LLC Ferrexpo Yeristovo GOK
Financial Statements

As at 31 December 2010 and
for the year then ended
with Independent Auditors' Report

CONTENT

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INDEPENDENT AUDITORS' REPORT

To the Participants 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 2010 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 information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2010, 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 disclose a significant concentration of the Company's transactions with related parties.

Ernst & Young Audit Services LLC

15 April 2011

м. Київ * Україна * №1 «Ернст енд Янг Аудиторські Послуги» Ідентифікаційний код 33366921

STATEMENT OF FINANCIAL POSITION
as at 31 December 2010

	Notes	2010	2009
		UAH 000	UAH 000
ASSETS			
Non-current assets			
Property, plant and equipment	5	847,393	129,554
Intangible assets		1,306	312
Prepayments for property, plant and equipment		31,877	993
		880,576	130,859
Current assets			
Inventories	6	5,520	6,997
Accounts receivable	4	1,090	5,184
Prepaid income tax		264	264
Prepayments to suppliers and other current assets		226	158
Value added tax receivable	3.3	93,728	27,823
Cash and short-term deposits	4	317,821	3,295
		418,649	43,721
TOTAL ASSETS		1,299,225	174,580
LIABILITIES			
Non-current liabilities			
Net assets / (liabilities) attributable to participants		950,933	(10,770)
Interest-bearing loans and borrowings	4	79,617	-
Provision for site restoration	7	1,420	744
Defined benefit liability	9	292	-
		1,032,262	(10,026)
Current liabilities			
Interest-bearing loans and borrowings	4	239,418	118,356
Trade and other payables	8	27,545	66,250
		266,963	184,606
TOTAL LIABILITIES		1,299,225	174,580

Signed and authorised for release on behalf of LLC Ferrexpo Yeristovo GOK on 15 April 2011:

Acting General Director — Nikolay Goroshko

Acting Finance Director — Vladimir Leonov

Chief Accountant — Lyudmila Zakharchenko

The accompanying notes form an integral part of the financial statements

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2010

	Notes	2010 UAH 000	2009 UAH 000
Income	11	7,587	6,928
General and administrative expenses	12	(22,230)	(18,529)
Other expenses	13	(5,162)	(23)
Finance income	14	1,215	488
Finance costs	14	(1,053)	(1,495)
Foreign exchange gain / (loss), net	15	1,471	(3,695)
Loss before tax		(18,172)	(16,326)
Income tax expense	10	(125)	(148)
Loss for the year		(18,297)	(16,474)
Total comprehensive loss for the year		(18,297)	(16,474)

STATEMENT OF CASH FLOWS
for the period ended 31 December 2010

	Notes	2010 *UAH 000*	2009 *UAH 000*
OPERATING ACTIVITIES:			
Loss before income tax		(18,172)	(16,326)
Adjustments:			
Depreciation and amortisation		8,441	6,720
Finance income	14	(1,215)	(488)
Finance costs	14	1,053	1,495
Foreign exchange (gain)/loss relating to investing and financing activities, net		(1,599)	4,075
Working capital adjustments:			
Accounts receivable		4,094	(5,184)
Prepayments and other current assets		(68)	288
VAT receivable[1]	13	(65,905)	(15,033)
Inventories		1,477	(6,050)
Trade and other payables including taxes, other than income tax		14,546	2,536
		(57,348)	(27,967)
Interest paid		-	(1,317)
Income taxes paid		(125)	(200)
Net cash used in operating activities		(57,473)	(29,484)
INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment		(810,046)	(105,248)
Interest received		1,215	488
Net cash used in investing activities		(808,831)	(104,760)
FINANCING ACTIVITIES:			
Contributions from participants		980,000	-
Proceeds from borrowings	4	326,119	118,028
Repayment of borrowings	4	(125,289)	-
Net cash from financing activities		1,180,830	118,028
Net increase / (decrease) in cash and cash equivalents		314,526	(16,216)
Cash and cash equivalents at 1 January	4	3,295	19,511
Cash and cash equivalents at 31 December	4	317,821	3,295

[1] The movement includes effect of VAT receivable amounting to UAH 27,636 thousand, which was recovered through VAT bonds. See Note 13 for further details.

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO PARTICIPANTS
for the year ended 31 December 2010

	Issued capital	*Accumulated losses*	*Net (liabilities) / assets attributable to participants*
	UAH 000	*UAH 000*	*UAH 000*
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)
Loss attributable to participants	-	(18,297)	(18,297)
Total comprehensive loss	-	*(18,297)*	*(18,297)*
Contribution to charter capital	980,000	-	980,000
At 31 December 2010	1,017,631	(66,698)	950,933

The accompanying notes form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

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. The registered office address of the Company is 15, Budivel'nykiv St., Komsomolsk, Poltava region, Ukraine. As at 31 December 2010, the Company employed 365 people (2009: 87 people).

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

		2010		*2009*	
Participants	***Location***	**UAH 000**	**%**	**UAH 000**	**%**
OJSC Ferrexpo Poltava Mining	Ukraine	-	0%	19,192	51.00%
Ferrexpo AG	Switzerland	1,017,621	99.999%	18,439	49.00%
Ferrexpo Service LLC	Ukraine	10	0.001%	-	0%
		1,017,631	100.00%	37,631	100.00%

In January 2010, charter capital of the Company was increased by UAH 980,000 thousand. On 31 July 2010 OJSC Ferrexpo Poltava Mining sold its share in Ferrexpo Yeristovo GOK LLC to Ferrexpo AG (50.999%) and Ferrexpo Service LLC (0.001%).

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

The Company was set up for the purpose of developing Yeristovo iron ore deposit: extraction and processing of iron ore and further production of iron ore pellets. 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 1.5 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 Ferrexpo Group entity and initial holder of the mining license for Yeristovo field. The Company obtained a mining license, which gives the right to exploit the Yeristovo deposit, on 4 February 2010. As at 31 December 2010, the Company holds all licenses and permits legally required for standalone independent mining and construction operations.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

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, instability in the capital markets, a significant deterioration in the liquidity of the banking sector, and tighter credit conditions within Ukraine. Whilst the Ukrainian Government continues to introduce various stabilisation measures aimed at supporting the banking sector and providing liquidity to Ukrainian banks and companies, there continues to be uncertainty regarding access to capital and its cost for the Company and its counterparties, which could affect 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 financing. Ferrexpo Group considers different possibilities of attracting investments to complete the construction. The current stage of the project is financed by Ferrexpo Group. Ferrexpo Group uses a variety of options for financing the Company's current operations including a combination of debt and equity contributions.

3. Summary of significant accounting policies

3.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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

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

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

3.2 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except as following new and amended IFRSs and IFRIC interpretations adopted as at 1 January 2010:

- *IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)* effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- *IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items* effective 1 July 2009
- *IFRIC 17 Distributions of Non-cash Assets to Owners* effective 1 July 2009
- *IFRIC 18 Transfers of Assets from Customers* effective1 July 2009
- *IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions* effective 1 January 2010
- *IFRIC 9 Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement* effective 1 July 2009
- *Improvements to IFRSs (May 2008, April 2009)*

The adoption of the standards or interpretations is described below:

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. 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. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The change in accounting policy was applied prospectively and did not have material effect on the financial position and performance of the Company.

IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items
The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The amendment had no impact on the financial position or performance of the Company, as the Company has not entered into any such hedges.

IFRIC 17 Distributions of Non-cash Assets to Owners
This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on either the financial position or performance of the Company.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

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

IFRIC 18 Transfers of Assets from Customers
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 had no impact on the financial position or performance of the Company, as the Company did not receive assets from customers.

Amendments to IFRS 2 Share-based Payment - Group Cash-settled Share-based Payment Transactions
The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Company did not have an impact on the financial position or performance of the Company.

IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement
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. IFRIC 9 did not have an impact on the financial position or performance of the Company.

Improvements to IFRSs (May 2008, April 2009)
In May 2008 and April 2009, the IASB issued 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 adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Company.

Issued in May 2008

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position or financial performance of the Comapny.

Issued in April 2009

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. The amendment did not have effect on the financial statements of the Company.
- IAS 7 Statement of Cash Flows: States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment did not have effect on the financial statements of the Company.
- IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment had no impact on the Company.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

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

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

Issued in April 2009

- IFRS 2 Share-based Payment
- IAS 1 Presentation of Financial Statements
- IAS 17 Leases
- IAS 34 Interim Financial Reporting
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation
- IFRS 8 Operating Segments.

3.3 Significant accounting judgments, estimates and assumptions

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

Judgments

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

Value added tax

During the year the value added tax ("VAT") receivable increased from UAH 27,823 thousand to UAH 93,728 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. VAT is usually repaid three months after it is incurred. However, in 2010, only UAH 27,636 thousand was reimbursed through conversion into government bonds (Note 13).

Management is of the view that the VAT receivable recorded at 31 December 2010 will be fully reimbursed in 2011. It has therefore classified VAT receivable as current in these financial statements.

Whilst management believes that the state will recover VAT in full in 2011, the uncertainties and risks of the Ukrainian economy, described in Note 2 may 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 OJSC Ferrexpo Poltava Mining. 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.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

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

Estimates and assumptions

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

Impairment of property, plant and equipment

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

Depreciation

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

Deferred tax assets

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

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

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

Ore reserve and resource estimate

Ore reserves are estimates of the amount that can be economically and legally extracted from the Company's mining properties. The Company's estimates of its ore reserves and mineral resources are based on information compiled by appropriately qualified persons relating to the geological data on size, depth and shape of the ore body which require complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in the reserve or resource estimates may impact upon the carrying value of property, plant and equipment, provision for site restoration, recognition of deferred tax assets and depreciation charges.

Provision for site restoration

The Company assesses the provision for site restoration annually. Significant estimates and assumptions are made in determining the provision as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of site restoration activities, regulatory changes, changes in inflation and discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at reporting date represents management's best estimate of the present value of the future site restoration costs required. Further details on the method the Company has used to identify and estimate provision for site restoration are detailed in Note 7.

Employee defined benefit liability

The cost of defined benefit pension plans and other post employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate management considers the yield of government bonds because there is no deep market in corporate bonds in Ukraine. Due to the long term nature of these plans, the estimates are subject to significant uncertainty. Further details are given in Note 9.

Fair value of financial Instruments

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

Commitments and contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. For details refer to Note 16.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

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

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

Subsequent measurement

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

Loans and receivables

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

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

NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2010

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.

All financial liabilities are recognised initially at fair value plus in the case of loans and borrowings, directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, loans and borrowings and financial guarantee contracts.

Subsequent measurement

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

Loans and borrowings

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

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

Financial guarantee contracts

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

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.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

3.4 Summary of significant accounting policies *(continued)*

Impairment of financial assets

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

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

Financial assets carried at amortised cost

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

3.4 Summary of significant accounting policies *(continued)*

Derecognition of financial instruments

Financial assets

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

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

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

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

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

Financial liabilities

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use and borrowing costs for long-term construction projects if the recognition criteria are met.

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

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

3.4 Summary of significant accounting policies *(continued)*

Property, plant and equipment *(continued)*

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

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

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

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

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

Construction in progress

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

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.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

3.4 Summary of significant accounting policies *(continued)*

Intangible assets

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

Amortisation

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

Borrowing costs

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

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

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of 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, including impairment of inventories, are recognised in the profit or loss in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

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

Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition is accounted for on 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.

Provisions

General

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2010

3.4 Summary of significant accounting policies *(continued)*

Provisions *(continued)*

Site restoration provision

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

Employee benefits

The Company makes defined contributions to Ukrainian state pension scheme at the statutory rates in effect during the year, based on gross salary payments; such expense is charged in the period the related salaries are earned.

In addition, the Company has a legal obligation to compensate the Ukrainian State Pension Fund for additional pensions paid to certain categories of the current and former employees of the Company. These obligations being unfunded are substantially similar to those typically existing under an unfunded defined benefit plan. Costs relating to this plan are accrued in these financial statements using the projected unit credit method in respect of those employees entitled to such payments. Management uses actuarial techniques in calculating the liability related to this retirement obligation at each reporting date. Actual results could vary from estimates made to date.

Gains and losses resulting from the use of internal actuarial valuation methodologies are recognised when the cumulative unrecognised actuarial gains or losses for the scheme exceed 10% of the defined benefit obligation. These gains or losses are recognised as income or expense over the expected average remaining working lives of the employees participating in the plan.

The past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service costs are recognised immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognised reduced by past service cost not yet recognised.

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.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

3.4 Summary of significant accounting policies *(continued)*

Contingent assets and liabilities

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

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

Leases

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

Company as a lessee

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

Company as a lessor

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

Revenue recognition

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

Rendering of services

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

Sale of goods

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

Interest income

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

Rental income

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

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

3.4 Summary of significant accounting policies *(continued)*

Taxes

Current income tax

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

Deferred tax

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

3.4 Summary of significant accounting policies *(continued)*

Taxes *(continued)*

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.

Change in presentation of comparative information

Certain reclassifications have been made to the 2009 amounts for consistency of presentation with the 2010 amounts.

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 9 Financial Instruments*
- *IAS 24 Related Party Disclosures (Revised)*
- *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 19 Extinguishing Financial Liabilities with Equity Instruments*
- *Amendments to IAS 32 Financial instruments: Presentation: Classification of Rights Issues*
- *Amendments to IFRS 7 Financial Instruments: Disclosures*
- *Amendments to IAS 12 Income Taxes - Deferred tax: Recovery of underlying assets*
- *Improvements to IFRS's (May 2010)*

IFRS 9 Financial Instruments
In November 2009 the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Company now evaluates the impact of the adoption of new Standard.

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.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

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

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.

Amendment to IFRIC 14: Prepayments of a Minimum Funding Requirement
Amendment to IFRIC 14 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 is not a subject to minimum funding requirements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
IFRIC 19, which was issued 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. IFRIC 19 is not expected to have any material impact on the Company's financial statements.

Amendments to IAS 32 Financial instruments: Presentation: Classification of Rights Issues
In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Company expects that this amendment will have no impact on the Company's financial statements.

Amendments to IFRS 7 Financial Instruments: Disclosures
The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The Amendments introduce additional disclosure requirements for transferred financial assets that are not derecognized. The Company expects that these amendments will have no impact on the Company's financial position.

Amendments to IAS 12 Income Taxes - Deferred tax: Recovery of underlying assets
In December 2010 the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. IAS 12 has been updated to include a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. The Company expects that these amendments will have no impact on the Company's financial position.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

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

Improvements to IFRSs

In May 2010 the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Amendments are effective for annual periods beginning on or after either 1 July 2010 or 1 January 2011. There are separate transitional provisions for each standard. The amendments listed below, are considered to have a reasonable possible impact on the Company:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Company, however, expects no impact from the adoption of the amendments on its financial position or performance.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

4. Related party disclosure

As at 31 December 2010 and 2009, the Company's outstanding balances with its related parties were as follows:

2010	*Prepay-ments for equipment*	*Accounts receivable*	*Cash and short-term deposits*	*Interest-bearing loans and borrowings*	*Payables for property, plant and equipment*	*Payables for materials and services*
	UAH 000	*UAH 000*	*UAH 000*	*UAH 000*	*UAH 000*	*UAH 000*
Ferrexpo AG, the Parent	-	61	-	-	-	-
Other Ferrexpo Group entities	851	227	-	319,035	5,958	8,749
Other related parties	-	-	317,821	-	-	-
Total	851	288	317,821	319,035	5,958	8,749

2009	*Prepay-ments for equipment*	*Accounts receivable*	*Cash and short-term deposits*	*Interest-bearing loans and borrowings*	*Payables for property, plant and equipment*	*Payables for materials and services*
	UAH 000	*UAH 000*	*UAH 000*	*UAH 000*	*UAH 000*	*UAH 000*
Ferrexpo Poltava Mining, the Parent	-	5,184	-	-	62,918	1,696
Other Ferrexpo Group entities	-	-	-	118,356	-	-
Other related parties	-	-	3,295	-	-	-
Total	-	5,184	3,295	118,356	62,918	1,696

During 2010 and 2009, the Company's transactions with its related parties were as follows:

2010	*Purchase of services*	*Purchase of property, plant and equipment*	*Purchase of materials and services*	*Other income*	*Finance income*
	UAH 000	*UAH 000*	*UAH 000*	*UAH 000*	*UAH 000*
Ferrexpo AG, the Parent from 31 July 2010	-	1,018	-	13	-
Ferrexpo Poltava Mining, the Parent until 31 July 2010	363	367,104	11,997	4,258	-
Other Ferrexpo Group entities	236	240,998	19,107	3,279	-
Other related parties	1,115	31	16	-	1,215
Total	1,714	609,151	31,120	7,550	1,215

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

5. Property, plant and equipment

Movement of property, plant and equipment is as follows:

2010	*Buildings*	*Plant and equipment*	*Vehicles*	*Fixture and fittings*	*Construction in progress and uninstalled equipment*	*Total*
Cost						
At 31 December 2009	13,960	24,248	49,991	426	47,717	136,342
Additions	50,728	225,689	238,363	1,099	236,660	752,539
Transfers	91	31	567	-	(689)	-
Disposal	(1,310)	-	-	(37)	(220)	(1,567)
At 31 December 2010	63,469	249,968	288,921	1,488	283,468	887,314
Accumulated depreciation						
At 31 December 2009	67	1,934	4,745	42	-	6,788
Depreciation charge	6,883	17,689	8,434	165	-	33,171
Disposal	(34)	-	-	(4)	-	(38)
At 31 December 2010	6,916	19,623	13,179	203	-	39,921
Net book value						
At 31 December 2009	13,893	22,314	45,246	384	47,717	129,554
At 31 December 2010	56,553	230,345	275,742	1,285	283,468	847,393

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

As at 31 December 2010, construction in progress and uninstalled equipment related to development of Yeristovo ore deposit and included costs of mine construction. As at 31 December 2010, construction in progress included borrowing costs of UAH 12,817 thousand (2009: nil) capitalised to qualifying asset at a capitalisation rate of 7.8%.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

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

In 2010, UAH 24,857 thousand of depreciation was capitalised in the cost of the mine construction (2009: UAH 78 thousand).

Pledged assets

As at 31 December 2010 equipment and mining vehicles with a carrying value of UAH 260,676 thousand (2009: UAH 53,581 thousand) were pledged as collateral for the debt of Ferrexpo Group entity for the purchase of these assets.

Impairment testing

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

Impairment testing was performed at 31 December 2010 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 8% p.a. (2009: 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.

6. Inventories

	2010	2009
Raw materials (at cost)	2,194	35
Spare parts (at cost)	1,598	6,930
Changeable equipment (at cost)	1,095	-
Fuel (at cost)	543	13
Other (at cost)	90	19
	5,520	6,997

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as at 31 December 2010

7. Provision for site restoration

The Company recognised provision relating to site restoration of Yeristovo deposit to the extent of damage already caused. The costs of decommissioning open pit mines are based on the amounts determined by third party experts. The provision represents the discounted value of the estimated costs to decommission and restore the mines at the dates the deposits are expected to be depleted. The present value has been calculated using a nominal pre-tax discount rate of 10% (2009: 10%).

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.

The movement in the site restoration provisions was as follows:

	2010	2009
	UAH 000	*UAH 000*
At 1 January	744	-
Unwind of the discount	76	-
Revision of provision	600	744
At 31 December	1,420	744

8. Trade and other payables

	2010	2009
	UAH 000	*UAH 000*
Payables for property, plant and equipment due to related parties (Note 4)	5,958	62,918
Payables for materials and services due to related parties (Note 4)	8,749	-
Payables for property, plant and equipment due to domestic suppliers	2,726	-
Payables for materials and services due to domestic suppliers	3,970	2,072
Payables to employees	3,892	1,248
Taxes payable, other than income tax	2,219	8
Other payables	31	4
	27,545	66,250

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

9. Defined benefit liability

The Company has a legal obligation to compensate the Ukrainian state pension fund for additional pensions paid to certain categories of employees mostly engaged in mining works who are eligible for early retirement benefits. As at 31 December 2010 the defined benefit plan covered 185 employees (2009: nil). In 2009 the mining works were performed by external contractors.

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

	2010 UAH 000
Opening defined benefit obligation	-
Current service cost	292
Defined benefit obligation	292
Defined benefit liability	292

Current service cost was included in cost of construction in progress, since employees eligible for additional pensions are engaged in works related to construction of the open pit mine.

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

	2010
Discount rate	11.0%
Staff turnover	3.0%
Future benefit increase	7.0%

10. Income tax

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

	2010 UAH 000	2009 UAH 000
Current income tax expense	125	-
Deferred tax expense	-	148
	125	148

The Company's income was subject to taxation in Ukraine only. In 2010 and 2009, the Ukrainian corporate income tax was levied on taxable income less allowable expenses at a rate of 25%. In December 2010, the Ukrainian Parliament adopted a new Tax Code, which became effective on 1 January 2011. According to the new Tax Code, a tax rate of 23% shall be applied starting from 1 April 2011, 21% - from 1 January 2012, 19% - from 1 January 2013 and 16% - from 1 January 2014. When estimating deferred taxes as at 31 December 2010, the Company accounted for the decrease in the income tax rate and other implications of the new Tax Code.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

10. Income tax *(continued)*

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

	2010	2009
	UAH 000	*UAH 000*
Loss before tax	(18,172)	(16,326)
Notional tax computed at the statutory tax rate of 25%	(4,543)	(4,081)
Effect of the change in income tax rate	3,594	-
Effect of the change in tax base for property, plant and equipment and intangibles	(4,548)	-
Increase in unrecognised deferred tax asset	4,224	2,223
Tax effect of differences that are not deductible / taxable in determining taxable profit relating to:		
Foreign exchange (gain) / loss, net	(92)	978
Loss on sale of VAT bonds	898	-
Other	592	1,028
Income tax expense	125	148

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

	Statement of financial position			***Profit or loss***	
	2010	*2009*	*2008*	*2010*	*2009*
	UAH 000	*UAH 000*	*UAH 000*	*UAH 000*	*UAH 000*
Deferred tax assets					
Provision for site restoration	227	186	-	(41)	(186)
Trade and other payables	187	-	95	(187)	95
Interest-bearing loans and borrowings	91	44	-	(47)	(44)
Defined benefit liability	47	-	-	(47)	-
Property, plant and equipment	-	-	118	-	118
Tax losses carried forward	6,046	5,144	-	(902)	(5,144)
Un-recognised deferred tax assets	(6,447)	(2,223)	-	4,224	2,223
Total deferred tax asset	*151*	*3,151*	*213*		
Deferred tax liabilities					
Property, plant and equipment	(129)	(3,128)	-	(2,999)	3,128
Prepayments made	(22)	(23)	(65)	(1)	(42)
Total deferred tax liability	*(151)*	*(3,151)*	*(65)*		
Net deferred tax asset	-	-	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 2010 and 2009, the deferred tax asset (mainly relating to tax losses carried forward) has not been recognised because realisation of this asset is uncertain.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

11. Income

	2010	2009
	UAH 000	*UAH 000*
Income from operating lease (Note 4)	7,425	6,906
Net gain on sale of inventories	137	4
Commission fee	25	-
Other income	-	18
	7,587	6,928

12. General and administrative expenses

	2010	2009
	UAH 000	*UAH 000*
Depreciation and amortisation	8,365	6,720
Personnel costs	7,420	6,213
Business trip expenses	1,211	1,276
Vehicles maintenance and fuel	994	1,778
Consulting and other professional fees	986	1,254
Office supplies	679	243
Other	2,575	1,045
	22,230	18,529

13. Other expenses

	2010	2009
	UAH 000	*UAH 000*
Loss on sale of VAT bonds	3,593	-
Charity	581	-
Transportation	301	-
Personnel costs	282	-
Taxes other than income tax	83	-
Depreciation and amortisation	76	-
Fines and penalties	71	13
Other	175	10
	5,162	23

In April 2010 the Parliament of Ukraine adopted the law "On the State Budget of Ukraine for 2010" which stipulated conversion of the overdue VAT receivable balances accumulated as at 1 May 2010 into government bonds with a coupon interest rate of 5.5% p.a. paid semi annually with 10 half yearly principal repayments. In September 2010, the Company converted VAT balances of UAH 27,636 thousand into government bonds and in September - October 2010 the Company sold these bonds to Ukrainian banks at a discount of 13% incurring a loss of UAH 3,593 thousand.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

14. Finance income and finance costs

	2010	2009
	UAH 000	*UAH 000*
Finance income		
Interest income (Note 4)	1,215	488
	1,215	488
Finance costs		
Interest expenses on loans and borrowings (Note 4)	-	750
Other finance costs	1,053	745
	1,053	1,495

15. Foreign exchange gain / (loss), net

	2010	2009
	UAH 000	*UAH 000*
Foreign exchange gain / (loss) relating to accounts payable	1,065	(3,925)
Foreign exchange gain / (loss) relating to loans and borrowings	534	(150)
Foreign exchange gain relating to cash and short-term deposits	319	123
Foreign exchange loss relating to accounts receivable	-	(3)
Net (loss) / gain on currency purchase / sale	(447)	260
	1,471	(3,695)

16. Commitments and contingencies

Commitments

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

	2010	2009
	UAH 000	*UAH 000*
Ferrexpo Group entities (Note 4)	5,805	218,863
Other related parties (Note 4)	-	1,420
Third parties	67,793	7,929
	73,598	228,212

Guarantees issued to secure debts of Ferrexpo Group entities

The Company issued guarantees and provided other collateral to secure debts of Ferrexpo Group entities located outside Ukraine, which attracted financing from Western banks. Further details are provided in Note 4.

Leases

In 2010 and 2009, the Company leased mining property to OJSC Ferrexpo Poltava Mining under non-cancellable short-term lease agreements. As at 31 December 2010, the future minimum lease receivable within one year comprises UAH 117 thousand (2009: UAH 6,634 thousand).

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

16. Commitments and contingencies *(continued)*

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.

17. 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*	
	2010	***2009***	***2010***	***2009***
	UAH 000	*UAH 000*	*UAH 000*	*UAH 000*
Financial assets				
Accounts receivable	1,090	5,184	1,090	5,184
Cash and short-term deposits	317,821	3,295	317,821	3,295
Financial liabilities				
Interest-bearing loans and borrowings	319,035	118,356	297,912	115,743
Trade and other payables, excluding taxes payable	25,326	66,242	25,326	66,242

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

18. 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.

Financial instrument risk exposure and management

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

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

Foreign currency risk

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

In common with many other businesses in Ukraine, foreign currencies, in particular the US dollar ("USD"), play a significant role in the underlying economics of the business transactions of the Company. As at 31 December 2010, the exchange rate of Ukrainian hryvnia ("UAH") as established by the National Bank of Ukraine was 7.96 to the US dollar (2009: UAH 7.99 to 1 US dollar).

Interest-bearing loans and borrowings and 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.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

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

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.

2010	*Increase /(decrease) in rate*	*Effect on profit before tax*
		UAH 000
UAH/USD	29.50%	(2,643)
UAH/USD	(29.50%)	2,643

2009	*Increase /(decrease) in rate*	*Effect on profit before tax*
		UAH 000
UAH/USD	31.30%	(36,249)
UAH/USD	(31.30%)	36,249

Liquidity risk

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

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

2010	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Total*
	UAH 000	*UAH 000*	*UAH 000*	*UAH 000*
Interest-bearing loans and borrowings	8,369	254,456	82,218	345,043
Trade and other payables	26,929	617	-	27,545
	35,298	255,073	82,218	372,588

2009	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Total*
	UAH 000	*UAH 000*	*UAH 000*	*UAH 000*
Interest-bearing loans and borrowings	1,492	123,342	-	124,834
Trade and other payables	65,981	269	-	66,250
	67,473	123,611	-	191,084

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

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

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 17.

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

Interest rate risk

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

As at 31 December 2010, the Company did not have loans with floating rates, therefore, the Company was not exposed to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in the interest rate, with all other variables held constant, of the Company's profit before tax as at 31 December 2009.

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

Capital risk management

The Company considers participants' contributions, trade payables due to and loans from Ferrexpo Group as primary capital sources. In 2010 and 2009, the Company received finance solely from Ferrexpo Group.

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

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2010

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

	2010	2009
	UAH 000	*UAH 000*
Interest-bearing loans and borrowings (Note 4)	319,035	118,356
Trade and other payables, excluding taxes payable (Note 8)	25,326	66,242
Cash and short-term deposits (Note 4)	(317,821)	(3,295)
Net debt	26,540	181,303
Net assets / (liabilities) attributable to participants	950,933	(10,770)
Net assets / (liabilities) attributable to participants and net debt	977,473	170,533

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.