LLC Ferrexpo Yeristovo Mining

Financial Statements

As at 31 December 2016 and
for the year then ended
with Independent Auditor's Report

CONTENT

Building a better working world

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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 2016, and the statement of comprehensive income, statement of changes in equity 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 2016 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 (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.

Responsibilities of management 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.

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 the Participants 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.

Ernst & Young Audit Services LLC

Kyiv, Ukraine

31 March 2017

STATEMENT OF FINANCIAL POSITION
as at 31 December 2016

	Notes	2016 UAH 000	2015 UAH 000
ASSETS			
Non-current assets			
Property, plant and equipment	5	5,009,176	5,042,244
Intangible assets		33,730	34,624
Inventories	8	267,373	267,373
Prepaid income tax	6	151,817	151,687
Prepayments and other non-current assets	7	1,101	–
		5,463,197	5,495,928
Current assets			
Inventories	8	248,993	261,630
Accounts receivable	9	141,860	458,170
Prepayments to suppliers and other current assets	7	15,237	10,148
Value added tax and other taxes receivable	6	51,987	75,613
Cash and short-term deposits	10	14,692	4,413
		472,769	809,974
Assets held for sale		77	329
TOTAL ASSETS		**5,936,043**	**6,306,231**
LIABILITIES			
Net (deficit)/assets attributable to participants		(355,015)	655,403
Non-current liabilities			
Interest-bearing loans and borrowings	11	329,404	498,605
Provision for site restoration	12	9,948	8,347
Defined benefit liability	13	9,943	8,230
		349,295	515,182
Current liabilities			
Interest-bearing loans and borrowings	11	5,793,740	5,009,035
Trade and other payables	14	148,023	126,610
		5,941,763	5,135,645
TOTAL LIABILITIES		**5,936,043**	**6,306,231**

Signed and authorised for release on behalf of LLC Ferrexpo Yeristovo Mining on 31 March 2017:

General Director — Nikolay Goroshko

Finance Director — Vladimir Leonov

Chief Accountant — Lyudmila Zakharchenko

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

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

	Notes	2016 *UAH 000*	2015 *UAH 000*
Revenue	4	1,392,703	1,507,171
Cost of sales	16	(1,329,744)	(1,188,063)
Gross profit		62,959	319,108
Other income	17	28,432	8,662
General and administrative expenses	18	(72,223)	(79,413)
Selling and distribution expenses	19	(80,858)	(31,457)
Other expenses	20	(138,418)	(323,648)
Finance income	21	–	10,890
Finance costs	21	(335,902)	(290,292)
Foreign exchange loss, net	22	(731,684)	(1,907,733)
Loss before tax		**(1,267,694)**	**(2,293,883)**
Income tax benefit	15	130	–
Loss after tax		**(1,267,564)**	**(2,293,883)**
Re-measurement gain/(loss) on defined benefit plans		737	(1,130)
Other comprehensive income/(loss) for the year		737	(1,130)
Total comprehensive loss for the year		**(1,266,827)**	**(2,295,013)**

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

STATEMENT OF CASH FLOWS
for the year ended 31 December 2016

	Notes	2016	2015
		UAH 000	*UAH 000*
OPERATING ACTIVITIES			
Loss before income tax		(1,267,564)	(2,293,883)
Adjustments:			
Depreciation and amortisation	5	399,773	390,759
Finance income	21	–	(10,890)
Finance costs	21	335,902	290,292
Increase/(decrease) in allowance for doubtful debts		622	(9,740)
Defined employee benefits costs	13	1,310	–
Net foreign exchange loss		722,385	1,926,027
Loss/(Gain) on disposal of property, plant and equipment	20	62,958	(168)
Increase in allowance for restricted cash	10	–	291,636
Working capital adjustments:			
Accounts receivable		318,648	(502,189)
Prepayments and other current assets		(7,556)	53,223
VAT receivable		23,626	85,451
Inventories		12,889	66,649
Trade and other payables including taxes, other than income tax and VAT		20,814	177,685
		623,834	464,835
Interest paid		(215,137)	(266,598)
Capitalised interest paid		(100,206)	(91,453)
Income tax paid		–	–
Interest received		–	5,877
Defined employee benefits paid		(164)	(97)
Net cash from operating activities		**308,327**	**112,564**
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(339,950)	(507,803)
Proceeds from disposal of property, plant and equipment		11,652	5,171
Reclassification to restricted cash and deposits	10	–	(291,636)
Net cash used in investing activities		**(328,298)**	**(794,268)**
FINANCING ACTIVITIES			
Contributions from participants		256,409	174,018
Repayment of borrowings		(173,874)	(148,164)
Repayment of finance lease liabilities under sale lease-back transaction		(50,560)	(41,315)
Net cash from/(used in) financing activities		**31,975**	**(15,461)**
Net increase/(decrease) in cash and cash equivalents		12,004	(697,165)
Net foreign exchange difference on cash and short-term deposits	10	(1,725)	166,648
Cash and short-term deposits at 1 January		4,413	534,930
Cash and short-term deposits at 31 December	10	**14,692**	**4,413**

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

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO PARTICIPANTS for the year ended 31 December 2016

	Issued capital	Unpaid charter capital	Additional paid-in-capital	Re-measurement on defined benefit plans	Accumulated losses	Net deficit attributable to participants
	UAH 000	*UAH 000*	*UAH 000*	*UAH 000*	*UAH 000*	*UAH 000*
As at 1 January 2015	**4,857,430**	**(369,027)**	**84,768**	**1,014**	**(2,486,958)**	**2,087,227**
Loss attributable to participants	–	–	–	–	(2,293,883)	(2,293,883)
Re-measurement on defined benefit plan	–	–	–	(1,130)	-	(1,130)
Total comprehensive loss	–	–	–	*(1,130)*	*(2,293,883)*	*(2,295,013)*
Change in amount of guarantees issued to secure debts of Ferrexpo Group (Note 4)	–	–	–	–	1,532	1,532
Contribution from the Parent (Note 4)	–	–	–	–	687,639	687,639
Capital contribution from participants	–	89,035	84,983	–	–	174,018
At 31 December 2015	**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
At 31 December 2016	**4,857,430**	**(163,379)**	**309,547**	**621**	**(5,359,234)**	**(355,015)**

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

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

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, Budivel'nykiv Str., Horishni Plavni (former Komsomolsk), Poltava region, Ukraine. As at 31 December 2016, the Company employed 1,226 employees (2015: 1,325 employees).

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

	Contribution 2016	%	Contribution 2015	%
	UAH 000		*UAH 000*	
Ferrexpo AG (Switzerland)	4,857,382	99.999%	4,857,382	99.999%
Ferrexpo Service LLC (Ukraine)	48	0.001%	48	0.001%
	4,857,430	**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 Kostyantyn Zhevago and his immediate family.

The Company was set up for the purpose of developing Yeristovo iron ore deposit: extraction and processing of iron ore and further production of iron ore pellets. The Company started extracting first iron ore in the second half of 2012. The full production capacity is expected to be reached after 2017. The total estimated costs of the project approximate USD 1.5 billion including construction of the open pit mine as well as crushing, palletising, floatation and other processing facilities. Currently Ferrexpo Group provides financing in the amount required to carry out mining works according to the development plan.

2. Operating environment, risks and economic conditions

General economic conditions

The Company conducts 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.

Following the significant deterioration in 2014 and 2015, the current political and economic situation in Ukraine remains unstable. The Ukrainian government continues to pursue a comprehensive structural reform agenda aiming at the removal of the existing imbalances in the economy, public finance and governance, fighting corruption, reforming judiciary system, etc. with the ultimate goal to secure conditions for the economic recovery in the country.

The weakness of the national currency (UAH), which experienced more than triple devaluation against US dollar since the beginning of 2014, combined with cross border settlement restrictions, negative external trade balance, along with continued volatility in the country's traditional export commodity markets, and high inflation represent key risks to the stabilisation of the Ukrainian operating environment in the near future. The continued support from the IMF and other international donors is contingent upon the mentioned above structural reforms sustaining momentum.

The known and estimable effects of the above factors on the financial position and performance of the Company in the reporting period have been taken into account in preparing this reporting package.

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

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

3.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. They are not purported to be filed with Ukrainian regulators, which establish additional requirements to the presentation and disclosure of financial information.

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

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

Going concern

In 2016, while continuing the development of its production and revenue generating facilities, the Company kept to be loss-making and its net loss for the year comprised UAH 1,267,564 thousand (2015: UAH 2,293,883 thousand). As at 31 December 2016, its current liabilities exceeded current assets by UAH 5,468,994 thousand (2015: UAH 4,325,672 thousand). The excess is primarily attributable to the interest-bearing borrowings of UAH 5,560,531 thousand due to one of Ferrexpo Group entities.

The ability of the Company to continue its operations will be dependent on the further development of the open pit mine and completion of the crushing, pelletising, floatation and other processing facilities while securing sufficient financing for this purpose. As discussed above, the current stage of the project is financed by Ferrexpo Group through a combination of debt and equity contributions. The continued availability of such financing in foreseeable future has been confirmed by Ferrexpo AG 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 January 2017, the facility was re-extended until March 2018.

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.

3.2 Changes in accounting policy and disclosures

New and amended standards and interpretations

During the current year the Company adopted all the new and revised International Financial Reporting Standards (IFRS) as adopted by the EU that are relevant to its operations and are effective for accounting periods beginning on 1 January 2016, as follows:

- Annual Improvements to IFRSs 2010 - 2012 Cycle
- Amendments to IAS 19: Defined Benefit Plans: Employee Contributions
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IAS 16 and IAS 41: Bearer Plants
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Annual Improvements to IFRSs 2012 - 2014 Cycle
    - Amendments to IAS 1: Disclosure Initiative
    - Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
    - Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception

This adoption did not have a material effect on the accounting policies of the Company.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

3.2 Changes in accounting policy and disclosures (continued)

Standards and Interpretations issued by the IASB and adopted by the EU but not yet effective in the EU

IFRS 9 Financial Instruments: Classification and Measurement

The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The Company does not intend the early adopt this standard.

IFRS 15 Revenue from Contracts with Customers

The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Company expects that there will be an impact in terms of the recognition of transport related revenue. The Company has begun the impact assessment on this new standard and does not intend to early adopt this standard.

The Company has not applied the following amendments to IFRSs that have been issued and adopted by the EU but are not yet effective in the EU:

3.3 Significant accounting judgments, estimates and assumptions

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

Judgments

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

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 is no longer available to the Company and has 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 the remaining balance of restricted cash and deposits cannot be reasonably assessed as at 31 December 2016. As a consequence, a full allowance of the balance currently not available to the Company was recorded as at 31 December 2016 and 2015. Related charge of UAH 291,636 thousand was recognised profit or loss in 2015.

Operating lease commitments – Company as a lessor

The Company leases out its equipment to the PrJSC 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.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

3.3 Significant accounting judgments, estimates and assumptions (continued)

Judgments (continued)

Capitalised stripping costs

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

An important area of judgement is the distinction between the pre-production and production phase of a mine together with the identification of the components of the ore body and the allocation of the production stripping costs to the components of the ore body or the inventory produced. As at 31 December 2016, the carrying amount of capitalised pre-production stripping costs included in assets under construction amounted to UAH 1,618,077 thousand (2015: UAH 1,389,451 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 at FPM. 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.

As at 31 December 2016 the Company had stock of weathered ore totalling UAH 267,373 thousand (2015: UAH 267,373 thousand). It is the Company's intention to process weathered ore. Based on the Company's current processing plans it is not expected that the 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 2016.

As at 31 December 2016, weathered ore is valued at cost and the calculated net realisable value is above the expected cost if converted into pellets or concentrate. A potential trigger for any future impairment would be any change to the Company's plans in respect of the construction of a processing plant or the completion of the capacity upgrade programme at FPM.

Estimates and assumptions

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

Impairment of property, plant and equipment

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

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

Estimates and assumptions (continued)

***Impairment of property, plant and equipment** (continued)*

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

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

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

Depreciation

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

Deferred tax assets

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

Ore reserve and resource estimate

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

The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in the reserve or resource estimates may impact upon the carrying value of property, plant and equipment, provision for site restoration, recognition of deferred tax assets and depreciation charges.

Provision for site restoration

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

Employee defined benefit liability

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

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

3.3 Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions (continued)

Fair value of financial Instruments

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

Commitments and contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. For details refer to Note 23.

3.4 Summary of significant accounting policies

Functional currency

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

Foreign currency translation

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

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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item.

Financial assets

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and receivables

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

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

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

3.4 Summary of significant accounting policies (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

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

Subsequent measurement

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

Loans and borrowings

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

The 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.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

3.4 Summary of significant accounting policies (continued)

Impairment of financial assets

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

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

Financial assets carried at amortised cost

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

3.4 Summary of significant accounting policies (continued)

Derecognition of financial instruments (continued)

***Financial assets** (continued)*

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

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

Financial liabilities

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciation, respectively.

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

3.4 Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Construction in progress

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

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

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation expenditure comprises costs which are directly attributable to:

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

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

NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2016

3.4 Summary of significant accounting policies (continued)

Exploration and evaluation costs (continued)

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

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

Development expenditure

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

Intangible assets

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

Amortisation

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

Borrowing costs

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

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

Impairment of non-financial assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

3.4 Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition is accounted for as follows:

- raw materials – purchase cost on a first-in, first-out basis;
- finished goods and work in progress – 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 weathered ore stockpile is not expected to be processed in 12 months after the reporting date, it is included in other 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 value of considerations received or receivable.

Provisions

General

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

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

3.4 Summary of significant accounting policies (continued)

Provisions (continued)

Site restoration provision

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

Employee benefits

The Company makes defined contributions to Ukrainian state pension scheme at the statutory rates in effect during the year, based on gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Company has a legal obligation to compensate the Ukrainian State Pension Fund for additional pensions paid to certain categories of the current and former employees of the Company. These obligations being unfunded are substantially similar to those typically existing under an unfunded defined benefit plan. Costs relating to this plan are accrued in these financial statements using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest (not applicable to the Company) and the return on plan assets (excluding net interest), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI 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. Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Company recognises service cost within cost of sales and net interest expense within finance costs. If service costs relate to employees whose wage is included to cost of construction in progress, service costs are also capitalised. 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 is made for expenditures that relate to an existing condition caused by past operations and that do not contribute to current or future earnings in order to recognize the liability in the year when the conditions are identified. Measurement of liabilities is based on current legal requirements and obligations and estimated based on existing technical standards. Actual results could vary from estimates made to the date.

Contingent assets and liabilities

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

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

Leases

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

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

3.4 Summary of significant accounting policies (continued)

Leases (continued)

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 income statement.

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 income statement on a straight-line basis over the lease term.

Company as a lessor

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

Revenue recognition

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

Rendering of services

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

Sale of goods

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

Interest income

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

Rental income

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

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.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

3.4 Summary of significant accounting policies (continued)

Taxes (continued)

Deferred tax

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

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

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

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

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

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

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

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

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
- payables are stated with the amount of VAT included.

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

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

3.5 Standards and Interpretations issued by the IASB but not yet adopted by the EU

The following standards and amendments to the existing standards have not been endorsed for use in EU yet:

IFRS 15: Revenue from Contracts with Customers (Clarifications)

The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. These Clarifications have not yet been endorsed by the EU. The Company has begun the impact assessment on this new standard and does not intend to early adopt this standard.

IFRS 16: Leases

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The standard has not been yet endorsed by the EU. The Company does not intend the early adopt this standard.

Amendment in 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

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. These amendments are not expected to have any impact on the Company.

IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)

The Amendments become effective for annual periods beginning on or after 1 January 2017 with earlier application permitted. The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. These amendments have not yet been endorsed by the EU. These amendments are not expected to have any impact on the Company.

IAS 7: Disclosure Initiative (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2017 with earlier application permitted. The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. These Amendments have not yet been endorsed by the EU. These amendments are not expected to have any impact on the Company.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

3.5 Standards and Interpretations issued by the IASB but not yet adopted by the EU (continued)

IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These Amendments have not yet been endorsed by the EU. These amendments are not expected to have any impact on the Company.

IAS 40: Transfers to Investment Property (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These Amendments have not yet been endorsed by the EU. These amendments are not expected to have any impact on the Company.

IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU. These amendments are not expected to have any impact on the Company.

Annual Improvements to IFRSs 2014 – 2016 Cycle

The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU. These amendments are not expected to have any impact on the Company.

IAS 28 Investments in Associates and Joint Ventures: The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

IFRS 12 Disclosure of Interests in Other Entities: The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

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as at 31 December 2016

4. Related party disclosure

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

2016	The Parent	Other Ferrexpo Group entities	Other related parties	Total
	UAH 000	*UAH 000*	*UAH 000*	*UAH 000*
Cash and short-term deposits (Note 10)	–	–	–	–
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

2015	The Parent	Other Ferrexpo Group entities	Other related parties	Total
	UAH 000	*UAH 000*	*UAH 000*	*UAH 000*
Cash and short-term deposits (Note 10)	–	–	–	–
Accounts receivable	–	457,038	719	457,757
Interest-bearing loans and borrowings	–	4,816,901	–	4,816,901
Payables for materials and services	–	26,600	–	26,600

In 2016 and 2015, the Company's transactions with its related parties were as follows:

2016	Other Ferrexpo Group entities	Other related parties	Total
	UAH 000	*UAH 000*	*UAH 000*
Purchases of materials and services	300,048	1,906	301,954
Capitalised borrowing costs	100,206	–	100,206
Revenues	1,392,670		1,392,670
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	311,051

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4. Related party disclosure (continued)

2015	Other Ferrexpo Group entities	Other related parties	Total
	UAH 000	UAH 000	UAH 000
Purchases of property, plant and equipment	14	–	14
Purchases of Intangible assets	921	–	921
Purchases of materials and services included in construction in progress	205,229	20,487	225,716
Capitalised borrowing costs	91,453	–	91,453
Revenues	1,507,127	–	1,507,127
Selling and distribution expenses	21,498	1,086	22,584
General and administrative expenses	460	2,892	3,352
Other income	10,532	–	10,532
Other expenses	481	–	481
Finance income	–	6,084	6,084
Finance costs	237,707	686	238,393

Trade and other payables

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

In 2015, the Company recognised a gain of UAH 687,639 thousand from cancellation of the accounts payable due to the Parent for consultants' services recognised as contribution from the Parent in the statement of changes in net assets attributable to participants.

Revenue, trade and other receivables

In 2016, the Company sold iron ore to FPM of UAH 1,080,284 thousand, iron ore pellets and concentrate to Ferrexpo Middle East of UAH 312,229 thousand, and transportation and other services to Ferrexpo Belanovo Mining of UAH 157 thousand (2015: UAH 1,472,112 thousand, UAH 34,837 thousand and UAH 177 thousand respectively).

As at 31 December 2016, mining equipment and buildings with a carrying value of UAH 142,170 thousand (2015: UAH 33,031 thousand) were rented out to FPM under short-term operating lease agreements. In 2016, income from the operating lease comprised UAH 25,526 thousand (2015: UAH 1,874 thousand).

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

Financing, relating costs and guarantees issued

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 2016, principal of USD 200,000 thousand which is equivalent to UAH 5,438,172 thousand (2015: USD 200,000 thousand or UAH 4,800,133 thousand) was outstanding. The facility is denominated in USD, bears interest of 7.5% and is repayable in March 2017. In January 2017, the loan's maturity was extended until March 2018. As at 31 December 2016, equipment and mining vehicles with a carrying value of UAH 36,105 thousand were pledged as collateral against the facility provided by Ferrexpo Group entity for the purchase of these assets (2015: UAH 132,204 thousand).

In 2016, the related borrowing costs of UAH 100,206 thousand (2015: UAH 91,453 thousand) were capitalised as a part of qualifying assets (Note 5).

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

4. Related party disclosure (continued)

Guarantees issued

In 2015, the Company recognised income of UAH 2,084 thousand relating to guarantees issued before 2015 (Note 21). In 2016 and 2015, the Company had no guarantees issued.

Cash and short-term deposits and relating income

As at 31 December 2016, cash and short-term deposits of UAH 291,636 thousand were placed with a Bank Finance & Credit (Note 10). In 2015, the related interest income on short-term deposits of UAH 5,877 thousand was recognised in finance income (Note 21).

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

On 17 December 2015, Bank F&C was declared insolvent and its licence was revoked by decision of the Board of the National Bank of Ukraine. As at 31 December 2015, the Company impaired in full the balance with Finance & Credit totalling UAH 291,636 thousand.

Commitments

As at 31 December 2015 and 2016, the Company's commitments to related parties for purchase of property and equipment comprised:

	2016	2015
	UAH 000	*UAH 000*
Ferrexpo Group entities	3,265	4,890
Other related parties	–	543
	3,265	**5,433**

Leases

In 2011 the Company entered into a non-cancellable agreement to lease a plot of land from FPM. As at 31 December 2016, the total amount of future minimum lease payments comprised UAH 488,111 thousand (2015: UAH 592,925 thousand) (Note 23).

Compensation to key management personnel

Key management personnel comprise nine persons as at 31 December 2016 (2015: ten persons). In 2016, total compensation to key management personnel included in administrative expenses amounted to UAH 7,463 thousand (2015: UAH 11,713 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:

	2016	2015
	UAH 000	*UAH 000*
Property, plant and equipment	4,999,334	5,019,204
Prepayments for property, plant and equipment	9,842	23,040
	5,009,176	5,042,244

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

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

Movement of property, plant and equipment is as follows:

2016	Land	Mining assets	Buildings	Plant and equipment	Vehicles	Fixture and fittings	Construction in progress and uninstalled equipment	Total
	UAH 000	*UAH 000*	*UAH 000*	*UAH 000*	*UAH 000*	*UAH 000*	*UAH 000*	*UAH 000*
Cost								
As at 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 at 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 at 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
Disposal	–	–	(1,866)	(165)	(86)	(108)	–	(2,225)
As at 31 December 2016	–	532,312	167,664	467,371	495,273	13,997	–	1,676,617
Net book value								
As at 31 December 2015	**2,397**	**1,358,079**	**500,700**	**455,830**	**379,725**	**23,464**	**2,299,009**	**5,019,204**
As at 31 December 2016	**2,397**	**1,208,789**	**529,609**	**474,062**	**299,074**	**21,279**	**2,464,124**	**4,999,334**

2015	Land	Mining assets	Buildings	Plant and equipment	Vehicles	Fixture and fittings	Construction in progress and uninstalled equipment	Total
	UAH 000	*UAH 000*	*UAH 000*	*UAH 000*	*UAH 000*	*UAH 000*	*UAH 000*	*UAH 000*
Cost								
As at 31 December 2014	2,397	1,741,101	570,560	759,816	644,690	29,848	1,759,259	5,507,671
Additions	–	–	31,924	26,752	40,452	3,432	649,843	752,403
Transfers	–	–	22,964	25,465	61,637	27	(110,093)	–
Disposals and write-offs	–	–	(2,438)	(6,347)	(2,647)	(97)	–	(11,529)
As at 31 December 2015	2,397	1,741,101	623,010	805,686	744,132	33,210	2,299,009	6,248,545
Accumulated depreciation								
As at 31 December 2014	–	223,019	81,338	231,292	226,950	5,774	–	768,373
Depreciation charge	–	160,003	42,349	122,456	138,664	4,022	–	467,494
Disposal	–	-	(1,377)	(3,892)	(1,207)	(50)	–	(6,526)
As at 31 December 2015	–	383,022	122,310	349,856	364,407	9,746	–	1,229,341
Net book value								
As at 31 December 2014	**2,397**	**1,518,082**	**489,222**	**528,524**	**417,740**	**24,074**	**1,759,259**	**4,739,298**
As at 31 December 2015	**2,397**	**1,358,079**	**500,700**	**455,830**	**379,725**	**23,464**	**2,299,009**	**5,019,204**

As at 31 December 2016, equipment with carrying value totalling UAH 40,002 thousand (2015: UAH 56,305 thousand) was held under finance lease agreement.

In 2016, borrowing costs of UAH 100,206 thousand relating to qualifying assets were capitalised (2015: UAH 91,453 thousand). In 2016, UAH 51,616 thousand of depreciation charge was capitalised in the cost of the mine construction (2015: UAH 93,902 thousand).

In 2016, the Company wrote off UAH 70,593 thousand of capital expenditure comprised of designs and construction of temporary facilities for capital projects completion of which was significantly postponed.

Pledged assets

As at 31 December 2016, equipment and mining vehicles with a carrying value of UAH 207,298 thousand (2015: UAH 248,105 thousand) were pledged as security under loans from foreign banks. As at 31 December 2016, equipment and mining vehicles with a carrying value of UAH 36,105 thousand were pledged as collateral for the debt of Ferrexpo Group entity for the purchase of these assets (2015: UAH 132,204 thousand).

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

5. Property, plant and equipment (continued)

Impairment testing

The Company's property, plant and equipment have been allocated for impairment purposes to a single cash-generating unit. Impairment testing was performed at 31 December 2016 based on a value-in-use calculation using cash flow projections. The impairment model accounts for capital expenditures to be incurred.

Key assumptions

The key assumptions used in the value-in-use calculations were evolution of iron ore prices, costs of raw materials and other production and distribution costs and production volume from ore. The extraction of iron ore from the first component of the open pit mine commenced in 2012; however, the Company continues to develop the next components of the open pit mine and the full capacity is expected to be achieved after 2017. The production volumes used in the model have been agreed to the feasibility study for Yeristovo deposit.

The cash flows were projected based on management expectations regarding the development of the iron ore and steel market, as well as the cost of producing and distributing the pellets.

In determining the future long-term selling price, management takes into account external and internal analysis of the long-term and short-term supply and demand dynamics in the local region and throughout the world along with costs of production of competitors and the marginal cost of incremental production in a particular market.

Cost of production and shipping is considered taking into account local inflationary pressures, and the longer-term and shorter-term trends in energy supply and demand and the effect on costs along with the expected movements in steel related commodity prices which affect the cost of certain production inputs.

Discount rate is based on weighted average cost of capital. Management believes that due to available headroom resulting from the Company's impairment testing no reasonable change in key assumptions would cause the carrying value of property, plant and equipment to materially exceed their value-in-use.

Sensitivity to changes in assumptions

Management believes that due to a high value of projects and resulting reserve base no reasonable change in the above key assumptions would cause the carrying value of the unit to materially exceed its value-in-use.

6. Taxes receivable and prepaid

Taxes receivable

As at 31 December, taxes receivable comprised:

	2016	*2015*
	UAH 000	*UAH 000*
VAT receivable	51,960	75,599
Other taxes receivable	27	14
	51,987	**75,613**

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

	2016	*2015*
	UAH 000	*UAH 000*
Balance as at 1 January	**75,599**	**163,537**
Offset against VAT liability, net of VAT incurred	(3,018)	(87,938)
VAT settled in cash	(20,621)	–
Balance as at 31 December	**51,960**	**75,599**

The management believes that VAT receivable will be fully offset against VAT liability in 2017.

Prepaid income tax

Increase in prepaid income tax is attributable to adjustments related to prior years of UAH 130 thousand (Note 15).

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

7. Prepayments to suppliers and other assets

	2016	2015
	UAH 000	*UAH 000*
Current		
Prepaid services	12,282	9,241
Prepayments for materials and spare parts	1,005	210
Other	1,950	697
	15,237	**10,148**
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)
	1,101	**–**

Restricted cash and deposit represent funds held at the Bank Finance & Credit, which was the Group's transactional bank and which was controlled by Kostyantyn 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.

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

	2016	2015
	UAH 000	*UAH 000*
Current		
Spare parts	111,681	116,414
Changeable equipment	45,392	41,587
Iron ore	36,179	52,779
Fuel	26,171	25,697
Raw materials	25,004	21,771
Other	4,566	3,382
	248,993	261,630
Non-current		
Weathered ore	267,373	267,373
	516,366	**529,003**

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 2016, the amount of write-down of inventories recognised within other expenses was UAH 1,540 thousand (2015: UAH 859 thousand) (Note 20).

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

9. Accounts receivable

	2016	2015
	UAH 000	*UAH 000*
Receivables for iron ore	123,746	444,516
Receivables for equipment	13,305	11,634
Receivables for services	12,263	15,914
Receivables for materials	4,332	1,875
Other receivables	4,665	69
	158,311	474,008
Allowance for doubtful debts	(16,451)	(15,838)
	141,860	**458,170**

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:

	Total	Neither past due nor impaired	Past due but not impaired				
			< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
	UAH 000	*UAH 000*	*UAH 000*	*UAH 000*	*UAH 000*	*UAH 000*	*UAH 000*
2016	141,860	4,379	429	14	137,021	4	13
2015	458,170	12,821	444,585	275	5	5	479

Reconciliation of the allowance for non-collectability of receivables:

	2016	2015
	UAH 000	*UAH 000*
As at 1 January	**(15,838)**	(17,267)
Charge for the year	(5,336)	(4,007)
Utilised	4,119	5,436
Amounts reversed	604	–
As at 31 December	**(16,451)**	**(15,838)**

10. Cash and short-term deposits

As at 31 December 2016 and 2015, cash and short-term deposits were represented by cash at banks and on hand totalling UAH 14,692 thousand and UAH 4,413 thousand, respectively. In 2016 and 2015, cash at banks earned no interest income.

11. Interest-bearing loans and borrowings

	2016	2015
	UAH 000	*UAH 000*
Current		
Ferrexpo Group entity (Note 4)	5,438,172	4,800,133
Foreign bank	172,951	141,664
Finance lease	57,968	47,660
Interest accrued	124,649	19,578
	5,793,740	5,009,035
Non–current		
Foreign bank	239,113	366,952
Finance lease	90,291	131,653
	329,404	498,605
	6,123,144	**5,507,640**

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

11. Interest-bearing loans and borrowings (continued)

Loans from Ferrexpo Group entity

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

Loans from a foreign bank

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*
				UAH 000	*UAH 000*	*UAH 000*
Bank loans and other borrowings, USD	(i)	Fixed	2.508%	88,745	132,100	220,845
Bank loans and other borrowings, USD	(ii)	Fixed	2.822%	64,913	97,367	162,280
Bank loans and other borrowings, EUR	(iii)	Floating	EURIBOR 6m + 2%	19,293	9,646	28,939
Accrued interest				2,290	–	2,290
				175,241	**239,113**	**414,354**

As at 31 December 2015 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*
				UAH 000	*UAH 000*	*UAH 000*
Bank loans and other borrowings, USD	(i)	Fixed	2.508%	71,657	196,532	268,189
Bank loans and other borrowings, USD	(ii)	Fixed	2.822%	52,207	143,720	195,927
Bank loans and other borrowings, EUR	(iii)	Floating	EURIBOR 6m + 2%	17,800	26,700	44,500
Accrued interest				2,810	–	2,810
				144,474	**366,952**	**511,426**

(i) The loan is secured by equipment and mining vehicles with a carrying value of UAH 121,397 thousand (2015: UAH 154,462 thousand) and a non-separable free of charge guarantee provided by FPM.

(ii) The loan is secured with a purchased excavator with net book value of UAH 21,304 thousand as at 31 December 2016 (2015: UAH 27,507 thousand) and a non-separable free of charge guarantee provided by Ferrexpo AG.

(iii) The loan is secured by technical equipment and machinery with a carrying value of UAH 64,597 thousand as at 31 December 2016 (2015: UAH 66,136 thousand) and a non-separable free of charge guarantee provided by PrJSC Ferrexpo Poltava Mining.

Undrawn borrowing facilities

As at 31 December 2016, available undrawn borrowing facilities of the Company totalled UAH 6,389,852 thousand (2015: UAH 5,640,157 thousand) including undrawn facilities under loan agreements with related parties.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

11. Interest-bearing loans and borrowings (continued)

Finance lease

In 2013, the Company leased mining equipment under finance lease agreements which bear interest of 8.5% and are denominated in USD.

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

2016	**Minimum lease payments**	**Present value of minimum lease payments**
	UAH 000	*UAH 000*
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	
	148,259	

2015	**Minimum lease payments**	**Present value of minimum lease payments**
	UAH 000	*UAH 000*
Within one year	51,221	39,717
After one year but not more than five years	122,305	109,582
Total minimum lease payments	173,526	149,299
Less amounts representing finance charges	(24,227)	–
Add VAT	30,014	30,014
Liabilities under finance lease	**179,313**	**179,313**
Current portion	47,660	
Non-current portion	131,653	
	179,313	

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 third party experts. The provision represents the discounted value of the estimated costs to decommission and restore the mines at the dates the deposits are expected to be depleted. The present value has been calculated using a nominal pre-tax discount rate of 16% (2015: 16%).

The liability becomes payable at the end of the useful life of the mine, currently estimated to be 2032. Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning and reclamation alternatives and the levels of discount and inflation rates.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

12. Provision for site restoration (continued)

The movement in the site restoration provisions was as follows:

	2016	2015
	UAH 000	*UAH 000*
As at 1 January	**8,347**	**10,377**
Unwinding of discount	1,336	1,660
Revision of provision and effect of change in assumptions	265	(3,690)
As at 31 December	**9,948**	**8,347**

13. Defined benefit liability

The Company has a legal obligation to compensate the Ukrainian state pension fund for additional pensions paid to certain categories of employees mostly engaged in mining works who are eligible for early retirement with attached benefits. As at 31 December 2016, the defined benefit plan covered 477 employees (2015: 600 employees).

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

	2016	2015
	UAH 000	*UAH 000*
Opening defined benefit obligation	8,230	5,022
Benefit expense	2,614	2,175
Re-measurement (gains)/losses on defined benefit plans	(737)	1,130
Benefits paid	(164)	(97)
Defined benefit obligation at the end of the year	**9,943**	**8,230**

Benefit expense	2016	2015
	UAH 000	*UAH 000*
Service cost	1,708	1,690
Interest cost on benefit obligation	1,304	753
Past service cost	(398)	(268)
	2,614	**2,175**

Re-measurement (gains)/losses	2016	2015
	UAH 000	*UAH 000*
Actuarial changes arising from changes in demographic assumptions	(299)	282
Actuarial changes arising from changes in economic assumptions	(1,040)	928
Experience adjustments	602	(80)
	(737)	**1,130**

In 2016, benefit expense of UAH 1,310 thousand (2015: UAH 1,422 thousand), excluding interest cost, was included in cost of sales. Interest cost on defined benefit obligation of UAH 1,304 thousand (2015: UAH 753 thousand) was included in other finance costs.

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

	2016	2015
Discount rate	16.00%	16.00%
Pension indexation	6.92%	5.81%
Staff turnover	5.00%	4.60%
Future benefit increase	7.54%	8.84%

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

13. Defined benefit liability (continued)

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

	Increase/ (decrease) in rate	2016	2015
		UAH 000	UAH 000
Discount rate	1%	(897)	(856)
Discount rate	-1%	1,001	1,013
Future benefit increase	1%	761	758
Future benefit increase	-1%	(708)	(687)
Pension indexation	1%	173	39
Pension indexation	-1%	(202)	(44)
Life expectancy	1%	140	120
Life expectancy	-1%	(137)	(118)

14. Trade and other payables

	2016	2015
	UAH 000	UAH 000
Payables for materials and services	94,925	66,492
Taxes payable, other than income tax	29,643	37,926
Payables to employees	16,886	14,945
Payables for property, plant and equipment	6,387	6,740
Other payables	182	507
	148,023	**126,610**

15. Income tax

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

	2016	2015
	UAH 000	UAH 000
Income tax benefit	130	–
Income tax benefit reported in profit or loss	**130**	**–**

The Company's income is subject to taxation in Ukraine only. In 2016 and 2015, Ukrainian corporate income tax was levied at a rate of 18%. The effective income tax differs from the corporate income tax rate in Ukraine. The reconciliation between tax benefit and loss before taxes multiplied by the tax rate is as follows:

	2016	2015
	UAH 000	UAH 000
Loss before tax	**(1,267,694)**	**(2,293,883)**
Notional tax computed at the statutory tax rate of 18%	(228,185)	(412,899)
Change in unrecognised deferred tax asset	206,990	405,394
Re-assessment of tax losses carried forward	–	(30,896)
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 loss	461	35,402
Taxable income from sales at prices lower than market	7,271	–
Other	5,309	2,999
Income tax benefit	**130**	**–**

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as at 31 December 2016

15. Income tax (continued)

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

	Statement of financial position		Profit or loss	
	2016	2015	2016	2015
	UAH 000	UAH 000	UAH 000	UAH 000
Property, plant and equipment	247,013	206,119	40,894	50,653
Inventories	12,862	977	11,885	7,437
Trade and other receivables	2,146	2,146	–	–
Restricted cash	52,489	52,489	–	52,489
Interest-bearing loans and borrowings	66,278	–	66,278	2,416
Trade and other payables	945	1,008	(63)	(753)
Defined benefit liability	1,708	1,192	383	877
Provision for site restoration	193	193	–	–
Losses available for offsetting against future taxable income	648,469	560,856	87,613	292,275
Unrecognised deferred tax assets	(1,032,103)	(824,980)	(206,990)	(405,394)
Deferred tax asset, net	–	–	–	–
Deferred tax expense			–	–
Net deferred tax asset	–	–		

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 – interest expenses recognition;
(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) Trade and other 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 and 2015, the deferred tax asset has not been recognised because realisation of this asset is uncertain.

16. Cost of sales

	2016	2015
	UAH 000	UAH 000
Materials, maintenance, fuel, gas and electricity	752,319	605,054
Depreciation and amortisation	348,035	377,326
Taxes on geological surveys and stripping levy	117,413	116,239
Personnel costs	96,548	91,728
Changes in the balances of work in progress and finished goods	15,429	(2,284)
	1,329,744	**1,188,063**

17. Other income

	2016	2015
	UAH 000	UAH 000
Income from operating leases	25,526	2,989
Net gain on disposal of other inventories	1,713	4,662
Other income	1,193	1,011
	28,432	**8,662**

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18. General and administrative expenses

	2016	2015
	UAH 000	UAH 000
Personnel costs	37,301	44,675
Vehicles maintenance and fuel	9,763	7,442
Depreciation and amortisation	9,746	10,186
Consulting and other professional fees	7,661	8,536
Business trip expenses	997	553
Office supplies	975	666
Bank fees	651	1,405
Other	5,129	5,950
	72,223	79,413

19. Selling and distribution expenses

	2016	2015
	UAH 000	UAH 000
Railway tariffs	23,703	3,582
Port charges	21,577	4,881
Excavator services	18,094	14,653
Truck usage service	9,510	1,921
Personnel costs	1,174	917
Other	6,800	5,503
	80,858	31,457

20. Other expenses

	2016	2015
	UAH 000	UAH 000
Net loss on sale and write-off of property, plant and equipment	78,335	8,943
Depreciation charge	41,992	3,247
Charity donations	7,313	12,992
Taxes other than income tax	1,768	2,115
Impairments of inventory	1,540	859
Personnel costs	1,195	3,826
Change in allowance for doubtful debts	622	(9,740)
Transportation	375	2,361
Allowance for restricted cash and deposits (Note 4)	–	291,636
Other expenses	5,278	7,409
	138,418	323,648

21. Finance income and finance costs

	2016	2015
	UAH 000	UAH 000
Finance income		
Interest income (Note 4)	–	5,877
Income from guarantees (Note 4)	–	2,084
Other finance income	–	2,929
	–	10,890
Finance costs		
Interest expenses on loans	301,882	272,981
Other finance costs	34,020	17,311
	335,902	290,292

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

22. Foreign exchange losses, net

	2016	2015
	UAH 000	*UAH 000*
Foreign exchange loss relating to loans and borrowings	(722,385)	(1,926,027)
Other foreign exchange (losses)/gains	(9,299)	18,294
	(731,684)	**(1,907,733)**

23. Commitments and contingencies

Commitments

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

	2016	2015
	UAH 000	*UAH 000*
Ferrexpo Group entities (Note 4)	3,265	4,890
Other related parties (Note 4)	–	543
Third parties	78,155	34,405
	81,420	**39,838**

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:

	2016	2015
	UAH 000	*UAH 000*
In less than one year	15,699	14,189
From one to five years	62,367	55,715
More than five years	410,045	523,021
	488,111	592,925

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 recognizing UAH 42,472 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. The Company is currently engaged in court proceedings challenging both the under recognition of claims and the ranking of the claims. The Company recognised 100% allowance in respect of balances with Bank Finance & Credit (Note 7).

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

23. Commitments and contingencies (continued)

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. The uncertainty of application and the evolution of Ukrainian tax laws, including those affecting cross-border transactions, create a risk of additional tax payments having to be made by the Company, which could have a material effect on the Company's financial position and results of operations. This includes also a new transfer pricing law which significantly increased the power of the tax authorities.

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.

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

Other tax claims

Ferrexpo Yerestovo Mining LLC is litigating against the tax authorities' claims for additional taxes and fines imposed after tax inspections on 2012. As at 31 December 2016, the aggregate amount claimed by the Ukrainian tax authorities is UAH 98,845 thousand, including penalties totalling UAH 16,172 thousand. Management believes that the claims have little legal merit and thus expects to ultimately receive positive court decisions for these ongoing court proceedings.

24. 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	
	2016	2015	2016	2015
	UAH 000	*UAH 000*	*UAH 000*	*UAH 000*
Financial assets				
Accounts receivable	141,829	458,170	141,829	458,170
Cash and short-term deposits	14,692	4,413	14,692	4,413
Financial liabilities				
Interest-bearing loans and borrowings	6,123,143	5,507,640	5,964,489	5,282,692
Trade and other payables, excluding taxes and payroll payables	101,505	73,739	101,505	73,739

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as at 31 December 2016

24. Fair value of financial instruments (continued)

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.

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:

2016	**Level 1**	**Level 2**	**Level 3**	**Total**
	UAH 000	*UAH 000*	*UAH 000*	*UAH 000*
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

2015	**Level 1**	**Level 2**	**Level 3**	**Total**
	UAH 000	*UAH 000*	*UAH 000*	*UAH 000*
Liabilities for which fair values are disclosed:				
Interest-bearing loans and borrowings:				
Fixed rate borrowings	–	–	5,241,176	5,241,176
Floating rate borrowings	–	41,516	–	41,516

25. 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.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

25. Financial risk management objectives and policies (continued)

The Audit Committee of Ferrexpo Group oversees how management monitors compliance with policies and procedures and reviews the adequacy of risk management framework in relation to risks faced. The Audit Committee is assisted in its oversight by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee and the CFO of Ferrexpo Group.

Ferrexpo Group operates a centralised financial risk management structure under the management of the Executive Committee, accountable to the Board. The Executive Committee delegates certain responsibilities to the CFO. The CFO's responsibilities include authority for approving all new commercial or financial transactions that create a financial risk. Additionally, the CFO controls the management of treasury risks within each of the business units in accordance with 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 minimize 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 arise on account of financial instruments being denominated in a currency that is not the functional currency and being of a monetary nature; translation-related risks are not taken into consideration.

In common with many other businesses in Ukraine, foreign currencies, in particular the US dollar ("USD"), play a significant role in the underlying economics of the business transactions of the Company. As at 31 December 2016, the exchange rate of UAH as established by the National Bank of Ukraine was to the UAH 27.19 US dollar (2015: UAH to 1 US dollar).

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

2016	Increase/ (decrease) in rate	Effect on loss before tax
		UAH 000
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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as at 31 December 2016

25. Financial risk management objectives and policies (continued)

Foreign currency risk (continued)

2015	**Increase/ (decrease) in rate**	**Effect on loss before tax**
		UAH 000
UAH/USD	+18%	(991,387)
UAH/USD	–40%	2,203,083
UAH/EUR	+18%	(8,044)
UAH/EUR	–40%	17,875

Liquidity risk

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

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

2016	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
	UAH 000	*UAH 000*	*UAH 000*	*UAH 000*
Interest–bearing loans and borrowings	31,162	5,704,609	239,113	5,974,884
Trade and other payables, excluding taxes and payroll payables	101,505	-	-	101,505
	132,667	**5,704,609**	**239,113**	**6,076,389**

2015	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
	UAH 000	*UAH 000*	*UAH 000*	*UAH 000*
Interest–bearing loans and borrowings	4,901	4,975,518	383,903	5,364,322
Trade and other payables, excluding taxes and payroll payables	73,280	-	-	73,280
	78,181	**4,975,518**	**383,903**	**5,437,602**

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 24.

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.

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2016

25. Financial risk management objectives and policies (continued)

Interest rate risk

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

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

2016	**Increase/ (decrease) in basis points**	**Effect on loss before tax**
		UAH 000
Change in interest rate (EURIBOR)	0.12%	54
Change in interest rate (EURIBOR)	-0.08%	(36)

2015	**Increase/ (decrease) in basis points**	**Effect on loss before tax**
		UAH 000
Change in interest rate (EURIBOR)	0.25%	112
Change in interest rate (EURIBOR)	(0.25)%	(112)

Capital risk management

The Company considers participants' contributions, trade payables due to and loans from Ferrexpo Group as primary capital sources. In 2015 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 requirements, capital expenditures and the Company's development strategy.

	2016	**2015**
	UAH 000	*UAH 000*
Interest-bearing loans and borrowings (Note 11)	6,123,144	5,507,640
Trade and other payables, excluding taxes and payroll payables (Note 14)	101,505	73,739
Cash and short-term deposits (Note 10)	(14,692)	(4,413)
Net debt	**6,209,957**	**5,576,966**
Net (deficit)/assets attributable to participants	(377,603)	655,403
Net (deficit)/assets attributable to participants and net debt	**5,832,354**	**6,232,369**