LLC Ferrexpo Yeristovo GOK
Financial Statements

As at 31 December 2009 and
for the year then ended
with Independent Auditors' Report

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Independent Auditors' Report

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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 statement of financial position as at 31 December 2009 and the statement of comprehensive income, statement of changes in net assets attributable to participants and statement of cash flows for the year then ended, 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 at 31 December 2009, and its financial performance and its cash flows for the year then ended 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

28 May 2010

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

STATEMENT OF FINANCIAL POSITION
as at 31 December 2009
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

	Notes	2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	5	129,554	60,180
Intangible assets		312	194
Prepayments for property, plant and equipment		993	2,967
Deferred tax asset	9	-	148
		130,859	63,489
Current assets			
Inventories	6	6,997	947
Accounts receivable	4	5,184	-
Prepaid income tax		264	64
Prepayments to suppliers and other current assets		158	446
Value added tax receivable		27,823	12,790
Cash and short-term deposits	4	3,295	19,511
		43,721	33,758
TOTAL ASSETS		174,580	97,247
LIABILITIES			
Non-current liabilities			
Net (liabilities) / assets attributable to participants		(10,770)	5,704
Provision for site restoration	7	744	-
		(10,026)	5,704
Current liabilities			
Interest-bearing loans and borrowings	4	118,356	-
Trade and other payables	8	66,250	91,543
		184,606	91,543
TOTAL LIABILITIES		174,580	97,247

Signed and authorised for release on behalf of LLC Ferrexpo Yeristovo GOK on 28 May 2010:

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

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2009
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

	Notes	2009	From inception to 31 December 2008
Other income	10	6,928	16
General and administrative expenses	11	(18,529)	(3,153)
Other expenses		(23)	(86)
Finance income	12	488	-
Finance costs	12	(1,495)	-
Foreign exchange loss, net	13	(3,695)	(28,746)
Loss before tax		(16,326)	(31,969)
Income tax (expense) / benefit	9	(148)	42
Loss for the period		(16,474)	(31,927)
Total comprehensive loss for the period		(16,474)	(31,927)

The accompanying notes form an integral part of the financial statements

STATEMENT OF CASH FLOWS
for the period ended 31 December 2009
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

	Notes	2009	From inception to 31 December 2008
OPERATING ACTIVITIES:			
Loss before income tax		(16,326)	(31,969)
Adjustments:			
Depreciation	11	6,656	54
Amortisation	11	64	5
Finance income	12	(488)	-
Finance costs	12	1,495	-
Foreign exchange loss relating to investing and financing activities, net	13	4,075	31,501
Working capital adjustments:			
Accounts receivable		(5,184)	-
Prepayments and other current assets		288	(446)
VAT receivable		(15,033)	(12,790)
Inventories		(6,050)	(947)
Trade and other payables including taxes, other than income tax		2,536	406
		(27,967)	(14,186)
Interest paid		(1,317)	-
Income taxes paid		(200)	(170)
Net cash used in operating activities		(29,484)	(14,356)
INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment		(105,248)	(3,764)
Interest received		488	-
Net cash used in investing activities		(104,760)	(3,764)
FINANCING ACTIVITIES:			
Proceeds from borrowings		118,028	-
Contribution from participants		-	37,631
Net cash from financing activities		118,028	37,631
Net (decrease) / increase in cash and cash equivalents		(16,216)	19,511
Cash and cash equivalents at 1 January / at the date of inception	4	19,511	-
Cash and cash equivalents at 31 December	4	3,295	19,511

The accompanying notes form an integral part of the financial statements

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO PARTICIPANTS
for the year ended 31 December 2009
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

	Issued capital	*Accumulated losses*	*Net assets / (liabilities) attributable to participants*
At the date of inception	-	-	-
Loss attributable to participants	-	(31,927)	(31,927)
Total comprehensive loss	-	*(31,927)*	*(31,927)*
Contribution to charter capital	37,631	-	37,631
At 31 December 2008	37,631	(31,927)	5,704
Loss attributable to participants	-	(16,474)	(16,474)
Total comprehensive loss	-	*(16,474)*	*(16,474)*
At 31 December 2009	37,631	(48,401)	(10,770)

The accompanying notes form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2009
(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 purpose of developing Yeristovo iron ore deposit: extraction and processing of iron ore and further production of iron ore pellets. According to the development plan, extraction of ore is expected to commence in 2013 and full capacity is expected to be achieved in 2016. The total estimated costs of the project approximate USD 2.3 billion, which includes construction of the open pit mine and construction of crushing, pelletising, floatation and other processing facilities. Currently Ferrexpo Group provides financing in the amount required to carry out mining works according to the development plan. Ferrexpo Group intends to attract external financing to complete construction of Yeristovo mine and production facilities.

In 2008 and 2009, the development works at the Yeristovo deposit were carried out by OJSC Ferrexpo Poltava Mining, the Parent and initial holder of the mining license for Yeristovo field. In December 2009 the mining license, which gives the right to exploit the Yeristovo deposit, was transferred from the Parent to the Company.

During 2008 - 2009 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 31 December, the Company's owners and their respective interests were as follows:

		2009		*2008*	
Participants	***Location***	***Amount***	***%***	***Amount***	***%***
OJSC Ferrexpo Poltava Mining	Ukraine	19,192	51.00%	19,192	51.00%
Ferrexpo AG	Switzerland	18,439	49.00%	18,439	49.00%
		37,631	100.00%	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").

The registered office address of the Company is 15, Budivel'nykiv St., Komsomolsk, Poltava region, Ukraine. As at 31 December 2009 the Company employed 87 people (2008: 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 global financial crisis has resulted in a decline in the gross domestic product, capital markets instability, and significant deterioration in the liquidity in the banking sector, tighter credit conditions within Ukraine, and significant devaluation of the Ukrainian hryvnia against major currencies. Furthermore, the downgrade of the country's credit ratings, which began in late 2008, continued in 2009.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2009
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2. Operating environment, risks and economic conditions *(continued)*

Whilst the Ukrainian Government continues to introduce various stabilisation measures aimed at supporting the exchange rate and the banking sector, there continues to be uncertainty regarding exchange rates, access to capital and its cost for the Company and its counterparties. At the same time, the global economic recession has also had a significant impact on Ukraine's balance of payments resulting from a drop in exports. These factors could affect the Company's business prospects.

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 considers different possibilities of attracting investments to complete the construction. The current stage of the project is financed by Ferrexpo Group: USD 52 million were budgeted by Ferrexpo Group in 2010 to finance the development of Yeristovo field. Ferrexpo Group uses 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.

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) as issued by the International Standards Board (IASB).

3.2 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous period except as follows:

The Company has adopted the following new and amended IFRS and IFRIC interpretations as at 1 January 2009.

- *IFRS 2 Share-based Payment: Vesting Conditions and Cancellations* effective 1 January 2009
- *IFRS 7 Financial Instruments: Disclosures* effective 1 January 2009
- *IFRS 8 Operating Segments* effective 1 January 2009
- *IAS 1 Presentation of Financial Statements* effective 1 January 2009
- *IAS 23 Borrowing Costs (Revised)* effective 1 January 2009
- *IAS 32 Financial Instruments: Presentation* and *IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation* effective 1 January 2009
- *IFRIC 13 Customer Loyalty Programmes* effective 1 July 2008
- *IFRIC 15 Agreement for the Construction of Real Estate* effective 1 January 2009
- *IFRIC 16 Hedges of a Net Investment in a Foreign Operation* effective 1 October 2008
- Improvements to IFRSs (May 2008)

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2009
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

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

The principal effects of these changes are as follows:

IFRS 2 Share-based Payment: Vesting Conditions and Cancellations
The IASB issued an amendment to IFRS 2 which clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled. The Company adopted this amendment as at 1 January 2009. It did not have an impact on the financial position or performance of the Company.

IFRS 7 Financial Instruments: Disclosures
The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The Company does not have any financial instruments recorded at fair value. The liquidity risk disclosures are not significantly impacted by the amendment.

IFRS 8 Operating Segments
IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. The Company is not required to disclose segment information and does not do it voluntarily; therefore, the adoption of IFRS 8 did not have effect on the Company's disclosures.

IAS 1 Presentation of Financial Statements
The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. 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 has elected to present a single statement.

IAS 23 Borrowing Costs (Revised)
The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Company's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the amended IAS 23, the Company has adopted the standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets with a commencement date on or after 1 January 2009. The Company did not have qualifying assets with a commencement date on or after 1 January 2009.

IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation
The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or the performance of the Company.

IFRIC 13 Customer Loyalty Programmes
IFRIC 13 requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed. The Company does not have customer loyalty programmes; therefore, the adoption of this interpretation did not have any impact on the financial position or the performance of the Company.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2009
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3.2 Changes in accounting policy and disclosures *(continued)*

IFRIC 15 Agreement for the Construction of Real Estate
IFRIC 15 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 is to be applied retrospectively. IFRIC 15 did not have an impact on the financial statements because the Company does not conduct such activity.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation
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 adoption of this interpretation did not have any impact on the financial position or the performance of the Company.

Improvements to IFRSs (May 2008, April 2009)

In May 2008 and April 2009 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The Company adopted only those improvements which related to adopted IFRSs. The adoption of the amendments did not have any impact on the financial position or performance of the Company.

3.3 Significant accounting judgments, estimates and assumptions

Judgments

The preparation of 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 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.

Management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Value added tax

During the year the value added tax ("VAT") receivable increased from UAH 12,790 thousand to UAH 27,823 thousand. As the Company is a start-up business, it does not have substantial amounts of VAT received on sales which can be offset against VAT paid for purchases of property, plant and equipment, goods and services. It therefore relies heavily on the government for refunds. For start-up companies, according to the Ukrainian legislation, VAT becomes entitled for cash reimbursement from the state after one year of operation. Afterwards, VAT is typically due to be repaid three months after it is incurred. However, due to slow repayments of VAT overall in Ukraine, all VAT accumulated from the inception was outstanding as at 31 December 2009. It is expected that VAT refunds will resume in 2010. Management is of the view that the VAT receivable recorded at 31 December 2009 will be fully received in 2010. It has therefore classified VAT receivable as current in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2009
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

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

Value added tax *(continued)*

Whilst management believes that the state will recover VAT in full in 2010, the uncertainties and risks of the Ukrainian economy, described in Note 2, and the adverse trends observed in state finances may negatively affect the timing of VAT reimbursement and, as a result, actual reimbursements could occur later than expected by management.

Operating lease commitments - Company as a lessor

The Company leases out its equipment to the Parent. 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.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting 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.

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 2016.
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.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2009
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

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

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. 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 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 income statement.

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 complied by appropriately qualified persons relating to the geological data on size, depth and shape of the ore body which require complex geological judgements to interpret the data. 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 represent's 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 environmental provisions are detailed in Note 7.

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 14.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2009
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

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. 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 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.

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.

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

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 in 2009 and 2008.

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 carried at amortised cost using the effective interest rate method ("EIR"), less impairment. 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 income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2009
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

3.4 Summary of significant accounting policies *(continued)*

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.

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 and loans and borrowings.

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 effective interest rate method ("EIR"). Gains and losses are recognised in the income statement 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 in the income statement.

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

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (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, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

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.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2009
(in thousands of Ukrainian Hryvnia, unless otherwise stated)

3.4 Summary of significant accounting policies *(continued)*

Impairment of financial assets *(continued)*

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has 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 credit 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.

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.

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3.4 Summary of significant accounting policies *(continued)*

Derecognition of financial instruments *(continued)*

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. Major overhauls 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.

Expenditures incurred after the properties have been put into operation, such as repairs and maintenance 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	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 income statement in the year the item is derecognised.

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3.4 Summary of significant accounting policies *(continued)*

Property, plant and equipment *(continued)*

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.

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 more than 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 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.

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.

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3.4 Summary of significant accounting policies *(continued)*

Exploration and evaluation expenditure *(continued)*

Capitalised exploration and evaluation expenditure is reviewed for impairment at each reporting date. 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.

Capitalised exploration and evaluation expenditure considered to be tangible is recorded as a component of property, plant and equipment at cost less impairment charges. As the asset is not available for use, it is not depreciated.

Development expenditure

When proved reserves are determined and development is sanctioned, capitalised exploration and evaluation expenditure is reclassified as "Assets under construction", and is disclosed as a component of property, plant and equipment. 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, is 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 publicly traded subsidiaries 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 other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

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3.4 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 unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

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 decided to capitalise 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.

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 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.

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3.4 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.

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.

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.

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3.4 Summary of significant accounting policies *(continued)*

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.

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 complete.

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 income tax

Deferred income 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.

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3.4 Summary of significant accounting policies *(continued)*

Taxes *(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 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 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 income 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 equity.

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
- receivables 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 receivables or payables in the statement of financial position.

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3.5 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 3R Business Combinations (Revised) and IAS 27R Consolidated and Separate Financial Statements (Amended)*
- *IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
- *Amendments to IFRS 2 Share-based payment: Group Cash-settled Share-based Payment Transactions*
- *IFRS 9 Financial Instruments*
- *IAS 24 Related Party Disclosures (Revised)*
- *IFRS for Small and Medium Sized Entities*
- *Amendment to IFRS 1: Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters*
- *Amendment to IFRIC 14 IAS 19: Prepayments of a Minimum Funding Requirement*
- *IFRIC 9 Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement*
- *IFRIC 17 Distributions of Non-cash Assets to Owners*
- *IFRIC 18 Transfers of Assets from Customers*
- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*
- *Improvements to IFRS's (April 2009)*

IFRS 3R Business Combinations and IAS 27R Consolidated 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. The standards may be early applied. However, the Company does not intend to take advantage of this possibility.

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.

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

Amendments to IFRS 2 Share-based Payment - Group Cash-settled Share-based Payment Transactions
The amendments were issued in June 2009 and are effective for annual periods beginning on or after 1 January 2010. The amendments clarify the accounting for group cash-settled share-based payment transactions. Specifically, an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The amended standard clarifies that in IFRS 2 a "group" has the same meaning as in IAS 27, that is, it includes only a parent and its subsidiaries. The Company expects that the amended standard will not have any effect on financial position or performance of the Company as the Company did not enter into such transactions.

IFRS 9 Financial Instruments
In November 2009 the IASB has issued IFRS 9, which provides guidance on the classification and measurement of financial assets. Publication of this IFRS represents the completion of the first part of a three-part project to replace IAS 39 Financial Instruments: Recognition and Measurement with a new standard - IFRS 9 Financial Instruments. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing many different impairment methods in IAS 39. The effective date for mandatory adoption of IFRS 9 is for annual periods beginning on or after 1 January 2013. The Company expects that the new standard may have effect on the classification and measurement of its financial assets, however, the exact amount of potential effect have not yet been quantified.

IAS 24 Related Party Disclosures (Revised)
In November 2009 the IASB replaced IAS 24 Related Party Disclosures with a new version. The IASB believes the revised standard simplifies the disclosure requirements for government-related entities by focusing disclosures on significant transactions, and clarifies the definition of a related party. The revised standard is effective for annual periods beginning on or after 1 January 2011. The revised standard will not result in additional disclosures as the Company is not a subsidiary of government-related entities.

IFRS for Small and Medium Sized Entities (IFRS SMEs)
IFRS for SMEs is designed to meet the needs and capabilities of small and medium-sized entities. The standard is intended to be less complex as compared to the full IFRSs as many principles are simplified and significantly fewer disclosures are required. The new standard will not result in any changes to the Company's financial statements as the Company is not small or medium-sized entity.

Amendment to IFRS 1: Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters
The amendment, which was issued in January 2010, provides relief to first-time adopters of IFRSs from providing the additional disclosures introduced by the recent amendments to IFRS 7. As a result, first-time adopters receive the same transition provisions provided to current IFRS preparers. This amendment is effective for financial years beginning on or after 1 July 2010, with early application is permitted. The amendment will not result in any changes to the financial statements as the Company is not a first-time adopter.

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

Amendment to IFRIC 14 IAS 19: Prepayments of a Minimum Funding Requirement
Amendment to IFRIC 14 IAS 19 was issued in November 2009 and becomes effective for financial years beginning on or after 1 July 2011 with early application permitted. The amendment applies in the limited circumstances when an entity is a subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. This amendment will have no impact on the financial position or performance of the Company, as the Company does not have defined employee benefit plans.

IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement
The amendments to IFRIC 9 and IAS 39 were issued in March 2009 and are effective for annual periods ending on or after 30 June 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss.

IFRIC 17 Distributions of Non-cash Assets to Owners
IFRIC 17 was issued in November 2008 and becomes effective for financial years beginning on or after 1 July 2009 with early application permitted. This interpretation should be applied prospectively. IFRIC 17 provides guidance on accounting for distributions of non-cash assets to owners. As such it provides guidance on when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability and the consequences of doing so. IFRIC 17 will have no impact on the financial position or performance of the Company, as the Company does not distribute non-cash assets to its owners.

IFRIC 18 Transfers of Assets from Customers
IFRIC 18 was issued in January 2009 and becomes effective for financial years beginning on or after 1 July 2009 with early application permitted, provided valuations were obtained at the date those transfers occurred. This interpretation should be applied prospectively. IFRIC 18 provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. The interpretation clarifies the circumstances, in which the definition of an asset is met, the recognition of the asset and its measurement on initial recognition, the identification of the separately identifiable services, the recognition of revenue and the accounting for transfers of cash from customers. IFRIC 18 will have no impact on the financial position or performance of the Company, as the Company does not receive assets from customers.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
IFRIC 19, which was published in November 2009, provides guidance on how to account for the extinguishment of financial liability by the issuance of equity instruments. These transactions are often referred to as debt-for-equity swaps. IFRIC 19 includes the following guidance: (i) the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability; (ii) the equity instruments issued are measured at their fair value; (ii) the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the entity's profit and loss for the period. IFRIC 19 becomes effective for financial years beginning on or after 1 July 2010 with early application permitted.

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4. Related party disclosure

As at 31 December 2009 and 2008, the Company's outstanding balances with its related parties were as follows:

2009	*Prepayments for equipment*	*Accounts receivable*	*Cash and short-term deposits*	*Interest-bearing loans and borrowings*	*Payables for property, plant and equipment*	*Payables for inventories*
The Parent	-	5,184	-	-	62,918	1,696
Other Ferrexpo Group entities	-	-	-	118,356	-	-
Other entities under common control	-	-	3,295	-	-	-
Total	-	5,184	3,295	118,356	62,918	1,696

2008	*Prepayments for equipment*	*Accounts receivable*	*Cash at bank*	*Interest-bearing loans and borrowings*	*Payables for property, plant and equipment*	*Payables for inventories*
Other Ferrexpo Group entities	-	-	-	-	90,747	-
Other entities under common control	413	-	19,511	-	-	-
Total	413	-	19,511	-	90,747	-

During 2009 and the period from inception to 31 December 2008, the Company's transactions with its related parties were as follows:

2009	*Purchase of services*	*Purchase of property, plant and equipment*	*Purchase of inventories*	*Other income*	*Finance income*	*Finance costs*
The Parent	881	52,437	7,520	6,898	-	-
Other Ferrexpo Group entities	-	814	-	4	-	750
Other entities under common control	584	831	-	-	488	-
Total	1,465	54,082	7,520	6,902	488	750

2008	*Purchase of services*	*Purchase of property, plant and equipment*	*Purchase of inventories*	*Other income*	*Finance income*	*Finance costs*
The Parent	343	320	-	-	-	-
Other Ferrexpo Group entities	-	57,979	861	16	-	-
Total	343	58,299	861	16	-	-

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4. Related party disclosure *(continued)*

Purchases, trade and other payables

In 2009, the Company acquired from the Parent equipment, vehicles and construction in progress for UAH 52,437 thousand (2008: UAH 320 thousand), spare parts for UAH 7,520 thousand (2008: nil) and assembling and other services for UAH 881 thousand (2008: UAH 343 thousand).

The corresponding accounts payable as at 31 December 2009 are denominated in UAH, non-interest bearing and according to the contract are payable within 5 - 30 days after the date of delivery of equipment. The contract also provides for overdue payment penalties. As at 31 December 2009 the payables to the Parent were already due. In January 2010 the Company settled accounts payable. The Parent did not request for any penalties.

In 2009, the Company acquired from Ferrexpo AG equipment for UAH 814 thousand (2008: equipment and vehicles UAH 57,979 thousand).

As at 31 December 2008, accounts payable due to Ferrexpo AG were denominated in USD and according to the contract were payable within 20 working days after the date of delivery of equipment. Management is of the view that Ferrexpo Group uses extention of payment terms as a vehicle for financing (Note 2). The Company settled accounts payable in 2009 after it drew down the loan facility from another Ferrexpo Group entity. Ferrexpo AG did not request for any penalties for the late settlement.

Other income and accounts receivable

As at 31 December 2009, mining equipment with a carrying value of UAH 63,852 thousand (2008: UAH 48,697 thousand) was rented out to the Parent under short-term non-cancellable operating lease agreements. In 2009, income from operating lease comprised UAH 6,898 thousand (2008: UAH nil).

As at 31 December 2009 corresponding accounts receivable equalled to UAH 5,184 thousand (2008: nil). Accounts receivable are non-interest bearing and payable immediately after services are rendered. As at 31 December 2009, the total amount of accounts receivable was overdue. The Company did not recognise allowance for these receivables. The receivables were settled by the date of issue of these financial statements.

As at 31 December 2009, the future minimum lease receivable within one year comprises UAH 6,634 thousand (2008: UAH 5,229 thousand).

Interest-bearing loans and borrowings and relating finance costs

In April 2009 the Company entered into an agreement with Ferrexpo UK Limited for an unsecured credit facility of USD 80 million which matures on 28 December 2010 and bears interest at 1 month LIBOR + 2.95% per annum.

As at 31 December 2009, the outstanding balance under this agreement comprised USD 14,800 thousand (equivalent to UAH 118,178 thousand) of principal and UAH 178 thousand of accrued interest.

The Company did not make any repayments under this agreement in 2009, except for interest payments.

Interest expenses of UAH 750 thousand were recognized in finance costs in 2009.

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4. Related party disclosure *(continued)*

Cash and short-term deposits and relating income

As at 31 December 2009, cash placed with a bank under a common control included a deposit of UAH 2,483 thousand (2008: nil) denominated USD, which bears interest of 8% p.a. and a deposit of UAH 724 thousand denominated in UAH, which bears interest of 5% p.a. (2008: nil). The deposits are repayable on demand. The relating interest income of UAH 488 thousand was recognized in 2009.

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

Commitments

As at 31 December 2009 and 2008 the Company's commitments to related parties for purchase of property and equipment comprised:

	2009	2008
Ferrexpo Group entities	218,863	67,571
Other entities under common control	1,420	997
	220,283	68,568

The Company purchases equipment and mining vehicles from the foreign suppliers through another Ferrexpo Group entity located outside Ukraine. As at 31 December 2009 equipment and mining vehicles with a carrying value of UAH 53,581 thousand were pledged as collateral for the debt of the Ferrexpo Group entity for the purchase of these assets.

Compensation to key management personnel

Key management personnel comprise acting general director, acting finance director and chief accountant. In 2009, total compensation to key management personnel included in administrative expenses amounted to UAH 643 thousand (from inception to 31 December 2008: UAH 512 thousand). Compensation to the key management personnel consists of contractual salary.

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5. Property, plant and equipment

Movement of property, plant and equipment is as follows:

2009	*Buildings*	*Plant and equipment*	*Vehicles*	*Fixture and fittings*	*Construction in progress and uninstalled equipment*	*Total*
Cost						
At 31 December 2008	26	3,986	45,260	169	10,793	60,234
Additions	13,934	9,965	4,731	257	47,221	76,108
Transfers	-	10,297	-	-	(10,297)	-
At 31 December 2009	13,960	24,248	49,991	426	47,717	136,342
Accumulated depreciation						
At 31 December 2008	1	47	2	4	-	54
Depreciation charge	66	1,887	4,743	38	-	6,734
At 31 December 2009	67	1,934	4,745	42	-	6,788
Net book value						
At 31 December 2008	25	3,939	45,258	165	10,793	60,180
At 31 December 2009	13,893	22,314	45,246	384	47,717	129,554

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 temporary rents out most the mining equipment and vehicles to the Parent (Note 4).

Construction in progress and uninstalled equipment relates to development of Yeristovo ore deposit and includes costs of mine construction.

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

Pledged assets

As at 31 December 2009 equipment and mining vehicles with a carrying value of UAH 53,581 thousand were pledged as collateral for the debt of Ferrexpo Group entity for the purchase of these assets (Note 4).

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 2009 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 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 2016. 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.

These future cash flows were discounted using the post-tax real discount rate of 12% p. a. This rate reflects the time value of money and risk associated with the asset, and is in line with the rates used by competitors with a similar background.

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.

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6. Inventories

	2009	2008
Spare parts (at cost)	6,930	861
Other (at cost)	67	86
	6,997	947

7. Provision for site restoration

In December 2009, the mining license which grants the right to exploit the resources of Yeristovo deposit was transferred from the Parent to the Company (Note 1) according to the decree of the Ministry of the Environment of Ukraine. In 2007 - 2009 the stripping works at Yeristovo deposit were carried by the Parent. As at 31 December 2009 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 amount of the provision (UAH 744 thousand) represents management's best estimate as at the reporting date. The liability becomes payable at the end of the useful life of the mine, currently estimated to be 2035. Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning and reclamation alternatives and the levels of discount and inflation rates.

8. Trade and other payables

	2009	2008
Payables for property, plant and equipment due to related parties (Note 4)	62,918	90,747
Payables for materials and services due to domestic suppliers	2,072	356
Payables to employees	1,248	314
Taxes payable, other than income tax	8	29
Other payables	4	97
	66,250	91,543

9. Income tax

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

	2009	From inception to 31 December 2008
Current income tax expense	-	106
Deferred income tax charge / (benefit)	148	(148)
	148	(42)

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9. Income tax *(continued)*

The Company's income was subject to taxation in Ukraine only. In 2009 and 2008, the 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 is as follows:

	2009	From inception to 31 December 2008
Loss before tax	(16,326)	(31,969)
Notional tax computed at the statutory tax rate of 25%	(4,081)	(7,992)
Increase in unrecognised deferred tax asset	2,223	-
Tax effect of differences that are not deductible / taxable in determining taxable profit relating to:		
Foreign exchange loss, net	978	7,844
Other	1,028	106
Income tax expense / (benefit)	148	(42)

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

	2009	*Deferred tax benefit / (expense) 2009*	2008	*Deferred tax benefit / (expense) 2008*	*At the date of inception*
Deferred tax assets					
Trade and other payables	163	68	95	95	-
Interest-bearing loans and borrowings	44	44	-	-	-
Tax losses carried forward	5,144	5,144	-	-	-
Un-recognised deferred tax assets	(2,223)	(2,223)	-	-	-
Deferred tax liabilities					
Property, plant and equipment	(3,128)	(3,246)	118	118	-
Prepayments made	-	65	(65)	(65)	-
Net deferred income tax asset / (liability)	-	(148)	148	148	-

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;

(iii) Interest-bearing loans and borrowings – differences in the period of recognition

As at 31 December 2009, the deferred tax asset has not been recognised in respect of tax losses carried forward because realisation of this asset is uncertain.

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10. Other income

	2009	From inception to 31 December 2008
Income from operating lease (Note 4)	6,906	-
Net gain on sale of sundry merchandise	4	-
Other income	18	16
	6,928	16

11. General and administrative expenses

	2009	From inception to 31 December 2008
Depreciation and amortisation	6,720	59
Personnel costs	6,213	1,857
Vehicles maintenance and fuel	1,778	-
Business trip expenses	1,276	278
Consulting and other professional fees	1,254	505
Office supplies	243	225
Other	1,045	229
	18,529	3,153

12. Finance income and finance costs

	2009	From inception to 31 December 2008
Finance income		
Interest income (Note 4)	488	-
	488	-
Finance costs		
Interest expense (Note 4)	750	-
Other finance costs	745	-
	1,495	-

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13. Foreign exchange loss, net

	2009	From inception to 31 December 2008
Foreign exchange loss relating to accounts payable	(3,925)	(31,501)
Foreign exchange loss relating to loans and borrowings	(150)	-
Foreign exchange loss relating to accounts receivable	(3)	-
Foreign exchange gain relating to cash and short-term deposits	123	2,215
Net gain from currency purchase / sale	260	540
	(3,695)	(28,746)

14. Commitments and contingencies

Commitments

As at 31 December 2009 and 2008 the Company's commitments for purchase of property and equipment comprised:

	2009	2008
Ferrexpo Group entities (Note 4)	218,863	67,571
Other entities under common control (Note 4)	1,420	997
Third parties	7,929	12,843
	228,212	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.

The uncertainty of inconsistent enforcement and application of Ukrainian tax laws, in particular relating to cross border transactions and 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.

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15. 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*	
	2009	*2008*	*2009*	*2008*
Financial assets				
Accounts receivable	5,184	-	5,184	-
Cash and short-term deposits	3,295	19,511	3,295	19,511
Financial liabilities				
Interest-bearing loans and borrowings	118,356	-	115,743	-
Trade and other payables, excluding taxes payable	66,242	91,514	66,242	91,514

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.

16. 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 a Board approved Treasury Policy.

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

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16. Financial risk management objectives and policies *(continued)*

The Company's principal financial instruments comprise interest-bearing loans and borrowings, cash and short-term deposits, accounts receivable and trade and other payables, 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 2009, the exchange rate of Ukrainian hryvnia ("UAH") as established by the National Bank of Ukraine was 7.99 to the US dollar.

Interest-bearing loans and borrowings and trade accounts payable denominated in USD 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.

2009	*Increase /(decrease) in rate*	*Effect on profit before tax*
USD / UAH	31.30%	(36,249)
USD / UAH	(31.30%)	36,249

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

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16. 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. As at 31 December 2009 all trade payables due to related parties are non-interest bearing and are due within 5 - 30 working days. As at 31 December 2009, trade payables to the Parent were already due, however, the Parent had not requested any penalties or immediate settlement of overdue payables (Note 4). The balance was settled in January 2010.

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 15.

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

2009	Increase /(decrease) in basis points	Effect on profit before tax
Change in interest rate (LIBOR)	+100	(1,182)
Change in interest rate (LIBOR)	-25	295

2008	Increase /(decrease) in basis points	Effect on profit before tax
Change in interest rate (LIBOR)	+55	-
Change in interest rate (LIBOR)	-55	-

Capital risk management

The Company considers participants' contributions, trade payables due to and loans from Ferrexpo Group as primary capital sources. In 2009 and 2008 the Company received finance solely from Ferrexpo Group. The Company is looking for a strategic investor for establishing a joint-venture to finance further development of Yeristovo deposit.

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16. 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.

	2009	2008
Interest-bearing loans and borrowings	118,356	-
Trade and other payables, excluding taxes payable	66,242	91,514
Cash and short-term deposits	(3,295)	(19,511)
Net debt	181,303	72,003
Net (liabilities) / assets attributable to participants	(10,770)	5,704
Total capital	170,533	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.

17. Events after the reporting period

On 11 January 2010 the charter capital of the Company was increased by UAH 980,000 thousand and the new charter was registered. The shares of the participants remained the same. As at the date of issue of these financial statements UAH 524,334 thousand were paid.

Subsequent to the reporting date the Company purchased from the Parent and another Ferrexpo Group entity property, plant and equipment and construction in progress for the amount of UAH 497,756 thousand.

In January 2010, the Company signed a loan facility agreement with the Ferrexpo Group entity for the total amount of USD 80 million expiring on 15 December 2012 and bearing an interest of 9.8% per annum.

On 20 May 2010 the Parliament of Ukraine adopted the law which introduces restrictions on tax loss carrying forward. The adoption of this law may influence the recoverability of the deferred tax asset relating to the tax losses carried forward.

On 27 April 2010 the Parliament of Ukraine adopted the law "On the State Budget of Ukraine for 2010" which stipulates reimbursement of value added tax receivable from the State in the amount outstanding on 1 May 2010 through interest bearing 5-year domestic state bonds. The Company's management assessed that adoption this law has no effect on the classification and measurement of value added tax receivable of the Company as at 31 December 2009. The Company's management is currently assessing the future possible effect.