LLC Ferrexpo Yeristovo Mining

Financial Statements
and Independent Auditor's Report
for the Year Ended 31 December 2017

LLC FERREXPO YERISTOVO MINING

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LLC FERREXPO YERISTOVO MINING

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Management is responsible for the preparation of the financial statements that present fairly the financial position of Limited Liability Company Ferrexpo Yeristovo Mining (the "Company") as of 31 December 2017 and the results of its operations, cash flows and changes in net assets attributable to participants for the year then ended, in compliance with International Financial Reporting Standards as adopted by the European Union ("IFRSs as adopted by the EU").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- Making an assessment of the Company's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRSs as adopted by the EU;
- Maintaining statutory accounting records in compliance with Ukrainian legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- Preventing and detecting fraud and other irregularities.

The financial statements of the Company for the year ended 31 December 2017 were approved by management on 20 April 2018.

On behalf of management:

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

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Participants of LLC Ferrexpo Yeristovo Mining:

Opinion

We have audited the financial statements of Limited Liability Company Ferrexpo Yeristovo Mining (the "Company"), which comprise the statement of financial position as at 31 December 2017, 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, 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 ("IFRSs as adopted by the EU").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 4 to the financial statements, which discloses a significant concentration of the Company's transactions with its related parties. Our opinion is not modified in respect of this matter.

Other Matter

The financial statements of the Company for the year ended 31 December 2016, were audited by another auditor who expressed an unmodified opinion on those statements on 31 March 2017.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as adopted by the EU, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte & Touche

20 April 2018

LLC FERREXPO YERISTOVO MINING

STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2017
In Ukrainian Hryvnias and in thousands

	Notes	31 December 2017	31 December 2016
Assets			
Non-current assets			
Property, plant, and equipment	5	5,639,525	5,009,176
Intangible assets		35,594	33,730
Inventories	8	267,374	267,373
Prepaid income tax		151,817	151,817
Prepayments and other assets, non-current	7	-	1,101
Deferred income tax asset	15	538,673	-
Total non-current assets		**6,632,983**	**5,463,197**
Current assets			
Inventories	8	273,463	248,993
Accounts receivable	9	1,457,801	141,860
Prepayments and other current assets	7	34,236	15,237
Value added tax and other taxes receivable	6	127,617	51,987
Cash and short-term deposits	10	60,804	14,692
Total current assets		**1,953,921**	**472,769**
Assets held for sale		39	77
Total assets		**8,586,943**	**5,936,043**
Net assets / (deficit) attributable to participants		2,749,265	(355,015)
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	11	111,470	329,404
Provision for site restoration	12	22,961	9,948
Defined benefit liability	13	21,458	9,943
Total non-current liabilities		**155,889**	**349,295**
Current liabilities			
Interest-bearing loans and borrowings	11	5,264,666	5,793,740
Trade and other payables	14	417,123	148,023
Total current liabilities		**5,681,789**	**5,941,763**
Total liabilities		**8,586,943**	**5,936,043**

Signed and authorised for release on behalf of LLC Ferrexpo Yeristovo Mining on 20 April 2018:

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

«ЄРИСТІВСЬКИЙ ГІРНИЧО-ЗБАГАЧУВАЛЬНИЙ КОМБІНАТ»
Ідент. код 35713283

LLC FERREXPO YERISTOVO MINING

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017
In Ukrainian Hryvnias and in thousands

	Notes	2017	2016
Revenue	16	6,480,414	1,392,703
Cost of sales	17	(3,603,679)	(1,329,744)
Gross profit		**2,876,735**	**62,959**
Other income	18	123,939	28,432
General and administrative expenses	19	(92,370)	(72,223)
Selling and distribution expenses	20	(646,855)	(80,858)
Other expenses	21	(111,328)	(138,418)
Finance costs	22	(363,775)	(335,902)
Foreign exchange loss, net	23	(87,080)	(731,684)
Profit/(loss) before tax		**1,699,266**	**(1,267,694)**
Income tax benefit	15	536,062	130
Profit/(loss) for the year		**2,235,328**	**(1,267,564)**
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods			
Re-measurement gain/(loss) on defined benefit plans	13	(14,513)	737
Income tax effect	15	2,612	-
Other comprehensive (loss)/income for the year, net of tax		**(11,901)**	**737**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**2,223,427**	**(1,266,827)**

The accompanying notes on pages from 8 to 46 form an integral part of these financial statements.

LLC FERREXPO YERISTOVO MINING

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
In Ukrainian Hryvnias and in thousands

	Notes	2017	2016
Operating activities			
Profit/(loss) before income tax		1,699,266	(1,267,564)
Adjustments:			
Depreciation and amortisation	5	307,350	399,773
Finance costs	22	363,775	335,902
Allowance for doubtful debts	21	1,377	622
Allowance for obsolete inventory	21	16,570	-
Write-off of VAT on prepayments	21	17,388	-
Defined employee benefits costs	13	(4,263)	1,310
Foreign exchange loss, net	23	86,497	722,385
Loss/(Gain) on disposal of property, plant and equipment	21	(2,200)	62,958
Working capital adjustments:			
Change in trade and other receivables		(1,258,146)	318,648
Change in prepayments and other current assets		(17,860)	(7,556)
Change in taxes recoverable, other than income tax		(93,018)	23,626
Change in inventories		(41,041)	12,889
Change in trade and other payables including taxes, other than income tax		249,573	20,814
Cash generated from operating activities		1,325,268	623,834
Income tax paid		-	-
Interest paid		(449,653)	(215,137)
Defined employee benefits paid		(300)	(164)
Net cash flows from operating activities		**875,315**	**408,533**
Investing activities			
Acquisition of property, plant and equipment		(857,729)	(339,950)
Proceeds from disposal of property, plant and equipment		20,210	11,652
Purchase of intangible assets		(6,254)	-
Capitalised borrowing costs		(62,777)	(100,206)
Net cash flows used in investing activities		**(906,550)**	**(428,504)**
Financing activities			
Contributions from participants		880,853	256,409
Repayment of borrowings		(746,028)	(173,874)
Repayment of finance lease liabilities		(56,766)	(50,560)
Net cash flows from financing activities		**78,059**	**31,975**
Net increase in cash and cash equivalents		46,824	12,004
Net foreign exchange difference on cash and short-term deposits		(712)	(1,725)
Cash and short-term deposits at 1 January	**10**	**14,692**	**4,413**
Cash and short-term deposits at 31 December	**10**	**60,804**	**14,692**

The accompanying notes on pages from 8 to 46 form an integral part of these financial statements.

LLC FERREXPO YERISTOVO MINING

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO PARTICIPANTS FOR THE YEAR ENDED 31 DECEMBER 2017

In Ukrainian Hryvnias and in thousands

	Issued capital	Unpaid charter capital	Additional paid-in capital	Remeasure-ment on defined benefit plans	Accumu-lated losses	Net deficit attributable to participants
As at 1 January 2016	**4,857,430**	**(279,992)**	**169,751**	**(116)**	**(4,091,670)**	**655,403**
Loss attributable to participants	-	-	-	-	(1,267,564)	**(1,267,564)**
Re-measurement on defined benefit plan	-	-	-	737	-	**737**
Total comprehensive loss	**-**	**-**	**-**	**737**	**(1,267,564)**	**(1,266,827)**
Capital contribution from participants	-	116,613	139,796	-	-	**256,409**
As at 31 December 2016	**4,857,430**	**(163,379)**	**309,547**	**621**	**(5,359,234)**	**(355,015)**
Profit attributable to participants	-	-	-	-	2,235,328	**2,235,328**
Re-measurement on defined benefit plan	-	-	-	(11,901)	-	**(11,901)**
Total comprehensive income	**-**	**-**	**-**	**(11,901)**	**2,235,328**	**2,223,427**
Capital contribution from participants (Note 4)	649,120	15,692	216,041	-	-	**880,853**
As at 31 December 2017	**5,506,550**	**(147,687)**	**525,588**	**(11,280)**	**(3,123,906)**	**2,749,265**

The accompanying notes on pages from 8 to 46 form an integral part of these financial statements.

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

1. CORPORATE INFORMATION

Limited Liability Company Ferrexpo Yeristovo Mining (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, Budivelnykiv Str., Horishni Plavni (former Komsomolsk), Poltava region, Ukraine. As at 31 December 2017, the Company employed 1,274 employees (2016: 1,226 employees).

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

	Contribution 2017	%	Contribution 2016	%
Ferrexpo AG (Switzerland)	5,506,496	99.999%	4,857,382	99.999%
Ferrexpo Service LLC (Ukraine)	54	0.001%	48	0.001%
Total	**5,506,550**	**100.000%**	**4,857,430**	**100.000%**

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 Ferrexpo Group held by Kostiantyn 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 started extracting first iron ore in the second half of 2012. Currently annual iron ore production is about 14 million ton.

2. OPERATING ENVIRONMENT, RISKS AND ECONOMIC CONDITIONS

General economic conditions

The Company conducts its 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 the recent years, Ukraine has been in a political and economic turmoil. Crimea, an autonomous republic of Ukraine, was effectively annexed by the Russian Federation. In 2016-2017, an armed conflict with separatists continued in certain parts of Luhanska and Donetska regions. These events resulted in higher inflation, devaluation of the national currency against major foreign currencies, decrease of GDP, illiquidity, and volatility of financial markets.

In 2017, annual inflation rate amounted to 13.7% (2016: 12.4%). The Ukrainian economy proceeded recovery from the economic and political crisis of previous years that resulted in real GDP smooth growth of around 2.5% (2016: 2.4%) and stabilisation of national currency. From trading perspective, the economy was demonstrating refocusing on the European Union ("EU") market, which was a result of the signed Association Agreement with the EU in January 2016 that established the Deep and Comprehensive Free Trade Area ("DCFTA"). Under this agreement, Ukraine has committed to harmonise its national trade-related rules, norms, and standards with those of the EU, progressively reduce import customs duties for the goods originating from the EU member states, and abolish export customs duties during a 10-year transitional period. Implementation of DCFTA began on 1 January 2017. As a result, the Russian Federation implemented a trade embargo or import duties on key Ukrainian export products. In response, Ukraine implemented similar measures against Russian products.

In terms of currency regulations, the National Bank of Ukraine ("NBU") decreased the required share of mandatory sale of foreign currency proceeds from 65% to 50% from April 2017, increased settlement period for export-import transactions in foreign currency from 120 to 180 days from May 2017, and allowed companies to pay the 2013 (and earlier) dividends with a limit of USD 2 million per month from November 2017 (from June 2016, companies were allowed to pay dividends for 2014–2016 to non-residents with a limit of USD 5 million per month).

In March 2015, Ukraine signed four-year Extended Fund Facility ("EFF") with the International Monetary Fund ("IMF") that will last until March 2019. The total program amounted to USD 17.5 billion, while Ukraine has so far received only USD 8.7 billion from the entire amount. In September 2017, Ukraine successfully issued USD 3 billion of Eurobonds, of which USD 1.3 billion is new financing, with the remaining amount aimed to refinance the bonds due in 2019. The NBU expects that Ukraine will receive another USD 3.5 billion from the IMF in 2018. To receive next tranches, the government of Ukraine has to implement certain key reforms, including in such areas as pension system, anti-corruption regulations, and privatisation.

Further stabilisation of the economic and political situation depends, to a large extent, upon success of the Ukrainian government's efforts, yet the impact of further economic and political developments on the Company's performance and position is currently difficult to predict.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

These financial statements are not purported to be filed with Ukrainian regulators, which establish additional requirements to the financial statements, for which purpose the Company prepares a different set of financial statements.

The financial statements have been prepared on a historical cost basis or deemed cost on transition to IFRS, except for post-employment benefits, which are measured in accordance with IAS 19 "Employee Benefits", financial instruments at the initial recognition, 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 and all values are rounded to the nearest thousand (UAH 000), except where otherwise indicated.

Going concern

In 2017, while continuing the development of its production and revenue generating facilities, the Company became profit-making due to the reengineering of intragroup transactions and its net profit for the year comprised UAH 2,235,328 thousand (2016: loss of UAH 1,267,564 thousand). As at 31 December 2017, its current liabilities exceeded current assets by UAH 3,727,868 thousand (2016: UAH 5,468,994 thousand). The excess is primarily attributable to the interest-bearing borrowings of UAH 5,009,999 thousand due to one of Ferrexpo Group entities. The continued availability of such financing in foreseeable future has been confirmed by Ferrexpo plc by declaring a commitment that Ferrexpo Group entities would not require settlement of the outstanding facilities in case such settlement would have a negative impact on the Company's financial position or performance. In addition, in January 2018 the Company prolonged maturity of the loans due to Ferrexpo Group entities. Under amended repayment schedule, these loans are due by the end of March 2019 (Note 27).

Accordingly, the financial statements have been prepared on a going concern basis. This basis of preparation presumes that the Company will be able to realise its assets and discharge its liabilities in the ordinary course of business.

Changes in accounting policies and disclosures

Adoption of new and revised International Financial Reporting Standards

The following standards were adopted by the Company on 1 January 2017:

- Amendments to IAS 7 "Statement of Cash Flows": Disclosure Initiative;
- Amendments to IAS 12 "Income Taxes": Recognition of Deferred Tax Assets for Unrealised Losses;
- Annual Improvements to IFRSs 2014-2016 Cycle – amendments to IFRS 12 "Disclosure of Interests in Other Entities".

Amendments to IAS 7 "Statement of Cash Flows": Disclosure Initiative

The Company has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Company's liabilities arising from financing activities consist of interest bearing loans and borrowings, interest accrued and finance leases. A reconciliation between the opening and closing balances of these items is provided in Note 25. Consistent with the transition provisions of the amendments, the Company has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 25, the application of these amendments has had no impact on the Company's financial statements.

Amendments to IAS 12 "Income Taxes": Recognition of Deferred Tax Assets for Unrealised Losses

The Company has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Company's financial statements as the Company already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

Annual Improvements to IFRSs - 2014-2016 Cycle

The Company has applied the amendments to IFRS 12 "Disclosure of Interests in Other Entities" included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Company.

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Company's financial statements.

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

New Standards and Interpretations in issue but not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations, as well as amendments to the Standards were in issue but not yet effective:

Standards and Interpretations	Effective for annual period beginning on or after
IFRS 9 *Financial Instruments* [1]	1 January 2018
IFRS 15 *Revenue from contracts with customers* including amendments to IFRS 15 – Effective date of IFRS 15[1]	1 January 2018
Clarifications to IFRS 15 Revenue from Contracts with Customers [1]	1 January 2018
Amendments to IFRS 4 *Insurance Contracts* – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts [1]	1 January 2018
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018
Amendments to IAS 40 *Investment Property* – Transfers of Investment Property	1 January 2018
Amendments to IFRS 2 *Share-based Payment* – Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IFRSs - Annual Improvements to IFRSs 2014 –2016 Cycle [1]	1 January 2018
IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019
IFRS 16 *Leases* [1]	1 January 2019
Amendments to IFRSs – Annual Improvements to IFRSs 2015–2017 Cycle	1 January 2019
Amendments to IFRS 9 *Financial Instruments* – Prepayment Features with Negative Compensation	1 January 2019
Amendments to IAS 28 *Investment in Associates and Joint Ventures* – Long-term Interests in Associates and Joint Ventures	1 January 2019
IFRS 17 *Insurance Contracts*	1 January 2021
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred indefinitely

[1] Standards have been already endorsed for use in the European Union

The Company has elected not to early adopt any revised and amended standards or interpretations, which are not yet mandatory in the EU.

The standards and interpretations below could have an impact on the financial statements of the Company.

IFRS 9 Financial instruments

The complete standard was issued in July 2014 including the requirements previously issued and additional amendments and becomes effective for financial years beginning on or after 1 January 2018. The new standard replaces IAS 39 "Financial Instruments: Recognition and Measurement" and includes a new expected loss impairment model, changes to the classification and measurement requirements of financial assets as well as to hedge accounting. Expected loss impairment model is not expected to materially impact the Company's financial statements given that probability of credit losses is low as at 31 December 2017 on the basis that cash and cash equivalents are held with banks having strong external credit rating, while most of the trade and other receivables are with entities under common control, who have no financial issues. The approach to classification and measurement of financial instruments is unchanged on application of the new standard. The Company does not apply hedge accounting under IAS 39 and does not intend to apply it under IFRS 9.

IFRS 15 Revenue from Contracts with Customers

The new standard was issued in May 2014 and outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes the current revenue recognition standard IAS 18 "Revenue". The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. The new standard establishes the principles for the disclosure of useful information in the financial statements about the nature, amount, timing and uncertainties of revenue and cash flows arising from contracts with customers. The Company has assessed the impacts of transitioning to IFRS 15. Under IFRS 15 the revenue recognition model will change from one based on the transfer of risk and reward of ownership to the transfer of control of ownership. The Company's revenue is predominantly derived from sales of iron pellets, where the point of recognition is defined based on DAP ("Delivered at place") and FOB ("Free on Board") International Commercial terms (Incoterms). As the time of the transfer of risks and rewards coincides with the transfer of a control under DAP and FOB, the management does not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance of the Company.

IFRS 16 Leases

The new standard was issued in January 2016 replacing the previous leases standard, IAS 17 Leases, and related Interpretations. IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leases for the customer ("lessee") and the supplier ("lessor"). IFRS 16 eliminates the classification of leases as either operating or finance as is required by IAS 17. Instead, it introduces a single lessee accounting model requiring a lessee to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is 12 months or less. Currently, the Company leases land and buildings under operating leases. The vast majority of these operating leases are for land used for the extraction of ore and are not within the scope of IFRS 16 and will be accounted for under IFRS 6 Exploration for and evaluation of mineral resources. The Company expects that the new standard will primarily result in the recognition of right-of-use assets and liabilities in respect of the long-term rental contracts for land not used for the direct extraction of ore as well as for lease equipment. This new standard applies to annual reporting periods beginning on or after 1 January 2019 subject to EU endorsement and the Company does not intend to early adopt this standard. If the new standard were applied as of 31 December 2017, right-of-use assets and corresponding lease liabilities of UAH 43,446 thousand, before the effect from discounting, would have been recognised without an effect on the operating result.

IFRIC 23 Uncertainty over income tax treatments

The interpretation was issued in June 2017 and clarifies the accounting treatment for uncertainties in income taxes. The new interpretation is to be applied to the determination of taxable results, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 "Income Taxes", and becomes effective for financial years beginning on or after 1 January 2019 subject to EU endorsement. The Company is in the process of performing the impact assessment and does not intend to early apply the new interpretation.

The Company does not expect an impact on its financial statements from all other standards, interpretations and amendments issued at the reporting date, but not yet to be adopted for these financial statements.

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 revenues, 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.

Restricted cash and deposits

On 17 September 2015, the National Bank of Ukraine ("the NBU") announced that it had adopted a decision to declare the Company's transactional bank and a related party Bank Finance & Credit insolvent and the bank was put into temporary administration by the Deposit Guarantee Fund. The banking license was revoked by the NBU on 17 December 2015 and the bank's liquidation procedure was initiated by the Deposit Guarantee Fund. The total balance of cash and deposits held at Bank Finance & Credit became no longer available to the Company and, therefore, has been reclassified from cash and cash equivalents to restricted cash and deposits.

It is expected that the liquidation of the bank will take several years and the level of potential recoverability of UAH 291,636 thousand in restricted cash and deposits is still uncertain as at 31 December 2017. A full allowance for the balance was recorded. Please see Note 7 and Note 24 for further information.

Operating lease commitments – Company as a lessor

The Company leases out its equipment to 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. The distinction whether the costs are related to pre-production or production stripping costs has to be made based on the approved mine plan. In case of any significant subsequent changes of the mine plan, the accounting treatment should be re-assed and the capitalised costs accordingly adjusted. 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 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. The identification of components of a mine's ore body is made by reference to the respective life of mine plan, which depends on a range of factors, including price of iron ore, the cost of extraction and mine's specific operational feature. As at 31 December 2017, the carrying amount of capitalised pre-production stripping costs included in assets under construction amounted to UAH 343,337 thousand (2016: UAH 1,618,077 thousand).

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. With the current processing facilities, 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.

It is the Company's intention to process weathered ore. Based on the Company's current processing plans it is not expected that the whole volume of weathered ore stockpiled will be processed within the next year. As a consequence, the Company estimated amounts to be sold within 12 months from the reporting date, and the remaining balance is classified as non-current in the Company's statement of financial position as at 31 December 2017.

As at 31 December 2017, weathered ore is valued at cost and the calculated net realizable 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 program at FPM.

Deferred tax assets recoverability

The Company's accounting policy for taxation requires management's judgment in assessing whether deferred tax assets and certain deferred tax liabilities are recognised in the statement of financial position. Deferred tax assets, including those arising from tax losses carried forward and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the expected generation of suffcient future taxable profits. A deviation between expected and effective future taxable profits may have an adverse impact on the recognised deferred tax balances in the financial statements of the Company.

Assumptions about the generation of expected future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditure, and other capital management transactions. Judgments are also required in the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of recognised deferred tax balances in the financial statement of the Company and the amounts of temporary differences not yet recognised. In such circumstances, some, or all, of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of comprehensive income. As at 31 December 2017, the Company's financial statements showed deferred tax assets of UAH 538,673 thousand (2016: nil). See also Note 15 for further information.

Estimates

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.

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. The last estimate of reserves and resources was made in 2013 by independent specialists.

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, requirements of the legal and regulatory framework, inflation and discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at each 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 provisions for site restoration are given 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, life expectancy, staff turnover 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 active market for corporate bonds in Ukraine. Due to the long-term nature of these plans, the estimates are subject to significant uncertainty. In making these estimates and assumptions, management considers advice provided by external advisers, such as actuaries. At 31 December 2017, the carrying amount of defined benefit liability was UAH 21,458 thousand (2016: UAH 9,943 thousand). Detailed disclosure is made in 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. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. 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 24.

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 by the Company at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency official rate of exchange of National Bank of Ukraine ruling at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in 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.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are classified as loans and receivables, available-for-sale financial assets, financial assets at fair value through profit or loss, held-to-maturity investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. As of the reporting date the Company had financial assets falling into the first category only. The Company determines the classification of its financial assets at initial recognition.

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

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

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

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 in the statement of comprehensive income. The losses arising from impairment are recognised in in the statement of comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are classified as loans and borrowings, financial liabilities at fair value through profit or loss, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. As of the reporting date the Company had financial liabilities falling into the first category only. The Company determines the classification of its financial liabilities at initial recognition.

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

The Company's financial liabilities include trade and other payables, interest-bearing loans and borrowings.

Subsequent measurement

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

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using EIR method. Gains and losses are recognised in the statement of comprehensive income 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 costs in the statement of comprehensive income.

Offsetting of financial instruments

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

Fair value of financial instruments

The Company measures financial instruments such as available-for-sale at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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 there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's 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 statement of comprehensive income. 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 in the statement of comprehensive 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 in the statement of comprehensive income.

Derecognition of financial instruments

Financial assets

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

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

Financial liabilities

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost or deemed cost at the date of transition to IFRS (hereinafter referred to as "the cost") net of accumulated depreciation and accumulated impairment losses, if any.

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 them accordingly. 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.

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.

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. Changes in the estimates, which affect unit of production calculations, are accounted for prospectively. Depreciation commences on the month following the date of putting the item into operation. Freehold land is not depreciated.

Except for mining assets and tailing storage assets, which are depreciated using the unit of production method, 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 statement of comprehensive income when the item is derecognised.

Construction in progress and uninstalled equipment

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 of property, plant and equipment. Construction in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Mining assets

Mining assets comprise mine exploration, evaluation and development costs incurred up to commencement of production, including mine stripping costs incurred in order to access the mineral-bearing ore deposits prior to the commencement of production, and are depreciated using the unit of production method based on the estimated economically recoverable reserves to which they relate.

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 including licences necessary to carry out these works 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 licenses 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.

Capitalised 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 not demonstrable. Exploration and evaluation assets shall be assessed for impairment, and any impairment loss recognised, before reclassification to development expenditure.

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 licenses, 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. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

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.

Borrowing costs may include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

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 or cash-generating unit's recoverable amount. An asset's recoverable amount is the higher of the asset's or the CGU's fair value less CGU's costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In calculating 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 write-down of obsolete inventories, are recognised in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

For assets 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 CGU'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, or 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 statement of comprehensive income.

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 as follows:

- Raw materials – purchase cost on a first-in, first-out basis;
- Finished goods and work in progress – weighted-average cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence.

If the iron ore stock pile is not expected to be processed in 12 months after the reporting date, it is included in non-current assets and the net realisable value is calculated on a discounted cash flow 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 fair value of considerations received or receivable.

Provisions

General

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

Re-measurements, comprising of actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of the date of the plan amendment or curtailment, and the date that the Company recognises restructuring-related costs.

Interest is calculated by applying the discount rate to the defined benefit liability. The Company recognises service cost within cost of sales and interest expense within finance costs. Service costs comprise current service costs, past-service costs, gains and losses on curtailments and non-routine settlements.

Environmental liabilities

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

Immediate provision, if any, 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 recognise 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. The arrangement is assessed for whether 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 or assets, even if that right is not explicitly specified in an arrangement.

Company as a lessee

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the statement of comprehensive income 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 and other income 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, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding indirect taxes. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. 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. This is determined by the terms of the sales agreement. Typically, sales are made on FOB (Free on Board), or and DAP (Delivered at Place) terms.

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 in the statement of comprehensive income.

Rental income

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

Cost of sales and other expense recognition

Cost of sales that relates to the same transaction is recognised simultaneously with respective revenue. Expenses including warranties and other costs which are to be incurred after the shipment of goods and can be measured reliably are also recognised.

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 recognised on temporary differences at the reporting date between the tax bases of assets and liabilities used in the computation of taxable profit 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;
- 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;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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 recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows relating to investing and financing activities are stated net of VAT, if applicable.

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Reclassifications and revisions

Certain comparative information presented in the financial statements for the year ended 31 December 2016 has been revised in order to achieve comparability with the presentation used in the financial statements for the year ended 31 December 2017. Such reclassifications and revisions were not significant to the Company's financial statements.

4. RELATED PARTY DISCLOSURE

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

2017	Parent	Other Ferrexpo Group entities	Other related parties	Total
Accounts receivable	38,169	1,419,173	1,151	**1,458,493**
Interest-bearing loans and borrowings	-	5,027,793	-	**5,027,793**
Payables for materials and services	-	258,687	16,914	**275,601**

2016	Parent	Other Ferrexpo Group entities	Other related parties	Total
Accounts receivable	-	141,794	507	**142,301**
Interest-bearing loans and borrowings	-	5,560,531	-	**5,560,531**
Payables for materials and services	-	40,422	7	**40,429**

In 2017 and 2016, the Company's transactions with its related parties were as follows:

2017	Parent	Other Ferrexpo Group entities	Other related parties	Total
Sales of iron ore pellets	282,904	5,636,819	-	**5,919,723**
Sales of iron ore	-	515,257	-	**515,257**
Sales of services and other materials	-	122,898	-	**122,898**
Purchases of materials and services	-	2,422,513	1,399	**2,423,912**
Capitalised borrowing costs	-	62,777	-	**62,777**
Selling and distribution expenses	-	413,190	227,212	**640,402**
General and administrative expenses	-	555	2,496	**3,051**
Other income	-	-	-	**-**
Other expenses	-	394	25	**419**
Finance costs		328,780	551	**329,331**

2016	Parent	Other Ferrexpo Group entities	Other related parties	Total
Sales of iron ore pellets	-	188,707	-	**188,707**
Sales of iron ore	-	1,068,459	-	**1,068,459**
Sales of concentrate	-	134,579	-	**134,579**
Sales of services and other materials	-	923	-	**923**
Purchases of materials and services	-	300,048	1,906	**301,954**
Capitalised borrowing costs	-	100,206	-	**100,206**
Selling and distribution expenses	-	53,713	18,466	**72,179**
General and administrative expenses	-	498	3,137	**3,635**
Other income	-	35,048	1	**35,049**
Other expenses	-	431	23	**454**
Finance costs	-	310,479	527	**311,006**

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Revenue, trade and other receivables

In 2017, the Company sold iron ore to FPM of UAH 515,257 thousand, iron ore pellets to Ferrexpo Middle East of UAH 5,636,819 thousand and Ferrexpo AG of UAH 282,904 thousand, and transportation and other services to Ferrexpo Belanovo Mining of UAH 11,537 thousand (2016: UAH 1,080,284 thousand, UAH 312,229 thousand, UAH nil and UAH 157 thousand respectively).

Related accounts receivable were non-interest bearing and recoverable in 30-60 days.

Interest-bearing loans and borrowings

In 2012, the Company obtained a USD 100,000 thousand unsecured loan facility from a Ferrexpo Group entity. In 2013, the facility was extended up to USD 300,000 thousand. As at 31 December 2017, principal of USD 178,500 thousand which is equivalent to UAH 5,009,999 thousand (2016: USD 200,000 thousand or UAH 5,438,172 thousand) was outstanding. The facility is denominated in USD and bears interest of 7.5%. In January 2018 the Company prolonged maturity of the facility due to Ferrexpo Group entity for one year – till the end of March 2019.

In 2017, the related borrowing costs of UAH 62,777 thousand (2016: UAH 100,206 thousand) were capitalised as a part of qualifying assets (Note 5).

Cash and short-term deposits

As at 31 December 2017, cash and short-term deposits of UAH 291,636 thousand were placed with a Bank Finance & Credit (Note 7).

The Company had transactional banking arrangements with Bank Finance & Credit which was controlled by Kostiantyn Zhevago.

On 17 December 2015, Bank F&C was declared insolvent and its license was revoked by decision of the Board of the National Bank of Ukraine. The Company impaired in full the balance with Finance & Credit totalling UAH 291,636 thousand.

Leases

In 2011 the Company entered into a non-cancellable agreement to lease a plot of land from FPM. As at 31 December 2017, the total amount of future minimum lease payments comprised UAH 630,733 thousand (2016: UAH 488,111 thousand) (Note 24).

Capital contribution from participants

In 2017 the Company increased its authorized capital by UAH 880,853 thousand by making additional contributions by the participants of the Company (Ferrexpo AG and Ferrexpo Services).

Compensation to key management personnel

Key management personnel comprise seven persons as at 31 December 2017 (2016: nine persons). In 2017, total compensation to key management personnel included in administrative expenses amounted to UAH 7,050 thousand (2016: UAH 7,463 thousand). Compensation to the key management personnel consists of contractual salary and bonuses.

5. PROPERTY, PLANT AND EQUIPMENT

As at 31 December, property, plant and equipment comprised:

	2017	**2016**
Property, plant and equipment	5,616,423	4,999,334
Prepayments for property, plant and equipment	23,102	9,842
Total	**5,639,525**	**5,009,176**

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Movement of property, plant and equipment was as follows:

2017	Land	Mining assets	Buildings	Plant and equipment	Vehicles	Fixture and fittings	Construction in progress and uninstalled equipment	Total
Cost								
As of 31 December 2016	**2,397**	**1,741,101**	**697,273**	**941,433**	**794,347**	**35,276**	**2,464,124**	**6,675,951**
Additions	-	-	45,573	34,154	35,515	6,589	928,700	1,050,531
Transfers	-	499,308	22,842	13,008	53,481	1,890	(590,529)	-
Disposals and write offs	-	-	(16,173)	(1,441)	(12,409)	(1,443)	(9,263)	(40,729)
As of 31 December 2017	**2,397**	**2,240,409**	**749,515**	**987,154**	**870,934**	**42,312**	**2,793,032**	**7,685,753**
Accumulated depreciation								
As of 31 December 2016	**-**	**532,312**	**167,664**	**467,371**	**495,273**	**13,997**	**-**	**1,676,617**
Depreciation charge	-	134,355	46,589	113,182	114,668	6,643	-	415,437
Disposals	-	-	(10,413)	(1,235)	(9,672)	(1,404)	-	(22,724)
As of 31 December 2017	**-**	**666,667**	**203,840**	**579,318**	**600,269**	**19,236**	**-**	**2,069,330**
Net book value								
31 December 2016	**2,397**	**1,208,789**	**529,609**	**474,062**	**299,074**	**21,279**	**2,464,124**	**4,999,334**
31 December 2017	**2,397**	**1,573,742**	**545,675**	**407,836**	**270,665**	**23,076**	**2,793,032**	**5,616,423**

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

2016	Land	Mining assets	Buildings	Plant and equipment	Vehicles	Fixture and fittings	Construction in progress and uninstalled equipment	Total
Cost								
As of 31 December 2015	**2,397**	**1,741,101**	**623,010**	**805,686**	**744,132**	**33,210**	**2,299,009**	**6,248,545**
Additions	-	-	66,328	98,160	10,772	2,189	326,790	504,239
Transfers	-	-	13,692	37,802	39,588	-	(91,082)	-
Disposals and write offs	-	-	(5,757)	(215)	(145)	(123)	(70,593)	(76,833)
As of 31 December 2016	**2,397**	**1,741,101**	**697,273**	**941,433**	**794,347**	**35,276**	**2,464,124**	**6,675,951**
Accumulated depreciation								
As of 31 December 2015	**-**	**383,022**	**122,310**	**349,856**	**364,407**	**9,746**	**-**	**1,229,341**
Depreciation charge	-	149,290	47,220	117,680	130,952	4,359	-	449,501
Disposals	-	-	(1,866)	(165)	(86)	(108)	-	(2,225)
As of 31 December 2016	**-**	**532,312**	**167,664**	**467,371**	**495,273**	**13,997**	**-**	**1,676,617**
Net book value								
31 December 2015	**2,397**	**1,358,079**	**500,700**	**455,830**	**379,725**	**23,464**	**2,299,009**	**5,019,204**
31 December 2016	**2,397**	**1,208,789**	**529,609**	**474,062**	**299,074**	**21,279**	**2,464,124**	**4,999,334**

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Equipment held under finance lease agreement

As at 31 December 2017, equipment with carrying value totalling UAH 41,561 thousand (2016: UAH 40,002 thousand) was held under finance lease agreement.

Capitalised borrowing costs

In 2017, borrowing costs of UAH 62,777 thousand relating to qualifying assets were capitalised (2016: UAH 100,206 thousand) using capitalisation rate of 7.50% (2016: 7.20%). These borrowing costs were fully paid and presented within investing activities in the statement of cash flows.

Capitalised depreciation

In 2017, UAH 112,472 thousand of depreciation charge was capitalised in the cost of the mine construction (2016: UAH 51,616 thousand).

Pledged assets

As at 31 December 2017, equipment and mining vehicles with a carrying value of UAH 214,988 thousand (2016: UAH 243,403 thousand) were pledged as security under the Company's liabilities.

Fully depreciated assets

As at 31 December 2017 property, plant and equipment included plant and equipment at cost of UAH 185,340 thousand (2016: UAH 173,154 thousand) which were fully depreciated but remained in use.

6. TAXES RECEIVABLE AND PREPAID

As at 31 December, taxes receivable comprised:

	2017	2016
VAT due from budget	127,598	51,960
Other taxes receivable	19	27
Total	**127,617**	**51,987**

The table below provides a reconciliation of the VAT receivable balance:

	2017	2016
Balance as at 1 January	**51,960**	**75,599**
Net VAT incurred	733,203	(3,018)
VAT receivables settled in cash	(657,565)	(20,621)
Balance as at 31 December	**127,598**	**51,960**

The management believes that VAT receivable will be fully offset against VAT liability in 2018.

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

7. PREPAYMENTS AND OTHER CURRENT ASSETS

	2017	2016
Current		
Prepayments for materials and spare parts	22,497	1,005
Prepaid services	10,366	12,282
Other	1,373	1,950
Total current	**34,236**	**15,237**

	2017	2016
Non-current		
Prepaid services	-	1,101
Cash and short-term deposits with Bank Finance & Credit subject to liquidation process	291,636	291,636
Allowance on cash and deposits currently not available	(291,636)	(291,636)
Total non-current	**-**	**1,101**

Restricted cash and deposit represent funds held at the Bank Finance & Credit, which was the Company's transactional bank and which was controlled by Kostiantyn Zhevago. On 17 September 2015, Bank Finance & Credit was put into temporary administration. On 17 December 2015, the banking license of Finance & Credit was revoked by the National Bank of Ukraine and the liquidation of the bank was initiated by the Deposit Guarantee Fund.

As at 31 December 2017 and 2016, the Company impaired in full the balance of cash and cash equivalents with Bank Finance & Credit.

The cash balance in Bank Finance & Credit included UAH 29,830 thousand, which was deposited as a mortgage for loans granted by the bank to the Company's employees under the Company's social loyalty program.

8. INVENTORIES

	2017	2016
Current		
Spare parts	93,454	111,681
Consumables	72,686	45,392
Fuel	33,328	26,171
Iron ore pellets	29,802	-
Raw materials	23,124	25,004
Iron ore	21,036	36,179
Other	33	4,566
Total current	**273,463**	**248,993**
Non-current		
Iron ore	267,374	267,373
Total non-current	**540,837**	**516,366**

Inventories are held at the lower of cost or net recoverable amount. Inventories classified as non-current comprises weathered ore stockpiles that are, based on the Company's current processing plans, not planned to be processed within the next year. It is the Company's intention to process this ore at a later point of time and it is expected that it will take more than one year to process this stockpile, depending on the Company's future mining activities, processing capabilities of FPM and anticipated market conditions.

In 2017, the amount of write-down of inventories recognised within other expenses was UAH 16,570 thousand (2016: UAH 1,540 thousand) (Note 21).

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

9. ACCOUNTS RECEIVABLE

	2017	2016
Receivables for pellets	1,360,354	-
Receivables for iron ore	66,414	123,746
Receivables for equipment sold	-	13,305
Receivables for services	27,199	12,263
Receivables for materials	3,375	4,332
Other receivables	7,896	4,665
Total	**1,465,238**	**158,311**
Allowance for doubtful debts	(7,437)	(16,451)
Total	**1,457,801**	**141,860**

Trade receivables are non–interest bearing and are generally on 30-90 day terms.

As at 31 December, the ageing analysis of trade and other receivables was as follows:

		Neither past due nor	Past due but not impaired				
	Total	**impaired**	**<30 days**	**30-60 days**	**60-90 days**	**90-120 days**	**>120 days**
2017	**1,457,801**	1,457,706	-	-	-	69	26
2016	**141,860**	4,379	429	14	137,021	4	13

Reconciliation of the allowance for non-collectability of receivables:

	2017	2016
As at 1 January	**(16,451)**	**(15,838)**
Charge for the year	(1,377)	(5,336)
Utilised	10,391	4,119
Amounts reversed	-	604
As at 31 December	**(7,437)**	**(16,451)**

10. CASH AND SHORT-TERM DEPOSITS

As at 31 December 2017 and 2016, cash and short-term deposits were represented by cash at banks and on hand totalling UAH 60,804 thousand and UAH 14,692 thousand, respectively.

11. INTEREST-BEARING LOANS AND BORROWINGS

As at 31 December loans comprised the following:

	2017	2016
Current		
Ferrexpo Group entity (Note 4)	5,009,999	5,438,172
Foreign banks and companies	171,085	172,951
Finance lease	64,434	57,968
Interest accrued	19,148	124,649
Total current	**5,264,666**	**5,793,740**

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

	2017	2016
Non-current		
Foreign banks and companies	82,361	239,113
Finance lease	29,109	90,291
Total non-current	**111,470**	**329,404**
Total	**5,376,136**	**6,123,144**

Loans from Ferrexpo Group entities

Management disclosures relating to loans from Ferrexpo Group entity are presented in Note 4.

Loans from a foreign banks and companies

As at 31 December 2017 the interest rate, terms and currency split for interest-bearing loans and borrowings were as follows:

		Interest rate type	Interest rate	Within one year	From one to five years	Total
Bank loans and other borrowings, USD	(i)	Fixed	2.51%	91,924	47,207	139,131
Bank loans and other borrowings, USD	(ii)	Fixed	2.82%	67,793	35,154	102,947
Bank loans and other borrowings, USD	(iii)	Floating	EURIBOR 6m + 2%	11,368	-	11,368
Accrued interest				19,148	-	19,148
Total				**190,233**	**82,361**	**272,594**

As at 31 December 2016 the interest rate, terms and currency split for interest-bearing loans and borrowings were as follows:

		Interest rate type	Interest rate	Within one year	From one to five years	Total
Bank loans and other borrowings, USD	(i)	Fixed	2.51%	88,745	132,100	220,845
Bank loans and other borrowings, USD	(ii)	Fixed	2.82%	64,913	97,367	162,280
Bank loans and other borrowings, USD	(iii)	Floating	EURIBOR 6m + 2%	19,293	9,646	28,939
Accrued interest				2,290	-	2,290
Total				**175,241**	**239,113**	**414,354**

(i) The loan is secured by equipment and mining vehicles with a carrying value of UAH 104,751 thousand (2016: UAH 121,397 thousand) and a non-separable free of charge guarantee provided by FPM.

(ii) The loan is secured by equipment and mining vehicles with a carrying value of UAH 95,493 thousand as at 31 December 2017 (2016: UAH 21,304 thousand) and a non-separable free of charge guarantee provided by Ferrexpo AG and FPM.

(iii) The loan is secured by technical equipment and machinery with a carrying value of UAH 14,744 thousand as at 31 December 2017 (2016: UAH 64,597 thousand).

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Undrawn borrowing facilities

As at 31 December 2017, available undrawn borrowing facilities of the Company totaled UAH 5,027,743 thousand (2016: UAH 6,389,852 thousand) including undrawn facilities under loan agreements with related parties.

Finance lease

In 2013, the Company leased mining equipment under finance lease agreements which bear interest of 6.8% and are denominated in USD.

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

	Minimum lease payments	Present value of minimum lease payments
2017		
Within one year	65,050	59,931
After one year but not more than five years	30,034	29,109
Total minimum lease payments	95,084	89,040
Less amounts representing finance charges	(6,044)	-
Add VAT	4,503	4,503
Liabilities under finance lease	**93,543**	**93,543**
Current portion	64,434	
Non-current portion	29,109	
Total	**93,543**	
2016		
Within one year	57,010	48,078
After one year but not more than five years	80,717	75,453
Total minimum lease payments	137,727	123,531
Less amounts representing finance charges	(14,196)	-
Add VAT	24,728	24,728
Liabilities under finance lease	**148,259**	**148,259**
Current portion	57,968	
Non-current portion	90,291	
Total	**148,259**	

12. 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 independent 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 13.0% (2016: 16%).

The liability becomes payable at the end of the useful life of the mine, currently estimated to be 2047. Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning and reclamation alternatives and the levels of discount and inflation rates.

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

The movement in the site restoration provisions was as follows:

	2017	2016
As at 1 January	**9,948**	**8,347**
Unwinding of discount	1,592	1,336
Revision of provision and effect of change in assumptions	11,421	265
As at 31 December	**22,961**	**9,948**

13. DEFINED BENEFIT LIABILITY

Defined Contributions Plan

The Company makes statutory unified social contributions to the Pension Fund of Ukraine in respect of its employees. The contributions are calculated as a percentage of current gross salary and are expensed when incurred. Discretionary pensions and other post-employment benefits are included in labour costs in the statement of comprehensive income.

During the year ended 31 December 2017, the Company recognised expenses on contributions payable to the Pension Fund of Ukraine in amount of UAH 37,647 thousand (2016: UAH 28,790 thousand).

Defined Benefit Plan

The Company has a legal obligation to compensate the Pension Fund of Ukraine for additional pensions paid to certain categories of employees and former employees who are eligible for early retirement benefits. As at 31 December 2017, the defined benefit plan covered 350 employees (2016: 477 employees).

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

	2017	2016
At 1 January	**9,943**	**8,230**
Past service cost	(5,798)	(398)
Benefit expense	3,100	3,012
Re-measurement (gains)/losses on defined benefit plans	14,513	(737)
Benefits paid	(300)	(164)
At 31 December	**21,458**	**9,943**

	2017	2016
Benefit (income)/expense		
Current service cost	1,533	1,708
Interest cost on benefit obligation	1,567	1,304
Past service cost	(5,798)	(398)
Total	**(2,698)**	**2,614**

	2017	2016
Re-measurement (gains)/losses		
Actuarial changes arising from changes in demographic assumptions	3,753	(299)
Actuarial changes arising from changes in economic assumptions	10,011	(1,040)
Experience adjustments	749	602
Total	**14,513**	**(737)**

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

In 2017, benefit income of UAH 4,263 thousand (2016: expense of UAH 1,310 thousand), excluding interest cost, was included in cost of sales. Interest cost on defined benefit obligation of UAH 1,567 thousand (2016: UAH 1,304 thousand) was included in other finance costs.

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

	2017	2016
Discount rate	13.00%	16.00%
Pension indexation	8.48%	6.92%
Staff turnover	8.50%	5.00%
Future benefit increase	9.22%	7.54%

The sensitivity analysis and related effect on defined benefit obligation as at 31 December is given in the table below:

	Increase/ (decrease) in rate	2017	2016
Discount rate	1%	(1,681)	(897)
Discount rate	-1%	3,531	1,001
Future benefit increase	1%	3,057	761
Future benefit increase	-1%	(1,342)	(708)
Pension indexation	1%	848	173
Pension indexation	-1%	(538)	(202)
Life expectancy	1%	1,136	140
Life expectancy	-1%	(174)	(137)

14. TRADE AND OTHER PAYABLES

	2017	2016
Payables for materials and services	307,697	94,925
Taxes payable, other than income tax	54,882	29,643
Payables to employees	28,451	16,886
Payables for property, plant and equipment	25,779	6,387
Other payables	314	182
Total	**417,123**	**148,023**

15. INCOME TAX

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

	2017	2016
Current tax expense	-	-
Deferred tax benefit	(536,061)	(130)
Income tax benefit reported in profit or loss	**(536,061)**	**(130)**

The Company's income is subject to taxation in Ukraine only. In 2017 and 2016, Ukrainian corporate income tax was levied at a rate of 18%. The effective income tax differs from the corporate income tax rate in Ukraine.

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

The reconciliation between tax benefit and profit or loss before taxes multiplied by the tax rate is as follows:

	2017	2016
Profit/(loss) before tax	**1,699,266**	**(1,267,694)**
Notional tax computed at the statutory tax rate of 18%	305,868	(228,185)
Change in unrecognised deferred tax asset	-	206,990
Effect of previously unrecognised and unused tax losses and deductible temporary differences now recognised as deferred tax assets	(536,061)	-
Effect of utilization of previously unrecognized deferred tax assets	(299,011)	
Re-assessment of prior years temporary differences	-	8,154
Adjustment of taxes related to previous years	-	(130)
Tax effect of differences that are not deductible / (not taxable) in determining taxable profit relating to:		
Net foreign exchange (gain)/loss	(1,925)	461
Taxable income from sales at prices lower than market	-	7,271
Other	(4,932)	5,309
Income tax benefit	**(536,061)**	**(130)**

Reconciliation of net deferred tax assets was as follows:

	2017	2016
At 1 January	-	-
Tax benefit recognised in profit or loss	536,061	130
Tax benefit recognised in other comprehensive income	2,612	-
Write-down of deferred tax assets	-	(130)
At 31 December	**538,673**	-

Deferred tax asset as at 31 December related to the following:

	Statement of financial position		Statement of profit or loss	
	2017	2016	2017	2016
Losses available for offsetting against future taxable income	388,323	648,469	260,146	(87,613)
Property, plant and equipment	184,126	247,013	62,887	(40,894)
Inventories	15,967	12,862	(3,105)	(11,885)
Restricted cash	7,645	52,489	44,844	-
Defined benefit liability	2,204	1,708	2,116	(383)
Interest-bearing loans and borrowings	9	66,278	66,269	(66,278)
Accounts receivables	-	2,146	2,146	-
Trade and other payables	-	945	945	63
Provision for site restoration	-	193	193	-
Unrecognised deferred tax assets	(59,601)	(1,032,103)	(972,502)	206,990
Total deferred tax asset, net	**538,673**	-	**(536,061)**	-

The nature of the temporary differences is as follows:

(i) Property, plant and equipment – differences in estimates of the remaining useful lives, differences in capitalisation principles, different cost basis;

(ii) Interest-bearing loans and borrowings – differences in measurement (cost and amortized cost), interest expenses recognition;

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(iii) Allowance recognised for restricted cash and deposits;
(iv) Inventories – differences in inventories valuation models and the periods of recognition;
(v) Trade and other payables – differences in valuation and recognition principles;
(vi) Accounts receivables – differences in valuation principles, including allowances for doubtful receivables, differences in the period of recognition;
(vii) Tax losses carried forward.

As at 31 December 2016, the deferred tax asset has not been recognised because realisation of this asset was uncertain. Based on the legislation of Ukraine, tax losses can be carried forward for unlimited period of time.

16. REVENUE

	2017	2016
Revenue from sales of iron ore pellets	5,919,724	188,707
Revenue from sales of iron ore	515,257	1,068,459
Revenue from sales of concentrate	-	134,579
Revenue from sales of other services	45,433	958
Total	**6,480,414**	**1,392,703**

In 2017 the Company started to export pellets produced from their own iron ore at Ferrexpo Poltava Mining's facilities under tolling agreement. In 2016 they sold predominantly iron ore to its related parties (Note 4).

17. COST OF SALES

	2017	2016
Tolling fee	2,390,561	-
Materials, maintenance, fuel, gas and electricity	598,708	752,319
Depreciation and amortisation	255,930	348,035
Taxes on geological surveys and stripping levy	202,593	117,413
Personnel costs	122,541	96,548
Changes in the balances of work in progress and finished goods	33,346	15,429
Total	**3,603,679**	**1,329,744**

18. OTHER INCOME

	2017	2016
Income from operating leases	53,799	25,526
Income on sale of other inventories	14,075	1,713
Other income	56,065	1,193
Total	**123,939**	**28,432**

19. GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Personnel costs	51,737	37,301
Vehicles maintenance and fuel	13,377	9,763
Depreciation and amortisation	11,362	9,746
Consulting and other professional fees	5,302	7,661
Business trip expenses	3,692	997
Office supplies	1,246	975
Bank fees	428	651
Other	5,226	5,129
Total	**92,370**	**72,223**

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20. SELLING AND DISTRIBUTION EXPENSES

	2017	2016
Railway tariffs	293,367	23,703
Port charges	226,008	21,577
Railway transport usage service	96,911	9,510
Excavator services	19,638	18,094
Personnel costs	1,613	1,174
Depreciation charge	471	356
Other	8,847	6,444
Total	**646,855**	**80,858**

21. OTHER EXPENSES

	2017	2016
Depreciation charge	39,587	41,992
Expenses related to dismantling and liquidation of property, plant and equipment	18,102	15,377
Write-off of VAT on prepayments	17,388	-
Impairments of inventory	16,570	1,540
Charity donations	9,199	7,313
Taxes other than income tax	4,126	1,768
Personnel costs	2,000	1,195
Change in allowance for doubtful debts	1,377	622
Transportation	66	375
(Gain)/Loss on disposal of property, plant and equipment	(2,205)	62,958
Other expenses	5,118	5,278
Total	**111,328**	**138,418**

22. FINANCE COSTS

	2017	2016
Interest expenses on loans	409,680	402,088
Other finance costs	16,872	34,020
Capitalized interest expense	(62,777)	(100,206)
Total	**363,775**	**335,902**

23. FOREIGN EXCHANGE LOSS, NET

	2017	2016
Foreign exchange loss relating to loans and borrowings	(145,534)	(722,385)
Net loss on currency purchase/sale	(3,169)	(3,373)
Foreign exchange loss relating to accounts payable	(135)	(1,295)
Foreign exchange gain/(loss) relating to cash and short-term deposits	2,586	(1,725)
Foreign exchange gain/(loss) relating to accounts receivable and other assets	59,172	(2,906)
Total	**(87,080)**	**(731,684)**

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24. COMMITMENTS AND CONTINGENCIES

Commitments

Capital commitments

As at 31 December 2017 the Company entered into the agreements on the purchase of property and equipment and construction services in the amount of UAH 98,364 thousand (2016: UAH 81,420 thousand) related to construction and assembling services.

Leases

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

	2017	2016
In less than one year	23,696	15,699
From one to five years	94,259	62,367
More than five years	512,778	410,045
Total	**630,733**	**488,111**

Tax and legal matters

Deposit Guarantee Fund and Liquidator of Bank Finance & Credit

Following commencement of the liquidation of Bank Finance & Credit and in accordance with the applicable legislation, the Company submitted on 21 January 2016 its claim for UAH 291,636 thousand. This represents the total amount of cash held with the bank on the date of introduction of the temporary administration after translating in accordance with applicable law all foreign currency amounts into UAH currency equivalents. On 22 April 2016, the liquidator issued certificate recognising UAH 42,474 thousand of these claims. These recognised claims were included in the ninth rank on the basis that the Company was considered as a related party to the bank. During the hearing on 17 May 2017, the court stayed the proceeding and ordered expert examination by an accounting expert of the documents submitted by the liquidator. The Company is currently engaged in court proceedings challenging both the underrecognition of claims and the ranking of the claims. The Company recognised 100% allowance in respect of balances with Bank Finance & Credit (Note 7).

Tax and other regulatory compliance

Ukrainian legislation and regulations regarding taxation and customs continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations and inconsistent enforcement 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.

The Company has a significant involvement in trading and financing transactions with related parties. Ukrainian transfer pricing rules as well as other areas of tax legislation are evolving and apply to a wide range of situations involving cross-border and certain domestic transactions. The Company's historical trading and financing relationships with related parties could fall within these such rules and regulations. If the tax authorities establish failure to comply with these rules, they may demand transfer pricing or other adjustments. If substantial transfer pricing or other adjustments were upheld by courts and implemented, the Company's financial results could be adversely affected. 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 entities in Ukraine. As it is not considered probable that a material claim will arise, no provision has been established in these financial statements.

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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 unfavorable outcome.

Other tax claims

As a result of a dispute by Ferrexpo Yerestovo Mining LLC of the tax authorities' claims for additional taxes and fines imposed after tax inspections on 2012 totalling UAH 122,806 thousand, including penalties totalling UAH 8,204 thousand, a court decision was adopted in favour of the Company that has a legal force. At present, tax authorities appeal against these decisions in cassation court. Management believes that the claims have little legal merit and thus expects to ultimately receive positive court decisions for these ongoing court proceedings.

25. FAIR VALUES OF FINANCIAL INSTRUMENTS

Set out below is the comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the financial statements:

	Carrying amount		Fair value	
	2017	**2016**	**2017**	**2016**
Financial assets				
Accounts receivable	1,457,801	141,860	1,457,801	141,860
Cash and short-term deposits	60,804	14,692	60,804	14,692
Financial liabilities				
Interest-bearing loans and borrowings and finance lease	5,376,136	6,123,144	5,440,036	5,964,489
Trade and other payables, excluding taxes and payroll payables	333,790	101,494	333,790	101,494

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.

The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For assets and liabilities that are recognised at fair value in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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As at 31 December, the analysis of financial instruments that are measured subsequent to initial recognition at fair value or for which fair values are disclosed, grouped into levels based on the degree to which the fair value is observable, is as follows:

2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Liabilities for which fair values are disclosed:				
Interest-bearing loans and borrowings:				
Fixed rate borrowings	-	-	5,428,633	**5,428,633**
Floating rate borrowings	-	11,403	-	**11,403**

2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Liabilities for which fair values are disclosed:				
Interest-bearing loans and borrowings:				
Fixed rate borrowings	-	-	5,937,882	**5,937,882**
Floating rate borrowings	-	26,606	-	**26,606**

Reconciliation of liabilities arising from financing activities

The table below details key changes in the Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Company's statement of cash flows as cash flows from financing activities.

	Interest-bearing loans and borrowings	**Interest accrued**	**Finance lease**	**Total**
At 1 January	**5,850,236**	**124,649**	**148,259**	**6,123,144**
Cash payments	(746,028)	(449,653)	(56,766)	(1,252,447)
Amortization of arrangement fees	13,002	-	-	13,002
Interest expense	-	346,903	-	346,903
FOREX expenses, net	146,235	(2,751)	2,050	145,534
At 31 December	**5,263,445**	**19,148**	**93,543**	**5,376,136**

26. 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.

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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 the Board approved Treasury Policy.

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

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 "Financial Instruments: Disclosures" 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. Exchange rates for currencies used in business transactions are presented below.

	USD	**EUR**
As at 31 December 2017	28.06	33,49
As at 31 December 2016	27.19	28.42

Foreign currency denominated short and long term borrowings, trade receivables and payables 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.

2017	**Increase/ (decrease) in rate**	**Effect on loss before tax**
UAH/USD	10%	(398,200)
UAH/USD	-10%	398,200
UAH/EUR	10%	(1,140)
UAH/EUR	-10%	1,140

2016	**Increase/ (decrease) in rate**	**Effect on loss before tax**
UAH/USD	15%	(918,192)
UAH/USD	-35%	2,142,449
UAH/EUR	17%	(4,945)
UAH/EUR	-35%	10,180

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Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective is to maintain continuity and flexibility of funding through the use of extended credit terms provided by its related parties.

The Company analyses the aging of its assets and the maturity of its liabilities and plans its liquidity depending on the expected repayment of various instruments. Ferrexpo Group centrally monitors its cash flow requirements and optimise 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. Ferrexpo prepares detailed rolling cash flow forecasts, which assist it in monitoring cash flow requirements.

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

2017	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
Interest-bearing loans and borrowings	5,139,425	67,517	284,222	**5,491,164**
Trade and other payables, excluding taxes and payroll payables	333,790	-	-	**333,790**
Total	**5,473,215**	**67,517**	**284,222**	**5,824,954**

2016	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
Interest-bearing loans and borrowings	31,162	5,704,609	239,113	**5,974,884**
Trade and other payables, excluding taxes and payroll payables	101,505	-	-	**101,505**
Total	**132,667**	**5,704,609**	**239,113**	**6,076,389**

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 25.

Most of the Company's sales are made to Ferrexpo Group entities. Therefore, accounts receivable are primarily concentrated with the Ferrexpo Group entities (Note 4). The Company does not require collateral in respect of accounts receivable. The management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount.

Interest rate risk

The Company is exposed to interest rate risk because the Company borrows funds at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed and floating rate borrowings. 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. Management monitors the market interest rate with sufficient regularity to minimise the Company's exposure to interest rate risk.

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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.

2017	**Increase/ (decrease) in basis points**	**Effect on loss before tax**
Change in interest rate (EURIBOR)	0.5%	19
Change in interest rate (EURIBOR)	-0.5%	(19)

2016	**Increase/ (decrease) in basis points**	**Effect on loss before tax**
Change in interest rate (EURIBOR)	0.12%	54
Change in interest rate (EURIBOR)	-0.08%	(36)

Capital risk management

The Company considers participants' contributions, trade payables due to and loans from Ferrexpo Group as primary capital sources. In 2017 and 2016, 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 the Company's development strategy requirements, capital expenditures and the Company`s development strategy.

	2017	**2016**
Interest-bearing loans and borrowings (Note 11)	5,376,136	6,123,144
Trade and other payables, excluding taxes and payroll payables (Note 14)	333,790	101,505
Cash and short-term deposits (Note 10)	(60,804)	(14,692)
Net debt	**5,649,122**	**6,209,957**
Net assets/(deficit) attributable to participants	**2,749,265**	**(355,015)**
Net assets/(deficit) attributable to participants and net debt	**8,398,387**	**5,854,942**

27. EVENTS AFTER THE REPORTING PERIOD

In January 2018 the Company prolonged maturity of the loans due to Ferrexpo Group companies in the amount of UAH 5,009,999 thousand. Under amended repayment schedule, these loans are due by the end of March 2019.