

# OM HOLDINGS LIMITED

(ARBN 081 028 337)



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No. of Pages Lodged:    2    Covering Letter  
                                 21    Interim Financial Report

15 August 2012

ASX Market Announcements  
ASX Limited  
4<sup>th</sup> Floor  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sir/Madam

## **INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 30 JUNE 2012**

Pursuant to the Corporations Act 2001 and ASX Listing Rule 4.2A please find attached the Interim Financial Report for the half year ended 30 June 2012.

Yours faithfully

**OM HOLDINGS LIMITED**



Heng Siow Kwee/Julie Wolseley  
**Company Secretary**



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## **BACKGROUND INFORMATION ON OM HOLDINGS LIMITED**

OMH listed on the ASX in March 1998 and has its foundations in metals trading – incorporating the sourcing and distribution of manganese ore products and subsequently in processing ores into ferro-manganese intermediate products. The OMH Group now operates commercial mining operations – leading to a fully integrated operation covering Australia, China and Singapore.

Through its wholly owned subsidiary, OM (Manganese) Ltd, OMH controls 100% of the Bootu Creek Manganese Mine (“Bootu Creek”) located 110 km north of Tennant Creek in the Northern Territory.

Bootu Creek has the capacity to produce 1,000,000 tonnes of manganese product annually. Bootu Creek has further exploration potential given that its tenement holdings extend over 2,400km<sup>2</sup>.

Bootu Creek’s manganese product is exclusively marketed by the OMH Group’s own trading division with a proportion of the product consumed by the OMH Group’s wholly-owned Qinzhou smelter located in south west China.

Through its Singapore based commodity trading activities, OMH has established itself as a significant manganese supplier to the Chinese market. Product from Bootu Creek has strengthened OMH’s position in this market.

OMH holds a 26% investment in Ntsimbintle Mining (Proprietary) Ltd, which holds a 50.1% interest in the world class Tshipi Borwa manganese project in South Africa.

OMH also holds the following strategic shareholding interests in ASX listed entities:

- 14% shareholding in **Northern Iron Limited** (ASX Code: NFE), a company presently producing iron ore from its Sydvaranger iron ore mine located in northern Norway; and
  - 8% shareholding in **Shaw River Manganese Limited** (ASX Code: SRR), a company presently exploring for manganese in Namibia, Western Australia and Ghana.
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**OM Holdings Limited**  
ARBN 081 028 337  
(Incorporated in Bermuda)  
and its subsidiaries

Interim Financial Report  
For the six months ended 30 June 2012

*This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2011 and any public announcements made by OM Holdings Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Australian Securities Exchange ("ASX") Listing Rules.*

**OM Holdings Limited  
and its subsidiaries  
Interim Financial Report for the six months ended 30 June 2012**

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## **Directors' report**

The Directors present their report and the interim financial statements of OM Holdings Limited (the "Company") and its controlled entities (together the "Group") for the six months ended 30 June 2012.

### **DIRECTORS**

The Directors of the Company during the period were as follows:

Low Ngee Tong (Executive Chairman)

Peter Ivan Toth (Chief Executive Officer)

Zainul Abidin Rasheed (Independent Deputy Chairman)

Julie Anne Wolseley (Non-Executive Director and Joint Company Secretary)

Tan Peng Chin (Independent Non-Executive Director)

Thomas Teo Liang Huat (Independent Non-Executive Director)

Peter Church OAM (Independent Non-Executive Director)

On 6 August 2012, Mr Wong Yu Loon was appointed as a Non-Executive Director of the Company.

### **REVIEW OF OPERATIONS**

The Board of OM Holdings Limited (ASX Code: OMH) reported a consolidated net loss after tax and non-controlling interests of A\$29.4 million for the six months ended 30 June 2012, compared with a consolidated net profit after tax and non-controlling interests of A\$10.4 million for the previous corresponding period. The consolidated net loss after tax for the six months ended 30 June 2012 included a non-cash impairment charge of A\$32.1 million associated with the valuation of the Company's investments in two ASX listed entities at 30 June 2012.

Signed in accordance with a resolution of the Directors.

On Behalf of the Directors



LOW NGEE TONG  
Executive Chairman



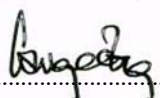
PETER IVAN TOTH  
Chief Executive Officer  
Singapore

Dated: 14 August 2012

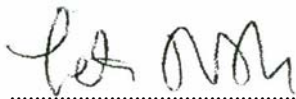
## **Statement by Directors**

In the opinion of the Directors, the accompanying consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows, together with the notes thereon, are drawn up so as to give a true and fair view of the state of affairs of the Group as at 30 June 2012 and of the results of the business, changes in equity and cash flows of the Group for the six month period ended on that date and as at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Directors



.....  
LOW NGEE TONG  
Executive Chairman



.....  
PETER IVAN TOTH  
Chief Executive Officer

Dated: 14 August 2012

# Review report to the members of OM Holdings Limited

## Introduction

We have reviewed the accompanying consolidated statement of financial position of OM Holdings Limited. (“the Company”) and its subsidiaries (“the Group”) as at 30 June 2012, and the related statements of consolidated comprehensive income, consolidated changes in equity and consolidated cash flows for the six months period then ended, and selected explanatory notes. Management is responsible for the preparation and fair presentation of this consolidated interim financial information in accordance with the provisions of the International Financial Reporting Standards. Our responsibility is to express a conclusion on this consolidated interim financial information based on our review.

## Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information does not present fairly, in all material respects, the financial position of the Group as at 30 June 2012, and of the Group’s financial performance for the six months then ended and its cash flows for the six months then ended in accordance with the International Financial Reporting Standards.



Foo Kon Tan Grant Thornton LLP  
Public Accountants and  
Certified Public Accountants

Partner in charge: Mr Ong Soo Ann  
(with effect from the financial year ended 31 December 2011)

Singapore,  
14 August 2012

## Consolidated statement of financial position

|                                           |       | The Group             |                              |
|-------------------------------------------|-------|-----------------------|------------------------------|
|                                           |       | As at<br>30 June 2012 | As at<br>31 December<br>2011 |
|                                           | Notes | A\$'000               | A\$'000                      |
| <b>Assets</b>                             |       |                       |                              |
| <b>Non-Current</b>                        |       |                       |                              |
| Goodwill                                  |       | 2,065                 | 2,065                        |
| Property, plant and equipment             |       | 132,640               | 123,040                      |
| Prepaid lease payments on land use rights |       | 1,286                 | 1,290                        |
| Long term prepayments                     |       | 500                   | 503                          |
| Exploration and evaluation costs          |       | 1,045                 | -                            |
| Mine development costs                    |       | 18,600                | 19,030                       |
| Interest in an associate                  |       | 83,021                | 79,661                       |
| Deferred tax assets                       |       | 12,663                | 9,714                        |
|                                           |       | <b>251,820</b>        | <b>235,303</b>               |
| <b>Current</b>                            |       |                       |                              |
| Inventories                               |       | 144,626               | 158,106                      |
| Trade and other receivables               |       | 75,324                | 89,720                       |
| Prepayments                               |       | 35                    | 27                           |
| Derivative financial assets               |       | 20                    | 20                           |
| Available-for-sale financial assets       |       | 49,751                | 38,571                       |
| Cash collateral                           |       | 24,321                | 14,269                       |
| Cash and bank balances                    |       | 43,384                | 17,611                       |
|                                           |       | <b>337,461</b>        | <b>318,324</b>               |
| <b>Total assets</b>                       |       | <b>589,281</b>        | <b>553,627</b>               |
| <b>EQUITY</b>                             |       |                       |                              |
| <b>Capital and Reserves</b>               |       |                       |                              |
| Share capital                             | 7     | 30,205                | 25,205                       |
| Treasury shares                           |       | (2,330)               | (2,330)                      |
| Reserves                                  |       | 276,099               | 229,904                      |
|                                           |       | <b>303,974</b>        | <b>252,779</b>               |
| <b>Non-controlling interests</b>          |       | <b>10,931</b>         | <b>5,194</b>                 |
|                                           |       | <b>314,905</b>        | <b>257,973</b>               |
| <b>Liabilities</b>                        |       |                       |                              |
| <b>Non-Current</b>                        |       |                       |                              |
| Borrowings                                | 8     | 81,018                | 61,318                       |
| Provisions                                |       | 4,974                 | 4,871                        |
|                                           |       | <b>85,992</b>         | <b>66,189</b>                |
| <b>Current</b>                            |       |                       |                              |
| Trade and other payables                  |       | 80,606                | 120,250                      |
| Derivative financial liabilities          |       | 2,713                 | 8                            |
| Borrowings                                | 8     | 104,373               | 106,189                      |
| Income tax payables                       |       | 692                   | 3,018                        |
|                                           |       | <b>188,384</b>        | <b>229,465</b>               |
| <b>Total equity and liabilities</b>       |       | <b>589,281</b>        | <b>553,627</b>               |

## Consolidated statement of comprehensive income

|                                                                   | Notes | 6 months to<br>30 June 2012<br>A\$'000 | 6 months to<br>30 June 2011<br>A\$'000 |
|-------------------------------------------------------------------|-------|----------------------------------------|----------------------------------------|
| Revenue                                                           |       | 206,536                                | 161,737                                |
| Cost of sales                                                     |       | (181,750)                              | (128,318)                              |
| Gross profit                                                      |       | 24,786                                 | 33,419                                 |
| Other revenue                                                     |       | 1,260                                  | 2,830                                  |
| Distribution costs                                                |       | (10,492)                               | (17,385)                               |
| Administrative expenses                                           |       | (4,471)                                | (7,029)                                |
| Other operating expenses                                          |       | (6,995)                                | (3,089)                                |
| Impairment loss of available-for-sale financial assets            |       | (32,148)                               | -                                      |
| Finance costs                                                     |       | (3,338)                                | (2,077)                                |
| Share of results of associate                                     |       | (2)                                    | (28)                                   |
| (Loss)/profit before income tax                                   |       | (31,400)                               | 6,641                                  |
| Income tax credit                                                 |       | 2,015                                  | 3,516                                  |
| <b>(Loss)/profit after taxation</b>                               |       | <b>(29,385)</b>                        | <b>10,157</b>                          |
| <b>(Loss)/profit for the period attributable to:</b>              |       |                                        |                                        |
| Non-controlling interests                                         |       | 38                                     | (254)                                  |
| Owners of the parent                                              |       | (29,423)                               | 10,411                                 |
|                                                                   |       | <b>(29,385)</b>                        | <b>10,157</b>                          |
| <b>(Loss)/profit for the period</b>                               |       | <b>(29,385)</b>                        | <b>10,157</b>                          |
| <b>Other comprehensive income:</b>                                |       |                                        |                                        |
| Available-for-sale financial assets                               |       |                                        |                                        |
| - current period gains                                            |       | 13,626                                 | 6,023                                  |
| - transfer to profit or loss                                      |       | 31,781                                 | -                                      |
| Translation differences on consolidation                          |       | 366                                    | (2,712)                                |
| <b>Other comprehensive income for the period, net of tax</b>      |       | <b>45,773</b>                          | <b>3,311</b>                           |
| <b>Total comprehensive income for the period</b>                  |       | <b>16,388</b>                          | <b>13,468</b>                          |
| <b>Total comprehensive income for the period attributable to:</b> |       |                                        |                                        |
| Non-controlling interests                                         |       | 38                                     | (300)                                  |
| Owners of the parent                                              |       | 16,350                                 | 13,768                                 |
|                                                                   |       | <b>16,388</b>                          | <b>13,468</b>                          |
| <b>(Loss)/earnings per share</b>                                  | 9     | <b>Cents</b>                           | <b>Cents</b>                           |
| - Basic                                                           |       | (5.78)                                 | 2.07                                   |
| - Diluted                                                         |       | (5.78)                                 | 1.99                                   |

## Consolidated statement of changes in equity

|                                                                 | Share capital<br>A\$'000 | Share premium<br>A\$'000 | Treasury shares<br>A\$'000 | Non-distributable reserve<br>A\$'000 | Capital reserve<br>A\$'000 | Share option reserve<br>A\$'000 | Fair value reserve<br>A\$'000 | Exchange fluctuation reserve<br>A\$'000 | Retained profits<br>A\$'000 | Total attributable to equity holders of the parent<br>A\$'000 | Non-controlling interests<br>A\$'000 | Total equity<br>A\$'000 |
|-----------------------------------------------------------------|--------------------------|--------------------------|----------------------------|--------------------------------------|----------------------------|---------------------------------|-------------------------------|-----------------------------------------|-----------------------------|---------------------------------------------------------------|--------------------------------------|-------------------------|
| Balance at 1 January 2011                                       | 25,155                   | 116,150                  | (2,330)                    | 3,692                                | 10                         | 16,618                          | 13,580                        | (17,684)                                | 168,213                     | 323,404                                                       | 2,499                                | 325,903                 |
| Dividends (Note 10)                                             | -                        | -                        | -                          | -                                    | -                          | -                               | -                             | -                                       | (10,043)                    | (10,043)                                                      | -                                    | (10,043)                |
| Employee share-based payment options exercised                  | 50                       | 670                      | -                          | -                                    | -                          | -                               | -                             | -                                       | -                           | 720                                                           | -                                    | 720                     |
| Share premium arising from share options exercised              | -                        | 365                      | -                          | -                                    | -                          | (2,216)                         | -                             | -                                       | 1,851                       | -                                                             | -                                    | -                       |
| Value for employee services received for grant of share options | -                        | -                        | -                          | -                                    | -                          | 3,552                           | -                             | -                                       | -                           | 3,552                                                         | -                                    | 3,552                   |
| Transfer to statutory reserve                                   | -                        | -                        | -                          | 234                                  | (8)                        | -                               | -                             | -                                       | (226)                       | -                                                             | -                                    | -                       |
| Transactions with owners                                        | 50                       | 1,035                    | -                          | 234                                  | (8)                        | 1,336                           | -                             | -                                       | (8,418)                     | (5,771)                                                       | -                                    | (5,771)                 |
| Profit/(loss) for the period                                    | -                        | -                        | -                          | -                                    | -                          | -                               | -                             | -                                       | 10,411                      | 10,411                                                        | (254)                                | 10,157                  |
| Other comprehensive income (Note 12)                            | -                        | -                        | -                          | -                                    | -                          | -                               | 6,023                         | (2,666)                                 | -                           | 3,357                                                         | (46)                                 | 3,311                   |
| Total comprehensive income for the period                       | -                        | -                        | -                          | -                                    | -                          | -                               | 6,023                         | (2,666)                                 | 10,411                      | 13,768                                                        | (300)                                | 13,468                  |
| Balance at 30 June 2011                                         | 25,205                   | 117,185                  | (2,330)                    | 3,926                                | 2                          | 17,954                          | 19,603                        | (20,350)                                | 170,206                     | 331,401                                                       | 2,199                                | 333,600                 |
| Balance at 1 January 2012                                       | 25,205                   | 117,642                  | (2,330)                    | 3,941                                | 2                          | 17,577                          | (45,407)                      | (16,984)                                | 153,133                     | 252,779                                                       | 5,194                                | 257,973                 |
| Share options lapsed                                            | -                        | -                        | -                          | -                                    | -                          | (4,778)                         | -                             | -                                       | 4,778                       | -                                                             | -                                    | -                       |
| Issue of ordinary shares                                        | 5,000                    | 29,670                   | -                          | -                                    | -                          | -                               | -                             | -                                       | -                           | 34,670                                                        | -                                    | 34,670                  |
| Capital injection from non-controlling interest                 | -                        | -                        | -                          | -                                    | -                          | -                               | -                             | 175                                     | -                           | 175                                                           | 5,699                                | 5,874                   |
| Transfer to statutory reserve                                   | -                        | -                        | -                          | 3                                    | 30                         | -                               | -                             | (20)                                    | (13)                        | -                                                             | -                                    | -                       |
| Transactions with owners                                        | 5,000                    | 29,670                   | -                          | 3                                    | 30                         | (4,778)                         | -                             | 155                                     | 4,765                       | 34,845                                                        | 5,699                                | 40,544                  |
| Loss for the period                                             | -                        | -                        | -                          | -                                    | -                          | -                               | -                             | -                                       | (29,423)                    | (29,423)                                                      | 38                                   | (29,385)                |
| Other comprehensive income (Note 12)                            | -                        | -                        | -                          | -                                    | -                          | -                               | 45,407                        | 366                                     | -                           | 45,773                                                        | -                                    | 45,773                  |
|                                                                 | -                        | -                        | -                          | -                                    | -                          | -                               | 45,407                        | 366                                     | (29,423)                    | 16,350                                                        | 38                                   | 16,388                  |
| Balance at 30 June 2012                                         | 30,205                   | 147,312                  | (2,330)                    | 3,944                                | 32                         | 12,799                          | -                             | (16,463)                                | 128,475                     | 303,974                                                       | 10,931                               | 314,905                 |

## Consolidated statement of cash flows

|                                                                                      | 6 months to<br>30 June 2012<br>A\$'000 | 6 months to<br>30 June 2011<br>A\$'000 |
|--------------------------------------------------------------------------------------|----------------------------------------|----------------------------------------|
| <b>Cash Flows from Operating Activities</b>                                          |                                        |                                        |
| (Loss)/profit before taxation                                                        | (31,400)                               | 6,641                                  |
| Adjustments for:                                                                     |                                        |                                        |
| Amortisation of long term prepayments and prepaid lease payments on land use rights  | 26                                     | 18                                     |
| Amortisation of mine development costs                                               | 819                                    | 1,030                                  |
| Depreciation of property, plant and equipment                                        | 6,174                                  | 5,826                                  |
| Equity-settled share-based payments                                                  | -                                      | 2,752                                  |
| Gain on disposal of available-for-sale financial assets                              | (491)                                  | -                                      |
| Loss on disposal of property, plant and equipment                                    | 10                                     | -                                      |
| Property, plant and equipment written off                                            | 354                                    | 145                                    |
| Exploration and evaluation costs written off                                         | 710                                    | 2,055                                  |
| Fair value gains on derivative instruments                                           | -                                      | (1,866)                                |
| Impairment loss of available-for-sale financial assets                               | 32,148                                 | -                                      |
| Share of results of an associate                                                     | 2                                      | 28                                     |
| Interest expense                                                                     | 3,338                                  | 2,077                                  |
| Interest income                                                                      | (550)                                  | (358)                                  |
| Operating profit before working capital changes                                      | 11,140                                 | 18,348                                 |
| Decrease/(increase) in inventories                                                   | 14,210                                 | (18,003)                               |
| Decrease/(increase) in trade and bill receivables                                    | 37,712                                 | (8,013)                                |
| Increase in prepayments, deposits and other receivables                              | (1,335)                                | (1,581)                                |
| Decrease in trade and bill payables                                                  | (36,175)                               | (6,139)                                |
| (Decrease)/increase in other payables and accruals                                   | (3,713)                                | 12,824                                 |
| Increase in long term liabilities                                                    | 102                                    | 378                                    |
| Cash generated from/(used in) operations                                             | 21,941                                 | (2,186)                                |
| Overseas income tax paid                                                             | (3,274)                                | (1,530)                                |
| Net cash generated from/(used in) operating activities                               | 18,667                                 | (3,716)                                |
| <b>Cash Flows from Investing Activities</b>                                          |                                        |                                        |
| Payments for exploration and evaluation                                              | (1,755)                                | (2,055)                                |
| Payments for mine development costs                                                  | (389)                                  | (600)                                  |
| Payment for prepaid land use rights                                                  | -                                      | (4,018)                                |
| Purchase of property, plant and equipment                                            | (16,137)                               | (5,332)                                |
| Purchase of available-for-sale financial assets                                      | -                                      | (1,112)                                |
| Proceeds from disposal of available-for-sale financial assets                        | 2,569                                  | -                                      |
| Loan to an associate                                                                 | (3,363)                                | (3,203)                                |
| Loan to an external party                                                            | -                                      | (500)                                  |
| Proceeds from repayment of convertible note                                          | 500                                    | -                                      |
| Interest received                                                                    | 550                                    | 358                                    |
| Net cash used in investing activities                                                | (18,025)                               | (16,462)                               |
| <b>Cash Flows from Financing Activities</b>                                          |                                        |                                        |
| Dividends paid                                                                       | -                                      | (10,043)                               |
| Repayment of bank and other loans                                                    | (22,108)                               | (17,693)                               |
| Proceeds from bank loans                                                             | 27                                     | 43,551                                 |
| Capital contribution by non-controlling interests                                    | 5,874                                  | -                                      |
| Payment to finance lease creditor                                                    | (10)                                   | -                                      |
| (Increase)/decrease in cash collateral                                               | (9,977)                                | 10,732                                 |
| Proceeds from the issue of shares following from the exercise of options             | -                                      | 720                                    |
| Proceeds from convertible notes issue                                                | 19,946                                 | -                                      |
| Proceeds from the issue of shares                                                    | 36,018                                 | -                                      |
| Payment of transaction costs on share issue                                          | (1,348)                                | -                                      |
| Interest paid                                                                        | (3,338)                                | (2,077)                                |
| Net cash generated from financing activities                                         | 25,084                                 | 25,190                                 |
| Net increase in cash and cash equivalents                                            | 25,726                                 | 5,012                                  |
| Cash and cash equivalents at the beginning of period                                 | 17,611                                 | 16,070                                 |
| Exchange differences on translation of cash and bank balances at beginning of period | 47                                     | (351)                                  |
| Cash and cash equivalents at the end of period                                       | 43,384                                 | 20,731                                 |

## **Notes to the Interim Consolidated Financial Statements**

### **1 Nature of operations**

The interim financial report of OM Holdings Limited (“the Company”) and its subsidiaries (“the Group”) for the period ended 30 June 2012 was authorised for issue in accordance with a resolution of the Directors on the date of the Statement by Directors.

The principal activities of the Company and the Group comprise the following:

- production of manganese product from the Bootu Creek Manganese Mine
- processing and sales of sinter ore and ferro alloy products
- trading of ore and ferro alloy products
- exploration and development activities aimed at further extending the mine life of the Bootu Creek Manganese Mine
- evaluation and assessment of strategic investment and project opportunities
- investment holdings, including the 13% effective interest in the Tshipi Borwa mine (currently being developed) and other investments in ASX listed entities
- development of two smelters and sintering projects in Malaysia

### **2 General information and basis of preparation**

The interim consolidated financial statements are for the six months ended 30 June 2012 and are presented in Australian Dollars (AUD), which is the functional currency of the parent company. They have been prepared in accordance with IAS 34 *Interim Financial Reporting*. They do not include all of the information required in annual financial statements in accordance with IFRS, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2011.

OM Holdings Limited is the Group’s ultimate parent company. The company is a limited liability company and domiciled in Bermuda. The address of OM Holdings Limited’s registered office is located at Clarendon House, 2 Church Street Hamilton, HM11 Bermuda. OM Holdings Limited’s shares are listed on the Australian Securities Exchange (“ASX”).

### **3 Significant accounting policies**

The interim consolidated financial statements have been prepared in accordance with the accounting policies adopted in the last annual financial statements for the year ended 31 December 2011, except for the adoption of the following accounting standards that became effective from 1 January 2012:

|                      |                                                                                                                    |
|----------------------|--------------------------------------------------------------------------------------------------------------------|
| IFRS 1               | First time adoption on replacement of 'fixed dates' for certain exceptions with 'the date of transition' to IFRSs' |
| IFRS 1               | First time adoption on exemption for entities ceasing to suffer from severe hyperinflation                         |
| IFRS 7               | Financial Instruments: Disclosures on transfers of financial assets                                                |
| Amendments to IAS 12 | Income taxes: Limited scope amendments on recovery of underlying assets                                            |

The adoption of these new or amended IFRSs and IAS, where relevant to the Group, did not result in substantial changes to the Group's accounting policies or any significant impact on the Group's financial statements.

### **4 Estimates**

The fair values of unquoted employee share options issued to certain of the Directors and employees of the Group are estimated using the binomial model based on a range of share price and conversion probabilities at the date of grant by an independent valuer. The estimation requires input of subjective assumptions and changes in the subjective inputs may materially affect the fair value estimates.

The fair value of the unquoted share options issued by Scandinavian Resources Limited are recognised as derivative financial assets and the Hanwa convertible rights are recognised as derivative financial liabilities and are both estimated using the Black Scholes Option Pricing Model. The estimation requires input of subjective assumptions and changes in the subjective inputs may materially affect the fair value estimates.

### **5 Segment reporting**

The Group identifies its operating segments based on the regular internal financial information reported to the executive Directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive Directors are determined following the Group's major products and services. The Group has identified the following reportable segments:

- *mining* - exploration and mining of manganese ore
- *processing* - production of manganese ferroalloys and manganese sinter ore
- *marketing and trading* - trading of manganese ore, manganese ferroalloys and sinter ore, chrome ore and iron ore

**5 Segment reporting (cont'd)**

The revenues and (loss)/profit generated by each of the Group's operating segments and segment assets are summarised as follows:

|                                               | Mining          | Processing      | Marketing<br>and trading | Others          | Total           |
|-----------------------------------------------|-----------------|-----------------|--------------------------|-----------------|-----------------|
| 6 months to June 2012                         | 2012<br>A\$'000 | 2012<br>A\$'000 | 2012<br>A\$'000          | 2012<br>A\$'000 | 2012<br>A\$'000 |
| Revenue                                       |                 |                 |                          |                 |                 |
| From external customers                       | -               | 61,523          | 144,150                  | 864             | 206,537         |
| From other segments                           | 41,329          | -               | 89,127                   | -               | 130,456         |
| Segment revenues                              | 41,329          | 61,523          | 233,277                  | 864             | 336,993         |
| Segment operating<br>(loss)/profit before tax | (14,485)        | 3,626           | 14,171                   | (31,922)        | (28,610)        |
| Segment assets                                | 166,283         | 161,390         | 112,642                  | 148,966         | 589,281         |
|                                               |                 |                 |                          |                 |                 |
| 6 months to June 2011                         | 2011<br>A\$'000 | 2011<br>A\$'000 | 2011<br>A\$'000          | 2011<br>A\$'000 | 2011<br>A\$'000 |
| Revenue                                       |                 |                 |                          |                 |                 |
| From external customers                       | -               | 44,160          | 116,700                  | 877             | 161,737         |
| From other segments                           | 67,298          | -               | 74,412                   | 206             | 141,916         |
| Segment revenues                              | 67,298          | 44,160          | 191,112                  | 1,083           | 303,653         |
| Segment operating<br>(loss)/profit before tax | (2,544)         | 2,191           | 13,248                   | (4,507)         | 8,388           |
| Segment assets                                | 168,333         | 128,750         | 82,622                   | 181,981         | 561,686         |

The Group's segment operating (loss)/profit reconciles to the Group's (loss)/profit before tax as presented in its financial statement as follows:

|                                       | 6 months to<br>30 June 2012<br>A\$'000 | 6 months to<br>30 June 2011<br>A\$'000 |
|---------------------------------------|----------------------------------------|----------------------------------------|
| <b>Group (loss)/profit before tax</b> |                                        |                                        |
| Segment results                       | (28,610)                               | 8,388                                  |
| Share of associate's result           | (2)                                    | (28)                                   |
| Finance costs                         | (3,338)                                | (2,077)                                |
| Finance income                        | 550                                    | 358                                    |
| Group (loss)/profit before tax        | (31,400)                               | 6,641                                  |

**6 Analysis of selected items of the consolidated interim financial statements**

2012 revenue amounted to A\$206.5 million as compared to A\$161.7 million in the corresponding period in 2011, representing a 28% increase. The higher 2012 revenue was attributed to an increase in tonnages sold for all product groups except for manganese ores, but was offset by lower realised prices across all products. Manganese ore sales (including sinter ores) were negatively impacted by the rail service disruptions experienced by the Bootu Creek Manganese Mine during the first calendar quarter of 2012.

The average manganese ore benchmark price for the six months ended 30 June 2012 was US\$4.86/dmtu CIF China, a decrease of 18% compared to the average price for the six months ended 30 June 2011 of US\$5.93/dmtu CIF China. The Australian dollar sustained its strength against the US dollar ("USD") with an average exchange rate for the first six months of 2012 of USD1:AUD0.97.

Manganese ore published benchmark prices (BHPB 46% Mn grade CIF China) for the six-month period demonstrated consistent strengthening from US\$4.75/dmtu (Jan 2012 to April 2012 shipments) to US\$5.00/dmtu (May 2012 shipments) to US\$5.15/dmtu (June 2012 shipments). Strong demand for seaborne high grade ores resulted in a further increase of the benchmark price in July 2012 to US\$5.35/dmtu, which has been rolled over for August and September 2012 shipments.

Other revenue in 2012 included a A\$0.5 million gain from the disposal of the Company's investment in Scandinavian Resources Ltd ("SCR"). This compared to a A\$1.8 million marked-to-market gain on SCR listed and unlisted options in 2011.

Distribution costs decreased by A\$6.9 million to A\$10.5 million for the period ended 30 June 2012. This was due mainly to lesser shipments from the Bootu Creek Manganese Mine as a result of the rail service disruptions during the first calendar quarter of 2012.

Administrative and other operating expenses increased from A\$10.1 million in 2011 to A\$11.5 million in 2012. The Group incurred a foreign exchange loss of A\$1.2 million in 2012 as opposed to an exchange gain of A\$4.2 million in 2011. In addition, the Group incurred A\$1.4 million of charges associated with the demobilisation of certain equipment from the mining fleet operated by the external contractor at the Bootu Creek Manganese Mine, as part of the implementation of a transition strategy towards an owner operator structure during H2 2012. This compared to expenses incurred in the corresponding six-month period ended 30 June 2011 related to professional fees incurred as part of the Company's proposed dual listing on the HKSE of A\$1.8 million, as well as A\$2.8 million of share based option expenses. All other significant expenses, i.e. depreciation and amortisation charges remained consistent during 2012 as compared to 2011.

In accordance with IAS 39, the Company recorded a non-cash impairment charge of A\$32.1 million relating to the Company's investments in Shaw River Manganese Limited (ASX code: SRR) and Northern Iron Limited (ASX code: NFE), which have been marked-to-market at the ASX closing share prices as at 30 June 2012. However, the Company acknowledges the recently announced conditional non-binding indicative cash offers made to NFE of A\$1.40 per share from the Aditya Birla Group and A\$1.42 per share from Prominvest AG for all the NFE shares on issue. This compares to the NFE share price of A\$0.93 per share as at 30 June 2012 upon which the impairment was calculated and required to be recorded.

The Group's finance costs increased from A\$2.1 million in 2011 to A\$3.3 million in 2012. The increase arose due to (i) increased working capital borrowings (through pledging of bank drafts for short-term loans), and (ii) other short-term stock financing (refer to Note 8).

**6 Analysis of selected items of the consolidated interim financial statements (cont'd)**

The Group recorded a tax credit of A\$2.0 million in 2012 against a tax credit of A\$3.5 million in 2011. The tax credit arose from the recognition of a deferred tax asset on tax losses carried forward.

The Group's consolidated cash position was \$67.7 million (including cash collateral of A\$24.3 million) as at 30 June 2012 as compared to A\$31.9 million (including cash collateral of A\$14.3 million) as at 31 December 2011. During the six-month period ended 30 June 2012, the Company raised approximately A\$54.6 million (net proceeds) from share placements and the issuance of convertible notes for the purpose of financing development activities at OM Materials (Sarawak) Sdn Bhd's ("OM Sarawak") ferroalloy project in Malaysia, in which the Company has an 80% interest. Cash reserves from the capital raisings and from those generated through operations during the period were predominantly applied towards the project construction activities in OM Sarawak and the repayment of bank loans. Cash contributions were made towards the Tshipi Borwa's mine development. During 2012 the Group generated operating cash flows from its activities before tax of A\$21.9 million (compared to a corresponding operating cash flow deficit of A\$2.2 million for H1 2011).

Receivables (including trade and other receivables and prepayments) decreased to A\$75.3 million as at 30 June 2012 from A\$89.7 million as at 31 December 2011. During H1 2012, the Chinese Government loosened its monetary policies by twice reducing the banks' reserve requirement ratios as well as central bank interest rates. The effect of these measures was an enhancement of liquidity in the market, as a result of which customers were able to make full cash settlements instead of using bank drafts with maturity of up to 6 months.

Inventories decreased 8.5% from A\$158.1 million as at 31 December 2011 to A\$144.6 million as at 30 June 2012. The 2011 inventory balance included goods-in-transit of A\$25.3 million. Excluding the goods-in-transit, the increase in stock balances of A\$11.8 million was predominantly due to the rail service disruption which impacted shipping activities from the Bootu Creek Manganese Mine in the first calendar quarter of 2012.

Available for sale financial assets as at 30 June 2012 totalled A\$49.8 million (31 Dec 2011: A\$38.6 million) and comprised the following:

- 14% in NFE, an ASX listed mining company, which owns and operates the Sydvaranger iron ore mine in northern Norway. This investment was valued at A\$48.8 million based upon a market price of A\$0.93 per share as at 30 June 2012.
- 8% in SRR, an ASX listed manganese explorer in Western Australia, Namibia and Ghana. This investment was valued at A\$1.0 million based upon a market price of A\$0.026 per share as at 30 June 2012.

In 2010, the Group secured term loans amounting to US\$90 million from Standard Chartered Bank ("SCB") to fund the Company's investment in the South African Tshipi Borwa mine. This investment is held by the Company through its 26% investment in an associated company, Main Street 774 (Proprietary) Limited, which in turn holds the 50.1% interest in the Tshipi Borwa mine. The cost of this investment has increased from A\$79.7 million as at 31 December 2011 to A\$83.0 million as of 30 June 2012 with the Company making additional cash contributions towards the development of the mine due to come into production in Q4 2012.

Trade and other payables decreased by 33% from approximately A\$120.3 million as at 31 December 2011 to A\$80.6 million as at 30 June 2012, predominantly due to the goods-in-transit as at 31 December 2011, the payment of which was settled in 2012.

## **7 Share issue**

During the six months ended 30 June 2012, the Company issued 75,000,000 ordinary shares at an issue price of A\$0.35 per share and 25,000,000 ordinary shares at an issue price of A\$0.3907 per share, raising in total approximately A\$36 million to finance development activities at the OM Materials Sarawak's ferro-alloy smelting project in Malaysia, in which the Company has an 80% interest. The newly issued shares ranked pari passu in all respects with the previously issued shares.

The holders of ordinary shares (excluding treasury shares) are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares (excluding treasury shares) rank equally with regards to the Company's residual assets.

Shares issued and authorised are summarised as follows:

|                                                                                 | No. of ordinary shares<br>(amounts in thousand shares) |                                      | Amount                              |                                         |
|---------------------------------------------------------------------------------|--------------------------------------------------------|--------------------------------------|-------------------------------------|-----------------------------------------|
|                                                                                 | As at<br>30 June<br>2012<br>'000                       | As at<br>31 December<br>2011<br>'000 | As at<br>30 June<br>2012<br>A\$'000 | As at<br>31 December<br>2011<br>A\$'000 |
| <b>Authorised:</b>                                                              |                                                        |                                      |                                     |                                         |
| Ordinary shares of A\$0.05 (2011 - A\$0.05) each                                | 2,000,000                                              | 2,000,000                            | 100,000                             | 100,000                                 |
| <b>Issued and fully paid:</b>                                                   |                                                        |                                      |                                     |                                         |
| Ordinary shares of A\$0.05 (2011 - A\$0.05) each as at beginning of period/year | 504,105                                                | 503,085                              | 25,205                              | 25,155                                  |
| Options exercised during the period/year                                        | -                                                      | 1,020                                | -                                   | 50                                      |
| Issue of ordinary shares during the period                                      | 100,000                                                | -                                    | 5,000                               | -                                       |
| Ordinary shares of A\$0.05 (2011 - A\$0.05) each as at end of period/year       | 604,105                                                | 504,105                              | 30,205                              | 25,205                                  |

## **8 Borrowings**

|                                             | As at<br>30 June 2012<br>A\$'000 | As at<br>31 December<br>2011<br>A\$'000 |
|---------------------------------------------|----------------------------------|-----------------------------------------|
| <b>Non-Current</b>                          |                                  |                                         |
| Obligations under finance leases (Note 8.1) | 36                               | 29                                      |
| Bank loans, secured (Note 8.2)              | 63,215                           | 61,289                                  |
| 5% convertible notes (Note 8.3)             | 17,767                           | -                                       |
|                                             | <b>81,018</b>                    | <b>61,318</b>                           |
| <b>Current</b>                              |                                  |                                         |
| Obligations under finance leases (Note 8.1) | 23                               | 14                                      |
| Bank loans, secured (Note 8.2)              | 104,350                          | 106,021                                 |
| Other loans, unsecured                      | -                                | 154                                     |
|                                             | <b>104,373</b>                   | <b>106,189</b>                          |

## **8 Borrowings (cont'd)**

### **8.1 Obligations under finance leases**

|                                                       | <b>As at<br/>30 June 2012<br/>A\$'000</b> | <b>As at<br/>31 December<br/>2011<br/>A\$'000</b> |
|-------------------------------------------------------|-------------------------------------------|---------------------------------------------------|
| The Group                                             |                                           |                                                   |
| Minimum lease payments payable:                       |                                           |                                                   |
| Due not later than one year                           | 25                                        | 16                                                |
| Due later than one year and not later than five years | 39                                        | 30                                                |
|                                                       | <b>64</b>                                 | <b>46</b>                                         |
| Less: Finance charges allocated to future periods     | (5)                                       | (3)                                               |
| Present value of minimum lease payments               | <b>59</b>                                 | <b>43</b>                                         |
| Present value of minimum lease payments:              |                                           |                                                   |
| Due not later than one year                           | 23                                        | 14                                                |
| Due later than one year and not later than five years | 36                                        | 29                                                |
|                                                       | <b>59</b>                                 | <b>43</b>                                         |

The Group leases motor vehicles from non-related parties under finance lease. The lease agreements do not have renewal clauses but provide the Group with options to purchase the leased assets at nominal values at the end of the lease term. The finance lease obligations are secured by the underlying assets.

### **8.2 Bank loans**

|                                  | <b>As at<br/>30 June 2012<br/>A\$'000</b> | <b>As at<br/>31 December<br/>2011<br/>A\$'000</b> |
|----------------------------------|-------------------------------------------|---------------------------------------------------|
| The Group                        |                                           |                                                   |
| Bank loans, secured [note (a)]   | 69,431                                    | 90,254                                            |
| Bank loans, secured [note (b)]   | 49,214                                    | 38,104                                            |
| Bank loan, secured [note (c)]    | 15,341                                    | 16,147                                            |
| Bank loans, secured [note (d)]   | 16,459                                    | 11,765                                            |
| Bank loan, secured [note (e)]    | 6,106                                     | 11,040                                            |
| Bank loan, secured [note (f)]    | 11,014                                    | -                                                 |
|                                  | <b>167,565</b>                            | <b>167,310</b>                                    |
| Amount repayable within one year | 104,350                                   | 106,021                                           |
| Amount repayable after one year  | 63,215                                    | 61,289                                            |
|                                  | <b>167,565</b>                            | <b>167,310</b>                                    |

## **8 Borrowings (cont'd)**

Note:

- (a) The loans are secured by:
- charges over certain bank deposit accounts;
  - the Company's holding of 52,482,500 Northern Iron Limited ("NFE") shares listed on the ASX;
  - the Company's holding of 100% shares of OMH (Mauritius) Corp, a company incorporated in Mauritius; and
  - OMH (Mauritius) Corp's holding of 2,592,593 shares (representing 26%) in Main Street 774 (Proprietary) Limited, a company incorporated under the laws of the Republic of South Africa.

The loans are repayable as follows:

- US\$833,333 over 36 months which commenced from April 2012;
- bullet repayment of S\$13 million which was made on 16 July 2012; and
- a bullet repayment of US\$32 million due on 15 Oct 2014 or earlier upon the disposal of the Company's NFE shareholding.

The weighted average effective interest rate was 3.60% (2011 – 3.45%) per annum.

- (b) The loans are secured by charges over certain bank deposits and bills receivables. The weighted average effective interest of the bank loans was 3.82% (2011 – 4.99%) per annum.
- (c) The loan is secured by a charge over leasehold land and an irrevocable and unconditional corporate guarantee provided by the Company. The weighted average effective interest of the bank loan was 2.90% (2011 – 2.76%) per annum.
- (d) The loans are secured by charges over certain bank deposits and the weighted average effective interest rate of the bank loans was 1.44% (2011 – 2.37%) per annum.
- (e) The loan is secured by charges over certain inventories and the weighted average effective interest of the bank loan was 4.51% (2011 – 5.6%) per annum.
- (f) The loan is secured by a charge over leasehold land. The weighted average effective interest of the bank loan was 6% (2011 – Nil) per annum.

### **8.3 5% convertible notes**

On 7 March 2012 the Company issued to Hanwa Co. Ltd 25,000,000 convertible notes at an aggregate principal amount of US\$21,447,261 with a nominal interest of 5.0%, due on 6 March 2016 and convertible in accordance with the terms and conditions of issue including an initial conversion price of A\$0.80 per share. The convertible notes were recorded as long-term borrowing and derivative financial liabilities, which amounted to A\$17,767,000 and A\$2,713,000 respectively for the period ended 30 June 2012.

## **9 (Loss)/earnings per share**

The calculations of the basic and diluted (loss)/earnings per share attributable to owners of the Company are based on the following data:

|                                                                                          | <b>6 months to<br/>30 June 2012</b> | <b>6 months to<br/>30 June 2011</b> |
|------------------------------------------------------------------------------------------|-------------------------------------|-------------------------------------|
| <b>(Loss)/profit</b>                                                                     |                                     |                                     |
| Net (loss)/profit attributable to owners of the Company                                  | <b>(29,423)</b>                     | 10,411                              |
| <b>Number of shares</b>                                                                  |                                     |                                     |
| Weighted average number of ordinary shares for the purpose of basic earnings per share   | <b>508,973</b>                      | 503,189                             |
| Effect of dilutive potential ordinary shares in respect of share options                 | -                                   | 18,858                              |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | <b>508,973</b>                      | 522,047                             |

## **10 Dividend**

During the six months to 30 June 2011, OM Holdings Limited paid dividends of A\$10,043,000 to its equity shareholders. This represents a payment of A\$0.02 per share. There were no dividends paid during the six months to 30 June 2012.

## **11 Related parties transactions**

During the interim period, Group entities entered into the following transactions with related parties:

### **(A) Related parties transactions**

|                                                                                                         | <b>6 months to<br/>30 June 2012<br/>A\$'000</b> | <b>6 months to<br/>30 June 2011<br/>A\$'000</b> |
|---------------------------------------------------------------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| Company secretarial fees paid to a company of which a Director is a director and beneficial shareholder | <b>135</b>                                      | 188                                             |
| Legal fees paid to a firm of which a Director is a director and beneficial shareholder                  | <b>25</b>                                       | 24                                              |

### **(B) Compensation of directors and key management personnel**

The remuneration of directors being members of key management is set out below:

|                                                        | <b>6 months to<br/>30 June 2012<br/>A\$'000</b> | <b>6 months to<br/>30 June 2011<br/>A\$'000</b> |
|--------------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| <b>Directors</b>                                       |                                                 |                                                 |
| - Directors of the Company                             | <b>577</b>                                      | 554                                             |
| - Directors of the subsidiaries                        | <b>1,017</b>                                    | 880                                             |
| - Defined contribution plans                           | <b>101</b>                                      | 33                                              |
| <b>Key management personnel (other than directors)</b> |                                                 |                                                 |
| - Salaries, wages and other related costs              | <b>835</b>                                      | 745                                             |
| - Defined contribution plans                           | <b>76</b>                                       | 45                                              |

## **12 Other components of equity**

The following tables show the movements in other components of equity:

|                                                                               | Exchange<br>fluctuation<br>reserve<br>A\$'000 | Fair value<br>reserve<br>A\$'000 | Total<br>A\$'000 |
|-------------------------------------------------------------------------------|-----------------------------------------------|----------------------------------|------------------|
| Balance at 1 January 2011                                                     | (17,684)                                      | 13,580                           | (4,104)          |
| Available-for-sale financial assets                                           |                                               |                                  |                  |
| - current period gains                                                        | -                                             | 6,023                            | 6,023            |
| Exchange differences on translating foreign operations                        | (2,666)                                       | -                                | (2,666)          |
| Other comprehensive income for the period (all<br>attributable to the parent) | (2,666)                                       | 6,023                            | 3,357            |
| Balance at 30 June 2011                                                       | (20,350)                                      | 19,603                           | (747)            |

|                                                                               | Exchange<br>fluctuation<br>reserve<br>A\$'000 | Fair value<br>reserve<br>A\$'000 | Total<br>A\$'000 |
|-------------------------------------------------------------------------------|-----------------------------------------------|----------------------------------|------------------|
| Balance at 1 January 2012                                                     | (16,984)                                      | (45,407)                         | (62,391)         |
| Capital injection from non-controlling interest                               | 175                                           | -                                | 175              |
| Transfer to statutory reserve                                                 | (20)                                          | -                                | (20)             |
| Available-for-sale financial assets                                           |                                               |                                  |                  |
| - current period gains                                                        | -                                             | 13,626                           | 13,626           |
| - reclassification to profit or loss                                          | -                                             | 31,781                           | 31,781           |
| Exchange differences on translating foreign operations                        | 366                                           | -                                | 366              |
| Other comprehensive income for the period (all<br>attributable to the parent) | 366                                           | 45,407                           | 45,773           |
| Balance at 30 June 2012                                                       | (16,463)                                      | -                                | (16,463)         |

## **13 Contingent assets and liabilities**

Litigation issues that were disclosed in the 31 December 2011 Financial Statements are still in process and further developments up to the end of the reporting period are outlined below:

### Masai Stage 1 Sacred Site

The complaint filed on 24 November 2011 against OMM by the Aboriginal Areas Protection Authority ("AAPA"), alleging 2 counts of contravening the Northern Territory Aboriginal Sacred Sites Act (NT) ("the Act") was heard in the Northern Territory Court of Summary Jurisdiction on 19 April 2012. The Court adjourned that complaint to 17 May 2012 for further consideration. On 17 May 2012 AAPA filed in the Court an updated total complaint of 11 counts of contravening the Act (4 charges of desecration of a sacred site pursuant to section 35 of the Act and 7 charges of contravening an Authority Certificate and damaging a sacred site or causing distress to a custodian pursuant to section 37 of the Act). The Court adjourned the complaints to 26 June 2012 for further consideration. On 26 June 2012 the Court adjourned the complaints to 3 August 2012 in order for the AAPA to provide to OMM further detailed particulars of the counts. Each charge of desecration carries a maximum penalty of A\$274,000 and each charge of contravening an Authority Certificate carries a maximum penalty of A\$137,000. On 3 August 2012, the matter was adjourned by the Darwin Magistrate's Court until 11 September 2012. The Group believes it has meritorious defences to AAPA's claims and intends to defend the action vigorously.

### **13 Contingent assets and liabilities (cont'd)**

#### Masai Stage 1 Sacred Site (cont'd)

The Directors are of the view that the operational and financial impacts of the legal proceedings against the Group are not material. Due to the uncertainty whilst the case is still on going, there is not a requirement to record any provision as at 30 June 2012.

#### Bootu Creek Manganese Mine – Promet Litigation

The Promet case was heard by the Supreme Court of Western Australia and judgement was delivered on 5 June 2012. The Supreme Court of Western Australia ruled in favour of OM (Manganese) Ltd (“OMM”) in its action against the process plant design engineers for the Bootu Creek Manganese Mine, and that OMM was entitled to damages of A\$5,730,875.59. OMM was ordered to pay Lonsdale Investments Pty Ltd (“Lonsdale”) an amount of A\$1,999.02 in respect to an alleged claim of A\$533,000. At a further hearing held on 25 July 2012, total damages and pre judgement interest awarded to OMM was revised to A\$7,186,317.61. A hearing to determine the legal costs in respect of the action will be held in late-August 2012.

OMM has taken steps to enforce the judgment against Lonsdale (being the company previously known as Promet Engineers Pty Ltd) and Promet Engineers Pty Ltd. In accordance with the Rules of the Supreme Court, the parties will have a period of time to review the judgment to determine whether there are any findings that they wish to appeal to the Court of Appeal of the Supreme Court. OMM is unable to provide any comment on whether such an appeal is likely or the prospects of success of any such appeal. The Directors are of the view that due to the uncertainty of outcome, both the contingent asset of A\$7,186,317.61 and contingent liability of A\$1,999.02 have not been recorded in the financial statements as at 30 June 2012.

#### Sponsor Guarantee and Corporate Guarantee issued under the terms of the Power Purchase Agreement with Syarikat Sesco Berhad

Pursuant to the execution of the Power Purchase Agreement (“PPA”) between OM Materials (Sarawak) Sdn Bhd and Syarikat Sesco Berhad (“SSB”) in early February 2012, the Company issued the following guarantees as conditions precedent to the PPA:

##### **1. Sponsor Guarantee**

The Company has issued a sponsor guarantee to Syarikat Sesco Berhad (“SSB”) for its 80% interest of OM Materials (Sarawak) Sdn Bhd’s (“OM Sarawak”) obligations under a Power Purchase Agreement (“PPA”) executed on 2 February 2012. The sponsor guarantee includes but is not limited to termination payments, late payment interest and guaranteed obligations under the PPA. The sponsor guarantee will not take effect until financial close of the ferro alloy smelting project anticipated to occur by 30 September 2012. The maximum exposure to the Company over the 10 years of full commercial operations (assuming no events of default) is MYR496 million (approximately A\$153 million) plus enforcement costs pursuant to any dispute plus any late interest payments. There is a staged stepdown of the maximum exposure to the Company to MYR248 million (approximately A\$76 million) once the full commercial operations date has been achieved and the sponsor guarantee will cease to have effect after 10 years of full operation. Cahya Mata Sarawak Berhad (“CMSB”) has correspondingly provided a sponsor guarantee for its 20% interest held in OM Sarawak.

### **13 Contingent assets and liabilities (cont'd)**

#### Sponsor Guarantee and Corporate Guarantee issued under the terms of the Power Purchase Agreement with Syarikat SESCO Berhad (cont'd)

##### **2. Corporate Guarantee**

In accordance with the PPA the Company provided a corporate guarantee to RHB Bank Berhad for the issuance of a banker's guarantee in favour of SSB to cover but not limited to unpaid claims on the interconnection facilities constructed by SSB. The banker's guarantee took effect from the date of issuance, 4 May 2012. The Company's maximum exposure until the completion of testing and commissioning (assuming no events of default) is MYR25 million (approximately A\$8 million). There is a staged stepdown of the maximum exposure to the Company to MYR20 million (approximately A\$6 million) throughout 2013, MYR8 million (approximately A\$2 million) after the connection fee has been paid and the corporate guarantee will cease to have effect after completion of testing and commissioning. CMSB has correspondingly provided a corporate guarantee for its 20% interest held in OM Sarawak.

There was no further development on the dispute between a subsidiary of the Company and the Territory Revenue Office from the disclosure made in the 31 December 2011 Financial Statements. The disclosure as made in the 31 December 2011 Financial Statements is outlined below:

#### Northern Territory Government Royalty

The Northern Territory Mineral Royalty Act is a profit based royalty regime that uses the net value of a mine's production to calculate royalties payable on the recovery of mineral commodities from a mine site.

The determination of the net value of manganese produced from the Bootu Creek Manganese Mine has been in dispute between a subsidiary of the Group (the "Subsidiary") and the Territory Revenue Office (the office responsible for administering the Northern Territory Mineral Royalty Act). The central issue in the dispute relates to the calculation of the net value in the determination of the gross realisation by the Subsidiary, given that the Subsidiary's sales of manganese product to a fellow subsidiary of the Group are related party transactions.

The Subsidiary, in consultation with its professional advisers, has proposed a valuation policy and provided supporting transfer pricing reports to the Territory Revenue Office to derive a gross realisation that accords with the requirements of the Northern Territory Mineral Royalty Act. To date the Territory Revenue Office has not accepted such calculations and has provided an alternative transfer pricing proposal which would result in a greater gross realisation, a greater net value and a greater liability to royalties under the Northern Territory Mineral Royalty Act. The Subsidiary has advised the Territory Revenue Office that it disagrees with the transfer pricing proposal proposed by the Territory Revenue Office.

The Subsidiary has paid all royalty assessments that have been issued by the Territory Revenue Office and has made all payments on account of royalty. The Subsidiary will continue its process of engaging with the Territory Revenue Office to seek to resolve the royalty issue.