铁货 IRC

IRC Limited

HONG KONG STOCK CODE: 1029

Annual Report 2011

2011 was a Year of Firsts for IRC

During our **first year** as a public company we achieved many key **milestones** in our vision to provide shareholders with **superior value** by developing a Sino-Russian industrial commodities **champion**

1st million tonnes of iron ore concentrate produced at Kuranakh

1st brick laid on the beneficiation plant at K&S

1st shipments of ilmenite concentrate to Russian, Japanese and Chinese customers

1st production from SRP in North-Eastern China

1st drawdown from ICBC project loan facility

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VISION

provide shareholders **superior value**

MISSION

be a **Sino-Russian industrial commodities champion**

VALUES

- safe workplace
- operational excellence
- respect culture
- solution orientated

2012 & beyond

Kuranakh : Ilmenite production to full capacity
K&S : Development
Garinskoye : Reserves production plan update
Infrastructure : Amur River bridge
IRC : Organic and acquisition growth

2011

Kuranakh : Full year production targets exceeded
IRC : Maiden profit

Dec 2011

K&S : First drawdown from ICBC facility
SRP : First production

Oct 2011

Kuranakh: Iron ore production reaches full capacity
Kuranakh: One million tonnes production milestone

Aug 2011

K&S: Optimisation Study to double production announced

Feb 2011

IRC: Threefold increase in group reserves announced

Dec 2010

K&S: US$340m ICBC facility to develop K&S announced
US$400m CNEEC EPC contract concluded
Development accelerated

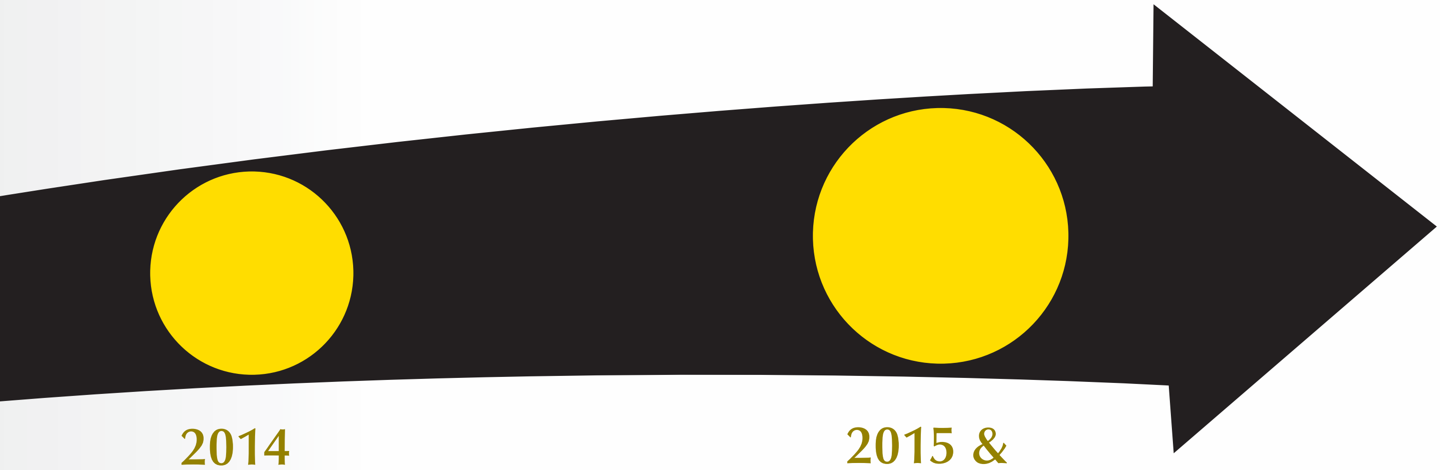
Oct 2010

IRC: HKEx listing raised US$240m

May 2010

Kuranakh: Commissioned

IRC, A TRACK RECORD OF DELIVERY



2014

- **K&S:** Commissioning and production

2015 & beyond

- **K&S :** Doubling production
  Garinskoye: Production

Who we are

IRC is a vertically integrated producer of industrial commodities. Upstream we explore, develop and operate mines in the Russian Far East and North-Eastern China. Downstream we beneficiate, transport and market intermediary and finished products for sale to the local and international market.

What we do

Our success is due to a unique combination of geology and geography. We unlock the value from our large high-grade ore reserves using Russia's world class mining and technical skills, water and power infrastructure. Benefiting from our advantageous location, we use developed rail infrastructure to deliver our products to the local market, Chinese border and Russian ports efficiently.

2011 progress

During our first full-year in production, we have ramped-up production and exceeded our targets, yielding our first profit at the Kuranakh Mine. Development activities at the K&S Project advanced to plan and budget during the year, placing us on track to bolster production by an additional 3 million tonnes of high-quality iron ore concentrate in the near-term. Furthermore, our extensive portfolio continues to develop.

2012 & beyond

Having achieved an excellent year of progress, and with funding in place for significant near-term growth, IRC is well placed to deliver on its growth plans for the future. We have ambitious production and construction targets for 2012 that once again, we are confident of achieving.

IRC is quoted on the Hong Kong Exchange, code 1029.HK

CHAIRMAN'S STATEMENT

DELIVERING ON PROMISES

Jay Hambro
IRC Executive Chairman

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- ✓ **First** annual profit
- ✓ **First** million tonnes of iron ore concentrate produced at Kuranakh
- ✓ **First** brick laid on the K&S Beneficiation Plant
- ✓ **First** shipments of ilmenite concentrate
- ✓ **First** production from Steel Slag Reprocessing Plant (SRP) in North-Eastern China
- ✓ **First** drawdown from ICBC project loan facility

Dear Shareholder,

We have successfully completed a year of firsts, testimony to the operational excellence of IRC and our ability to deliver on our promises.

Further to this impressive series of achievements I would like to remind our shareholders of IRC's proven ability to deliver. At the outset of trading in Hong Kong we promised the market that we would deliver on a series of promises — reserve increase, debt drawdown and construction contract agreement. In last year's report I was pleased to report delivery on these promises and now we have progressed further. We have ramped-up iron ore production to full capacity at our first operation, the Kuranakh Mine. This has enabled us to deliver a maiden profit for this year. With our eye on the future, we have continued development at the larger K&S Project, delivering on all our 2011 construction targets.

IRC: Vision, Objectives and Strategy

IRC's vision is to generate superior shareholder value by building a Sino-Russian champion in industrial commodities. Our objectives are:

1. In the near-term we will develop our Russian asset base to be a lower cost and preferred supplier of iron ore to China.

2. In the long-term, we aim to leverage our iron ore platform to become a regional profit leader for industrial commodities and Sino-Russian Trade.

Our strategy is to harness our unique geological and geographic advantage and a near two-decade heritage to explore, develop and operate industrial commodity projects. In turn, we will develop our sales and marketing activities to be a preferred supplier of commodities.

Corporate Governance

Our Board has sought to further enhance the business in all areas including reporting, transparency and accountability. As part of this programme I am pleased to direct you to this year's enhanced governance section where we have sought to improve disclosure.

2011 in Review

I said earlier that we aim to explore, develop, produce and sell commodity products. Let us therefore briefly review the progress in that order:

Exploration activities

Early in the year we announced the threefold increase in our reserves to 648 million tonnes of JORC compliant iron ore. With an additional 512 million tonnes of resource, the favourable shift in the ratio to reserves comfortably provides the geological foundation needed to sustain our growth ambitions.

During 2011 we further increased group ore resources by 16% to 1,345 million tonnes and reserves by 24% to 801 million tonnes.

Development

The pace and scale of development at our second operation, the K&S Project, has been astounding. Mining and infrastructure works have progressed to near completion and so now, together with our Chinese partners we are focussing on the 30-month long construction of the beneficiation plant that will lead to first production being achieved in the first half of 2014.

Production

Through the ongoing ramp-up of production at the Kuranakh Mine, we have affirmed our position as the principal iron ore producer in the Far East of Russia. Production for the year was 800,291 tonnes of iron ore concentrate and 63,490 tonnes of ilmenite concentrate, both comfortably ahead of our published guidance.

Sales

We continue to see positive progress in our sales and marketing strategies, reflected in strong demand for our products. Sales were in line with production for the year. We have broadened our customer base for iron ore concentrates whilst our ilmenite concentrate is proving a popular product domestically and in international markets. Material from the K&S Project has been tested by a number of steel mills in the same region, all confirming that the material is acceptable and paving the way to a diverse customer base.

Financials

We reported pleasing results for the year to 31 December 2011, discussed in detail by our CFO, Raymond Woo, in his financial review. Suffice to say, that a profit at Kuranakh as production of iron ore achieved full capacity levels in October is in line with expectations. For the group as a whole we turned a small profit, which is rewarding given our position as a small producer today, whilst funding the building of growth for tomorrow.

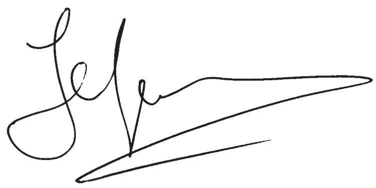
Fundamental to our growth plan is the balance sheet supporting future development and I am pleased to report that with the recent initial drawdown of our long term and low cost facility with ICBC, we remain well funded.

2012 and Beyond

As a frequent traveller around Asia, talking with our customers and other market participants, I remain bullish on the outlook for iron ore. Clearly there has been some slowing in Chinese growth, but I sense that as 2011 closed, we witnessed a soft landing for the economy as a whole and not the hard-landing feared by many. Indeed, looking forward, my much coined phrase for the iron ore industry "stronger for longer" seems as relevant for 2012 and beyond. It's pleasing therefore to announce that we forecast significant production growth next year that will feed into strong prices, targeting annual production of 820,000 tonnes of iron ore and 125,000 tonnes of ilmenite concentrates respectively, whilst we will continue to work hard to advance other long-term growth projects.

Thank you

I would like to take this opportunity to thank all for their support. We remain fortunate in having a human resource that is more valuable to us than the geological one. Some developing companies forget the importance of the human capital base required to deliver shareholder value and we are lucky to be able to draw upon a broad and talented team with an impressive track record of delivery. This team includes the Board of Directors, Executive Committee, Operations Committee and all operational and support staff within our Group and I would like to thank you all as well as our supportive shareholder base.



George Jay Hambro
Executive Chairman, IRC Limited

CEO'S STATEMENT

Dear Shareholder,

Putting pen to paper to write this letter I am reminded that 2011 was a great year for IRC. We made significant progress developing our assets. However, I am not, complacent. I am also reminded of the many the challenges we faced. Whilst 2011 is characterised as a year of firsts for IRC, it is in context, a year, that established our position as a proven developer, producer and marketer of industrial commodities and a significantly lower year end risk profile. There will undoubtebly be new challenges, but I am confident that we are better positioned than ever to deal with them and continue to deliver on our growth promises.

Executing our strategies

As CEO, my role is to implement the strategies and deliver the objectives as set by the Board. During 2011 excellent progress was made in this regard. Let us review this by looking at the individual assets in turn.

Delivering our promises

At Kuranakh, we comfortably exceeded our production targets. A determined focus resulted in our achieving full production capacity of iron ore. Work continues, and with the project now up and running, Kuranakh provides us a solid base to develop our portfolio.

At our larger K&S Project we invested development funds of US$123 million during 2011. The progress achieved on site is outstanding. I am fortunate to be on site frequently and for long periods and every time I visit the pace of development never ceases to surprise me. In this report we have detailed the milestones passed and to be achieved at K&S. I look forward to updating you on our progress.

At Garinskoye, our exploration work means that we are close to updating our mineral reserves. The new data will enable us to optimise the mine and development plans for Garinskoye which we also look forward to sharing with you in due course. Finally, at our other exploration properties, infrastructure projects and businesses, work continues to expand our brownfields and greenfields resource and reserve base, logistics capabilities and supply chain.

Operational Excellence

During 2011, we produced over 800,000 tonnes of iron ore and 63,000 tonnes of ilmenite concentrate at Kuranakh. It doesn't seem long ago, that I travelled to the Kuranakh exploration camp in a tracked vehicle, taking over a day from the railway station. I believe our mine, processing facilities and infrastructure make this now a twenty minute journey. Our experience at Kuranakh puts us in a good position to complete the scheduled construction activities at K&S.

I am delighted to report that our commitment to a safe and healthy workplace continues to pay dividends. At Kuranakh, safety performance improved relative to production increases and at K&S no material injuries were recorded during the year. The operation is ISO 14001 certified already, a strong endorsement for the efforts of our health and safety team.

Enhancing Productivity

One key area of focus for my team has been overseeing procurement, something that I have been involved with for 12 years. I have recently introduced procedures to centralise procurement across all our operations to benefit from economies of scale and better inventory management. This is an area where we are particularly focussed right now as we source mine supplies and components for K&S.

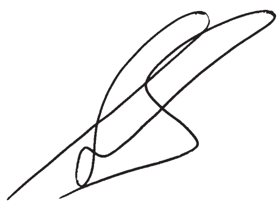
In the fourth quarter report, we highlighted some of the problems experienced at Kuranakh during the year, especially diesel shortages and railcar supply constraints. I am pleased to report that we have now broadened our supplier base for rail cars with a new long term contract guaranteeing availability and cost. Like all our peers in Russia, diesel shortages and price spikes have been unfortunate but we have expanded our inventory capabilities and mandated a team to monitor the situation.

An ongoing challenge at Kuranakh is ramping up production of ilmenite. Whilst we have had great success with iron-ore, the ilmenite circuit has been slower due to a poorer than anticipated performance from the original electro-separators. This we will address in 2012 with the installation of Russian made supplementary electro separators. This is a particularly timely issue given the strong prices for ilmenite and demand we see from our customers. I have been working for nearly a decade in the titanium market, as our business started a trading operation before we entered production and I am confident that this market will continue to be strong, supporting a healthy price environment for IRC.

2012 and beyond

The focus for 2012 is on improving productivity to maximise margins. We will do this by optimising ilmenite production, whilst focussing on cost and marketing activities. At K&S we continue to press ahead with the mining and infrastructure projects, though the focus of our energy is working with our contractors to build the processing plant. Our priorities for the year ahead are clear and I am confident in our ability to ensure the near-term profitability of our business whilst we continue to deliver on our long-term growth plans.

I would like to take this opportunity to thank my team at IRC and I am sure you will join me in congratulating them on an excellent year of production and development.



Yury Makarov
Chief Executive Officer, IRC Limited

CFO'S STATEMENT

Dear Shareholder,

During 2011 we have continued to execute on our growth plans, investing heavily in our projects. Notwithstanding this, it is pleasing to report that we have also generated a maiden profit of US$1.0 million for the year.

I highlighted in my letter last year that it is difficult to measure the financial performance of a developing company such as ours. With this in mind, whilst the profit is modest, the milestone is significant, particularly because it has been delivered so early in our evolution. I believe that this is a strong and positive signal to investors attributable to the tremendous effort put in by the strong management team and all of our staff members.

I would like to take this opportunity to highlight the key achievements from this year's financial statements:

1. IRC had commenced the first drawdown of our ICBC facility which will continue to provide the required funding to support the construction of the K&S Project. Thanks to the foresight of management, IRC secured the US$340 million ICBC facility in late 2010 at an interest rate of 2.8% above LIBOR for 11 years, which are very favourable terms, particular under current financial and economic conditions.

2. As we have fully ramped up the iron ore concentrate circuit of Kuranakh in the second half of 2011, our first producing mine has contributed to the Group's maiden profit in 2011.

The operating environment in the mining industry remains challenging and is being affected by rising costs, dollar depreciation and increasing funding costs; and our business is not immune. The temporary weakness in the iron ore price at the end of 2011 put pressure on margins at Kuranakh. This was especially noticeable as production of ilmenite generating by-product credits are not yet at full capacity. Whilst production increased during the second half of the year, our financial results for the year reflected some deferred sales and some isolated cost pressure during December due to rail and diesel supply constraints. It is against this strenuous backdrop that I commend the achievement of a maiden profit.

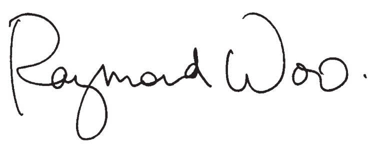
2012 is going to be a very important year for IRC. To summarise, let me affirm that our key financial objectives are:

1. Support on-going capital expenditure of K&S: Continue to drawdown on the ICBC facility. Depending on the construction progress and capital expenditure requirement, I anticipated that drawdowns will be undertaken throughout the year, averaging US$10–20 million on a monthly basis with approximately US$150–200 million in 2012.

2. Increase margin at Kuranakh: continue to ramp up our ilmenite circuit, by-product and hence contributes to increasing the bottom line profit.

3. Continue to look for and critically evaluate opportunities to improve our assets and liability mix to deliver values to our investors, customers, and stakeholders.

Overall, we are pleased with our performance in 2011. We enter the Year of Dragon from a position of financial strength that we believe will help us navigate through the upcoming challenges and take advantage of the opportunities in the mining industry. We are cautiously confident that we are on track to continue achieving positive financial performance in 2012 and beyond.



Raymond Woo
Chief Financial Officer, IRC Limited

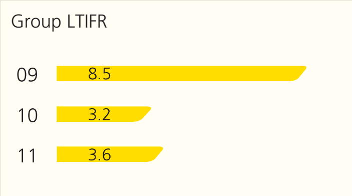
KEY PERFORMANCE INDICATORS 2011

Key Performance	Context	2011 Development
Safety	Our vision is a culture of zero harm. We are committed to the safety of our employees and contractors by adhering to the strictest safety policies and standards.	Safety initiatives at Kuranakh during the year included extensive health safety and elementary first-aid training for operational staff, and ongoing internal and external review of safety programmes on a regular basis.
Exploration	Our exploration programmes aim to find new resources and increase confirmed mineable reserves thereby adding value and mitigating operational risks.	Exploration advances on all fronts, notably, doubling of resources at Sutara, revealing large-scale magnetic anomalies at Garinskoye Flanks and confirmation of high-grade zones at Garinskoye.
Production	IRC is targeting production growth by developing and expanding its portfolio of mines in a conservative manner whilst extracting value all through the production chain.	A strong ramp-up at Kuranakh resulted in production exceeding targets. Production activities also commenced at the the downstream SRP (Steel Slag Reprocessing Project).
Efficiency	Productivity measures are a fairer indication of efficiency than pure production growth. We rate our growth against cost, consumable inputs and waste, such as energy, water and emissions.	Until Kuranakh achieves full capacity, costs will remain high because there are fewer units for the fixed cost elements. Rail transport tariffs are also high despite mitigating efforts.
Profitability	Profitability at IRC needs to be seen in context. The development of new mining operations will increase future growth, therefore profitability is not wholly appropriate to our KPIs this year.	Kuranakh reported a profit for both the first-half and full year, a credible performance whilst operations ramp-up. The Group as a whole reported a small profit, in line with budget.
Health, Safety & Environment	HSE is measured by adhering to legislation and best practice in the communities and environment where we operate, and also extends to our customers and stakeholders.	HSE efforts increased, and continue to support the business and its wider objectives. Activities and reporting conform to high standards as we continue to work towards ISO 14001:2004 certification.

KEY PERFORMANCE INDICATORS & 2011 SIMPLIFIED PRODUCTION/FINANCE

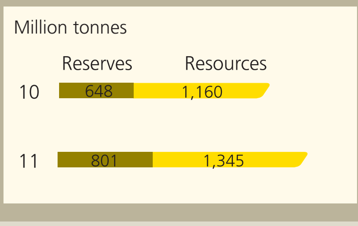
2011 Performance

Safety



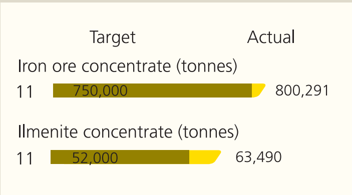
Group Total Recordable Injury Frequency Rate per 1,000,000 hours worked was 3.61 for 2011. At K&S no injuries were recorded, whereas at Kuranakh the rate was 5.54.

Exploration



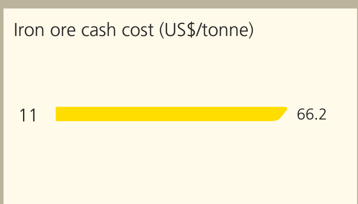
Group resources increased 16% over 2011 from 1,160 million tonnes to 1,345 million tonnes. Group reserves increased 24% to 801 million tonnes from 648 million tonnes.

Production



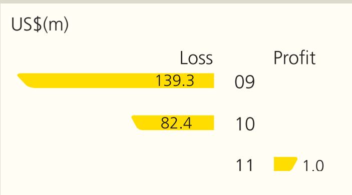
In 2011 Kuranakh produced 800,291 tonnes of iron ore concentrate compared to a target of 750,000 tonnes and 63,490 tonnes of ilmenite concentrate compared to a target of 52,000 tonnes.

Efficiency



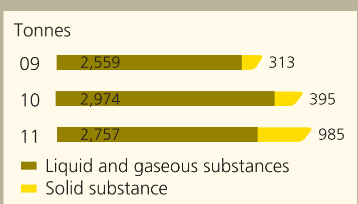
As production continues to ramp-up, operating costs at Kuranakh are not reflective of its full potential. For 2011, the average cash cost per tonne of iron ore was US$66.2 tonne.

Profitability



2009: Loss of US$139.3 million
2010: Loss of US$82.4 million
2011: Profit of US$1.0 million

HSE



Air pollutants from stationary sources decreased to 2,757 tonnes of solids and increased to 985 for liquid and gaseous substances, reflecting improvements relative to production through installation and upgrading of collection systems.

Future Opportunities

Safety: IRC will continue to set high safety standards. As operations ramp up, education programmes will focus on sustainable safe working practices.

Exploration: Reserves at Garinskoye and Garinskoye Flanks will be re-estimated along with the opportunity for a DSO operation. Kostenginskoye reserves will be estimated. Garinskoye Flanks will continue to be explored.

Production: In 2012 Kuranakh's target is 820,000 tonnes of iron ore and 125,000 tonnes of ilmenite concentrate.

Efficiency: We expect our costs to reduce as our production increases, despite operational costs largely outside our control, notably fuel, steel and rail costs and the impact of the US dollar to Russian Ruble foreign exchange rate.

Profitability: With improvements in production and efficiency, we expect profitability to increase relative to commodity prices and production volumes.

HSE: The Group will strive to reduce energy consumption thereby reducing emissions, water usage and waste. Furthermore, HSE practices and policies will be initiated in administrative centres too.

BOARD OF DIRECTORS

Jay Hambro Raymond Woo Jonathan Martin Smith Simon Murray

Yury Makarov Daniel Rochfort Bradshaw Chuang-fei Li Pavel Maslovskiy

Executive Directors

Jay Hambro

Executive Chairman

Mr Jay Hambro, 37, is the Executive Chairman of IRC. He began his career as a metals and mining project financier at NM Rothschild and then as an investment banker at HSBC. In 2002 he joined what is now the Petropavlovsk Group and was subsequently appointed CEO of Aricom plc. Following the acquisition of Aricom by Petropavlovsk in 2009, he became the CIO there, a role he relinquished in 2010 to become Executive Chairman of IRC.

Mr Hambro is a Fellow of the Institute of Materials, Minerals and Mining and an Independent Non-Executive Director for Winsway Coking Coal Holdings Limited. He holds a Bachelor of Arts in Business Management.

Yury Makarov

Chief Executive Officer

Mr Yury Makarov, 37, is the Chief Executive Officer of IRC. He is also the Chairman of the Operations Committee. He began his career at NT Computers as an engineer. In 2002 he joined Aricom as COO and moved to Petropavlovsk as the Group Head of Operations of the industrial commodities business before taking up his new role at IRC in 2010.

Mr Makarov has served as a Commercial Director of NT Computers in Moscow with responsibility for sales, service and support. Mr Makarov is a qualified systems engineer with a degree in avionics design and production from the Moscow State Aircraft Technology Institute.

Raymond Woo

Chief Financial Officer & Company Secretary

Mr Woo, 42, is the Chief Financial Officer and the Company Secretary of IRC. Mr Woo is responsible for the financial management of IRC in Russia, China and Hong Kong.

Mr Woo began his career as a certified accountant at Arthur Andersen & Co where he qualified. Subsequently, he was employed in senior positions as an investment banker at ING, CITIC Securities and Credit Suisse. Mr Woo holds a Bachelor of Commerce degree. He is a member of both the Australian Society of Certified Practising Accountants and a fellow of the Hong Kong Institute of Certified Public Accountants. He is also an Independent Non-Executive director of Yuanda China Holdings Limited.

Independent Non-Executive Directors

Daniel Rochfort Bradshaw

Mr Daniel Bradshaw, 65, is the Senior Non-Executive Director, and Chairman of the Health, Safety and Environment Committee. As a Hong Kong lawyer with a specialist shipping practice, he brings considerable legal and logistics experience, having worked for most of his career at Mayer Brown JSM as a solicitor, and currently as a consultant.

Mr Bradshaw holds an LLB and LLM in Law and is a registered solicitor. He is an independent non-executive director of Euronav N.V., and an Independent Non-Executive Director of Pacific Basin Shipping Limited, a Director of the Kadoorie Farm and Botanic Garden and a member of the Executive Council of the Hong Kong World Wide Fund for Nature.

Jonathan Eric Martin Smith

Mr Jonathan Martin Smith, 53, is an Independent Non-Executive Director and Chairman of the Remuneration Committee.

Mr Martin Smith founded Smith's Corporate Advisory, which was sold to Westhouse Holdings Ltd, a UK stockbroker, in 2010. Mr Martin Smith is now Head of Mining at Westhouse. He brings capital markets experience to the Board. Prior to establishing his own firm, Mr Martin Smith worked at UBS, Credit Suisse and Williams de Broë.

Mr Martin Smith has been designated by the UK FSA as an "approved person". He is a graduate from the Royal Military Academy Sandhurst where he served as a British Army officer until 1982.

Chuang-fei Li

Mr Chuang-fei Li, 65, is a Non-Executive Director and Chairman of the Audit Committee.

Mr Li worked for Bank of China in London as the Deputy General Manager and the Chief Lending Officer. He was in charge of investment and corporate banking, treasury and capital markets, financial institutions coverage, structure finance, aircraft and shipping finance, syndications, retail banking and auditing. He was instrumental in the establishment of Bank of China International, the first Chinese owned investment banking operation.

Mr Li is a past Fellow of the Asia Centre at Harvard University.

Non-Executive Director

Simon Murray

CBE, Chevalier de la Légion d'honneur

Mr Murray, 72, is a Non-Executive Director of IRC.

Mr Murray brings considerable Hong Kong and Asia based experience to the Board, from a career spanning Jardine Matheson, his own company Davenham Investments, Hutchison Whampoa as the Group Managing Director, Executive Chairman of Deutsche Bank Group for the Asia Pacific and his current position as Chairman of GEMS Limited.

Mr Murray was appointed a CBE and awarded the Légion d'honneur of the French Republic. He is also Chairman of Glencore International and a Director of Cheung Kong Holdings, Greenheart Group.

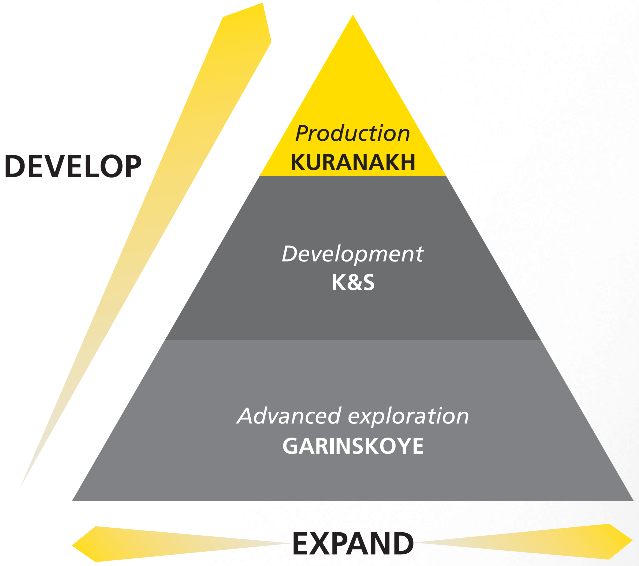
Emeritus Director

Senator Dr Pavel Maslovskiy

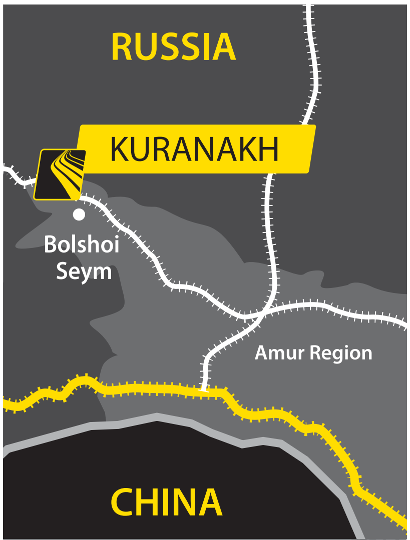
Senator Dr Pavel Maslovskiy, 55, is the Co-Founder of Petropavlovsk PLC. In this capacity, Senator Dr Maslovskiy has extensive experience in the operational management of mining and processing operations in precious and non-precious metals.

Prior to embarking on his business career, Senator Dr Maslovskiy graduated from and became a professor at, the Moscow Aircraft Technology Institute, specialising in engineering applications of the theory of plasticity and teaching metallurgy and plasticity. Senator Dr Maslovskiy was appointed as Senator and Member of the Federation Council of Russia (the Upper House of the Russian Parliament) in December 2011.

IRC is proud to have a corporate structure and Board of Directors that functions to best international practice.



Kuranakh



Location

56° 41'35"(N)
170° 26'30"(E)

The Kuranakh Mine is located in the Amur Region of the Russian Far East. The operation is located at the town of Olekma, a principal stop on the BAM Railway.

Ownership: IRC 100%

Overview

Kuranakh is IRC's first producing mine. The operation covers 85km^2 and comprises the Kuranakh and Saikta deposits; an on-site Crushing and Screening Plant and the nearby Olekma Processing Plant. The final products; an iron ore concentrate with a 62.5% iron (Fe) content and ilmenite concentrate with a 48% titanium dioxide content (TiO_2) are directly loaded onto railcar wagons for transportation via the BAM and Trans Siberian Railways to our customers.

In 2011, the mine achieved full production capacity for iron ore concentrate at an annualised 900,000 tonnes per annum. Full annual capacity of ilmenite concentrate is targeted during 2012. The life-of-mine is estimated at 15 years with opportunities to extend this further.

Production

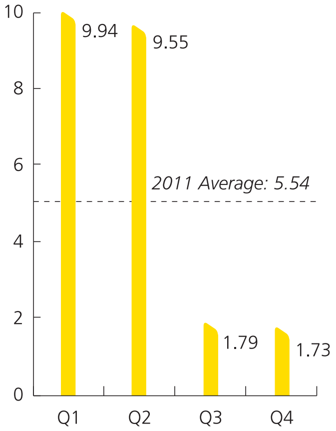
During 2011 production comfortably exceeded targets. RoM tonnes totalled 2.7 million, a 197% increase compared to 2010. Production of iron ore concentrate, with a 62.5% Fe content was 800,291 tonnes, ahead of a target of 750,000 tonnes and a more than four-fold increase compared to 2011. Production of by-product ilmenite in concentrate with a 48% grade was 63,490 tonnes, ahead of a target of 52,000 tonnes.

Concentrate	Quality	2010	2011	Target Achieved?
Iron Ore	62.5% Fe	149,100	**800,291**	Exceeded ✓
Ilmenite	48% TiO_2	2,500	**63,490**	Exceeded ✓

PROJECT REVIEW

Safety

Kuranakh LTIFR, 2011



The Kuranakh Mine reported an excellent safety performance for 2011. The LTIFR per 1,000,000 hours worked recording a respectable 5.54 and improved through the year as operations ramped-up, with only 12 lost time injuries recorded. This compares to a rate of 4.56 in 2010, when operations commenced.

Sustainable benefits

Kuranakh is Russia's first vertically-integrated titanotmagnetite processing and production plant. Although enjoying good access to infrastructure, the operation is located in a remote part of the Russian Far East and consequently has bought a much welcomed boost to the local economy. At the end of 2011, 1,258 people were employed at the operation.

Operating Performance

At the Saikta open pit mining activities picked up significantly during 2011.

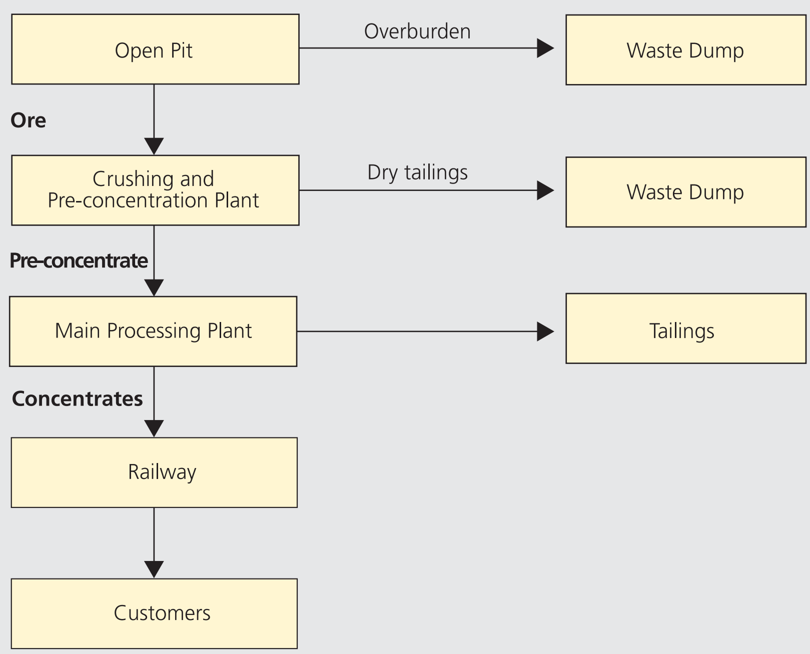
- 3.2 million m^3 of overburden removed.
- 2.7 million tonnes of ore removed at a grade of 27% Fe.

Crushing and Screening Plant

The on site Crushing and Screening Plant ramped up throughput during the year.

- Plant processed 2.8 million tonnes of ore.
- Production totalled 1,437,000 tonnes at a grade of 45%.

Flow sheet



Olekma Processing Plant

The Olekma processing plant also ramped-up capacity in line with other activities.

- During the year the plant processed 1.4 million tonnes at a grade of 46% Fe.
- Production totalled 800,291 tonnes of iron ore concentrate at a grade of 62.5% Fe and 63,490 tonnes of ilmenite at a grade of 48% TiO_2.
- At the end of the year, 69,060 tonnes of iron ore concentrate and 14,168 tonnes of ilmenite concentrate remained on stock.

Financial Performance

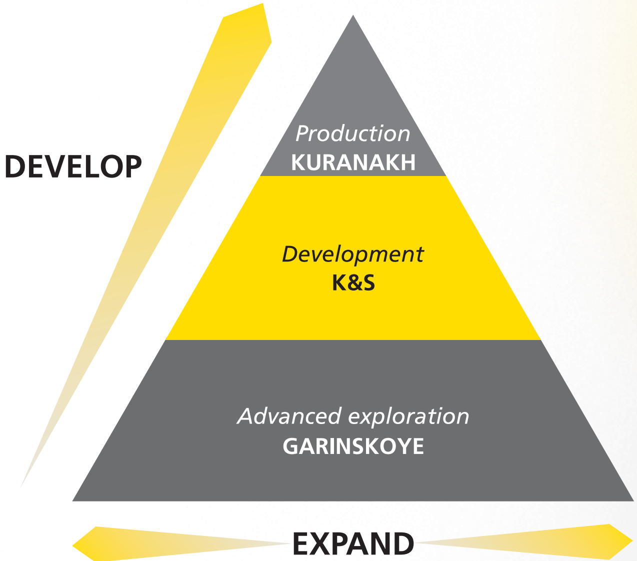
During 2011 Kuranakh generated revenues of US$110.4 million. Cash costs for the year averaged US$66.2 per tonne. Longer-term production costs are currently forecast at approximately US$60 a tonne as the ilmenite circuit ramps up. Transportation costs for Kuranakh iron ore concentrates to Suifenhe on the Chinese-Russian border averaged US$43.8 per tonne in 2011. It is anticipated that rail freight rates will reduce in the mid to long-term.

2012 Targets

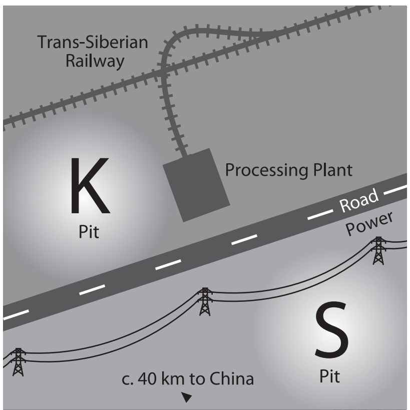
During 2011 Kuranakh achieved full production capacity. The target for iron ore concentrate for 2012 is 820,000 tonnes (62.5% Fe grade content).

During 2012, the ilmenite circuit will continue to ramp-up to an annualised capacity of 160,000 tonnes and therefore production in 2012 is targeted at an intermediate level of 125,000 tonnes.

Production increases should work toward improving unit and total costs.



K&S



Location

48° 59'04"(N)
131° 25'10"(E)

The K&S Project is located in the Jewish Autonomous Region (EAO) of the Russian Far East. The operation is 4 kilometres west of the town of Izvestkovaya, and just over 130 km west by federal highway of the regional capital Birobidzhan, and 300 km west of Khabarovsk, the principal city of the Russian Far East.

Ownership: IRC 100%

Overview

The K&S Project is under construction and will be IRC's second mine. An approximate US$500 million project, K&S is much larger in scale than the producing Kuranakh Mine, with an initial production capacity potential of 3.2 million tonnes of high-grade iron ore concentrate a year, and a life-of-mine in excess of 25 years. In 2011, the total mine resources doubled to 764 million tonnes, full details for which can be found in the Ore Resources and Reserves Section in this report.

Safety

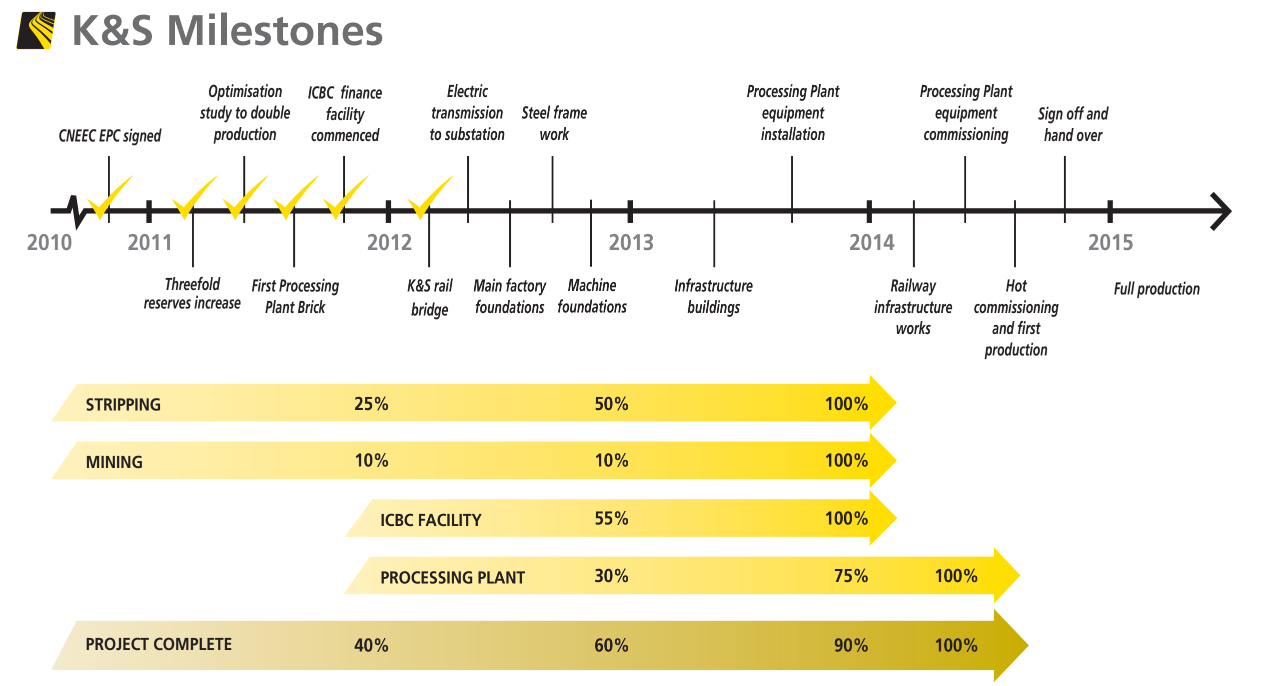
The K&S Project reported an excellent safety performance for 2011. The LTIFR rate per 1,000,000 hours worked was 0.00. This is an exceptional performance, notably because it is the second year in a row that K&S has achieved this accolade. At the end of the year 543 people were employed by K&S. This will increase during 2012, notably with the addition of 1,200 contract construction workers from CNEEC.

Mining

The operation covers nearly 50 km^2 and comprises the twin deposits of Kimkan (the "K") and Sutara (the "S"). The Kimkan Deposits comprises the two key ore zones — Central and West, of which the former is currently being mined by open-pit method, with ore being stockpiled for processing. At full production it is anticipated the deposits will be mined in a sequential manner, producing on average 10 million RoM tonnes per annum at an average grade of 35% Fe.

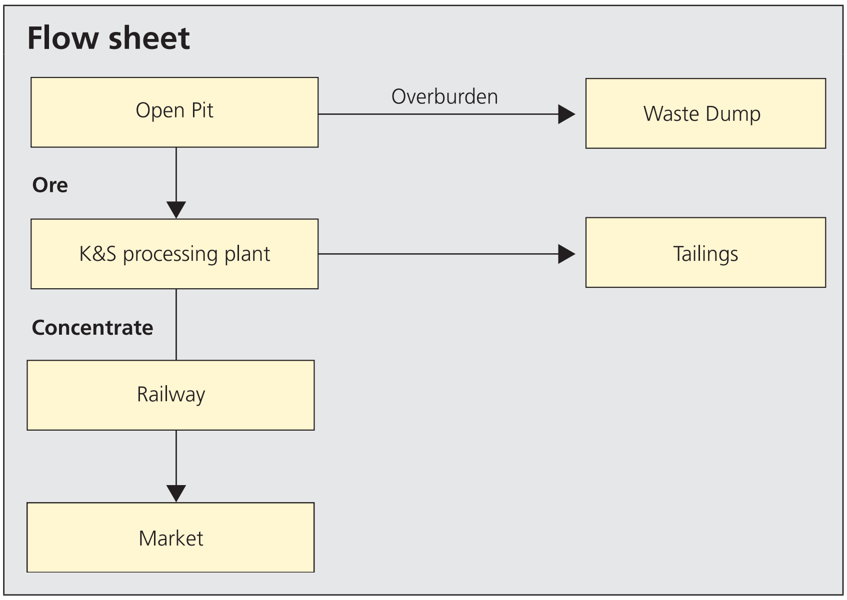
Processing

The Processing Plant is situated between the two deposits. Construction began in 2010 and is due for completion in mid-2014. Processing K&S RoM tonnes, the plant will produce 3.2 million tonnes of iron ore concentrate with a superior 65% Fe grade. It should be noted, however, that the plant will have a maximum throughput capacity of 20 million RoM tonnes, 100% above the initial required capacity to allow for expansion and treatment of ore feeds. The Processing Plant is a turnkey project for delivery of a



Estimated simplified project construction schedule

strict volume and quality of material over a 30-month period (mid-2014). It is funded through a project finance facility provided by ICBC and is being constructed by CNEEC with supervision from IRC. The plant site has been designed in a modular way so that it can be expanded to process ores from an expanded K&S operation and the Garinskoye Deposit.



Infrastructure and Logistics

K&S is superbly situated close to the regional and Far Eastern Russian cities providing an ample workforce with the requisite skills and experience to build and operate a large-scale mining and processing operation. The Trans-Siberian Railway passes within one kilometer of the operation, direct access to which will be completed during 2012 via a dedicated spur line from the Processing Plant. Indeed, the railway provides a stable and efficient route to market for K&S concentrate, and conversely, the delivery to site of consumables. Furthermore the recently upgraded principle east-west federal highway bypasses the mine site.

In addition to transport access, K&S also enjoys excellent electricity and water supplies. The operation is directly connected to the federal grid. Currently, two of nine on-site boreholes provide the required water needs for full production.

Production Targets

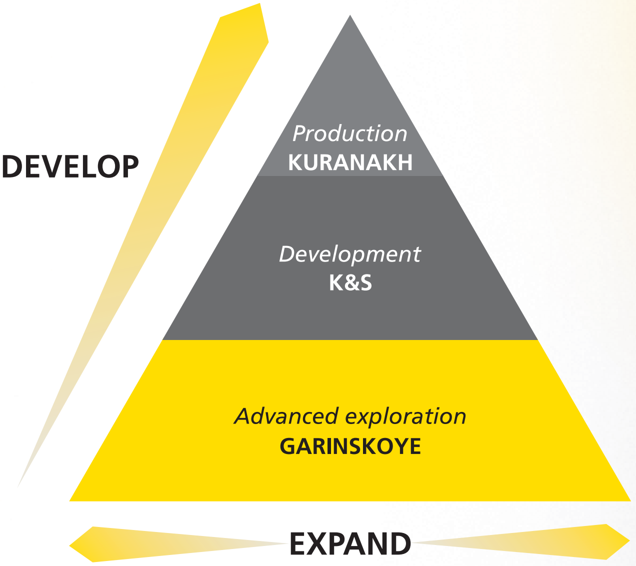
During 2014, the mine will ramp up to full capacity of 10 million tonnes with a grade of 35% Fe. This will be processed to produce 3.2 million tonnes of iron ore concentrate with a grade of 65% Fe. First production is scheduled during the first half of 2014.

Costs

Long-term production costs at the K&S operation are currently forecast at US$33 a tonne of iron ore concentrate. The current cost of rail freight to Suifenhe on the Chinese Russian border is approximately US$20 a tonne.

Mine Optimisation Study Doubles Capacity

In August 2011 IRC announced the favourable findings of a mine optimisation study for K&S. The study followed two sequential increases in ore reserves over the year and demonstrated the potential to nearly double production from 3.2 to 6.1 million tonnes per annum by accelerating production from the Sutara deposit. The estimated capital investment would be low at approximately US$400 million. The company is completing a detailed feasibility study in 2012 to decide on the final method to optimise the long-term mine plan.



Garinskoye

Location

52° 35'00"(N)
129° 65'30"(E)

The Garinskoye Project is located in the Amur Region of the Russian Far East, halfway between the BAM and Trans Siberian Railways.

Ownership: 99.7%

Overview

Garinskoye is an advanced exploration project that covers 11.2km^2. Including Garinskoye Flanks, in terms of resources it is the largest project in the IRC portfolio. Currently undergoing final geological investigation and mine planning, the Project is targeting construction and first production from 2015. Adjacent to the project, IRC has exploration licences for ground covering over 3,500km^2. Work is currently focussed most notably on the Garinskoye Flanks licence.

The project is located between the Trans Siberian and BAM Railways. It has been announced that the Russian Government will be providing a rail connection that will be located alongside the deposit such that it can be used by IRC but that this connection will not be in place until 2019. Management is continuing to review a number of alternatives for transport infrastructure.

Summary of principal mineral resources at Garinskoye*

Project	Resource Category	Mineral Resources (Mt)	Fe(%) total
Garinskoye	Indicated	219.9	32.0%
	Inferred	155.9	29.3%
	Total	375.8	30.9%

* In accordance with the Guidelines of the JORC Code (2004)

Early Exploration

The original exploration carried out on Garinskoye in the 1950s identified 54 ore bodies with thicknesses ranging between 1.6–49m and strike lengths ranging between 60–1,500m. Mineralisation was determined to reach to a depth of 500m and it was identified that all of the ore bodies dipped steeply at 70–80° with a north-easterly strike. Although three types of ore were identified (magnetite, magnetite-haematite, and magnetic pyrrhotite), only the magnetite one was considered to have any industrial significance. Within the main magnetite group the secondary minerals were identified to be mainly haematite, martite and muscovite.

Exploration during 2011

Exploration activities at Garinskoye advanced well during the year. 28 boreholes totaling 7,359m of core drilling were completed. In addition to earlier boreholes taken, a total 3,486 samples have been sent to the laboratory to date for quantitative chemical analysis.

For the year to date all of the planned confirmation drilling works have been completed at the Garinskoye Deposit and Garinskoye Flanks. Furthermore, prospecting and evaluation surveys and confirmation of existing magnetic anomalies have been completed at the Garinskoye Flanks Deposit.

Mining and Processing

It is planned to mine the Garinskoye deposit using conventional open-pit truck and shovel mining methods. The mined ore from the open pit would then be trucked to a crushing and dry magnetic separation plant located close to the pit.

As magnetite is the predominant source of iron at Garinskoye, it could be concentrated using the same magnetic separation process as at the K&S project. This should result in an initial production of standard iron ore fines averaging approximately 65% iron which could then be developed into a number of premium products including standard pellets, direct reduced iron or pig iron

IRC's development programme contemplates the construction of a mining, crushing and screening operation at Garinskoye with a capacity of 10Mtpa of ore. The pre-concentrate from Garinskoye could then be taken to the K&S processing plant for further beneficiation. The K&S processing plant is expected to be expanded to process this additional ore.

Infrastructure

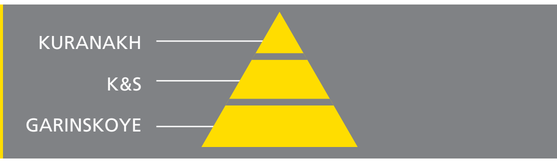
Although the site is served by some existing infrastructure, a number of major items will need to be built, including an accommodation camp, administrative buildings and a heating plant. There is a Federal power line passing approximately 50km north of the deposit in the area of the Novkievskaya settlement. The offsite power supply is expected to be provided by a new line from the existing 220kV Federal power line. A new 220/110/6 kV substation is expected to be built at the site. The total required power capacity at the project (open pit and K&S Plant) is 21.4 mWt which may increase to 33.6 mWt if the Group uses a conveyor for pre-concentrate transportation. At Garinskoye, coal could be used for heating purposes only and there are a sufficient number of coal producers in the region to adequately meet such need. Garinskoye will be supplied with coal by the Ushumun coal.

Optimisation Study

Based on the results of geological modelling the concept of a two-stage development of the Garinskoye Deposit could be considered. This could imply a DSO style operation by mining the higher-grade ore first. This option is currently being studied.

It should be noted that the external control of the exploration work is performed by independent consultants from Wardell Armstrong International (WAI) who visited the Garinskoye site in May 2011 and provided recommendations on the planned volumes of exploration works.

Exploration Projects



As part of our long-term strategy to expand and develop our assets, we are committed to exploration, notably in and around our three principal assets. Exploration activities gathered momentum during 2011 across the portfolio:

Kuranakh and Bolshoi Seym
Ongoing drilling to support mining operations at Kuranakh continued. At the nearby Bolshoi Seym licence, work continues analysing a mineral resource estimate with a view to conducting further exploration work.

K&S and Kostenginskoye
At K&S all necessary exploration activities are complete and the deposit is prepared for mining. It is aimed to explore the Sovkhozny and Maisky ore zones further in the near term. Exploration activities continued during 2011 at the nearby Kostenginskoye Deposit with samples currently being assayed.

Garinskoye and Flanks
At Garinskoye, IRC's largest exploration area, work focussed on reserve confirmation, whilst at the adjacent Garinskoye Flanks area geologists focus on increasing overall reserves.

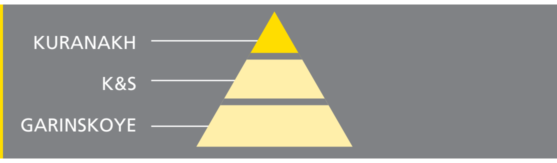
Resource evaluation and reserve definition at the projects progressed well during 2011. Over the summer months, the field programmes included bulk sampling, metallurgical testwork, geotechnical assessment and engineering studies. The data collected is being analysed, reviewed and audited over the winter months.

Summary of Exploration Projects Status and Activities

	Licence Area	Status	2011 work	2012 objective
Garinskoye Flanks	3,530km^2	Exploration	Additional exploration work	Analysis
Kostenginskoye	24km^2	Exploration	Preliminary results	Analysis
Bolshoi Seym*	26km^2	Exploration	Mineral resource estimate	Analysis

* IRC owns 49% of Bolshoi Seym

SRP



Location

Shuangyashan, Heilongjiang, North-Eastern China

Overview

The Steel Slag Reprocessing Plant (SRP) is a Sino-Russian partnership, being a joint venture between IRC (46% ownership) and its largest iron ore customer in Heilongjiang in North-Eastern China. The plant is located adjacent to the customer's operations. November 2011 marked first production from the SRP.

The project processes steel slag, a by-product from our customer's operations. The annual capacity is estimated at 50,000 tonnes throughput for production of 5,000 tonnes of vanadium pentoxide. The first commercial sale of vanadium pentoxide is anticipated in 2012. Vanadium pentoxide is widely used to produce high-strength alloys. It is envisaged that the life of operation is in excess of 30 years.

PROJECT REVIEW AND COMPLEMENTARY PROJECTS

KURANAKH
K&S
GARINSKOYE

Infrastructure Projects

IRC continues to support the Russian and PRC initiatives to construct a railway bridge between Russia and Tongjiang close to its K&S operation. The Group also continues to consider its participation in the development of a sea port in Sovetskaya Gavan on the Russian Pacific coast. These are key infrastructure projects for the wider economic development of the Russian Far East.

Bridge

The project to build a railway bridge across the Russian named Amur and Chinese Heilongjiang River between Nizhneleninskoye and Tongjiang advanced during 2011, largely in part due to the lobbying efforts of IRC's subsidiary Rubikon. Approval for the design and cost was secured from state authorities as were changes to the intergovernmental agreement concerning the river demarcation point between the two states.

The next steps for 2012 are to assist Russian Railways to develop a mechanism for its return on investment for funding the project. We are also working with several Ministries within the Russian government to facilitate the ongoing development of the bridge.

The completed design is for a bridge spanning 2,209 meters, of which 309 meters will be on the Russian Federation territory and 1,900 meters to the PRC. The bridge could potentially provide significant saving in transport costs between Russia and the PRC for the Group and significant benefits to the wider Russian and Chinese communities.

Port

The Group continued its participation and lobbying for the development of a port in the Special Economic Zone of Sovetskaya Gavan. A number of options are being assessed, notably a bulk only or bulk and container terminal. New capacity at Sovetskaya Gavan would address constraints at the established Vladivostok and Nakhodka ports, and provide some flexibility as a more northerly access route to the Sea of Japan and Pacific.

KURANAKH
K&S
GARINSKOYE

Giproruda

Location

St Petersburg, Russia, with regional and international offices.

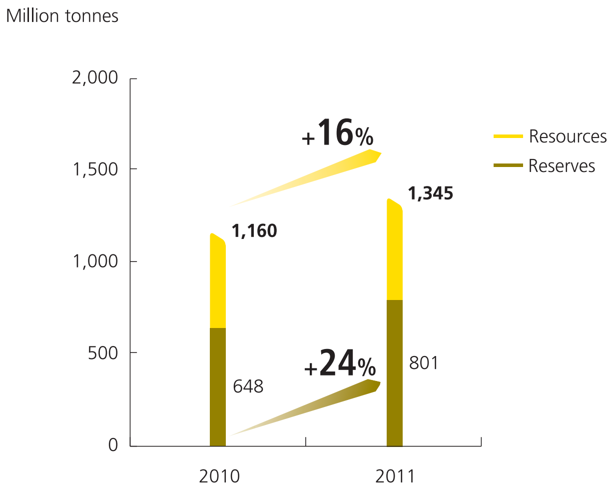
Overview

Giproruda is a technical mining research and consultancy institute with operations in Russia and Asia. It is 70.3% owned by IRC. Giproruda's work includes the design, coordination, construction and commissioning of quarries and mines for mining clients, particularly those located in challenging geological and climatic conditions, especially in Russia. Giproruda has been associated with the Kuranakh Mine and K&S Project.

During 2011, Giproruda celebrated it's 80th Anniversary. The year was a successful one for the institute, with the institution of a new quality management and control system and the award of new tenders as the sole consultant and jointly with industry partners.

Giproruda has now completed a number of pieces of work that have been instrumental to the growth and development of IRC but the main focus is now on third-party work.

MINERAL RESOURCE AND RESERVE STATEMENT



Exploration Summary

IRC geologists aim to explore prospective areas, confirm historical exploration results and increase existing mineable reserves, thereby mitigating risks during mining operations and reducing mining and processing costs. The data that we obtain during exploration has helped us to develop and optimise business concepts and mine models and will continue to ensure growth.

Successes during 2011 included doubling the resources of the Sutara Deposit, revealing large scale magnetic anomalies at Garinskoye Flanks, confirmation of high-grade ore zones at the Garinskoye Deposit and the start-up of the Kuranakh Mine.

In 2011, exploration works concentrated on the Kostenginskoye and Garinskoye Deposits and Garinskoye Flanks area. Based on the new exploration drilling results the resources at Kimkan have been re-estimated. Also the estimation of resources for the Bolshoi Seym Deposit has been completed. During the year 42km of boreholes, 3,104m^3 of trenching and 10,000 samples were taken for analysis.

Exploration Highlights

The total Group resources, estimated in accordance with the Guidelines of the JORC code 2004 and NI43-101 standard as at 31 December 2011 were:

1,345 million tonnes of ore (a 16% increment compared to 2010), comprising 948 million tonnes in Measured and Indicated category (a 12% increment compared to 2010) and 397 million tonnes of Inferred category (a 28% increment compared to 2010).

The Group proven and probable reserves in the year have increased by 24% and constitute 801 million tonnes.

Group Resource and Reserve Summary in accordance with the Guidelines of JORC (2004) and NI43-101 as at January 2012

			Resources				
Project	**Deposit**	**Category**	**Tonnage Mt**	**Grade %, Fe (total)**	**Fe (total), Mt**	**Grade %, TiO_2**	**TiO_2 Mt**
Kuranakh	Kuranakh	Indicated	14	30.50%	4.3		
		Inferred	6	31.65%	1.8		
	Saikta	Indicated	22	31.39%	6.9		
	Total	Measured and Indicated	36	31.20%	11.2		
		Inferred	6	31.70%	1.8		
K&S	Kimkan-Center	Indicated	98	33.20%	32.4		
		Inferred	27	32.70%	8.7		
	Kimkan-West	Indicated	53	33.30%	17.8		
		Inferred	54	33.50%	18.0		
	Sutara	Measured	196	32.45%	63.5		
		Indicated	231	32.24%	74.4		
		Inferred	66	30.97%	20.4		
	Maisky	Indicated	15	32.00%	4.8		
		Inferred	21	31.90%	6.6		
	Sovkhozniy	Inferred	4	30.20%	1.3		
	Total	Measured and Indicated	593	32.54%	192.9		
		Inferred	171	32.17%	55.1		
Garinskoye	Garinskoye	Indicated	220	32.00%	70.4		
		Inferred	156	29.30%	45.7		
	Total	Indicated and Inferred	376	30.90%	116.1		
Bolshoi Seym*	Bolshoi Seym	Indicated (attributable to IRC)	99	17.41%	34.1	7.56%	14.80
		Inferred (attributable to IRC)	64	16.53%	22.6	7.49%	10.23
	Total	Indicated and Inferred	163	17.10%	56.7	7.54%	25.03
	Total Resources	Total Measured and Indicated	948				
		Total Inferred	397				
		Total Measured, Indicated and Inferred	**1,345**				

* In accordance with the Guidelines of the NI43-101, IRC owns 49% of Bolshoi Seym and its attributable portion to the total resources is 163 million tonnes.

MINERAL RESOURCE AND RESERVE STATEMENT

The Group Proven and Probable Reserves Summary as at January 2012 in accordance with the Guidelines of the JORC code 2004

Project	Deposit	Tonnage (Mt)	Grade %, Fe (total)	Fe (total), (Mt)
Kuranakh	Kuranakh	13.9	30.00%	4.21
	Saikta	20.6	31.60%	6.52
K&S	Kimkan Center	95.1	33.10%	31.5
	Kimkan West	50.1	33.40%	16.7
	Sutara	409.7	32.40%	132.7
Garinskoye	Garinskoye	212	36.00%	76.32
	Total	801.4	33.43%	267.95

Current activity

Major work planned for 2012 include analysis of data obtained during the 2011 fieldworks. In early 2012 we intend to complete the re-estimation of Garinskoye reserves taking into consideration the data from the Flanks and confirmation boreholes within the identified ore bodies. In mid-2012 we plan to estimate the Kostenginskoye resources. Also we will re-examine the high-grade ore zone data at the Garinskoye Deposit to further study options for selective mining of direct ship ore (DSO). At Garinskoye Flanks, our geologists have identified five magnetic anomaly zones and pending some analysis in 2012 we will decide how to proceed further.

Kuranakh

Kuranakh is a medium size titanomagnetite and ilmenite deposit, located in Tynda district of the Amur region in the Russian Far East. Between 2004 and 2006 geological exploration and confirmation works were conducted at the deposit. Currently two ore zones have been allocated for mining: zone 1, called Saikta and zone 3 called Kuranakh.

The mining operations at the deposit commenced in 2008 and were concentrated at Saikta. The resources at 31 December 2011 are 41.32 million tonnes. The existing reserves of 34.5 Mt of ore ensure a life-of-mine of 15 years with the annual mining capacity of 2.6 million tonnes per annum.

Resources of Kuranakh Deposit (ore zones 1 and 3) at January 2012 estimated in accordance with the Guidelines of the JORC code (2004).

Saikta Mineral Resources* (WAI January 2012)							
Resource Classification	Ore Resources (Mt)	Fe_{Total} (%)	Fe_{Magn} (%)	TiO_2 (%)	Fe_{Total} (Mt)	Fe_{Magn} (Mt)	TiO_2 (Mt)
Indicated	21.67	31.39	21.09	9.69	6.80	4.57	2.10

Kuranakh Mineral Resources* (WAI February 2011)							
Resource Classification	Ore Resources (Mt)	Fe_{Total} (%)	Fe_{Magn} (%)	TiO_2 (%)	Fe_{Total} (Mt)	Fe_{Magn} (Mt)	TiO_2 (Mt)
Indicated	14.06	30.50	19.04	9.40	4.29	2.68	1.27
Inferred	5.59	31.65	19.65	9.97	1.77	1.10	5.57

* In accordance with the Guidelines of the JORC Code (2004) — 17% Fe cut-off grade

MINERAL RESOURCE AND RESERVE STATEMENT

Reserves of Kuranakh Deposit (ore zones 1 and 3) at 31.12.2011 estimated in accordance with the Guidelines of the JORC code 2004

Kuranakh Ore Reserves* (WAI 01 February 2011)	Tonnage (Mt)	Fe (%)	Fe (Mt)
Proven	—	—	—
Probable	13.9	30.0	4.2
Total	13.9	30.0	4.2

Saikta Ore Reserves* (WAI 01 January 2011)	Tonnage (Mt)	Fe (%)	Fe (Mt)
Proven	—	—	—
Probable	20.6	31.6	6.5
Total	20.6	31.6	6.5

* In accordance with the Guidelines of the JORC Code (2004)

K&S

Kimkan and Sutara (K&S) is a large magnetite project located in the Obluchenskoye District of the EAO in the Russian Far East. The project consists of two principal deposits — Kimkan with 25% of reserves and Sutara with 75% of reserves. The Kimkan Deposit consists of four areas: Kimkan Center, Kimkan West, Sovkhozny and Maisky. The total resources of the K&S Project, estimated in accordance with the guideline of the JORC, is 764 million tonnes with an average Fe grade of 32.4%.

To date all of the necessary exploration activities as well as confirmation drilling have been completed. The deposit is fully prepared for mining operations.

The current mining plan is that Kimkan Center and Kimkan West will be mined first. The Sutara Deposit will be mined simultaneously with Kimkan starting in the third year of operations at Kimkan. The total proven and probable reserves as of 31 December 2011 is 555 million tonnes with an average Fe grade of 32.6%, ensuring the life of mine in excess of 30 years at a rate of 20 million tonnes per annum.

K&S Mineral Resources in accordance with the Guidelines of the JORC Code 2004 (WAI August 2011/February 2011)

	Resources	Ore (Mt)	Fe grade (%)	Fe (Mt)
Kimkan	Measured & Indicated	166.2	33.1	55.0
	Inferred	105.7	32.8	34.7
Sutara	Measured & Indicated	426.6	32.3	137.9
	Inferred	65.5	31.0	20.4
Total	Measured & Indicated	592.8	32.5	192.9
	Inferred	171.2	32.2	55.1

* Kimkan @ cut-off grade — 17%, Sutara @ cut-off grade — 18%.

K&S Proven and Probable Reserves (WAI January 2012) in accordance with the Guidelines of the JORC code 2004

Ore Zone	Proven and Probable Reserves Ore (Mt)	Fe grade (%)	Fe (Mt)
Kimkan Center	95.1	33.1	32
Kimkan West	50.1	33.4	17
Sutara	409.7	32.4	133
Total	554.9	32.6	181

MINERAL RESOURCE AND RESERVE STATEMENT

Garinskoye and Garinskoye Flanks

Exploration at Garinskoye focused on the confirmation of existing resources and the identification of high grade Fe zones. Additional exploration was undertaken at Garinskoye Flanks with the aim of increasing overall resources at Garinskoye and confirmation of magnetic anomalies at Garinskoye Flanks. In 2011 the following volumes of fieldworks have been completed:

Area	Boreholes	Linear meter drilled
Orlovsko-Sokhatinskaya area	28	6,555
Garinskoye Flanks	40	9,462
Garinskoye	30	8,432
Total	98	24,449

Garinskoye

The Garinskoye Deposit is one of the few large iron ore deposits in the Russian Far East which has been explored and studied extensively during the Soviet era. The Garinskoye Deposit is situated in the Mazanovsky Administrative District, in the Amur Region and lies approximately 300km from the regional capital of Blagoveschensk.

The deposit was first discovered in 1949 through an aeromagnetic anomaly. Between 1950 and 1958, detailed exploration was carried out including pits, trenches, shafts and underground development, together with drill holes.

The current geological exploration works have been conducted at Garinskoye since 2007. The final stage of the field works was completed in August 2011.

Investigation of the historic exploration data by IRC geologists has determined that selective mining of direct ship ore (DSO) at a grade of over 54% Fe, which occurs close to the surface, may be possible in the first years of mine development. A priority of the confirmation drilling programme at Garinskoye was to delineate these DSO zones for early mining. Samples are being analysed and when complete a reestimation of the resources and identification of the high grade zones for primary mining will be possible. It is anticipated that this work will be completed during early 2012.

As of 31 December 2011 (yet estimated in 2008) the resources of Garinskoye Deposit totaled 220 million tonnes of ore in measured and indicated category and 156 million tonnes in the inferred category. The average grade of Fe is 32%. Proven and Probable reserves of Garinskoye Deposit are 212 million tonnes with the average grade of Fe 36%.

The Orlovsko-Sokhatinskaya Area

The Orlovsko-Sokhatinskaya area, surrounding the Garinskoye Deposit is located in the Mazanovskiy District of the Amur Region. The Orlovsko-Sokhatinskaya license covers an area of 3,530 km^2. The area contains a number of iron ore deposits that are in the preliminary stages of exploration. The license covers both exploration and extraction.

In the Orlovskaya area, the Lebedikhinskoye Deposit consists of seven beds and lenses of magnetite which range from 1.5 to 20 metres thick and extend 50 metres to 360 metres along strike. The Imchikanskoye Deposit consists of magnetite ore bodies 2-8 metres thick which extend 230 to 500 metres along strike. The Kamenushinskoye Deposit is a mix of pyrite, magnetite and hematite ore in eleven ore bodies 2 to 12 metres thick with a strike length of 100–800 metres.

It should be noted that the external control of the exploration work is being performed by independent consultants Wardell Armstrong International (WAI) who visited the Garinskoye site in May 2011 and provided recommendations on the planned volumes of exploration works. WAI has also indicated the high level of work organisation and quality of exploration works that were conducted in accordance with best practice methods.

Kostenginskoye

The Kostenginskoye Deposit is located 18km south of the Sutara Deposit. It has a similar structure to the Sutara Deposit. Almost all deposits are concentrated in one orebody which is 5,700 metres long and intersection changes from 11 to 50 metres (with an average 36 metres) and an average iron content of 31.7%.

Exploration between 2008 and 2011 concentrated on the southern portion of the Deposit in the range of 12–80 exploration offset. At the end of 2011, nearly 50% of samples had been analysed and preliminary results of the exploration so far suggest that the core intersection has no significant changes. The average content of the samples is 28–30% iron with content of the magnetic iron at 17 to 19%.

Exploration work completed at Kostenginskoye Deposit

Type of work	Unit	2011	2008–2011
Magnetic exploration Including exploration across the 100/10m cell	km^2	—	13
20x5m specification	km	19	19
Hand trenching	m^3/m	3,104/1,167	5,497/1,981
Core drilling	m	17,535	24,593
Trenching	sample	579	970
Core sampling	sample	4,069	4,069
Chip sampling of host rocks (ditches and wells)	sample	4,538	5,799
Compilation of the group samples	sample	72	72
Lumps to determine the density of the ore	lump	350	350
Pillar drawing to determine the volumetric weight of ore	pillar	3	3

Bolshoi Seym

IRC owns 49% of Bolshoi Seym

Bolshoi Seym is located in Tynda district of the Amur region, 40km from the Kuranakh Deposit. At Bolshoi Seym, the license covers an area of $26km^2$. Potentially economic mineralisation at Bolshoi Seym comprises massive ilmenite and magneite. Massive mineralisation comprises 90–99% (by volume) of ilmenomagneite, magneite and ilmenite. The Bolshoi Seym mineralisation was initially discovered during the apatite-ilmenite ore exploration programme conducted in 1979–1982 by Kalarskaya GRP, a subsidiary of the state company Dalgeologiya.

Systematic exploration of the Bolshoi Seym Deposit was conducted between 2007 and 2009 by Vostokgeologia. A total of 170 diamond drill holes have been drilled in all zones totaling 39,277 metres of which 158 were exploration holes, 3 were grade control holes, 5 were technological holes, and 4 were hydrogeological holes. In addition to the drilling, 17 trenches have been excavated over a linear distance of 7,893 metres.

A mineral resource estimate of the Bolshoi Seym Deposit was prepared by Micon in compliance with the CIM (Canadian Institute of Mining, Metallurgy and Petroleum) valuation standards. The estimate utilised geological and assay data from diamond drilling and trenching completed by Vostokgeologia in 2007–2009.

MINERAL RESOURCE AND RESERVE STATEMENT

Resources in accordance with the Guidelines of the NI43-101 for Bolshoi Seym as of December 2011*

Zone		Tonnage (Mt)	Grade (%)		Metal Resources (Mt)	
			TiO_2	Fe_{total}	TiO_2	Fe_{total}
Eastern Area	Indicated Resources	201.7	7.5	17.3	15.2	34.9
	Inferred Resources	27.7	6.9	16.3	1.9	4.5
Western Area	Inferred Resources	102.1	7.6	16.5	7.8	16.8
Total Indicated Resources		201.7	7.5	17.3	15.2	34.9
Total Inferred Resources		129.8	7.5	16.4	9.7	21.3

* Prepared by Micon

COMMUNICATIONS

IRC dedicates considerable effort to transparent communications with the objective to provide as effective and complete a picture as is commercially possible for all our investment and stakeholder audiences without prejudice. Furthermore, we seek to communicate this picture in as timely and cost effective manner as possible, following and where possible exceeding best practice.

Shareholder Base

IRC enjoys a widening shareholder base, in part due to the opportunities of being a Hong Kong quoted company. The key shareholder remains Petropavlovsk plc with approximately 66% of all shares. Petropavlovsk has affirmed that it is a committed shareholder. The balance of shares is mainly held between a combination of institutional and private investors in Hong Kong, East Asia and Europe. During 2011 increased emphasis was placed on attracting Asian institutional investors and this will continue into 2012. That said, the company is also making significant strides in increasing the quantity and quality of disclosure and activities to its loyal private shareholder base, especially in Hong Kong.

Share Performance

The average share price for 2011 was 3% higher than 2010, a positive performance given the turmoil and volatility suffered in global capital markets.

The share opened on the first day of trading for 2011 at HK$1.42 and closed at HK$1.06 on the 30th December 2011. IRCs share price performance for the year closely matches the performance of Hang Seng Index. Improving share trading volume is critical to attracting new investors, especially institutional investors as they typically trade larger positions than private shareholders. Efforts are underway to achieve this. The share price and volumes are illustrated in the chart below.

Activities

Communications activities in general have been stepped up during the year. IRC held over 100 meetings with equity analysts and almost 200 meetings with investors and potential investors, in addition to meeting with the Hong Kong media on a regular basis. The company also made better use of communications technology through the introduction of conference calls for results. It is anticipated that these efforts will deepen further into 2012, notably by increasing interaction through the website www.ircgroup.com.hk

Awards

In 2011, IRC won numerous awards for its communications activities in including ARC Silver Award for the 2010 Annual Report, the 2010 Vision Award GOLD, Top 50 Annual Reports in the Asia Pacific, Top 20 Chinese Annual Reports, Most Improved Bronze (Asia Pacific) presented by the League of American Communications Professionals.

HK$	2011	2010
Shares on issue (31.12)	**3.362 bn**	3.362 bn
Share Price High	**2.52**	1.76
Share Price Low	**0.91**	1.31
Share Price Average	**1.57**	1.53
Market Capitalisation (31.12)	**3.56 bn**	4.77 bn

Contact

IRC welcomes communication with shareholders and stakeholders and we invite contact by letter, email, telephone, our website, or social media.

+852 2772 0007

ir@ircgroup.com.hk

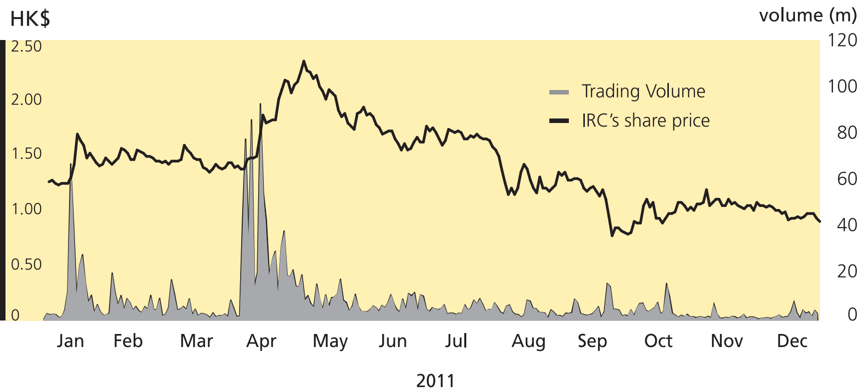
ircgroup.com.hk and also via

Twitter (@IRCLimited),

LinkedIn (linkedin.com/pub/irc-limited),

Facebook (facebook.com/pages/IRC-limited)

IRC share price volume and Index



CORE COMMODITIES & FOREIGN EXCHANGE

Commodity Products

IRC currently produces two commodity products from the Kuranakh Mine: iron ore and ilmenite. The iron ore is produced and sold on DAP basis (the International Chamber of Commerce term meaning "Delivery at Place"), as a concentrate with a 62.5% Fe grade. The ore at Kuranakh is titano-magnetite and therefore the operation also producers ilmenite discussed below.

Iron Ore

Supply

It is estimated that in 2011 global iron ore production grew for the third consecutive year to over 1 billion tonnes. Forecast growth in seaborne trade from the expansion of existing operations in Australia looks likely to be met although slower than expected and at a cost, whereas supply from new projects in Brazil and Western Africa is less certain due to deteriorating ore grades, limited infrastructure and financial and political risks. Increasingly, Chinese domestic production is filling the gap and acting as the global swing producer. Furthermore, growth in production from neighbours, such as IRC in Russia is also growing.

Demand

World iron ore demand continued to grow in 2011, especially in China, where consumption is estimated to increase at approximately 100 million tonnes for the sixth consecutive year. Although the rate of growth has softened, off an ever increasing base, China continues to creep its share of global demand, up from 60% in 2010 to an estimated 64% in 2011. As iron ore imports from India falter and other countries are only able to increase capacity enough to sustain their share of imports, Chinese steel producers are increasingly looking to domestic iron ore miners to fill the supply shortfall. IRC, with it's operations close to the Chinese border and with a short mine-to-market pipeline, is well placed to deliver into the tight supply because it can offer customers shorter delivery times by rail to the Chinese border, especially customers in the north-eastern Heilongjiang Province which is far from the Chinese seaports.

Pricing

During 2011 the iron ore price averaged US$164 a tonne, maintaining the gains accumulated during 2009 and 2010. The price weakened during the final quarter however due to concerns that China would suffer an economic hard landing. These concerns proved somewhat unfounded, and with supply tightness set to increase due to supply constraints and ongoing increases in demand from China, we believe the outlook for 2012 and beyond is good.

The convention of quarterly pricing for iron ore has been replaced by quarterly, monthly and increasingly, spot pricing. This has resulted in increased price volatility. IRC receives a full market price for its iron ore, less a small discount due to some small titanium content. IRC's products, however, remain attractive to customers because of the surety and consistency of supply.

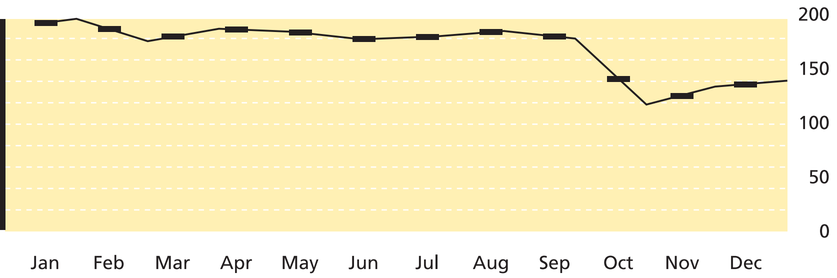
Ilmenite

The Kuranakh operation also produces ilmenite, a titanium iron dioxide, which is processed into a 48% titanium dioxide (TiO_2) concentrate product for shipping in innovative small size bags for sale on domestic and international markets. A product used as a white pigment because of its brightness and high refractive index, there are few substitutes, and with a problematic supply chain, IRC is growing production into a market with short supply, as recognised in the growing price throughout 2011. The demand outlook for 2012 is good with strong off take and firm demand from IRC's growing customer base.

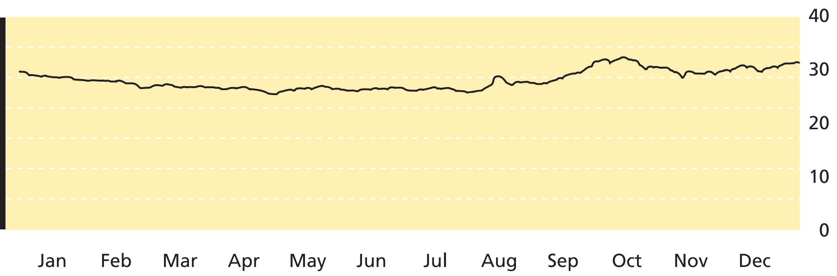
Foreign Exchange

With operations in Russia, IRC is sensitive to the US Dollar-Russian Ruble (USD/RUB) exchange rate because many operating costs are Rouble denominated, notably labour, whereas sales are in US dollars. During the year the Russian Rouble averaged 29.5 to the United States Dollar weakening at year end to close at 32.1.

Iron Ore Price (US$/t) 2011



Foreign Exchange USD/RUB 2011



Source: Bloomberg

Safety Report

IRC operates a variety of industrial projects, including mines in the Russian Far East in some harsh climatic conditions.

IRC mining projects are open pit, which lends itself to mechanised rather than labour intensive mining. Furthermore, the Company endeavours to operate to the highest of international best practice standards where possible and reasonable.

- All operational staff are given extensive health, safety and elementary first aid training.
- Internal and external reviews are undertaken on a regular basis to ensure that management learn from any mistakes made.
- IRC maintains internal audits of health and safety-related equipment.
- Visitors are provided health and safety briefings prior to arrival at site.

Safety performance across operations is recognised to be excellent as reflected in the table below:

During 2011 the number of employees increased 40% at Kuranakh where production increased more than five-fold. At K&S employees nearly doubled as mining and construction activities ramped up. The Group reported a LTIFR 3.61 for 2011.

Group 3-Year Safety Statistics* 2009–2011

		2009			2010			**2011**		
Period	**Enterprise**	Workforce	Injuries	LTIFR	Workforce	Injuries	LTIFR	**Workforce**	**Injuries**	**LTIFR**
Year	Kuranakh	631	7	11.1	876	4	4.6	**1,223**	**12**	**5.54**
	K&S	144	—	—	329	—	—	**640**	**—**	**0.00**
	Other projects	45	—	—	64	—	—	**78**	**—**	**—**
	Total	820	7	8.5	1,269	4	3.2	**1,941**	**12**	**3.61**

* Russian Standard Scale

The Environment

IRC applies international best practices where possible and reasonable in its environmental protection activities, with policies managed by the Group Head of Environmental Services, and a committee of independent non-executive directors. The Company's environmental mission statement is to ensure responsible, clean and sustainable development.

The Company's core health, safety and environmental activities are:

- Complying with legislation, international agreements and procedures of environmental protection and sustainability;
- Minimising adverse effects on the environment;
- Constantly improving IRC's environmental and ecological management system;
- Comprehensive assessment of current and planned activities and how they influence on the environment and native population through research, analysis and implementation of programmes;
- To use leading scientific know-how and technologies to reduce influence on the environment and decrease the use of natural resources, materials and energy when implementing new projects;
- implementing measures to preserve and support biodiversity including measures to protect critical habitats and improve natural habitats of animals and plants;
- Encourage suppliers and contractors to secure ecologic safety and constantly improve the quality of the environment where IRC operates;
- Communicate the Company's ecologic strategy and related activities to the public, arrange public discussions and take stakeholder opinions into account, including native populations, starting at project inception;
- Supporting native communities where IRC operates to preserve their way of life and promote their sustainability;
- Provide ecological education for all employees and encourage participation in the ecologic management system.

HEALTH, SAFETY & ENVIRONMENT

Environmental Management System

In 2010 IRC started an environmental management system, with the aim of attaining international standard ISO 14001:2004 for its principal mining and processing complexes. The system is being implemented and it is expected that certification will be achieved during 2012

Environmental monitoring, control and baseline studies

Environmental control is carried out on a regular basis. IRC provides a full range of environmental research within licenced areas as well as in areas of its projects' construction and operation. Objectives for environmental monitoring, control and baseline studies include: air emissions; sources of hazardous substances; sources of pollutant discharge; surface water and groundwater, watercourse sediments; soil cover; radiation; aquatic biological resources of the watercourse; and terrestrial fauna.

During 2011 IRC completed nearly 10,000 chemical and radiation samples as part of background pollution level evaluation and environmental monitoring. The research results indicate no environmental degradation. At Kuranakh monitoring of natural water sources and waste water control, atmospheric air and industrial emissions have been carried out by IRC's own certified laboratories

Environmental Performance — Land use and land reclamation of mined land

In 2011, the amount of land used by IRC was 2,758 hectares, 385 hectares more than 2010 mainly due to the construction of new facilities at K&S. Land reclamation work was carried out on the basis of approved projects, developed in accordance with environmental regulations that take into account the natural surroundings of the sites. The major component of reclamation works is the removal and preservation of fertile topsoil. The total volume of fertile soil stored in dumps at the end of 2011 amounted to 1,253 million m^3, which is 584 million m^3 more than at the end of 2010.

Emissions of pollutants into the air

Emission of pollutants into the air from stationary sources in 2011 increased by 389 tonnes a year compared to 2010, due to the commissioning of new facilities at Kuranakh. All IRC sites with stationary sources of emissions have approved maximum permissible emissions levels, for which they have received relevant government permits. IRC has no recorded incident of having exceeded these limits. The reduction of pollutant emissions of solid substances from stationary sources were be achieved through the installation and upgrading of dust collecting systems.

Water use and resource conservation

During 2009–2011 the company was heavily involved in growing its operations and commensurate with this water consumption increased to a total 376,500 m^3, and increase of 24,000 m^3 compared to 2010. Beneficiation processes at Kuranakh account for nearly 90% of the total consumption. Water for the plant is being taken from the Kuranakh River.

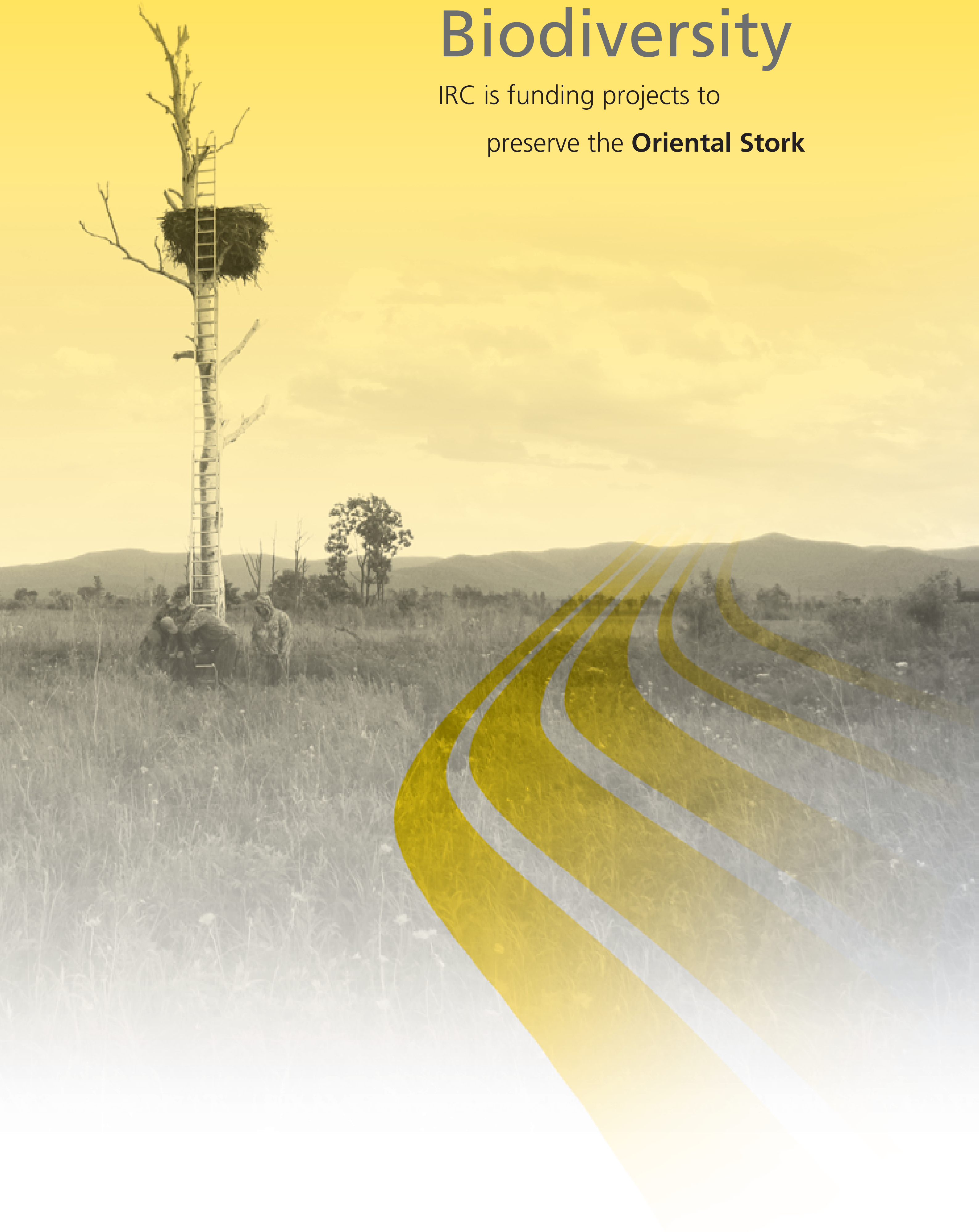
The Company considers water as a precious resource, and therefore, new water recycling technologies are being used at the across IRC operations. Indeed, since the opening of the Kuranakh in 2009, water has been recycled at the plant and the volumes are increasing. In 2011 volume of recycled water at the Kuranakh plant increased by 16.3% compared to 2010. All plants of the Company are utilising natural water resources in accordance with permissions issued by the respective governmental authorities.

Sewage

All IRC sites are equipped with wastewater treatment plants to reduce the impact on surface water and groundwater. Water treatment plants "Biodisk-350" and "Biodisk-100" were put into operation at Kuranakh in 2009-2010. Domestic waste water from the Beneficiation Plant at Kuranakh is discharged to tailings dams and used for re-supply later. Septic tanks are installed at all of IRC's sites to prevent environmental pollution from household waste water during construction. Domestic waste water is transferred to specialised sewage treatment contractors.

Biodiversity

IRC is funding projects to preserve the **Oriental Stork**



HEALTH, SAFETY & ENVIRONMENT

Production, assessment and disposal of waste

IRC uses the internationally recognised five categories to classify hazardous waste. Efforts are made to ensure the universal labeling of hazardous materials according to international standards of labelling and staff are trained in the uses and meanings of such labels.

Most of the waste produced at IRC sites-overburden and tailings of dry and wet magnetic separation (99%) was stored in purpose-built storage facilities and tailing dams. Much of this may be stored for future use, particularly in landfill and construction. About 2,300 tonnnes of industrial waste (overburden, tailings of dry magnetic separation and ash) has been directly recycled at IRC sites. Overburden and tailings from dry magnetic separation are mainly used for road construction, whereas ash is used as both an anti-icing agent and as an additive to concrete mixtures. Oleaginous waste from Kuranakh of 18.5 tonnes was disposed of at the site. More than 3.3 tonnes in 2011 has been transferred to contractors for disposal and external recycling. This includes all five categories of hazardous waste.

Biodiversity conservation

IRC has undertaken a comprehensive series of measures aimed at preserving the biodiversity of the regions in which it operates.

The Oriental Stork is a good example. Listed as endangered on the International Union for Conservation of Nature Red List of Threatened Species and also by the Convention on International Trade in Endangered Species of Wild Fauna and Flora IRC is putting considerable effort into preserving its habitat. There are currently fewer than 3,000 oriental storks in the world with less than ninety in the EAO. The special scientific exploration of the nesting areas of Oriental stork was carried out for the first time in in 2011. Funded by IRC, leading specialists are investigating nestlings of Oriental Stork in this area. Their methodology is supported by a number of state, scientific, non-governmental organisations, by the National Institute for Environmental studies, storks reintroduction center "Storks' home", Japan, and by the Korean National Institute for Environmental studies. Primary results showed good health of nestlings and a satisfactory food capacity of the territory. The expedition became available due to the support from the IRC's company.

Interaction with local stakeholders

IRC takes seriously the impact of its activities on society, not least because almost all employees live in the vicinity of its operations. IRC has an established and structured programme for the involvement of local stakeholders in its activities, aimed at forming a constructive dialogue with local community members. In addition to well-publicised reporting and complaints mechanisms, IRC conducts regular public meetings in the areas in which it operates to assess the impact of the company's work and to establish how best it may contribute to the fabric of local society. These surveys cover the following topics:

Environmental awareness

IRC regularly holds environmental education events for employees. For example in 2011 IRC held an event targeted at the preservation of animal life in EAO. This event was well received by schoolchildren and pensioners of the region. It was led by fellows of the Far Eastern Branch of the Russian Academy of Agricultural Science, Russian National Institute of Hunting and Animal Farming. In 2011 the Company took part in preparation of a book "Endangered plants of Amur River Basin". In 2012 the book will be handed out to libraries, and schools for free. The Company sees this publication as first in the series of books dedicated to endangered species of flora and fauna of the EAO and the Amur Region. In April 2011 a first ever conference on business participation in environmental initiatives took place in the EAO thanks to the sponsorship of the Company. The conference brought together efforts of entrepreneurs, government officials, scientists and wider community. The conference and subsequent fair of ecological investment projects resulted in such an important event as planting of Lotus of Komarov (Nelumbo nucifera) which is among endangered species in the books of both Russian Federation and EAO. In the future the Company endeavours to sustain, support and organise projects aimed at improvement of the ecological situation in Russian far-eastern region.

Professional achievements

In 2011 the K&S Project was listed in "Top 100 businesses of Russia for its ecology and environmental management". The company was nominated to this prestigious award by the government of the EAO in consideration of achievement in the area of ecological innovations and successful realisation of ecological programmes. The results of ecological activity of the company were chosen from over 400 reports submitted by various companies in Russia coming from over 50 different regions of the country.

Kuranakh

Mining operations during winter at the

Saikta Open Pit Mine at Kuranakh

CORPORATE GOVERNANCE REPORT

The Management and Board of IRC are committed to promoting good corporate governance to safeguard the interests of the shareholders and to enhance the Group's performance. Throughout the year ended 31 December 2011, the Company was in compliance with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). The Directors have complied with the standard set out in the Model Code throughout the year ended 31 December 2011.

Board of Directors

The Board of Directors (the "Board") of the Company provides leadership and supervises the overall direction of the Group's businesses. The Board comprises of seven Directors:

Executive Directors	3
Non-Executive Director	1
Independent Non-Executive Directors	3
	7

The Independent Non-Executive Directors are appointed for a specific term and are subject to retirement by rotation. Each of the Independent Non-Executive Directors has made an annual confirmation of independence pursuant to rule 3.13 of the Listing Rules. One of the Independent Non-Executive Directors possesses the appropriate professional accounting qualifications or related financial management expertise as required under the Listing Rules.

Although the day-to-day management has been delegated to the Executive Committee (please refer to the relevant paragraph under the "Other Management Committees" section), the Board meets regularly to review financial statements, material investments in new projects, dividend policy, major financings, treasury policies and changes in accounting policies. All Directors have access to board papers and related materials which are provided in a timely manner.

The Board held four scheduled meetings in 2011 and the attendance of individual Directors is set out in the table on page 34.

Audit Committee

The Audit Committee consists of the three Independent Non-Executive Directors — C.F. Li (Chairman), D.R. Bradshaw and J.E. Martin Smith. The principal duties of the Committee include the review and supervision of the Group's financial reporting system and internal control procedures. During 2011, the Audit Committee reviewed the 2011 interim and annual reports and held discussions with the external auditor regarding financial reporting, compliance, scope of audit, policies for maintaining independence and reported to the Board.

The Committee met four times in 2011 and the attendance of individual Directors is set out in the table on page 34.

Remuneration Committee

The Remuneration Committee is chaired by J.E Martin Smith and its other members are C.F. Li and D.R. Bradshaw, all of whom are independent non-executive directors. The Principal duty of the Committee is to review and make recommendations to the Board on the Group's policy and structure for all remuneration of Directors and senior management.

The Remuneration Committee meets regularly and reviews the structure of remuneration for executive directors on an ongoing basis and has the responsibility for the determination, within agreed terms of reference, of specific remuneration packages for executive directors and other members of the Executive Committee, including salaries, retirement benefits, bonuses, long-term incentives, benefits in kind and any compensation payments. The Remuneration Committee commits to bringing independent thought and scrutiny to the development and review process of the Group with regards to remuneration.

The Company's remuneration policy is designed to attract, retain and motivate the highly talented individuals needed to deliver its business strategy and to maximise shareholder value creation. The policy for 2011 and, so far as practicable, for subsequent years, will be framed around the following principles:

- remuneration arrangements will be designed to support the Company's business strategy and to align it with the interests of the Company's shareholders;
- total reward levels will be set at appropriate levels to reflect the competitive global market in which the Company operates, with the intention of positioning such levels within the a peer group of global mining companies;
- a high proportion of the remuneration should be 'at risk', with performance-related remuneration making up at least 50% of the total potential remuneration for Executive Committee members; and
- performance-related payments will be subject to the satisfaction of demanding and stretching performance targets over the short and long term, which are designed to promote the long-term success of the Group. These performance targets will be set in the context of the prospects of the Group, the prevailing economic environment in which it operates and the relative performance against that of competitor companies.

The Remuneration Committee considers that a successful remuneration policy needs to be sufficiently flexible to take into account of future changes in the business environment and in remuneration practices. Consequently, the remuneration policy and the Remuneration Committee's terms of reference for subsequent years will be reviewed annually in the light of matters such as changes to corporate governance best practice or changes to accounting standards or business practices among peer group mining companies. This will help to ensure that the policy continues to provide the Company with a competitive reward strategy. In doing so, the Remuneration Committee will take into account the relevant Hong Kong Listing Rules, the guidance of independent consultants and best-practice on the design of performance-related remuneration.

The Remuneration Committee is satisfied that the Company's pay and employment conditions for both directors and non-Board employees around the world are appropriate to the various markets in which the Company operates. As part of their annual appraisal, the Remuneration Committee commissioned one of the leading firms of certified practising accountants to conduct an independent review of the LTIP which forms part of the remuneration packages for management. The report stated that the LTIP is well-designed to incentivize and retain key personnel, and align their interests with those of the shareholders. The report further confirmed that management has adopted accounting policy in accordance with Hong Kong Financial Reporting Standard 2 — Share-based Payment as issued by the Hong Kong Institute of Certified Public Accountants to account for and disclose the financial impact of the LTIP. The report also noted that similar plans are used by some of the comparable companies as an incentive scheme for employees in the industry.

The Remuneration Committee did not make any amendments to the salaries of Executive Director's during 2010 and 2011 save to reflect the impact of the exchange rate due to the original salary levels being set in UK pounds sterling.

The Committee held three meetings in 2011 and the attendance of individual Directors is set out in the table on page 34.

Health, Safety and Environment Committee

The Health, Safety and Environmental Committee consists of three Independent Non-Executive Directors — D.R. Bradshaw (Chairman), J.E. Martin Smith and C.F. Li, and is responsible for evaluating the effectiveness of the Group's policies and systems for identifying and managing health, safety and environmental risks within the Group's operations and for ensuring compliance with health, safety and environmental regulatory requirements. The Committee also assesses the performance of the Group with regards to the impact of health, safety, environmental and community relations, decisions and actions.

The Committee provides the Board with regular updates to assist in overseeing matters relating to enhancing the Company's global reputation of responsible corporate stewardship, conscientious corporate social responsibility and product sustainability. In doing so, professional advice may be sought if considered necessary. The Committee also has the authority to invite key members of operational management to meetings to discuss the performance of the Group.

During 2011, the Committee held two meetings and the attendance of individual Directors is set out in the table below.

Board and Committee meetings and attendance

The number of meetings the Board, Audit and Remuneration Committees scheduled during 2011 are shown below together with attendance details:

	Meetings attended/held			
Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Health, Safety and Environment Committee**
Executive Directors				
G. J. Hambro, Chairman	4/4			
Y.V. Makarov, Chief Executive Officer	4/4			
R.K.T. Woo, Chief Financial Officer	4/4			
Non-Executive Directors				
S. Murray, *CBE, Chevalier de la Légion d'honneur*	4/4			
P.A. Maslovskiy*	4/4			
Independent Non-Executive Directors				
D.R. Bradshaw, Senior Independent Non-Executive Director	4/4	4/4	3/3	2/2
J.E. Martin Smith	4/4	4/4	3/3	2/2
C.F. Li	4/4	4/4	3/3	2/2

* Due to his appointment as a Senator and Member of the Federation Council of Russia (the Upper House of the Russian Parliament), Dr. P.A. Maslovskiy had resigned as a director of the Company with effect from 20 December 2011. Under Russian law, Senators are prohibited from holding a business office that is remunerated or which has a management role. Senator Maslovskiy was conferred by the Board as Emeritus Director. Senator Maslovskiy is able to advise the Board and attend, but not vote at Board Meetings.

Other Management Committees

As part of good corporate governance practice, two Board Committees have been established with their own specific delegated authorities and duties.

Executive Committee

The Executive Committee comprises of the three Executive Directors and other senior management members of the Group. The Committee is the principal management decision making body on all day-to-day business of the Group and operates under guidelines and delegated authorities from the Board. The Committee meet on a weekly basis.

Nomination Committee

The Nomination Committee was established by the Board on 20 February 2012. The Committee comprises of one Executive Director and two Independent Non-Executive Directors and meets at least once a year. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board, identify individuals suitably qualified to become members of the Board, and assess the independence of independent non-executive directors.

Auditors' Independence

Independence of the auditors is of critical importance to the Audit Committee, the Board and shareholders. The auditors write annually to the members of the Audit Committee confirming that they are independent accountants within the meaning of the Code of Ethics for Professional Accountants issued by Hong Kong Institute of Certified Public Accountants and that they are not aware of any matters which may reasonably be thought to bear on their independence. The Audit Committee assesses the independence of the auditors by considering and discussing each such letter (and having regard to the fees payable to the auditors for audit and non-audit work) at a meeting of the Committee.

The Auditors' Report to the shareholders states the auditors' reporting responsibilities.

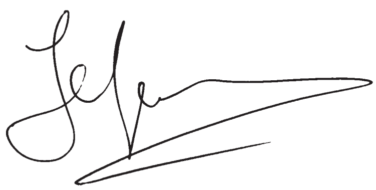
Fees paid to the external auditor are disclosed in note 9 to the consolidated financial statements.

Directors' Responsibility Statement

The Board acknowledges its responsibility to ensure that sound and effective internal control systems are maintained so as to safeguard the Group's assets and the interest of shareholders. The Board is responsible for reviewing the internal control policies and has delegated the day-to-day management of operational risks to the Executive Committee. Independent consultants are hired where necessary to assist the Board to perform a high-level risk assessment of the Group, which entails identifying, analysing and assessing key risks faced by the Group. By reference to a globally recognised internal controls framework, the high-level risk assessment covered all key controls including financial, compliance and operational controls and risk management systems.

The Directors acknowledge their responsibility for preparing the financial statements of the Group in accordance with statutory requirements and applicable accounting standards. The Group's annual results and interim results are announced in a timely manner.

On behalf of the Board



George Jay Hambro
Chairman

Hong Kong, 22 February 2012

DIRECTORS' REPORT

The Directors have pleasure in submitting their Report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011.

Principal activities

The Company was incorporated with limited liability in Hong Kong on 4 June 2010 under the Hong Kong Companies Ordinance. The principal activity of the Company is investment holding and the principal activities of its subsidiaries, associates and jointly controlled entity are the production and development of industrial commodities products.

The analysis of the principal activities and geographical locations of the operation of the Group for the year ended 31 December 2011 is set out in note 6 to the consolidated financial statements.

Results

The results of the Group are set out in the consolidated income statement and statement of comprehensive income on pages 47 to 48 and in the accompanying notes to the consolidated financial statements. A discussion and analysis of the Group's performance during the year is set out in the Results of Operations section on page 42 of this annual report.

Dividend

The Board of Directors does not recommend the distribution of a dividend for the year ended 31 December 2011.

Property, plant and equipment

Details of the movements in property, plant and equipment during the year are set out in note 20 to the consolidated financial statements.

Share capital

There were no changes in the share capital of the Company in 2011. Particulars of the share capital of the Company during the year are set out in note 34 to the consolidated financial statements.

Share option scheme

Information on the share option scheme is set out in note 38 to the consolidated financial statements.

Reserves

Details of movements in reserves during the year are set out in the section "Consolidated Statement of Changes in Equity" of the consolidated financial statements.

Directors

The directors of the Company (the "Directors") during the year and up to the date of this report were:

Executive Directors:

George Jay Hambro
Yury Makarov
Raymond Kar Tung Woo

Non-Executive Directors:

Simon Murray, *CBE, Chevalier de la Légion d'honneur*
Dr Pavel Maslovskiy (resigned on 20 December 2011)

Independent Non-Executive Directors:

Daniel Rochfort Bradshaw
Jonathan Eric Martin Smith
Chuang-fei Li

Directors' service contracts

The Company has entered into letters of appointment with each of its Directors, pursuant to which each Director is appointed for a term of three years and are subject to termination in accordance with their respective terms.

Directors' interests

As at 31 December 2011, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors as set out in Appendix 10 of the Listing Rules and adopted by the Company (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares of the company

Name of director	Nature of interest	Number of shares in the Company	Percentage of issued shares in the Company
George Jay Hambro	Contingent beneficial interest[1]	23,220,000	0.69%
	Beneficial interest	352,000	0.01%
Yury Makarov	Contingent beneficial interest[1]	20,317,500	0.60%
	Beneficial interest	238,000	0.007%
Raymond Kar Tung Woo	Contingent beneficial interest[1]	14,512,500	0.43%
	Beneficial interest	120,000	0.004%

Name of director	Nature of interest	Number of shares in Petropavlovsk PLC ("Petropavlovsk")	Percentage of issued shares in Petropavlovsk
George Jay Hambro	Contingent beneficial interest	54,166	0.03%[2]
Yury Makarov	Contingent beneficial interest	41,666	0.02%[2,3]
	Beneficial interest	53,846	0.03%[4]

Long positions in shares of an associated corporation

Name of director	Name of associated corporation	Capacity and nature of interest	Number of shares
George Jay Hambro	Petropavlovsk	Contingent beneficial interest	54,166
Yury Makarov	Petropavlovsk	Contingent beneficial interest and beneficial interest	95,512

Mr George Jay Hambro is the son of Mr Peter Hambro, the Chairman of Petropavlovsk PLC. Mr Yury Makarov is the stepson of Dr Pavel Maslovskiy, a director of Petropavlovsk PLC up to 20 December 2011.

1 An Employee Benefit Trust ("EBT") was established for the purpose of making appointments and settling awards made under the Long-Term Incentive Plan (the "LTIP"). The LTIP is to provide equity incentives over already issued Shares to selected employees of the Group, including executive directors of the Company but excluding directors of Petropavlovsk. Although the amounts above reflect a 100% allocation for the issue of shares under the LTIP for individual directors, the actual issue of shares will depend on meeting a series of performance conditions, and subject to a three-year bullet vesting period. The vesting of the LTIP is dependent on the satisfaction of performance conditions relating to operations, profitability, development and health, safety and environmental matters, and in case of certain employee, share price performance as well. These conditions are not set out in full due to the commercial nature of the targets and the creation of forecasts in so presenting but the Remuneration Committee believes them to be suitably challenging. In general, subject to meeting of a series of performance targets, such shares awards will only be vested three years after grant date. The trustee of the EBT is SG Hambros Trust Company (Channel Islands) Limited. It is intended that the EBT shall not hold more than 5% of the outstanding share capital of the Company at any time. As at 31 December 2011, the EBT held 116,100,000 shares of the Company, representing 3.45% of the total issued share capital of the Company. Awards may be granted and appointments may be made in accordance with the terms of the EBT to eligible employees for the benefit of their families under the terms of the LTIP by the EBT. Any such award shall be subject to the recommendation of the Remuneration Committee of the Board (the "Committee"), with respect to the terms of such award and the exercise of any discretions. The same vesting conditions shall be applied to awards granted by the EBT as are applied to awards granted at the same time by the Committee.

2 These are conditional interests in shares in Petropavlovsk held in Petropavlovsk's employee benefit trust (the "Petropavlovsk EBT") and relate to performance share awards which the trustee of the Petropavlovsk EBT granted on 26 June 2010 under Petropavlovsk's long term incentive plan and in accordance with the terms of the Petropavlovsk EBT for the benefit of the families of each of Jay Hambro and Yury Makarov.

3 Assuming the issued share capital of Petropavlovsk is increased only by the number of shares to be issued to Yury Makarov upon the vesting of the shares awarded to him pursuant to Petropavlovsk's long term incentive plan on 26 June 2010.

4 Yury Makarov was awarded shares in Petropavlovsk in April 2009 pursuant to the merger of Aricom and Petropavlovsk (then known as Peter Hambro Mining plc). These shares vested in February 2010 and are currently held in the Petropavlovsk EBT.

Directors' interests in competing businesses

Except as described below, none of the Directors of the Company or their respective associates was interested in, apart from the Group's businesses, any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

Petropavlovsk is the ultimate holding company of the Company. Petropavlovsk and its subsidiaries ("Petropavlovsk Group") are principally engaged in the exploration, development and production of precious metal deposits in Russia. The Directors do not consider Petropavlovsk to be a competitor of the Company because Petropavlovsk focuses on different commodities to the Company. However, the Company and Petropavlovsk have entered into a Deed of Non-Competition (the "Deed") to ensure that their respective businesses do not compete.

The Deed shall continue in force until such time as the shares of the Company cease to be listed on the Stock Exchange of Hong Kong Limited or until Petropavlovsk controls less than 50% of the issued share capital of the Company.

The directors confirm that the company was in compliance with the terms of the Deed during the year ended 31 December 2011.

During the year and up to the date of this report, the following Directors (not being the independent non-executive directors) have interests in Petropavlovsk:

(i) Dr Pavel Maslovskiy, who was Non-Executive Director of the Company and a Director of Petropavlovsk, up to 20 December 2011, is a shareholder of Petropavlovsk;

(ii) George Jay Hambro and Yury Makarov are shareholders of Petropavlovsk; and

(iii) George Jay Hambro serves as a part-time consultant to Petropavlovsk.

Directors' interests in contracts

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2011.

Appointment of Independent Non-Executive Directors

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

Substantial shareholders' and other persons' interests

So far as is known to any Director or chief executive of the Company, as at 31 December 2011, the Company's shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company as under Section 336 of the SFO were as follows:

Name of shareholder	Capacity	Number of shares in the Company (Note)	Approximate % of the Company's total issued share capital
Petropavlovsk PLC	Corporate interest	2,205,900,000 (L)	65.61%
Cayiron Limited*	Interest of a controlled corporation	2,205,900,000 (L)	65.61%
BlackRock, Inc.	Interest of a controlled corporation	225,206,336 (L) 11,672,000 (S)	6.69% 0.34%
General Enterprise Management Services Limited ("GEMS")	Interest of a controlled corporation	215,568,000 (L)	6.41%
ARF Investment Management Limited	Investment Manager	215,568,000 (L)	6.41%
Asia Resources Fund Limited	Interest of a controlled corporation	215,568,000 (L)	6.41%

Name of shareholder	Capacity	Number of shares in the Company (Note)	Approximate % of the Company's total issued share capital
Development Bank of Japan Inc.***	Interest of a controlled corporation	215,568,000 (L)	6.41%
General Enterprise Management Services (International) Limited	Interest of a controlled corporation	215,568,000 (L)	6.41%
Marbella Holdings Limited**	Beneficial owner	215,568,000 (L)	6.41%

Note: "L" denotes long position and "S" denotes short position.

* Cayiron Limited is a wholly owned subsidiary of Petropavlovsk PLC.

** Marbella Holdings Limited is a wholly-owned subsidiary of Asia Resources Fund Limited, which is managed by ARF Investment Management Limited, which is a wholly owned subsidiary of General Enterprise Management Services (International) Limited.

*** Development Bank of Japan Inc. holds a 46.51% interest in Asia Resources Fund Limited.

Save as disclosed above and those disclosed under "Directors' Interests", the Group had not been notified of other interests representing 5% or more of the issued share capital of the Company as at 31 December 2011.

Purchase, sale or redemption of the Company's listed securities

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities. As at 31 December 2011, the Company had not been notified of any short positions being held by any substantial shareholder in shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance.

Continuing Connected Transactions

Pursuant to Chapter 14A of the Listing Rules, the following non-exempt connected transactions require disclosure in the annual report of the Company:

	Connected transactions	Connected Persons	Cap for 2011 US$'000	Actual amount for 2011 US$'000
A	Shared Services Agreement	Petropavlovsk and/or its subsidiaries	2,035	226
B	Technical Services Agreement	Petropavlovsk and/or its subsidiaries	42,000	11,393
C	Helicopter Lease Agreement	Petropavlovsk and/or its subsidiaries	1,000	919
D	Helicopter Services Agreement	Petropavlovsk and/or its subsidiaries	2,000	89
E	Aircraft Agreement	Millennium Implementation Limited	1,000	667
F	Banking Arrangements	OJSC Asian-Pacific Bank	30,000	7,888
G	Apatit Services Agreements	OJSC Apatit	5,000	1,936

The actual amount of these transactions did not exceed the respective caps.

The connected transactions described in items A to D, concern transactions between the Group and Petropavlovsk. Petropavlovsk, through its wholly-owned subsidiary Cayiron Limited, is a substantial shareholder of the Company, and therefore a connected person pursuant to Listing Rule 14A.11(1). Furthermore, Petropavlovsk's subsidiaries are also connected persons of the Company as they are associates of Petropavlovsk. Accordingly, transactions between the Group and Petropavlovsk, and between the Group and Petropavlovsk's subsidiaries, are connected transactions for the purpose of Chapter 14A of the Listing Rules.

A. Shared Services Agreement

The Group procures certain services from Petropavlovsk, and provides certain services to Petropavlovsk ("Shared Services"). On 29 September 2010, the Company and Petropavlovsk entered into an agreement in respect of Shared Services (the "Shared Services Agreement"), for a term of three years. The Shared Services Agreement is intended to provide an overarching framework for provision of the shared services. The Shared Services comprise: (i) shared office space; (ii) legal services; (iii) management and information technology services; (iv) administrative services and (v) an equipment lease. Except for (v) an equipment lease, which is based on arm's length basis, all other services are recharged based on cost plus a markup of 10%.

B. Technical Services Agreement

On 29 September 2010, the Group and Petropavlovsk entered into a technical services agreement (the "Technical Services Agreement") for a term of three years. The Technical Services Agreement provides an overarching agreement which governs Petropavlovsk's provision of technical services to the Group. Prior to the merger of Aricom and Petropavlovsk, Aricom procured technical services from Petropavlovsk on a "cost plus margin" basis. The independent directors of Aricom considered that this was a reasonable arm's length basis on which technical services could be procured. The Group has adopted a "cost plus 10% markup" approach, and the Directors consider that it represents reasonable arm's length terms. The technical services comprise: (i) construction services; (ii) engineering & design services and (iii) exploration & geological services.

C. Helicopter Lease Agreement

LLC GMMC, a subsidiary of the Company, provides MC Petropavlovsk with helicopter services pursuant to a helicopter lease agreement ("Helicopter Lease Agreement") dated 29 September 2010. Under the Helicopter Lease Agreement, LLC GMMC leases its helicopter to MC Petropavlovsk for use in Petropavlovsk's operations. MC Petropavlovsk is a subsidiary of Petropavlovsk, and therefore it is a connected person of the Company for the purposes of Chapter 14A of the Listing Rules. Although the Petropavlovsk Group owns two helicopters, it is still necessary for it to procure helicopter services from the Group. This is because at various times one or both of the helicopters may be under repair and maintenance. This arrangement provides the Petropavlovsk Group with continuous access to a helicopter service. The terms and conditions of the Helicopter Lease Agreement are no more favourable to MC Petropavlovsk than those that would be offered to independent third parties. The Helicopter Lease Agreement has been amended and varied pursuant to a deed of variation to ensure compliance with Chapter 14A of the Listing Rules and, under the terms of the amended agreement, the amount charged to MC Petropavlovsk is calculated on the total cost, including amortisation and overheads plus a margin of 10%, attributable to actual flight time.

D. Helicopter Services Agreement

On 29 September 2010, the Group and MC Petropavlovsk entered into an agreement relating to the provision of helicopter services ("Helicopter Services Agreement"). The Helicopter Services Agreement is a continuing connected transaction. Under the agreement, MC Petropavlovsk provides the Group with the use of its helicopter. The use of a helicopter is critical for the Group's business due to the distances between the Group's assets and offices. The Group owns a helicopter and, as noted above in item C, it leases its helicopter to MC Petropavlovsk. The reason the Group procures a helicopter service from MC Petropavlovsk under the present arrangement is to ensure that it has continuous access to a helicopter service. This will be relevant where the Group's own helicopter is under repair and maintenance, or where the Group's personnel require an extended service. MC Petropavlovsk recharges the Group for total cost, including amortisation and overheads plus a margin of 10%, attributable to actual flight time.

The following continuing connected transactions are between the Group and persons other than Petropavlovsk or its subsidiaries.

E. Aircraft Agreement

The Group uses an aircraft owned by Millennium Implementation Limited. Millennium Implementation Limited is a company associated with Dr. Pavel Maslovskiy, a Non-Executive Director until 20 December 2011, and is accordingly a connected person of the Company. The arrangement assists directors and employees to visit the locations of the Group's major operations quickly.

On 29 September 2010, the Company and Millennium Implementation Limited entered into an agreement (the "Aircraft Agreement") under which the Company agrees to reimburse Millennium Implementation Limited for the use of the aircraft by the Group. The cost paid by the Company is based on a fixed hourly charge which includes fixed cost and variable cost components. The hourly charge is multiplied by the number of hours flown.

F. Banking Arrangements

On 29 September 2010, the Group entered into an agreement with OJSC Asian-Pacific Bank ("Asian-Pacific Bank") to maintain bank deposits on commercial terms ("Banking Arrangements"). Dr. Pavel Maslovskiy, a Non-Executive Director until 20 December 2011, and Mr. Peter Hambro, the father of a Director, each hold a 25%

interest in the company, V.M.H.Y. Holdings Limited, a 98% shareholder of the Russian company PPFIN Holding, which in turn holds a 67.6%. interest in Asian-Pacific Bank. The interests of Dr. Pavel Maslovskiy and Mr. George Jay Hambro are aggregated under Listing Rule 14A.11, with the result that Asian-Pacific Bank is a connected person of the Company. Accordingly, the Banking Arrangements are classified as a continuing connected transaction for the purposes of the Listing Rules.

The Group elects to deposit a portion of its surplus funds with Asian-Pacific Bank for two reasons.

First, Asian-Pacific Bank offers a competitive deposit rate in respect of US dollar deposits. The Directors consider that the deposit rate offered by Asian-Pacific Bank represents normal commercial terms, having regard to Asian-Pacific Bank's credit rating, and also in comparison to the deposit rates offered by other unconnected banks in Russia. The deposit rate offered by Asian-Pacific Bank to the Group is on commercial terms and reflects the prevailing deposit rate offered by Asian-Pacific Bank to third parties. The Group is not subject to a maximum or minimum daily balance requirement in respect of amounts deposited with Asian-Pacific Bank, nor is the Group required to provide security to Asian-Pacific Bank.

Second, Asian-Pacific Bank is located in Blagoveshchensk in the Amur Region. It is one of the most established banks in the Amur Region, and accordingly it is familiar with the area in which the Group's operations are located. The Directors believe that maintaining a rolling deposit with Asian-Pacific Bank of an amount up to the annual cap of US$30 million will enable the Group to meet its anticipated day to day working capital requirements and to procure supplies and capital expenditure from vendors located in the Russian Far East, while also earning a competitive deposit rate, which is in the best interests of the Group.

At the time of listing, the Stock Exchange granted the Company a waiver from compliance with the Listing Rules in respect of the Banking Arrangements for a period of 1 year commencing from the date the Company's shares were listed on the Stock Exchange. The annual cap set for that 1 year period was US$30 million. As referred to in the Company's announcement dated 12 April 2011, the Company extended the Banking Arrangements for a further period of 3 years upon the expiry of the term of the waiver on 20 October 2011. The Company applies an annual cap of US$30 million per year for each of the three years following the expiration of the waiver.

G. Apatit Services Agreements

JSC PhosAgro ("PhosAgro") holds a 25% interest in Giproruda, a subsidiary of the Company. Accordingly, PhosAgro is a connected person of the Company. Apatit, a subsidiary of PhosAgro, is also a connected person of the Company because it is an associate of PhosAgro for the purposes of Chapter 14A.

Apatit procures mine design services from Giproruda in respect of its mining operations located in the west of Russia ("Apatit Services Agreements"). The Apatit Services Agreements are continuing connected transactions. Giproruda provides the services on similar terms to those it would provide to a third party, and the services are typical of the services it provides to other third parties.

Each Continuing Connected Transaction has been reviewed by the Directors, including the Independent Non-executive Directors. The Directors confirm that the Continuing Connected Transactions set out above have been entered into:

— in the ordinary and usual course of business of the Company;

— on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Company than terms available to or from, as appropriate, independent third parties; and

— in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Company has engaged the auditor of the Company to perform certain work in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The auditor has provided a letter to the board of directors of the Company and confirmed that for the year ended 31 December 2011 the Continuing Connected Transactions (i) have received the approval of the board of directors of the Company; (ii) are in accordance with the pricing policies of the Company for those Transactions that involve provision of goods or services by the Group; (iii) have been entered into in accordance with the relevant agreement governing the transactions and (iv) have not exceeded the cap.

The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The above connected transactions are also reported in Note 43 of the consolidated financial statements of this Annual Report as Related Party Transactions.

Emolument policy

Details of the Directors' emoluments and of the five highest paid individuals in the Group are set out in note 10 to the consolidated financial statements. The emolument policy of the employees of the Group is set up by the Remuneration and/or Executive Committees on the basis of their merit, qualifications and competence.

The emoluments payable to Directors will depend on their respective contractual terms under their employment contracts or service contracts as approved by the board of directors of the Company on the recommendation of the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

A key element of senior management remuneration is the Long Term Incentive Plan ("LTIP"). The LTIP is designed to align the interests of management with those of shareholders, and to incentivise performance. Please refer to the paragraph "Remuneration Committee" in Corporate Governance Report on page 33 and Note 1 under "Long positions in shares of the company" on page 36 for more details.

Major customers and suppliers

The aggregate sales attributable to the Group's five largest customers accounted for 92% of the total revenue for the year. The largest of them accounted for 82% of the total revenue. Also, the aggregate purchases attributable to the Group's five largest suppliers taken together represented 28% of the Group's total purchases for the year. The largest supplier represented 13% of the Group's total purchase for the year.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has any interest in the Group's five largest suppliers or customers.

Purchase, sale or redemption of Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the year.

Guarantee

The Group obtained a banking facility of US$340,000,000 which is guaranteed by Petropavlovsk, the controlling shareholder of the Company. The banking facility agreement contains certain covenants on Petropavlovsk, the details of which are set out in note 32 to the consolidated financial statements.

Corporate governance

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on page 33 of this annual report.

Sufficiency of public float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained a sufficient public float as required under the Listing Rules.

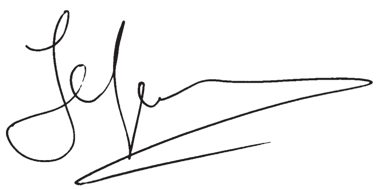
Auditor

During the year, Messrs. Deloitte Touche Tohmatsu was appointed as the auditor of the Company. A resolution for the re-appointment of Deloitte Touche Tohmatsu as the auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

Review by the Audit Committee

The audited financial statements have been reviewed by the Audit Committee of the Company, which comprises three Independent Non-executive Directors: Mr C.F. Li, Mr D.R. Bradshaw and Mr J.E. Martin Smith. Mr C.F. Li is the Chairman of the Audit Committee.

On behalf of the Board



George Jay Hambro
Chairman

22 February 2012

RESULTS OF OPERATIONS

The following table sets out the consolidated income statement for IRC for the year ended 31 December, 2010 and 2011.

It is important to note that IRC's first mine moved into normalised operation and achieved full production capacity for iron ore concentrate in the second half of 2011. Therefore, results for the year 2011, in many important respects, are not directly comparable to those in 2010.

	2011 US$'000	2010 US$'000
Revenue	**122,208**	25,792
Operating expenses		
Site operating expenses and service costs	**(104,792)**	(38,231)
Central administration expenses	**(26,597)**	(23,353)
	(131,389)	(61,584)
Impairment charges	**—**	(35,972)
	(9,181)	(71,764)
Share of results of joint ventures and an associate	**(428)**	(135)
Net operating loss	**(9,609)**	(71,899)
Other gains and losses and other expenses	**12,708**	(5,570)
Financial income	**716**	10,929
Financial expenses	**(555)**	(11,813)
Profit/(loss) before taxation	**3,260**	(78,353)
Taxation expense	**(1,684)**	(3,676)
Profit/(loss) for the year	**1,576**	(82,029)
Profit/(loss) for the year attributable to:		
Owners of the Company	**1,001**	(82,358)
Non-controlling interests	**575**	329
	1,576	(82,029)

Revenue

Revenue increased by US$96.4 million to US$122.2 million in 2011 as compared to that of 2010. This was primarily due to the full ramp-up of the iron ore concentrate circuit at Kuranakh, our first producing mine, in the second half of 2011. We have sold approximately 770,000 tonnes of iron ore concentrate and recorded a revenue of US$110.4 million. In addition, approximately 52,000 tonnes of ilmenite were sold in 2011.

Engineering service revenues from our Giproruda, our small complementary mine design business, decreased compared to 2010 by 10% from US$13.2 million to US$11.8 million reflecting decreased billing of our consulting services.

RESULTS OF OPERATIONS

Operating expenses

Site operating expenses and service costs

In 2011, we commenced our normal operations of the Kuranakh Processing Plant and incurred more mining and processing expenses to support the full ramp-up of our iron ore concentrate circuit in the second half of 2011, including the staff costs of the plant, increased cost of fuel and consumables, associated costs of marketing and selling iron ore and railway tariffs. As a consequence, our site operating expenses and service costs increased by US$66.6 million to US$104.8 million in 2011. Total site operating expenses and service costs for Kuranakh in 2011 amounted to approximately US$90.1 million (2010: US$14.9 million), of which approximately US$33.7 million was railway tariffs and related transportation costs.

During 2011, we produced approximately 800,000 tonnes of iron ore concentrate to which we incurred approximately US$53 million of production cash cost. The table below details the key cash cost components:

	Production cost (US$ mn)	Production cost per tonne (US$/t)
Mining	24.4	30.5
Processing	22.0	27.5
Transportation to plant	6.0	7.4
Site administration and others	10.0	12.5
Contribution from ilmenite concentrate by-product* and others	(9.4)	(11.7)
Total	53.0	66.2

* *net of tariff and other railway charges for ilmenite*

During the year, we have also incurred operating expenses of approximately US$5.1 million for the projects under development primarily relating to infrastructure projects, while in 2010 we incurred operating expenses of US$12.4 million for projects under development primarily relating to Kuranakh, K&S and other infrastructure projects.

Central administration expenses

IRC's administrative expenses increased by 14% to US$26.6 million (2010: US$23.4 million) which was mainly was due to the full year operation of the Company as a Hong Kong listed entity and the cost associated with the employee incentive plans.

Impairment charges

There is no impairment charge in 2011, while we recognised impairment charges of US$36.0 million in 2010, US$34.9 million of which was related to the Jiatai Titanium joint venture. The remaining balance of US$1.1 million recorded in 2010 was related to the impairment of amounts in connection with the Bolshoi Seym Project.

In 2011, we successfully obtained full control of the Jiatai Titanium project by acquiring the remaining 35% stake from our joint venture partner and we are actively looking for a new joint venture partner.

RESULTS OF OPERATIONS

Net operating loss

As a result of the above, our net operating loss in 2011 decreased by US$62.3 million, or 87%, to US$9.6 million, mainly resulted from the positive contribution from Kuranakh.

Other gains and losses and other expenses

In 2011, we recorded a derecognition of a third party payable of US$7.5 million relating to acquisition of a technology know-how. We further recorded a reversal of provision of listing expenses of US$3.2 million. Other expenses in 2010 of US$5.6 million were primarily one-off listing expenses (US$9.3 million) incurred for the initial public offering, partly offset by US$3.7 million of net foreign exchange gain and change in fair value of financial instruments.

Financial income

Financial income decreased by US$10.2 million, or 93% from US$10.9 million in 2010 to US$0.7 million in 2011, due to the reduction of interest income received on amounts loaned by IRC to the Petropavlovsk Group. All related loans were fully settled in the second half of 2010 and therefore no interest income from related parties has been recorded in 2011.

Financial expenses

Similar to financial income above-mentioned, financial expenses decreased by US$11.3 million, or 95%, from US$11.8 million in 2010 to US$0.6 million in 2011, attributable to the settlement of amounts due to the Petropavlovsk Group in the second half of 2010 and since then, there is no interest expense incurred on such amount.

Taxation

Our tax charge decreased by US$2.0 million to US$1.7 million in 2011. While Russian tax remained flat, the decrease was primarily attributable to a decrease of UK corporate tax expense.

Profit/(Loss) for the year attributable to the owners of the Company

As a result of the above, we recorded a profit attributable to the owners of the Company of US$1.0 million in 2011(2010: Loss of US$82.4 million).

RESULTS OF OPERATIONS

Liquidity, Financial and Capital Resources

Cash position and capital expenditure

As at 31 December 2011, the carrying amount of the Group's cash and bank balances was approximately US$39.2 million (31 December 2010: US$225.5 million), of which US$6.0 million is under restricted cash deposit. It represents a decrease of US$186.3 million, of which the majority was spent on the mine development for K&S project and placing of deposits to contractors under the EPC contract. It is anticipated that most of the future capital expenditure for the development of the K&S project would be funded by the US$340 million ICBC loan facility.

Below is a breakdown of our capital expenditure in 2011:

	US$m
Kuranakh, primarily sustaining capital expenditure:	15.8
K&S development:	
Deposits to contractors	62.8
Other capital expenditure	60.1
	122.9
Exploration projects and others	19.9
Total capital expenditure	158.6

Borrowings and Charges

As of 31 December 2011, the Group had a gross borrowing of US$21.3 million (31 December 2010: Nil). After taking into account the cash and bank balance of US$39.2 million, the Group is in a net cash position of US$17.9 million. All of the Group's borrowings were denominated in US dollars. Of the gross borrowings, US$15 million is unsecured bank borrowing repayable within one year while the remaining balance represents primarily long term borrowing drawn from the US$340 million ICBC loan facility which is guaranteed by Petropavlovsk. The Group has kept its borrowing costs at market level, with its weighted average interest rate at approximately 8.70% per annum.

Risk of Exchange Rate Fluctuation

The Group undertakes certain transactions denominated in foreign currencies, principally Russian Roubles and is therefore exposed to exchange rate risk associated with fluctuations in the relative values of US Dollars. Exchange rate risks are mitigated to the extent considered necessary by the Board of Directors, primarily through holding the relevant currencies. At present, the Group does not undertake any foreign currency transaction hedging. The foreign exchange movements between US dollars and Russian Roubles during 2011 are illustrated on page 27.

Employees and Emolument Policies

As at 31 December 2011, the Group employed a total of approximately 2,237 employees. The total staff costs excluding share based payments incurred were approximately US$46.2 million for the year of 2011 (2010: US$29.6 million). The emolument policy of the employees of the Group is set up by the Executive Committee on the basis of their merit, qualifications and competence.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF IRC LIMITED
鐵江現貨有限公司
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of IRC Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 47 to 122, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

22 February 2012

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

	NOTES	2011 US$'000	2010 US$'000
Revenue	7	**122,208**	25,792
Operating expenses	8	**(131,389)**	(61,584)
Impairment charges	11	**—**	(35,972)
		(9,181)	(71,764)
Share of results of an associate	22	**87**	—
Share of results of joint ventures	23	**(515)**	(135)
Net operating loss		**(9,609)**	(71,899)
Other gains and losses and other expenses	12	**12,708**	(5,570)
Financial income	13	**716**	10,929
Financial expenses	14	**(555)**	(11,813)
Profit (loss) before taxation		**3,260**	(78,353)
Taxation expense	15	**(1,684)**	(3,676)
Profit (loss) for the year		**1,576**	(82,029)
Profit (loss) for the year attributable to:			
Owners of the Company		**1,001**	(82,358)
Non-controlling interests		**575**	329
		1,576	(82,029)
Earnings (loss) per share (US cents)	17		
Basic		**0.03**	(3.62)
Diluted		**0.03**	(3.62)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 US$'000	2010 US$'000
Profit (loss) for the year	**1,576**	(82,029)
Other comprehensive income (expenses) for the year:		
Exchange differences on translation of foreign operations and translation to presentation currency	**(420)**	766
Reclassification adjustment on translation difference upon acquisition of additional interest in Jiatai Titanium project	**(882)**	—
Total comprehensive income (expenses) for the year	**274**	(81,263)
Total comprehensive income (expenses) attributable to:		
Owners of the Company	**(25)**	(81,552)
Non-controlling interests	**299**	289
	274	(81,263)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2011

	NOTES	2011 US$'000	2010 US$'000
NON-CURRENT ASSETS			
Intangible assets	19	**44,493**	31,533
Property, plant and equipment	20	**568,385**	499,270
Goodwill	41	**6,061**	—
Interest in an associate	22	**703**	—
Interests in joint ventures	23	**7,086**	10,346
Other non-current assets	24	**98,360**	44,550
Restricted bank deposit	32	**6,000**	—
		731,088	585,699
CURRENT ASSETS			
Inventories	25	**41,301**	27,121
Trade and other receivables	26	**57,005**	29,231
Cash and cash equivalents	29	**33,188**	225,468
		131,494	281,820
TOTAL ASSETS		**862,582**	867,519
CURRENT LIABILITIES			
Trade and other payables	30	**(21,616)**	(57,085)
Current income tax payable		**(293)**	(185)
Bank borrowings — due within one year	32	**(15,000)**	—
		(36,909)	(57,270)
NET CURRENT ASSETS		**94,585**	224,550
TOTAL ASSETS LESS CURRENT LIABILITIES		**825,673**	810,249
NON-CURRENT LIABILITIES			
Deferred tax liabilities	31	**(2,160)**	(2,024)
Provision for close down and restoration costs	33	**(4,092)**	(3,607)
Bank borrowings — due more than one year	32	**(6,343)**	—
		(12,595)	(5,631)
TOTAL LIABILITIES		**(49,504)**	(62,901)
NET ASSETS		**813,078**	804,618

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2011

	NOTES	2011 US$'000	2010 US$'000
CAPITAL AND RESERVES			
Share capital	34	**4,330**	4,330
Share premium		**1,029,131**	1,028,468
Treasury shares	35	**(43,000)**	(43,000)
Capital reserve		**17,918**	16,946
Reserves		**35,209**	29,684
Accumulated losses		**(235,135)**	(236,136)
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**808,453**	800,292
NON-CONTROLLING INTERESTS		**4,625**	4,326
TOTAL EQUITY		**813,078**	804,618

The consolidated financial statements on pages 47 to 122 were approved and authorised for issue by the Board of Directors on 22 February 2012 and are signed on its behalf by:

DIRECTOR

Raymond Woo.

DIRECTOR

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2011

	NOTES	2011 US$'000	2010 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	20	**28**	51
Investment in subsidiaries	21	**1,007,358**	877,300
		1,007,386	877,351
CURRENT ASSETS			
Other receivables	26	**196**	134
Amounts due from subsidiaries	28	**20**	11
Cash and cash equivalents	29	**7,185**	146,793
		7,401	146,938
TOTAL ASSETS		**1,014,787**	1,024,289
CURRENT LIABILITIES			
Amount due to ultimate holding company	28	**(26)**	(246)
Amount due to subsidiaries	28	**(756)**	—
Accruals and other payables	30	**(2,186)**	(5,951)
		(2,968)	(6,197)
NET CURRENT ASSETS		**4,433**	140,741
NET ASSETS		**1,011,819**	1,018,092
CAPITAL AND RESERVES			
Share capital	34	**4,330**	4,330
Share premium		**1,029,131**	1,028,468
Capital reserve		**526**	254
Share-based payments reserve	38	**7,885**	1,334
Accumulated losses	36	**(30,053)**	(16,294)
TOTAL EQUITY		**1,011,819**	1,018,092

Raymond Woo.

DIRECTOR DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

	Share capital US$'000	Share premium US$'000	Capital reserve US$'000
Balance at 1 January 2010	2,265	1,183,520	6,908
Loss for the year	—	—	—
Other comprehensive expenses for the year			
Exchange differences on translation of foreign operations and translation to presentational currency	—	—	—
Total comprehensive (expenses) income for the year	—	—	—
Exercise of warrants issued	192	153,040	—
Capital reduction[a]	—	(1,336,560)	—
Interim dividend (note 16)	—	—	—
Share-based payments	—	—	—
Shares acquired by Employee Benefit Trust ("EBT")	—	—	—
Deemed contribution from an equity holder[b]	—	—	10,038
Transfer to an equity holder (note 34(b))	—	—	—
Transfer from an equity holder (note 34(c))	—	—	—
Issue of shares and combination of Aricom Limited ("Aricom") and Aricom's subsidiaries (collectively the "Aricom Group") (note 34(a))	—	697,637	—
Deemed contribution arising from Group Restructuring[c]	(2,457)	—	—
Capitalisation of share capital	2,990	(2,990)	—
Transaction costs attributable to issue of new shares	—	(11,578)	—
Issue of new shares	1,340	299,813	—
Dividend distribution to non-controlling interests	—	—	—
Contribution from a parent company	—	45,586	—
Balance at 31 December 2010 and 1 January 2011	4,330	1,028,468	16,946
Profit for the year	—	—	—
Other comprehensive expenses for the year			
Exchange differences on translation of foreign operations and translation to presentational currency	—	—	—
Reclassification to profit or loss upon acquisition of additional interest in Jiatai Titanium project (note 41)	—	—	—
Total comprehensive income (expenses) for the year	—	—	—
Share-based payments	—	—	272
Deemed contribution from an equity holder[b]	—	—	700
Reversal of over-accrued listing-related expenses	—	663	—
Balance at 31 December 2011	4,330	1,029,131	17,918

This consolidated statement of changes in equity is presented in pages 52 and 53.

(a) On 27 May 2010, a reduction of Aricom's share capital was undertaken. In accordance with the United Kingdom Companies Act 2006, this reduction is considered to be a realised profit, and accordingly the share premium of US$1,336,560,000 was transferred to accumulated losses.

(b) The amount represents certain central administration expenses and tax expenses of the Group paid by the ultimate holding company. This amount is recorded in capital reserve as a deemed contribution from the ultimate holding company.

(c) As part of the Group Restructuring set out in note 2, Thorholdco Limited, a subsidiary of the Company, acquired from Petropavlovsk PLC the entire issued share capital of Aricom on 5 August 2011 and became the holding company of the Aricom Group. The amount payable by the Company to its then shareholders for the acquisition of the interest in Aricom is regarded as a deemed distribution to shareholders and the share capital of Aricom is then regarded as a deemed contribution from its shareholders since the consolidated financial statements have been prepared as if the Company had always been the holding company of Aricom.

(d) The amount arose from acquisition of minority interests and deemed contribution arising from Group Restructuring.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

Total attributable to owners of the Company							
Treasury shares US$'000	Accumulated losses US$'000	Share-based payments reserve US$'000	Translation reserve US$'000	Other reserves[d] US$'000	Sub-total US$'000	Non-controlling interests US$'000	Total equity US$'000
—	(619,700)	11,108	(18,725)	29,600	594,976	4,364	599,340
—	(82,358)	—	—	—	(82,358)	329	(82,029)
—	—	—	806	—	806	(40)	766
—	(82,358)	—	806	—	(81,552)	289	(81,263)
—	—	—	—	—	153,232	—	153,232
—	1,336,560	—	—	—	—	—	—
—	(644,437)	—	—	—	(644,437)	—	(644,437)
—	—	1,334	—	—	1,334	—	1,334
(43,000)	—	—	—	—	(43,000)	—	(43,000)
—	—	—	—	—	10,038	—	10,038
—	(171,613)	—	3,104	—	(168,509)	—	(168,509)
—	205,412	—	—	—	205,412	—	205,412
—	(260,000)	—	—	—	437,637	—	437,637
—	—	—	—	2,457	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	(11,578)	—	(11,578)
—	—	—	—	—	301,153	—	301,153
—	—	—	—	—	—	(327)	(327)
—	—	—	—	—	45,586	—	45,586
(43,000)	(236,136)	12,442	(14,815)	32,057	800,292	4,326	804,618
—	1,001	—	—	—	1,001	575	1,576
—	—	—	(144)	—	(144)	(276)	(420)
—	—	—	(882)	—	(882)	—	(882)
—	1, 001	—	(1,026)	—	(25)	299	274
—	—	6,551	—	—	6,823	—	6,823
—	—	—	—	—	700	—	700
—	—	—	—	—	663	—	663
(43,000)	(235,135)	18,993	(15,841)	32,057	808,453	4,625	813,078

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	NOTES	**2011 US$'000**	2010 US$'000
OPERATING ACTIVITIES			
Cash used in operations	37	**(24,778)**	(49,111)
Interest expenses paid		**(140)**	—
Income tax paid		**(562)**	(674)
NET CASH USED IN OPERATING ACTIVITIES		**(25,480)**	(49,785)
INVESTING ACTIVITIES			
Interest received		**716**	1,505
Proceeds on disposal of property, plant and equipment		**324**	3,713
Purchases of and prepayment for property, plant and equipment and intangible assets		**(158,554)**	(122,680)
Contribution to share capital of an associate	22	**(616)**	—
Acquisition of a subsidiary, net of cash acquired	41	**(2,185)**	—
Restricted bank deposits placed	32	**(6,000)**	—
Loan issued to related parties	27	**—**	(6,035)
Joint venture registered capital contribution	23	**—**	(4,731)
Repayment of loan issued to related parties		**—**	22,506
NET CASH USED IN INVESTING ACTIVITIES		**(166,315)**	(105,722)
FINANCING ACTIVITIES			
Dividends paid to shareholders of Aricom Limited		**—**	(22,460)
Dividends paid to non-controlling interests of subsidiaries		**—**	(327)
Proceeds from bank borrowings		**21,958**	—
Insurance premium paid		**(22,520)**	—
Loan arrangement fees paid		**(3,370)**	(4,090)
Proceeds on issuance of new shares		**—**	301,153
Expenses paid in connection with the issue of new shares		**—**	(6,564)
Purchase of own shares by EBT	35	**—**	(43,000)
Loans advanced from a related party	27	**—**	94,370
Contribution from a parent company		**—**	45,586
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(3,932)**	364,668
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS FOR THE YEAR		**(195,727)**	209,161
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		**225,468**	18,415
Effect of foreign exchange rate changes		**3,447**	(2,108)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR		**33,188**	225,468

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

1. General

IRC Limited ("the Company") is a public limited company incorporated in Hong Kong and its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 21 October 2010. Its immediate holding company is Cayiron Limited, which was incorporated in the Cayman Islands. The directors of the Company (the "Directors") consider that its ultimate holding company is Petropavlovsk PLC. The Company together with its subsidiaries are hereinafter referred to as the "Group".

The address of the registered office of business of the Company is 6H, 9 Queen's Road Central, Hong Kong. The consolidated financial statements are presented in United States Dollars ("US Dollars"), which is also the functional currency of the Company.

The principal activity of the Company is investment holding. The Group is principally engaged in the production and development of industrial commodities products including iron ore that are used in industry across the world. The main activities of the Group are in Russia and China and the Group predominantly serves the Russian and Chinese markets. The activities of the Company's principal subsidiaries are set out in note 44.

Under a group restructuring to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of Aricom Limited ("Aricom") and its subsidiaries (collectively referred as the "Aricom Group") on 5 August 2010. Details of the Group Reorganisation are set out below.

2. Group Restructuring and Basis of Presentation of Consolidated Financial Statements

Aricom is a limited liability company incorporated in the United Kingdom on 12 September 2003. Aricom's shares were listed on the Official List of the Financial Services Authority and admitted to trading on the main market of the London Stock Exchange plc on 29 October 2007. On 6 February 2009, the Independent Committees of the Board of Directors of both Petropavlovsk PLC, whose shares are also listed on the main market of the London Stock Exchange plc, and Aricom announced that both parties had reached agreement on the terms of a recommended all share offer to be made by Petropavlovsk PLC for the entire issued and to be issued share capital of Aricom ("the Acquisition").

The Acquisition provided for the acquisition of Aricom's shares by way of a court sanctioned scheme of arrangement under Part 26 of the United Kingdom ("UK") Companies Act 2006 involving a capital reduction of Aricom under section 135 of the UK Companies Act 2006 ("the Scheme"). The purpose of the Scheme was to enable Petropavlovsk PLC to acquire the entire issued and to be issued ordinary share capital of Aricom.

Under the terms of the Acquisition, Aricom's shareholders received one fully paid new Petropavlovsk PLC share in exchange for 16 fully paid shares of Aricom. The Acquisition was completed on 22 April 2009. On 19 May 2009, Aricom plc, which was formerly registered as a public company, re-registered under the UK Companies Act 2006 and became a private limited company under the name of Aricom Limited.

The Company was incorporated on 4 June 2010 in Hong Kong as a wholly-owned subsidiary of Cayiron Limited which in turn is a wholly-owned subsidiary of Petropavlovsk PLC, the ultimate holding company of Aricom.

On 14 June 2010, the Company acquired the entire issued share capital of Thorholdco Limited (a company incorporated in the Cayman Islands) from Cayiron Limited in exchange for the issue of shares to Cayiron Limited. Following receipt of the necessary Russian regulatory approvals on 23 July 2010, Thorholdco Limited acquired from Petropavlovsk PLC the entire issued share capital of Aricom, which is the indirect holding company of the Group's mineral and processing assets, on 5 August 2010, for US$260,000,000, payment for which has been offset against the promissory note of the same amount owed by Petropavlovsk PLC to Thorholdco Limited. As part of this restructuring, related party payables and receivables of the Aricom Group due to and from the subsidiaries of Petropavlovsk PLC were transferred to two subsidiary companies of Thorholdco Limited ("Thorholdco"), Thorrouble Limited ("Thorrouble") and Thordollar Limited ("Thordollar"), respectively. In addition, certain subsidiaries held by Aricom Limited and Aricom UK Limited (Aricom's subsidiaries), which were unrelated to the Aricom business listed on the London Stock Exchange plc, representing shares in Aricom Finance UK Limited and Aricom Treasury UK Limited and respective subsidiaries, were sold to Petropavlovsk PLC (see note 42) (collectively referred to as the "Restructuring").

2. Group Restructuring and Basis of Presentation of Consolidated Financial Statements (Continued)

The consolidated financial statements of the Group have been prepared as if the Company had always been the holding company of Aricom Group. The consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year ended 31 December 2010 have been prepared as if the current group structure had been in existence throughout the year ended 31 December 2010, or since the respective dates of incorporation/establishment of the relevant companies now comprising the Group where this is a shorter period.

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of (other than business combinations involving entities under common control) are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions and balances between the group companies are eliminated in full on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Non-controlling interests in the net assets consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination.

Allocation of the total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to accumulated losses as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied a number of new and revised Standards, Amendments and Interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for the 2011 financial year.

The application of the new and revised Standards, Amendments and Interpretation in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[1]
	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[5]
HKAS 12 (Amendments)	Deferred Tax — Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[6]
HK (IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

HK(IFRIC)-Int 20 Stripping Costs in the Production Phase of a Surface Mine

HK(IFRIC)-Int 20 *Stripping Costs in the Production Phase of a Surface Mine* applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). Under the Interpretation, the costs from this waste removal activity ("stripping") which provide improved access to ore is recognised as a non-current asset ("stripping activity asset") when certain criteria are met, whereas the costs of normal ongoing operational stripping activities are accounted for in accordance with HKAS 2 *Inventories*. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part.

HK(IFRIC)-Int 20 is effective for annual periods beginning on or after 1 January 2013 with transitional provisions. The directors anticipate that the Interpretation will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The Directors anticipate that the adoption of HK(IFRIC)-Int 20 in the future may affect the period in which the stripping costs is charged to profit or loss. Under the existing policy, during production phase, the Group would defer the portion of stripping costs in which the tonnage of the waste mined to the quantity of the ore mined exceeds the life-to-mine ratio to a subsequent period.

4. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Business combinations not under common control

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets acquired and the liabilities assumed are recognised at their fair values at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to the share-based payment transactions of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another Standard.

Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

On disposal of a business, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

4. Significant Accounting Policies (Continued)

Acquisition of assets

For the acquisition of mining licences effected through a non-operating corporate structure that does not represent a business, it is considered that the transactions does not meet the definition of a business combination. Accordingly the transaction is accounted for as the acquisition of an asset. The net assets acquired are recognised at cost allocated based on the fair value of the respective assets acquired.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of in jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, interests in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities.

When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group' consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

4. Significant Accounting Policies (Continued)

Investments in subsidiaries

Investments in subsidiaries are included in the company statement of financial position at cost less any identified impairment losses.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost as adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses from the transaction with the associate are recognised in the Group's consolidated financial statements only to the extent of the Group's interest in the associate that are not related to the Group.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

4. Significant Accounting Policies (Continued)

Foreign currencies (Continued)

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the group entities which have a functional currency other than US Dollars are translated at exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that year, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised within equity and transferred to the Group's translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate, with exchange differences arising recognised in the translation reserve.

Upon the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Intangible assets

Exploration and evaluation expenditure and mineral rights acquired

Exploration and evaluation expenditure incurred in relation to those projects where such expenditure is considered likely to be recoverable through future extraction activity or sale, or where the exploration activities have not reached a stage which permits a reasonable assessment of the existence of reserves, is capitalised and recorded on the consolidated statement of financial position within intangible assets for mining projects at the exploration stage.

Exploration and evaluation expenditure comprise costs directly attributable to:

- Researching and analysing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods;
- Compiling pre-feasibility and feasibility studies; and
- Costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Mineral rights acquired through a business combination or an asset acquisition are capitalised separately from goodwill if the asset is separable or arises from contractual or legal rights and the fair value can be measured reliably on initial recognition. Exploration and evaluation expenditure capitalised and mining rights acquired are subsequently valued at cost less impairment. In circumstances where a project is abandoned, the cumulative capitalised costs related to the project are written off in the period when such decision is made. Exploration and evaluation expenditure capitalised and mining rights within intangible assets are not depreciated. These assets are transferred to the mine development costs within property, plant and equipment when a decision is taken to proceed with the development of the project.

4. Significant Accounting Policies (Continued)

Other intangible assets

Other intangible assets represent licensed intellectual property purchased in relation to the processing of titanium sponge. These intangibles are measured at cost less any accumulated impairment losses and are amortised on a straight-line basis over their estimated useful life, which is a period of up to 10 years, but dependent upon the start-up date of the titanium sponge plant.

Property, plant and equipment

Mine development costs

Development expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure includes costs directly attributable to the construction of a mine and the related infrastructure. Once a development decision has been taken, the carrying amount of the exploration and evaluation expenditure in respect of the area of interest is aggregated with the development expenditure and classified under non-current assets as "mine development costs", this includes any property, plant and equipment acquired to undertake mining activities. Mine development costs are carried at cost less impairment.

Mining assets

Mining assets are reclassified from "mine development costs" at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management. Mining assets are carried at cost, less subsequent accumulated depreciation and accumulated impairment loss, if any. Depreciation policy for mining assets set out below under "*Depreciation*".

Non-mining assets

On initial recognition, non-mining assets are valued at cost, being the purchase price and the directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary for the asset to be capable of operating in the manner intended by the Group, less subsequent accumulated depreciation and accumulated impairment loss, if any.

Capital construction in progress

Assets in the course of construction are capitalised in the capital construction in progress account, which are carried at cost less any recognised impairment loss. On completion, the cost of construction is transferred to the appropriate category of property, plant and equipment and commences depreciation on the same basis as other property assets.

Deferred stripping costs

In open pit operations the removal of overburden and waste materials, referred to as stripping, is required to obtain access to the ore body.

Such costs when incurred during the development of the mine are deferred on the statement of financial position as part of mine development costs, and charged to the profit or loss over the life of the mine on a units of production basis. During the production phase of a mine such costs are deferred based on the ratio obtained by dividing the tonnage of the waste mined by the quantity of the ore mined ("stripping ratio"). Stripping costs incurred in the period are deferred to the extent that the current period stripping ratio exceeds the life-of-mine ratio determined based on the mineable reserves of the mine for each mine. Such deferred costs are then amortised in subsequent periods to the extent that the period's stripping ratio falls below the life-of-mine ratio.

Whereas the current period stripping ratio is within the life-to-mine ratio, such costs are charged to the profit or loss.

The determination of life-of-mine and waste-to-ore ratio is dependent of an individual mine's pit design and therefore changes to that design will generally result in changes to the ratio. Changes in other technical and economic parameters that impact reserves will also have an impact on the life-of-mine ratio even if they do not affect the mine's pit design. Changes to the life-of-mine ratio are accounted for prospectively.

Deferred stripping costs are included within non-current assets as "Mine development costs".

4. Significant Accounting Policies (Continued)

Property, plant and equipment (Continued)

Deferred stripping costs (Continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

Property, plant and equipment other than mine development costs and capital construction in progress are depreciated using a units of production method or straight-line basis as set out below.

Mining assets for which economic benefits from the asset are consumed in a pattern linked to the production level, are depreciated using a units of production method based on ore reserves, which in turn results in a depreciation charge proportional to the depletion of reserves.

Non-mining assets are depreciated on a straight-line basis based on estimated useful lives.

Mine development costs and capital construction in progress are not depreciated, except for that property, plant and equipment used in the development of a mine which are already capable of undertaking mining activities intended by the Group. Such property, plant and equipment are depreciated on a straight-line basis based on estimated useful lives and depreciation is capitalised as part of mine development costs.

Estimated useful lives of non-mining assets normally vary as set out below.

	THE GROUP Estimated useful life
	Number of years
Buildings	15–50
Plant and machinery	2–20
Vehicles	5–7
Office equipment	2–10
Computer equipment	3–5

	THE COMPANY Estimated useful life
	Number of years
Leasehold improvements	2
Furniture and fixtures	2
Office equipment	2
Computer equipment	3

Residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period. Changes to the estimated residual values or useful lives are accounted for prospectively.

4. Significant Accounting Policies (Continued)

Property, plant and equipment (Continued)

Derecognition

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. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

Details of the assumptions used when assessing the impairment of the Group's tangible and intangible assets, and the effect of those assumptions, can be found in note 11.

Provision for close down and restoration costs

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Close down and restoration costs are provided for in the accounting period when the legal or constructive obligation arising from the related disturbance occurs, whether this occurs during the mine development or during the production phase, based on the net present value of estimated future costs. Provision for close down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments and are subject to formal review at regular intervals.

The amortisation or unwinding of the discount applied in establishing the net present value of provision is charged to profit or loss for the year. The amortisation of the discount is shown as a financing cost, rather than as an operating cost. Other movements in the provision for close down and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to the lives of operations and revisions to discount rates are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the outstanding continuous rehabilitation work at the end of each reporting period. All other costs of continuous rehabilitation are charged to profit or loss as incurred.

4. Significant Accounting Policies (Continued)

Financial instruments

Financial assets and financial liabilities are recognised in the Group's consolidated statement of financial position and company statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Financial assets are classified into "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or if appropriate, a shorter period to the net carrying amount on initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables including trade and other receivables, cash and cash equivalent, restricted bank deposits, and amounts due from subsidiaries are carried at amortised cost using the effective interest method, less any identified impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. In the event that a trade receivable is uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

Financial liabilities

Financial liabilities are classified as other financial liabilities.

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, if appropriate, a shorter period to the net carrying amount on initial recognition.

Transaction costs on bank borrowings

Transaction costs that are directly attributable to the raising of bank borrowings are recognised on the statement of financial position on an accrual basis. Such costs will be deducted from the fair value of the bank borrowings on initial recognition (that is, when the relevant borrowings are drawn). They form part of the bank borrowings and will be accounted for using an effective interest method over the loan period as discussed above.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued are recorded at the proceeds received, net of direct issue costs.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Inventories

Finished goods and work in progress are valued at the lower of average cost of production and net realisable value. Finished goods include iron ore and ilmenite concentrates produced. Iron ore concentrate is treated as a main product and ilmenite concentrate as a by-product. The average cost of production of the main product comprises total costs incurred on mining and processing including direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location, less net revenue from the sale of the by-product, allocated to the main product on a units produced basis. Processed by-products are valued at net realisable value. Cost of raw materials and consumables which are grouped as stores and spares, work in progress and finished goods are determined on the first-in-first-out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Equipment and other assets may be leased to contractors under an operating lease, for use in the construction of mining properties. Income from lessees under these operating leases are set off against the cost of construction in the period to which they relate.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

4. Significant Accounting Policies (Continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts, value-added taxes and other sales-related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Revenue from engineering contracts is recognised in accordance with the Group's accounting policy on engineering contracts, as set out below.

Engineering contracts

In the event that the outcome of a contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of each reporting period. The stage of completion is measured by reference to estimates of work performed to date.

In the event that the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

In the event that it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised for the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

4. Significant Accounting Policies (Continued)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, interest in associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantially enacted by the end of the reporting period. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Share-based payments

Certain employees of the Group receive equity-settled share-based payments. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group’s estimate of shares that will eventually vest, adjusted for the effect of non market-based vesting conditions.

Fair value is measured by the use of an appropriate valuation model. The expected lives used in the models have been adjusted, based on management’s best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Employee benefit trust

The carrying value of shares held by the EBT are recorded as treasury shares, shown as a deduction to owners’ equity.

Retirement benefit costs

The Group does not operate a pension scheme. However, payments are made to defined contribution retirement benefit arrangements for certain employees and these are charged as an expense as they fall due.

5. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 4, management has made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements.

Impairment of assets and assessment of cash generating units

The Group reviews the carrying value of its intangible assets, property, plant and equipment, goodwill, interests in an associate and interests in joint ventures to determine whether there is any indication that those assets are impaired. In making assessments for impairment, assets that do not generate independent cash flows are allocated to an appropriate CGU. The recoverable amount of those assets, or CGU, is measured at the higher of their fair value less costs to sell and value in use.

Management necessarily applies its judgement in allocating assets to CGUs, in estimating the probability, timing and value of underlying cash flows and in selecting appropriate discount rates to be applied within the value in use calculation. Subsequent changes to CGU allocation or estimates and assumptions in the value in use calculation could impact the carrying value of the respective assets.

Changes to the assumptions underlying the assessment of the recoverable value may result in changes to impairment charges, either through further impairment charges or reversal of previously recognised impairments, which could have a significant impact on the financial information in future periods. In addition, any delays, increases in the total forecast cost of planned projects or negative outcomes to exploration and evaluation activities could lead to further impairment charges in the future.

Ore reserve estimates

The Group estimates its ore reserves and mineral resources based on the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves of December 2004 (the "JORC Code"). The JORC Code requires the use of reasonable investment assumptions when reporting reserves, including future production estimates, expected future commodity prices and production cash costs.

Ore reserve estimates are used in the calculation of depreciation of mining assets using a units of production method, impairment charges and for forecasting the timing of the payment of closedown and restoration costs. Also, for the purpose of impairment review and the assessment of life of mine for forecasting the timing of the payment of close down and restoration costs, the Group may take into account mineral resources in addition to ore reserves where there is a high degree of confidence that such resources will be extracted.

Ore reserve estimates may change from period to period as additional geological data becomes available during the course of operations or economic assumptions used to estimate reserves change. Such changes in estimated reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- Asset carrying values due to changes in estimated future cash flows;
- Depreciation charged in the income statement where such charges are determined by using a units of production method or where the useful economic lives of assets are determined with reference to the life of the mine;
- Provisions for close down and restoration costs where changes in estimated reserves affect expectations about the timing of the payment of such costs; and
- Carrying value of deferred tax assets and liabilities where changes in estimated reserves affect the carrying value of the relevant assets and liabilities.

5. Key Sources of Estimation Uncertainty (Continued)

Exploration and evaluation costs

The Group's accounting policy for exploration and evaluation expenditure results in such expenditure being capitalised for those projects for which such expenditure is considered likely to be recoverable through future extraction activity or sale, or for which the exploration activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether the Group will proceed with development based on existence of reserves or whether an economically viable extraction operation can be established. Such estimates and assumptions may change from period to period as new information becomes available. If, subsequent to the exploration and evaluation expenditure capitalised, a judgement is made that recovery of the expenditure is unlikely or the project is to be abandoned, the relevant capitalised amount will be written off to profit or loss.

Provision for restoration, rehabilitation and environmental costs

Costs arising from site restoration works, and the decommissioning of plant, discounted to their present value, are provided for and capitalised at the start of each project, as soon as the obligation to incur such costs arises. The provision is based on estimates prepared by external consultants. Management uses its judgement and experience to provide for these costs. The ultimate costs of site restoration and decommissioning are uncertain, and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites. The expected timing and extent of expenditure can also change, for example in response to changes in ore reserves or processing levels. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Estimation of Percentage Completion of Engineering Contracts of OJSC Institute for Engineering of Ore Mining Enterprises Giproruda ("Giproruda")

To estimate the percentage of completion of engineering contracts and therefore determine the amount of contract revenue and associated costs to recognise requires that management makes an assessment of the stage of completion of the contract activity at the end of each reporting period. The Directors consider that these estimates are made by suitably qualified project managers.

Tax provisions and tax legislation

The Group is subject to income tax in the UK, Russian Federation and Cyprus. Assessing the outcome of uncertain tax positions requires judgements to be made. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due, such estimates are based on the status of ongoing discussions with the relevant tax authorities and advice from independent tax advisers. Russian tax and currency control legislation is subject to varying interpretations. Fines and penalties for any errors and omissions could be significant. The Directors believe that there have been no material breaches of Russian tax regulations and that these financial statements contain all necessary provisions in respect of the Group's tax liabilities in Russia.

Deferred tax

Recognition of deferred tax assets requires management to assess the likelihood that future tax profits will be available which the deferred tax asset can be utilised to offset. This requires management to assess future profits of the business and the likelihood and timing of these amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

6. Segment Information

HKFRS 8 *Operating Segments* requires the Group to disclose reported segments in accordance with internal reports that are provided to the Group's chief operating decision maker. The Group considers its Executive Committee to be the chief operating decision maker. For management purposes, the Group is organised into four operating segments, Mines in Production, Mines in Development, Engineering, and Other. These operating segments form the basis on which the Group's Executive Committee makes decisions about resource allocation and performance assessment. The Group has four reportable segments under HKFRS 8:

- Mines in Production segment ("Mines in Production"), comprises iron ore projects in production phase. This segment includes the Kuranakh project* upon its commencement of production in September 2010.

- Mines in Development segment ("Mines in Development"), comprises iron ore projects in the exploration and development phase. This segment includes the Kuranakh project* and the K&S project, and mines in the exploration and evaluation stage including the Garinskoye project and the Bolshoi Seym project (held by an associate) as well as the Kostenginskoye and Garinskoye Flanks projects.

- Engineering segment ("Engineering"), comprises in-house engineering and scientific expertise related to Giproruda.

- Other segment ("Other") primarily includes the Group's interest in joint venture arrangements for the design and development of a titanium sponge production plant in the People's Republic of China ("PRC"), the Group's interest in joint venture arrangements for the production of vanadium pentoxides and related products in the PRC as well as various other projects, which have similar economic characteristic and activities. In 2011, the Group successfully acquired the remaining 35% interest in Jiatai Titanium project (as defined in note 41) from the joint venture partner pursuant to which Heilongjiang Jiatai Titanium Co., Limited becomes a wholly-owned subsidiary of the Group. There is no change in the reporting segment for the Jiatai Titanium project after the acquisition.

* *The Kuranakh project was grouped under Mines in Development when it was under exploration and development phase. Upon the commencement of production, it is reported as a separate segment, Mines in Production, since September 2010.*

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 4. Segment results represent the results earned by each segment without the allocation of central administration costs, central depreciation and amortisation, other gains and losses and other expenses, financial income, financial expenses and taxation.

Segment results represents the profit (loss) generated by each segment for the purpose of monitoring segment performance.

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than central cash and cash equivalents; and

- all liabilities are allocated to reportable segments other than deferred tax and bank borrowings.

6. Segment Information (Continued)

For the year ended 31 December 2011

	Mines in production US$'000	Mines in development US$'000	Engineering US$'000	Other US$'000	Total US$'000
Segment revenue					
External sales	**110,388**	**—**	**11,820**	**—**	**122,208**
Total revenue	**110,388**	**—**	**11,820**	**—**	**122,208**
Site operating expenses and service costs	**(90,141)**	**(887)**	**(9,555)**	**(4,209)**	**(104,792)**
Site operating expenses and service costs include:					
Depreciation	**(7,241)**	**(3,041)**	**(529)**	**(92)**	**(10,903)**
Share of results of an associate	**—**	**87**	**—**	**—**	**87**
Share of results of joint ventures	**—**	**—**	**—**	**(515)**	**(515)**
Segment results	**20,247**	**(800)**	**2,265**	**(4,724)**	**16,988**
Central administrative expenses					**(26,214)**
Central depreciation and amortisation					**(383)**
Other gains and losses and other expenses					**12,708**
Financial income					**716**
Financial expenses					**(555)**
Profit before taxation					**3,260**
Other segment information					
Additions to non-current assets:					
– Capital expenditure	**12,331**	**74,896**	**345**	**352**	**87,924**
Exploration and evaluation expenditure capitalised within intangible assets	**—**	**12,960**	**—**	**—**	**12,960**
Segment assets	**156,896**	**648,848**	**21,300**	**20,750**	**847,794**
Central cash and cash equivalents					**14,788**
Total assets					**862,582**
Segment liabilities	**(12,192)**	**(3,994)**	**(3,250)**	**(6,565)**	**(26,001)**
Bank borrowings					**(21,343)**
Deferred tax liabilities					**(2,160)**
Total liabilities					**(49,504)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

6. Segment Information (Continued)

For the year ended 31 December 2010

	Mines in production US$'000	Mines in development US$'000	Engineering US$'000	Other US$'000	Total US$'000
Segment revenue					
External sales	12,634	—	13,158	—	25,792
Total revenue	12,634	—	13,158	—	25,792
Site operating expenses and service costs	(14,947)	(7,796)	(10,863)	(40,597)	(74,203)
Site operating expenses and service costs include:					
Impairment charges	—	(1,028)	—	(34,944)	(35,972)
Depreciation	(2,368)	(1,402)	(621)	(28)	(4,419)
Share of results of joint ventures	—	—	—	(135)	(135)
Segment results	(2,313)	(7,796)	2,295	(40,732)	(48,546)
Central administrative expenses					(22,847)
Central depreciation and amortisation					(506)
Other gains and losses and other expenses					(5,570)
Financial income					10,929
Financial expenses					(11,813)
Loss before taxation					(78,353)
Other segment information					
Additions to non-current assets:					
– Capital expenditure	—	113,545	353	7,946	121,844
Interests in joint ventures	—	—	—	4,731	4,731
Exploration and evaluation expenditure capitalised within intangible assets	—	3,323	—	—	3,323
Segment assets	132,191	495,596	19,492	17,412	664,691
Central cash and cash equivalents					202,828
Total assets					867,519
Segment liabilities	(8,763)	(31,640)	(2,597)	(17,877)	(60,877)
Deferred tax liabilities					(2,024)
Total liabilities					(62,901)

6. Segment Information (Continued)

Revenue by geographical location[a]

	2011 US$'000	2010 US$'000
Russia	**11,820**	13,184
PRC	**110,388**	12,608
	122,208	25,792

(a) Based on the location to which the product was shipped or in which the services were provided.

Non-current assets by location of asset[b]

	2011 US$'000	2010 US$'000
Russia	**717,295**	575,237
PRC	**7,765**	10,411
Hong Kong	**28**	51
	725,088	585,699

(b) Excluding financial assets.

Information about major customers

The Group's revenue included revenue arising from sales of iron ore concentrate and rendering engineering services to a number of individual third party customers during the years ended 31 December 2011 and 2010. Revenue from customers of the corresponding years contributing over 10% are described below.

For the year ended 31 December 2011 sales were made to Heilongjiang Jianlong Steel Company Limited (US$107,288,000) attributable to the Mines in Production segment comprising 88% of the total revenue. There were no other customers that contributed over 10% on the total revenue of the Group during the year ended 31 December 2011.

For the year ended 31 December 2010 sales were made to Heilongjiang Jianlong Steel Company Limited (US$12,593,000) attributable to the Mines in Production segment, OJSC Arkhangelskgeoldobycha (US$4,688,000) and OJSC Apatit (US$4,040,000) attributable to the Engineering segment, respectively comprising 49%, 18% and 16% of the total revenue.

7. Revenue

An analysis of the Group's revenue is as follows:

	2011 US$'000	2010 US$'000
Revenue		
Sales of goods	**110,388**	12,634
Rendering of services	**11,820**	13,158
	122,208	25,792

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

8. Operating Expenses

	2011 US$'000	2010 US$'000
Operating expenses		
Site operating expenses and service costs[(a)]	**104,792**	38,231
Central administration expenses[(b)]	**26,597**	23,353
	131,389	61,584

(a) Site operating expenses and service costs.

	2011 US$'000	2010 US$'000
Staff costs	**37,127**	22,274
Fuel	**12,614**	2,753
Materials	**16,846**	7,953
Depreciation	**10,903**	4,419
Electricity	**2,770**	1,143
Royalties	**1,218**	544
Railway tariff	**30,597**	4,853
Movement in finished goods and work in progress	**(8,142)**	(16,289)
Engineering services cost	**9,017**	3,503
Professional fees*	**767**	753
Bank charges	**332**	202
Insurance	**129**	51
Office rent	**791**	645
Business travel expenses	**1,110**	669
Office costs	**1,999**	953
Mine development costs capitalised in property, plant and equipment	**(20,974)**	(5,949)
Reversal of allowance for bad debts**	**(190)**	(42)
Loss on disposal of property, plant and equipment	**115**	918
Other expenses	**7,763**	8,878
	104,792	38,231

8. Operating Expenses (Continued)

(b) Central administration expenses.

	2011 US$'000	2010 US$'000
Staff costs	**9,109**	7,328
Depreciation	**383**	506
Professional fees*	**2,967**	4,341
Bank charges	**78**	56
Insurance	**584**	321
Office rent	**1,750**	1,764
Business travel expenses	**2,757**	2,540
Share-based payments	**6,823**	1,588
Office costs	**674**	705
Other expenses	**2,404**	5,220
Rental income less outgoings	**(932)**	(1,016)
	26,597	23,353

* Professional fees comprise audit fees, legal fees, consulting fees, management services fees and engineering consultancy fee.

** Reversal of allowance for doubtful debts of approximately US$190,000 and US$42,000 were recognised in profit and loss for the year ended 31 December 2011 and 2010, respectively. The amount for the year ended 31 December 2011 and 2010 represented certain recovery of a trade debtor at Giproruda.

9. Auditors' Remuneration

The analysis of auditors' remuneration is as follows:

	2011 US$'000	2010 US$'000
Audit fees		
Fees payable to Group's auditors and their associates for the annual audit of the Group's consolidated financial statements	**478**	459
Non-audit fees		
Fees for reporting accountants services[(a)]	**—**	2,729
Tax services	**—**	4
Other services	**125**	105
	125	2,838
Total	**603**	3,297

(a) Fees for reporting accountants services represent remuneration for Group's auditors and their associates in connection with the listing of the shares of the Company on the Stock Exchange.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

10. Directors' and Employees' Emoluments

The aggregate remuneration of employees (including directors) comprised:

	2011 US$'000	2010 US$'000
Wages and salaries	**36,812**	25,082
Social security and other benefits	**9,185**	4,366
Retirement benefit contribution	**239**	154
Share-based payments	**6,823**	1,588
	53,059	31,190

	2011 US$'000	2010 US$'000
Directors' Emoluments		
Emoluments for executive directors:		
— salaries and other benefits	**1,815**	984
— performance bonus[a]	**—**	617
— retirement benefit contribution	**225**	118
— share-based payments	**4,125**	779
Emoluments for non-executive directors:		
— directors' fees	**623**	180
	6,788	2,678

(a) The performance bonus is determined by reference to the individual performance of the directors and approved by the Remuneration Committee.

	Directors' fees US$'000	Salaries and other benefits US$'000	Retirement benefit contribution US$'000	Share-based[a] payments US$'000	Total US$'000
Year ended 31 December 2011					
Executive directors of the Company:					
George Jay Hambro	—	**705**	**88**	**1,650**	**2,443**
Yury Makarov	—	**613**	**78**	**1,444**	**2,135**
Raymond Woo	—	**497**	**59**	**1,031**	**1,587**
Non-executive directors of the Company:					
Non independent non-executive directors					
Simon Murray	**102**	—	—	—	**102**
Dr. Pavel Maslovskiy	**98**	—	—	—	**98**
Independent non-executive directors					
Daniel Bradshaw	**141**	—	—	—	**141**
Jonathan Martin Smith	**141**	—	—	—	**141**
Chuang-fei Li	**141**	—	—	—	**141**
	623	**1,815**	**225**	**4,125**	**6,788**

10. Directors' and Employees' Emoluments (Continued)

	Directors' fees US$'000	Salaries, performance bonus and other benefits US$'000	Retirement benefit contribution US$'000	Share-based[(a)] payments US$'000	Total US$'000
Year ended 31 December 2010					
Executive directors of Aricom:					
Brian Egan					
(resigned 17 September 2010)	—	163	9	41	213
George Jay Hambro	—	263	21	66	350
Andrey Maruta					
(appointed 22 February 2010)	—	81	6	17	104
	—	507	36	124	667
Executive directors of the Company:					
George Jay Hambro					
(appointed 4 June 2010)	—	416	30	262	708
Yury Makarov					
(appointed 4 June 2010)	—	369	27	229	625
Raymond Woo					
(appointed 30 July 2010)	—	309	25	164	498
Non-executive directors of the Company:					
Non independent non-executive directors					
Simon Murray					
(appointed 16 November 2010)	13	—	—	—	13
Dr. Pavel Maslovskiy					
(appointed 3 September 2010)	32	—	—	—	32
Independent non-executive directors					
Daniel Bradshaw					
(appointed 3 September 2010)	45	—	—	—	45
Jonathan Martin Smith					
(appointed 3 September 2010)	45	—	—	—	45
Chuang-fei Li					
(appointed 3 September 2010)	45	—	—	—	45
	180	1,094	82	655	2,011

The variances in directors' emoluments between 2011 and 2010 reflected in the above tables mainly reflect duration of directorship but not adjustments in salary levels.

(a) The share-based payments were recognised in accordance with the relevant accounting standards and for details, please refer to note 38.

Subsequent to 22 April 2009, Brian Egan and George Jay Hambro have also been employed by Petropavlovsk PLC and the payment of their emoluments was centralised and made by Petropavlovsk PLC. For the period from 22 April 2009 to 31 December 2010, a component of their Petropavlovsk PLC remuneration was allocated to Aricom to reflect the proportion of their roles that relate to Aricom business. In year 2011, Brian Egan did not participate in the Group's businesses while George Jay Hambro resigned from his position in Petropavlovsk PLC, so no allocation of remuneration was made.

Andrey Maruta is employed by Petropavlovsk PLC. For the period from his appointment on 22 February 2010 to 31 December 2010, a component of his Petropavlovsk PLC remuneration was allocated to Aricom to reflect the proportion of his role that relates to Aricom business. In year 2011, Andrey Maruta did not participate in the Group's businesses, so no allocation of remuneration was made.

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FOR THE YEAR ENDED 31 DECEMBER 2011

10. Directors' and Employees' Emoluments (Continued)

Other than as disclosed above, no remuneration was paid or payable by the Group to the executive, non-executive and independent non-executive directors during the year.

Five highest paid individuals

For the year ended 31 December 2011, the five highest paid individuals included three directors of the Company (2010: three directors of the Company and Aricom). The emoluments of the remaining highest paid individuals for the years ended 31 December 2010 and 2011 are as follows:

	2011 US$'000	2010 US$'000
Employees		
— salaries and other benefits	**641**	755
— share-based payments	**495**	43
	1,136	798

Their emoluments were within the following bands:

	No. of Directors 2011	2010
HK$1,500,001 to HK$2,000,000 (equivalent to approximately US$192,802 to US$257,068)	**—**	1
HK$4,000,001 to HK$4,500,000 (equivalent to approximately US$514,139 to US$578,406)	**1**	1
HK$4,500,001 to HK$5,000,000 (equivalent to approximately US$578,407 to US$642,674)	**1**	—
	2	2

In both years, no emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group. None of the directors has waived any emoluments and no other amounts were paid by the Group to the directors, or the five highest paid individuals, as compensation for loss of office.

11. Impairment Charges

At 31 December 2011 and 2010, the Company considered whether further impairment or the need to reverse previously recognised impairment existed at Kuranakh project and K&S, a magnetite project, which is at the developing stage and is located in the Evreyskaya Avtonomnaya Region of the Russian Federation ("EAO Region"). Management concluded that neither further impairment charge nor reversal of impairment charge is required.

11. Impairment Charges (Continued)

For the purposes of testing for impairment, recoverable amounts have been determined at value in use, being estimated future cash flows discounted to their present value, based on a number of assumptions. The key assumptions are presented in the table below:

	2011	2010
Nominal discount rate post-tax	**10.6% and 8.0%**	13.8% and 9.0%
Nominal discount rate pre-tax	**13.2% and 10.0%**	17.3% and 11.3%
Average Russian inflation rate from the year-end to 2042	**2.0%**	2.0%
Average Russian Rouble: US dollar exchange rate from the year-end to 2042	**33.0**	31.5
Average titanomagnetite concentrate prices from the year-end to 2042	**US$/tonne 130.0**	US$/tonne 104.7
Average ilmenite prices from the year-end to 2042	**US$/tonne 208.1**	US$/tonne 110.0

Forecast inflation rates and sales prices for short-term iron ore were based on external sources and adjustments to these were made for the expected quality of the forecast production. In addition, management has estimated the long term forecast sales prices for titanomagnetite concentrate prices which takes into account their views of the market, recent volatility and other external sources of information. Judgement has then been applied by management in determining a long-term price for each commodity. The impairment assessments are particularity sensitive to changes in discount rate, commodity prices and foreign exchange rates. Changes to these assumptions would result in changes to impairment charges, which could have a significant impact on the consolidated financial statements.

The Group has a 49% stake in LLC Uralmining, holding a licence to develop the Bolshoi Seym deposit. Due to uncertainties about the commercial viability of the project and the progression of the development of the project, it was decided to write off the loans advanced of US$1,028,000 in 2010. In 2011, the Group made an additional investment of US$616,000 in the associate for the finalisation of an exploration project (see note 22). There was no impairment indicator found to this additional investment as at 31 December 2011 as the management considered that the exploration project is now seen as commercially viable to progress.

In 2010, the Group was advised that its joint venture partner Aluminium Corporation of China Limited ("Chinalco") had decided to withdraw from some of its non-core ventures and consequently no longer wishes to proceed with the Jiatai Titanium project (as defined in note 23). As of 31 December 2010, the Group had invested approximately US$20.8 million in the joint venture, and a further US$15.3 million on the titanium sponge processing technology, which was expected to be recharged to the joint venture. As a consequence the building of the plant was deferred and there is uncertainty as to the eventual outcome of the joint venture activities and the recoverability of the amounts invested. As a result, the directors concluded that the most appropriate course of action was to provide for impairment against the invested amounts of US$34.9 million. This impairment was allocated to intangible assets (US$0.7 million), property, plant and equipment (US$14.6 million) and interests in joint ventures (US$19.6 million). The impairment took into account the recoverable value of the Group's share of the joint venture of US$3.5 million which reflected the Group's 65% share of the cash within the joint venture, net of its liabilities.

In 2011, the Group has successfully acquired the remaining 35% interest in Jiatai Titanium project from the joint venture partner and plan to proceed with the project while seeking a different joint venture partner. Please see note 41 for details. For the purposes of impairment testing, goodwill has been allocated to one CGU, comprising a subsidiary holding the Jiatai Titanium project in the segment category "Other". During the year ended 31 December 2011, management of the Group determined that there was no impairment of the CGU containing goodwill. The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation use cash flow projections based on financial budgets approved by management covering a 3-year period, the cash flow beyond 3-year period are extrapolated using a steady 2% growth rate, which is based on the relevant industry growth forecasts, and a discount rate of 10.8%. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue and net operating expenses, such estimation is based on the management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the above CGU to exceed the aggregate recoverable amount of the above CGU.

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12. Other Gains and Losses and Other Expenses

	2011 US$'000	2010 US$'000
Change in fair value of financial instruments at FVTPL	—	1,711
Net foreign exchange gain	700	2,074
Reversal of (provision for) listing expenses[(a)]	3,198	(9,355)
Gain on acquisition of an additional interest in Jiatai Titanium project (note 41)		
— Provisional gain on remeasurement of previously held equity interest	428	—
— Reclassification of foreign exchange translation gain of Jiatai Titanium project previously accumulated in translation reserve	882	—
Derecognition of financial liability[(b)]	7,500	—
	12,708	(5,570)

(a) The amounts represented the proportion of the costs in relation to the listing of the Company on the Stock Exchange that relate to existing shares listed.

(b) The amount represented derecognition of a third party payable relating to acquisition of a technology know-how. Effective on 30 December 2011, the Group and the third party entered into a novation agreement pursuant to which the obligations owed to each other were discharged and the Group surrendered its exclusive right in the technology know-how and was required to make a final payment of US$448,000. Having considered the final payment, the payable of US$7,500,000 was derecognised and credited to profit or loss.

13. Financial Income

	2011 US$'000	2010 US$'000
Interest income on loans receivable from related parties (see note 27)	—	10,585
Interest income on cash and cash equivalents	706	275
Interest income on other loans and receivables	10	69
	716	10,929

14. Financial Expenses

	2011 US$'000	2010 US$'000
Interest expenses on loan wholly repayable to related parties within five years	—	11,254
Unwinding of discount on environmental obligation	291	549
Interest expenses on bank borrowings wholly repayable within five years	264	10
	555	11,813

15. Taxation Expense

	2011 US$'000	2010 US$'000
UK current tax	**(700)**	(3,062)
Cyprus current tax	**13**	(49)
Russia current tax	**(465)**	(481)
PRC Enterprise Income Tax	**(270)**	—
Current tax expense	**(1,422)**	(3,592)
Deferred tax expense	**(262)**	(84)
	(1,684)	(3,676)

UK corporation tax is calculated at 26.5% and 28% of the estimated assessable profit for the years ended 31 December 2011 and 2010 respectively.

Cyprus corporation tax is calculated at a rate of 10% of the estimated assessable profit for both years.

Russian corporation tax is calculated at a rate of 20% of the estimated assessable profit for both years.

Along with acquisition of a PRC subsidiary during the year ended 31 December 2011, the Group is subject to PRC tax. Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

No Hong Kong profits tax was provided for as the Group had no assessable profit arising in or derived from Hong Kong.

The charge for the year can be reconciled to the profit (loss) before taxation per the consolidated income statement as follows:

	2011 US$'000	2010 US$'000
Profit (loss) before taxation	**3,260**	(78,353)
Tax at the Russian corporation tax rate of 20% and UK corporation tax rate of 28% for the years ended 31 December 2011 and 2010 respectively[a]	**652**	(21,938)
Effect of different tax rates of subsidiaries' operations in other jurisdictions	**1,272**	6,092
Tax effect of share of results of joint ventures	**103**	22
Tax effect of share of results of an associate	**(17)**	—
Tax effect of tax losses not recognised	**8,905**	13,090
Tax effect of expenses that are not deductible in determining taxable profit[b]	**5,577**	16,337
Tax effect of income that are not taxable in determining taxable profit	**(12,813)**	(5,940)
Tax effect of utilisation of previously not recognised deductible temporary differences	**(1,972)**	(3,615)
Others	**(23)**	(372)
Taxation expense for the year	**1,684**	3,676

(a) For the years ended 31 December 2011 and 2010, majority of the assessable profits of the Group was derived from subsidiaries situated in the Russia and the UK respectively. The applicable income tax rates in Russia and UK for the years ended 31 December 2011 and 2010 were 20% and 28% respectively.

(b) Amount in 2011 mainly related to the non-deductible professional fees and the amount in 2010 mainly related to the impairment charges for the year (see note 11).

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FOR THE YEAR ENDED 31 DECEMBER 2011

16. Dividends

An interim dividend of US$644,437,000 was proposed and approved by the directors of Aricom on 22 June 2010. Of this amount US$22,460,000 was paid in cash and the remainder was offset against amounts owing to Petropavlovsk PLC prior to the listing of the Company's shares on the Stock Exchange under the group re-organisation (see note 34(b)).

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2010.

No dividend was paid or proposed during 2011, nor has any dividend been proposed since the end of the reporting period.

17. Earnings/Loss Per Share

The calculation of the basic and diluted earnings/loss per share attributable to owners of the Company is based on the following data:

Profit (loss)

	2011 US$'000	2010 US$'000
Earnings/loss for the purposes of basic and diluted earnings/loss per ordinary share being profit (loss) attributable to owners of the Company	**1,001**	(82,358)

Number of shares

	2011 Number '000	2010 Number '000
Weighted average number of ordinary shares for the purpose of basic earnings/loss per ordinary share	**3,245,900**	2,265,032
Effect of dilutive potential ordinary shares:		
Shares awarded under Long-term Incentive Plan	**33,046**	—
Weighted average number of ordinary shares for the purposes of diluted earnings/loss per ordinary share	**3,278,946**	2,265,032

The number of ordinary shares for the purpose of calculating basic loss per share for 2010 has been retrospectively adjusted for the share sub-division as disclosed in note 34(a), the deemed bonus element relating to the shares of the Company issued to Cayiron Limited in August 2010 and the capitalisation issue of the shares of the Company.

For the year ended 31 December 2010, the denominators used are the same as those detailed above for both basic and diluted earnings per share.

Note: The computation of diluted loss per share for the years ended 31 December 2010 does not assume the conversion of Aricom's outstanding warrants and share options, shares awarded under the Company's Long-term Incentive Plan (see note 38(d)) since their exercise would result in a decrease in loss per share.

18. Operating Lease Arrangements

The Group as a lessee

	2011 US$'000	2010 US$'000
Minimum lease payments under operating leases in respect of the Group's office premises recognised as an expense in the year	**1,963**	1,896

At the end of the reporting period the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2011 US$'000	2010 US$'000
Within one year	**9,693**	1,070
In the second to fifth years inclusive	**20,921**	3,751
	30,614	4,821

The Group as a lessor

The Group earned property rental income of approximately US$932,000 during the year ended 31 December 2011 (2010: US$1,016,000), relating to the sub-let of part of the floor space of a building owned by a subsidiary of the Group, OJSC Giproruda. The lease contracts are at fixed rates for a period not exceeding eleven months as at 31 December 2011 and 2010. At the end of the reporting period, the Group had contracted with tenants for minimum lease payments due within the first three months. The total minimum lease payment is approximately US$903,000 and US$987,000 as at 31 December 2011 and 2010 respectively. This rental income is shown net of the associated cost within operating expenses.

19. Intangible Assets

The Group

	2011 US$'000	2010 US$'000
At the beginning of year	**31,533**	28,690
Additions	**12,960**	3,323
Transfers from plant, property and equipment	—	237
Impairment (see note 11)	—	(717)
At the end of year	**44,493**	31,533

Garinskoye and the Garinskoye and Kostengiskoye Flanks are classified as exploration and evaluation assets within intangible assets. Additions in both 2011 and 2010 mainly related to exploration and evaluation expenses capitalised in intangible assets.

In 2010, the impairment represented the amount paid to acquire licences for intellectual property in relation to the processing of titanium sponge, as set out in note 11. The carrying amount of these licenses was nil as at 31 December 2011 and 2010.

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FOR THE YEAR ENDED 31 DECEMBER 2011

20. Property, Plant and Equipment

The Group

	Mine development costs US$'000	Mining assets US$'000	Non-mining assets US$'000	Capital construction in progress US$'000	Total US$'000
COST					
At 1 January 2010	809,630	—	68,116	9,158	886,904
Additions	110,201	—	3,364	8,279	121,844
Disposals	(6,068)	—	(308)	—	(6,376)
Transfers	(70,981)	83,960	(12,006)	(973)	—
Transfers to intangible assets	(237)	—	—	—	(237)
Transfer to joint venture[(a)]	—	—	—	(1,828)	(1,828)
Exchange adjustments	—	—	(60)	—	(60)
At 31 December 2010 and 1 January 2011	842,545	83,960	59,106	14,636	1,000,247
Additions	82,177	839	320	4,588	87,924
Disposals	(701)	—	(203)	—	(904)
Transfers	(5,464)	6,850	419	(1,805)	—
Acquired on acquisition of a subsidiary (see note 41)	—	—	658	—	658
Exchange adjustments	—	—	(550)	—	(550)
At 31 December 2011	918,557	91,649	59,750	17,419	1,087,375
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2010	(451,623)	—	(30,540)	—	(482,163)
Depreciation charge for the year	(1,456)	(2,332)	(1,979)	—	(5,767)
Eliminated on disposals	1,459	—	51	—	1,510
Transfers	(2,130)	(158)	2,288	—	—
Impairment (see note 11)	—	—	—	(14,572)	(14,572)
Exchange adjustments	—	—	15	—	15
At 31 December 2010 and 1 January 2011	(453,750)	(2,490)	(30,165)	(14,572)	(500,977)
Depreciation charge for the year	(2,792)	(13,519)	(2,206)	—	(18,517)
Eliminated on disposals	280	—	66	—	346
Exchange adjustments	—	—	158	—	158
At 31 December 2011	(456,262)	(16,009)	(32,147)	(14,572)	(518,990)
CARRYING AMOUNTS					
At 31 December 2011	462,295	75,640	27,603	2,847	568,385
At 31 December 2010	388,795	81,470	28,941	64	499,270

(a) This amount relates to costs on capital construction in progress that has now been considered to form part of investment in joint ventures as capital injection.

20. Property, Plant and Equipment (Continued)

The Company

	Leasehold improvements US$'000	Computer equipment US$'000	Furnitures and fixtures US$'000	Office equipment US$'000	Total US$'000
COST					
At 4 June 2010, date of incorporation	—	—	—	—	—
Additions	9	6	3	46	64
At 31 December 2010	9	6	3	46	64
Additions	—	10	—	—	10
At 31 December 2011	9	16	3	46	74
ACCUMULATED DEPRECIATION					
At 4 June 2010, date of incorporation	—	—	—	—	—
Depreciation charge for the period	(2)	(1)	(1)	(9)	(13)
At 31 December 2010	(2)	(1)	(1)	(9)	(13)
Depreciation charge for the year	(4)	(4)	(1)	(24)	(33)
At 31 December 2011	(6)	(5)	(2)	(33)	(46)
CARRYING AMOUNTS					
At 31 December 2011	3	11	1	13	28
At 31 December 2010	7	5	2	37	51

At 31 December 2011, cumulative capitalised interest and borrowing costs of US$1,507,000 (31 December 2010: US$1,507,000), were included within mine development costs in the above table. The effective rate of interest capitalised for the years ended 31 December 2011 and 2010 was nil. Depreciation of US$968,000 relating primarily to assets used in the construction of plant in LLC Olekminsky Rudnik and LLC KS GOK was capitalised during the year ended 31 December 2011 (31 December 2010: US$842,000).

Additions to mine development costs include deferred stripping costs incurred in the development of the mine of US$1,318,000 and US$8,863,000 during each of the years ended 31 December 2011 and 2010 respectively which relates to the removal of overburden at the Kuranakh mine.

There are no restrictions on title and no property, plant and equipment were pledged as security.

At 31 December 2011 and 2010, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to US$332,698,000 and US$471,732,000 respectively. There were no authorized but not contracted commitments as at 31 December 2011 and 2010.

At 31 December 2011 and 2010, the Group had commitment to contribute US$80,640,000 and US$48,700,000 to the share capital of Heilongjiang Jiatai Titanium Co. Limited respectively.

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21. Investments in Subsidiaries

The Company

	2011 US$'000	2010 US$'000
Unlisted shares at costs	**1,007,358**	877,300

The activities of the Company's principal subsidiaries are set out in note 44.

22. Interest in an Associate

The Group

	2011 US$'000	2010 US$'000
At the beginning of the year	**—**	—
Capital contribution made	**616**	—
Share of results of an associate	**87**	—
At the end of the year	**703**	—

Interest in an associate held at 31 December 2011 and 2010 represented the Group's 49% ownership interest in the ordinary shares of LLC Uralmining ("Uralmining"). Uralmining is incorporated and carries out its mining and project development principal activities in Russia, where it holds the licence to develop the Bolshoi Seym deposit.

In 2011, there was an additional investment in Uralmining totaling US$1,258,000 in which the Group has contributed US$616,000 to maintain its ownership interest in Uralmining of 49%.

There was no revenue generated by the associate during the years end 31 December 2011 and 2010. Aggregated amounts relating to Uralmining are set out below.

	2011 US$'000	2010 US$'000
Total assets	**16,136**	15,709
Total liabilities	**(14,701)**	(15,709)
Net assets	**1,435**	—

	2011 US$'000	2010 US$'000
Revenue	**—**	—
Profit for the year	**177**	—
Other comprehensive income	**—**	—
The Group's share of profit and other comprehensive income of associate for the year	**87**	—

23. Interests in Joint Ventures

The Group

	2011 **US$'000**	2010 US$'000
At the beginning of year	**10,346**	22,692
Contribution of share capital	**—**	4,731
Share of results of joint ventures	**(515)**	(135)
Transfers from other non-current assets	**—**	1,828
Upon acquisition of remaining interest in Jiatai Titanium project (see note 41)	**(3,215)**	—
Exchange adjustments	**470**	885
Impairment (see note 11)	**—**	(19,655)
At the end of year	**7,086**	10,346

In accordance with the terms of the joint venture agreement between the Company and a Chinese partner signed and approved by the Chinese Ministry of Commerce on 12 August 2008 for establishment of a jointly controlled Chinese titanium sponge processing joint venture project, Heilongjiang Jiatai Titanium Co. Limited ("Jiatai Titanium project") was established in the PRC with 65% interest held by the Group and the remaining 35% held by a joint venture partner. Unanimous consent is required from both parties for all strategic financial and operating decisions relating to the Jiatai Titanium project. On 11 April 2011, the Group successfully acquired the remaining 35% equity stake from the joint venture partner for US$11.5 million pursuant to which the Jiatai Titanium project becomes a wholly-owned subsidiary of the Group. Please see note 41 for details.

On 19 February 2009, the Group signed an agreement with Heilongjiang Jianlong Steel Company Limited and Kuranakii Investment Co. Limited to establish a Chinese Vanadium Production Joint Venture project (the "Vanadium Joint Venture"), Heilongjiang Jianlong Vanadium Industries Co. Limited, which was established in the PRC. The Group holds 46% of the joint venture and the remaining 49% and 5% are held by Heilongjiang Jianlong Steel Company Limited and Kuranakii Investment Co. Limited respectively, with the parties exercising joint control as the strategic financial and operating decisions relating to the Vanadium Joint Venture require the unanimous consent from the three parties.

There was no revenue generated by the above joint ventures in both years.

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23. Interests in Joint Ventures (Continued)

The summary of the financial information of the Group's joint ventures for the year attributable to the Group's interest therein is set out below.

	2011 US$'000	2010 US$'000
Share of joint ventures' assets and liabilities:		
Non-current assets	**13,530**	1,605
Current assets	**6,018**	11,985
	19,548	13,590
Current liabilities	**(5,296)**	—
Non-current liabilities	**(7,166)**	(3,244)
The Group's share of net assets	**7,086**	10,346
Share of joint ventures' revenue and expenses:		
Revenue	**—**	—
Net operating expenses	**(478)**	(63)
Operating loss	**(478)**	(63)
Financial income	**26**	20
Financial expenses	**(63)**	(92)
The Group's share of loss for the year	**(515)**	(135)

24. Other Non-Current Assets

The Group

	2011 **US$'000**	2010 US$'000
Deferred insuance premium for bank facilities	**22,057**	22,518
Prepayments for property, plant and equipment	**68,580**	15,837
Deferred loan arrangement fee	**7,373**	5,780
Cash advances to employees	**350**	415
	98,360	44,550

25. Inventories

The Group

	2011 **US$'000**	2010 US$'000
Stores and spares	**29,110**	18,545
Work in progress	**3,958**	4,896
Finished goods	**8,233**	3,680
	41,301	27,121

No inventories had been pledged as security and written down to the net realisable value during the year ended 31 December 2011 and 2010.

The cost of inventory charged to the consolidated income statement was as follows:

	2011 **US$'000**	2010 US$'000
Site operating expenses and service costs	**24,207**	12,918
Central administrative expenses	**—**	474
	24,207	13,392

26. Trade and Other Receivables

The Group

	2011 US$'000	2010 US$'000
VAT recoverable	**28,588**	12,399
Advances to suppliers	**13,401**	8,871
Amounts due from customers under engineering contracts	**2,514**	1,511
Trade receivables	**6,165**	5,054
Other debtors	**6,337**	1,396
	57,005	29,231

Amounts due from customers under engineering contracts are expected to be billed and settled within one year, and relate to the long-term contracts in progress.

Amounts included in trade receivables at 31 December 2011 and 2010 related to both iron ore concentrate sold and services performed under engineering contracts and invoiced to those customers.

The Group has concentration of credit risk as 81.3% (31 December 2010: 72.7%) of the total trade receivables was due from the Group's largest customer during the year. The Group has implemented policies that require appropriate credit checks on potential customers before granting credit. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure and credit ratings of its counterparties are monitored by management. The maximum credit risk of such financial assets is represented by the carrying value of the asset.

Before accepting new customers, the Group uses an internal credit scoring system to assess the potential customers' credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year. 97% (2010: 80%) of the trade receivables that are neither past due nor impaired are with good credit quality based on their settlement records.

In determining recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period and no impairment is necessary for these balances which are not past due.

Below is an aged analysis of the Group's trade receivables based on invoice date.

	2011 US$'000	2010 US$'000
Less than one month	**5,976**	4,039
One month to three months	**177**	462
Over three months to six months	**3**	10
Over six months	**9**	543
Total	**6,165**	5,054

The Group allows credit periods ranging from 5 days to 45 days to individual third party customers. The Directors considered that the carrying value of trade and other receivables is approximately equal to their fair value.

26. Trade and Other Receivables (Continued)

Below is an aged analysis of trade receivables based on invoice date which are past due but not impaired:

	2011 US$'000	2010 US$'000
Less than one month	—	—
One to three months	5	4
Over three months to six months	3	3
Over six months	3	543
Total	11	550

The Group has not provided for impairment loss on trade receivables which are past due as there has not been a significant change in the credit quality and amounts are still considered recoverable based on historical experience.

The following shows an analysis of movements in the allowances for doubtful debts in respect of trade receivables:

	2011 US$'000	2010 US$'000
At the beginning of year	3,130	3,718
Change in allowance for doubtful debts	(190)	(42)
Amounts written off as uncollectible	(707)	—
Exchange adjustments	(65)	(546)
At the end of year	2,168	3,130

Included in the allowance for doubtful debts was impaired trade receivables of US$2,168,000 and US$3,130,000 as at 31 December 2011 and 2010, respectively. The amount mainly represented full impairment for a trade debtor at Olekma. The Group did not hold any collateral over these balances.

The Company

	2011 US$'000	2010 US$'000
Other debtors and prepayment	196	134

The Directors considered that the carrying value of other receivables is approximately equal to their fair value.

27. Loans Due from (to) Related Parties

The Group

In 2010, loans issued to related parties amounted to US$6,035,000. The loans due from related parties were fully settled before 31 December 2010. There was no additional loan issued to related parties during the years ended 31 December 2011 and 2010.

In 2010, loans advanced from related parties amounted to US$94,370,000. As the loans payable were transferred to Thorrouble Limited ("Thorrouble") and Thordollar Limited ("Thordollar") as part of the Restructuring, these are intercompany loans and are eliminated on consolidation at 31 December 2010 (see note 2). There was no additional loan advanced from related parties during the years ended 31 December 2011 and 2010.

The maximum amount outstanding in respect of non-trade amounts due from related companies during the year is set out as follows:

	2011 US$'000	2010 US$'000
Loans due from related parties		
Petropavlovsk PLC	—	107,166
Peter Hambro Mining Treasury UK Ltd, a fellow subsidiary	—	207,904
Peter Hambro Mining Group Finance Limited, a fellow subsidiary	—	40,006
EBT	—	20,308
	—	375,384

28. Amounts Due from (to) Subsidiaries/Ultimate Holding Company

The Company

The amounts are unsecured, non-interest bearing and are repayable on demand.

29. Cash and Cash Equivalents

Cash and cash equivalents of the Group and the Company comprised cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

The Group

	2011 US$'000	2010 US$'000
Bank accounts and deposits	**33,188**	225,468

The Company

	2011 US$'000	2010 US$'000
Bank accounts and deposits	**7,185**	146,793

30. Trade and Other Payables

The Group

	2011 **US$'000**	2010 US$'000
Trade creditors	**10,512**	12,360
Advances from customers	**2,992**	1,261
Insurance premium payable	**—**	24,218
Accruals and other payables	**8,112**	19,246
	21,616	57,085

For individual third party trade creditors, the average credit period on purchases of goods and services for the year was 32 days (2010: 22 days).

The Directors consider that the carrying amount of trade creditors and other payables approximates their fair value.

Below is an aged analysis of the Group's trade creditors based on invoice date.

	2011 **US$'000**	2010 US$'000
Less than one month	**6,254**	7,414
One month to three months	**1,327**	1,711
Over three months to six months	**380**	1,418
Over six months	**763**	29
	8,724	10,572
Trade payables not yet billed	**1,788**	1,788
Total	**10,512**	12,360

The Company

	2011 **US$'000**	2010 US$'000
Accruals and other payables	**2,186**	5,951

The Directors consider that the carrying amount of accruals and other payables approximates their fair value.

31. Deferred Tax Liabilities

The Group

The following are the major deferred tax (liabilities) assets recognised by the Group and movements thereon during the year.

	Property, plant and equipment US$'000	Inventory US$'000	Capitalised exploration and evaluation expenditure US$'000	Other temporary differences US$'000	Total US$'000
At 1 January 2010	(1,522)	(32)	(65)	(342)	(1,961)
Credit (charge) to the consolidated income statement	44	140	—	(268)	(84)
Exchange adjustments	13	(2)	—	10	21
At 31 December 2010 and 1 January 2011	(1,465)	106	(65)	(600)	(2,024)
Credit (charge) to the consolidated income statement	14	35	—	(311)	(262)
Exchange adjustments	90	(24)	—	60	126
At 31 December 2011	(1,361)	117	(65)	(851)	(2,160)

At 31 December 2011 and 2010, the Group had unused tax losses of US$159.7 million and US$117.4 million respectively, majority of which will expire from 2016 to 2020. For the tax losses as at 31 December 2011 and 2010, no deferred tax asset was recognised as there was not sufficient certainty that there will be sufficient taxable profit against which to offset these losses.

The Group had not recognised deferred tax assets of US$30.5 million and US$40.4 million as at 31 December 2011 and 2010 respectively, in respect of temporary differences that arose on certain capitalised development costs.

The Group did not record a deferred tax liability in respect of withholding tax that would be payable on the unremitted earnings associated with investments in its subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and did not intend to reverse them in the foreseeable future. These subsidiaries are incorporated in Russia and subjected to Russia tax rate at 20%. Unremitted earnings that would be subject to taxation comprised an aggregate of US$12.3 million and US$8.2 million at 31 December 2011 and 2010 respectively.

Temporary differences arising in connection with the Group's interests in joint ventures and an associate are insignificant.

32. Bank Borrowings

	2011 US$'000	2010 US$'000
Bank loans		
Asian Pacific Bank	15,000	—
Industrial and Commercial Bank of China ("ICBC")	6,343	—
Total	21,343	—
Secured	6,343	—
Unsecured	15,000	—
Total	21,343	—
Carrying amount repayable		
Within one year	15,000	—
More than two years, but not exceeding five years	6,343	—
Total	21,343	—

Bank loan from Asian Pacific Bank

On 10 October 2011, the Group entered into US$15,000,000 term-loan facility with Asian Pacific Bank. The loan bears an annual interest of 10% which is payable monthly. The principal of the loan is repayable on 9 October 2012. As at 31 December 2011 the whole loan amount was drawn down under the loan facility. The loan is not secured against any assets of the Group.

Bank loan from Industrial and Commercial Bank of China

On 6 December 2010, LLC KS GOK, a wholly owned subsidiary of the Company, had entered into the HK$3.11 billion (equivalent to US$400 million) Engineering Procurement and Construction Contract with the China National Electric Engineering Corporation for the construction of the Group's mining operations at K&S.

On 13 December 2010, the Group entered into a project finance facility agreement with ICBC (the "ICBC Facility Agreement") pursuant to which ICBC will lend US$340,000,000 (equivalent to HK$2.64 billion) to LLC KS GOK to be used to fund the construction of the Group's mining operations at K&S in time for the start of major construction works in early 2011. Interest under the facility was charged at 2.80% above London Interbank Offering rate ("LIBOR") per annum. The facility is repayable from 2014 and is fully repayable by 2022.

Petropavlovsk PLC has agreed to guarantee the Group's obligations under the ICBC Facility Agreement. Petropavlovsk PLC, the Company and LLC KS GOK have entered into an agreement setting out the terms on which Petropavlovsk PLC has given the guarantee ("Recourse Agreement"). No fee will be payable by the Company in respect of the provision of the guarantee by Petropavlovsk PLC while Petropavlovsk PLC remains the parent company of the Company. In the event that Petropavlovsk PLC ceases to be the parent company of the Company, a fee established on normal commercial terms will be payable by the Company to Petropavlovsk PLC in respect of the guarantee. No security will be granted by the Group to Petropavlovsk PLC in respect of the guarantee. Pursuant to the Recourse Agreement, Petropavlovsk PLC will have the right to inject funds into the Group by shareholder loan (on normal commercial terms at the time) in order to enable the Group to make payments under the ICBC Facility Agreement or for other working capital purposes. The Recourse Agreement also contains reporting obligations and customary covenants from the Group which require Petropavlovsk PLC's consent as guarantor (acting reasonably and taking into account the effect upon the Group's ability to fulfill its obligations under the ICBC Facility Agreement) for certain actions including the issuance, acquisition or disposal of securities, and entry into joint ventures.

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32. Bank Borrowings (Continued)

As at 31 December 2011 and 2010, Petropavlovsk PLC beneficially owns approximately 65.61% of the issued share capital of the Company. Under the ICBC Facility Agreement, each of the following will constitute a covenant and non-compliance with such covenants will constitute an event of default, subject to any available grace periods. If an event of default is outstanding the lenders may cancel any commitments and may declare any outstanding amounts under the ICBC Facility Agreement immediately due and payable or payable on demand: (i) Petropavlovsk PLC must directly or indirectly retain not less than 30% of the issued share capital of the Company; (ii) Petropavlovsk PLC has an obligation to maintain a minimum consolidated tangible net assets of not less than US$750,000,000, a minimum consolidated interest cover ratio of 3.5:1 and a maximum consolidated leverage ratio of 4:1; and (iii) there are also certain limited restrictions on the ability of the Company, Petropavlovsk PLC and its Material Subsidiaries, as defined under the ICBC Facility Agreement, to grant security over the assets or make disposals of the assets. Save for certain exceptions, the ability of Petropavlovsk PLC to enter into merger transactions is restricted. The Company may not enter into any merger transaction, unless relevant consents have been obtained.

On 14 December 2011, the Group made the first drawdown amounting to US$6,958,000 and the loan is carried at amortised cost with effective interest rate at 5.63% per annum.

As at 31 December 2011, US$6,000,000 was deposited with ICBC under a security deposit agreement related to the ICBC Facility Agreement and is presented as restricted deposit under non-current assets.

As at 31 December 2011, the Group had approximately US$333,042,000 (2010: US$340,000,000) undrawn finance facility in relation to the ICBC Facility Agreement.

33. Provision for Close Down and Restoration Costs

The Group

	2011 US$'000	2010 US$'000
At the beginning of year	**3,607**	2,990
Unwinding of discount	**291**	549
Exchange adjustments	**(232)**	(24)
Change in estimates	**426**	92
At the end of year	**4,092**	3,607

The long-term provision recognised relates to mine closure, site and environmental restoration costs for Kuranakh (the titanomagnetite and ilmenite mine located in the Amur region of Russia), based on estimates provided by external consultants in 2007, which form part of the Technical Economic Model for Kuranakh. The expected timing of the cash outflows in respect of the provision is on the closure of mining operations expected to be after 2020. The provision was recognised on a consistent basis with prior years.

34. Share Capital

(a) Share capital of the Company

The Company was incorporated on 4 June 2010 in Hong Kong, as a wholly owned subsidiary of Cayiron Limited, which is a wholly owned subsidiary of Petropavlovsk PLC. One share was allotted and issued as fully paid to Cayiron Limited as the initial subscriber, pursuant to the written resolutions passed by the shareholders of the Company on 14 June 2010, each of the then issued and un-issued shares with a nominal value of HK$1.00 each was subdivided into 100 shares with a nominal value of HK$0.01 each. Accordingly, the authorised share capital of the Company, comprising 1,000 shares with a nominal value of HK$1.00 each, was subdivided into 100,000 shares with a nominal value of HK$0.01.

On 14 June 2010, the Company acquired Thorholdco Limited ("Thorholdco") from Cayiron Limited in consideration for US$260,015,001, satisfied by the issue of 700 shares at a price of approximately US$371,450 per share.

On 25 June 2010, the Company acquired Thorrouble and Thordollar from Cayiron Limited in consideration for US$437,621,872 satisfied by the issue by the Company of a further 800 shares to Cayiron Limited at a price of approximately US$547,027 per share.

On 11 August 2010, 1,600 shares were issued to Cayiron Limited pursuant to, and in connection with, intra-group equity financing of the Group's mining operations for subscription price of HK$20,089,268.

On 19 August 2010 the Company resolved to allot and issue an additional 1,600 Shares to Cayiron Limited, pursuant to the arrangements under the employee benefit trust for consideration of HK$334,141,390.

On 26 August 2010, 360 shares were issued to the Pre-IPO Investors pursuant to the Pre-IPO Investment Agreement for cash in return for their combined equity investment of US$60 million in the share capital of the Company (the "Subscription Shares"). The subscription price ("Subscription Price") for the Subscription Shares represented a negotiated price and based on the agreed assessment of the value of the Group at the time of signing the Pre-IPO Investment Agreement.

On 12 October 2010, an aggregate of 2,321,994,840 shares were issued to the shareholders for no consideration pursuant to the capitalisation issue, with each shareholder receiving 449,999 new shares for every share then held.

On 21 October 2010, the Company issued 1,040,000,000 shares with a nominal value of HK$0.01 each at HK$1.80 per share upon listing of the shares on the Stock Exchange.

	The Company	
	Number	US$'000
Authorised		
Ordinary shares of HK$1.00 each at date of incorporation	1,000	—
Subdivision of shares	99,000	—
Increase in authorised share capital	9,999,900,000	12,820
Ordinary shares of HK$0.01 each at 31 December 2010 and 2011	10,000,000,000	12,820
Allotted, called up and fully paid		
At date of incorporation	1	—
Subdivision of shares	99	—
Issued during the period	1,040,005,060	1,340
Capitalisation of shares	2,321,994,840	2,990
At 31 December 2010 and 2011	3,362,000,000	4,330

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34. Share Capital (Continued)

(a) Share capital of the Company (Continued)

Details of the ordinary shares of the Company in issue at the date of incorporation, ordinary shares of the Company issued during the year ended 31 December 2010, and ordinary shares of the Company in issue at the end of 31 December 2010 and 2011 are given in the table below.

Date	Description	Price HK$	No. of shares
4 June 2010	Issue of share capital on incorporation	1.00	1
14 June 2010	Subdivision of shares. Authorised share capital: 1,000 ordinary shares divided into 100,000 ordinary shares of HK$0.01 each		99
14 June 2010	Issue of share capital	0.01	700
25 June 2010	Issue of share capital	0.01	800
11 August 2010	Issue of share capital	0.01	1,600
19 August 2010	Issue of share capital	0.01	1,600
26 August 2010	Issue of share capital	0.01	360
12 October 2010	Capitalisation issue of shares	0.01	2,321,994,840
21 October 2010	Issue of share capital by way of public offer (note)	0.01	1,040,000,000
31 December 2010 and 31 December 2011	Number of ordinary shares on issue at the end of the reporting period	0.01	3,362,000,000

Note: The Company listed its shares on the Stock Exchange with effect from 21 October 2010 and issued new shares to the public through the initial public offering.

(b) Restructure and combination accounting

As set out above, the Company was incorporated on 4 June 2010 and since that time has undertaken a number of transactions in order to put in place the structure for the listing of the Group on the Stock Exchange (collectively referred as the "Restructuring").

These transactions, and the impact on the consolidated financial statements are set out below:

1. Thorholdco was incorporated in the Cayman Islands on 18 May 2010 as a wholly owned subsidiary of Petropavlovsk PLC.

2. Thorrouble and Thordollar were incorporated in the Cayman Islands on 18 May 2010, as wholly owned subsidiaries of Petropavlovsk PLC.

3. The Company was incorporated on 4 June 2010, as set out above.

4. On 14 June 2010, Petropavlovsk PLC capitalised Thorholdco by contributing to it a promissory note of US$260,000,000 in exchange for the issue by Thorholdco to Petropavlovsk PLC of 15 further shares. The entire share capital of Thorholdco was then transferred to Cayiron Limited in exchange for the issue and allotment by Cayiron Limited of further shares to Petropavlovsk PLC.

5. On 14 June 2010, the Company acquired Thorholdco from Cayiron Limited in consideration for US$260,015,001, satisfied by the issue of 700 shares at a price of approximately US$371,450 per share, resulting in share premium of US$260,015,000.

6. On 25 June 2010, Petropavlovsk PLC subscribed for 100,000 ordinary shares in Thorrouble in consideration for the issue of promissory notes of RUR6,607,448,778 (equivalent of approximately US$213,041,112).

34. Share Capital (Continued)

(b) Restructure and combination accounting (Continued)

7. On 25 June 2010, Petropavlovsk PLC subscribed for 3,000 ordinary shares in Thordollar in consideration for the issue of promissory notes of US$224,559,090.

8. Following the completion of these transactions, Thorrouble and Thordollar were acquired by the Company on 25 June 2010 in exchange for the issue of 800 shares to the value of US$437,621,872, which was the book value of the two companies transferred, resulting in share premium of US$437,621,857. On the same day, the Company transferred the entire issued share capital of Thorrouble and Thordollar to Thorholdco in exchange for the issue and allotment by Thorholdco to the Company of additional shares.

9. On 25 June 2010, Thorrouble entered into a deed of assignment with Peter Hambro Mining Rouble Treasury Limited ("PHM Rouble Treasury"), under which Thorrouble assigned the promissory note in point 6 above to PHM Rouble Treasury in consideration for the assignment to Thorrouble of the Rouble denominated receivables between PHM Rouble Treasury and the Aricom Group.

10. On 25 June 2010, Thordollar entered into a deed of assignment with Aricom Treasury UK Limited and Aricom Roubles Treasury Limited, under which Thordollar assigned the promissory notes in point 7 above to Aricom Treasury UK Limited and Aricom Roubles Treasury Limited, respectively, in consideration for the assignment to Thordollar of the US Dollar denominated receivables between Aricom Treasury UK Limited and Aricom Roubles Treasury Limited and the Aricom Group.

11. Following the completion of these transactions, the Company held investments in Thorholdco, which in turn held investments in Thorrouble and Thordollar. The Group had amounts outstanding from Petropavlovsk PLC of US$260,000,000 which were settled by the transfer of Aricom to Thorholdco, on 5 August 2010. Thorrouble and Thordollar held the Rouble and US Dollar denominated receivables from the Aricom Group.

On 10 June 2010, Aricom disposed of its interest in Aricom Finance UK Limited and Aricom Treasury UK Limited and its subsidiaries to Petropavlovsk PLC and the consideration receivable remained outstanding against Petropavlovsk PLC's undertaking to pay to Aricom ("Consideration"). These companies have been deconsolidated from this point in time, with the excess of the net assets of the companies disposed over the consideration received of US$168,509,000 recognised in equity as deemed distribution. The deconsolidation would have resulted in a significant increase in the loans payable to related parties. Accordingly, Petropavlovsk PLC has transferred these receivables from Aricom Group to Thordollar and Thorrouble as set out above. As described in note 34(c), these receivables were transferred to Thordollar and Thorrouble for consideration less that the contractual amounts payable. The difference of US$205,412,000 has been recognised as a transfer of equity by the owner.

This Consideration, combined with further advances provided to Aricom to fund its continued operations, increased the total amount owing by Petropavlovsk PLC to Aricom to approximately US$621,977,000. On 22 June 2010, Aricom declared a dividend of US$644,437,000 of which US$22,460,000 was paid in cash, with the remaining amount offset against the total loan receivable amount outstanding from Petropavlovsk PLC.

Accordingly, at 31 December 2010 the Group does not have any loans receivable from the Petropavlovsk PLC Group.

Acquisition of Aricom by the Company

Following receipt of the necessary Russian regulatory approvals on 23 July 2010, Thorholdco Limited acquired from Petropavlovsk PLC the entire issued share capital of Aricom, which is the indirect holding company of the Group's mineral and ilmenite assets. Accordingly, the US$260,000,000 promissory note due from Petropavlovsk PLC recorded by the Group as detailed in point 11 above, which is set up as a form of the group re-organisation detailed above, was set off by the amount paid by Thorholdco to acquire Aricom of US$260,000,000 on 5 August 2010 and has been recognised in accumulated losses for the year ended 31 December 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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34. Share Capital (Continued)

(c) Share capital of Aricom

	Aricom	
	Number '000	US$'000
Authorised		
Ordinary shares	20,000,000	—
Allotted, called up and fully paid		
At 1 January 2010	11,828,638	2,265
Exercise of warrant	1,330,000	192
At 5 August 2010	13,158,638	2,457

Details of the ordinary shares of Aricom in issue are given in the table below.

Date	Description	Price GBP	No. of shares
1 January 2010	Number of ordinary shares on issue at the end of year		11,828,637,632
26 May 2010	Exercise of warrants granted to Petropavlovsk PLC	0.08	1,330,000,000
5 August 2010	Number of ordinary shares on issue at the date of acquisition by Thorholdco		13,158,637,632

Warrants in issue

On 26 May 2010 Petropavlovsk PLC exercised all warrants in Aricom. As a result Aricom issued 1,330,000,000 ordinary shares of GBP0.0001 for consideration of GBP0.08 per share which amounted to US$154.37 million, and was settled via a promissory note issued by Petropavlovsk PLC. This promissory note has since been settled by the dividend declared by Aricom (see note 16 for details).

Transfer to an equity holder

Prior to the acquisition of Aricom by Petropavlovsk PLC in April 2009, two of Aricom's subsidiaries, Aricom Treasury UK Limited and Aricom Roubles Treasury Limited provided inter-company funding to other Aricom companies. Following the acquisition of Aricom by Petropavlovsk PLC in April 2009, the Group's inter-company receivables balances held by Aricom Treasury UK limited and Aricom Roubles Treasury Limited were transferred to Peter Hambro Mining Treasury UK Limited, a subsidiary of Petropavlovsk PLC, and subsequent funding to Aricom was provided by Peter Hambro Mining Treasury UK Limited. In exchange for the receivables transferred of US$211.9 million, Aricom received a promissory note with fair value of US$165.3 million from Peter Hambro Mining Treasury UK limited. The difference of US$46.6 million had been treated as an equity transfer from the Aricom Group to Petropavlovsk PLC in April 2009. During the year ended 31 December 2010 all amounts owing to Petropavlovsk PLC by the Aricom Group (including the amounts above) were transferred from Peter Hambro Mining Treasury UK Limited to the Company's subsidiaries, Thorrouble Limited and Thordollar Limited, for consideration of US$437.9 million. The difference between this amount paid, and the carrying amount of the loans of US$643.3 million has been treated as a contribution to the Aricom Group by Petropavlovsk PLC of US$205.4 million.

The amount of share capital of US$2,265,000 shown on consolidated statement of financial position as at 1 January 2010 represented the issued capital of Aricom, which became a subsidiary of the Company during the year ended 31 December 2010.

35. Treasury Shares

The Group

	2011 US$'000	2010 US$'000
Balance at the beginning of the year	**43,000**	—
Acquired in the year	**—**	43,000
Balance at the end of the year	**43,000**	43,000

Treasury shares represented ordinary shares held by the Company's EBT to provide benefits to employees under the Long-term Incentive Plan (the "LTIP"). During the year ended 31 December 2010, approximately 116,100,000 shares were acquired and held under the EBT and no additional shares were acquired afterwards up to the end of 31 December 2011.

36. Accumulated Losses

The Company

	US$'000
As at 4 June 2010, date of incorporation	—
Loss for the period	16,294
As at 31 December 2010	16,294
Loss for the year	13,759
As at 31 December 2011	30,053

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37. Notes to the Cash Flow Statements

(a) Reconciliation of profit (loss) before taxation to cash used in operations

	2011 US$'000	2010 US$'000
Profit (loss) before taxation	**3,260**	(78,353)
Adjustments for:		
Depreciation of property, plant and equipment	**11,286**	4,925
Financial income	**(716)**	(10,929)
Financial expenses	**555**	11,813
Loss on disposal of property, plant and equipment	**115**	920
Impairment charges	**—**	35,972
Share-based payments and LTIP expense (defined in note 38)	**6,823**	1,334
Share of results of an associate	**(87)**	—
Share of results of joint ventures	**515**	135
Net foreign exchange gain	**(700)**	(2,074)
Net change in fair value of financial instruments at FVTPL	**—**	(1,711)
Reversal of allowance for doubtful debts	**(190)**	(42)
Derecognition of financial liability	**(7,500)**	—
Other non-cash adjustments	**(4,389)**	8,206
Operating cash flows before movements in working capital	**8,972**	(29,804)
Increase in inventories	**(7,770)**	(15,009)
Increase in trade and other receivables	**(28,876)**	(13,348)
Increase in trade and other payables	**2,896**	9,050
Cash used in operations	**(24,778)**	(49,111)

(b) Major non-cash transactions

Following the acquisition of Aricom by Petropavlovsk PLC in 2009, the inter-company receivable balances within Aricom Treasury UK Limited and Aricom Roubles Treasury Limited were transferred to Peter Hambro Mining Treasury UK limited, a subsidiary of Petropavlovsk PLC, and subsequent funding to Aricom had been provided by this entity. In exchange for the receivables transferred of US$211.9 million Aricom received a promissory note of US$165.3 million from Peter Hambro Mining Treasury UK Limited. The difference of US$46.6 million was treated as an equity transfer from the Aricom Group to Petropavlovsk PLC in 2009 (see note 34(c) for further details).

On 25 June 2010, Thorrouble entered into a deed of assignment with PHM Rouble Treasury, under which Thorrouble assigned the promissory note receivable from the Petropavlovsk Group to PHM Rouble Treasury in consideration for the assignment to Thorrouble of the Rouble denominated receivables between PHM Rouble Treasury and the Aricom Group.

On 25 June 2010, Thordollar entered into a deed of assignment with Aricom Treasury UK Limited and Aricom Roubles Treasury UK Limited, under which Thordollar assigned the promissory note receivable from the Petropavlovsk Group to Aricom Treasury UK Limited and Aricom Roubles Treasury Limited in consideration for the assignment to Thordollar of the US Dollar denominated receivables between Aricom Treasury UK Limited and Aricom Roubles Treasury UK Limited and the Aricom Group.

During the year ended 31 December 2010, US$6.9 million of administrative expenses and US$3.1 million of UK tax expenses were borne by the ultimate holding company and recorded in capital reserve as a deemed capital contribution. These expenses are included in note 37(a) and treated as other non-cash adjustments.

On 22 June 2010, Aricom declared a dividend of US$644,437,000 of which US$22,460,000 was paid in cash, with the remaining amount offset against the total loan receivable amount outstanding from Petropavlovsk PLC (see note 16).

37. Notes to the Cash Flow Statements (Continued)

(b) Major non-cash transactions (Continued)

During the year ended 31 December 2010, Aricom disposed of a number of its subsidiaries to the Petropavlovsk PLC Group. Consideration was settled via the issue of a promissory note (see note 34(b)).

During the year ended 31 December 2010, a restructuring was undertaken in order to put the proposed listing structure in place. These transactions did not involve cash consideration as they were settled via promissory notes (see note 34(b)).

In relation to the bank facilities (see note 32), the Group is required to pay insurance premium of US$22.5 million as part of the ICBC Facility Agreement, which is outstanding as at 31 December 2010. Such insurance premium was paid as of 31 December 2011.

During the year ended 31 December 2011, the Group has reversed the accrued costs of approximately US$3,198,000 in relation to the listing of the Company on the Stock Exchange that relate to existing shares listed.

38. Share-Based Payments

(a) Petropavlovsk PLC Share Option Scheme

Up until 22 April 2009, Aricom operated its own equity-settled share option scheme for the directors of Aricom. These options over ordinary shares were issued in accordance with the Aricom PLC Share Option Scheme ("Aricom Share Option Scheme"). Options granted under the Aricom Share Option Scheme were not subject to performance criteria. Options were normally forfeited if the employee left the Aricom Group.

As part of the acquisition of Aricom on 22 April 2009 by Petropavlovsk PLC, the outstanding options granted under the Aricom Share Option Scheme to its directors were exchanged for options over ordinary shares of Petropavlovsk PLC under the Petropavlovsk PLC Share Option Scheme, exercisable between 19 July 2009 and 19 July 2012. Following the acquisition, no further options were granted under the Aricom Share Option Scheme.

For the year ended 31 December 2011

Date of grant	Date exercisable	Exercise price GBP	Outstanding at 1 January 2011	Granted during the year	Forfeited during the year	Exercised during the year	Outstanding at 31 December 2011
22.4.2009	From 19 July 2009 to 19 July 2012	6.72	50,000	—	—	—	50,000

For the year ended 31 December 2010

Date of grant	Date exercisable	Exercise price GBP	Outstanding at 1 January 2010	Granted during the year	Forfeited during the year	Exercised during the year	Outstanding at 31 December 2010
22.4.2009	From 19 July 2009 to 19 July 2012	6.72	75,000	—	—	(25,000)	50,000

The weighted average exercise price of the outstanding Petropavlovsk PLC share options at 31 December 2010 was GBP6.72. The weighted average remaining contractual life of the options outstanding at 31 December 2011 and 31 December 2010 was 0.5 year and 1.5 years respectively (exercisable until 19 July 2012).

The Group recognised total expenses of nil for both years relating to the equity settled Petropavlovsk PLC Share Option Scheme.

38. Share-Based Payments (Continued)

(b) Aricom Group long-term incentive plan

In 2007, the Aricom Group established a cash-settled LTIP to operate in conjunction with an EBT which held shares in Aricom for the benefit of employees (the "participants").

On acquisition of Aricom by Petropavlovsk PLC, the Aricom LTIP was replaced with an equity-settled scheme with awards over Petropavlovsk PLC's shares ("Replacement LTIP"). As a result, 29,000,000 ordinary shares of Aricom plc held by the EBT were exchanged into 1,812,500 ordinary shares of Petropavlovsk PLC, out of which 430,768 shares were allocated to the existing participants of the Aricom LTIP. The Replacement LTIP award had a sole performance condition being continued employment with Petropavlovsk PLC until 6 February 2010 or a good leaver status.

During the year ended 2010, the 1,182,500 ordinary shares awarded have been fully vested and no additional ordinary shares were awarded in 2011.

For the year ended 31 December 2011, the Group recorded an expense of nil (2010: US$221,000) in respect of the Replacement LTIP.

(c) Petropavlovsk PLC Long-term Incentive Plan (the "Petropavlovsk PLC LTIP")

Petropavlovsk PLC established the Petropavlovsk PLC LTIP which was approved by its shareholders on 25 June 2009. Certain employees of the Group are entitled to participate in the Petropavlovsk PLC LTIP which includes the following awards:

- Share option awards, being a right to acquire a specified number of Petropavlovsk PLC ordinary shares at a specified exercise price;
- Performance share awards, being a right to acquire a specified number of Petropavlovsk PLC ordinary shares at nil cost; and
- Deferred Bonus Awards.

Performance share awards and share option awards vest or become exercisable subject to the following provisions:

- 50% of the shares subject to the awards may be acquired based on a condition relating to total shareholder return (the "TSR Condition"); and
- 50% of the shares subject to the awards may be acquired based on specific conditions relating to Petropavlovsk PLC's business development and strategic plans (the "Operating Conditions").

The TSR Condition relates to growth in TSR over a three year period relative to the TSR growth of companies in a peer group of listed international mining companies selected upon establishment of the Petropavlovsk PLC LTIP (the "Comparator Group") over the same period.

The TSR Condition provides for the awards to vest or become exercisable as follows:

	% of the award vesting
Within top decile	50%
At median	25%
Below median	—

The detailed requirements to the Operating Conditions are determined by the Petropavlovsk PLC Remuneration Committee and are measured over a three year period from the date of grant.

38. Share-Based Payments (Continued)

(c) Petropavlovsk PLC Long-term Incentive Plan (the "Petropavlovsk PLC LTIP") (Continued)

Initial performance share awards under the Petropavlovsk LTIP were granted on 25 June 2009 with 41,666 shares allocated to members of the senior management of the Aricom Group, for which Petropavlovsk PLC is assuming the obligation to issue the remaining shares upon vesting of the LTIP.

The fair value of performance share awards was determined using the Black-Scholes option pricing model at the date of the grant in relation to the proportion of the awards vesting based on the operating performance conditions and using the Monte Carlo model in relation to the proportion of the awards vesting based on the TSR Condition. The relevant assumptions are set out below:

	Petropavlovsk PLC LTIP performance share awards	
	vesting based on Operating Conditions	vesting based on TSR Condition
Number of performance share awards granted	20,833	20,833
Share price at the date of grant (GBP)	6.00	6.00
Exercise price (GBP)	—	—
Expected volatility (%)	72.98	72.98
Expected life in years	3	3
Risk-free rate (%)	2.13	2.13
Expected dividends yield (%)	1.25	1.25
Expected annual forfeitures	—	—
Fair value per award (GBP)	4.083	5.778

The Group recognised total expenses of US$272,000 relating to the Petropavlovsk PLC LTIP, based on an allocation of the total performance share awards granted for the year ended 31 December 2011 (2010: US$339,000).

(d) The Company's Long-term Incentive Plan (the "Company's LTIP")

Under the Company's LTIP, which was established on 11 August 2010, selected employees and directors of the Group (the "Selected Grantees") are to be awarded shares of the Company. These shares have been purchased by the Group's trustee. Upon the management's recommendation, the Board will determine the number of shares awarded to the Selected Grantees, with vesting dates for various tranches. Any shares under the Company's LTIP awarded to a Selected Grantee who is also a director of the Company shall be subject to the Board's approval following a recommendation from the Remuneration Committee.

The scheme has a 3-year vesting period and is subject to the following vesting conditions as:

Vesting conditions for those shares granted in 2010

— 25% of the award vesting is relating to the achievement of certain production targets;

— 25% of the award vesting is relating to profitability;

— 25% of the award vesting is relating to the growth and development of the Group; and

— 25% of the award vesting is relating to the meeting of certain health, safety and environmental requirements.

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38. Share-Based Payments (Continued)

(d) The Company's Long-term Incentive Plan (the "Company's LTIP") (continued)

Vesting conditions for those shares granted in 2011

— 20% of the award vesting is relating to the achievement of certain production targets;

— 20% of the award vesting is relating to profitability;

— 20% of the award vesting is relating to the growth and development of the Group;

— 20% of the award vesting is relating to the meeting of certain health, safety and environmental requirements; and

— 20% of the award vesting is relating to the share price performance of the Company.

On 3 November 2010, 91,135,500 shares of the Company were awarded to Selected Grantees under the Company's LTIP. The fair value of the services rendered as consideration of the awarded shares was measured by reference to the fair value of the awarded shares at the award dates of US$19.2 million (determined based on the closing share price of the Company as of 3 November 2010 of HK$1.64 per share) which is recognised to the consolidated income statement over the vesting period. No shares being awarded during the year was vested or forfeited and the outstanding number of shares under the Company's LTIP were 91,135,500 as at 31 December 2010.

On 1 August 2011, another 2,332,000 shares of the Company were awarded to Selected Grantees under the Company's LTIP. The fair value of the services rendered as consideration of the awarded shares was measured by reference to the fair value of the awarded shares at the award dates of approximately US$536,000 (determined based on the closing share price of the Company as of 1 August 2011 of HK$1.79 per share) which is recognised to the consolidated income statement over the vesting period. No shares being awarded was vested or forfeited and the outstanding number of shares under the Company's LTIP were 93,467,500.

The amount expensed during the year was US$6,551,000 (2010: US$1,029,000).

39. Retirement Benefit Schemes

The Group does not operate any retirement benefit schemes, instead making defined contributions to employees' personal pension schemes.

The Group participated in various defined contribution pension plans for all of its employees in the UK. Under the rules of the schemes, only Aricom participated in the scheme at the rate defined by Aricom for all its employees. The only obligation of Aricom with respect to the employees' personal pension scheme was to make required contributions based on the gross wages of the employees. There are no retirement benefit scheme contributions charged to the consolidated income statement for the year and 31 December 2011 (2010: US$58,000) as Aricom has become an investment holding company with no staff employed since 2011.

Each employee of Aricom chose their own pension plan. There were approximately eight different pension plans where the Group made contributions. One of these plans was an offshore saving account; all the others were UK pension plan providers.

Aricom contributed in the range between 10% and 17% of the gross wages to the individual pension plans.

In addition, the Group operates a Mandatory Provident Fund Scheme ("MPF") for all qualifying employees in Hong Kong. The assets of the plans are held separately from those of the Group in funds under the control of trustees. The contributions charged to the consolidated income statement for the year ended 31 December 2011 amounted to US$72,000 (2010: US$34,000).

40. Financial Instruments

Capital and liquidity risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to optimise the weighted average cost of capital and tax efficiency subject to maintaining sufficient financial flexibility to undertake its investment plans.

The capital structure of the Group consists of cash and cash equivalents, bank borrowings and equity attributable to owners of the Company, comprising issued capital and reserves.

Externally imposed capital requirement

The Group is not subject to externally imposed capital requirements except for the restriction disclosed in note 32 in relation to the bank credit facilities.

Significant accounting policies

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 4 to the consolidated financial statements.

Categories of financial instruments

The Group

	Carrying value as at 31 December 2011 US$'000	Carrying value as at 31 December 2010 US$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**46,040**	232,333
Financial liabilities		
Amortised cost	**(34,601)**	(38,858)

The Company

	Carrying value as at 31 December 2011 US$'000	Carrying value as at 31 December 2010 US$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**7,205**	146,804
Financial liabilities		
Amortised cost	**(2,141)**	(1,657)

40. Financial Instruments (Continued)

Financial risk management objectives

The Group's activities expose it to interest rate risk, foreign currency risk, risk of change in iron ore concentrate price and ilmenite concentrate price, credit risk, liquidity risk and equity price risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by a central finance department and all key risk management decisions are approved by the Board of Directors. The Group identifies and evaluates financial risks in close cooperation with the Group's operating units. Up until the date it was acquired by Petropavlovsk PLC, Aricom operated within the Aricom's Board's written principles for overall risk management which are equally applicable for the Group, as well as guidance covering specific areas, such as foreign exchange risk, commodity price risk, interest rate risk and investment of excess liquidity.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, principally Pounds Sterling, US Dollars and Russian Roubles and is therefore exposed to exchange rate risk associated with fluctuations in the relative values of US Dollars, GB Pounds and Russian Roubles.

Exchange rate risks are mitigated to the extent considered necessary by the Board of Directors, through holding the relevant currencies. At present, the Group does not undertake any foreign currency transaction hedging.

The carrying amounts of the foreign currency denominated monetary assets and monetary liabilities of the Group and the Company at the end of the reporting period are as follows:

The Group

	Assets		Liabilities	
	2011	2010	**2011**	2010
	US$'000	US$'000	**US$'000**	US$'000
Russian Roubles	**25,521**	86,658	**15,446**	39,193
US Dollars	**3,414**	2,652	**15**	9
Renminbi	**1,935**	—	**1,143**	—
GB Pounds	**39**	13	**131**	296
Kazakh Tenge	**625**	539	**—**	—
Euro	**492**	7	**—**	—
Hong Kong Dollars	**333**	325	**135**	61

The Company

	Assets		Liabilities	
	2011	2010	**2011**	2010
	US$'000	US$'000	**US$'000**	US$'000
Hong Kong Dollars	**123**	276	**106**	56
GB Pounds	**47**	—	**130**	333
Euro	**—**	11	**—**	—

40. Financial Instruments (Continued)

Foreign currency sensitivity analysis

The Group is mainly exposed to exchange rate movements between US Dollars and Russian Roubles. The following table details sensitivity of the Group to a 25% change in exchange rates of functional currency (i.e. US Dollars) of the group companies against the relevant foreign currency (i.e. Russian Roubles) for the year (2010: 25%). The percentage change analysed represents management's assessment of a reasonably possible change in foreign currency rates.

A negative number below indicates a decrease in post-tax profit (loss) where the functional currencies of the group companies strengthen 25% (2010: 25%) against the relevant foreign currency. For a 25% (2010: 25%) weakening of functional currency the group companies against the relevant foreign currency, there would be an equal and opposite impact on the profit or loss.

The Group

	Russian Roubles currency impact	
	2011	2010
	US$'000	US$'000
Profit or loss	**(2,015)**	(9,493)

The Group's policy is to hold a portion of its cash equivalents in Russian Roubles to cover its exposure arising on capital and operational expenditure incurred in Russian Roubles.

Commodity price risk

The Group intends to generate most of its revenue from the sale of titanomagnetite concentrate, magnetite concentrate and ilmenite concentrate. The Group's policy is to sell its products at the prevailing market price. The Group does not hedge its exposure to the risk of fluctuations in the price of its products. The forward commodity prices are a key input in assessing the recoverability of mining assets capitalised on the consolidated statement of financial position.

The Company does not expose to commodity price risk since the Company's principal activity is investment holding.

Interest rate risk management

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and cash flow interest rate risk in relation to variable-rate bank borrowings (see note 32 for details of these borrowings). The Group aims at keeping borrowings at variable rates.

It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of LIBOR arising from the Group's US dollar denominated borrowings.

The Group did not enter into any interest rate swaps to hedge against its exposure to changes in fair values of the borrowings.

The Group and the Company are exposed to interest rate risk through the holding of cash and cash equivalents, including monies invested into money market funds, and bank borrowings. The interest rates attached to these instruments are at floating rates. The Group and the Company also hold amounts on deposit with fixed rates of interest attached. The mix between fixed and floating rate financial assets limits the Group's interest rate risk. The exposures to interest rates on these financial assets and financial liabilities of the Group and the Company are detailed below.

40. Financial Instruments (Continued)

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for the balances of interest bearing financial asset investments held during the year. An increase/decrease of 1% in interest rates has been applied which represents management's assessment of the reasonably possible change in interest rates.

The Group
If interest rates had been 1% higher/lower and all other variables were held constant, the Group's result for the year would decrease/increase by approximately US$1,172,000 (2010: decrease/increase by US$1,151,000).

The Company
If interest rates had been 1% higher/lower and all other variables were held constant, the Company's result for the year would decrease/increase by US$351,000 (2010: US$1,485,000).

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group and the Company. The Group and the Company have adopted a policy of only dealing with creditworthy counterparties. The Group's and the Company's exposure and the credit ratings of the counterparties are monitored by the Board of Directors of the Company, and limits have been established to ensure that the aggregate value of transactions is spread amongst approved counterparties.

The principal financial assets of the Group and the Company are cash and cash equivalents, restricted bank deposits and trade receivables. Cash equivalents represent amounts held on deposit with financial institutions.

The credit risk on liquid funds held in current accounts and restricted bank deposit is limited because the counterparties are primarily banks with high credit-ratings assigned by international credit-rating agencies.

For operational reasons the Group holds amounts on deposit with banks located in Russia, one of which is a related party, as detailed in note 43. Amounts held on deposit as at 31 December 2011 and 2010 with these banks were US$3,090,000 and US$21,138,000, representing 3% and 8% of total monetary assets held by the Group respectively.

The table below details major counterparties at the end of reporting period, the associated credit ratings of the counterparty and details of the investment guidelines where appropriate. These, excluding related parties, represent 19% of total monetary assets held by the Group at 31 December 2011 (2010: 73%). The table below excludes any cash balances held on current accounts, as it is considered that these would not materially impact counterparty risk assessment.

40. Financial Instruments (Continued)

Credit risk management (Continued)

Type of financial asset	Counterparty	Currency	Rating as at 31 December 2011	Carrying value 31 December 2011 US$'000	Carrying value 31 December 2010 US$'000
Cash equivalent	UBS	US$	AAA–	—	42,655
Cash equivalent	OJSC VTB Bank	US$	Baa1	2,597	2,500
Cash equivalent	OJSC VTB Bank	Russian Roubles	Baa1	3,619	1,641
Cash equivalent	Royal Bank of Scotland ("RBS") Asset Management — Global Treasury Fund USD[(1)]	US$	A–	10,885	143,850
Cash equivalent	Barclays Bank LLC — deposit accounts	Russian Roubles	Ba1	—	4,378
Cash equivalent	Asian Pacific Bank — deposits accounts	Russian Roubles	B–	7,879	12,619
Total				24,980	207,643

(1) The minimum investment criteria for these funds require that investments have a minimum rating of A-1 (Standard & Poor's ("S&P")) or Prime-1 (Moody's). A minimum of 50% of the portfolio is invested in securities rated A-1+ by S&P. The investment managers are permitted to invest in fixed rate securities with maturities up to 397 days, and floating rate notes with maturities up to two years. However, the weighted average maturity of the fund must be kept below 60 days.

Trade receivables consist mostly of amounts outstanding from the sales of iron ores and under engineering contracts held by a subsidiary in Russia. A credit evaluation was performed on these customers prior to the commencement of these contracts. An analysis of balances past due at 31 December 2011 is included in note 26.

The Group's and the Company's maximum exposure to credit risk, without taking account of the value of any collateral obtained, is limited to the carrying amount of financial assets recorded in the consolidated statements of financial position and company statement of financial position respectively.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with management. At 31 December 2011, the Group's and the Company's principal financial liabilities were trade and other payables and bank borrowings. The management of the Company monitors the level of liquid assets available to the Group and the level of funding required to meet its short, medium and long-term requirements. The following table details the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

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40. Financial Instruments (Continued)

Liquidity risk management (Continued)

The Group

	Due on demand or within one year US$'000	Due within one to two years US$'000	Due within two to five years US$'000	Due after more than five years US$'000	Total undiscounted cash flows US$'000	Carrying amount at 31 December 2011 US$'000
As at 31 December 2011						
Trade and other payables	**13,258**	**—**	**—**	**—**	**13,258**	**13,258**
Bank borrowings	**16,500**	**250**	**6,598**	**—**	**23,348**	**21,343**
	29,758	**250**	**6,598**	**—**	**36,606**	**34,601**
As at 31 December 2010						
Trade and other payables	38,858	—	—	—	38,858	38,858

The Company

	Due on demand or within one year US$'000	Due within one to two years US$'000	Due within two to five years US$'000	Due after more than five years US$'000	Total undiscounted cash flows US$'000	Carrying amount at 31 December 2011 US$'000
As at 31 December 2011						
Other payables	**1,359**	**—**	**—**	**—**	**1,359**	**1,359**
Amount due to subsidiaries	**756**	**—**	**—**	**—**	**756**	**756**
Amount due to ultimate holding company	**26**	**—**	**—**	**—**	**26**	**26**
	2,141	**—**	**—**	**—**	**2,141**	**2,141**
As at 31 December 2010						
Other payables	1,411	—	—	—	1,411	1,411
Amount due to ultimate holding company	246	—	—	—	246	246
	1,657	—	—	—	1,657	1,657

41. Acquisition of a Subsidiary

In accordance with the terms of the joint venture agreement between the Company and a PRC partner signed and approved by the Chinese Ministry of Commerce on 12 August 2008 for establishment of a jointly control Chinese titanium sponge processing joint venture project, Heilongjiang Jiatai Titanium Co. Limited was established in the PRC with 65% interest held by the Group and the remaining 35% held by a joint venture partner.

As discussed in note 11, the Company was advised in 2010 that the joint venture partner had decided to withdraw from some of its non-core ventures and consequently no longer wished to proceed with the Jiatai Titanium project. With a view to proceed with the project alone or with a different joint venture partner, the Group entered into an agreement with the joint venture partner on 25 August 2010 pursuant to which, and subject to certain conditions, the Group would bid, in the public listing and bidding process to be implemented in accordance with PRC laws, for the joint venture partner's stake in the Jiatai Titanium project.

On 11 April 2011, the Group successfully acquired the remaining 35% equity stake from the joint venture partner for US$11.5 million pursuant to which Heilongjiang Jiatai Titanium Co. Limited becomes a wholly-owned subsidiary of the Group. Pursuant to the equity transfer agreement, upon completion of the acquisition by the Group, the joint venture partner waived and released Jiatai Titanium project from its obligations to pay to the joint venture partner's subsidiary an amount of US$3.5 million relating to engineering design, management contracting and other services that the joint venture partner's subsidiary has previously made to the Jiatai Titanium project.

Consideration transferred

	US$'000
Cash paid	11,535
Adjustment on part relating to waiver of debt of Jiatai Titanium project by the joint venture partner	(3,512)
	8,023

Acquisition-related costs were insignificant and recognised as an expense within the administrative expenses in the consolidated income statement.

The provisional fair value of assets acquired and liabilities assumed at the date of acquisition

	US$'000
Current assets	
Cash and cash equivalents	9,350
Other receivables	76
Non-current assets	
Property, plant and equipment	658
Current liabilities	
Other payables	(4,479)
	5,605

The initial accounting for the acquisition has only been provisionally determined at the end of the reporting period. At the date of issue of these consolidated financial statements, the necessary market valuation of the property, plant and equipment held by the Jiatai Titanium project, purchase price allocation of other net identifiable assets and liabilities and fair value of the previously held equity interest had not been finalised and they have therefore only been provisionally determined based on the directors' best estimate of the likely fair value. The directors expects that any additional identification, and the market valuation, of the assets acquired and the liabilities assumed at the date of acquisition would be completed before April 2012 and the Company will then adjust these provisional amounts retrospectively.

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41. Acquisition of a Subsidiary (continued)

The provisional fair value of other receivables acquired approximated the gross contractual amounts. There are no contractual cash flows not expected to be collected.

Provisional goodwill arising on acquisition

	US$'000
Consideration transferred	8,023
Plus: Provisional fair value of the previously held equity interest (65%)	3,643
Less: Recognised amount of provisional fair value of identifiable net assets acquired	(5,605)
	6,061

Goodwill arose in the acquisition of Jiatai Titanium project because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies of Jiatai Titanium project. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Net cash outflow arising on acquisition

	US$'000
Consideration paid in cash	11,535
Less: Cash and cash equivalent balances acquired	(9,350)
	2,185

Impact of acquisition of the remaining 35% equity stake in Jiatai Titanium project on the results of the Group

(1) An aggregate provisional gain of US$1,310,000 was recognised as a result of remeasurement of the previously held equity interest (65%) and the reclassification of foreign translation gain of the project previously recognised in translation reserve (note 12).

(2) Included in the profit for the year is a post-acquisition loss of US$2,542,000 attributed to Jiatai Titanium project which has not yet started to generate revenue since the date of the acquisition.

(3) Had the acquisition of the remaining 35% equity stake in Jiatai Titanium project been effected at 1 January 2011, the revenue of the Group for the year ended 31 December 2011 would have remained at approximately US$122,208,000 and the profit for the year would have been US$904,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2011, nor is intended to be a projection of future results.

42. Disposal of Subsidiaries

On 10 June 2010, the Group disposed of its interest in Aricom Finance UK Limited and Aricom Treasury UK Limited and its subsidiaries to Petropavlovsk PLC. These entities were part of the intercompany financing structure of the Aricom Group and their principal assets were group company current accounts, and were not considered to be a discontinued operation of the Group.

Total consideration of US$468,732,000 has been received for the sale of these entities. The loss on sale of these entities of US$168,509,000 was recognised in equity as a transfer to the equity holder, as it was generated by the difference between the value of the intercompany receivables in the standalone accounting records of each entity, compared to the balance eliminated from the consolidated financial statements. When these loans were transferred to Thorrouble and Thordollar, as set out in note 34(c), the difference between the value of the consideration paid by these companies and the contractual amounts of the receivables of US$205,412,000 was recognised as an offsetting transfer of equity by the owner.

There were no cash-flows arising as a result of this transaction.

43. Related Party Disclosures

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its other related parties are disclosed below. All of the transactions were reviewed by independent members of the Board.

During the year, the Group entered into the following transactions with related parties:

Related parties

Petropavlovsk PLC, which is the Group's ultimate holding company, its subsidiaries are considered to be related parties. Mr. Peter Hambro and Dr. Pavel Maslovskiy, shareholders to Petropavlovsk PLC, are close family members of the directors of the Group, Mr. George Jay Hambro and Mr. Yury Makarov, respectively.

Asian Pacific Bank is considered to be a related party as Mr. Peter Hambro and Dr. Pavel Maslovskiy have interests and exercise significant influence over Asian Pacific Bank. As at 31 December 2011 and 2010, each of Mr. Peter Hambro and Dr. Pavel Maslovskiy indirectly held 16.82% and 16.56% of ownership interest in Asian Pacific Bank, respectively.

OJSC Apatit ("Apatit"), a subsidiary of JSC PhosAgro ("PhosAgro"), is considered to be a related party due to PhosAgro's non-controlling interest and significant influence in the Group's subsidiary, Giproruda.

Vanadium Joint Venture is a joint venture of the Group and hence is a related party.

Jiatai Titanium is a joint venture of the Group in 2010 and till 10 April 2011 (note 41) and hence is a related party. Please refer to note 11 for further information on the future of the Jiatai Titanium project.

Uralmining is an associate of the Group and hence is a related party.

Transactions with related parties the Group entered into during the year are set out below.

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43. Related Party Disclosures (continued)

Trading transactions

Related party transactions the Group entered into that related to the day-to-day operation of the business are set out below except for the interest income earned and interest expenses incurred, which have been disclosed in note 13 and note 14 respectively.

	Sales		Purchases	
	2011	2010	**2011**	2010
	US$'000	US$'000	**US$'000**	US$'000
Petropavlovsk PLC and its subsidiaries				
Petropavlovsk PLC	**97**	688	**722**	1,249
OJSC Irgiredmet	**—**	—	**563**	711
LLC NPGF Regis	**48**	33	**302**	417
LLC Obereg CHOP	**—**	—	**—**	401
CJSC Peter Hambro Mining Engineering	**2**	129	**3,663**	5,096
CJSC Pokrovsky Rudnik	**62**	3,971	**34**	21
CJSC Malomyrskiy Rudnik	**—**	7	**—**	—
Dalgeologia	**781**	146	**5,651**	5,565
Kapstroy	**155**	2,734	**1,202**	17,860
MC Petropavlovsk	**955**	838	**395**	438
PRP Stansii	**3**	—	**17**	37
CJSC YamalZoloto	**438**	—	**—**	—
OJSC ZDP Koboldo	**6**	—	**—**	—
LLC Karagay	**1**	—	**—**	—
Gidrometallurgia	**171**	152	**—**	—
Aricom Rouble Treasury UK Ltd.	**—**	17	**—**	—
Aricom Finance UK Ltd.	**—**	26	**—**	—
Aricom Treasury UK Ltd.	**—**	27	**—**	—
Trading transactions with other related parties				
Apatit	**1,732**	3,974	**—**	—
Asian Pacific Bank	**70**	70	**—**	—
Millennium Implementation Ltd	**—**	—	**667**	—

43. Related Party Disclosures (Continued)

Trading transactions (Continued)

The related party transactions as disclosed above were conducted in accordance with terms mutually agreed with counter parties.

The outstanding balances with related parties at the end of the reporting period are set out below.

	Amounts owed by related parties[(a)]		Amounts owed to related parties[(b)]	
	2011	2010	**2011**	2010
	US$'000	US$'000	**US$'000**	US$'000
Petropavlovsk PLC and its subsidiaries				
Petropavlovsk PLC	**160**	—	**26**	246
OJSC Irgiredmet	**97**	610	**—**	5
LLC NPGF Regis	**5**	4	**11**	205
LLC Obereg CHOP	**—**	—	**—**	42
CJSC Peter Hambro Mining Engineering	**553**	1,789	**367**	1,187
CJSC Pokrovsky Rudnik	**6**	228	**1**	1
CJSC Malomyrskiy Rudnik	**—**	9	**—**	800
Dalgeologia	**195**	95	**43**	625
Kapstroy	**1**	—	**—**	127
MC Petropavlovsk	**7**	34	**1,817**	—
CJSC YamalZoloto	**79**	—	**—**	—
LLC Karagay	**23**	—	**—**	—
Gidrometallurgia	**2**	2	**—**	—
Aricom Rouble Treasury UK Ltd.	**—**	17	**—**	—
Aricom Finance UK Ltd.	**—**	26	**—**	—
Outstanding balances with other related parties				
Apatit	**1,480**	925	**—**	—
Asian Pacific Bank	**4**	—	**—**	—
Millennium Implementation Ltd	**—**	—	**667**	—
	2,612	3,739	**2,932**	3,238

(a) The amounts are recorded in trade and other receivables, which are unsecured, non-interest bearing and repayable on demand.

(b) The amounts are recorded in trade and other payables, which are unsecured, non-interest bearing and repayable on demand.

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43. Related Party Disclosures (Continued)

Banking arrangements

Other than the related party transaction as disclosed in note 32, the Group has bank accounts with Asian Pacific Bank.

The bank balances at the end of the reporting period are set out below:

	2011 US$'000	2010 US$'000
Asian Pacific Bank	**7,888**	13,531

The Group earned interest on the balances held on accounts with the above bank details of which are set out below.

	2011 US$'000	2010 US$'000
Interest income from cash and cash equivalents	**9**	3

Key Management Compensation

During the year ended 31 December 2010, George Jay Hambro, Brian Egan and Yury Makarov, who were then employed by Petropavlovsk PLC, were also considered the key management personnel of the Group. Accordingly, a component of their Petropavlovsk PLC remuneration was allocated and charged to the Group to reflect the proportion of their roles that related to the Group's business during that year. During the year ended 31 December 2011, George Jay Hambro, Yury Makarov, Raymond Woo, Daniel Bradshaw, Jonathan Martin Smith, Chuang-fei Li, Pavel Maslovskiy and Simon Murray were considered the key management of the Group. The remuneration of key management personnel is set out below in aggregate.

	2011 US$'000	2010 US$'000
Short-term benefits	**2,438**	1,781
Post-employment benefits	**225**	118
Share-based payments	**4,125**	779
	6,788	2,678

The remuneration of key management personnel is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

Restructuring

During the year ended 31 December 2010 a number of transactions were undertaken between the Group and the Petropavlovsk PLC Group in order to put the Company's listing structure in place.

In summary these transactions included:

1. The incorporation of the Company, Thorholdco, Thorrouble and Thordollar;

2. The transfer of loans receivable from the Aricom Group to Thorrouble and Thordollar;

3. The disposal of Aricom Finance UK Limited and Aricom Treasury UK Limited and its subsidiaries to the Petropavlovsk Group; and

4. The payment of a dividend to Petropavlovsk PLC of US$644,437,000.

Further details of the transaction set out in points 1–3 above are set out in note 34(b). Details of the dividend are set out in note 16.

44. Particulars of Principal Subsidiaries

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ paid-in capital/ registered capital(d)	Equity interest attributable to the Group 2011(c)	2010(c)	Principal activities
Arfin Limited	Cyprus 22 August 2005	US$10,000	**100%**	100%	Provision of financing services for the Group
Brasenose Services Limited	Cyprus 20 January 2004	US$2,912	**100%**	100%	Investment holding
Dardanius Limited	Cyprus 16 October 2006	US$6,080	**100%**	100%	Investment holding
Esimanor Limited	Cyprus 15 March 2008	US$2,502	**100%**	100%	Investment holding
Expokom Limited	Cyprus 22 December 2005	US$158,808	**100%**	100%	Investment holding
Guiner Enterprises Limited	Cyprus 25 August 2007	US$271,080	**100%**	100%	Investment holding
Kapucius Services Limited	Cyprus 12 April 2006	US$32,500	**100%**	100%	Investment holding
Lapwing Limited	Cyprus 9 August 2006	EUR28,795	**99.58%**	99.58%	Investment holding
Lucilius Investments Limited	Cyprus 22 November 2008	US$22,740	**100%**	100%	Investment holding
Metellus Limited	Cyprus 21 August 2006	US$3,640	**100%**	100%	Investment holding
Rumier Holdings Limited	Cyprus 3 October 2007	US$270,945	**100%**	100%	Investment holding
Russian Titan Company Limited	Cyprus 10 November 2003	US$197	**100%**	100%	Investment holding
Tenaviva Limited	Cyprus 31 December 2007	US$4,650	**100%**	100%	Investment holding
Aricom Limited	United Kingdom 12 September 2003	GBP1,315,864	**100%**	100%	Investment holding
Aricom UK Limited	United Kingdom 1 March 2007	GBP241,481,039	**100%**	100%	Investment holding
Heilongjiang Jiatai Titanium Co. Limited	PRC 11 February 2009	RMB219,024,974	**100%**	65%	Development of Titanium Sponge
Ariti HK Limited	Hong Kong 11 February 2008	HK$1	**100%**	100%	Dormant
Ariva HK Limited	Hong Kong 11 March 2008	HK$1	**100%**	100%	Investment holding
Thorholdco Limited	Cayman Islands 18 May 2010	US$31	**100%**	100%	Investment holding
Thorrouble Limited	Cayman Islands 18 May 2010	RUR100,000	**100%**	100%	Provision of financing services for the Group
Thordollar Limited	Cayman Islands 18 May 2010	US$3,000	**100%**	100%	Provision of financing services for the Group

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

44. Particulars of Principal Subsidiaries (continued)

Name of company	Place and date of incorporation establishment	Issued and fully paid share capital/ paid-in capital/ registered capital[d]	Equity interest attributable to the Group 2011[c]	2010[c]	Principal activities
LLC Petropavlovsk — Iron Ore (formerly LLC Aricom)	Russia 25 August 2004	RUR10,000,000	**100%**	100%	Business services for the Group
LLC KS GOK	Russia 2 August 2004	RUR141,514,865	**100%**	100%	Exploration and mining — K&S
LLC Olekminsky Rudnik	Russia 28 March 2001	RUR1,378,664,935	**100%**	100%	Exploration and mining — Kuranakh project
LLC Rubicon	Russia 9 January 2007	RUR100,000	**100%**	100%	Development of bridge and other infrastructure projects for the Group
CJSC Soviet Harbour Maritime Trade Port ("CJSC SGMTP")[a]	Russia 30 August 2005	RUR1,000,000	**100%**	100%	Development of port for the Group
LLC TOK	Russia 3 April 2007	RUR10,000	**100%**	100%	Dormant
OJSC Giproruda[b]	Russia 8 December 1992	RUR4,639	**70.28%**	70.28%	Engineering services
LLC GMMC	Russia 26 June 2006	RUR780,000,000	**99.58%**	99.58%	Exploration and mining — Garinskoye
LLC Kostenginskiy GOK	Russia 16 February 2007	RUR10,000	**100%**	100%	Exploration and mining — Kostenginskoye project
LLC Orlovsko-Sokhatinsky Rudnik	Russia 3 April 2007	RUR10,000	**100%**	100%	Exploration and mining — Garinskoye Flanks
LLC Garinskaya Infrastructure	Russia 14 December 2007	RUR1,000,000	**100%**	100%	Transportation services for Garinskoye project
LLC Amursnab	Russia 28 December 2009	RUR10,000,000	**99.9%**	99.9%	Procurement services
LLC Karier Ushumunskiy	Russia 15 March 2007	RUR1,000,000	**100%**	100%	Coal production

(a) CJSC is a Closed Joint Stock Company in Russia. CJSC issued shares cannot be freely traded.

(b) OJSC is an Open Joint Stock Company in Russia. OJSC issued shares can be freely traded.

(c) As at 31 December 2011 and 2010, except for Thorholdco Limited, which was directly held by the Company, all of the interests in remaining subsidiaries are indirectly attributable to the Group.

(d) Apart from Heilongjiang Jiatai Titanium Co. Limited, a wholly-owned foreign enterprise established in the PRC with registered capital of RMB219,024,974, class of shares held by all other subsidiaries is ordinary shares.

45. Contingent Liabilities

The Group is involved in legal proceedings with Gatnom Capital & Finance Limited and O.M. Investments & Finance Limited, who are the non-controlling shareholders in Lapwing, the Group's 99.58% owned subsidiary incorporated in Cyprus. This subsidiary of IRC holds a 100% interest in LLC Garinsky Mining & Metallurgical Complex ("GMMC"). The claim was filed in September 2008 in Cyprus and the respondents are Lapwing and Aricom UK Limited. The claimants allege their holdings in Lapwing Limited were improperly diluted as the result of the issuance of additional shares following a shareholders' meeting held in September 2007. The claimants have asked the court to dissolve Lapwing or, alternatively, to order that their shares be purchased at a price allegedly previously agreed upon or to be determined by an expert appointed by the court. On 20 January 2010, the claimants withdrew their composite claim and re-filed individual claims in substantially similar form and no further proceeding was made afterwards. The maximum potential liability arising from the claim cannot currently be reliably estimated although the Directors believe that the claim is of a limited merit.

46. Event after the Reporting Period

The Group has no material event after the end of the reporting period.

FINANCIAL SUMMARY

	Results of the Group for the year ended 31 December				
	2007 US$'000	2008 US$'000	2009 US$'000	2010 US$'000	**2011** **US$'000**
Revenue	4,938	9,674	8,260	25,792	**122,208**
Profit (loss) attributable to shareholders	1,040	(427,377)	(139,291)	(82,358)	**1,001**
Earnings (loss) per share (US cents)					
— Basic	0.08	(24.36)	(7.66)	(3.62)	**0.03**
— Diluted	0.08	(24.36)	(7.66)	(3.62)	**0.03**

	Results and liabilities of the Group at 31 December				
	2007 US$'000	2008 US$'000	2009 US$'000	2010 US$'000	**2011** **US$'000**
Total assets	1,164,449	778,682	886,867	867,519	**862,582**
Less: Total liabilities	(22,053)	(20,816)	(287,527)	(62,901)	**(49,504)**
Total net assets	1,142,396	757,866	599,340	804,618	**813,078**

GLOSSARY

This glossary contains definitions of certain terms used in this report in connection with the Group and its business. Some of these may not correspond to standard industry definitions.

GLOSSARY

beneficiate or beneficiation	to improve the grade by removing associated impurities; preparation of ores for smelting by drying, flotation or magnetic separation
Board	the board of Directors
borehole	hole with a drill, auger, or other tool for exploring strata
Cayiron	Cayiron Limited, a wholly owned subsidiary of Petropavlovsk and the immediate controlling shareholder of the Company
CIM	the Canadian Institute of Mining, Metallurgy and Petroleum
CNEEC	China National Electric Engineering Company Limited, the principle EPC contractor at the K&S Project
Company Shareholders	shareholders of the Company
concentrate	the clean product recovered from a treatment plant
DAP	Delivery at Place, is a standard INCO commercial trading term established by the International Chamber of Commerce. DAP is when the seller's obligation ends when he has delivered the goods to the disposal of the buyer at the named destination place, cleared for export, but not cleared for import.
deposit	mineral deposit or ore deposit is used to designate a natural occurrence of a useful mineral, or an ore, in sufficient extent and degree of concentration
Directors	the directors of the Company
Direct Reduction or DR	an alternative route of iron making developed to overcome some of the difficulties of conventional blast furnaces
DRI	an abbreviation of "Direct Reduced Iron", being iron produced using the DR method
drill hole	hole in rock or other material made by a rotational and downward force, to recover a sample of the material
DSO	Direct shipping ores. Ores that are economic due to their high grades and therefore limited requirement for upgrading and processing before sale to end users
EPC	Engineering, Procurement and Construction
exploration	method by which ore deposits are evaluated
Fe	The chemical symbol for iron
feasibility study	an extensive technical and financial study to assess the commercial viability of a project
flotation	a mineral process used to separate mineral particles in a slurry, by causing them to selectively adhere to a froth and float to the surface
fold	bend, flexure, or wrinkle in rock produced when rock was in a plastic state
geophysical	prospecting techniques which measure the physical properties (magnetism, conductivity, density, etc.) of rocks and define anomalies for further testing
geotechnical	referring to the use of scientific methods and engineering principles to acquire, interpret, and apply knowledge of earth materials for solving engineering problems
grade	relative quantity or the percentage of ore mineral or metal content in an ore body
haematite	an iron mineral with the formula Fe_2O_3; found as an accessory in igneous rocks, in hydrothermal veins and replacements, and in sediments, generally high grade (>60% iron)
HK$	Hong Kong dollars, the lawful currency of Hong Kong
HKEx	Hong Kong Exchanges and Clearing Limited
Hong Kong	the Hong Kong Special Administrative Region of the PRC
ICBC	Industrial and Commercial Bank of China Limited, a company listed on the Stock Exchange (Stock code: 1398)
ilmenite	iron titanium oxide; a trigonal mineral, chemical formula $FeTiO_3$
JORC code	the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004 edition), as published by the Joint Ore Reserves Committee, as amended from time to time.
K&S	a magnetite development project in the Company's portfolio consisting of the Kimkan deposit and the Sutara deposit
LTIFR	Lost time injury frequency rate, the number of lost time injuries per million man hours worked
magnetite	isometric mineral, $8FeOFe_2O_3$; major mineral in banded iron formations, generally low grade (<30% iron)
manganese	grey-white, hard, brittle metallic element; chemical symbol Mn
massive	a. said of a mineral deposit characterised by a great concentration of ore in one place, as opposed to a disseminated or vein deposit. b. said of any rock that has a homogeneous texture or fabric over a wide area, with an absence of layering, foliation, cleavage, or any similar directional structure
metallogenic	study of the genesis of mineral deposits, with emphasis on its relationship in space and time to regional petrographic and tectonic features of the Earth's crust
metallurgical	describing the science concerned with the production, purification and properties of metals and their applications
Micon	Micon International Limited has provided consulting services to the international mining industry since 1988, with particular focus upon mineral resource estimations, metallurgical services, mine design and production scheduling, preparation of pre-feasibility and feasibility studies, independent reviews of mining and mineral properties, project monitoring, independent engineer roles, financial analysis and litigation support. Micon's resource estimate complies with the Canadian Institute of Mining, Metallurgy and Petroleum (CIM) standards and definitions, as required by Canadian National Instrument 43-101 (NI 43-101)
mill	equipment used to grind crushed rocks to the desired size for mineral extraction
mineralisation	process of formation and concentration of elements and their chemical compounds within a mass or body of rock
NI 43-101	also referred to as National Instrument 43-101, the (Canadian) Standards of Disclosure for Mineral Projects, including Companion Policy 43-101 as amended from time to time
nm	Not measured

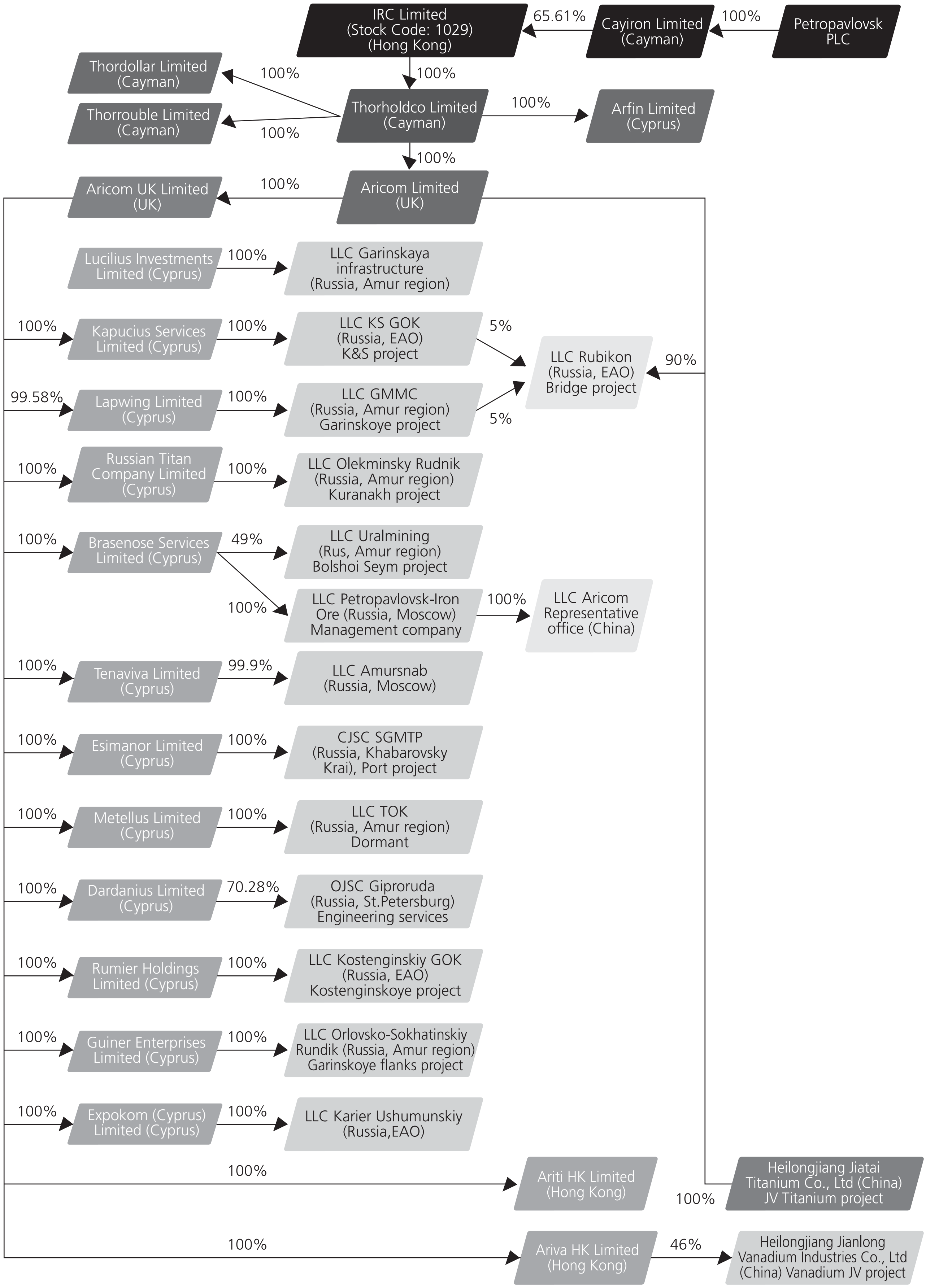
GLOSSARY

open-pit	a large scale hard rock surface mine; mine working or excavation open to the surface
optimisation	co-ordination of various mining and processing factors, controls and specifications to provide optimum conditions for technical/ economic operation
ore	material from which a mineral or minerals of economic value can be extracted profitably or to satisfy social or political objectives
ore-field	a zone of concentration of mineral occurrences
ore body	mining term to define a solid mass of mineralised rock which can be mined profitably under current or immediately foreseeable economic conditions
precious metal	gold, silver and platinum group minerals
primary	characteristic of or existing in a rock at the time of its formation; pertains to minerals, textures etc.; original
processing	methods employed to clean, process and prepare materials or ore into the final marketable product
ROM	Run of mine. The ore from mining activities which is led to the crushing and screening plant.
recovery	proportion of valuable material obtained in the processing of an ore, stated as a percentage of the material recovered compared with the total material present
run-of-mine or ROM	recovered ore, as mined with dilution, before any pre-concentration or other form of processing
Russian Far East	refers to the Far Eastern Federal district of the Russian Federation, which covers the area of Russia between Lake Baikal in Siberia and the Pacific Ocean. The Far Eastern Federal district includes the Amur Region, EAO, Kamchatka Krai, Magadan Region, Primorsky Krai, Sakha Republic (Yakutia), Sakhalin Region, Khabarovsk Krai, and Chukotka Autonomous District
Shareholder(s)	holder of the Share(s)
silica	chemically resistant dioxide of silicon
sinter	process for agglomerating ore concentrate in which partial reduction of minerals may take place and some impurities may be expelled prior to subsequent smelting and refining
SRP	Steel/Slag Reprocessing Project
Stock Exchange	The Stock Exchange of Hong Kong Limited
strike	the longest horizontal dimension of an ore body or zone of mineralisation
syncline	a basin shaped fold
tailings	material that remains after all metals/minerals considered economic have been removed from the ore
TiO_2	Titanium dioxide. A fine white powder. Used in paints, plastics or paper, it provides for maximum whiteness and opacity
titanomagnetite	concentrate which is a variation of a magnetite concentrate typically with a high vanadium and titanium content
treatment plant	a plant where ore undergoes physical or chemical treatment to extract the valuable metals/minerals
Tonne/t	I metric tonne (1,000 kg)
US Dollar or US$	United States Dollar
vein	a tabular deposit of minerals occupying a fracture, in which particles may grow away from the walls towards the middle
weathering	the breakdown of rocks and minerals in the near- surface environment by the action of physical and chemical processes, in the presence of air and water

LIST OF ABBREVIATIONS

$^{\circ}C$	degrees Celsius, a thermal unit equivalent to Kelvin+273.15
CaO	chemical symbol for calcium oxide or quicklime
Fe	chemical symbol for iron
Fe_{magn}	total iron in the ore originating from magnetite
$Fe_{(total)}$	total amount of iron content
Fe_2O_3	chemical symbol for haematite
kg	kilogramme, the SI unit of mass
km	kilometres, a unit of length equivalent to 1,000 m
km^2	square kilometres, a unit of area equivalent to 1,000,000 m^2
Kt	thousand tonnes
Ktpa	thousand tonnes per annum
kV	kilovolts, one thousand volts, a unit of electromotive force
Kwh	kilowatt hour, a unit of energy
m	metres, the SI unit of length
m^3	cubic meter, a unit of volume
mm	millimetres, unit of length equivalent to 0.001 m
Mt	million tonnes
Mtpa	million tonnes per annum
mWt	megawatt, one million watts, a unit of power
sq.m.	square metre, a unit of area
t	a metric tonne, a unit of mass equivalent to 1,000 kg
tpa	tonnes per annum
TiO_2	chemical symbol for titanium dioxide
V_2O_5	chemical symbol for vanadium pentoxide

CORPORATE STRUCTURE



CORPORATE INFORMATION

IRC Limited — 鐵江現貨有限公司

(Stock Exchange of Hong Kong: 1029)

Corporate Information

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Hong Kong Special Administrative Region of the People's Republic of China

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Facsimile: +852 2772 0329
Corporate Website: http://www.ircgroup.com.hk

Hong Kong Business Registration number: 52399423
Hong Kong Company Registration number: 1464973

Principal Place of Business in Russia

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Business Center "Fabrika Stanislavskogo"
109004 Moscow
Russia
(LLC Petropavlovsk-Iron Ore)

Executive Directors:

Chairman: G.J. Hambro
Chief Executive Officer: Y.V. Makarov
Chief Financial Officer and Company Secretary: R.K.T. Woo

Non-Executive Director:

S. Murray, *CBE, Chevalier de la Légion d'Honneur*

Emeritus Director:

Senator Dr P.A. Maslovskiy

Independent Non-Executive Directors:

D.R. Bradshaw, *Senior Independent Non-Executive Director*
C.F. Li
J.E. Martin Smith

Committees of the Board:

Audit Committee

C.F. Li (Chairman)
J.E. Martin Smith
D.R. Bradshaw

Remuneration Committee

J.E. Martin Smith (Chairman)
D.R. Bradshaw
C.F. Li

Health, Safety and Environmental Committee

D.R. Bradshaw (Chairman)
C.F. Li
J.E. Martin Smith

Nomination Committee

G.J. Hambro (Chairman)
D.R. Bradshaw
J.E. Martin Smith

Authorised Representatives for the purposes of the Stock Exchange of Hong Kong Limited

G.J. Hambro
R.K.T. Woo

RISK FACTORS

The Group is exposed to a variety of risks and uncertainties which could significantly affect its business and financial results. From the Board, to executive and operational management and every employee, the Group seeks to undertake a pro-active approach that anticipates risk, seeking to identify them, measure their impact and thereby avoid, reduce, transfer or control such risks.

The Group's view of the principal risks that could impact it for the 2012 financial year and beyond are substantially unchanged from the ones set out in the 2010 Annual Report. A summary of these key risks is set out below:

- Operational risks such as delay in supply of/or failure of equipment/services and adverse weather conditions.
- Financial risks such as commodity prices, exchange rate fluctuations, funding and liquidity and capital programme controls.
- Health, safety and environmental risks such as health and safety issues, legal and regulatory risks, licences and permits, restatement of reserves and resources, and non- compliance with applicable legislation.
- Legal and Regulatory risks such as country-specific risks.
- Human Resources risks such as the ability to attract key senior management and potential lack of skilled labour.

This should not be regarded as a complete or comprehensive list of all potential risks that the Group may experience. In addition, there may be additional risks currently unknown to the Group and other risks, currently believed to be immaterial, which could turn out to be material and significantly affect the Group's business and financial results.

DISCLAIMER

This year, whilst our disclosure has increased, the number of pages in the Annual Report has decreased by 31% compared to last year. Furthermore, a shift supported by many shareholders to electronic distribution has contributed to us reducing our print run. We estimate that resulting in a total 65% reduction of paper usage. Congratulations to our designers and printers and thanks to our shareholders for this achievement.

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K&S Excellent progress

achieved at the **Kimkan Open Pit Mine**

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