

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
JSW Panama Holdings Corporation

We have audited the accompanying special purpose financial statements of JSW Panama Holdings Corporation, which comprise the special purpose statements of financial position as of March 31, 2016 and 2015, and the related special purpose statements of comprehensive income, changes in net equity, and cash flows for the years then ended, and the related notes to the special purpose financial statements.

Management's responsibility for the special purpose financial statements

Management is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with the basis described in Note 2; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of special purpose financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special purpose financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special purpose financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the special purpose financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes assessing the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by the Company's management, as well as evaluating the overall presentation of the special purpose 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 special purpose financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with the basis described in Note 2.

Emphasis on a matter

As discussed in note 1, the Company holds a 94.9% interest in the subsidiary Inversiones Eurosh Limitada ("IEL"). During the last fiscal year the Company has decided not to continue with the development of the Daniel and Catalina IEL's mining assets in view of the falling international iron ore prices. In addition as of the date of this report, SFM (a subsidiary of IEL) approved a temporary suspension of its mining operations for a further period until a significant improvement in international iron ore prices. Based on these circumstances, mainly a potential startup of the indirect subsidiary SFM and the financial support from the Group, the financial statements have been prepared following the going concern basis of accounting.

Restriction on use and distribution

This report has been issued solely for the internal use and knowledge of JSW Panama Holdings Corporation Management, shareholders and financial institutions. It should not be distributed to any other third party.

A handwritten signature in dark ink, appearing to read "Deloitte", is positioned above the date and location.

May 6, 2016
Santiago, Chile

JSW PANAMA HOLDINGS CORPORATION**SPECIAL PURPOSE STATEMENTS OF FINANCIAL POSITION****AS OF MARCH 31, 2016 AND 2015****(In US dollars - US\$)**

ASSETS	Notes	2016 US\$	2015 US\$
NON-CURRENT ASSETS			
Investment in subsidiary	5	41.686	41.686
Account receivable from related companies	8	5.250.861	5.129.955
Intangibles	6	1.100	1.100
Total non-current assets		5.293.647	5.172.741
CURRENT ASSETS			
Cash and cash equivalents	10	40.747	39.940
Total current assets		40.747	39.940
TOTAL ASSETS		5.334.394	5.212.681
NET EQUITY AND LIABILITIES			
NET EQUITY			
Paid-in capital	7	100.000	100.000
Retained earnings		5.233.294	5.111.581
Total net equity		5.333.294	5.211.581
CURRENT LIABILITIES			
Accounts payable		1.100	1.100
Total current liabilities		1.100	1.100
TOTAL NET EQUITY AND LIABILITIES		5.334.394	5.212.681

The accompanying notes are an integral part of these special purpose financial statements

JSW PANAMA HOLDINGS CORPORATION**SPECIAL PURPOSE STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED MARCH 31, 2016 AND 2015****(In US dollars - US\$)**

	Notes	2016 US\$	2015 US\$
CONTINUING OPERATIONS			
OPERATING REVENUE		-	-
OPERATING COST		-	-
OTHER OPERATING EXPENSES		-	-
TOTAL OPERATING MARGIN		-	-
Financial income	4	123.645	170.540
Financial expenses		(1.932)	(1.420)
Other expenses		-	(1.367)
TOTAL NON-OPERATING INCOME		121.713	167.753
INCOME BEFORE INCOME TAX		121.713	167.753
Income tax expense	11	-	-
NET INCOME		121.713	167.753
STATEMENT OF COMPREHENSIVE INCOME			
NET INCOME		121.713	167.753
TOTAL COMPREHENSIVE INCOME		121.713	167.753

The accompanying notes are an integral part of this special purpose financial statements

JSW PANAMA HOLDINGS CORPORATION

SPECIAL PURPOSE STATEMENTS OF CHANGES IN NET EQUITY FOR THE YEARS ENDED MARCH 31, 2016 AND 2015

(In US dollars - US\$)

	Notes	Paid-in capital US\$	Retained earnings US\$	Total US\$
Balances at April 1, 2013		100.000	4.943.828	5.043.828
Net income for the financial year		-	167.753	167.753
Balances at March 31, 2014		100.000	5.111.581	5.211.581
Balances at April 1, 2014		100.000	5.111.581	5.211.581
Net income for the financial year		-	121.713	121.713
Balances at March 31, 2015		100.000	5.233.294	5.333.294

The accompanying notes are an integral part of this special purpose financial statements

JSW PANAMA HOLDINGS CORPORATION**SPECIAL PURPOSE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2016 AND 2015
(In US dollars - US\$)**

	Notes	2016 US\$	2015 US\$
CASH FLOW USED IN OPERATING ACTIVITIES:			
Net income		121.713	167.753
Changes in operating assets and liabilities:			
Accounts receivable from related company		(120.906)	(185.029)
Accounts payable to related company		<u>-</u>	<u>(297)</u>
Net cash flow (used in) provided by operating activities		<u>807</u>	<u>(17.573)</u>
NET NEGATIVE VARIATION OF CASH AND CASH EQUIVALENTS		807	(17.573)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		<u>39.940</u>	<u>44.724</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	11	<u><u>40.747</u></u>	<u><u>27.151</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest		-	-
Cash paid for income taxes		-	-

The accompanying notes are an integral part of these special purpose financial statements

JSW PANAMA HOLDINGS CORPORATION

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 2016 AND 2015 (In US dollars - US\$)

1. GENERAL INFORMATION

JSW Panama Holdings Corporation (100% wholly owned subsidiary of JSW Steel (Netherlands) B.V., hereafter “JSWPHC” or “the Company”), was incorporated pursuant to the laws of the Republic of Panama in September 2007 under the name “Eroush Corporation”. On March 4, 2008, the Company changed its corporate name from Eroush Corporation to JSW Panama Holdings Corporation. The principal activities of the Company are investments in all types of entities and commerce of products and raw materials.

The Company holds a 94.9% interest in the subsidiary Inversiones Eurosh Limitada (“IEL”). During the last fiscal year the Company has decided not to continue with the development of the Daniel and Catalina IEL’s mining assets in view of the falling international iron ore prices. In addition as of the date of this report, SFM (a subsidiary of IEL) approved a temporary suspension of its mining operations for a further period until a significant improvement in international iron ore prices. Based on these circumstances, mainly a potential startup of the indirect subsidiary SFM and the financial support from the Group, the financial statements have been prepared following the going concern basis of accounting.

2. BASES OF PRESENTATION

2.1 Accounting principles

These special purpose financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and the interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) adopted by Panama based on the information submitted by the Company for consolidation purposes. These special purpose financial statements have been prepared under the historical cost convention.

These special purpose financial statements are pre-consolidated and intended to present the Company on a stand-alone basis.

2.2 Adoption of new accounting standards

a) New and revised IFRS effective in the current year

The following new and revised IFRS have been adopted in these financial statements:

Amendments to IFRS	Effective date
<i>Defined Benefit Plans: Employee Contributions</i> (Amendments to IAS 19)	Annual periods beginning on or after July 1, 2014
Annual Improvements 2010-2012 Cycle	Annual periods beginning on or after July 1, 2014
Annual Improvements 2011-2013 Cycle	Annual periods beginning on or after July 1, 2014

The application of these standards has had no significant impact on the amounts reported in these special purpose financial statements; however, they could affect the accounting for future transactions or agreements.

b) New and revised IFRS in issue but not yet effective:

New Standards	Effective date
IFRS 9, Financial Instruments	Annual periods beginning on or after January 1, 2018
IFRS 14, <i>Regulatory Deferral Account</i>	Annual periods beginning on or after January 1, 2016
Amendments to Standards	Effective date
Accounting for Acquisitions of interests in Joint Operations (Amendments to IFRS 11)	Annual periods beginning on or after January 1, 2016
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	Annual periods beginning on or after January 1, 2016
Agriculture: Bearer Plants (amendments to IAS 16 and IAS 41)	Annual periods beginning on or after January 1, 2016
Equity Method in Separate Financial Statements (Amendments to IAS 27)	Annual periods beginning on or after January 1, 2016
Disclosure Initiative (Amendments to IAS 1)	Annual periods beginning on or after January 1, 2016

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	Annual periods beginning on or after January 1, 2016
Annual Improvements 2012-2014 Cycle	Annual periods beginning on or after July 1, 2016

Management believes that the adoption of the standards, amendments and interpretations described above will have no significant impact on the special purpose financial statements of the Company.

2.3 Responsibility for the information and estimates

The Management of the Company is responsible for the information contained in these special purpose financial statements. These special purpose financial statements have occasionally used estimates made by the Senior Management of the Company to quantify some of the assets, liabilities, income, expenses and commitments recorded therein. On May 6, 2016, the Senior Management approved these special purpose financial statements.

These estimates are explained in greater detail in Note 3 and involve the following:

- Provisions for litigation and other contingencies

Regardless of the fact that these estimates were made with the best information available at the time, they may possibly need to be revised in future years as a result of future events; this would be done prospectively, as stipulated in IAS 8.

2.4. Summary of significant accounting policies

a. Functional currency - The functional currency of the Company will be determined as the currency of the main economic environment in which it operates. Transactions other than those performed in the entity's functional currency will be converted at the exchange rate in effect on the date of the transaction. Monetary assets and liabilities denominated in currencies other than the functional one will be converted again at the year-end exchange rates. Gains or losses from the reconversion will be included in net income or losses for the year, within other financial items. The functional and presentation currency of the Company is the US dollar.

b. Foreign currency - Transactions in a currency other than a company's functional one are considered to be "foreign currency" transactions and they are recorded in their functional currency at the exchange rate in effect on the date of the operation. At each year end, the statement of financial position amounts of monetary items in a foreign currency are valued at the year-end exchange rate and the exchange rate differences arising from such valuation are recorded in the profit or loss in the period.

c. Offsetting balances and transactions - As a general standard, assets and liabilities, income and expenses, are not offset in the financial standards, except for those cases in which offsetting is required or is allowed by some standard and the presentation is a reflection of the substance of the transaction.

d. Investment in subsidiary - The Company records its investment in subsidiary in these special purpose separate financial statements at cost, according to IAS 27, *Separate Financial Statements*.

e. Taxation - According to Panamanian regulations, companies that have transactions conducted from an office in Panama, but perfected, consummated or having effect abroad are tax exempted.

f. Intangibles - Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over the estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in the estimate being accounted for on a prospective basis.

g. Provisions - Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable the Company will be required to settle the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date.

h. Financial assets and liabilities - The financial assets and liabilities are recognized in the statement of financial position of the Company on the following basis:

- Accounts receivable - The accounts receivable are booked at its nominal value and reduced for appropriated provisions for the estimated non-recoverable amounts, based on a review of all outstanding amounts at the end of the year. Bad debts are written-off when identified.
- Accounts payable - The accounts payable are presented at its nominal value.

i. Cash and cash equivalents - The Company considers liquid financial assets, which may be easily converted into cash within no more than three months and where the risk of a change in their value is insignificant, to be cash equivalents.

Operating activities: these are the activities that constitute the main source of ordinary income of the Company, as well as other activities that cannot be classified as investment or financing activities.

Investment activities: these correspond to activities of acquisition, sale or disposal through other methods of long-term assets and other investments not included in cash and cash equivalents.

Financing activities: these are the activities that cause variations in the composition of the net equity, and of the financial liabilities.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the special purpose financial statements requires accounting estimates, judgments and assumptions to be made regarding the values at which various assets and liabilities are reflected in the special purpose financial statements and on the reported revenues and expenses during the reporting period. These accounting estimates and judgments are based on historical experience, industry trends and other factors considered relevant and/or significant. Actual results could differ from these accounting estimates and differences between actual results, due to impairment, if any, in the estimation of liabilities are recognized in the periods in which the results are known or materialize.

As specified in Note 2 to the special purpose financial statements, Management necessarily makes judgments and estimates that have a significant effect on the figures presented in the special purpose financial statements. Changes in assumptions and accounting estimates may have a significant impact on the special purpose financial statements. The details of the most critical accounting estimates and judgments made are as follows:

- **Provisions for litigation and other contingencies** - The final cost for claims and lawsuits could vary due to estimates based on different interpretations of the regulations, opinions and final evaluations of the amount of the damages. Therefore, any change in the circumstances involved in this contingency could have a significant effect on the amount of the contingency provision recorded.

4. FINANCIAL INCOME

At March 31, 2016 and 2015, the detail of financial income is as follows:

	2016 US\$	2015 US\$
Interest on loan to related companies	120.906	170.526
Others	<u>2.739</u>	<u>14</u>
Total	<u><u>123.645</u></u>	<u><u>170.540</u></u>

5. INVESTMENT IN SUBSIDIARY

Company	Subsidiary paid-in capital		Ownership Percentage		Total	
	2016	2015	2016	2015	2016	2015
	US\$	US\$	%	%		
Inversiones Eroush Limitad	43.926	43.926	94,9	94,9	<u><u>41.686</u></u>	<u><u>41.686</u></u>

Please refer to Note 1 for further information.

6. INTANGIBLES

At March 31, 2016 and 2015, the detail of intangible assets corresponds the mining concessions Chamonate 1 and Chamonate 10.

7. PAID-IN CAPITAL

The Company's issued and fully paid in capital amounts to US\$100,000 and consists of 100 ordinary shares of a face value of US\$1,000 each.

8. BALANCES AND TRANSACTIONS WITH RELATED COMPANIES

a. Shareholders - The Company's shareholder as at March 31, 2016 and 2015 is as follows:

Shareholder	Number of shares	
	2016	2015
JSW Steel (Netherlands) B.V.	100	100

b. Non-current balances - The detail of non-current balances due from related parties are as follows:

2016

Company	Relationship	Interest rate	Principal US\$	Interest US\$	Total US\$
Inversiones Eroush Ltda. (1)	Subsidiary	Libor + 5.0%	1,500.000	647.869	2.147.869
Inversiones Eroush Ltda. (1)	Subsidiary	Libor + 3.0%	1,200.000	307.479	1.507.479
JSW Steel (Netherlands) B.V. (2)	Shareholder	Libor + 3.5%	1,062.380	533.133	1.595.513
Total			3,762.380	1,488.481	5,250.861

2015

Company	Relationship	Interest rate	Principal US\$	Interest US\$	Total US\$
Inversiones Eroush Ltda. (1)	Subsidiary	Libor + 5.0%	1,500.000	596.712	2,096.712
Inversiones Eroush Ltda. (1)	Subsidiary	Libor + 3.0%	1,200.000	287.479	1,487.479
JSW Steel (Netherlands) B.V. (2)	Shareholder	Libor + 3.5%	1,062.380	483.384	1,545.764
Total			3,762.380	1,367.575	5,129.955

(1) This amount is composed of two loans, US\$1,500,000 on January 14, 2008 and US\$1,200,000 on July 24, 2009, which have a rate monthly of Libor + 5% and yearly Libor + 3%, respectively.

(2) This loan corresponds to balance with the Shareholder JSW Steel (Netherlands) B.V. from the previous period which does not have a maturity.

c. Transactions - The main transactions with related parties are as follows:

2016

Company	Relationship	Nature of the transaction	Amount of the transaction US\$
Inversiones Eroush Limitada	Subsidiary	Interest accrued	71.158
JSW Steel (Netherlands) B.V.	Shareholder	Interest accrued	49.749

2015

Company	Relationship	Nature of the transaction	Amount of the transaction US\$
Inversiones Eroush Limitada	Subsidiary	Interest accrued	120.921
JSW Steel (Netherlands) B.V.	Shareholder	Interest accrued	49.605

9. FINANCIAL INSTRUMENTS

a. Financial assets

The carrying values and fair values of financial assets as of March 31 are as follows:

	Estimated fair value		Carrying value	
	2016 US\$	2015 US\$	2016 US\$	2015 US\$
Accounts receivable from related companies	5.250.861	5.129.955	5.250.861	5.129.955
Total financial assets	5.250.861	5.129.955	5.250.861	5.129.955

The fair value of financial assets at March 31, 2015 and 2014 is not materially different to the carrying value.

The exposure of the Company's financial assets to interest rate and currency risks are the follows:

	March 31, 2016				March 31, 2015			
	Total US\$	Variable rate US\$	Fixed rate US\$	Interest-free US\$	Total US\$	Variable rate US\$	Fixed rate US\$	Interest-free US\$
US dollar	5.250.861	-	-	5.250.861	5.129.955	5.129.955	-	-
Total financial asset	5.250.861	-	-	5.250.861	5.129.955	5.129.955	-	-

b. Financial liabilities

The carrying values and fair values of financial liabilities as of March 31 are as follows:

	Estimated fair value		Carrying value	
	2016 US\$	2015 US\$	2016 US\$	2015 US\$
Accounts payable	1.100	1.100	1.100	1.100
Total financial liabilities	1.100	1.100	1.100	1.100

The exposure of the Company's financial liabilities to interest rate and currency risks are the follows:

	March 31, 2016				March 31, 2015			
	Total US\$	Variable rate US\$	Fixed rate US\$	Interest-free US\$	Total US\$	Variable rate US\$	Fixed rate US\$	Interest-free US\$
US dollar	1.100	-	-	1.100	1.100	-	-	1.100
Total financial liabilities	1.100	-	-	1.100	1.100	-	-	1.100

c. Exposure to and management of financial risks

Significant financial risks that the Company is exposed to are liquidity risk, foreign currency risk, interest rate risk and commodity price risk.

• Credit risk

Credit risk refers to the risk that a counter party will default in this contractual obligations. This risk is managed by dealing only with creditworthy counterparties and wherever necessary by obtaining sufficient collateral. In the case of the Company's customers, credit risk is managed by dealing only through irrevocable letters of credit, issued by reputed banks. Credit evaluation of customers is carried out on regular basis.

• Liquidity risk

Liquidity risk refers to the risk that the Company always has adequate funds to meet its payment obligations. This is achieved by having the funds in cash and current account bank balances. The Company manages liquidity by maintaining adequate reserves and banking facilities.

• Exchange rate risk and interest rate risk

The Company's operating currency is US dollars and the subsidiaries also maintain their accounts in US dollars. However, the main operating subsidiary Santa Fe Mining, based in Chile, has its trade liabilities in Chilean pesos. Thus the Company is exposed to fluctuations in the parity between US dollar and Chilean pesos.

10. CASH AND CASH EQUIVALENTS

The detail of cash and cash equivalents as at March 31, 2016 and 2015 is as follows:

	2016 US\$	2015 US\$
Cash and banks	<u>40.747</u>	<u>39.940</u>

11. INCOME AND DEFERRED TAX

According to Panamanian regulations, companies that have transactions conducted from an office in Panama, but perfected, consummated or having effect abroad are tax exempted.

12. COMMITMENTS

The Company has not made any commitments towards capital expenses as at March 31, 2016.

13. SUBSEQUENT EVENTS

The Company's management is not aware of any events subsequent to April 1, 2016 and until May 6, 2016, the date these special purpose financial statements were available to be issued, that could materially affect them.

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