LLC Ferrexpo Yeristovo GOK

Financial Statements

As at 31 December 2014 and
for the year then ended
with Independent Auditors' Report

CONTENT

Independent Auditors' Report

Financial Statements of LLC Ferrexpo Yeristovo GOK

Building a better
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Ernst & Young Audit Services LLC
Khreschatyk Street, 19A
Kyiv, 01001, Ukraine
Tel: +380 (44) 490 3000
Fax: +380 (44) 490 3030
Ukrainian Chamber of Auditors
Certificate: 3516
www.ey.com/ua

ТОВ «Ернст енд Янг Аудиторські Послуги»
Україна, 01001, Київ
вул. Хрещатик, 19А
Тел.: +380 (44) 490 3000
Факс: +380 (44) 490 3030
Свідоцтво Аудиторської
Палати України: 3516

INDEPENDENT AUDITORS' REPORT

To the Participants of Ferrexpo Yeristovo Mining LLC

We have audited the accompanying financial statements of Ferrexpo Yeristovo Mining LLC, which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of cash flows and statement of changes in net assets attributable to participants for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ferrexpo Yeristovo Mining LLC as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of matter

We draw attention to Note 4 to the financial statements, which discloses a significant concentration of the Ferrexpo Yeristovo Mining LLC's transactions with related parties. Our opinion is not qualified in respect of this matter.

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

Ernst & Young Audit Services LLC

30 March 2015

STATEMENT OF FINANCIAL POSITION
as at 31 December 2014

	Notes	2014	2013
		UAH 000	*UAH 000*
ASSETS			
Non-current assets			
Property, plant and equipment	5	4,841,475	4,072,516
Intangible assets		33,662	34,918
Value added tax receivable	6	32,581	305,329
Inventories	8	200,309	8,063
Prepaid income tax	6	151,687	76,337
Prepayments and other non-current assets	7	27,479	24,151
Deferred tax asset	15	-	5,654
		5,287,193	4,526,968
Current assets			
Inventories	8	395,672	364,656
Accounts receivable	9	122,955	255,081
Prepayments to suppliers and other current assets	7	21,555	13,583
Value added tax and other taxes receivable	6	128,483	143
Cash and short-term deposits	10	534,930	322,424
		1,203,595	955,887
TOTAL ASSETS		6,490,788	5,482,855
LIABILITIES			
Non-current liabilities			
Net assets attributable to participants		2,087,227	3,218,867
Interest-bearing loans and borrowings	11	3,612,860	216,736
Provision for site restoration	12	10,377	4,371
Defined benefit liability	13	5,022	3,074
Guarantees issued	4	1,007	1,385
		5,716,493	3,444,433
Current liabilities			
Interest-bearing loans and borrowings	11	136,199	1,649,950
Trade and other payables	14	636,590	387,674
Guarantees issued	4	1,506	798
		774,295	2,038,422
TOTAL LIABILITIES		6,490,788	5,482,855

Signed and authorised for release on behalf of LLC Ferrexpo Yeristovo GOK on 30 March 2015:

General Director — Nikolay Goroshko

Finance Director — Vladimir Leonov

Chief Accountant — Lyudmila Zakharchenko

«ЄРИСТІВСЬКИЙ ГІРНИЧО-ЗБАГАЧУВАЛЬНИЙ КОМБІНАТ»
Ідент. код 35713283

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

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2014

	Notes	2014	2013
		UAH 000	*UAH 000*
Revenue	4	828,985	470,292
Cost of sales	16	(744,658)	(425,089)
Gross profit		84,327	45,203
Other income	17	6,208	7,559
General and administrative expenses	18	(70,833)	(53,994)
Selling and distribution expenses	4	(15,963)	(5,385)
Value added tax recovery/(write-off)	20	132,181	(93,279)
Other expenses	19	(115,432)	(47,366)
Finance income	20	9,509	5,326
Finance costs	20	(145,520)	(78,138)
Net foreign exchange loss	21	(1,897,361)	(248)
Loss before tax		(2,012,883)	(220,322)
Income tax expense	15	(5,947)	(746)
Loss after tax		(2,018,830)	(221,068)
Re-measurement (loss)/gains on defined benefit plans		(335)	535
Income tax effect	15	60	(102)
Other comprehensive (loss)/income for the year, net of tax		(275)	433
Total comprehensive loss for the year, net of tax		**(2,019,105)**	**(220,635)**

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

STATEMENT OF CASH FLOWS
for the year ended 31 December 2014

	Notes	2014	2013
		UAH 000	*UAH 000*
OPERATING ACTIVITIES			
Loss before income tax		(2,012,883)	(220,322)
Adjustments:			
Depreciation and amortisation	5	247,950	151,086
Finance income	20	(141,690)	(5,326)
Finance costs	20	145,520	171,417
Increase in allowance for doubtful debts		100,071	-
Net foreign exchange loss relating to investing and financing activities		1,897,361	4,313
Loss on disposal of property, plant and equipment	19	2,153	22,783
Working capital adjustments:			
Accounts receivable		6,889	(126,183)
Prepayments and other current assets		(7,335)	(9,867)
VAT receivable		150,437	(6,100)
Inventories		(299,078)	(225,952)
Trade and other payables including taxes, other than income tax and VAT		(20,493)	16,094
		68,902	(228,057)
Interest paid		(134,555)	(56,639)
Capitalised interest paid		(73,590)	(59,694)
Income taxes paid		(75,350)	(66,075)
Interest received		8,046	3,122
Loans provided to employees		(3,690)	(22,285)
Defined employee benefits paid		(36)	(17)
Net cash used in operating activities		**(210,273)**	**(429,645)**
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(1,037,673)	(805,292)
Proceeds from sale of marketable securities		194,731	-
Proceeds from disposal of property, plant and equipment		12,615	40,438
Net cash used in investing activities		**(830,327)**	**(764,854)**
FINANCING ACTIVITIES			
Contributions from participants		1,007,139	959,443
Proceeds from borrowings		344,111	1,326,838
Repayment of borrowings		(277,655)	(817,691)
Repayment of finance lease liabilities under sale lease-back transaction		(14,031)	(9,211)
Net cash from financing activities		**1,059,564**	**1,459,379**
Net increase in cash and cash equivalents		18,963	264,880
Net foreign exchange difference in cash and cash equivalents	10	193,543	-
Cash and cash equivalents at 1 January		322,424	57,544
Cash and cash equivalents at 31 December	10	**534,930**	**322,424**

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

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO PARTICIPANTS for the year ended 31 December 2014

	Issued capital	Unpaid charter capital	Re-measurement on defined benefit plans	Accumulated losses	Net assets attributable to participants
	UAH 000	*UAH 000*	*UAH 000*	*UAH 000*	*UAH 000*
As at 1 January 2013	2,886,616	(280,038)	856	(262,843)	2,344,591
Loss attributable to participants			-	(221,068)	(221,068)
Re-measurement on defined benefit plans less deferred tax effect (restated*)	-		433	-	433
Total comprehensive loss	-		*433*	*(221,068)*	*(220,635)*
Change in amount of guarantees issued to secure debts of Ferrexpo Group (Note 4)	-		-	362	362
Capital contribution	799,300	280,038	-	-	1,079,338
Other contributions from the participants (Note 4)	-		-	15,211	15,211
At 31 December 2013	3,685,916	-	1,289	(468,338)	3,218,867
Loss attributable to participants	-		-	(2,018,830)	(2,018,830)
Re-measurement on defined benefit plans less deferred tax effect	-	-	(275)	-	(275)
Total comprehensive loss	-	-	*(275)*	*(2,018,830)*	*(2,019,105)*
Change in amount of guarantees issued to secure debts of Ferrexpo Group (Note 4)	-		-	221	221
Capital contribution	1,171,514	(284,270)	-	-	887,244
At 31 December 2014	4,857,430	(284,270)	1,014	(2,486,947)	2,087,227

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

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2014

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 Str., Komsomolsk, Poltava region, Ukraine. As at 31 December 2014, the Company employed 1,482 employees (2013: 1,318 employees).

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

Participants	Contribution 2014	%	Contribution 2013	%
Ferrexpo AG (Switzerland)	4,857,382	99.999%	3,685,879	99.999%
Ferrexpo Service LLC (Ukraine)	48	0.001%	37	0.001%
	4,857,430	100.00%	3,685,916	100.00%

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

The Company was set up for the purpose of developing Yeristovo iron ore deposit: extraction and processing of iron ore and further production of iron ore pellets. The Company reached first iron ore in the second half of 2012, which is in accordance to the development plan. The full capacity is expected to be achieved 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 Company conducts operations in Ukraine. The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation, and significant imbalances in the public finance and foreign trade.

In 2014, Ukrainian political and economic situation deteriorated significantly. The political and social unrest combined with regional tensions has led to the secession of the Autonomous Republic of Crimea to the Russian Federation, full-fledged armed confrontations with separatists in certain parts of the Donetsk and Lugansk regions and, ultimately, to the significant deterioration of the political and economic relations of Ukraine with the Russian Federation. These factors have contributed to the decline of key economic indices, increase of the state budget deficit, depletion of the NBU's foreign currency reserves and, as a result, further downgrading of the Ukrainian sovereign debt credit ratings.

From 1 January 2014 and up to the date of the issuance of these financial statements, the Ukrainian Hryvnia (the "UAH") depreciated against major foreign currencies by approximately 193% calculated based on the National Bank of Ukraine (the "NBU") exchange rate of UAH to US Dollar. The NBU imposed certain restrictions on purchase of foreign currencies, cross border settlements, and also mandated obligatory conversion of foreign currency proceeds into UAH.

The known and estimable effects of the above events on the financial position and performance of the Company in the reporting period have been taken into account in preparing these financial statements. The Government has committed to direct its policy towards the association with the European Union, to implement a set of reforms aiming at the removal of the existing imbalances in the economy, public finance and public governance, and the improvement of the investment climate.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2014

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

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

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

Availability of financing

In 2014 the Company started commercial mining of the iron ore from the first component of the Yeristovo open pit mine. The Company continues to develop the further components of the open pit mine. The ability of the Company to continue its operations will be dependent on the further development of the open pit mine and completion of construction of crushing, pelletising, floatation and other processing facilities, which now provided by FPM and also 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 has provided parent support letter, in accordance with which 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 adopted by the European Union.

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

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

3.2 Changes in accounting policy and disclosures

Certain reclassifications have been made to the 2013 amounts for consistency of presentation with the 2014 amounts.

Changes in accounting policies

The Company has adopted the following amended IFRS and IFRIC which are effective for annual periods beginning on or after 1 January 2014

Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)
These amendments provide an exception to the requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment is not relevant to the Company, since the Company does not qualify to be an investment entity under IFRS 10.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2014

3.2 Changes in accounting policy and disclosures (continued)

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32
These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments had no impact on the Company's financial position.

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

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. This amendment is not relevant to the Company, since the Company has not novated its derivatives during the current period.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36
These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments had no impact on the Company's financial position or performance.

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:

Operating lease commitments – Company as a lessor

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

Capitalised stripping costs

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

An important area of judgement is the distinction between the pre-production and production phase of a mine together with the identification of the components of the ore body and the allocation of the production stripping costs to the components of the ore body or the inventory produced. At 31 December 2014 the carrying amount of capitalised pre-production stripping costs included in assets under construction amounted to UAH 1,047,293 thousand (2013: UAH 452,918 thousand).

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2014

3.3 Significant accounting judgments, estimates and assumptions (continued)

Weathered ore

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

As at 31 December 2014 the Company had stock of weathered ore totalling UAH 200,309 thousand (2013: UAH 8,063 thousand). It is the Company's intention to process weathered ore. Based on the Company's current processing plans it is not expected that the volume of weathered ore stockpiled will be processed within the next year. As a consequence, the entire balance is classified as non-current in the Company's statement of financial position for the financial year ended 31 December 2014.

As at 31 December 2014, weathered ore is valued at cost and the calculated net realisable value is above the expected cost if converted into pellets or concentrate. A potential trigger for any future impairment would be any change to the Company's plans in respect of the construction of a processing plant or the completion of the capacity upgrade programme at the FPM.

Estimates and assumptions

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

Impairment of property, plant and equipment

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2014

3.3 Significant accounting judgments, estimates and assumptions (continued)

Depreciation

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

Deferred tax assets

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

Ore reserve and resource estimate

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

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

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

Provision for site restoration

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

Employee defined benefit liability

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

Fair value of financial Instruments

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

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2014

3.3 Significant accounting judgments, estimates and assumptions (continued)

Commitments and contingencies

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

3.4 Summary of significant accounting policies

Functional currency

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

Foreign currency translation

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

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

Financial assets

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and receivables

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2014

3.4 Summary of significant accounting policies (continued)

hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

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

Subsequent measurement

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

Loans and borrowings

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

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

Financial guarantee contracts

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

Offsetting of financial instruments

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

Fair value of financial instruments

Fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deductions for transaction costs.

For financial instruments not traded in an active market, fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Impairment of financial assets

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

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