measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any transaction costs and any discount or premium on settlement. Financial liabilities which do not have a fixed maturity are subsequently carried at fair value.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet 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.

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

3.3 Summary of significant accounting policies (continued)

Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For financial instruments where there is no active market, fair value is determined using 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.

Amortised cost of financial instruments

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Impairment of financial assets

The Company assesses at each balance sheet 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.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost have been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected losses that have not yet been incurred). 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 income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. 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 recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

3.3 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.

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.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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 income statement.

Property, plant and equipment

Property, plant and equipment is 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.

Upon initial recognition, items of property, plant and equipment are divided into components, which represent items with a significant value that can be allocated to a separate depreciation period. Overhaul costs also represent a component of an asset.

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
at 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

3.3 Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Expenditures incurred after the properties have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the income statement 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, machinery 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.

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

Buildings	30 - 50 years
Machinery and equipment	6 - 15 years
Transport and motor vehicles	7 - 15 years
Fixtures and office equipment	6 - 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 income statement 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 construction works, cost of engineering works, other direct costs and an appropriate proportion of production overheads. 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.

Exploration and evaluation expenditure

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.

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

3.3 Summary of significant accounting policies (continued)

Exploration and evaluation expenditure (continued)

Capitalisation of exploration and evaluation expenditure commences when there is a high degree of confidence in the project's viability and hence it is probable that future economic benefits will flow to the Company. Capitalised exploration and evaluation expenditure is reviewed for impairment at each balance sheet date. In the case of undeveloped properties, there may be only inferred resources to form a basis for the impairment review.

Capitalised exploration and evaluation expenditure considered to be tangible is recorded as a component of property, plant and equipment ("Construction in progress") at cost less impairment charges. As the asset is not available for use, it is not depreciated. All capitalised exploration and evaluation expenditure is monitored for indications of impairment.

Development expenditure

Development expenditure is also capitalised and classified as "Assets under construction". 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, will be classified as "Mining assets".

Intangible assets

Intangible assets, which are acquired by the Company and which have finite useful lives, are stated at cost less accumulated amortisation and impairment losses.

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.

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 an asset's or cash-generating unit's (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 an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 similar entities or other available fair value indicators.

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

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

3.3 Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

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 income statement.

Borrowing costs

Borrowing costs are recognised as an expense when incurred in accordance with the benchmark accounting treatment under IAS 23.

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 a first-in, first-out basis.

Cash and cash equivalents

Cash in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash at banks and in hand and short-term deposits with an original maturity of three months or less, 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.

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

3.3 Summary of significant accounting policies (continued)

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 income statement 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.

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 of 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.

Company as a lessee

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

Company as a lessor

Leases where the Company retains substantially all the risks and the 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 rendered.

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

3.3 Summary of significant accounting policies (continued)

Revenue recognition (continued)

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 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 balance sheet date.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet 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.

Deferred income 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 income 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 income tax assets is reviewed at each balance sheet 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 income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet 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 income tax assets and liabilities are measured at the tax rates that are expected to apply to 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 balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

3.3 Summary of significant accounting policies (continued)

Taxes (continued)

Deferred income tax (continued)

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current 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
- receivables and payables are stated with the amount of VAT included.

Events after the balance sheet date

Events after the balance sheet date that provide additional information on the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes when material.

3.4 IFRSs and IFRIC Interpretations issued but not yet effective

The Company has not adopted the following IFRS and IFRIC interpretations issued but not yet effective. Adoption of these standards and interpretations will not have any effect on the financial performance or position of the Company. They will however give rise to additional disclosures, including revisions to accounting policies.

IFRS 2 Share-based Payment (Revised)

This amendment to IFRS 2 was published in January 2008 and becomes effective for financial years beginning on or after 1 January 2009. The Standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity of the counterparty, this must be accounted for as a cancellation. The Company has not entered into share-based payment schemes and, therefore, does not expect any implications on its financial statements.

IFRS 8 Operating Segments

IFRS 8 sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. This IFRS replaces IAS 14 "Segment Reporting". An entity shall apply this IFRS in its annual financial statements for periods beginning on or after 1 January 2009. Segment information for prior years that is reported as comparative information for the initial year of application shall be restated to conform to the requirements of this IFRS, unless the necessary information is not available and the cost to develop it would be excessive. The standard will have no effect on the financial position or performance of the Company.

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

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

IAS 23 Borrowing Costs (Revised)
A revised IAS 23 was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Company will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 and Separate Financial Statements
The amendments to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statement. Both revisions will be effective for financial years beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied prospectively. The new requirements affect only the parent's separate financial statement and do not have an impact on the financial statements of the Company.

IFRS 3R Business Combinations and IAS 27R and Separate Financial Statements
The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The changes by IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests.

IAS 1 Revised Presentation of Financial Statements
The revised Standard was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Company is still evaluating whether it will have one or two statements.

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation
These amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for financial years beginning on or after 1 January 2009. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Company, as the Company has not issued such instruments.

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

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

IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items
These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company, as the Company has not entered into any such hedges.

IFRIC 13 Customer Loyalty Programmes
IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Company expects that this interpretation will have no impact on the Company's financial statements as no such schemes currently exist.

IFRIC 15 Agreement for the Construction of Real Estate
IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not have an impact on the financial statement because the Company does not conduct such activity.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation
IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Company has concluded that IFRIC 16 will have no impact on the financial position or performance of the Company, as the Company has not entered into any such hedges.

Improvements to IFRSs
In May 2008 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The Company did not early adopt any amendments to the standards.

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

4. Related party disclosure

As at 31 December 2008, the Company's outstanding balances with its related parties were as follows:

2008	*Payables for equipment*	*Prepayments for equipment*	*Cash at banks*
Ferrexpo AG	90,747	-	-
Entities under common control	-	413	19,511
Total	90,747	413	19,511

During the period from inception to 31 December 2008, the Company purchased equipment from Ferrexpo AG in amount of UAH 57,979 thousand, inventories from Ferrexpo AG in amount of UAH 861 thousand and equipment from OJSC Ferrexpo Poltava Mining in amount of UAH 320 thousand. Accounts payable due to Ferrexpo AG are denominated in USD and according to the contract are payable within 20 working days after the date of delivery of equipment. The contract also provides for overdue payment penalties. As at 31 December 2008 the payable to Ferrexpo AG was overdue, however, Ferrexpo Group had not requested any such penalties nor does require immediate settlement of overdue payables and management believe that extension of payment terms was used by Ferrexpo Group as a vehicle for financing of the Company's operations (Note 2 and Note 15).

On 31 December 2008 the Company rented out mining equipment with a carrying value of UAH 48,697 thousand under a short-term non-cancellable operating lease agreement to OJSC Ferrexpo Poltava Mining. The future minimum lease receivable within one year comprises UAH 5,229 thousand.

Cash at bank represents cash at current accounts and bears no interest. As at 31 December 2008, UAH 14,116 thousand was denominated in UAH and UAH 5,395 thousand was denominated in USD.

During the period from inception to 31 December 2008, the Company's transactions with its related parties were as follows:

	Purchase of services	*Other Income*
OJSC Ferrexpo Poltava Mining	343	-
Ferrexpo AG	-	16
Total	343	16

Expenses

The Company purchased from OJSC Ferrexpo Poltava Mining equipment assembling services of UAH 320 thousand and hotel accommodation services of UAH 23 thousand.

Commitments

As at 31 December 2008 the Company's commitments to related parties for purchase of property and equipment comprised:

	2008
Ferrexpo AG	67,571
Entities under common control	997
	68,568

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

4. Related party disclosure (continued)

Compensation to key management personnel

Key management personnel comprise acting general director, acting finance director and chief accountant as at 31 December 2008. During the period from inception to 31 December 2008, total compensation to key management personnel included in administrative expenses amounted to UAH 512 thousand. Compensation to the key management personnel consists of contractual salary.

5. Property, plant and equipment

Movement of property, plant and equipment is as follows:

2008	*Buildings*	*Plant and equipment*	*Vehicles*	*Fixture and fittings*	*Construction in progress and uninstalled equipment*	*Total*
Cost						
At the date of inception	-	-	-	-	-	-
Additions	26	3,986	45,260	169	10,793	60,234
At 31 December 2008	26	3,986	45,260	169	10,793	60,234
Accumulated depreciation						
At the date of inception	-	-	-	-	-	-
Depreciation charge	1	47	2	4	-	54
At 31 December 2008	1	47	2	4	-	54
Net book value						
At the date of inception	-	-	-	-	-	-
At 31 December 2008	25	3,939	45,258	165	10,793	60,180

Plant and equipment and vehicles majorly consist of mining equipment and mining vehicles. The Company rents out most the mining equipment and vehicles to OJSC Ferrexpo Poltava Mining (Note 4).

Construction in progress and uninstalled equipment majorly consists of mining vehicles not yet put into use.

Impairment testing

The Company's property plant and equipment has been allocated for impairment purposes to a single cash-generating unit.

Impairment testing was performed at 31 December 2008 based on a value-in-use calculation using cash flow projections over a 20-year period, a common practice in the industry. The impairment model accounts for capital expenditures to be incurred.

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

5. Property, plant and equipment (continued)

Impairment testing (continued)

Key assumptions

The key assumptions used in the value-in-use calculations were the iron ore price (USD 79 - 96 per tonne), concentrate price (USD 81 per tonne), production volume (5,000 tonnes of pellets and 3,000 tonnes of concentrate per year), raw materials and other production inputs cost evolution, the year-end USD-UAH spot rate and the discount rate.

The Company is in the development phase, and it has been assumed that production will not commence until 2013 and the full capacity is expected to be achieved in 2015. 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.

These future cash flows were discounted using the real pre-tax discount rate of 15% per annum. This rate is in line with the rates used by competitors with a similar background.

Sensitivity to changes in assumptions

Management believes that no reasonable change in the above key assumptions would cause the carrying value of the unit to materially exceed its value-in-use.

6. Value added tax receivable

Value added tax ("VAT") receivable is attributable to purchases of equipment. According to the Ukrainian legislation, VAT becomes entitled for cash reimbursement from the state after one year of operation for a start-up company. Therefore, the Company will be able to claim VAT from the state in August 2009. Management believes that VAT will be reimbursed by the state during 2009.

7. Inventories

	2008
Spare parts (at cost)	861
Other (at cost)	86
	947

8. Trade and other payables

	2008
Payables for property, plant and equipment due to Ferrexpo AG (Note 4)	90,747
Payables for materials and services due to domestic suppliers	356
Payables to employees	314
Taxes payable, other than income tax	29
Other payables	97
	91,543

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

9. Income tax

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

	From inception to 31 December 2008
Current income tax expense	106
Deferred income tax benefit	(148)
	(42)

The Company's income was subject to taxation in Ukraine only. During the year ended 31 December 2008 Ukrainian corporate income tax was levied on taxable income less allowable expenses at a rate of 25%.

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 for the period from the date of inception to 31 December 2008 is as follows:

	From inception to 31 December 2008
Loss before tax	(31,969)
Notional tax computed at the statutory tax rate of 25%	(7,992)
Tax effect of differences that are not deductible / taxable in determining taxable profit relating to:	
Foreign exchange loss, net	7,844
Other	106
Income tax benefit	(42)

Deferred income tax assets and liabilities relate to the following:

	31 December 2008	*Deferred tax benefit / (expense)*	*At the date of inception*
Deferred tax assets			
Property, plant and equipment	118	118	-
Trade and other payables	95	95	-
Deferred tax liabilities			
Prepayments made	(65)	(65)	-
Net deferred income tax asset	148	148	-

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

9. Income tax (continued)

The nature of the temporary differences is as follows:
(i) Property, plant and equipment - differences in depreciation patterns and estimates of the remaining useful lives, differences in capitalisation principles;

(ii) Trade and other payables and prepayments made - differences in valuation and recognition principles.

10. General and administrative expenses

	From inception to 31 December 2008
Personnel costs	1,857
Consulting and other professional fees	505
Business trip expenses	278
Office supplies	225
Depreciation and amortisation	59
Other	229
	3,153

11. Foreign exchange loss, net

	From inception to 31 December 2008
Foreign exchange gains	2,215
Foreign exchange losses	(31,501)
Net gain from conversion of foreign currency	540
	(28,746)

Foreign exchange losses are attributable to trade payables denominated in foreign currency. Foreign exchange gains are attributable to cash and cash equivalents denominated in foreign currency.

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

12. Commitments and contingencies

Commitments

As at 31 December 2008 the Company's commitments for purchase of property and equipment comprised:

	2008
Ferrexpo AG	67,571
Entities under common control	997
Third parties	12,843
	81,411

Tax and other regulatory compliance

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Company has complied with all regulations, and paid or accrued all taxes and withholdings that are applicable. Where the risk of outflow of resources is probable, the Company has accrued tax liabilities based on management's best estimate.

13. 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 balance sheet as at 31 December 2008:

	Carrying amount	*Fair value*
Financial assets		
Cash at bank	19,511	19,511
Financial liabilities		
Trade and other payables	91,514	91,514

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.

14. Financial risk management objectives and policies

The Company's principal financial instruments comprise cash and cash equivalents and accounts payable, which arise directly from its operations.

The Company has not entered into any derivative transactions. The Company's overall risk management program focuses on the unpredictability and inefficiency of the Ukrainian financial markets and seeks to minimize potential adverse effects on the financial performance of the Company.

The main risks arising from the Company's financial instruments are foreign currency risk, liquidity risk and credit risk. The management reviews and agrees policies for managing each of these risks and they are summarised below.

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

14. Financial risk management objectives and policies (continued)

Foreign currency risk

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 2008, the exchange rate of Ukrainian hryvnia ("UAH") as established by the National Bank of Ukraine was 7.70 to the US dollar.

Trade payables denominated in USD give rise to foreign exchange exposure. The Company has not entered into transactions designed to hedge against these foreign currency risks.

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. Relevant risk variables are generally non-functional currencies in which the Company has financial instruments. 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 financial result before tax.

2008	*Increase /(decrease)*	*Effect on profit before tax*
UAH / USD	33.80%	(28,849)
UAH / USD	(33.80%)	28,849

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. As at 31 December 2008 all accounts payable due to Ferrexpo Group entities are non-interest bearing and are due within 20 working days As at 31 December 2008 the payable to Ferrexpo AG was overdue, however, Ferrexpo Group had not requested any such penalties nor immediate settlement of overdue payables (Note 4).

Credit risk

Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist principally of cash in bank. The Company's maximum exposure to credit risk at the reporting date is the carrying value of cash in bank.

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

Capital risk management

The Company considers participants' contributions, trade payables due to Ferrexpo Group and debt as primary capital sources. From inception to 31 December 2008, the Company received finance solely from Ferrexpo Group entities. The Company is looking for a strategic investor for establishing a joint-venture to finance further development of Yeristovo deposit.

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2008
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

14. Financial risk management objectives and policies (continued)

Capital risk management (continued)

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.

	2008
Trade and other payables	91,514
Cash and cash equivalents	(19,511)
Net debt	72,003
Net assets attributable to participants	5,704
Total capital	77,707

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.

15. Subsequent events

On 15 April 2009 the Company entered into an agreement with Ferrexpo UK Limited for a new credit line of USD 80 million with the maturity term on 28 December 2010 bearing an interest at 1 month LIBOR + 2.95%.

Accounts payable due to Ferrexpo AG in amount of UAH 90,747 thousand as at 31 December 2008 (Note 8) were outstanding as of the date of authorization of these financial statements.