

**LLC Ferrexpo Yeristovo GOK**  
**Financial Statements**

*As at 31 December 2012 and  
for the year then ended  
with Independent Auditors' Report*

**CONTENT**

**Independent Auditors' Report**

**Financial Statements of LLC Ferrexpo Yeristovo GOK**

Statement of Financial Position .....	1
Statement of Comprehensive Income.....	2
Statement of Cash Flows.....	3
Statement of Changes in Net Assets Attributable to Participants.....	4
Notes to the Financial Statements .....	5

## 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 2012 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 2012, 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. Our opinion is not qualified in respect of this matter.

*Ernst & Young Audit Services LLC*

29 March 2013



**STATEMENT OF FINANCIAL POSITION**  
**as at 31 December 2012**

	Notes	2012 UAH 000	2011 UAH 000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	3,315,203	2,000,948
Intangible assets		36,641	1,461
Prepayments for property, plant and equipment		106,439	242,926
Value added tax receivable	3.3	387,421	-
Other non-current assets		3,887	-
		<u>3,849,591</u>	<u>2,245,335</u>
<b>Current assets</b>			
Inventories	6	123,692	40,272
Accounts receivable	4	9,003	8,235
Prepaid income tax		1,764	1,764
Prepayments to suppliers and other current assets		421	6,004
Value added tax and other taxes receivable	3.3	853	247,945
Cash and short-term deposits	4	57,544	79,645
		<u>193,277</u>	<u>383,865</u>
<b>TOTAL ASSETS</b>		<u>4,042,868</u>	<u>2,629,200</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Net assets attributable to participants		2,343,735	1,698,154
Interest-bearing loans and borrowings	7	1,289,731	597,732
Provision for site restoration	8	1,206	1,242
Defined benefit liability	10	3,162	705
Guarantees issued	4	2,545	4,722
		<u>3,640,379</u>	<u>2,302,555</u>
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	7	44,979	10,147
Trade and other payables	9	356,580	315,234
Guarantees issued	4	930	1,264
		<u>402,489</u>	<u>326,645</u>
<b>TOTAL LIABILITIES</b>		<u>4,042,868</u>	<u>2,629,200</u>

Signed and authorised for release on behalf of LLC Ferrexpo Yeristovo GOK on 29 March 2013:

General Director

Nikolay Goroshko

Finance Director

Vladimir Leonov

Chief Accountant

Lyudmila Zakharchenko



**STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 31 December 2012**

	Notes	<u>2012</u>	<u>2011</u>
		<i>UAH 000</i>	<i>UAH 000</i>
Income	12	5,327	2,007
General and administrative expenses	13	(37,489)	(22,383)
Other expenses	14	(32,823)	(11,508)
Finance income	15	2,837	1,543
Finance costs	15	(101,081)	(1,388)
Foreign exchange gain, net	16	615	3,253
Loss before tax		<u>(162,614)</u>	<u>(28,476)</u>
Income tax expense	11	-	-
Loss for the year		<u>(162,614)</u>	<u>(28,476)</u>
Total comprehensive loss for the year		<u>(162,614)</u>	<u>(28,476)</u>

**STATEMENT OF CASH FLOWS**  
**for the year ended 31 December 2012**

	Notes	2012 UAH 000	2011 UAH 000
<b>OPERATING ACTIVITIES:</b>			
Loss before income tax		(162,614)	(28,476)
Adjustments:			
Depreciation and amortisation		5,930	3,501
Finance income	15	(2,837)	(1,543)
Finance costs	15	101,081	1,388
Foreign exchange loss/ (gain) relating to investing and financing activities, net		702	(4,959)
Loss on disposal of property, plant and equipment	14	6,927	1,217
		<u>(50,811)</u>	<u>(28,872)</u>
Working capital adjustments:			
Accounts receivable		(768)	(7,145)
Prepayments and other current assets		5,786	(5,778)
VAT receivable		(231,448)	(154,217)
Inventories		(83,420)	(34,752)
Trade and other payables including taxes, other than income tax and VAT		(379)	25,474
		<u>(361,040)</u>	<u>(205,290)</u>
Interest paid		(3,179)	(956)
Income taxes paid		-	(1,500)
<b>Net cash used in operating activities</b>		<u>(364,219)</u>	<u>(207,746)</u>
<b>INVESTING ACTIVITIES:</b>			
Acquisition of property, plant and equipment		(1,102,263)	(1,103,853)
Capitalised interest paid		(84,669)	-
Interest received		1,209	1,213
Loans provided to employees		(4,090)	-
Proceeds from disposal of property, plant and equipment		2,922	173
<b>Net cash used in investing activities</b>		<u>(1,186,891)</u>	<u>(1,102,467)</u>
<b>FINANCING ACTIVITIES:</b>			
Contributions from participants		806,947	782,000
Proceeds from borrowings		769,544	711,612
Repayment of borrowings		(47,482)	(421,575)
<b>Net cash from financing activities</b>		<u>1,529,009</u>	<u>1,072,037</u>
Net (decrease) / increase in cash and cash equivalents		(22,101)	(238,176)
Cash and cash equivalents at 1 January	4	79,645	317,821
<b>Cash and cash equivalents at 31 December</b>	4	<u>57,544</u>	<u>79,645</u>

*The accompanying notes form an integral part of the financial statements*

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO PARTICIPANTS**  
**for the year ended 31 December 2012**

	<i>Issued capital</i>	<i>Unpaid capital</i>	<i>Accumulated losses</i>	<i>Net assets attributable to participants</i>
	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>
<b>At 1 January 2011</b>	1,017,631	-	(66,698)	950,933
Loss attributable to participants	-	-	(28,476)	(28,476)
<i>Total comprehensive loss</i>	-	-	(28,476)	(28,476)
Guarantees issued to secure debts of Ferrexpo Group (Note 4)	-	-	(6,303)	(6,303)
Capital contribution	1,070,000	(288,000)	-	782,000
<b>At 31 December 2011</b>	2,087,631	(288,000)	(101,477)	1,698,154
Loss attributable to participants	-	-	(162,614)	(162,614)
<i>Total comprehensive loss</i>	-	-	(162,614)	(162,614)
Guarantees issued to secure debts of Ferrexpo Group (Note 4)	-	-	1,248	1,248
Contribution of unpaid capital 2011	-	288,000	-	288,000
Capital contribution	798,985	(280,038)	-	518,947
<b>At 31 December 2012</b>	2,886,616	(280,038)	(262,843)	2,343,735

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

### 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 2012, the Company employed 1,106 people (2011: 677 people).

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

<i>Participants</i>	2012		2011		2010	
	UAH 000	%	UAH 000	%	UAH 000	%
Ferrexpo AG (Switzerland)	2,886,587	99.999%	2,087,610	99.999%	1,017,621	99.999%
Ferrexpo Service LLC (Ukraine)	29	0.001%	21	0.001%	10	0.001%
	<u>2,886,616</u>	<u>100%</u>	<u>2,087,631</u>	<u>100%</u>	<u>1,017,631</u>	<u>100%</u>

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. The Company reached first iron ore in the second half of 2012, which is in accordance to the development plan. The full capacity is expected to be achieved 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, palletising, floatation and other processing facilities. Currently Ferrexpo Group provides financing in the amount required to carry out mining works according to the development plan.

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

#### General economic conditions

The 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, increased unemployment, 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 public finance, 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.



## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

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

#### Availability of financing

The Company is a start-up business. The ability of the Company to continue its operations will be dependent on the development of Yeristovo open pit mine and completion of construction of crushing, pelletising, floatation and other processing facilities, which in turn is dependent on its ability to raise sufficient financing. The current stage of the project is financed by Ferrexpo Group through a variety of options including a combination of debt and equity contributions. Ferrexpo Group is committed to provide further financing for the Company to continue its operations at least in the foreseeable future. Ferrexpo Group considers different possibilities of financing the construction in future including attracting an investor.

#### 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 initially recognised 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.

#### 3.2 Changes in accounting policy and disclosures

##### New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as at 1 January 2012:

- IAS 12 Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (Amendments)
- IFRS 7 Financial Instruments : Disclosures - Enhanced Derecognition Disclosure Requirements

The adoption of the standards or interpretations is described below:

##### *IAS 12 Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets*

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces 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. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has been no effect on the Company's financial position, performance or its disclosures.

##### *IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact to the Company.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

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

#### *IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Company does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

### 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**

As a start-up entity, Ferrexpo Yeristovo GOK does not have substantial amounts of VAT received on domestic sales which can be offset against VAT paid on purchases of capital equipment, goods and services. The Company therefore relies on refunds to be made by the Ukrainian government tax authority. Since the refunds have not been made on time, the gross recoverable balance of VAT increased to UAH 478,540 thousand as at 31 December 2012 (2011: UAH 247,945 thousand).

Despite the fact that the vast majority of this balance is due for immediate repayment, management believes that this VAT will be recovered in more than 12 months from the year end. An estimated discount of UAH 91,119 thousand has been recorded as at 31 December 2012 (2011: nil) to reflect the time value of money based on management's best estimate of the anticipated timing of refunds. The exact timing is subject to uncertainties outside of management's control. A change of estimate of timing may affect the balance of the recorded discount in future periods.

#### **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.

#### *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.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

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

#### Impairment of property, plant and equipment

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

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 2012

### 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 8.

#### 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 10.

#### 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 17.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

### 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.

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

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

#### Financial liabilities (*continued*)

##### *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.

##### *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.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

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

#### Impairment of financial assets (*continued*)

##### 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.

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

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

#### Derecognition of financial instruments (*continued*)

##### *Financial liabilities*

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

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

#### Property, plant and equipment

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

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

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

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

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.



## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

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

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

##### *Construction in progress*

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. Construction in progress includes cost of 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 probable that there will be an expected future economic benefit that is clearly attributable to the capitalised production stripping costs;
- the future economic benefit will flow to the entity in more than two financial years (not including the financial year in which the stripping costs first incurred);
- the stripping costs can be measured reliably and allocated to the volume of ore to be mined;
- the period in which the future economic benefit flows to the entity can be reliably determined.

#### Exploration and evaluation costs

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

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Exploration and evaluation expenditure comprises costs which are directly attributable to:

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

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

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

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

#### Exploration and evaluation costs (*continued*)

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

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

#### Development expenditure

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

#### Intangible assets

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

#### Amortisation

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

#### Borrowing costs

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

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

#### Impairment of non-financial assets

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

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

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

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

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

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

#### Inventories

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

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

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

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

#### Provisions

##### *General*

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

##### *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.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

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

#### **Environmental liabilities**

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

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

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

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

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

#### **Leases**

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

##### ***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.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

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

#### Revenue recognition (*continued*)

##### *Interest income*

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

##### *Rental income*

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

#### Taxes

##### *Current income tax*

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

##### *Deferred tax*

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

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

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

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.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

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

#### Taxes (*continued*)

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

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

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

#### Value-added tax

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

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

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

### 3.5 IFRSs and IFRIC Interpretations issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have some impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

#### *IAS 1 Financial Statement Presentation - Presentation of Items of Other Comprehensive Income (OCI)*

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings) would be presented separately from items that will never be reclassified (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets). The amendment affects presentation only and has no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Company's first annual report after becoming effective.

#### *IAS 19 Employee Benefits (Revised)*

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Company is in process of quantification of the effect.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

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

#### *IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

These amendments are not expected to impact the Company's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

#### *IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Company's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

#### *IFRS 9 Financial Instruments: Classification and Measurement*

IFRS 9, as issued, reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In December 2011 the IASB issued Mandatory Effective Date and Transition Disclosures (amendments to IFRS 9 and IFRS 7) according to which entities shall apply IFRS 9 as amended for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

#### *IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements*

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the Company. This standard becomes effective for annual periods beginning on or after 1 January 2013.

#### *IFRS 12 Disclosure of Involvement with Other Entities*

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities.

A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Company expects no impact on the financial position or performance.



## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

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

#### *IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

#### *IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine*

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation provides guidance on the accounting and separation of the costs of stripping activities resulting in the production of inventory in the current period or improved access to further mineral ore deposits that will be mined in future periods. The new interpretation applies to annual periods beginning on or after 1 January 2013. No material effects on the financial position or performance of the Company are expected.

#### *Annual Improvements May 2012*

These improvements will not have an impact on the Company, but include:

#### *IFRS 1 First-time Adoption of International Financial Reporting Standards*

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

#### *IAS 1 Presentation of Financial Statements*

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

#### *IAS 16 Property Plant and Equipment*

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

#### *IAS 32 Financial Instruments, Presentation*

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

#### *IAS 34 Interim Financial Reporting*

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

**NOTES TO THE FINANCIAL STATEMENTS**  
as at 31 December 2012

**4. Related party disclosure**

As at 31 December 2012 and 2011, the Company's outstanding balances with its related parties were as follows:

	<i>Ferrexpo AG, the Parent</i>	<i>Other Ferrexpo Group entities</i>	<i>Other related parties</i>	<i>Total</i>
	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>
<b>2012</b>				
Interest-bearing loans and borrowings	-	1,060,487	-	1,060,487
Payables for property, plant and equipment	261,129	-	87	261,216
Payables for materials and services	-	20,736	36	20,772
Accounts receivable	-	5,827	1,027	6,854
Cash and short-term deposits	-	-	56,978	56,978
<b>2011</b>				
Interest-bearing loans and borrowings	-	562,151	-	562,151
Payables for property, plant and equipment	261,024	-	-	261,024
Payables for materials and services	-	22,590	61	22,651
Accounts receivable	-	1,030	5,291	6,321
Prepayments for equipment	-	1	-	1
Cash and short-term deposits	-	-	79,645	79,645
Covered letter of credit (included in other current assets)	-	-	5,897	5,897

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

### 4. Related party disclosure (continued)

In 2012 and 2011, the Company's transactions with its related parties were as follows:

2012	<i>Ferrexpo AG, the Parent</i>	<i>Other Ferrexpo Group entities</i>	<i>Other related parties</i>	<i>Total</i>
	UAH 000	UAH 000	UAH 000	UAH 000
Purchases of property, plant and equipment	-	567	-	567
Purchases of materials and services included in construction in progress	-	116,854	1,687	118,541
Capitalised interest	-	84,669	-	84,669
Other expenses	-	1,155	4	1,159
General and administrative expenses	-	708	1,534	2,242
Finance income	-	1,264	1,209	2,473
Finance costs	206	-	1,296	1,502
Income	-	3,582	3,422	7,004
2011	<i>Ferrexpo AG, the Parent</i>	<i>Other Ferrexpo Group entities</i>	<i>Other related parties</i>	<i>Total</i>
	UAH 000	UAH 000	UAH 000	UAH 000
Purchases of property, plant and equipment	331,999	37,895	10,700	380,594
Purchases of materials and services included in construction in progress	-	97,822	-	97,822
Capitalised interest	-	32,731	-	32,731
Other expenses	-	203	-	203
General and administrative expenses	-	676	229	905
Finance income	-	330	842	1,172
Finance costs	-	-	680	680
Income	-	2,224	(488)	1,736

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

In 2012, the Company acquired from other Ferrexpo Group entities services of UAH 64,028 thousand which were capitalised into construction in progress (2011: UAH 861 thousand) and inventories of UAH 52,826 thousand (2011: UAH 97,822 thousand).

In 2011, the Company purchased from OJSC Ferrexpo Poltava Mining mining equipment, vehicles and construction in progress relating to Yeristovo deposit of UAH 37,895 thousand. In 2011 the Company acquired from Ferrexpo AG technical documentation for UAH 331,999 thousand.

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

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

### 4. Related party disclosure (*continued*)

#### *Income and expense*

As at 31 December 2012, mining equipment and buildings with a carrying value of UAH 14,799 thousand (2011: UAH 28,165 thousand) were rented out to Ferrexpo Poltava Mining under short-term non-cancellable operating lease agreements. In 2012, income from operating lease comprised UAH 2,492 thousand (2011: UAH 1,745 thousand) (Note 12). Relating accounts receivable were non-interest bearing and recoverable in 30 - 60 days.

In 2012, the Company sold iron ore extracted during the development phase of the pen pit mine to OJSC Ferrexpo Poltava Mining with a net income of UAH 21,091 thousand, which was deducted from the carrying value of the open pit mine.

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

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

In 2011 the Company obtained a USD 200,000 thousand unsecured loan facility from a Ferrexpo Group entity. The facility is denominated in USD, bears interest of 11.0% p.a. and is repayable in March 2016. As at 31 December 2012, principal of USD 98,000 thousand was outstanding.

In 2012 the Company obtained a USD 100,000 thousand unsecured loan facility from a Ferrexpo Group entity. The facility is denominated in USD, bears interest of 7.5% p.a. till 19 December 2012 and 9.8% since that and is repayable in August 2014. As at 31 December 2012, principal of USD 34,000 thousand was outstanding.

The related borrowing costs of UAH 84,669 thousand in 2012 (2011: UAH 32,731 thousand) were capitalised as a part qualifying assets (Note 5).

##### *Guarantees issued*

In 2011 the Company issued a free-of-charge guarantee for the total amount of USD 420,000 thousand to secure debt facilities attracted by Ferrexpo Group. The facility is used or intended to be used by other Ferrexpo Group entities. The debt facility matures in 2016.

The Company recognised fair value of the issued guarantees and the effect from the change in the initial amount of guarantees within the net assets attributable to participants. The Group recognised income of UAH 1,264 thousand relating to these guarantees (2011: UAH 330 thousand) within finance income (Note 15)

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

As at 31 December 2012, cash placed with a bank under a common control included a deposit of UAH 48,757 thousand (2011: UAH 69,798 thousand) denominated in USD, which bears interest of 3% p.a. (2011: 5% p.a.) and a deposit of UAH 7,400 thousand (2011: UAH 9,308 thousand) denominated in UAH, which bears interest of 18% p.a. (2011: 4.5% p.a.). The deposits have original maturity of less than three months. In 2012, the relating interest income of UAH 1,209 thousand was recognised in finance income (2011: UAH 842 thousand) (Note 15).

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

### 4. Related party disclosure (continued)

#### Commitments

As at 31 December 2012 and 2011 the Company's commitments to related parties for purchase of property and equipment comprised:

	<u>2012</u>	<u>2011</u>
	<i>UAH 000</i>	<i>UAH 000</i>
Ferrexpo Group entities	7,451	12,832
Other related parties	112,684	486
	<u>120,135</u>	<u>13,318</u>

#### Leases

In 2011 the Company entered into a non-cancellable agreement to lease a plot of land from Ferrexpo Poltava Mining. As at 31 December 2012 the total amount of future minimum lease payments comprised UAH 288,847 thousand (2011: UAH 109,134 thousand) (Note 17).

#### Compensation to key management personnel

Key management personnel comprise acting general director, acting finance director and chief accountant. In 2012, total compensation to key management personnel included in administrative expenses amounted to UAH 932 thousand (2011: UAH 876 thousand). Compensation to the key management personnel consists of contractual salary and bonuses.

### 5. Property, plant and equipment

Movement of property, plant and equipment is as follows:

2012	Land	Mining assets	Buildings	Plant and equipment	Vehicles	Fixture and fittings	Construction in progress and uninstalled equipment	Total
<b>Cost</b>								
At 31 December 2011	439	-	99,791	361,467	459,091	5,125	1,187,503	2,113,416
Additions	-	-	3,773	170,229	172,653	1,981	1,095,069	1,443,705
Transfers	1,958	1,741,101	51,334	20,369	3,891	227	(1,818,880)	-
Disposal	-	-	(7,276)	(14)	(686)	(3)	(6,035)	(14,014)
At 31 December 2012	<u>2,397</u>	<u>1,741,101</u>	<u>147,622</u>	<u>552,051</u>	<u>634,949</u>	<u>7,330</u>	<u>457,657</u>	<u>3,543,107</u>
<b>Accumulated depreciation</b>								
At 31 December 2011	-	-	18,560	47,750	45,636	522	-	112,468
Depreciation charge	-	-	15,246	45,734	57,583	1,038	-	119,601
Disposal	-	-	(4,098)	(10)	(56)	(1)	-	(4,165)
At 31 December 2012	<u>-</u>	<u>-</u>	<u>29,708</u>	<u>93,474</u>	<u>103,163</u>	<u>1,559</u>	<u>-</u>	<u>227,904</u>
<b>Net book value</b>								
At 31 December 2011	<u>439</u>	<u>-</u>	<u>81,231</u>	<u>313,717</u>	<u>413,455</u>	<u>4,603</u>	<u>1,187,503</u>	<u>2,000,948</u>
At 31 December 2012	<u>2,397</u>	<u>1,741,101</u>	<u>117,914</u>	<u>458,577</u>	<u>531,786</u>	<u>5,771</u>	<u>457,657</u>	<u>3,315,203</u>

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

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

2011	Land	Buildings	Plant and equipment	Vehicles	Fixture and fittings	Construction in progress and uninstalled equipment	Total
<b>Cost</b>							
At 31 December 2010	-	63,469	249,968	288,921	1,488	283,468	887,314
Additions	439	32,229	111,255	168,477	3,721	911,477	1,227,598
Transfers	-	4,376	372	1,822	-	(6,570)	-
Disposal	-	(283)	(128)	(129)	(84)	(872)	(1,496)
At 31 December 2011	439	99,791	361,467	459,091	5,125	1,187,503	2,113,416
<b>Accumulated depreciation</b>							
At 31 December 2010	-	6,916	19,623	13,179	203	-	39,921
Depreciation charge	-	11,668	28,132	32,457	396	-	72,653
Disposal	-	(24)	(5)	-	(77)	-	(106)
At 31 December 2011	-	18,560	47,750	45,636	522	-	112,468
<b>Net book value</b>							
At 31 December 2010	-	56,553	230,345	275,742	1,285	283,468	847,393
At 31 December 2011	439	81,231	313,717	413,455	4,603	1,187,503	2,000,948

On 31 December 2012 the Company put in operation the first component of the open pit mine. As a result, UAH 1,741,101 thousand was transferred from construction in progress to the mining asset.

As at 31 December 2012, equipment with carrying value of UAH 74,214 thousand was held under finance lease agreement (Note 7).

In 2012, borrowing costs of UAH 84,669 thousand relating to qualifying assets were capitalised (2011: UAH 32,731 thousand). In 2012, UAH 115,059 thousand of depreciation was capitalised in the cost of the mine construction (2011: UAH 69,596 thousand).

#### *Pledged assets*

As at 31 December 2012, equipment and mining vehicles with a carrying value of UAH 344,439 thousand (2011: UAH 62,658 thousand) was pledged as a security under loans from foreign banks (Note 7). As at 31 December 2011 equipment and mining vehicles with a carrying value of UAH 261,059 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 2012 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, extraction of iron ore commenced in 2012 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.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

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

#### Impairment testing (continued)

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 10% p.a. (2011: 8% 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

	2012	2011
	UAH 000	UAH 000
Spare parts (at cost)	71,737	22,026
Changeable equipment (at cost)	15,965	4,651
Fuel (at cost)	15,671	7,984
Iron ore (at cost)	12,584	-
Raw materials (at cost)	7,364	4,300
Other (at cost)	371	1,311
	<u>123,692</u>	<u>40,272</u>

### 7. Interest-bearing loans and borrowings

	2012	2011
	UAH 000	UAH 000
<b>Current</b>		
Foreign bank	29,210	6,990
Finance lease	9,262	-
Interest accrued	6,507	3,157
	<u>44,979</u>	<u>10,147</u>
<b>Non-current</b>		
Ferrexpo Group entity (Note 4)	1,055,076	559,286
Foreign bank	168,128	38,446
Finance lease	66,527	-
	<u>1,289,731</u>	<u>597,732</u>
	<u>1,334,710</u>	<u>607,879</u>

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

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

#### Loans from Ferrexpo Group entity

In 2011 the Company obtained a USD 200,000 thousand unsecured loan facility from a Ferrexpo Group entity. The facility is denominated in USD, bears interest of 11.0% p.a. and is repayable in March 2016. As at 31 December 2012, principal of USD 98,000 thousand was outstanding.

In 2012 the Company obtained a USD 100,000 thousand unsecured loan facility from a Ferrexpo Group entity. The facility is denominated in USD, bears interest of 7.5% p.a. till 19 December 2012 and 9.8% since that and is repayable in August 2014. As at 31 December 2012, principal of USD 34,000 thousand was outstanding.

#### Loans from a foreign bank

In 2011 the Company obtained a loan from a foreign bank for a purchase of a mining excavator. The loan is denominated in EUR, bears interest of Euribor 6 m + 2%, divided by 0.98 p.a. and is repayable in instalments in 2012 - 2018. The loan is secured with a purchased excavator with net book value of UAH 56,123 thousand as at 31 December 2012 (2011: UAH 62,658 thousand) and a non-separable free of charge guarantee provided by Ferrexpo AG.

In 2012 the Company obtained a loan of USD 22,043 thousand from a foreign bank. The loan is denominated in USD, bears interest of 2.508% p.a. and matures in March 2019. The loan is secured by equipment and mining vehicles with a carrying value of UAH 288,316 thousand and a non-separable free of charge guarantee provided by OJSC Ferrexpo Poltava Mining.

#### Undrawn borrowing facilities

As at 31 December 2012, available undrawn borrowing facilities of the Company totalled UAH 1,324,824 thousand including undrawn facilities under loan agreements with related parties.

#### Finance lease

In 2012 the Company entered into a sale and lease back agreement with a leasing company. The finance lease liabilities bear interest of 9% p.a. and are denominated in USD.

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

2012	Minimum lease payments <u>UAH 000</u>	Present value of minimum lease payments <u>UAH 000</u>
Within one year	11,936	7,693
After one year but not more than five years	52,036	37,250
More than five years	19,508	18,106
Total minimum lease payments	<u>83,480</u>	<u>63,049</u>
Less amounts representing finance charges	(20,431)	-
Add VAT	12,740	12,740
Liabilities under finance lease	<u>75,789</u>	<u>75,789</u>
Current portion	9,262	
Non-current portion	<u>66,527</u>	
	<u>75,789</u>	



## NOTES TO THE FINANCIAL STATEMENTS

### as at 31 December 2012

#### 8. 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 11.9% (2011: 11.9%).

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:

	<u>2012</u>	<u>2011</u>
	<i>UAH 000</i>	<i>UAH 000</i>
At 1 January	1,242	1,420
Unwind of the discount	148	147
Revision of provision and effect of change in assumptions	(184)	(325)
At 31 December	<u>1,206</u>	<u>1,242</u>

#### 9. Trade and other payables

	<u>2012</u>	<u>2011</u>
	<i>UAH 000</i>	<i>UAH 000</i>
Payables for property, plant and equipment	302,274	269,314
Payables for materials and services	35,514	29,162
Payables to employees	13,320	5,748
Taxes payable, other than income tax	3,935	10,253
Other payables	1,537	757
	<u>356,580</u>	<u>315,234</u>

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

### 10. 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 2012 the defined benefit plan covered 533 employees (2011: 305 employees).

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

	<u>2012</u>	<u>2011</u>
	<i>UAH 000</i>	<i>UAH 000</i>
Opening defined benefit obligation	1,787	292
Interest cost	196	32
Current service cost	2,207	543
Benefits paid	(2)	(2)
Actuarial (gain) / loss for the year	(2,006)	1,374
Gains on curtailment	-	(365)
Negative past service cost	-	(87)
Defined benefit obligation	<u>2,182</u>	<u>1,787</u>
Unrecognised actuarial gains / (losses)	921	(1,150)
Unrecognised past service cost	59	68
Defined benefit liability at the end of the year	<u>3,162</u>	<u>705</u>

<i>Benefit expense</i>	<u>2012</u>	<u>2011</u>
	<i>UAH 000</i>	<i>UAH 000</i>
Current service cost	2,207	543
Recognised actuarial loss	65	-
Interest cost	196	32
Recognised past service cost	(9)	(19)
Gains on curtailment	-	(141)
	<u>2,459</u>	<u>415</u>

<i>Benefit liability</i>	<u>2012</u>	<u>2011</u>
	<i>UAH 000</i>	<i>UAH 000</i>
Balance at beginning of the year	705	292
Benefits expense	2,459	415
Benefits paid	(2)	(2)
Balance at the end of the year	<u>3,162</u>	<u>705</u>

Benefit expense excluding interest 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. Interest cost was included in other finance costs.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

### 10. Defined benefit liability (continued)

Curtailment in 2011 was caused by the changes in the Ukrainian legislation regulating pension payments (pension reform).

Actuarial gains in 2012 were attributable to change in assumptions - gain of UAH 2,563 thousand (2011: loss of UAH 726 thousand) and experience adjustment - loss of UAH 557 thousand (2011: UAH 648 thousand).

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

	<u>2012</u>	<u>2011</u>
Discount rate	11.90%	11.00%
Staff turnover	10.00%	7.43%
Future benefit increase	5.28%	10.5%
Movement in unrecognised actuarial gains / (losses):		
	<u>2012</u>	<u>2011</u>
	<i>UAH 000</i>	<i>UAH 000</i>
Unrecognised loss at 1 January	1,150	-
Loss on change in assumptions and experience adjustment	(2,006)	1,374
Impact on curtailments / settlements	-	(224)
Loss recognised during the year	(65)	-
Unrecognised (gain) / loss at 31 December	<u>(921)</u>	<u>1,150</u>

The sensitivity analysis is given in the table below:

2012	<i>Increase /(decrease) in rate</i>	<i>Effect on defined benefit obligation</i>
Discount rate	1%	-12.29%
Discount rate	-1%	14.80%
Future benefit increase	1%	11.81%
Future benefit increase	-1%	-10.10%

### 11. Income tax

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

	<u>2012</u>	<u>2011</u>
	<i>UAH 000</i>	<i>UAH 000</i>
Current income tax expense	-	-
Deferred tax expense	-	-
	<u>-</u>	<u>-</u>

The Company's income was subject to taxation in Ukraine only. In 2012 Ukrainian corporate income tax was levied at a rate of 21% (2011: 25% in the 1st quarter of 2011 and 23% in the 2nd - 4th quarters). According to the new Tax Code, which became effective on 1 January 2011, a tax rate of 19% shall be applied starting from 1 January 2013 and 16% - from 1 January 2014. When estimating deferred taxes as at 31 December 2012, 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 2012

### 11. 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:

	2012	2011
	UAH 000	UAH 000
Loss before tax	(162,614)	(28,476)
Notional tax computed at the statutory tax rate of 21% (2011: 23.5%)	(34,149)	(6,692)
Effect of the change in tax rate (period of recoverability)	3,084	590
Effect of the change in tax base for property, plant and equipment and intangibles	(2,087)	-
Change in unrecognised deferred tax asset	11,024	(3,884)
Re-assessment of tax losses carried forward	-	8,919
<i>Tax effect of differences that are not deductible / (not taxable) in determining taxable profit relating to:</i>		
Foreign exchange gain, net	(150)	(1,191)
Loss on discounting of long-term VAT	19,135	-
Social sphere expenses	2,395	1,053
Other	748	1,205
Income tax expense	-	-

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

	<i>Statement of financial position</i>			<i>Profit or loss</i>	
	2012	2011	2010	2012	2011
	UAH 000	UAH 000	UAH 000	UAH 000	UAH 000
<b>Deferred tax assets</b>					
Property, plant and equipment	7,392	-	-	(7,392)	-
Trade and other payables	1,906	456	187	(1,450)	(269)
Trade and other receivables	1,889	-	-	(1,889)	-
Defined benefit liability	506	113	47	(393)	(66)
Provision for site restoration	193	199	227	6	28
Interest-bearing loans and borrowings	-	663	91	663	(572)
Tax losses carried forward	2,870	1,349	6,046	(1,521)	4,697
Un-recognised deferred tax assets	(13,587)	(2,563)	(6,447)	11,024	(3,884)
<b>Total deferred tax asset</b>	1,169	217	151	(952)	(66)
<b>Deferred tax liabilities</b>					
Interest-bearing loans and Non-current financial lease obligations	(818)	-	-	818	-
Prepayments made	(7)	-	(22)	7	(22)
Property, plant and equipment	-	(217)	(129)	(217)	88
<b>Total deferred tax liability</b>	(1,169)	(217)	(151)	952	66
<b>Net deferred tax asset</b>	-	-	-	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**as at 31 December 2012**

**11. Income tax (continued)**

The nature of the temporary differences is as follows:

- (i) Property, plant and equipment - differences in depreciation patterns and estimates of the remaining useful lives, differences in capitalisation principles;
- (ii) Trade and other payables and prepayments made - differences in valuation and recognition principles;
- (iii) Interest-bearing loans and borrowings - differences in the period of recognition.

As at 31 December 2012 and 2011, the deferred tax asset has not been recognised because realisation of this asset is uncertain.

**12. Income**

	<u>2012</u>	<u>2011</u>
	<i>UAH 000</i>	<i>UAH 000</i>
Income from operating lease (Note 4)	2,554	1,751
Net gain on sale of inventories	1,742	-
Services provided	217	27
Other income	814	229
	<u>5,327</u>	<u>2,007</u>

**13. General and administrative expenses**

	<u>2012</u>	<u>2011</u>
	<i>UAH 000</i>	<i>UAH 000</i>
Personnel costs	23,021	11,514
Vehicles maintenance and fuel	4,761	2,228
Depreciation and amortisation	3,219	3,465
Office supplies	1,889	1,372
Consulting and other professional fees	1,320	920
Business trip expenses	1,273	1,639
Other	2,006	1,245
	<u>37,489</u>	<u>22,383</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
as at 31 December 2012

**14. Other expenses**

	<u>2012</u>	<u>2011</u>
	UAH 000	UAH 000
Charity	9,379	4,219
Change in allowance for bad debts	8,267	388
Net loss on sale and write-off of PPE	6,927	1,217
Depreciation and amortisation	2,711	36
Taxes other than income tax	1,111	1,316
Personnel costs	1,064	219
Transportation	209	72
Net loss on sale of inventories	31	2,004
Fines and penalties	4	784
Other	3,120	1,253
	<u>32,823</u>	<u>11,508</u>

**15. Finance income and finance costs**

	<u>2012</u>	<u>2011</u>
	UAH 000	UAH 000
<i>Finance income</i>		
Interest income (Note 4)	1,209	842
Income from guarantees (Note 4)	1,264	330
Other finance income	364	371
	<u>2,837</u>	<u>1,543</u>
<i>Finance costs</i>		
Interest expenses on loans	6,529	956
Other finance costs	94,552	432
	<u>101,081</u>	<u>1,388</u>

Other finance costs include the recorded discount of UAH 91,119 thousand (2011: nil) to reflect the time value of money on the outstanding VAT balances that are expected to be recovered after more than one year of the period end (Note 3.3).

**16. Foreign exchange gain, net**

	<u>2012</u>	<u>2011</u>
	UAH 000	UAH 000
Foreign exchange (loss) / gain relating to loans and borrowings	(1,420)	3,783
Foreign exchange (loss) / gain relating to cash and short-term deposits	165	(509)
Foreign exchange gain relating to accounts payable	717	1,176
Foreign exchange (loss) / gain relating to accounts receivable	(1,200)	680
Net (loss) / gain on currency purchase / sale	<u>2,353</u>	<u>(1,877)</u>
	<u>615</u>	<u>3,253</u>

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

### 17. Commitments and contingencies

#### Commitments

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

	<u>2012</u>	<u>2011</u>
	<i>UAH 000</i>	<i>UAH 000</i>
Ferrexpo Group entities (Note 4)	7,451	12,832
Other related parties (Note 4)	112,684	486
Third parties	270,876	149,998
	<u>391,011</u>	<u>163,316</u>

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

In 2011 and 2010 the Company issued guarantees to secure debts of Ferrexpo Group entities located outside Ukraine, which attracted financing from foreign banks. Further details are provided in Note 4.

#### Leases

In 2012 the Company leased out mining property to OJSC Ferrexpo Poltava Mining under non-cancellable short-term lease agreements. As at 31 December 2012, the future minimum lease receivable within one year comprises UAH 1,976 thousand (2011: UAH 2,424 thousand).

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

	<u>2012</u>	<u>2011</u>
	<i>UAH 000</i>	<i>UAH 000</i>
In less than one year	6,212	2,480
From one to five years	24,849	9,921
More than five years	257,786	96,733
	<u>288,847</u>	<u>109,134</u>

#### 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 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.

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

### 17. Commitments and contingencies (continued)

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

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

VAT receivable amounting to UAH 415,787 thousand outstanding at 31 December 2012 and corresponding penalties of UAH 116,455 thousand are in the process of being considered by the Ukrainian court system in several different cases. Management believes that the claims have little legal merit and thus expects to ultimately receive positive court decisions for these ongoing court proceedings. Consequently, the VAT is recorded at its full amount in the consolidated financial statements, net of an estimated discount to reflect the time value of money as disclosed in Note 3.3.

### 18. 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:

	<i>Carrying amount</i>		<i>Fair value</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>	<i>UAH 000</i>
<i>Financial assets</i>				
Accounts receivable	9,003	8,235	9,003	8,235
Cash and short-term deposits	57,544	79,645	57,544	79,645
<i>Financial liabilities</i>				
Interest-bearing loans and borrowings	1,334,710	607,879	1,359,797	607,879
Trade and other payables, excluding taxes and payroll payables	339,325	299,233	339,325	299,233
Guarantees issued	3,475	5,986	3,475	5,986

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 2012

### 19. 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 2012, the exchange rate of Ukrainian hryvnia ("UAH") as established by the National Bank of Ukraine was 7.99 to the US dollar (2011: UAH 7.99 to 1 US dollar).

## NOTES TO THE FINANCIAL STATEMENTS

### as at 31 December 2012

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

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

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.

2012	<i>Increase /(decrease) in rate</i>	<i>Effect on profit before tax UAH 000</i>
UAH/USD	7.10%	(106,959)
UAH/USD	(7.10)%	106,959
UAH/EUR	12.67%	(4,907)
UAH/EUR	(12.67)%	4,907
2011	<i>Increase /(decrease) in rate</i>	<i>Effect on profit before tax UAH 000</i>
UAH/USD	23.25%	(175,260)
UAH/USD	(23.25)%	175,260
UAH/EUR	27.20%	(12,358)
UAH/EUR	(27.20)%	12,358

#### 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.

2012	<i>Less than 3 months UAH 000</i>	<i>3 to 12 months UAH 000</i>	<i>1 to 5 years UAH 000</i>	<i>More than 5 years UAH 000</i>	<i>Total UAH 000</i>
Interest-bearing loans and borrowings	45,360	128,731	1,438,610	101,949	1,714,650
Trade and other payables, excluding taxes and payroll payables	339,325	-	-	-	339,325
Guarantees issued	233	698	2,544	-	3,475
	384,918	129,429	1,441,154	101,949	2,057,450

**NOTES TO THE FINANCIAL STATEMENTS**  
as at 31 December 2012

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

2011	Less than 3	3 to 12	1 to 5	More than 5	Total
	months	months	years	years	
	UAH 000	UAH 000	UAH 000	UAH 000	UAH 000
Interest-bearing loans and borrowings	18,412	55,065	791,073	10,877	875,427
Trade and other payables, excluding taxes and payroll payables	299,233	-	-	-	299,233
Guarantees issued	316	948	4,722	-	5,986
	<u>317,961</u>	<u>56,013</u>	<u>795,795</u>	<u>10,877</u>	<u>1,180,646</u>

*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 18.

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.

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

2012	Increase /(decrease) in basis points	Effect on profit before tax UAH 000
Change in interest rate (EURIBOR)	0.16%	75
Change in interest rate (EURIBOR)	(0.16)%	(75)
2011	Increase /(decrease) in basis points	Effect on profit before tax UAH 000
Change in interest rate (EURIBOR)	0.15%	70
Change in interest rate (EURIBOR)	(0.15)%	(70)

## NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2012

### 19. Financial risk management objectives and policies (*continued*)

#### *Capital risk management*

The Company considers participants' contributions, trade payables due to and loans from Ferrexpo Group as primary capital sources. In 2012 and 2011, the Company received finance mainly from Ferrexpo Group.

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

	<u>2012</u>	<u>2011</u>
	<i>UAH 000</i>	<i>UAH 000</i>
Interest-bearing loans and borrowings (Note 4, 7)	1,334,710	607,879
Trade and other payables, excluding taxes and payroll payables (Note 9)	339,325	299,233
Cash and short-term deposits (Note 4)	(57,544)	(79,645)
Net debt	<u>1,616,491</u>	<u>827,467</u>
Net assets attributable to participants	<u>2,343,735</u>	<u>1,698,154</u>
Net assets attributable to participants and net debt	<u>3,960,226</u>	<u>2,525,621</u>

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.

### 20. Events after the reporting period

As at the date of issue of these financial statements, the participants of the Company fully paid capital which was unpaid as at 31 December 2012.