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# Positioned for **growth**

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# **Ferrexpo** is a resources company listed on the London Stock Exchange and a member of the FTSE 250 index.

Ferrexpo is headquartered in Switzerland, with its principal operating assets in Ukraine. The Company is primarily involved in the production and export of iron ore pellets, used in producing steel.

We are committed to realising the potential of one of the largest iron ore resources in the world, and aim to be recognised as a leading global supplier of iron ore pellets, providing outstanding service to our customers and strong returns to our shareholders.

This Annual Report includes statements that are forward looking in nature, particularly relating to the business, strategy, investments, production, major projects and their contribution to expected production and other plans of the Ferrexpo Group and its current goals, assumptions and expectations relating to its future financial condition, performance and results

Forward looking statements involve known and unknown risks, assumptions, uncertainties and other factors that may cause the actual results, performance or achievements of the Ferrexpo Group to be materially different from any future results, performance or achievements expressed in or implied by such forward looking statements Past performance is no guide to future performance, and persons in need of advice should consult an independent financial adviser

The forward looking statements reflect knowledge and information available at the date of preparation of this Annual Report Except as required by the Listing Rules, the Disclosure and Transparency Rules and applicable law, Ferrexpo undertakes no obligation to update or change any forward looking statements to reflect events occurring after the date of this document

Nothing in this Annual Report should be construed as a profit forecast

## Operational and financial highlights

# A year of growth

**US$698m**

revenue up by 28% to US$698m

**65%**

EBITDA up 65% to US$246m

**3.2 US cents**

dividend of 3.2 US cents per Ordinary Share

**128%**

underlying earnings[1] up by 128% to US$152m

**9%**

increase of 9% in iron ore output to 28 9 million tonnes

**19%**

increase in production of high quality (65% Fe) pellets from Company's own ore

**63%**

EBIT for the year up by 63% to US$187m

1 See Glossary

**Ferrexpo at a glance**

# Our business at a glance

## Where we operate

Our operations are located in central Ukraine, giving us an unmatched competitive advantage in terms of logistics, making us an iron ore producer with one of the lowest costs of supply to our principal customers.

Ferrexpo transports its product via rail and barge to its customers in Eastern and Central Europe, Turkey and to the Port of Yuzhny on the Black Sea for onward transport by ship to China, Japan and India Superior logistics management is the key to maximising the benefit of our location on the doorstep of Europe The Group owns half of the TIS-Ruda private bulk commodity terminal at Yuzhny, the only one of its kind in the former CIS, and is in the process of building up its own fleet of railway cars

## Our operations

Ferrexpo's operations are situated on the Kremenchug Magnetic Anomaly, a 50km long iron ore deposit in Ukraine's Poltava region, making it the largest iron ore resource in Europe. The Group holds the licences to explore or mine the entire deposit, with its current operations situated at the southern end of the deposit, adjacent to the Dnieper River

## Our operating asset

**The GPL Mine**
A single open-cut mine, 6km long and 300m deep

- Encompassing two deposits – Gorishne-Plavninskoye and Lavrikovskoye
- Produced 29mt of iron ore in 2007, equating to 9 1mt of pellets
- Announced expansion to approximately 32mtpa of iron ore by late 2010, and an extension of the mine life to at least 2035 in November 2007
- 1 6bt of JORC-classified resource remaining (magnetite, c 30% Fe content)
- Processing and pelletising capacity of over 12mtpa

## Further potential

- Four large northern deposits
- Approximately 14bt of magnetitic ore reserves, classified under the Soviet GKZ code

## Our projects

Three large, well-explored deposits

**Gafeschinskoye**
Mine concept studies currently under way

- 325mt high-grade haematite deposit (c 60% Fe content) within a larger magnetite deposit

**Belanovskoye**
Pre-feasibility study currently under way

- 1 6bt of JORC-classified resource (magnetite, c 30% Fe content)
- Large open-cut mine planned – c 45mtpa of iron ore
- Plan includes dedicated new processing and pelletising facilities

**Yeristovskoye**
Our most advanced growth project
Detailed feasibility study under way

- Over 800mt of JORC-classified resource (magnetite, c 30% Fe content)
- Open-cut mine planned – approximately 27mtpa of iron ore
- Plan includes dedicated new processing and pelletising capacity
- US$47m of capex committed to draglines in 2007
- Pre-stripping commences in 2008
- First ore in 2011

## Chairman's statement

**2007 year in review**

# An eventful and successful year

I am pleased to report that Ferrexpo has achieved strong operational and financial performance in its first financial reporting period as a publicly listed company. The Group has made considerable progress towards its stated objective of becoming a world-class resources company. We are committed to best practice in our operations, marketing and corporate governance, and we are developing a significant and realistic growth programme.

**Performance in 2007**
Notwithstanding the highest priority we attach to the health and safety of our people, we incurred a fatal injury at our Poltava mine in November Regrettably, in 2008, we have suffered a further two fatal accidents at this site These tragedies are totally unacceptable and have provided a rallying point for us to redouble our efforts in continuing to introduce best practice in health and safety management We have now appointed Du Pont Safety Resources which has an outstanding record of success in assisting companies to achieve a 'zero harm' objective

We increased production from our existing mine for the sixth consecutive year The Group produced 9 1mt of iron ore pellets, an increase of 6% compared to 2006 Pellet production from our own produced ore rose from 8 1mt in 2006 to 8 8mt in 2007, and we produced 19% more high quality 65% Fe pellets from our own ore The increases in volume and product quality resulted directly from continued improvements in operating efficiency and capital investment The improvement in production output and quality, along with higher achieved sales prices resulting from the increasingly favourable global iron ore market and a relentless focus on operating costs, enabled us to achieve significant growth in both revenues and profits during 2007

Revenues for 2007 were up 27 6% at US$698 2m(2006 US$547 3m) Pre-taxprofit increased by 99% to US$160 8m (2006 US$80 7m) Group EBITDA for the period increased by 65% to US$246 1m (2006 US$149 1m)

**Market environment**
The Group achieved an average price of US$72 3 per tonne of pellets sold in 2007, a 17% increase over the average achieved price in the previous year (2006 US$61 8 per tonne) International iron ore benchmark price increases in 2007 had a positive effect on a number of our pellet contracts We were successful in our continued efforts to increase prices to appropriate levels on a delivered, 'value in use' basis which resulted in Group average price outcomes in line with the international
benchmark At year end, the Group was selling approximately 85% of its output to established clients on the basis of long term supply agreements

Globally, iron ore is currently in short supply, driven by demand from developing nations, in particular China and India, and in our core Eastern European markets, where per capita steel consumption continues to grow in line with their strong economic growth This demand and supply dynamic has led to the increases in international benchmark prices outlined above, and we anticipate further uplifts to our product prices in the current year on the back of continued demand growth Our customers forsee continuing solid demand for steel in 2008

The global steel industry has also been subject to increased environmental limits on sinter plant construction, a declining global supply of high quality lump iron ore and heightened productivity targets in steel making These factors are likely to result in sustained higher consumption ratios of pellets versus other forms of iron ore feed

**May 2007**
Ferrexpo issues a Notice of Intention to Float on the Regulatory News Service of the London Stock Exchange in anticipation of its impending listing

**June 2007**
The Initial Public Offering of Ferrexpo plc on the Main Market of the London Stock Exchange was successfully priced at 140p per share raising a total of US$424 million, approximately half of which were primary proceeds

**July 2007**
Ferrexpo announces the extension of its long term supply contract with VoestAlpine AG its largest customer, to 2015

**September 2007**
Ferrexpo included in the FTSE 250 Index

**September 2007**
Ferrexpo announces the first capital expenditure commitment on the Yeristovskoye mine development, the first of its major growth projects, investing US$47 million on six draglines

**September 2007**
Ferrexpo announces its Interim Results for the first half of 2007, which reflected growth in production and achieved prices, and tight cost control

**November 2007**
Ferrexpo announces the commitment of US$158 million to expand its existing mine and extend its productive life to 2032 a highly capital efficient project that will result in an approximately 15% uplift in production from existing operations by 2011

**December 2007**
Ferrexpo announces the appointment of Chris Mawe as its Chief Financial Officer and Oliver Baring as its Senior Non-executive Director, together with other management role changes associated with its accelerated growth plans

**"The Group has made considerable progress towards its stated objective of becoming a world - class resources company."**

## Operations

In 2007 Ferrexpo retained its leading position as the largest exporter of iron ore pellets from the Ukraine Overall pellet production increased by 6% compared with the previous year

Market conditions made it uneconomical to purchase iron ore concentrate from third parties to take advantage of our excess pelletising capacity The increase in our production was therefore accomplished using almost entirely our own produced concentrate, and was accompanied by a further increase in the proportion of high grade pellet production with an iron content above 65%

Our cash costs of production for 2007 were US$31 8 per tonne of pellets, as against US$29 3 per tonne in 2006 This 8 6% increase in production costs compares favourably against Ukrainian inflation, which saw a Producer Price Index increase of 23 3% for 2007 Ferrexpo maintained flat nominal costs of production in 2005, 2006 and the first half of 2007, through aggressive cost management and the implementation of a Business Improvement Programme at our Poltava mine We are continuing to successfully control costs High Ukrainian cost inflation in the second half of the year meant we were not able to achieve the material real reductions in costs that we delivered in prior periods This is likely to remain a factor in Ukraine in the short term and will remain a feature of the industry worldwide in the medium term

## Marketing

We have had a very successful year in the crucial areas of marketing and distribution, having extended one of our largest long term contracts to 2015, and initiated a major new long term supply agreement in Ukraine

## Logistics

To ensure access to world markets, the TIS-Ruda ocean-vessel port facility was commissioned in May 2007 and formally recognised by the Port of Yuzhny in October 2007 Ferrexpo owns 49% of TIS-Ruda, the first privately owned dry bulk commodity terminal in the former CIS, and has access to its 5mtpa export capacity To enhance the reliability of supply, we are also in the process of procuring up to 550 railcars for use on the state railway infrastructure

We continue to develop the Group's logistical capabilities throughout the delivery chain to allow further expansion of our global customer base in anticipation of our growing production

## Investing activities

Operating cash flow for 2007 was US$188 8m, an increase of 176% over the previous year (2006 US$68 3m) Together with the proceeds from our Listing in June, this strong cash flow has allowed us to initiate investment in our accelerated growth strategy The Group invested US$104 4m in continuing to develop and upgrade our existing operations in 2007, and in November the Board committed a further US$158m in development capital expenditure for this purpose

In addition to the expansion and optimisation of the existing mine, we are focusing our investment activities primarily on our major growth projects The Board has approved a new accelerated business plan which envisages the parallel development of several of the Group's major expansion projects The first of these is Yeristovskoye, for which the Board committed US$47m in September 2007 for new draglines This equipment will be used to commence stripping operations at this deposit in 2008

# **Chairman's statement** continued

**Our key aim**

is to realise the potential of our unique resource

**Management and people**
We continued to strengthen our management and operational capability We are pleased to welcome to the Board Chris Mawe (previously Finance Director of UK Coal plc) as Chief Financial Officer and Oliver Baring (Chairman of Mwana Africa plc) as Senior Independent Non-executive Director

On behalf of the Board I would like to thank all of our management and staff, both at our operations and elsewhere in the Group, for their hard work and commitment throughout the year The significant progress which the Group has made in 2007 would not have been possible without their enthusiasm and dedication

**Corporate governance and social responsibility**
I am pleased to report that the Group has achieved substantial compliance with the UK Combined Code on Corporate Governance within six months of its listing on the London Stock Exchange, and we continue to make further progress in line with best practice The Board remains firmly committed to delivering high standards of corporate governance in the future

The Board has constituted a Corporate Social Responsibility ('CSR') Committee, chaired by our Chief Executive, to monitor the management of the Group's health, safety, environmental and community programmes CSR remains a priority and we are continuing to develop further initiatives to institutionalise safety conscious behaviour, actively engage with local communities and to minimise our impact on the environment

**Outlook**
The current year has started well with substantial increases in global iron ore prices being announced This has created a very positive environment for the annual price negotiations with our major customers and we expect the global pricing trend to flow through to our new contract prices from 1 April 2008 Production continues to increase incrementally as our improvement programmes come into effect Ukrainian cost inflation was high in 2007 and is set to continue in 2008, with the result that we do face cost increases in the coming year, particularly with regard to State regulated cost inputs The Directors believe that the Group will continue to grow its revenues and profits in 2008

> **Production continues to increase incrementally as our improvement programmes come into effect.**

**Dividend**
The Directors intend to pursue a dividend policy consistent with the Group's growth profile This will reflect the investment the Group is making to drive future growth and the amount of cash generated by the existing operations, while maintaining a prudent level of dividend cover The Directors recommend a dividend in respect of profits generated for the Ferrexpo Group in 2007 of 3 2 US cents per Ordinary Share for payment on 19 May 2008 to shareholders on the register at the close of business on 18 April 2008 The dividend will be paid in UK pounds sterling

**Michael Abrahams CBE DL**
**Chairman**

## Chief Executive Officer's review

**Our strategy explained**
The Group's principal aim is to enhance overall value for its shareholders, through a strategy of

# Positioned for accelerated growth

Our excellent operational and financial performance in 2007 has established a strong foundation for the accelerated growth plans of the Group.

**EBITDA**

**65%**

EBITDA up 65% to US$246 1m

At the start of the year, we set out to achieve improvements in operating efficiency, product quality and production growth In marketing, we aimed to become the iron ore supplier of choice in our key markets We have succeeded in all these endeavours, with substantial progress being made at both our existing operations and with our growth projects

We hold the exclusive licences to a world class iron ore resource, uniquely positioned close to our core markets and operating in a global market environment that is increasingly positive for our business Among the world's iron ore producers, we are very favourably positioned to take advantage of the opportunities these circumstances present and have made significant progress in developing the range of capabilities required to do so

Our strategy is to maximise the value of the Group through the accelerated commercialisation of our extensive undeveloped ore deposits, whilst ensuring continuous production growth and cost competitiveness in our existing operations The Board continues to refine and develop this strategy, with an overarching focus on management's priorities to establish the operational, financial and risk management capabilities required for aggressive delivery on our project pipeline

**Existing operations**
In 2007, the goals for our existing operations at Ferrexpo Poltava Mining ('FPM') centred on continuing the demonstrated trend of improvements across all areas of CSR and especially safety, and in operating efficiency, product quality and production growth

Considerable progress has been made in establishing health, safety and environmental management ('HSE') systems at FPM and a culture of continuous improvement in HSE performance is evident Sadly, we suffered a fatality during 2007 and a further two
in 2008 that highlighted the urgent need for us to introduce best practice in behavioural safety We have now secured the services of Du Pont Safety Resources which has an outstanding record of success in assisting companies to move towards a 'zero harm' objective

We succeeded in increasing the iron ore output from our existing Gorishne – Plavninskoye Lavrikovskoye ('GPL') mine by 9% and achieved a 6% increase in total pellet output This was accomplished with only negligible production of pellets from purchased concentrate, the margins being prohibitively low Production of our higher quality 65% Fe pellets from our own ore rose by 19% Notwithstanding the increased yield of higher quality pellets
and the local inflationary environment, we succeeded in containing increases in unit production costs to some 15 percentage points below Ukrainian Producer Price Index for 2007

**1**
Increasing production of iron ore pellets by optimising and expanding the extraction of iron ore from its current open-cut mine on the Gorishne-Plavninskoye and Lavrikovskoye deposits

**2**
Implementing best practice mine and facilities operations at Ferrexpo Poltava Mining ('FPM') enhancing efficiency and reducing operating costs

**3**
Deriving substantial value from its significant unexploited iron ore reserves through the accelerated development of the nearby Yeristovskoye, Belanovskoye and Galeschinskoye deposits

**4**
Leveraging its relationships with its existing global customer base to grow market share and support the Group's increased production profile

**5**
Increasing sales into growing markets for iron ore and extracting value through the Group's advantageous logistical position and its enhanced operational capability

**6**
Continuing to develop the Group's logistical capabilities to match its growing production

**7**
Managing the Group's cost base by reducing its exposure to energy market volatility and other cost fluctuations

**8**
Upgrading existing assets and procuring additional capital equipment to achieve target production levels in excess of 32mtpa of pellets by 2018

## Our key strategy

accelerate development of reserves

grow production

expand customer base

We carried out extensive engineering test work on the GPL mine in 2007, in the course of fulfilling our commitment to optimising our existing facilities. This work revealed the potential to expand and improve the mine beyond what was thought feasible at the time of our Listing. It culminated in our announcement in November 2007 of the commencement of a US$158m project to expand iron ore production at the GPL mine to approximately 32mtpa by late 2010 and to extend the life of the mine at these production levels to at least 2035. This additional ore production will enable the Group to take advantage of currently under-utilised processing capacity to increase high quality pellet production by approximately 15%, or 1.3mtpa. This project will deliver meaningful and capital-efficient growth as we continue to pursue opportunities for extracting greater value from our current operations.

We are well advanced with the engineering of upgrades to the beneficiation and pelletising plants at FPM that will enable us to continue to improve product quality, further reduce real unit operating costs and ensure that we have a robust capability to process the expanded production of ore from the GPL pit for its now extended economic life.

We have also committed to an intensification of our Business Improvement Programme at FPM to accelerate the shift towards best-in-class operational performance.

### Growth projects

At the time of our Listing, we informed the market that we planned to double our production by 2014. We proposed to do this by commissioning a second open-cut mine immediately to the north of our existing GPL mine, on the Yeristovskoye deposit. We now believe that further accelerated development of the deposits to the north of the GPL mine is feasible. Studies under way on the Yeristovskoye and Belanovskoye deposits indicate that they can be developed essentially in parallel. Work is also proceeding on plans to develop Galeschinskoye, the deposit to the north of Belanovskoye. Given the positive conditions prevailing in the global iron ore market and our enhanced operational and project execution capability, this acceleration will be of great benefit to Ferrexpo.

We are now contemplating a fourfold increase in ore production within the next 10 years. We are planning to accelerate the development of the Yeristovskoye mine by one year, and then to develop a mine at the Belanovskoye deposit soon thereafter. First ore from the Yeristovskoye mine is now expected in 2011, with infrastructural and site preparation operations already under way. Six new draglines were ordered in September to assist in the stripping of Yeristovskoye at a cost of US$47m. The Yeristovskoye mine is currently in detailed feasibility study, and the Board expects to consider final investment commitment to the entire project in the second half of 2008. Belanovskoye is currently at the pre-feasibility study stage, and development option studies for the Galeschinskoye deposit are now in progress.

## **Chief Executive Officer's review** continued

We have made significant progress in developing the capability to execute these expansion projects A new operating organisation, separate from FPM, is being established to develop and ultimately operate the new assets and key senior managers have been appointed This will facilitate the immediate introduction of best practice into these assets We are developing our mining alliance with DTP Terrasement S A (France) ('DTP') and project management alliance with Worley Parsons Europe Limited, and these are gathering momentum and have been instrumental in enabling us to aggressively pursue these growth projects with confidence

Our growth projects are brownfield expansions of our existing business and as such represent substantially lower risk additions of new iron ore capacity than many of the iron ore projects that have been announced worldwide

We are confident in our capacity to fund and execute our growth plans from our own resources However, we are actively discussing the mutual benefits of investments in our growth assets with a range of strategic investors to provide the additional funding and execution capability that will be required if we are to progress our plans as aggressively as possible in order to take advantage of the extremely favourable outlook for our products

**Marketing**
Our marketing strategy aims to develop a portfolio of customers in a range of markets that will enable us to achieve full value for our products and provide sales volume growth commensurate with the pace of development of our new producing assets

We seek to maximise the proportion of our production sold on long term contracts and to strengthen our relationships with our key customers, while also participating in a low level of short term sales We have had a successful 2007, with a major new long term contract in Ukraine, as well as the extension of our contract with VoestAlpine AG to 2015 and the extension of our contracts in Slovakia and Serbia At the end of 2007, approximately 85% of our sales were made under long term supply agreements, most of which are directly or indirectly linked to benchmark prices

Sales in 2007 reached 9,261kt and included growth in our highest return core markets of Eastern Europe and Ukraine
We were successful in establishing long term business into Turkey, resuming sales to Russia and we delivered our first trial cargo to Japan

**Logistics**
Significant progress was made in 2007
We are committed to managing the fullest extent of our delivery chain to assure our customer service, to maximise overall sales margins and to ensure that our growth plans are not frustrated by logistics constraints This will be achieved by developing world class logistics management as an integral function of our sales and marketing activities Selected investments in barge, rail and port facilities will also be required to overcome logistics bottlenecks in Ukraine and Eastern Europe and these are being contemplated with key partners

Our investment in the TIS-Ruda ocean vessel terminal provides us with access

to a private port on the Black Sea with a capacity of 5mtpa This facility has significant expansion potential and provides the base from which we can grow our seaborne trade as we expand our producing assets We also acquired 110 rail cars in 2007, with a further 440 planned for delivery in 2008 This will allow us to benefit from lower rail tariffs afforded to users of own rolling stock and to enhance reliability We also have major rail and water way studies under way in Ukraine to determine future needs

**Market outlook**
We believe that the existing positive market environment for our business is likely to continue for the next two years and beyond This is fundamentally due to sustained strong demand for steel products and steel-making raw materials not only in the developing economies of China and India, but also in Eastern Europe, the former CIS and several other parts of the world Strong iron ore pricing is being underpinned by a slow supply response from the mining industry, attributable to the acute execution difficulties being experienced by many of the projects that have been launched to meet the demand surge, the need to develop lower quality ore bodies and massive infrastructure investments required for many of the new greenfield developments

From a cost perspective, the industry has witnessed fundamental structural changes in the past year The production cost of the marginal tonne of iron ore has risen substantially and, in the view of many market commentators, permanently We believe that this rebasing of production costs provides a new floor for iron ore prices, below which they are unlikely to fall

**People**
Our strong performance in 2007 is a direct result of the quality and dedication of our people and their enthusiastic support for the major change programmes that are now under way across all facets of our business We are committed to building the additional capability required to implement our aggressive growth plans in line with best practice while containing costs and this is a critical priority for our executive team I would like to thank all our employees and our key partners for their ongoing support and contribution

**Mike Oppenheimer**
**Chief Executive Officer**

## Chief Executive Officer's questions and answers

# Mike Oppenheimer answers some of your questions

# Q&A

**Our principal competitive advantages are our location and the size of our iron ore resource.**

**Q.** Having previously worked with large international diversified resources companies with operations in many countries, what is your impression of doing business in Ukraine?

**A.** Ukraine compares favourably to many of the places I have worked in the past Being a developing economy does of course bring with it many challenges, but few that are unusual or unexpected It is worth remembering that many of the world's mines are in developing countries and Ukraine is considerably more developed than many of these, especially as far as infrastructure, engineering and manufacturing are concerned, sectors critical to successful resource development Our Ukrainian employees are well educated and trained and they have embraced our programmes for establishing best practice with enthusiasm

The media has made much of the political instability in Ukraine over the past few years, but this seems to reflect the commitment of the Ukrainian people to a strong democratic process During my time with our Company, this so-called instability has had little effect on our existing business, but it has meant that Ukraine has not had the opportunity to develop a unified and transparent economic policy for export oriented resources industries We have concerns with the recent above-inflation increases in state-regulated costs such as electricity and rail tariffs and we look forward to engaging the current government on the integrated set of issues that relate to Ukraine's attractiveness for major resources industry investment

**Q** As a single commodity 'pure play' company, Ferrexpo is relatively unusual in the London market What are the advantages of this?

**A** Investors frequently prefer to construct their own portfolios, rather than hold companies that are already diversified For investors seeking to balance their mining company portfolios, Ferrexpo represents a very clear exposure to iron ore

Operationally, our stated iron ore growth strategy allows us to focus our scarce human and capital resources on the business we know best

**Q.** What are your competitive advantages over other iron ore producers? How do you compete with the big producers, such as the Brazilians?

**A.** Our principal competitive advantages are our location and the size of our iron ore resource Most of our principal customers are in Central and Eastern Europe and Ukraine These customers operate steel mills that were constructed in many cases by the former Soviet Union to use Ferrexpo pellets and extensive infrastructure was established to deliver these to the customers' operating sites For the majority of these customers, we have one of the lowest costs of supply of any iron ore producer We are also close to Turkey and the Middle East, both of which have the potential to become attractive markets for us in the future The Brazilian producers do have lower cash costs of production than we do, principally due to the higher grades of their resources However, their shipping distances to our major customers are substantially greater than ours and ocean and rail freight charges are a significant portion of the total cost of pellet supply, thus ensuring that our supply costs are highly competitive within the markets we serve We have also been able to enhance our product quality and supply reliability and are now regarded as a preferred supplier by many of our major customers Our vast undeveloped resources provide the base from which we can aggressively grow our competitively priced supply and we have demonstrated our commitment to the investments required, further enhancing our offering to our major customers We have developed our own export logistics via the Black Sea and supply competitively into the strongly growing markets of Asia

**Q** What is the outlook for iron ore pricing?

**A** The current environment for iron ore is unprecedented Our view is that prices will continue to strengthen for at least the next two years, as the world's iron ore producers struggle to bring more capacity on stream to meet the growing demand from China and other developing nations The industry has suffered under-investment in the past, and what we are now seeing is market tightness while this state of affairs is addressed

**Q** How is the market for iron ore developing and what is the attraction of pellets?

**A** The development of the market for iron ore and pellets is a function of global demand At present, demand is increasing rapidly, and iron ore producers are unable to supply sufficient product to meet this demand In addition, the supply of higher quality ores, which can be fed directly into iron making furnaces, is dwindling worldwide This has forced producers to mine lower quality ores, and these generally need to be beneficiated to improve their Fe content, and often this involves the production of pellets Pellets are an intermediate product, since they have undergone some processing, so at times when steel mills are running at full capacity, they offer productivity gains to blast furnace operators This results in pellets being sold at a premium to the benchmark price for iron ore fines With the continued strength of the world steel market, we are of the view that pellets will continue to attract a premium for 'value in use' and improved productivity in blast furnaces This should see continued support for solid pellet price premiums to sinter fines and lump ores

**Q** Costs are rising across the mining industry How has Ferrexpo managed to keep them down?

**A** Understandably, our operations have not historically had the strong focus on costs and profitability that has now become the norm worldwide Two years ago we instituted a 'Business Improvement Programme', designed to introduce best practice in our operations, thereby increasing efficiency and productivity Results achieved to date have been notable We were able to keep costs flat in nominal terms (implying significant real reductions) for 2005, 2006 and the first half of 2007 This success is partly attributable to the fact that there were many areas where substantial improvement could be achieved very quickly by implementing practices used at leading mining operations around the world Ferrexpo is facing the same kind of inflationary cost pressures that the rest of the industry is seeing Our costs rose by 13 1% in the second half of 2007, and are likely to rise again in 2008 as we face increasing cost inflation in Ukraine We have plans to mitigate these cost increases, however, and aggressive cost management will remain a key focus of management

**Q** How has Ferrexpo changed and developed in the period since the Listing?

**A** Compared with a year or two ago, Ferrexpo is a completely transformed Company Preparation for Listing necessitated many changes to the way the business was run, in terms of governance, transparency, operational efficiency, health and safety, and financial management, to name but a few FPM is a world class resource, and focus was put on introducing world class management processes to complement it By the time of the Listing in June, the turnaround process was well under way, and it has continued in leaps and bounds since then The fact that we have produced more, extended our plans for expansion and delivered real term reductions in costs is testament to that change Our Board has also developed and in December we welcomed Christopher Mawe to the role of Chief Financial Officer and Oliver Baring as our Senior Independent Director Ferrexpo is rapidly becoming an organisation with best practice operations and corporate governance

**Q** What are the key benefits of a London listing?

**A.** Our London Listing provides us with access to one of the world's largest capital markets and the world financial centre for the mining industry Beyond that, it has provided enormous benefits in terms of transparency and credibility The fact that the Group has undergone the due diligence process and been subjected to the regulatory and investor scrutiny necessary for a listing on the Main Market of the LSE has opened many doors for us Our inclusion in the FTSE 250 index in September further enhanced our credibility in the eyes of investors Ferrexpo's negotiations with potential partners and even customers with whom we are now dealing have benefited enormously from the fact that we are listed The London Listing not only provided new funds for the growth of our business but continues to play a much wider role in making all of our strategic plans possible

**Q.** What is your ambition for the Group, and where do you see Ferrexpo in five years' time?

**A** My ambition for the Group is to see it become the primary iron ore supplier in Europe and Ukraine, and a significant player in the industry worldwide We have made great strides towards best practice, and we are now ready to launch the accelerated development of our vast iron ore resource In five years' time, I expect Ferrexpo will be halfway to becoming a 32mt per annum iron ore pellet producer

## Board of Directors and Executive Committee

# Strength through teamwork

## The Board

**1. Michael Abrahams, CBE DL (70)**
**Non-executive Chairman**
Michael Abrahams is Chairman of the London Clinic, KCOM Group PLC, the Prudential Staff Pension Scheme and Amteus plc He was Deputy Chairman of Prudential plc until May 2000, and has served as chairman and as a director of a number of quoted and unquoted companies

**2. Mike Oppenheimer (53)**
**Chief Executive Officer**
Mike Oppenheimer has been Chief Executive Officer of the Ferrexpo Group since 1 August 2005 He has had global executive leadership experience across a number of resource industries, in both the mining and petroleum sectors He was previously President of BHP Billiton Energy and a member of the BHP Billiton Executive Committee until July 2004 He was appointed President of Energy Coal after the BHP merger with Billiton Before that, he was President of North West Shelf & Gas Commercialisation and member of the BHP Petroleum Executive Committee until early 2000 Mike Oppenheimer was formerly a director of Richards Bay Coal Terminal, International Colombia Resources Corporation, QCT Resources Ltd, World Coal Institute and a member of Coal Industry Advisory Board of the IEA

**3. Dennis McShane (52)**
**Director of Business Development**
In December 2007 Dennis McShane moved from his role overseeing the Group's finance and strategy functions to a full time focus on business development and in particular the Group's strategic investor programme Prior to joining the Group in 2003, he was an investment banker for over 25 years with JPMorgan Chase with extensive experience in the mining and metals sector and emerging markets, most recently as Head of Mining & Metals AsiaPacific, based in Sydney He is a graduate of the State University of New York and PMD from the Harvard Business School Dennis McShane is also a non-executive director of Ophir Energy plc

**4 Christopher Mawe, FCA (46)**
**Chief Financial Officer**
Chris Mawe is the most recent addition to both the Executive Committee and the Group's Board of Directors, having joined the Group in January 2008 He qualified as a Chartered Accountant with Coopers and Lybrand in 1991, having gained a First Class Honours degree in Engineering He has held senior financial positions for the past 16 years, firstly with IMI plc both in the UK and Europe, and then with Carclo plc as finance director Most recently, Chris was finance director of UK Coal plc

**5. Kostyantyn Zhevago (34)**
**Non-executive Director**
Kostyantyn Zhevago is ultimately the controlling shareholder of Ferrexpo He has been a member of the Ukrainian Parliament since 1998 He is currently a member of the Parliamentary Committee on Law Policy and Chairman of the Parliamentary Group for Inter-Parliamentary Relations with Japan Since 2002, Kostyantyn Zhevago has been a member of the permanent delegation of the Ukrainian Parliament in the Parliamentary Assembly of the European Council and a member of the Ukrainian faction of the Committee for Parliamentary Cooperation between Ukraine and the European Union He has previously served as chairman of the management board and deputy chairman of the supervisory board of CJSC Commercial Bank Finance and Credit ('Finance and Credit Bank') and as a member of the supervisory board of JSC Ukrnafta Between 1993 and 1996, he was financial director of Finance and Credit Bank Kostyantyn Zhevago graduated from the Kyiv State Economic University in 1996, specialising in international economics

**6 Raffaele (Lucio) Genovese (46)**
**Independent Non-executive Director**
Lucio Genovese is also the Chief Executive Officer of Nage Capital management, a Swiss-based advisory and proprietary company specialising in the metals and mining sector He has previously served as Investment Officer and a member of the board of Taj Investment Limited with responsibility for its Indian public and private investment portfolio Prior to that, he held a number of positions with Glencore International, including senior member of the Copper Division, CEO of CIS Operations, manager of the Moscow office and Trader in the Ferrous Division He was an assistant manager in the Audit Division of PriceWaterhouseCoopers in South Africa He is a Chartered Accountant (South Africa)

**7 Wolfram Kuoni (41)**
**Independent Non-executive Director**
Wolfram Kuoni is the founder and senior partner of Kuoni Law Firm, Zurich, Switzerland, and serves on a number of boards of directors He has over 12 years of experience in investment banking Prior to 1995, he held a number of positions within UBS Investment Banking (Zurich and New York), including head of the European Export and Project Finance Team He also originated and structured cross-border acquisitions and equity capital markets transactions Wolfram Kuoni graduated with a law degree from the University of Berne, and holds a doctorate in law from the University of Zurich and an MBA from INSEAD in France He is a member of the Zurich Bar

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**8. Ihor Mitiukov (55)**
**Independent Non-executive Director**
Ihor Mitiukov was the General Director of the Financial Policy Institute until March 2008 He has recently become the Managing Director and Head of Country for Ukraine, Morgan Stanley with effect from 17 March 2008 From 2002 to 2005, Ihor Mitiukov served as Extraordinary and Plenipotentiary Ambassador of Ukraine in the United Kingdom He also represented Ukraine in the International Maritime Organisation From 1997 to 2001 he served as Minister of Finance of Ukraine and, from 1995 to 1997, as Ukraine's Special Representative (with Vice-Prime Ministerial status) to the European Union in Brussels In 1994, he was deputy governor of the National Bank of Ukraine and then Vice-Prime Minister of Ukraine for Banking and Finance Prior to that, he held various positions at Agrarian-Industrial Bank Ukraine, and was appointed as its deputy governor in 1992 Ihor Mitiukov graduated from the Cybernetics Department, Kyiv State University and has a PhD in Economics (1985) from the Institute of Economy, Academy of Sciences (Ukraine)

**9 Oliver Baring (63)**
**Senior Independent Non-executive Director**
Oliver Baring has been Chairman of Mwana Africa plc since its reverse takeover of African Gold plc in September 2005 Prior to that, he was Chairman of First Africa Holdings Limited and Director of First Africa UK Limited Oliver Baring retired from UBS Warburg in 2001, having led the International Mining Group with responsibility for Africa and Europe Previously he had been head of the UBS Warburg mining equity sales team and was responsible for its respected coverage and sales capability Oliver Baring was a partner in Rowe and Pitman before its merger with SG Warburg Oliver Baring is chairman of First Africa Holdings Limited, and is a non-executive director of the Merrill Lynch World Mining Trust, a member of the Advisory Council of Sentient Private Equity Fund and director and non-executive Chairman of Ridge Mining plc

## The Executive Committee

**10 Nikolay Goroshko (48)**
**Chief Commercial Officer, Projects**
Nikolay Goroshko has worked for Ferrexpo Poltava Mining since 1984 He is a graduate of the Kyiv Institute of National Economics, specialising in Industrial Planning He became Acting Group Chief Financial Officer in April 2007 and Chief Commercial Officer in charge of the Group's Growth Projects in December 2007

**11. Nikolay Kladiev (35)**
**FPM Chief Financial Officer**
Nikolay Kladiev joined FPM in June 2005 Over the course of his career Nikolay Kladiev has spent several years as an Audit manager with Ernst & Young and CFO of a large Russian factory Nikolay Kladiev holds a Masters in International Economic Relations from the Kyiv National University of Economics

**12. Viktor Lotous (43)**
**FPM Chief Operating Officer**
Viktor Lotous joined Ferrexpo Poltava Mining in 1986 He is a graduate of Kryvy Rih Mining and Ore Institute, and of the Kyiv State Economic University, specialising in Finance He became chief engineer in 1997 and General Director and Group Chief Operating Officer in April 2007

**13. Simon Wandke (48)**
**Chief Marketing Officer**
Simon Wandke joined the Group in 2006 He was Vice President Strategy for the Minerals Group and Vice President Coal, Iron Ore and HBI Marketing at BHP Billiton until 2001 Between 2002 and 2006, he was a partner of Destra Consulting Group in Melbourne, specialising in Change Management Simon Wandke is a graduate of the University of Melbourne in Psychology and Marketing, and completed post graduate studies in Corporate Finance at Swinburne University, Australia

**14 Dave Webster (56)**
**Interim Chief Operating Officer**
Dave Webster joined the Group in June 2006 He previously spent five years as Project Director with ProMet in Australia and before that spent 25 years at BHP Billiton specialising in business performance and strategic planning He has a Bachelor of Metallurgy from the University of Newcastle Dave Webster was group projects officer until December 2007, when he moved to his current role with responsibility for the Group's growth projects both at its existing GPL mine and its planned new mines, and oversight for Group operations

# Business review

## Business review

# The opportunity

**Overview**
**Our business**
The Group's principal business is the mining, processing and sale of iron ore in the form of pellets, used in the production of steel The Group owns and operates an integrated mining and processing facility, comprising an open cut iron ore mine, concentrating facility and pelletising plant
in the city of Komsomolsk, in the Poltava region of Ukraine The Group's operations are fully integrated from the mining of ore through to the production of pellets All production is converted into pellets through its own facilities In addition, third party iron ore concentrate is converted into pellets where this provides adequate margins

The Group's mining operation, known as Ferrexpo Poltava Mining ('FPM'), is well located on the Dnieper River in Ukraine, in close proximity to its major customers in Central and Eastern Europe It has both water and rail links to the European market and (via the Black Sea) to the main sea routes to emerging Asian markets In 2007, 83% by volume of the Group's iron ore products were exported These exports
are handled by the Group's specialist sales and marketing arm, which is based in Switzerland with additional offices in Kyiv, Shanghai and Hong Kong At the year end, approximately 85% of the Group's 2007 sales were being made under long term supply agreements with iron and steel producers It is a key part of the Group's strategy to increase the number and duration of such contracts The Group's principal export markets are Central and Eastern Europe and China

The Group's business has several important competitive advantages
- An experienced management team
- Substantial commercially viable but under-exploited iron ore reserves
- Brownfield expansion capability from existing proven reserves The Group is currently the 12th largest producer of iron ore in the world
- Ready access to additional resources
- Favourable geographic location in Central Europe benefiting from well-established logistics links to both the CIS countries and the expanding world market
- Surplus pelletising capacity allowing it to expand production or process concentrate from third parties as appropriate
- Long-established stable relationships with key customers

The Board's priority is to maximise shareholder value through increased production of iron ore pellets utilising existing economic reserves and careful cost control

The Board intends to pursue this aim through a strategy of commercialising the Group's significant unexploited iron ore reserves, enhancing and expanding its operational and logistical capacity and targeting growth markets for iron ore, while developing new international customer relationships through its advantageous logistical position and expanded production capability To this end, the Group announced the expansion and extension of its existing operations in November 2007, and has embarked
upon a growth programme involving the accelerated development of its Yeristovskoye, Belanovskoye and Galeshchinskoye deposits

The Group listed on the London Stock Exchange in June 2007, and was included in the FTSE 250 index in September 2007

**Operating environment – Ukraine**
Ukraine is a parliamentary presidential republic and formerly part of the Soviet Union Political instability following the collapse of the Soviet Union culminated in the Orange revolution in late 2004/early 2005, which resulted in greater political openness, faster economic reforms and commitment to integration with the West An element of political instability nonetheless persisted, coming to a head in 2007 with President Viktor Yuschenko's decision to dissolve parliament in April 2007 Following the parliamentary elections on 30 September 2007, Yulia Tymoshenko was endorsed as the new Prime Minister of Ukraine in December 2007, heading a pro-Western coalition formed by her political block and allies of the President Observers are optimistic that Ms Tymoshenko's cabinet will adopt reforms to fight corruption and seek to maintain Ukraine's strong economic growth The political instability in Ukraine in 2007 and in previous years has had little effect on the Group's business Doing business in Ukraine is attended by minor problems typical of developing economies, but the Board perceives few major risks specifically associated with the location of its assets From the perspective of the Group, the major issue affecting its business is the lack of a coherent and transparent national economic policy in Ukraine To date, the business community has had no formal governmental body or other forum for the discussion of regulated input costs such as power and rail transport The Board expects that this will change under the new political dispensation, and it will engage the government on these issues as soon as possible

Ukraine experienced relatively severe inflation in 2007, with the officially reported domestic Producer Price Index ('PPI') increasing by 23 3%, and the Consumer Price Index ('CPI') by 16 6% The local currency is the hyrivna, which is informally pegged to the US dollar The average exchange rate during 2007 was 5 05 UAH/US$, unchanged from that in 2006

The Government's official forecast for Ukraine's economic and social development in 2008 (as amended in November 2007) estimates that Ukraine's gross domestic product growth rate and rated inflation will be 6 8% and 9 6% respectively in 2008 It is expected that the National Bank of Ukraine ('NBU') will maintain the UAH/US$ exchange rate at between UAH 4 95 and 5 25 to US$ 1 00 in 2008 in line with its anti-inflationary policy[1]

Both the EU and the US have granted 'market status' to Ukraine, supporting its early access to the WTO in 2008 In February 2008 the WTO General Council approved Ukraine's 'accession package' and Ukraine is expected to become a WTO member after ratifying the protocol of accession later this year

**Market environment**
**The demand for steel continues to drive the iron ore market**
Global iron ore demand is expected to grow strongly to approximately 2 1bt by 2009[2] Mainly powered by demand led steel industry expansion in Asia – particularly China and India Rising iron ore demand will be further supported by emerging industrial economies in the former CIS countries, South America and the Middle East The global iron ore consumption growth rate was 11% between 2006 and 2007[2], and is expected to continue at an average annual rate above 4% in the period to 2009 Demand growth is expected to be greatest in China, with iron ore consumption (not adjusted for low grade domestic production) expected to grow to over 1 2bt by 2009[2], driven by demand-led growth fuelling the expansion of China's blast furnace based steel industry Chinese imports of iron ore exceeded 375mt in 2007[3] out of a total world import market of approximately 790mt[4] By 2009, China is expected to account for 57%[2] of global iron ore consumption The demand for steel from China, India and other developing economies is driven primarily by the requirements in these countries for the construction of infrastructure

1 National Bank of Ukraine
2 Commodities Research Unit (CRU)
3 CISA China estimate
4 Credit Suisse

# **Business review** continued

### Supply dynamics and global pricing

#### Supply

In 2007, global iron ore production totalled 1 65bt[5] Global iron ore supply is expected to grow strongly over the remainder of the decade with annual output projected to increase to 2,022mt by 2009[5] The iron ore industry is highly consolidated, with the largest iron ore producers in the world controlling a significant proportion of world iron ore production and the majority of the world seaborne trade in iron ore These companies have announced extensive investment in new projects and their existing mining operations in order to keep up with the anticipated 10% growth of the world iron ore market over the next two years

Global pellet production is expected to increase to approximately 445mtpa by 2009[6], with the bulk of the capacity coming from North and South America, Oceania and Eastern Europe For the seaborne pellet market, Brazil is the centre of most new capacity that is expected to come on stream over the next five years

While global supply of iron ore is expected to grow strongly, it is the view of the Group's Board that this supply is unlikely to match the growth in demand over the next two years, and potentially beyond A number of new iron ore projects have been announced globally, but in the opinion of both the Board and market commentators, many of these are subject to significant risk of execution delay, postponement or cancellation, due to high capital costs and a shortage of project execution expertise across the industry

#### Pricing drivers

There continues to be a significant supply lag in the global iron ore industry Demand from countries such as China has continued to grow in 2007, and the iron ore industry has to date been unable to commission sufficient new capacity to meet this demand Historical under-investment in the industry has negatively impacted the supply response of the major iron ore producers This imbalance continues to put upward pressure on iron ore prices, and is likely to persist in the medium term In addition, the supply of high-quality lump ore is declining globally, with the result that many of the new iron ore projects that have been announced are based on lower quality, logistically disadvantaged ore bodies that require the installation and operation of costly beneficiation plant and logistics infrastructure This has resulted in a fundamental shift in the cost structure of the industry, pushing the cost of the marginal tonne of iron ore significantly above its historical highs It is the Board's view that the long term 'floor price' for iron ore will be set by this increased marginal cost per tonne The Group believes that contract prices for iron ore fines will increase strongly in 2008, with the potential for a further increase in 2009

#### Pellet premium

Iron ore pellets tend to trade at a premium to iron ore fines, depending on the market environment in the iron ore cycle at the relevant time The industry generally is currently in a state of undersupply of all iron ore products, with physical scarcity of product affecting steel producers Typically, steel mills are currently operating at full capacity, making efficiency of production increasingly important Having undergone some processing, iron ore pellets are an intermediate product between raw ore and iron and steel, and so provide productivity gains in blast furnaces, requiring less coke in the steelmaking production process Pellets, because of their spherical form and low moisture content, also have advantages for transporting Increased demand for pellets is also anticipated due to the decline in quality and quantity of naturally occurring lump ores suitable to be added directly to blast furnaces, and increased environmental concerns with sinter production Pellets have therefore traded at a premium to other forms of ore In the prevailing market conditions, it is the Board's view that the so-called 'pellet premium' will continue at the higher end of the levels experienced over the last few years

5 Raw Materials Group Sweden
6 Commodities Research Unit (CRU) – apparent production

# Logistics management: TIS-Ruda

The Group is justifiably proud of its world-class logistics management, which are nowhere more evident than in its TIS-Ruda dry-bulk cargo terminal at the Port of Yuzhniy on the Black Sea

**A first for Ukraine**
The TIS-Ruda facility is the first privately-owned dry-bulk cargo terminal in Ukraine and commenced operation in mid 2007 The Group owns 49 9% of the equity in the facility, but has access to the entire 5mtpa capacity In 2007, the Group shipped 0 5mt through TIS-Ruda, which was commissioned and recognised in the Port Rules of Yuzhniy in the fourth quarter of 2007

**Pre-empting bottlenecks**
The TIS-Ruda terminal is a good example of the Group s logistics management The Group's early investment in this facility has reduced its reliance on congested State ports and provided it with excess ship loading capacity to serve its key growth markets in China as well as those in other parts of Asia and the Middle East
TIS-Ruda will help reduce the Group's exposure to the port bottlenecks afflicting so much of the mining industry, and the facility has expansion potential, including land assigned to build a 1mtpa capacity stockyard to meet future growth beyond the 5mtpa current nominal capacity The terminal also has international port features which ensure the integrity of the product quality can be maintained

**Performance review**
**Highlights**
- 9% increase in iron ore output to 28 9mt
- 19% increase in production of high quality (65% Fe) pellets from the Company's own ore
- Substantial savings in raw materials and energy per unit of output
- Intensification of works in the northern extension of the current mine to increase the short term iron ore output
- Commencement of operations in Yeristovskoye deposit infrastructure and site preparation works under way
- Operations commenced at the TIS-Ruda port facility and established own fleet of railway cars

**Production**
Operating statistics

| | UOM | FY2007 | FY2006 | Change +/- | Change % |
|---|---|---|---|---|---|
| Iron ore mined | 000't | **28,934** | 26,425 | 2,509 | 9 |
| Fe content | % | **29 91** | 29 72 | 0 19 | 1 |
| Iron ore processed | 000't | **29,024** | 26,507 | 2,517 | 9 |
| Concentrate produced (WMS) | 000't | **10,651** | 9,695 | 956 | 10 |
| Fe content | % | **63 50** | 63 36 | 0 14 | – |
| Floated concentrate | 000't | **5,620** | 4,418 | 1,202 | 27 |
| High grade | 000't | **4,032** | 3,392 | 640 | 19 |
| Fe content | % | **67 28** | 67 25 | 0 03 | – |
| Purchased concentrate | 000't | **266** | 441 | (175) | (40) |
| Fe content | % | **64 06** | 63 68 | 0 38 | 1 |
| Purchased iron ore | 000't | **172** | 51 | 121 | 237 |
| Pellets produced from own ore | 000't | **8,793** | 8,149 | 644 | 8 |
| Higher grade | 000't | **3,701** | 3,112 | 589 | 19 |
| Fe content | % | **65 09** | 65 06 | 0 03 | – |
| Lower grade | 000't | **5,092** | 5,037 | 55 | 1 |
| Fe content | % | **62 22** | 62 22 | 0 00 | – |
| Pellets produced from purchased concentrate and ore | 000't | **279** | 401 | (122) | (30) |
| Lower grade | 000't | **207** | 392 | (185) | (47) |
| Fe content | % | **62 22** | 62 22 | (0 0) | – |
| Total pellet production | 000't | **9,072** | 8,550 | 522 | 6 |
| Pellet sales volume | 000't | **9,261** | 8,740 | 521 | 6 |
| Gravel output | 000't | **3,162** | 3,023 | 139 | 5 |
| Stripping volume | 000'm³ | **18,664** | 18,517 | 147 | 1 |

# **Business review** continued

In 2007, the goals for our existing operations at FPM centred on continuing the demonstrated trend of improvements across all areas of CSR, and in operating efficiency, product quality and production growth

FPM mined 28,934kt of iron ore in 2007, 9 5% more than in the previous year FPM currently mines two different types of iron ore, K22 which is a richer ore containing a slightly higher percentage of iron, and K23 which is a leaner ore containing slightly less iron Improvements in mining conditions in the pit meant that this growth was accompanied by a 17% increase in the proportion of rich (K22) ore mined This increase in the overall quality of the ore mined resulted in a decrease in the proportion of lean (K23) ore used for processing to 53 8% (compared to 56 7% in 2006), which assisted in increasing the operational efficiency of FPM, concentrating plant and improving concentrate quality

FPM produced 10,651kt of concentrate in 2007, a 10% increase compared to 2006 Emphasis was placed on achieving higher quality concentrate Upgrades to FPM's beneficiation technology resulted in improvements in magnetic iron yield to 92 4% (91 8% in 2006) The quality of concentrate in the year under review increased to 63 50% Fe, continuing the improving trend seen in previous years (63 36% and 62 63% in 2006 and 2005 respectively)

Total pellet production in 2007 increased by 6% to 9,072kt (8,550kt in 2006) Production of pellets from own ore increased by 8%, while production of pellets from purchased ore and concentrate declined as a result of concentrate market tightness and the consequent inability of the Group to realise sufficient margins from this business As a result of FPM's efficiency and mining volume improvements in 2007, the decline in production of pellets from purchased raw materials was more than offset by the increase in production of pellets from FPM's own produced concentrate

The improvements in concentrate quality and increases in flotation volumes enabled FPM to substantially increase its production of higher quality 65% Fe pellets Production of 65% Fe pellets from own ore increased by 19% to 3,701kt, and now constitutes 42% of FPM's total production (38% in 2006), consistent with the Group's commitment to quality enhancement and its 'value in use' marketing strategy

**Business Improvement Programme**
We have continued to see positive results from our Business Improvement Programme ('BIP'), which remains a priority for FPM management We have committed to an intensification of the BIP programme at FPM to accelerate the shift towards best in class operational performance, assisted by GPR Dehler, a consultant widely used in the mining industry to facilitate improvement initiatives FPM is now two years into a four-year programme which aims to introduce global best operating practice across its different areas of operation Following BIP recommendations, FPM concentrated on implementing various improvements to its mining facility in 2007, principally around the planning and organisation of maintenance and repairs This resulted in substantial improvements in the availability and utilisation of mining equipment It also enabled FPM to increase the operating efficiency of its existing mining equipment, allowing it to scale down plans to increase its equipment fleet and thereby avoid unnecessary capital expenditure

As part of the BIP, the Group also implemented a range of training sessions for managers and employees, and set up an initial team of FPM employees with responsibility for implementing and monitoring the ongoing BIP initiatives The Group has implemented various management changes, aimed at creating a culture of continuous improvement

# Our major customers

The Group is committed to becoming the iron ore supplier of choice in Europe We value our long term relationships with our customers and seek to be the most reliable supplier possible Our marketing strategy is aimed at increasing the number and length of our customer contracts, and selling the bulk of our production according to international iron ore benchmark-price-linked arrangements Our major customers are the cornerstones of our business

**VoestAlpine AG**
VoestAlpine is one of the Group s oldest and largest customers, and one of the premier producers of high-quality automotive steel in the world Located in Austria the VoestAlpine steel mills receive pellets from the Group's Ukrainian operations both by barge on the Danube River and also by direct rail, which provides the customer with highly competitive, flexible and small-parcel delivery options VoestAlpine endorsed its trust of the Group in September 2007 with the extension of its supply contract with the Group to 2015 The Group supplied over 2 2mt of pellets to VoestAlpine in 2007

**United States Steel Corp**
The Group also supplies iron ore pellets to US Steel, one of the oldest and largest steel companies in the world Due to its proximity to Ukraine, the US Steel mill in Slovakia also derives significant logistical advantages from sourcing pellets from the Group by direct rail FPM also supply pellets to US Steel's Serbia plant (Smederevo) which is serviced by a combination of rail and barge delivery Under a long term contract, the Group supplied more than 1 9mt to US Steel mills in Europe in 2007

**Costs**
The Group's cash cost of pellet production ('C1') in 2007 was US$31 79 per tonne, an increase of 8 6% over 2006 (US$29 26 per tonne) The Ukrainian PPI however, increased by 23 3% over the year Relative to PPI, the Group therefore achieved a significant (approximately 15 percentage points) real term reduction in costs compared to 2006 The challenge facing the Group in 2007 was to sustain operating efficiency under these inflationary conditions Management efforts were focused on implementing measures aimed at reducing the rates of consumption of energy and raw materials through efficiency initiatives and improvements in technology

Electricity consumption per tonne of pellets produced from own ore, the largest single cost item, declined by 3 3% to 190 9KWHr per tonne of pellets produced from own ore during 2007 Gas consumption reduced by 8 5% requiring 18 44 thousand cubic metres per tonne of pellets compared to 2006 There was also a decline of approximately 4% in the consumption of steel grinding bodies in 2007 More efficient use of machinery was also a factor mitigating against inflationary increases

Efficiency programmes resulted in a reduction of the average number of employees by 11% in 2007 Overall, 9,188 people were employed as at 31 December 2007 This was due to more efficient operations and improved organisation

Total payroll costs were US$5 78 per tonne of pellets in 2007, an increase of 4% compared to 2006, significantly below the prevailing inflation rate of 16 6% FPM has achieved a reduction in its labour cost in real terms, given the 11% reduction in personnel and the fact that Ukrainian CPI increased by 16 6% in 2007 Total payroll cost in 2007 was US$42 6m (2006 US$38 3m), or US$4 70 per tonne of pellets produced (2006 US$4 48 per tonne)

The Group's costs are principally denominated in Ukrainian hyrivna, which is a managed currency currently maintained at UAH5 05 to the US dollar

Distribution costs per tonne of pellets increased by 9 9%, from US$9 88 per tonne in 2006 to US$10 86 per tonne in 2007 This resulted from increases in railway tariffs and port charges imposed by the Ukrainian authorities The Group has begun to implement a series of measures to minimise the effect of rising distribution costs These include railcar purchases, renegotiating freight terms with customers, using transhipment ports with lower charges, using its own barge port on the Dnieper River more intensively and the Group's investment in the TIS-Ruda port facility

**Capital expenditure**
The Group's total cash outflow due to capital expenditure in 2007 was US$104 4m, 114% more than in 2006 (US$48 8m) The major part of this, US$56 9m, was invested in the mining complex The Group announced the commitment of US$47m of capital expenditure for six draglines to be used for stripping operations at the new Yeristovskoye mine in September 2007, and a further US$158m for the expansion and extension of the current GPL mine In March 2008 the Group announced US$55m for initial mining equipment for Yeristovskoye

**Growth projects**
*Mine expansion and life extension at existing operations*
We carried out extensive engineering work on the Gorishne-Plavninskoye Lavrikovskoye ('GPL') mine in 2007, in the course of fulfilling our commitment to optimising our existing facilities The work was undertaken in conjunction with Turgis Consulting (Proprietary) Limited ('Turgis'), the Company's South Africa-based mining

# **Business review** continued

engineering partner This work revealed the potential to expand and improve the mine beyond what was thought feasible at the time of our Listing on the London Stock Exchange The culmination of this came in November 2007 when the Group announced the commencement of a project to expand production at its current GPL mining operation to approximately 32mtpa by 2011 and to extend the life of the mine at these higher production levels for at least the period to 2032 The design of the pit expansion is such that the incremental ore mined will consist entirely of richer (K22) ore, all of which will be used to produce FPM's higher quality pellets

This project is currently under way, with the additional ore production allowing the Group to take advantage of currently under utilised processing capacity This will increase high quality pellet production by approximately 15%, or 1 3mtpa We expect this project to deliver meaningful and capital efficient growth as we continue to pursue opportunities for extracting greater value from our current operations

The capital expenditure committed to this project in 2007 will be spent on stripping works over the next three years, with the remainder to be spent on additional mining equipment

**Major growth projects**
At the time of our Listing on the London Stock Exchange, in June 2007, we informed the market that we planned to double our production by 2014 We proposed to do this by commissioning a second open-cut mine immediately to the north of our existing GPL mine, on the Yeristovskoye deposit We now believe
that further accelerated development of the deposits to the north of the GPL mine is feasible Studies under way on the Yeristovskoye and Belanovskoye deposits indicate that they can be developed essentially in parallel Work is also proceeding on development options for Galeshchinskoye, the deposit to the north of Belanovskoye Given the positive conditions prevailing in the global iron ore market and our enhanced operational and project execution capability, this acceleration will be of great benefit to Ferrexpo

We are now contemplating a fourfold increase in ore production within the next 10 years We are planning to accelerate the development of the Yeristovskoye mine by one year, and then to develop a mine at the Belanovskoye deposit soon thereafter First ore from the Yeristovskoye mine is now expected in 2011, with infrastructure and site preparation works already under way Six new draglines were ordered in September to assist in the stripping of Yeristovskoye at a cost of US$47m The Yeristovskoye mine is currently in detailed feasibility study, and the Board expects
to consider final investment commitment to the entire project by mid 2008 Belanovskoye is currently at the pre-feasibility study stage, and development option studies for the Galeshchinskoye deposit are now in progress

Our growth projects are brownfield expansions of our existing business, supported by our existing transport and logistics infrastructure and, as such, represent substantially lower risk additions of new iron ore capacity than many of the iron ore projects that have been announced worldwide

The Group has formed a separate operating entity to administer the three major growth projects separately from the GPL operation The Group has appointed George Mover as Director General (designate) for this entity, and Nikolay Goroshko, the former Acting Chief Financial Officer for the Group, has moved to become Chief Commercial Officer with responsibility for all financial and commercial aspects of the projects Dave Webster has moved from Chief Projects Officer for the Group to Interim Chief Operating Officer with oversight of the major

growth projects and the GPL expansion project It is intended that this separate operational entity will have best practice operations from the outset The Group is actively recruiting quality employees for these projects

We are developing our mining alliance with DTP Terassement S A (France) ('DTP') and project management alliance with Worley Parsons Europe Limited, and these are gathering momentum and have been instrumental in enabling us to aggressively pursue these growth projects with confidence

We are confident in our capacity to fund and execute our growth plans from our own resources However, we are actively discussing the mutual benefits of investments in our growth assets with a range of strategic investors to provide the additional funding and execution capability that will be required if we are to progress our plans as aggressively as possible in order to take advantage of the extremely positive outlook for our products

**Marketing**
The Group's products are mainly sold in the international markets Export sales are handled by its specialist sales and marketing arm, Ferrexpo AG, which is based in Switzerland with additional offices in Kyiv, Shanghai and Hong Kong The Group exported more than 80% of its production in 2007 Historically, the Group has principally supplied pellets to iron and steel plants in Central and Eastern Europe, although it is now increasingly supplying customers in Asia 18 4% of the Group's total sales in 2007 was sold into China

The share of pellet sales to Ukrainian customers increased from 14% in 2006 to 19% in 2007, as a result of more reliable domestic demand from the expanding Ukrainian steel industry Domestic sales are made directly through FPM on an ex-works basis

The following table shows the Group's principal export markets for iron ore pellets for the years ended 31 December 2007 and 2006 (by volume)

| | **2007 ('000t)** | **2006 ('000t)** |
|---|---|---|
| Traditional markets | **5,900 7** | 5,641 9 |
| Natural markets | **187 9** | 390 7 |
| Growth markets | **1,576 0** | 1,419 5 |
| **Total** | **7,664 6** | 7,452 1 |

At year end, over 85% of the Group's sales were made pursuant to long term supply contracts, consistent with the Group's stated strategy of increasing the stability of its customer portfolio This represents a substantial increase compared to the 77% of sales made pursuant to long term supply agreements in 2006 The Group completed its first long term contract with a Chinese steel mill in 2006, and has subsequently entered into four more such agreements in China The Group's expansion into China demonstrates its track record in creating and building solid customer relations It has increased its sales into China from 1 8% of total sales in 2004 to 15 0% in 2007 The Group sold its remaining iron ore pellets on shorter-term contracts consistent with the terms of trade in certain markets, or on the spot market as trials to new customers The Board expects that the proportion of sales that will be made under long term contracts in 2008 will be broadly similar to that seen in 2007

The Group is also focusing on achieving higher prices through enhanced pellet quality and a better understanding of its customers' requirements of its products This is necessary in order to capture the maximum price relative to its competitors' delivered cost to the customer on a 'value to the customer' basis

The Group is a well established producer and has been supplying iron ore pellets to some of its key customers for more than 20 years Several of the Group's traditional

# Business review continued

customers within Central and Eastern Europe operate steel plants that were designed specifically to use its iron ore pellets, giving the Group an unrivalled position within these markets

The Group continued to significantly reduce third party agents in various historic marketing arrangements, and now has direct commercial and technical relationships with all of its end-users
This strategy will continue in 2008

### Traditional markets
The Group's 'traditional markets' are those markets that the Group has supplied historically, and in which it enjoys a competitive advantage based on its location These include Austria, Ukraine, Poland, Slovakia, Romania, Bulgaria and Russia Serbia is a more recent addition to this segment Continued growth in per capita steel consumption in many of these markets is likely to continue, particularly those FSU regions which are effectively re-industrialising During 2007, the Group executed new long term contracts in Austria and Ukraine, and extended existing long term contracts in Slovakia and Serbia Sales were re-established in Russia in 2007 where niche quality opportunities exist for FPM Total sales to traditional markets in 2007 were 5,901kt, an increase of 4 6% over 2006

### Natural markets
'Natural markets' are relatively new markets for the Group in regions where the Board believes it has a competitive advantage which is yet to be exploited This segment includes Western Europe, Turkey and the Middle East Turkey has plans to significantly increase iron making in the near term and FPM's proximity across the Black Sea affords a significant mutual advantage to both the Group and iron ore buyers in Turkey This segment represents a major target for future sales growth The Group is building commercial and technical relationships in the Middle East as a base for its sales as it continues to improve product quality

### Growth markets
'Growth markets' are those which offer to add new and significant tonnage expansion potential to the Group's customer portfolio Currently China is the major target, where five long term contracts are in place providing a solid base for future sales growth During 2007 relationships continued to be built in the rest of Asia, specifically in India and Japan The Group's first cargo to Japan was sold in 2007 With planned tonnage expansion and further quality improvements, north Asian markets are expected to form a major part of the Group's long term sales The Group has a shorter shipping distance to these markets than competitor iron ores from Brazil

### Pricing
The Group achieved an average DAF/FOB price for the pellets it sold in 2007 of US$72 3 per tonne, an increase of 17% over the average achieved price for 2006 (US$61 8 per tonne) Most of the Group's export sales are based on annually negotiated prices contained in supplements to long term supply contracts A proportion of sales tonnage is directly tied to the international seaborne traded iron ore benchmark price ('Benchmark Price') movement agreed between the major
iron ore producers and specific Western European or Asian steel producers for a given year Historically, the Group has often realised a discount to the prevailing Benchmark Price, but after adjustments for freight, quality, proximity and logistics impacts, this is increasingly no longer the case Variations in the Group's achieved price stem from price variations of pellets sold into different jurisdictions, as well
as the mix between our 62% Fe pellets and our 65% Fe pellets (which attract a premium) Domestic sales have historically taken place using quarterly prices, but the Group has successfully moved a substantial proportion of Ukrainian sales to annual or long term contracts from 2007

### Marketing strategy
The Group's current sales strategy for the

additional volumes of pellets that it expects to produce is to maintain and consolidate the Group's position in its traditional markets to capture organic growth Additionally it will maximise opportunities for sales growth in its natural markets and increasingly target growth markets The Board believes that, for customers throughout Central Europe, its products represent an attractive alternative to those of major seaborn suppliers due to the lower costs of transporting pellets over a shorter distance from Ukraine, together with an ability to provide many customers with a continuous small-parcel delivery chain The Group remains an independent producer with transparent business practices which it expects will increasingly position FPM as the European supplier of choice In addition, the Group began exporting iron ore pellets to China in 2003, and the Board considers China to be an increasingly important strategic market due to its rapidly growing demand for and domestic consumption of iron and steel

Logistics
In order to meet current and future growing customer demands, the delivery chain logistics capability of the Group needs to be expanded This is a critical contributor to the Group's long term market shares and margins Significant progress has already been made with the following

- 49 9% equity investment in the first private dry bulk minerals panamax terminal on the Black Sea in 2007 the 'TIS-Ruda Terminal-Yuzhny'
- Acquisition of 110 rail cars in 2007, with a further 440 planned for delivery in 2008
- Major rail and waterway assessments in Ukraine are under way to determine future needs

The Group's objective is to further maximise value for its shareholders and customers by developing world class customer delivery chain logistics management as an integral function of its sales and marketing activities The Group intends to achieve this by building on its extensive Ukrainian and Central European expertise and by forming strategic alliances with selected partners to add specific capabilities

Whilst this is a focus for all of the Group's global customers, it is particularly important in the traditional markets where FPM has a complex delivery chain from its operations covering rail, barging and trans-shipment The Group's strategy is to manage as much of the delivery chain to its customers as possible in order to ensure on time supply of the correct quality product at the lowest cost Initial focus will be on moving FPM's own products, and in future could include third party materials and FPM supply needs The Group will engage customers in this process to maximise long term value for all parties The total delivery chain logistics scope includes rail, trans-shipment, barge and ocean vessels Often several of these are required in order to deliver pellets to the Group's customers Achieving the Group's objectives will entail significant investment and appropriate funding methods, as investment in infrastructure in the former CIS has been insufficient since the collapse of the Soviet Union in 1991

**Group management**
**Executive management**
The Group has assembled a strong and experienced management team The Group's management combines the best of local Ukrainian expertise with experienced managers from the global mining industry The Group is managed by an Executive Committee of senior managers, which is responsible for overseeing the operational activities and development of the Group and implementing the strategy set by the Board of Directors The Executive Committee meets monthly and formally reports to the Board each quarter It is chaired by Mike Oppenheimer, the Group CEO, and is comprised of seven other members representing the various parts of the Group's business The details of the members of the Executive Committee are set out on page 15 of this Annual Report and in the Chairman's letter regarding the Annual General Meeting

**Risks to our business**
Risk is inherent in all businesses, including

# **Business review** continued

mining The Group faces several risks to its business and strategy, and management of these risks is an integral part of the management of the Group The Group's Executive Committee has put in place a formal process to assist it in identifying and reviewing risks Plans to mitigate known risks are formulated, and the effectiveness of and progress in implementing these plans is reviewed regularly, in accordance with the Turnbull Guidance Despite the Group's best efforts to factor these known risks into its business strategy, inevitably risks will exist of which the Group is currently unaware

The list of the principal risks and uncertainties facing the Group's business that follows below is based on the Board's current understanding, but because of the very nature of risk it cannot be expected to be exhaustive New risks may emerge and the severity or probability associated with known risks may change over time

**Risks relating to the Group's operations**

Iron ore prices

The Group's business is highly dependent on the market price of iron ore Sale prices and volumes in the worldwide iron ore market depend predominantly on the prevailing and expected level of demand for iron ore, mainly from steel manufacturers, and the world steel industry is cyclical

As a result, there is uncertainty regarding the long term iron ore price, despite the current strong outlook There is also significant uncertainty regarding the state of the global economy A falling long term iron ore price could impact the Group's financial performance The Group is also planning high levels of expansionary capital which could yield low returns if the long term iron ore price falls

Mining risks and hazards

The Group's business operations, like those of other mining companies, are subject to a number of risks and hazards, including industrial accidents, equipment failure, unusual or unexpected geological conditions, environmental hazards, labour disputes, changes in the regulatory environment, extreme weather conditions (especially in winter) and other natural phenomena Hazards associated with open-pit mining include accidents involving the operation of open-pit mining and rock transportation equipment and the preparation and ignition of large scale open-pit blasting operations, collapses of the open pit wall and flooding of the open pit In 2007 the Group had one fatality, compared with two in 2005 and one in 2006 While the Group is dedicated to the zero harm objective, there is no guarantee, given the nature of mining operations, that other fatalities will not occur in the future The Group may experience material mine or plant shutdowns or periods of reduced production as a result of any of the above factors, and any such events could negatively affect the Group's results of operations

Costs and reliance on State monopolies

Changes in costs of the Group's mining and processing operations could occur as a result of unforeseen events and consequently result in changes in profitability or the feasibility and cost expectations in mining existing reserves Many of these changes may be beyond the Group's control, such as those input costs controlled by Ukrainian state regulation, including railway tariffs, energy costs and royalties In particular, the Group currently relies substantially on the rail freight network operated by Ukrzaliznytsya, the Ukrainian State-owned southern railway authority, for transportation of its raw materials and finished products Railway tariffs for freight

increase periodically, and there can be no assurance that additional increases will not occur in the future

In general, the Ukrainian government has recently shown itself to be willing to raise the prices charged by its State monopolies above the level of inflation and this, together with high levels of inflation in the Ukrainian economy, could have an impact on the Group's costs in the future

Logistics
The Group has identified potential logistics bottlenecks that, if left unmanaged, could adversely impact the ability of the expanded Group to distribute its products The Group has embarked upon a programme of investing in its own railcars, having purchased 110 in 2007 and planning to purchase a further 440 railcars in 2008, and it is also investing in its barging capability and making further investments at its TIS-Ruda port facility for dredging There can however be no assurance that these investments will be sufficient to manage the bottlenecks that it has identified or that other bottlenecks will not emerge in the future

Skills shortage
The Group has identified a shortage of key skills in the town of Komsomolsk, where FPM is located This can affect both existing operations, and to the delivery of major expansion projects Key appointments have been made and the Group has established a project managers' group for training purposes The Group is using Ukraine-based external experts and its relationships with its key alliance partners (Worley Parsons and DTP Terrassement) to assist it in recruiting the necessary skilled workers However, there can be no assurance that these appointments and relationships will be sufficient to address the shortage of local skills

Licences
The Group continues to monitor and review its commitments under its various licences, and continues to work to ensure that the conditions contained within the licences are fulfilled or the appropriate waivers obtained Licences are critical to the Group's operations, and there can be no guarantee of their renewal or reconfirmation in the future, nor that the Group will be able to attain any additional licences that it may require See also 'Risk relating to the Group's strategy – Government approvals of expansion'

**Risks relating to the Group's strategy**
Expansion capital expenditure
The Group is planning major expansion projects, which will require the investment of significant capital The Group has established procedures to control, monitor and manage this expenditure, and has appointed a Chief Projects Officer Monthly asset reviews occur on site, and an Investment Risk Review Committee has been established Notwithstanding these procedures, as with all major capital projects of this kind, there is a risk of insufficient controls and cost overrun which could impact the time to completion of these projects and the return on the capital invested

Government approvals of expansion
The Group does not yet have all governmental approvals required to implement its expansion projects Despite the fact that none of the approvals that have been applied for to date have been refused, there is no guarantee that others will be granted in the future In particular, there are some small communities located on the proposed sites of the Group's expansion projects at Yeristovskoye and Belanovskoye Although the Group considers that there is a low risk of difficulties being encountered in relocating these communities, there can be no assurance of this

# **Business review** continued

**Risks relating to operating in Ukraine**
**Ukrainian inflation**
Ukraine has experienced high inflation in 2007 as a result of high government spending and rapid economic growth There are indications that Ukrainian inflation will be high again in 2008 If not mitigated by efficiency improvements this inflationary environment poses a risk to the costs and profitability level of the Group's business

**Exchange rate**
The Ukrainian national currency is the hyrivna, which is informally tied to the US dollar, and has not devalued despite high Ukrainian inflation The policy of the Ukrainian government has been to maintain the strength of the hyrivna A large proportion of the Group's costs are denominated in hyrivna, with the result that a real increase in the value of the hyrivna could have an adverse effect on the Group's financial performance

**Financial review**
**Highlights**
- Revenue up by 28% to US$698m
- EBITDA up by 65% to US$246m
- EBIT for the period up by 63% to US$187m
- Underlying earnings' up by 128% to US$152m
- Operating CI costs increased 8 6% vs Ukrainian PPI of 23 3%
- Free cash flow of $139m
- Strong balance sheet gearing reduced to 26% from 48%
- Dividend of 3 2 US cents per share

**Revenues**
The Group achieved overall revenue growth of 27 6% compared with the prior year The Group's revenue for the year increased by US$150 9m to US$698 2m This strong performance was due to improved average pellet prices which rose by 17% to US$72 3 per tonne compared with US$61 8 per tonne in 2006 and increased production volumes and quality Sales volumes for the year increased to 9,261kt (8,740kt in 2006) as did growth in the proportion of sales of higher priced high-grade '65% Fe pellets' which increased to 40 7% for 2007 from 35 1% in 2006

**Costs and margins**
A principal measure of operating performance of the business is C1 cost per tonne of pellets produced This is defined as the cash production cost from own ore divided by the total volume of production In 2007 the Group achieved C1 cash cost of production from own ore of US$31 79 per tonne compared with US$29 26 per tonne in 2006

This excellent performance was achieved in the face of Ukrainian PPI inflation of 23 3% It is pleasing to report that the Group was able to contain its C1 costs significantly below general inflation due to reduced energy consumption per tonne of pellets, improved operating efficiency and tight cost control of other general production expenses

Higher sales prices principally improved the gross margin in the year which was 51 9% (2006 45 8%) Gross profit increased by 44 6% to US$362 3m (2006 US$250 6m)

The Group pays distribution costs principally to deliver pellets to the border of Ukraine or within Ukraine to supply domestic customers Total distribution costs per tonne of pellets sold increased to US$10 86 per tonne for the year compared with US$9 88 per tonne in 2006 This increase was primarily driven by higher rail tariffs

General and administration costs relate to the operations within Ukraine and at the Swiss sales and holding Company, including Group costs These amounted to US$44 3m in 2007 compared with US$41 1m for the prior year In 2006 general and administration costs included US$3 9m in relation to Vostok Ruda
The majority of the Group's holding in Vostok Ruda was disposed of in 2006 Underlying general and administration costs now reflect an appropriate level which is required for the Group's operation as a large public company

Initial public offering costs amounted to US$65 9m in the year, of which US$34 0m

1 See Glossary

was expensed and US$31 9m offset against the share premium account reserve

**Finance costs**
Net finance costs reflected lower overall debt levels post IPO and reduced to US$22 7m from US$30 3m in 2006 This was due to strong operational cash generation and the receipt of IPO proceeds during the year

In December 2006 the Group restructured its bank debt, extending the maturity dates of its outstanding indebtedness and decreasing its cost of borrowings As part of this restructuring, the Group raised a bank syndicated loan in an initial amount of US$275 0m This successful transaction was later increased to US$335 0m as a result of oversubscription This allowed the Group to reduce its weighted average interest rate to 7 6% from 8 3% and to 8 2% from 9 2% on floating and fixed interest rate financial liabilities, respectively

**Taxation**
The Group derives taxable income mainly in Switzerland and Ukraine The effective tax rate was 16 6% compared with 18 3% in 2006

**Earnings**
As a result of the strong operational performance described above, the Group was able to achieve an increase in underlying earnings of 128 4% to US$151 5m (2006 US$66 4m) and improve earnings per share ('EPS') significantly Fully diluted EPS rose strongly to 20 33 US cents per share in 2007 (2006 10 47 US cents per share) Underlying EPS was similarly higher at 24 93 US cents per share in 2007 (2006 10 92 US cents per share)

# **Business review** continued

### Balance sheet and cash flow

The cash flow of the business is summarised in the table below

| US$ millions | Year ended 31 12 07 |
|---|---|
| EBITDA | 246 1 |
| Working capital movements | (1 8) |
| Net financial payments | (24 0) |
| Income tax paid | (32 0) |
| Movement in provisions and other non-cash items | 0 5 |
| Net cash flow from operating activities | 188 8 |
| Sustaining capital expenditure | (49 8) |
| Free cash flow | 139 0 |
| (Paid for)/received from Expansionary projects | (54 6) |
| Purchase of available for sale investments | (12 1) |
| Loans to associates | (5 0) |
| Distributions | (69 8) |
| Net IPO proceeds | 153 4 |
| Other receipts | 9 7 |
| Reduction in debt | 160 6 |

The strong operating results increased EBITDA by 65 0% to US$246 1m increasing EBITDA margin to 35 2% in 2007 from 27 2% in 2006

Net cash flow from operating activities amounted to US$188 8m in 2007 (2006 US$68 3m) This strong performance and the proceeds of our recent IPO have enabled the Group to strengthen the balance sheet significantly As a result, Net Financial Indebtedness has decreased to US$117 9m at 31 December 2007 (31 December 2006 US$278 5m)

Overall this cash flow was invested partly in the modernisation of plant and equipment for existing operations and partly in investments which lay the foundations for the development of the unexploited ore body Cash outflow due to capital expenditure was US$104 4m in 2007 compared with US$48 8m in 2006 Of this expenditure US$54 6m related to expansionary projects and US$49 8m was applied in replacement or modernisation of plant in the existing operations

Our increased financial strength is apparent in our debt to equity ratio This was 26% at 31 December 2007 compared to 48% at 31 December 2006

The Group's Ukrainian operations have continued to experience delays in recovering VAT from the government on a timely basis throughout the year, which represents an additional debt burden to the Group The situation has improved after the year end and management are of the opinion that the VAT refunds will be fully recovered Management continue to actively pursue this issue with the relevant government authorities

During the year the Group continued its phased disposal of Vostok Ruda, disposing of 6 2% to an entity under common control for $5,613,000, resulting in a gain of $4,714,000 The remainder of the Vostok Ruda investment representing 3 2% of the share capital is available for sale

Also during the year the Group acquired a stake of 9 91% in OJSC Stahanov, a rail car construction plant, from an entity under common control This is to help secure supplies of rail cars for our expanding logistic operations

Related party transactions are discussed in note 37 to the accounts on pages 96 and 97

## Key Performance Indicators

### CSR

| Metric | Performance | Metric | Performance |
|---|---|---|---|
| Fatalities | | LTIFR | |
| **Definition** Work-related fatal accidents | | **Definition** Long term injury frequency rate[1] | |
| **Target** No fatalities | | **Target** Below 0 75 | |

### OPERATIONS

| Metric | Performance | Metric | Performance | Metric | Performance |
|---|---|---|---|---|---|
| Pellet production | | C1 costs | | Production quality | |
| **Definition** Pellet production from own produced concentrate | | **Definition** Total cash costs of production ex-works | | **Definition** Percentage of 65% Fe pellets produced as a proportion of total production | |
| **Target** Increasing production | | **Target** Maintain increases in C1 costs below Ukrainian PPI inflation | | **Target** Continual improvement – 100% of pellets to be 65% Fe by 2013 | |

### FINANCIALS

| Metric | Performance | Metric | Performance | Metric | Performance |
|---|---|---|---|---|---|
| EBITDA | | EPS | | Underlying earnings | |
| **Definition** Earnings before interest, tax, depreciation and amortisation[2] | | **Definition** Earnings per share[3] | | **Definition** Underlying earnings is net profit presented after minority interests and excludes adjusted items [5] | |
| **Target** Increase EBITDA | | **Target** Increase EPS | | **Target** Increase underlying earnings | |

1 Lost Time Injury Frequency Rate The rate per million hours worked of lost time injuries
2 EBITDA. EBITDA is defined as profit from continuing operations before tax and finance excluding depreciation and amortisation foreign exchange gains/losses and adjusted items
3 EPS EPS is calculated by dividing the net profit for the year attributable to ordinary equity shareholders of Ferrexpo plc by the number of Ordinary Shares Comparatives for 2006 and 2005 have assumed that Ferrexpo plc was always the Group holding company, which affects the definition of Ordinary Shares to allow a more meaningful comparison (see note 16 of the notes to the financial statements)
4 Ukrainian producer price index inflation
5 Adjusted items Adjusted items that relate to the operating performance of the Group include impairment charges and reversals and other exceptional items Non operating adjusting items include profits and losses on disposal of investments and businesses

# Sustainable develo

# pment review

## Sustainable development review

# Our commitment

**Ferrexpo's commitment to corporate social responsibility**
The Ferrexpo Board's commitment to corporate social responsibility ('CSR') derives from a shared belief that the Group's licence to operate will be underpinned by the Group's CSR performance For many operations within former CIS countries, the traditional response had been to use legal standards as the sole benchmark for CSR compliance By contrast, we are committed to striving to achieve the highest standards of performance in CSR matters

**The Board's approach to CSR**
The Board intends to give effect to its commitment to CSR through

- group policies,
- Board and management focus,
- asset level management systems, and
- performance management at all levels

The Board recognises its responsibility to set the standards that management and employees are expected to meet in all areas of its corporate social responsibility To this end, it has reserved for itself responsibility for establishing Group policies for health, safety, community relations and environmental matters It will also be responsible for establishing Group standards on business ethics

The Group has established a Corporate Social Responsibility Committee ('the CSR Committee') to monitor and hold management to account for the implementation of those policies, including performance measurement and risk assessment

Management are responsible for the implementation of policies and procedures and the membership of the CSR Committee therefore consists of the Chief Executive Officer, Ferrexpo Poltava Mining ('FPM') Chief Operating Officer and the Chief Projects Officer, along with the Chairman of the Board To assist them in the exercise of their duties, the CSR Committee will, from time to time, engage specialist technical advisers The CSR Committee will meet at least twice a year, however, the executive members of the CSR Committee are also currently reviewing progress in policy development and implementation on a monthly basis

As the only operating asset within the Group, FPM provides the focus for development and implementation of the Group's CSR procedures, based on established Group policies Within FPM a single department has been created with responsibility for all aspects of health and safety, security and environmental protection This department is responsible for air and water testing laboratories, the medical centre, fire prevention service, gas service, civil defence and emergency response headquarters and workshops This department reports directly to the FPM Chief Operating Officer

All Group employees are expected to take personal responsibility for their conduct and management recognise the need to create the right cultural and behavioural environment among the Group's workforce to allow the policies agreed by the Board to be successfully implemented

## Health and safety

### Health and safety policy

The Group's policy on health and safety is as follows

- The prevention of injuries to employees is the highest priority of the Board and management Our policies and practices at all levels need to reflect this
- Within our operating assets, accountability for health and safety performance lies with senior line management
- All operating assets are required to develop and implement health and safety management systems in line with Group policy, including performance management
- Performance metrics will be developed that are reflective of the Group's commitment to strive to achieve the highest standards of health and safety performance
- Senior line management is responsible for ensuring that adequate resources are committed to health and safety They have an obligation to secure their resources through the Group's planning and budgeting processes
- Adequate health and safety training will be given to all employees and contractors
- Specific focus needs to be applied to behavioural safety at all levels, to fatal risk prevention and to the major industrial health hazards associated with our operations
- Employees are personally responsible for their own safety and that of their colleagues

### Health and safety performance

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Long Term Injury Frequency Rate (LTIFR – see note) | **0 57** | 1 34 | 2 23 |
| Fatal accidents | **1** | 1 | 2 |
| Total accidents | **9** | 14 | 24 |
| Lost days | **590** | 557 | 549 |

Note
The coefficient of accident frequency is calculated in accordance with best practice and represents the number of recorded accidents per million manhours

**CASE STUDY 1**

## Investment in training

During 2007, Ferrexpo invested over US$60,000 in its facilities for health and safety training This money was spent on refurbishing the safety training office and training rooms with the installation of display boards and equipment for multimedia presentations and demonstrations

Fully equipped safety training and briefing rooms are located in Ferrexpo Poltava's Mining and Transport departments These facilities are used to increase employees' awareness of safe operating procedures and the use of personal protection equipment

# **Sustainable development review** continued

**Health and safety management systems**
In accordance with Ukrainian law, FPM has developed a health and safety policy applicable to their operations and types of activity that is in line with the Group health and safety policy Compliance with this policy is monitored via a three-tiered system Daily control is conducted by operating personnel, engineers and technicians Production managers carry out weekly inspections, and senior management conducts periodic inspections in conjunction with governmental personnel

In 2006, Ferrexpo Poltava initiated the development of a health and safety management system consistent with the requirements of OHSAS 18000 the internationally recognised standard for health and safety management This system was externally audited under the UkrSEPRO system in March 2007 and accreditation was obtained in the second half of 2007

**Fatalities and reportable accidents**
The prevention of injuries to employees is the highest priority of Board and management who adhere to the philosophy that all accidents are avoidable

In line with policy at FPM, all accidents are investigated to determine the cause and identify appropriate remedial action Serious and fatal accidents are also investigated by the State authority The CSR Committee and Group Executive Committee require senior management to provide full reports on the causes of fatal and serious accidents, details of corrective actions to prevent these types of accident from recurring and plans for enhancing overall safety management based on the lessons learnt Senior managers are expected to present these reports, in person, at the first Executive Committee meeting after the accident concerned

Sadly, in 2007 there was one fatality at the Poltava operation when a railway fitter was struck by a moving train during maintenance works Following an intensive investigation into this accident, a programme of corrective actions has been developed and will be implemented during the course of 2008

Regrettably, we suffered a further two fatalities in 2008 These tragedies are totally unacceptable and have provided a rallying point for us to redouble our efforts in continuing to introduce best practice in health and safety management We have now appointed Du Pont Safety Resources which has an outstanding record of success in assisting companies to achieve a 'zero harm' objective

In accordance with the Labour Protection Law, compensation equivalent to at least five times annual salary is payable to the victims of accidents (or their families) Individual workers contribute to a statutory insurance fund which is responsible for paying the compensation FPM is aware that it has a moral as well as a legal responsibility towards the families of employees affected by accidents at work and will also make additional voluntary payments to the family of employees on a case-by-case basis to ensure that they do not suffer hardship

**Safety initiatives**
In line with Group policy, FPM is implementing a number of measures to improve the health and safety of its workers, including the introduction of enhanced occupational health and safety ('OH&S') standards in the collective bargaining agreement with its workforce, upgrading technology, introducing systemic changes and sanitary measures, better protective equipment and health care measures FPM is also focusing on training (see Case Study 1) Management and employees are trained in workplace safety when they first join FPM and then continuously during their employment

Regular workplace risk assessments are undertaken and on the basis of these assessments the correct personal safety equipment is procured and provided for employees

In line with Group policy focus on behavioural safety, increased efforts are being made in FPM to encourage and promote a culture of safety DuPont Safety Resources, a world class exponent of behavioural safety in the workplace, has been approached to undertake a diagnostic evaluation of the current working practices at FPM This will assist the development and implementation of appropriate practices which, in turn, will enhance safety self-awareness and promote safety performance improvement through behavioural change rather than the traditional focus on process

FPM is required by Ukrainian labour protection laws to dedicate 0 5% of sales to labour protection and safety The statutory payment amounted to approximately US$2 9 million in 2007 (2006 US$2 41 million – 0 51% of sales)

**Occupational health initiatives**
In accordance with the requirements of the Ministry of Health in Ukraine and to prevent or detect occupation-related diseases at the early stage, FPM employees, particularly those engaged in potentially dangerous and harmful work, are given medical examinations both on recruitment and at regular intervals during their employment Employees who have worked for 10 years or more under potentially harmful working conditions are assessed more frequently

FPM owns medical facilities at the Poltava site and these facilities are made available at no cost or at subsidised rates to employees and their dependants The cost of such provision was US$480,200 in 2007 (2006 US$462,000)

In the past three years, there have been 12

**CASE STUDY 2**

## Cultural investment in the local community

The cultural centre of Komsomolsk has traditionally been the Palace of Culture and Technology Until recently, the Palace of Culture was run by the local City Council and the facilities had become out of date In 2005 Ferrexpo management and the City Council agreed to co-operate on the reconstruction and re-equipping of the Palace of Culture and Ferrexpo contributed over US$800 000 to the cost of its repair and upgrading The significance to the local community of this investment cannot be over-estimated as it is the only cultural centre in Komsomolsk Today, there are 16 distinct groups of performers based in the Palace of Culture Not only do they perform in Komsomolsk itself, but also further afield within Ukraine Almost 600 people, including 200 children participate in the cultural activities made possible by the revitalised Palace of Culture

# **Sustainable development review** continued

**Environment performance**

recorded cases of industrial disease (three in 2005, six in 2006 and three in 2007), most cases are associated with prolonged exposure to elevated dust concentrations Other diseases included auditory impairment due to excess noise and two cases of cancer (which whilst classified as industrial disease in accordance with Ukrainian legislation and therefore recorded, are not believed to have been attributable to the Group's operations)

The industrial diseases that have been recorded include some – silicosis and bronchial complaints – which can be caused by exposure to particular forms of dust (although there are also other possible causes for some of these diseases) Improvements to dust control systems are part of a long term package of measures designed to improve the working environment To reduce the dust level of the production area in the pit and at the plants and Company workshops, the pit-face and technological roads are watered each shift (depending on the weather pattern)

**Environment**

**Environmental policy**

The Group's policy on the environment is as follows

- Our operating practices and growth plans will be implemented in a manner consistent with the principles underlying long term sustainable resource development, we will balance the long term environmental consequences of our actions against short term economic returns
- All operating assets are required to develop and implement environmental management systems in line with Group policy
- All new capital projects will include environmental risk assessments and mitigation plans

In 2007, the Group spent approximately US$12 7m (2006 US$10 1m) on environmental permits and protection measures including approximately US$2 0m (2006 US$1 5m) in statutory emissions payments, approximately US$6 0m (2006 US$5 2m) on environmental protection equipment and infrastructure and approximately US$4 7m (2006 US$3 4m) on new projects

**Environmental management systems**

The primary responsibility of FPM's dedicated Environmental Department is to ensure that all necessary permits are in place, to undertake monitoring in accordance with the prevailing regulatory requirements and to supervise the implementation of an agreed programme of environmental improvements based on the Department's own assessments

Environmental laws in Ukraine set requirements for the protection of the natural environment, the use of natural resources, emissions into the atmosphere and water and waste disposal FPM holds a number of environmental licences and permits, including permits for atmospheric emission control, solid waste disposal, tailings disposal, mine waste disposal and special use of fresh water Until 2007, the environmental monitoring and management programme was designed solely to meet the current statutory requirements However, in 2006, the Environmental Department started to develop a full Environmental Management System ('EMS') in accordance with ISO 14001 The EMS was externally audited by UkrSEPRO and given a certificate of conformity with ISO 14001 in the third quarter of 2007

**FPM emissions dynamics**

**Project evaluation**
During the year, the Group endorsed the Equator Principles as a benchmark when evaluating new projects As part of any new project proposal, the Group will undertake an environmental impact assessment and this will be reviewed alongside other project evalution documents presented to the Board for approval

**Environmental initiatives**
Air quality
Dust and gas emissions are two major issues that FPM carefully monitors and controls to ensure that air quality is not adversely impacted by its operations In recent years, there have been a substantial number of initiatives taken to meet this need

In 2007, investments were made in new equipment to improve the filtering at the crushing plant A programme of pit-face watering has already been conducted during the dry season for several years However, in 2007 this was taken further with the procurement of two hydro monitors for this purpose

In order to decrease the air emissions caused by diesel locomotives and reduce diesel fuel consumption, special mounting devices for the Group's diesel equipment have been obtained

All gas emission points are equipped with filters Dust control measures have been implemented to prevent wind-borne dust pollution from the tailings dams

**CASE STUDY 3**
## Investment in sport

Ferrexpo Poltava seeks to contribute to all aspects of the life of the local community For some time, investment in sport has been one of the channels for such contributions Prior to 2004, the local football team, Gornyak-Sport, which plays in the Ukrainian 2nd Division, was forced to play its home matches outside of Komsomolsk because of the poor condition of its 'Yunost' stadium and pitch

In 2004 and 2005, Ferrexpo agreed to pay almost US$1 6m for the reconstruction of the stadium including the stands, training facilities and pitch This has enabled the local team to resume its place at the centre of the local life of Komsomolsk Ferrexpo has continued to contribute almost US$200,000 per annum to the financing of the football club which is now attracting a lot more interest from the local community, particularly young people, who are using its facilities on a regular basis

Ferrexpo also pays US$50,000 per month to a local football club – Gornyak-Sport – for advertising its logo

In addition to its investment in Gornyak-Sport Ferrexpo also makes contributions to local tennis clubs, children s sports academies (offering water sports, judo and marksmanship, among others) and motor sport

# **Sustainable development review** continued

### Water management

FPM uses some 448 million $m^3$ of water each year, much of which is recycled through the tailings facility, although approximately 3 3 million m3 is extracted from a combination of the local river and the municipal potable water supply

The Tailings Storage Facility ('TSF') also receives the treated effluent from Komsomolsk's sewage treatment plant This situation originates from the 1970s when the mine and the town were managed as a single organisation Excess water from the TSF is passed through an extensive reedbed treatment system (commissioned in 2002 and designed primarily to reduce the concentration of nitrates and ammonia from the sewage effluent) prior to discharge to surface water

Storm water from the site is treated in a new treatment plant (commissioned in late 2005 and designed to remove suspended solids and oil products) prior to discharge to surface water The new treatment plant is expected to remedy problems identified with the discharge of previously untreated storm water

During 2006, the washing facilities of the transport department were reconstructed to prevent the pollution of ground water by oil products that had been carried by the surface water as it drained away

Most of the dam water is recycled for use in the production process, the excess is biologically treated before being released into the environment During 2007, the use of duckweed at the bio-engineering sections of the dam canals commenced

### Waste rock management

The currently operating Gorischne-Plavninskoe Lavrikovskoe ('GPL') open pit has generated some 500mm$^3$ of waste rock that is deposited in two dumps There is no indication that run-off from the waste rock dumps is problematic and abandoned areas of the rock dumps have been successfully re-vegetated Waste rock from future operations, including the proposed Yeristovskoe pit will also be deposited on these two dumps or will be used to back-fill part of the GPL pit The annual tree and bush planting project assists in the absorption of gases that would otherwise pollute the air, whilst also reducing noise

### Mine closure and rehabilitation

FPM recognises that its activities impact on the environment and communities in which it operates It is aware that a commitment to sustainability requires it to prepare now for the cessation of mining operations even though that eventuality is a long way off In 2005, it developed a closure and rehabilitation plan for the existing GPL pit and associated waste rock dumps Rehabilitation of the rock dumps is scheduled to begin in 2025 and of the partially back-filled existing open pit in 2055 The site will be restored primarily to forestry with an area of open water remaining in part of the open pit

The Yuzhgiproruda Institute, on behalf of FPM, periodically reviews the scope and cost estimates of its site restoration plans and a review was undertaken in the middle of the year, 2007 The Company will provide fully for the costs of mine closure and rehabilitation as they develop and it is committed to comply fully with the terms of its operating licences and the requirements of Ukrainian law

## Employees

| Average number of employees during the year | 2007 | 2006 | 2005 |
|---|---|---|---|
| Production | **7,796** | 8,518 | 8,097 |
| Sales, marketing, distribution | **185** | 197 | 197 |
| Administration and other | **2,131** | 2,635 | 2,549 |
| Total | **10,112** | 11,350 | 10,843 |

The target of FPM's Human Resources policy is to effectively ensure that personnel are recruited capable of enabling the Group to manufacture high quality and competitive products

For the technical and economical positions FPM recruits young specialist graduates from Dnepropetrovsky Mining Academy, Kyiv Universities, Krivoy-Rog Institutes, Komsomolsk Polytechnical School among other places

### Training and development

The Group is committed to developing its employees The Group provides technical training for all employees consistent with their duties and responsibilities In particular, investment has been made in facilities for health and safety training (see Case Study 1) Over the past three years, on average, over 300 employees have been supported in either full-time or distance learning courses In 2007, 75 employees were sponsored in full-time courses and 207 were placed on distance learning courses

### Trade unions

The Group does not have individual contracts with its employees in Ukraine other than with its senior managers Most of FPM's workers are members of a trade union (the 'Poltava Trade Union') There has been no significant industrial action or labour dispute at Poltava since its privatisation in 1995 FPM entered into a new collective bargaining agreement with the Poltava Trade Union on 30 March 2007 Management has also signed a protocol of intent with the Poltava Trade Union for the period from 2008 to 2010 in which it has agreed to ensure that individual salaries will be increased at least in line with inflation and that an annual reduction in headcount will occur, subject (except for any jobs that are outsourced) to an agreed maximum

Management believes that wages paid by the Group are higher than average wages in Ukraine, although they tend to be less than the average wages paid by other Ukrainian mining companies

# **Sustainable development review** continued

## Communities

### Community policy

- Our presence should benefit those communities around our operations, our operations will benefit if local communities are thriving
- We strive to be recognised as an attractive local employer and a concerned corporate citizen
- We will assist in the development of the micro-economic environment within the communities in which we operate to ensure that their dependence on us for their livelihood is reduced
- We aim to have a positive relationship with and enhance the communities around us We wish to have an open dialogue with these communities and to ensure that our involvement with them is cost effective and relevant to their needs

### Community context

Poltava is located in an area of predominantly flat agricultural land close to the Dnieper River, one of the largest European river systems and an important transport artery for Ukraine, Belarus and Russia Iron ore mining in the area dates from the 19th century, although the major expansion of mining activity occurred in the early 20th century The town of Komsomolsk was established adjacent to the mine to support the mining operation and ancillary industries (transport, power etc ) Ferrexpo Poltava is still by far the largest employer in the town, which has a population of approximately 40,000 people, with approximately 25% of the working population of Komsomolsk being employed by the mine in one capacity or another

### Community initiatives

FPM has been a significant investor in local community initiatives from the outset Since 2004, the Company has spent UAH55 6m on the social infrastructure of Komsomolsk and the surrounding area These funds have been spent on charities, medical facilities, social services, education, religion, culture (see Case Study 2) and sporting activities (see Case Study 3), as well as on the maintenance of certain of the city's social and cultural structures These include contributions to local municipalities, welfare support, the provision of medicine, education and sport, maintaining these at a level in keeping with the rest of the Poltava Region and Ukraine FPM spent US$4 4m in support of local cultural, educational, sporting and social projects in 2007

Total expenditure on social projects in 2007 was UAH15m The primary focus has been on providing assistance for the medical centres in Komsomolsk with the emphasis being placed on the procurement and repair of medical equipment and furniture

Educational institutions in the city such as kindergartens and schools have also received financial support for repairs and maintenance In recent years, FPM has provided a summer camp called 'Horizon' for almost 1,500 children of employees and other families in Komsomolsk

Historically, FPM has employed a significant number of people to provide support services to the Group's mining activities In many cases, these services could be made available on a commercial basis to other enterprises within the local community which in turn could improve the viability and sustainability of the local economy To encourage this process, FPM have offered finance and other support to employees who provide these in-house services to encourage them to transform these internal departments into stand alone businesses

During the year, the road transport and maintenance, building maintenance and security departments were transferred into stand alone businesses These transfers involved 569 employees In each case, Ferrexpo Poltava Mining has entered into service agreements with these new businesses, providing them with an initial guaranteed income as independent businesses Fixed assets and materials have also been transferred

## Corporate governance

# Corporate governance report

**Introduction**
The Board is committed to good corporate governance practices, in its management of the affairs of the Group and in its accountability to shareholders As detailed in this report, the Company has taken action to institute an effective corporate governance framework by establishing its Board committees, internal procedures and Group policies which are critical for the proper management of the Group and good governance of an international business From the date of its incorporation until 15 June 2007 (the date of its listing on the London Stock Exchange), Ferrexpo plc was not subject to the rules of the UK Listing Authority Since the Company has been listed, the Board has sought to comply with corporate governance best practice and this report details the steps that have been taken to achieve compliance with the Principles of Good Governance and the Code of Best Practice contained in the Combined Code on Corporate Governance issued on 27 June 2006 (the 'Combined Code') Accordingly, the Board and its management believe in conducting their affairs in a fair and transparent manner and in maintaining high ethical standards in their dealings with all relevant parties

**Statement of compliance**
Since Listing in June 2007 the Company has become compliant with the provisions of section 1 of the Combined Code save that neither Board evaluation nor evaluation of the Chairman has yet been conducted It is intended that these evaluation exercises will be undertaken during 2008

The Directors intend to ensure that they continue to comply with the recommendations of the Combined Code

The Combined Code establishes 17 main principles of good governance in four areas Directors, Directors' Remuneration, Accountability and Audit, and Relations with Shareholders The following three sections explain how these principles were applied, with the exception of those relating to Directors' Remuneration (a detailed report on Directors' remuneration can be found on pages 51 to 56)

**Directors**
**The Board**
The Board comprises a Non-executive Chairman Michael Abrahams, three Executive Directors Mike Oppenheimer, Dennis McShane and Chris Mawe and five Non-executive Directors Oliver Baring has been nominated as the Senior Independent Director The other Non-executive Directors are Kostyantyn Zhevago, Lucio Genovese, Wolfram Kuoni and Ihor Mitiukov

Biographical details of the Directors at the date of this report are set out on pages 14 and 15 together with details of their membership of Board committees Brief details of the Chairman, the Chief Executive and the Senior Independent Director are set out on page 47

The Board is responsible for setting the Company's objectives and policies, and providing effective leadership and control required for a public company The Board is responsible for approving the Group strategy, budgets, business plans and major capital expenditure It also monitors financial performance and critical business issues

The Board has a formal schedule of matters specifically reserved to it for decision which was approved by the Board The schedule of matters reserved to the Board sets out those matters which require Board approval and include the Group's strategy, business plan and annual budget Major project approvals and contract awards require the approval of the Board as well as key policies and procedures

The Board is supported by the Executive Committee ('Exco') which meets monthly All of the information that is submitted to the Board by management is reviewed and approved by Exco

Directors receive a suite of briefing notes and reports for their consideration in advance of each Board meeting, including reports on the Company's operations to ensure that they remain briefed on the latest developments and are able to make fully informed decisions The briefing notes and reports that are prepared by Exco take into account the factors set out in section 172 of the Companies Act 2006, which are considered by Exco when making any proposals and recommendations to the Board

All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that
Board procedures are followed and that applicable rules and regulations are complied with All Directors may take independent professional advice at the expense of the Company in the furtherance of their duties On appointment, all Directors are advised of their duties, responsibilities and liabilities as a Director of a public listed company

Directors have the right to request that any concerns they have are recorded in the appropriate committee or Board minutes

The Board met four times between June and December 2007 Attendance by Directors at Board meetings and Board Committee meetings is shown below All Board meetings are held in Switzerland

### Attendance at Board and Board committee meetings

The following table sets out the number of meetings of the Board and its committees following its Listing and individual attendance by the relevant members at these meetings

| | | Committee meetings | | | |
|---|---|---|---|---|---|
| | **Board meetings** | **Audit** | **Remuneration** | **Nominations** | **CSR** |
| Number of meetings held since Listing | 4 | 3 | 3 | 1 | 1 |
| **Chairman** | | | | | |
| Michael Abrahams | 4 | 3 | 3 | 1 | 1 |
| **Executive Directors** | | | | | |
| Mike Oppenheimer | 4 | n/a | n/a | n/a | 1 |
| Dennis McShane | 4 | n/a | n/a | 1 | n/a |
| Christopher Mawe (note 1) | n/a | n/a | n/a | n/a | n/a |
| **Non-executive Directors** | | | | | |
| Kostyantyn Zhevago | 4 | n/a | n/a | 1 | n/a |
| Oliver Baring (note 2) | 1 | n/a | 1 | n/a | n/a |
| Raffaele (Lucio) Genovese | 4 | 3 | 3 | n/a | n/a |
| Wolfram Kuoni | 4 | 3 | n/a | n/a | n/a |
| Ihor Mitiukov | 4 | 3 | 3 | n/a | n/a |

Notes
1 Christopher Mawe was appointed to the Board on 7 January 2008
2 Oliver Baring was appointed to the Board on 1 December 2007
3 In addition to Michael Abrahams and Mike Oppenheimer, David Webster and Viktor Lotous are members of the CSR Committee and have both attended one meeting each

### Chairman, Chief Executive and Senior Independent Director

The roles of the Chairman and Chief Executive are held by different individuals The division of responsibilities between the Chairman and Chief Executive has been clearly established in writing and agreed by the Board

The Chairman's other current responsibilities are set out in the biographical notes on page 14 There have been no changes to those commitments since the Company's IPO

Oliver Baring was appointed to the Board with effect from 1 December 2007 as a Non-executive Director and nominated Senior Independent Director Mr Baring will assist in communications with shareholders concerning corporate governance matters if that is required

### Board balance and independence

The Board believes that its current membership of three Executive Directors, one Non-executive Chairman and five Non-executive Directors, four of whom are deemed by the Board to be independent, is of an appropriate size and structure to manage the Company in an effective and successful manner It also considers that no one Non-executive Director can influence or dominate the decision making The Relationship Agreement with Kostyantyn Zhevago specifically deals with decision making More details are given below

The Board has carefully considered the guidance criteria on independence of Non-executive Directors under the Combined Code In the opinion of the Board, all the continuing Non-executive Directors bring independence of judgement and character to the Board and to the Board Committees on which they sit The Board considers that all the Non-executive Directors, with the exception of Mr Zhevago, are independent of the Company as defined by provision A 3 1 of the Combined Code The Board considers that the industry expertise and experience of Mr Zhevago is beneficial to the Group

## Corporate governance

# Corporate governance report continued

Mr Zhevago is a beneficiary of the Minco Trust which owns 100% of Fevamontinico S a r l, the major shareholder in the Company Consequently he and Fevamontinico S a r l have entered into a relationship agreement with the Company to ensure that the Group is capable of carrying on its business independently, that transactions and relationships between the Group, Fevamontinico S a r l and Mr Zhevago are at arm's length and on normal commercial terms, and that there shall be at all times a majority of Directors independent of Fevamontinico and Mr Zhevago on the Board ('the Relationship Agreement') The Relationship Agreement does not apply to Mr Zhevago in his capacity as a Non-executive Director

**Information and professional development**
Induction was provided for all the new Non-executive Directors at the time of the Listing and an induction programme for all new Non-executive Directors has been established All Directors are made aware that they may take independent professional advice at the expense of the Company in the furtherance of their duties All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that all governance matters are complied with and who assists with professional development as required

Professional development and training is provided in a number of ways including updates on changes and proposed changes in laws and regulations affecting the Group and site visits to ensure Directors are familiar with the Group's operations In July 2007 the members of the Audit Committee received a briefing on their roles and responsibilities and a further update briefing has been provided since the year-end

Since June 2007, all Board members have received a briefing on the new duties of Directors as prescribed by the Companies Act 2006 In addition, the Board has evaluated all its processes to ensure compliance with the Companies Act 2006

**Performance evaluation**
Most of the members of the Board have been appointed for less than a year and therefore the Board believes that it is too early to begin a process of Board evaluation at this stage It is therefore proposed that a Board evaluation process will be conducted by the Chairman in the second half of 2008 The Chairman is currently considering the process for doing this The Senior Independent Director will monitor the evaluation of the Chairman by the other members of the Board

**Election of Directors at the 2008 Annual General Meeting**
In accordance with Article 73 of the Company's Articles of Association, the Directors may be appointed by the Company by ordinary resolution or by the Board If appointed by the Board, a Director holds office only until the next Annual General Meeting Since all the Directors were appointed by the Board during the year, their terms of office will expire at the forthcoming Annual General Meeting but, being eligible, will offer themselves for election There will not, therefore, be any Directors retiring by rotation In future years, Directors will be required to retire by rotation in accordance with the Company's Articles of Association

A separate Chairman's letter, which includes the Notice of the Annual General Meeting, will be circulated to shareholders with this Annual Report and Accounts Resolutions to elect all the Directors are set out in the full AGM notice along with biographical details for each Director The Board fully supports all the elections being proposed and recommends that all Directors be appointed by shareholders at the forthcoming AGM

**Board committees**
The Board has a number of committees consisting of certain Directors, and in the case of the Executive and CSR Committees, certain senior managers, to which specific responsibilities have been delegated and for which written terms of reference have been agreed These terms of reference are available for inspection on the Company's website at www ferrexpo com Membership of the various Committees, including the Chairman of each Committee, is shown below

The Company provides the Committees with sufficient resources to undertake their duties, including access to the Company Secretary

**Nominations Committee**
The Nominations Committee meets as required and is now chaired by Oliver Baring who was appointed to the Board with effect from 1 December 2007 Its other members are Michael Abrahams, Kostyantyn Zhevago, Ihor Mitiukov and Wolfram Kuoni The role of the Nominations Committee is to identify and nominate candidates for the approval of the Board, to fill Board vacancies and make recommendations to the Board on Board composition and balance The Nominations Committee will consult regularly with the Board when filling Board vacancies The Executive Directors and Chairman will also assist in identifying the scope and required skills for the vacant role

Since its constitution, the Nominations Committee has reviewed the Group's succession plan, considered the timing of the Board evaluation process and considered the appointment of the new Directors appointed in the second half of the year

**Remuneration Committee**
The Remuneration Committee is chaired by Lucio Genovese and its other members are Michael Abrahams, Ihor Mitiukov and Oliver Baring, all of whom are Non-executive Directors The Remuneration Committee meets as required and is responsible for reviewing and approving all aspects of remuneration for the Executive Directors and members of the Executive Committee

Further details concerning the activities of the Remuneration Committee are set out in the Directors' Remuneration Report on pages 51 to 56

**Audit Committee**
The Audit Committee is chaired by Wolfram Kuoni and its other members are Lucio Genovese and Ihor Mitiukov

The Chairman, Chief Executive, Chief Financial Officer, the Director of Business Development, the Group Financial Controller and a representative of the Company's external auditors normally attend the meetings

**Corporate Social Responsibility ('CSR') Committee**
The CSR Committee, originally the HSEC Committee, was established on 1 June 2007 Its terms of reference were revised and approved on 8 November 2007

The role of the CSR Committee is to formulate and recommend to the Board the Company's policy on corporate social responsibility issues as they affect the Company's operations In particular, it will focus on ensuring that effective systems and standards, procedures and practices are in place in the Company The CSR Committee will also be responsible for reviewing management's investigation of incidents or accidents that occur in order to assess whether policy improvements are required

The CSR Committee comprises Mike Oppenheimer, who chairs the CSR Committee, Michael Abrahams, Viktor Lotous (Chief Operating Officer) Ferrexpo Poltava Mining and David Webster (Chief Projects Officer) The Committee shall meet not less than twice a year and at such other times as the Chairman of the CSR Committee shall require It is the intention to appoint external expertise to assist the CSR Committee in developing policy in this area

Further details concerning the activities of the CSR Committee are set out in the CSR Report on pages 36 to 45

**The Executive Committee**
The Executive Committee acts as the main decision making body of the Group Its members are detailed on page 15 It is responsible for taking all the main decisions relating to the Group apart from those that are reserved for the entire Board or which require a decision of the full Board, such as approving the Group's strategy, capital expenditure and budget It meets regularly during the year and no meetings are held in the United Kingdom

**Accountability and audit**
The Board is mindful of its responsibility to present a balanced and clear assessment of the Company's financial position and prospects This assessment is primarily provided in the Chairman's Statement, Chief Executive's Report and Financial Reviews contained in this Report

**Audit Committee**
The Combined Code recommends that all members of the Audit Committee are independent Non-executive Directors, and that at least one member should have recent and relevant financial experience All members of the Audit Committee are considered to possess appropriate knowledge and skills Wolfram Kuoni is an independent Non-executive Director and Chairman of the Audit Committee He has worked for UBS for 12 years and has extensive experience of international corporate finance Ihor Mitiukov is an independent Non-executive Director and was Director General of the Ukrainian Financial Policy Institute until March 2008 He has since become Managing Director and Head of Country for Ukraine for Morgan Stanley with effect from 17 March 2008 Lucio Genovese is an independent Non-executive Director and a Chartered Accountant in South Africa

Under its terms of reference, the Audit Committee is required to meet at least three times a year at the most appropriate times in the reporting and audit process

Between its formation and 31 December 2007, the Audit Committee met three times and carried out the following activities

- Approved the appointment of Ernst & Young LLP as the external auditor, and reviewed the scope of the work being proposed for 2007 and audit fees
- Approved the scope and findings of the Interim Review performed by the external auditors
- Reviewed the risk matrix, internal audit plan and the appointment of BDO Vistura International as internal auditor
- Agreed the scope of the internal audit review and annual audit plan
- Approved and monitored the implementation of the financial procedures plan proposed by management post IPO
- Approved the policies relating to non-audit services, the employment of former employees of the external auditor and the independence and objectivity of the external auditor
- Reviewed the whistleblowing policy
- Reviewed effectiveness of External Auditors

**Internal control**
The Board has overall responsibility for the Group's system of internal control which includes risk management and reviewing its effectiveness The system of internal control is designed to identify, evaluate and manage significant risks associated with the achievement of the Group's objectives Because of the limitations inherent in any system of internal control, this system is designed to meet the Company's particular needs and the risks to which it is exposed rather than eliminate risk altogether Consequently it can only provide reasonable and not absolute assurance against material misstatement or loss

The Board has delegated its responsibility for reviewing the effectiveness of these controls to the Audit Committee The Audit Committee will review these systems on an annual basis The day-to-day responsibility for managing risk and the maintenance of the Group's system of internal control is collectively assumed by the Executive Committee Key risk and control issues are reviewed by the Executive Committee each month at its regular meeting Two other working groups have a role in this process, the Finance and Risk Management Committee ('FRMC') which reviews financial reporting each month and the Investment Risk Review Committee which reviews the risks associated with any major capital expenditure proposal prior to recommendation to the Board

On behalf of the Board, the Executive Committee have established a process for identifying, evaluating and managing the significant risks faced by the Group in accordance with the Turnbull Guidance The Group has also adopted a risk-based approach in establishing the Group's system of internal control and in reviewing its effectiveness To assist in managing key internal risks, it has established a number of Group wide procedures, policies and standards and has set up a framework for reporting matters of significance The Audit Committee is responsible for reviewing the effectiveness of the Group's risk management, internal control systems and the half year and annual financial statements before their submission to the Board It also reviews the scope and results of the audit with the external auditors and the internal audit schedule of work for the forthcoming financial year

The Audit Committee is also responsible for reviewing the arrangements whereby staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters

There are a number of components to the system of internal controls within the Company and these are detailed as follows

- A risk matrix has been developed and is monitored and reviewed by the Exco
- A framework of transaction and entity level controls to prevent and detect material error and loss
- A budgetary and periodic reporting review process performed by the Exco
- A documented structure of delegated authorities and approvals for transaction and investment decisions, including any with related parties
- A review of the proposed Financial Reporting Procedures was undertaken by Ernst & Young pre-IPO and a schedule of follow-up actions has been produced and progress with its implementation is being monitored

## Corporate governance

# Corporate governance report continued

- A new reporting system has been implemented to significantly improve the depth, accuracy and speed of consolidation of financial information for Group entities
- A programme of internal audit reviews has been performed by BDO Vistura International
- FRMC reviews monthly financial information and management accounts and meets fortnightly

The Board have, through the Executive Committee and the Audit Committee, reviewed the effectiveness of the Group's system of internal controls taking account of the matters summarised under the headings of risk evaluation, identification of control regime and implementation above On the basis of this review, the Board considers that the measures that have already been implemented both before and after the IPO to initiate a risk management framework are appropriate to the Group's circumstances
The Board is committed to making further progress in the implementation of its internal control regime, particularly in relation to execution of the planned internal audit programme, with a view to achieving best practice levels of risk management and internal control for international mining companies listed on the London Stock Exchange

**Treasury**
The Board approved a treasury policy during the year and a treasury function is in place and will monitor compliance with the policy and compliance with banking covenants

**Investment proposals**
A budgetary process and authorisation levels regulate capital expenditure For expenditure beyond specified levels, detailed written proposals are submitted for approval to the Exco and reviewed by the Investment Risk Review Committee and then submitted to the Group Board for approval

**Internal audit**
A Group wide internal audit function has been introduced utilising BDO Vistura International as an outsourced service provider reporting to the Chairman of the Audit Committee

An internal audit programme for 2007/08 has been approved by the Audit Committee

**Audit independence**
The Audit Committee and Board place great emphasis on the independence and objectivity of the Company's auditors, Ernst & Young LLP, when performing their role in the Group's reporting to shareholders

The overall performance, independence and objectivity of the auditors is reviewed annually by the Audit Committee, taking into account the views of management, and this will be reported to senior members of Ernst & Young The Audit Committee has regular discussions with the external auditors, without management being present

The Audit Committee has approved separate policies in respect of the provision of non-audit services and employment of former employees of the auditor The auditors will also be expected to provide to the Audit Committee, information about policies and processes for maintaining independence and monitoring compliance with relevant current requirements, including those regarding the rotation of audit partners and staff, the level of fees that the Company pays in proportion to the overall fee income of the firm and other regulatory requirements

**Going concern**
A statement on the Directors' position regarding the Company as a going concern is contained in the Directors' Report on pages 57 to 61

**Relations with shareholders**
The Board places considerable importance on effective communication with shareholders Executive Directors and senior executives have frequent discussions with institutional shareholders on a range of issues affecting the Group's performance, which include meetings following the announcement of the annual and interim results The Chief Executive, Chief Financial Officer, Director of Business Development and
Head of Investor Relations meet with major shareholders to discuss performance, strategy and governance, and the Non-executive Directors are available for discussions with shareholders if required

JPMorganCazenove, the Company's brokers, also provide regular reports to the Board on changes to the shareholdings of the Company's major investors Information about the views of major investors is provided to the Board at each meeting by the Chief Executive Officer and Head of Investor Relations

The Board will use the Annual General Meeting to communicate with shareholders and welcomes their participation It is the intention that the Chairman will aim to ensure that the Chairmen of the Audit, Remuneration and Nominations Committees are present at the Annual General Meetings to answer questions

Information on matters of interest to investors can be found on the Company's website at www ferrexpo com

This report was approved by the Board on 8 April 2008

# Remuneration report

**Introduction**
This Report has been prepared in accordance with Schedule 7A of the Companies Act 1985 – The Directors Remuneration Report Regulations (the 'Regulations') and sets out information about the remuneration of the Directors and senior management of the Company for the year ended 31 December 2007 This report has been audited by Ernst & Young LLP to the extent required by the Regulations

As required by the Regulations, this report will be subject to an advisory shareholder vote at the Company's forthcoming Annual General Meeting In addition shareholders will be asked to approve at the Annual General Meeting the Long Term Incentive Plan, details of which are set out in this report

**Remuneration Committee**
The Board established the Remuneration Committee on 14 June 2007 and it met three times during the year Lucio Genovese is the chairman of the Remuneration Committee and its other members are Michael Abrahams, Ihor Mitiukov and Oliver Baring All the members of the Remuneration Committee are independent Non-executive Directors Attendance at meetings of the Remuneration Committee by individual members is detailed in the Corporate Governance Report on page 47

Terms of reference for the Remuneration Committee have been approved by the Board and its duties include the determination of the policy for the remuneration of the Executive Directors and the members of the Executive Committee, as well as their specific remuneration packages, including pension rights and, where applicable, any compensation payments In determining such policy, the Remuneration Committee is expected to take into account all factors which it deems necessary to ensure that members of the senior executive management of the Group are provided with appropriate incentives to encourage strong performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company

The composition of the Remuneration Committee and its terms of reference comply with the provisions of the Combined Code and are available for inspection on the Company's website at www ferrexpo com

The Chief Executive Officer and Head of Human Resources usually attend meetings of the Remuneration Committee at the invitation of the chairman of the Remuneration Committee and the Company Secretary acts as secretary to this committee No Director is present when his own remuneration is being discussed

**Advisers**
The Remuneration Committee appointed Kepler Associates as its advisers in November 2007 to provide advice on remuneration policy with particular emphasis on the structure of possible long term incentives for senior management

**Remuneration policy**
Ferrexpo's remuneration policy is designed to help attract, motivate and retain talented executives to help drive the future growth and performance of the business The policy aims to

- align executive and shareholder interests,
- link a high proportion of remuneration to performance,
- reward a balanced portfolio of performance measures (e g relative TSR outperformance of sector peers, annual business priorities and individual performance), and
- provide competitive rewards assessed against the relevant market to attract, motivate and retain talented executives

In determining the Company's remuneration policy, the Remuneration Committee has taken into account the particular business context of the Ferrexpo Group, the geography of its operations, the relevant talent market for each executive and best practice guidelines set by institutional shareholder bodies During the year, the structure and competitiveness of performance-related and fixed elements of the remuneration packages of the Executive Directors were reviewed against mining comparators and FTSE-listed companies of similar size Following this review, the Remuneration Committee is proposing some changes to its long term incentive arrangements for 2008, details of which are provided later in this report and the accompanying AGM Notice

To implement this policy, in 2008 the Board intends to operate three performance-related incentive plans for senior executives

- The Short Term Incentive Plan ('STIP') – to focus management on delivery of annual business priorities based on a scorecard of key performance indicators relating to both Company and individual performance
- The Long Term Incentive Plan ('LTIP') – to motivate participants to deliver appropriate returns to shareholders
- The Added Value Incentive Plan ('AVIP') – a one-off plan to incentivise the Chief Executive and selected senior executives to deliver exceptional and sustained value creation above a tailored sector index The Remuneration Committee is currently consulting with shareholders on the design of the AVIP with the intention of making a proposal to an extraordinary general meeting of shareholders in 2008

**Executive Directors**
In setting the basic levels of pay for the Executive Directors, the Remuneration Committee seeks to ensure that salaries are market competitive with the potential for total remuneration to be upper quartile subject to satisfaction of suitably stretching performance conditions In making this determination, the Committee makes reference to pay levels of international mining companies and other FTSE-listed companies of similar size

**Chairman and Non-executive Directors**
The remuneration of the Chairman of the Company and the Non-executive Directors consists of fees that are paid monthly in arrears The Chairman and Non-executive Directors do not ordinarily participate in any of the Company's long term incentive or annual bonus schemes, nor do they accrue any pension entitlement Neither the Chairman nor any of the Non-executive Directors has a service contract with the Company, however each has entered into a letter of appointment with the Company

The Non-executive Directors' fees are reviewed on 1 July each year

## Corporate governance

# Remuneration report continued

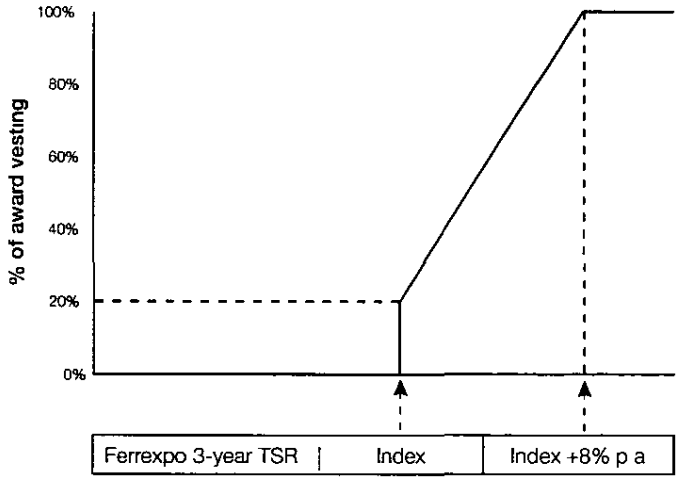
**Long Term Incentive Plan**
The Remuneration Committee is proposing to continue to operate the LTIP framework described in the IPO Prospectus This framework provides for annual awards of performance shares and options up to 200% of salary in normal circumstances The Committee intends to make initial awards in 2008 of up to 100% of salary in the form of Performance Shares which vest on Ferrexpo's three-year relative Total Shareholder Return ('TSR') Relative TSR will be calibrated using percentage outperformance of the median of a tailored peer group (the comparator index) For 2008 awards, it is proposed that the comparator index be based 50% on the median of global diversified mining companies, 30% on the median of smaller focused iron ore miners and 20% on the median of selected other single commodity/emerging market miners, as illustrated below

| Index component | Constituents | | Aggregate weighting |
|---|---|---|---|
| Global diversified miners (10% each) | CVRD (Vale) | Rio Tinto | 50% |
| | BHP Billiton | Xstrata | |
| | Anglo American | | |
| Focused iron ore miners (5% each) | Aricom | Kumba Iron Ore | 30% |
| | Cleveland-Cliffs | Mount Gibson Iron | |
| | Fortescue Metals Group | Portman | |
| Single commodity/emerging market miners (1% each) | African Rainbow Minerals | Katanga Mining | 20% |
| | Alcoa | Kazakhmys | |
| | Alumina | KGHM Polska Miedz | |
| | Aluminum Corp of China | Lundin Mining | |
| | Antofagasta | Norilsk | |
| | Boliden | Oxiana | |
| | Eramet | Peabody Energy | |
| | First Quantum Minerals | Teck Cominco | |
| | Freeport McMoRan | ZINIFEX | |
| | Industrias Penoles | Vedanta Resources | |

The Remuneration Committee will have discretion to review this tailored peer group if any of the constituent companies are affected by M&A activity The Remuneration Committee will also review the constituents and their weightings prior to the start of each LTIP cycle to ensure they remain appropriate

No performance shares will vest if Ferrexpo's TSR underperforms the comparator index 20% will vest if Ferrexpo's TSR is equal to Index TSR, full vesting will occur only if Ferrexpo's TSR exceeds the Index by at least 8% p a , there will be straight-line pro rata vesting in between In addition, for any shares to vest, the Remuneration Committee must be satisfied that the recorded TSR is a fair reflection of Ferrexpo's underlying business performance The vesting schedule is illustrated below

2008 LTIP vesting schedule




Dividends will accrue on performance shares over the vesting period, and be paid on shares that vest In the event of a change of control, awards will be pro-rated for time and performance The Remuneration Committee will retain discretion to vary this treatment if it deemed it to be in shareholders' interest to do so

The Remuneration Committee is proposing relative TSR as the primary long term incentive measure as it considers this to be the most objective external measure of the Company's success The proposed TSR benchmark includes the world's largest diversified miners, focused iron ore miners, and companies operating in similar markets

**Transitional award of performance shares**
The 2008 LTIP awards will not vest before Spring 2011 In recognition of this, and to enable a smooth transition to annual rolling three-year LTIP cycles, the Committee is proposing to supplement 2008 LTIP awards of up to 100% of salary in performance shares with transitional awards of performance shares of 100% of salary for the CEO, 75% of salary for the Executive Director Business Development and 67% of salary for the Executive Director Finance These awards would vest on two-year TSR performance and be based on the same calibration

**Short Term Incentive Plan**
At the beginning of the year a STIP was put in place for the members of the Executive Committee, including the Executive Directors A number of Key Performance Indicators ( KPIs') were agreed for each member of the Executive Committee and KPI targets were set at which payments equivalent to 0% to 150% of basic salary could be earned For each member of the Executive Committee, the KPIs were weighted to reflect the contribution of each executive to the achievement of that KPI

KPIs during the year included Financial KPIs (including Group operating EBITDA, NOPAT) and KPIs relating to safety, projects and governance Their respective weightings for the Executive Directors during the year were as follows

| KPI | Mike Oppenheimer | Dennis McShane |
|---|---|---|
| Financial | 45% | 50% |
| Safety, projects and governance | 55% | 50% |

Chris Mawe did not join the Board until 7 January 2008 and therefore was not a member of the STIP during 2007

For 2008, the Remuneration Committee has agreed that financial KPIs will also include major capital project performance, KPI weightings for each of the Executive Directors for 2008 are as follows

| KPI | Relative weighting |
|---|---|
| Financial | 60% |
| CSR, Projects and Governance | 40% |

**Service agreements**
The Executive Directors are employed under contracts of employment with Ferrexpo AG, a Group company The service contracts may be terminated on 12 months' notice in writing by Ferrexpo AG and three months' notice by each of the Executive Directors In setting the notice period for termination by Ferrexpo AG at 12 months, the Remuneration Committee has reduced the likelihood of having to pay excessive compensation in the event of poor performance None of the Directors have service agreements with a notice period in excess of 12 months

## Corporate governance

# Remuneration report continued

The principal terms of the Executive Directors' service contracts are as follows

| Name | Position | Date of contract | Notice period | Current salary (p a ) |
|---|---|---|---|---|
| Mike Oppenheimer | Chief Executive Officer | 1 June 2007 | three months from the employee, 12 months from the employer | US$892,500 (note 2) |
| Dennis McShane (note 1) | Director of Business Development | 1 June 2007 | three months from the employee, 12 months from the employer | £236,250 (note 2) |
| Chris Mawe | Chief Financial Officer | 7 January 2008 | six months from the employee, 12 months from the employer | CHF596,000 |

Notes
1 Dennis McShane is required to make at least 70% of his work capacity, as well as all of his experience and knowledge available to the Company He may make up to 30% of his work capacity available to Kostyantyn Zhevago's other investments
2 With effect from 1 January 2008

### Listing bonuses

At the time of the IPO, Mike Oppenheimer was entitled to an award of cash and/or shares in the Company to the value of 0 50% of the market capitalisation upon admission of Ordinary Shares to listing, subject to a minimum award of cash or Ordinary Shares to the value of US$5,000,000 (calculated based on the closing price on the first day of trading) 50% of this award was due on Listing and 50% was due on the first anniversary of the Listing The first 50% of the Listing bonus due to Mr Oppenheimer was paid in cash, the balance will be paid in Ordinary Shares As a result, Mr Oppenheimer has been awarded 1,515,177 Ordinary Shares which will vest on 14 June 2008

At the time of the IPO, Dennis McShane was entitled to an award of cash and shares in the Company to the value of US$5,000,000 (comprising US$1,000,000 in cash and US$4,000,000 in shares) Mr McShane was also entitled to a one-time award of US$3,000,000 in cash in recognition of his past contribution to the Group In addition if, on Listing, the market capitalisation of the Company exceeded a certain threshold, Mr McShane was entitled to receive an award of shares in the Company to the value of 0 3% of the excess of the market capitalisation over such threshold As a result of these arrangements, Mr McShane received 1,449,664 Ordinary Shares during the year Of this number, 579,865 Ordinary Shares were sold to settle taxation liabilities leaving a balance of 869,799 Ordinary Shares held by Mr McShane

### Benefits-in-kind

Under his service agreement, Mike Oppenheimer is entitled to 25 working days' paid holiday per year From 1 January 2008, Ferrexpo AG also provides him with up to $346,575 per annum as a housing allowance, US$5,000 per annum for professional tax advice, as well as tax equalisation, medical insurance, life insurance and permanent health insurance

Under his service agreement, Dennis McShane is entitled to 25 working days' paid holiday per year Ferrexpo AG also provides him with CHF120,000 as a housing allowance per annum, £3,000 per annum for professional tax advice and a CHF30,000 relocation allowance

### Pensions

The Group does not operate a separate pension scheme for Executive Directors Mike Oppenheimer is a member of the Ferrexpo AG pension plan which is a mandatory insurance scheme under Swiss law provided for all employees of Ferrexpo AG Dennis McShane is a member of the Ferrexpo UK Ltd pension plan operated by a Group company Under his Contract of Employment with Ferrexpo AG, a minimum of 10% of his annual base salary is required to be paid to the Ferrexpo UK Ltd Pension Plan on his behalf

### Non-executive Directors' letters of appointment

Each of the Non-executive Directors has signed a letter of appointment with the Company With the exception of Oliver Baring, who signed a letter of appointment on 30 November 2007 immediately prior to his appointment to the Board, the Non-executive Directors signed their letters of appointment on 14 June 2007 The Non-executive Directors have each been appointed for an initial period of three years and their appointments are renewed on a three-yearly basis, subject to re-election, when appropriate, by the Company in general meeting Unless otherwise determined neither the Board nor the Director concerned may give less than three months' notice of termination of the appointment

The Non-executive Directors' fees have been set at a level to reflect the time commitment and level of involvement that they are required to make in the activities of the Board and its committees The key terms of the Non-executive Directors' letters of appointment are as follows

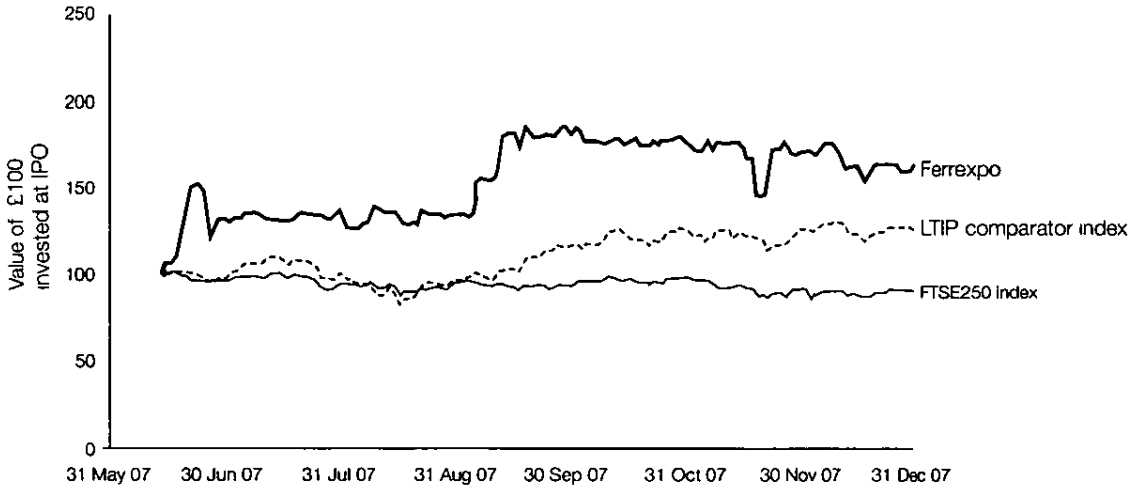
| Director | Position | Date of appointment | Duration of term | Fees p a |
|---|---|---|---|---|
| Michael Abrahams | Chairman | 14 June 2007 | 3 years | US$350,000 |
| Oliver Baring (note 1) | Non-executive Director | 1 December 2007 | 3 years | US$140,000 |
| Lucio Genovese (note 2) | Non-executive Director | 14 June 2007 | 3 years | US$140,000 |
| Wolfram Kuoni (note 3) | Non-executive Director | 14 June 2007 | 3 years | US$140,000 |
| Ihor Mitiukov | Non-executive Director | 14 June 2007 | 3 years | US$120,000 |
| Kostyantyn Zhevago | Non-executive Director | 14 June 2007 | 3 years | Nil |

Notes
1 Oliver Baring receives a fee of US$120 000 p a as a Non executive Director and an additional fee of US$20,000 p a for his role as Senior Independent Director
2 Lucio Genovese receives a fee of US$120 000 p a as a Non-executive Director and an additional fee of US$20,000 p a for his role as Chairman of the Remuneration Committee
3 Wolfram Kuoni receives a fee of US$120 000 p a as a Non-executive Director and an additional fee of US$20 000 p a for his role as Chairman of the Audit Committee

**External appointments**
It is the Board's policy to allow the Executive Directors to accept directorships of other quoted companies provided that they have obtained the consent of both the Chairman of the Company and Mr Zhevago Any such directorships must be formally notified to the Board

**Performance review**

Value of £100 invested at IPO on 14 June 2007, based on spot values




Source Bloomberg

**Directors' remuneration – Audited Information**
Directors' remuneration for the period from Listing or their appointment (if earlier) to 31 December 2007

Salary, Annual Bonus and other benefits

| | Salary US$000 | Pension US$000 | Benefit US$000 | Bonus US$000 | Total 2007 US$000 | Total 2006 US$000 |
|---|---|---|---|---|---|---|
| **Chairman** | | | | | | |
| Michael Abrahams | 204 | – | 164 | – | 368 | – |
| **Executive Directors** | | | | | | |
| Mike Oppenheimer | 568 | 50 | 3,042 | 6,264 | 9,924 | – |
| Dennis McShane | 327 | 45 | 4,058 | 4,847 | 9,277 | – |
| **Non-executive Directors** | | | | | | |
| Oliver Baring | 11 | – | 87 | – | 98 | – |
| Lucio Genovese | 80 | – | 90 | – | 170 | – |
| Wolfram Kuoni | 80 | – | 90 | – | 170 | – |
| Ihor Mitiukov | 70 | – | 90 | – | 160 | – |
| Kostyantyn Zhevago | – | – | – | – | – | – |
| **Total** | 1,340 | 95 | 7,620 | 11,111 | 20,167 | – |

Note
No compensation for loss of office was paid during the year ended 31 December 2007

All Directors with the exception of Messrs McShane and Baring were appointed to the Board on 1 June 2007 Dennis McShane was appointed to the Board on 25 April 2007 and Oliver Baring was appointed to the Board on 1 December 2007

## Corporate governance

# Remuneration report continued

**Listing bonus awards**
The Chairman and the Non-executive Directors were all awarded shares in the Company on their appointment to the Board as follows

| Director | Relevant anniversary date | Shares awarded on appointment | Shares due on first anniversary date | Shares due on second anniversary date | Shares due on third anniversary date | Total shares awarded |
|---|---|---|---|---|---|---|
| Michael Abrahams | 15 June 2007 | Nil | 90,657 | 90,657 | 90,657 | 271,971 |
| Oliver Baring | 1 December 2007 | 12,060 | 12,060 | Nil | Nil | 24,120 |
| Lucio Genovese | 15 June 2007 | 16,318 | 16,318 | Nil | Nil | 32,636 |
| Wolfram Kuoni | 15 June 2007 | 16,318 | 16,318 | Nil | Nil | 32,636 |
| Ihor Mitiukov | 15 June 2007 | 16,318 | 16,318 | Nil | Nil | 32,636 |

Under the terms of the Trust Deed under which the shares in the Company were awarded upon appointment, the Trustee may deduct shares in order to settle tax and related liabilities on behalf of the Director concerned As a consequence of this provision, deductions of shares were made in respect of Lucio Genovese, Wolfram Kuoni and Oliver Baring

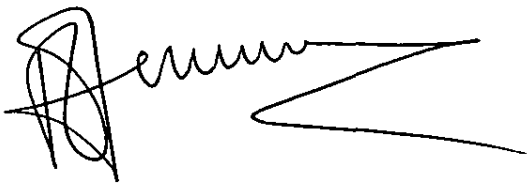
**Directors' interests in Ordinary Shares**
The interests of Directors are set out in the Directors' Report on pages 57 to 61

**Annual General Meeting**
Shareholders will be asked to vote, on an advisory basis, on this Remuneration Report at the Company's forthcoming Annual General Meeting

This Report was approved by the Board on 8 April 2008

Signed on behalf of the Board

**Lucio Genovese**
**Chairman of the Remuneration Committee**



# Directors' report

The Directors present their first report to shareholders for the financial year ending 31 December 2007

**Principal activities and business review**
The Company was incorporated under the name Ferrexpo plc as a public company limited by shares on 22 April 2005

The Group's principal business is the mining, processing and sale of iron ore in the form of pellets for use in the production of steel The Group owns and operates an integrated mining and processing facility, comprising an open pit iron ore mine in the Ukraine Additional information on the Group's operations is provided in the Company Overview and Business Review sections on pages 2 to 33

**Review of the business and future developments**
A review of the business and future developments of the Group are presented in the Chairman's Statement, the Chief Executive's Report and the Business Review on pages 4 to 33

**Results and dividends**
Results for the year are set out in the Consolidated Income Statement on page 64

The Directors recommend a dividend of 3 2 US cents per Ordinary Share Subject to shareholders approving this recommendation at the Annual General Meeting (the 'AGM'), the dividend will be paid in UK pounds sterling on 19 May 2008 to shareholders on the register at the close of business on 18 April 2008 Shareholders may receive UK pounds sterling dividends by direct bank transfer, provided that they have notified the Company's registrars in advance Shareholders may elect to receive dividends in US dollars Details of the proposed dividend and the arrangements for either receiving UK pounds sterling dividends by direct bank transfer or receiving dividends in US dollars have been circulated to shareholders separately on 1 April 2008

**Events since the balance sheet date**
Events since the balance sheet date are summarised in note 46 to the financial statements on page 103

**Corporate governance**
A report on corporate governance and compliance with the provisions of the Combined Code is set out on pages 46 to 50

**Risk management policies**
The Group's risk management policies are established by the Board of Directors to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations Full details of the Group's policy on risk and an overview of the Group's exposure to credit, liquidity and market risks are set out in note 3 of the 'Notes to the Consolidated Financial Information' on pages 76 to 79

**Corporate social responsibility**
The Ferrexpo Board's commitment to corporate social responsibility ('CSR') derives from a shared belief that the Group's licence to operate will be underpinned by the Group's CSR performance For many operations within former CIS countries, the traditional response had been to use legal standards as the sole benchmark for CSR compliance By contrast, we are committed to striving to achieve the highest standards of performance in CSR matters

The Board recognises that it has a responsibility to set standards which management and employees will be expected to meet in all areas of CSR To this end, the Board has reserved for itself the responsibility for establishing Group policies covering health, safety, community relations and environmental matters Accordingly, a full review of health, safety and environmental performance and community participation is presented in the Corporate Social Responsibility Report on pages 36 to 45

**Directors and their interests**
The interests of the Directors as at their date of appointment, 31 December 2007 and as at 15 March 2008 in the share capital of the Company were

| Name | Date of appointment | 31 December 2007 | 15 March 2008 |
|---|---|---|---|
| Michael Abrahams (note 1) | – | 271,971 | 271,971 |
| Mike Oppenheimer (note 2) | – | 1,515,177 | 1,515,177 |
| Dennis McShane | – | 869,799 | 869,799 |
| Christopher Mawe | – | – | – |
| Kostyantyn Zhevago (note 3) | 533,543,489 | 443,905,924 | 443,905,924 |
| Oliver Baring (note 4) | – | 19,176 | 19,176 |
| Lucio Genovese (note 5) | – | 313,659 | 313,659 |
| Wolfram Kuoni (note 6) | – | 27,945 | 27,945 |
| Ihor Mitiukov (note 7) | – | 32,636 | 32,636 |

Notes
1 271 971 Ordinary Shares are held on behalf of Michael Abrahams by Appleby Trust (Jersey) Limited and will vest in his favour as to one third each on 15 June 2008, 15 June 2009 and 15 June 2010
2 All of these shares are held on behalf of Mike Oppenheimer by Appleby Trust (Jersey) Limited and will vest in his favour on 15 June 2008
3 Kostyantyn Zhevago is interested in these shares by reason of being a beneficiary of The Minco Trust which is the sole shareholder of Fevamotinico S a r l, which owns 443 905 924 Ordinary Shares in the Company
4 12 060 of these shares are held on behalf of Oliver Baring by Appleby Trust (Jersey) Limited and will vest in his favour on 1 December 2008
5 16 138 of these shares are held on behalf of Lucio Genovese by Appleby Trust (Jersey) Limited and will vest in his favour on 15 June 2008
6 16 138 of these shares are held on behalf of Wolfram Kuoni by Appleby Trust (Jersey) Limited and will vest in his favour on 15 June 2008
7 16,138 of these shares are held on behalf of Ihor Mitiukov by Appleby Trust (Jersey) Limited and will vest in his favour on 15 June 2008

## Corporate governance

# Directors' report continued

All of the current Directors were appointed during the year Further details about the Directors and their roles within the Group are given in the Directors' biographies on pages 14 and 15

In accordance with the Articles of Association of the Company, all of the Directors listed above, who were appointed during the year, will retire at the forthcoming AGM and offer themselves for election Details of the resolutions that will be put to the AGM are given in the Notice of Annual General Meeting which is contained in a separate circular to shareholders

During the year, the following Director changes took place These were implemented as part of the reorganisation of the Company prior to Listing Ian Pellow resigned as a Director on 1 June 2007, Geoff Eyre was appointed a Director on 8 May 2007 and resigned on 1 June 2007 and Nayana Bharti resigned as a Director on 25 April 2007

Dennis McShane was appointed as a Director on 25 April 2007 Michael Abrahams, Mike Oppenheimer, Lucio Genovese, Wolfram Kuoni, Ihor Mitiukov and Kostyantyn Zhevago were all appointed to the Board on 1 June 2007 Oliver Baring was appointed to the Board on 1 December 2007 and Chris Mawe was appointed a Director on 7 January 2008

### Relationship Agreement

Fevamotinico S a r l, Kostyantyn Zhevago, The Minco Trust and the Company have entered into an agreement (the 'Relationship Agreement') which will regulate the ongoing relationship between them to ensure that the Group is capable of carrying on its business independently of Fevamotinico S a r l and Kostyantyn Zhevago (as a Non-executive Director), and to ensure that transactions and relationships between the Group, Fevamotinico S a r l and Kostyantyn Zhevago are at arm's length and on a commercial basis

### Remuneration of Directors

Details of Directors' Remuneration can be found in the Remuneration Report on pages 51 to 56

### Directors' and officers' liability insurance

During the period under review the Company had in force an indemnity provision in favour of one or more of the Directors of Ferrexpo plc, against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985

### Share capital and authority to purchase own shares

Details of the authorised and issued share capital of the Company are shown in note 29 of the financial statements

The Company was given authority to make market purchases of up to approximately 10% of its existing Ordinary Share capital by a resolution passed on 14 June 2007 This authority will expire at the conclusion of the Company's first Annual General Meeting or on 31 July 2008, whichever is the earlier, unless it is renewed Accordingly, a special resolution to renew the authority will be proposed at the forthcoming AGM Details of the resolution renewing the authority to purchase Ordinary Shares are set out in the Notice of Annual General Meeting enclosed with this report

The Company did not purchase any of its issued Ordinary Shares during the year under the authority mentioned above

### Substantial shareholdings

As at 31 March 2008, the following major interests in the ordinary shares of £0 10 each of the Company had been notified to the Company

| Name of shareholder | Number of Ordinary Shares | % of ordinary issued share capital |
|---|---|---|
| Fevamotinico S a r l (note 1) | 443,905,924 | 72 3 |
| Nevis Corporate Services Limited/ Paneuro Products Limited (note 2) | 20,000,000 | 3 3 |

Notes

1 Fevamotinico S a r l is a wholly owned subsidiary of Minco Trust of which Kostyantyn Zhevago is a beneficiary

2 Igor Kolomoisky has a controlling interest in Nevis Corporate Services Limited and Paneuro Products Limited each of which hold 10,000,000 Ordinary Shares of Ferrexpo plc

### Shareholder rights

The Company is admitted to trading on the Main Market of the London Stock Exchange and is therefore required by section 992 of the Companies Act 2006 to make certain disclosures concerning the rights attached to its shares This information is set out in the Appendix to this Report on pages 60 to 61

### Going concern

The Directors confirm that they are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future Accordingly they continue to adopt the going concern basis in preparing the financial statements

### Market value of land and buildings

Land is carried in the balance sheet at deemed cost resulting from a valuation, which was undertaken on 1 January 2003 as part of the Group's transition to reporting under IFRS It is not practical to estimate the market value of land and mineral reserves and resources at each balance sheet date

### Policy on derivatives and financial instruments

The Group does not hold any derivative financial instruments Group policy on financial instruments is set out in note 2 to the Consolidated Financial Information on pages 68 to 76

### Creditor payment policy and practice

It is the Company's policy that payments to suppliers are made in accordance with the terms and conditions agreed between the Company and its suppliers, provided that all relevant trading terms and conditions have been complied with The average creditor payment period for the period ended 31 December 2007 for the Company was 14 days (2006 nil days)

### Charitable and political donations

The Company made no political donations during the year Group donations to charities worldwide were US$2,791,000 (2006 US$1,880,000), with UK charities receiving US$nil (2006 $nil)

**Statement on disclosure of information to auditors**
The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and that each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

A Statement of the Responsibilities of the Directors for preparing the Group and Company financial statements is set out on page 62

**Annual General Meeting**
The first Annual General Meeting of the Company will be held at 11 00am on 15 May 2008 at The Lanesborough Hotel, Hyde Park Corner, London SW1X 7TA A letter from the Chairman summarising the business of the meeting and the Notice convening the AGM has been sent to shareholders separately with this Report

**Auditors**
Having reviewed the independence and effectiveness of the auditors, the Audit Committee has recommended to the Board that the existing auditors, Ernst & Young LLP, be reappointed Ernst & Young LLP have indicated their willingness to continue in office and an ordinary resolution reappointing them as auditors and authorising the Directors to set their remuneration will be proposed at the 2008 Annual General Meeting

This report was approved by the Board on 8 April 2008
Prism Cosec Ltd
**Prism Cosec Ltd**
Company Secretary

**Ferrexpo plc**

***Registered Office***
2-4 King Street
London SW1Y 6QL
Registered number 5432915

***Headquarters***
Bahnhofstrasse 13
CH-6340 Baar
Switzerland

## Corporate governance

# Directors' report continued

**Appendix to the Directors' Report**
**Additional information for shareholders**
The following information is given pursuant to section 992 of the Companies Act 2006

Share capital
The Company has a single class of share capital which is divided into ordinary shares of 10p each The shares are in registered form

Rights and obligations attaching to shares
Subject to applicable statutes and other shareholders' rights, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide Subject to the Company's Articles of Association (as adopted by special resolution on 14 June 2007) (the 'Articles'), the Companies Act 1985 and the Companies Act 2006 (together the 'Companies Acts') and other shareholder rights, unissued shares are at the disposal of the Board At each annual general meeting, the Company proposes to put in place annual shareholder authority authorising the Company's Directors to allot unissued shares in accordance with the guidelines of the Investor Protection Committee

Voting
Subject to any rights or restrictions attaching to any class of shares, every member present in person at a general meeting has, upon a show of hands, one vote In the case of joint holders of a share, the vote of a senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of votes of the other joint holders and seniority shall be determined by the order in which the names stand in the register in respect of the joint holding Under the Companies Acts, members are entitled to appoint a proxy to exercise all or any of their rights to attend and to vote on their behalf at a general meeting but shall not confer any right to speak at a meeting unless invited to do so by the Chairman A member may appoint more than one proxy in relation to a general meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member A member that is a corporation may appoint one or more individuals to act on its behalf at a general meeting as a corporate representative Where more than one corporate representative has been appointed, any one of them is entitled to vote and exercise other powers on behalf of the member at a general meeting but, in the event that the representatives' votes or other powers conflict, the power is treated by the Company as not having been exercised and the member will be deemed to have abstained from exercising its votes or powers

Restrictions on voting
No member shall be entitled to vote at any general meeting in respect of any shares held by him if any call or other sum then payable by him in respect of that share remains unpaid Currently, all issued shares are fully paid In addition, no member shall be entitled to vote if he has been served with a restriction notice (as defined in the Articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Acts

Deadlines for voting rights
Votes are exercisable at the general meeting of the Company in respect of which the business being voted upon is being heard Votes may be exercised in person, by proxy or, in relation to corporate members, by corporate representatives Under the Companies Acts, the deadline for delivering proxy forms cannot be earlier than 48 hours (excluding non-working days) before the meeting for which the proxy is being appointed The Articles, however, provide a deadline for submission of proxy forms of not less than 48 hours (or such shorter time as the Board may determine) before the meeting (not excluding non-working days)

Dividends and distributions
Subject to the provisions of the Companies Acts, the Company may by ordinary resolution, from time to time, declare dividends not exceeding the amount recommended by the Board The Board may pay interim dividends and also any fixed rate dividends whenever the financial position of the Company, in the opinion of the Board, justifies its payment If the Board acts in good faith, it is not liable to holders of shares with preferred or pari passu rights for losses arising from the payment of interim or fixed dividends on other shares

The Board may withhold payment of all or any part of any dividends or other monies payable in respect of the Company's shares from a person with a 0 25% interest (as defined in the Articles) if such person has been served with a notice under Article 70 of the Articles and has failed to provide the Company with information concerning interests in those shares required to be provided under the Companies Acts

Liquidation
Under the Articles on a liquidation, the liquidator may, with the sanction of an extraordinary (or special) resolution of the Company and any other sanction required by the Companies Acts, divide amongst the members (excluding any members holding shares as treasury shares) in kind, all or part of the assets of the Company (whether they shall consist of property of the same kind or not)

Variation of rights
Subject to the provisions of the Companies Acts, the rights attached to a class of shares may be varied or abrogated (whether or not the Company is being wound up) either with the consent in writing of the holders of at least three-quarters of the nominal amount of the issued shares of that class (excluding any share of that class held as treasury shares) or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the issued shares of that class validly held in accordance with article 69 and other relevant provisions of the Articles The Board may convene a meeting of the holders of any class of shares whenever it thinks fit and whether or not the business to be transacted involved a variation or abrogation of class rights Subject to the terms of issue of, or rights attached to, any shares, the rights or privileges attached to any class of shares shall be deemed not to be varied or abrogated by the creation or issue of any new shares ranking pari passu in all respects (save as to the date from which such new shares shall rank for dividend) with or subsequent to those already issued or by the reduction of the capital paid up on such shares or by the purchase or redemption by the Company of its own shares in accordance with the provisions of the Companies Acts and the Articles

Transfer of shares
Any share in the Company may be held in uncertificated form and, subject to the Articles, title to uncertificated shares may be transferred by means of a relevant system Provisions of the Articles do not apply to any uncertificated shares to the extent that such provisions are inconsistent with the holding of shares in uncertificated form or with the transfer of shares by means of a relevant system Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the Uncertificated Securities Regulations (as defined in the Articles) and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four

Subject to the Articles, any member may transfer all or any of his certificated shares by an instrument of transfer in any usual form or in any other form which the Board may approve The instrument of transfer must be executed by or on behalf of the transferor and (in the case of a partly-paid share) the transferee The transferor of a share is deemed to remain the holder until the transferee's name is entered into the register The Board may, in its absolute discretion and without giving any reason, decline to register any transfer of any share which is not a fully paid share The Board may also decline to register a transfer of a certificated share unless the instrument of transfer (i) is duly stamped or certified or otherwise shown to the satisfaction of the Board to be exempt from stamp duty and is accompanied by the relevant share certificate and such other evidence of the right to transfer as the Board may reasonably require, (ii) is in respect of only one class of share, and (iii) if joint transferees, is in favour of not more than four such transferees

The Board may decline to register a transfer of any of the Company's certificated shares by a person with a 0 25% interest (as defined in the Articles) if such a person has been served with a notice after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Acts, unless the transfer is shown to the Board to be pursuant to an arm's length sale

### Repurchase of shares

Subject to authorisation by shareholder resolution, the Company may purchase its own shares in accordance with the Companies Acts Any shares which have been bought back may be held as treasury shares or, if not so held, must be cancelled immediately upon completion of the purchase, thereby reducing the amount of the Company's issued share capital It is proposed to seek shareholder approval to maintain this authority for a further year at the forthcoming Annual General Meeting (the 'AGM')

### Amendments to the Articles of Association

Any amendments to the Articles of Association may be made in accordance with the provisions of the Companies Acts by special resolution A resolution will be put to the AGM to amend the Articles The proposed changes to the Articles mainly derive from the Companies Act 2006 which was enacted on 8 November 2006 and is being implemented in stages Since a number of significant changes arising from the Companies Act 2006 will not come into force until at least October 2008, the Company has decided at this stage to make only a small number of changes to the Articles to reflect those changes which will already be in force when this year's AGM is held Details of the specific changes being proposed are set out in full in the explanatory notes to the Notice of Meeting

### Appointment and replacement of Directors

Directors may be appointed by the Company by ordinary resolution or by the Board and shall be no less than two A Director appointed by the Board holds office only until the next following AGM and is then eligible for election by the shareholders but is not taken into account in determining the Directors, or the number of Directors, who are to retire by rotation at that meeting The Board may from time to time appoint one or more Directors to hold employment or executive office for such period (subject to the Companies Acts) and on such terms as they may determine and may revoke or terminate any such appointment Currently under the Articles, no person is incapable of being appointed a Director by reason of his having reached the age of 70 or above No Director is required to vacate his office because he has reached the age of 70 or above

At each AGM one-third of the Directors who are subject to retirement by rotation or, if their number is not three or a multiple of three, the number nearest to but not less than one-third, shall retire from office provided that if there are fewer than three Directors who are subject to retirement by rotation, one shall retire from office If any one or more Directors were last appointed or reappointed three years or more prior to the meeting, were last appointed or reappointed at the third immediately preceding the AGM or, at the time of the meeting, will have served more than eight years as a Non-executive Director (excluding as Chairman of the Board), he or they shall retire from office and shall be counted in obtaining the number required to retire at the meeting, provided that the number of Directors required to retire shall be increased to the extent necessary to comply with the Articles

### Power of the Directors

Subject to the Company's Memorandum of Association, the Articles, the Companies Acts and any directions given by special resolution, the business of the Company will be managed by the Board who may exercise all the powers of the Company whether relating to the management of the business of the Company or not In particular, the Board may exercise all the powers of the Company to borrow money and to mortgage or charge any of its undertaking, property, assets and uncalled capital and to issue debentures and other securities and to give security for any debt, liability or obligation of the Company to any third party

### Shares held in the EBT

The trustees of the company employee benefit trust ('EBT') may vote or abstain from voting on shares held in the EBT as they think fit and in doing so may take into account both financial and not financial interests of the beneficiaries of the EBT or their dependants

### Significant agreements

The Company is not party to any significant agreements that would take effect, alter or terminate upon a change of control following a takeover bid

### Major shareholders

The substantial interests (3% or more) in the Company's Ordinary Share capital (voting shares) that have been notified to the Company are set out on page 58

## Corporate governance

# Statement of Directors' responsibilities

in relation to the Group financial statements

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union

The Directors are required to prepare Group financial statements for each financial year which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period In preparing those Group financial statements the Directors are required to

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance, and
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

**Directors' statement as to disclosure of information to auditors**

The Directors who were members of the Board at the time of approving the Directors' report are listed on page 57 Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that

- to the best of each Director's knowledge and belief, there is no information (that is, information needed by the Group's auditors in connection with preparing their report) of which the Company's auditors are unaware, and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information

# Independent auditors' report

We have audited the Group and parent company financial statements of Ferrexpo plc for the year ended 31 December 2007 which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Changes in Equity, the related notes 1 to 47 and the Parent Company Balance Sheet These Group financial statements have been prepared under the accounting policies set out therein

We have also audited the information in the Directors' Remuneration Report that is described as having been audited

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

**Respective responsibilities of Directors and auditors**
The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the Group financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements and the part of the Directors' Remuneration Report to be audited give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985, in addition, the Group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation

We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the Directors' Report

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements The other information comprises only the Directors' Report, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement
We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements Our responsibilities do not extend to any other information

**Basis of audit opinion**
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited

**Opinion**
In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation,
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2007,
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the Group financial statements

**Ernst & Young LLP**
**Registered auditor**
London
8 April 2008

Ernst & Young LLP

Notes
1 The maintenance and integrity of the Ferrexpo plc website is the responsibility of the Directors the work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website
2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

# Consolidated income statement

| US$000 | Notes | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|---|
| **Revenue** | 5 | **698,216** | 547,310 |
| Cost of sales | 6 | **(335,936)** | (296,720) |
| **Gross profit** | | **362,280** | 250,590 |
| Selling and distribution expenses | 7 | **(100,614)** | (86,376) |
| General and administrative expenses | 8 | **(44,308)** | (41,140) |
| Other income | 9 | **4,844** | 2,583 |
| Other expenses | 10 | **(5,096)** | (5,078) |
| **Operating profit from continuing operations before adjusted items** | | **217,106** | 120,579 |
| Write-offs and impairment losses | 11 | **(1,568)** | (2,205) |
| Share of gains of associates | 20 | **687** | – |
| Net loss on disposal of subsidiary | 12 | **–** | (3,524) |
| Gain on disposal of available-for-sale investment | 12 | **4,714** | – |
| Initial public offering costs | 13 | **(34,004)** | – |
| **Profit before tax and finance** | | **186,935** | 114,850 |
| Finance income | 14 | **3,242** | 2,326 |
| Finance expense | 14 | **(25,950)** | (32,655) |
| Foreign exchange loss | 14 | **(3,467)** | (3,784) |
| **Profit before tax** | | **160,760** | 80,737 |
| Tax | 15 | **(26,725)** | (14,758) |
| **Profit for the year** | | **134,035** | 65,979 |
| Attributable to | | | |
| Equity shareholders of Ferrexpo plc | | **124,076** | 63,578 |
| Minority interest | | **9,959** | 2,401 |
| | | **134,035** | 65,979 |
| Earnings per share | | | |
| Basic (US cents) | 16 | **20 41** | 10 47 |
| Diluted (US cents) | 16 | **20 33** | 10 47 |
| Dividends | | | |
| Proposed ordinary dividend per share (US cents) | 16 | **3 2** | – |
| Proposed ordinary dividend (US$000) | 16 | **19,449** | – |

# Consolidated balance sheet

| US$000 | Notes | As at 31 12 07 | As at 31 12 06 |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 18 | **364,545** | 301,343 |
| Goodwill and other intangible assets | 19 | **156,827** | 156,534 |
| Investments in associates | 20 | **17,637** | 16,950 |
| Available-for-sale financial assets | 21 | **47,134** | 34,641 |
| Other non-current assets | 22 | **15,179** | 916 |
| Deferred tax asset | 35 | **8,107** | – |
| **Total non-current assets** | | **609,429** | 510,384 |
| Inventories | 23 | **56,545** | 48,487 |
| Trade and other receivables | 24 | **43,575** | 58,284 |
| Prepayments and other current assets | 25 | **10,773** | 17,118 |
| Income taxes recoverable and prepaid | | **5,350** | 1,424 |
| Other taxes recoverable and prepaid | 26 | **52,362** | 42,489 |
| Available-for-sale financial assets | 21 | **2,941** | 1,451 |
| Short term deposits with banks | 27 | **–** | 11,043 |
| Cash and cash equivalents | 28 | **86,966** | 16,236 |
| **Total current assets** | | **258,512** | 196,532 |
| **Total assets** | | **867,941** | 706,916 |
| **Equity and liabilities** | | | |
| Share capital | 29 | **121,628** | – |
| Share premium | 29 | **188,566** | – |
| Other reserves | 29 | **14,258** | 137,482 |
| Retained earnings | | **216,616** | 163,164 |
| **Equity attributable to equity shareholders of the parent** | | **541,068** | 300,646 |
| **Minority interest** | | **45,854** | 36,146 |
| **Total equity** | | **586,922** | 336,792 |
| Interest bearing loans and borrowings | 31 | **146,091** | 204,732 |
| Trade and other payables | 32 | **2,583** | 10,484 |
| Defined benefit pension liability | 33 | **16,169** | 14,501 |
| Shares redemption liability | 30 | **–** | 9,062 |
| Provision for site restoration | 34 | **1,746** | 402 |
| Deferred tax liability | 35 | **1,025** | 2,535 |
| **Total non-current liabilities** | | **167,614** | 241,716 |
| Interest bearing loans and borrowings | 31 | **54,537** | 81,243 |
| Trade and other payables | 32 | **25,127** | 21,492 |
| Accrued liabilities and deferred income | 36 | **13,812** | 17,986 |
| Shares redemption liability | 30 | **10,036** | – |
| Income taxes payable | | **7,717** | 4,646 |
| Other taxes payable | | **2,176** | 3,041 |
| **Total current liabilities** | | **113,405** | 128,408 |
| **Total liabilities** | | **281,019** | 370,124 |
| **Total equity and liabilities** | | **867,941** | 706,916 |

The financial statements were approved by the Board of Directors on 8 April 2008

**Mike Oppenheimer**
**Chief Executive**

**Chris Mawe**
**Chief Financial Officer**

# Consolidated cash flow statement

| US$000 | Notes | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|---|
| **Net cash flows from operating activities** | 38 | **188,846** | 68,300 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(104,352)** | (48,760) |
| Proceeds from sale of property, plant and equipment | | **1,896** | 374 |
| Purchase of intangible assets | | **(435)** | (745) |
| Deposits lodged at banks | | **9,011** | 8,732 |
| Purchases of available-for-sale securities | | **(12,126)** | (3,119) |
| Proceeds from sale of financial assets | | **5,704** | 2,408 |
| Interest received | | **4,805** | 1,473 |
| Dividends received | | **–** | 17 |
| Acquisition of minority interest in subsidiaries | 37 | **–** | (231,945) |
| Acquisition of associates | | **–** | (16,950) |
| Loans provided to related parties | | **–** | (16,674) |
| Loans provided to associates | | **(5,000)** | – |
| Loans repaid by related parties | | **–** | 123,457 |
| Proceeds from disposal of subsidiaries | | **–** | 4,338 |
| **Net cash flows used in investing activities** | | **(100,497)** | (177,394) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings and finance | | **175,244** | 565,593 |
| Repayment of borrowings and finance | | **(276,084)** | (512,819) |
| Dividends paid to minority interest | | **(786)** | (245) |
| Distribution under 50/50 tax ruling | | **(5,000)** | (31,521) |
| Proceeds from issue of share capital in Ferrexpo AG | 37 | **–** | 109,329 |
| **Proceeds from issue of share capital in Ferrexpo plc** | | | |
| Initial public offering proceeds | | **202,072** | **–** |
| Non-initial public offering proceeds | | **99** | **–** |
| Initial public offering costs | | **(48,648)** | (7,503) |
| Share buyback in previous parent | 37 | **(64,055)** | **–** |
| **Net cash flows from financing activities** | | **(17,158)** | 122,834 |
| Net increase in cash and cash equivalents | | **71,191** | 13,740 |
| Cash and cash equivalents at the beginning of the year | | **16,236** | 2,496 |
| Currency translation differences | | **(461)** | **–** |
| **Cash and cash equivalents at the end of the year** | 28 | **86,966** | 16,236 |

# Consolidated statement of changes in equity

| | Attributable to equity shareholders of the parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| US$000 | Issued capital | Share premium | Employee Benefit Trust reserve | Uniting of interest reserve | Revaluation reserve | Net unrealised gains reserve | Translation reserve | Retained earnings | Total reserves | Minority interests | Total equity |
| **At 31 December 2005** | **–** | **–** | **–** | **27,967** | **2,453** | **–** | **186** | **117,548** | **148,154** | **107,756** | **255,910** |
| Profit for the year | – | – | – | – | – | – | – | 63,578 | 63,578 | 2,401 | 65,979 |
| **Total income and expense for the year recognised in equity** | – | – | – | – | – | – | – | 63,578 | 63,578 | 2,401 | 65,979 |
| **Items recognised directly in equity** | | | | | | | | | | | |
| Distribution under 50/50 tax ruling | – | – | – | – | – | – | – | (21,190) | (21,190) | – | (21,190) |
| Acquisition of minority interest through capital increase | – | – | – | – | – | – | – | – | – | (72,673) | (72,673) |
| Equity dividends paid by subsidiary undertakings to minority shareholders | – | – | – | – | – | – | – | – | – | (563) | (563) |
| Proceeds from issue of share capital in Ferrexpo AG | – | – | – | 109,329 | – | – | – | – | 109,329 | – | 109,329 |
| Reversal of revaluation relating to previously held interest in Vostock Ruda LLC, upon acquisition of a controlling interest | – | – | – | – | (2,453) | – | – | 3,228 | 775 | (775) | – |
| **At 31 December 2006** | **–** | **–** | **–** | **137,296** | **–** | **–** | **186** | **163,164** | **300,646** | **36,146** | **336,792** |
| Deferred Tax on transaction costs | – | 5,179 | – | – | – | – | – | – | 5,179 | – | 5,179 |
| Revaluation of available-for-sale assets | – | – | – | – | – | 2,384 | – | – | 2,384 | – | 2,384 |
| Profit for the year | – | – | – | – | – | – | – | 124,076 | 124,076 | 9,959 | 134,035 |
| **Total income and expense for the year recognised in equity** | – | 5,179 | – | – | – | 2,384 | – | 124,076 | 131,639 | 9,959 | 141,598 |
| **Items recognised directly in equity** | | | | | | | | | | | |
| Distribution under 50/50 tax ruling | – | – | – | – | – | – | – | (6,569) | (6,569) | – | (6,569) |
| Equity dividends paid by subsidiary undertakings to minority shareholders | – | – | – | – | – | – | – | – | – | (251) | (251) |
| Share issue in parent company | 121,628 | 215,275 | – | – | – | – | – | – | 336,903 | – | 336,903 |
| Transaction costs associated with issue of shares (note 13) | – | (31,888) | – | – | – | – | – | – | (31,888) | – | (31,888) |
| Uniting of interest elimination | – | – | – | (105,516) | – | – | – | – | (105,516) | – | (105,516) |
| Share buyback of previous parent of the Group | – | – | – | – | – | – | – | (64,055) | (64,055) | – | (64,055) |
| Shares issued to Employee Benefit Trust (note 29) | – | – | (29,216) | – | – | – | – | – | (29,216) | – | (29,216) |
| Share-based payments (note 43) | – | – | 9,124 | – | – | – | – | – | 9,124 | – | 9,124 |
| **At 31 December 2007** | **121,628** | **188,566** | **(20,092)** | **31,780** | **–** | **2,384** | **186** | **216,616** | **541,068** | **45,854** | **586,922** |

# Notes to the consolidated financial information

## Note 1 Corporate information

### Organisation and operation

The consolidated historical information for Ferrexpo plc in respect of the year ended 31 December 2007 was approved by the Board of Directors on 8 April 2008

Ferrexpo plc is a company incorporated in the United Kingdom Ferrexpo plc's registered office is 2-4 King Street, London SW1Y 6QL, UK Ferrexpo plc and its subsidiaries (the 'Group') operate a mine and processing plant near Kremenchuk in Ukraine The Group's operations are vertically integrated from iron ore mining through to iron ore concentrate and pellet production The Group's mineral properties lie within the Kremenchuk Magnetic Anomaly and are currently being exploited at the Gorishne-Plavninsky and Lavrikovsky deposits These deposits are being jointly mined as one mining complex

The Group's operations are largely conducted through Ferrexpo plc's principal subsidiary, Ferrexpo Poltava GOK Corporation The Group is comprised of Ferrexpo plc and its consolidated subsidiaries as set out below

| Name | Country of incorporation | Principal activity | Equity interest owned at 31 December 2007 % | 2006 % |
|---|---|---|---|---|
| Ferrexpo Poltava GOK Corporation[1] | Ukraine | Iron ore mining and processing | **85 9** | 85 9 |
| Ferrexpo AG[2] | Switzerland | Sale of iron ore pellets | **100 0** | 100 0 |
| DP Ferrotrans[3] | Ukraine | Trade, transportation services | **100 0** | 100 0 |
| United Energy Company LLC[3] | Ukraine | Holding company | **100 0** | 100 0 |
| Ferrexpo UK Limited[1] | England | Finance | **100 0** | 100 0 |
| Ferrexpo Services Limited[1] | Ukraine | Management services and procurement | **100 0** | 100 0 |

1 The Group s interest in these entities is held through Ferrexpo AG
2 DFerrexpo AG was the holding company of the Group until as a result of the pre IPO restructuring, Ferrexpo plc became the holding company on 24 May 2007
3 The Group's interest in these entities is held through Ferrexpo Poltava GOK Corporation

On 24 May 2007, Ferrexpo plc allotted and issued 533,043,489 ordinary shares in the Company at a par value of £0 10 each ('Ordinary Shares') (£53,304,349 (US$105,515,959)) to Fevamotinico Sàrl in exchange for 129,944,923 registered shares of CHF1 each in the capital of Ferrexpo AG Pursuant to such transaction, Ferrexpo plc became the sole shareholder of Ferrexpo AG

As this transaction involved the combination of businesses under common control, the pooling of interests method of accounting has been applied in the presentation of the consolidated financial statements for the years ended 31 December 2007 and 31 December 2006, which present the results of the Group as if Ferrexpo plc had always been the parent company of the Group The last filed accounts of Ferrexpo plc qualified for exemption from audit under section 249AA of the Companies Act 1985 as it was dormant during the period The last filed accounts of Ferrexpo AG (the previous consolidated Group accounts) contained an unqualified audit opinion, and no statements equivalent to section 237(2) or section 237(3) under the Companies Act 1985 Such statements are required to be made by the auditors where inadequate accounting records have been kept

On 15 June 2007, the Company's Ordinary Shares were admitted to the Official List of the Financial Services Authority and to trading on the London Stock Exchange The global offer comprised 152,097,932 Ordinary Shares at a price of £1 40, of which 72,527,361 new Ordinary Shares each were issued by the Company (US$14,433,743) and 79,570,571 were Ordinary Shares sold by the existing shareholder Gross proceeds of £101,538,305 (US$202,072,397) were received by the Company following the issue of the new Ordinary Shares

A historic share purchase and sale transaction in Ferrexpo Poltava GOK Corporation shares, the amount of which following dilution now represents less than 25% of the issued share capital of Ferrexpo Poltava GOK Corporation, is the subject of an ongoing legal challenge that commenced in November 2005, and was initially dismissed by the Ukrainian Supreme Court in April 2006, but has recently been recommenced in a lower court The plaintiff, a party to the disputed transaction, initiated legal proceedings in the Ukrainian courts seeking to invalidate the original share sale and purchase agreement The plaintiff claims that the agreement was not executed in accordance with Ukrainian legislation No remediation or damage has been claimed In the event of the claim succeeding and being upheld on appeal and the issued share capital being transferred to the plaintiff, the Group will retain control of Ferrexpo Poltava GOK Corporation Neither the Company, nor the majority beneficial owner nor any of the Group's subsidiary undertakings are involved in the legal proceedings Management, having taken appropriate legal advice, believe that the claim is without merit and consider that there is a remote likelihood that the Group's ownership of the related interest in Ferrexpo Poltava GOK Corporation will be successfully challenged and that the Group will not suffer material financial costs in connection with this matter

## Note 2 Summary of significant accounting policies

The consolidated financial statements of Ferrexpo plc and its subsidiaries has been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') IFRS as adopted by the EU differs in certain respects from IFRS as issued by the International Accounting Standards Board ('IASB') However, the consolidated financial statements for the years presented would be no different had the Group applied IFRS as issued by the IASB

The consolidated historical financial information has been prepared on a historical cost basis, except for post-employment benefits and available-for-sale financial instruments, the latter are measured at fair value in accordance with the requirements of IAS 39 Financial instruments recognition and measurement', the former measured in accordance with IAS 19 'Employee benefits' The consolidated historical financial information is presented in US dollars thousands and all values are rounded to the nearest thousand except where otherwise indicated

**Changes in accounting policy**
The accounting policies adopted are consistent with those of the previous financial year except as follows

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year

Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group in the current or prior periods In certain cases, they did however give rise to additional disclosures

- IFRS 7 'Financial Instruments Disclosures'
- IAS 1 Amendment – 'Presentation of Financial Statements Capital Disclosures'
- IFRIC 8 'Scope of IFRS 2'
- IFRIC 9 'Reassessment of Embedded Derivatives'
- IFRIC 10 'Interim Financial Reporting and Impairment'

The Group has also early adopted the following IFRIC interpretation Adoption of this interpretation did not have any effect on the financial performance or position of the Group

- IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions'

The principal effects of these changes are as follows

**IFRS 7 'Financial Instruments Disclosures'**
This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments The new disclosures are included throughout the financial statements While there has been no effect on the financial position or results, comparative information has been revised where necessary

**IAS 1 'Presentation of Financial Statements'**
This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital These new disclosures are shown in the capital management section of note 3

**IFRIC 8 'Scope of IFRS 2'**
This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value As equity instruments are only issued to employees in accordance with the employee share scheme, the interpretation has no impact on the financial position or performance of the Group

**IFRIC 9 'Reassessment of Embedded Derivatives'**
IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows As the Group has no embedded derivative requiring separation from the host contract, the interpretation has no impact on the financial position or performance of the Group, but our accounting policy for such items has been amended accordingly

**IFRIC 10 'Interim Financial Reporting and Impairment'**
The Group adopted IFRIC 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group

**Basis of consolidation**
The consolidated historical financial information comprises the financial statements for Ferrexpo plc and its subsidiaries as at 31 December each year The financial statements of the subsidiaries are prepared as at the same reporting date as Ferrexpo plc's, using consistent accounting policies

All inter-company balances and transactions including unrealised profits arising from intra-group transactions have been eliminated in full Unrealised losses are eliminated unless costs cannot be recovered

**Business combinations**
Subsidiaries acquired are fully consolidated from the date of acquisition, being the date on which the Group obtains effective control and are accounted for using the purchase method of accounting Similarly, disposals of subsidiaries are deconsolidated from the date on which the Group ceases to hold effective control

Subsidiaries acquired from entities under common control, such that the ultimate controlling party has not changed as a result of the transaction, are fully consolidated from the earliest period presented, but not before the date that they came under common control, and are accounted for using the pooling of interests method of accounting whereby net assets are pooled at their historic carrying value The principal impact of this has been in the accounting for Ferrexpo plc's interest in Ferrexpo Poltava GOK Corporation

# Notes to the consolidated financial information continued

**Note 2. Summary of significant accounting policies** continued

**Changes in ownership interests in subsidiaries**

The Group adopted the parent extension concept method of accounting for changes in ownership interest in subsidiaries The differences between the carrying values of net assets attributable to interests in subsidiaries acquired (or disposed of) and the consideration given (or received) for such increases are recorded as goodwill

**Functional currency**

Based on the economic substance of the underlying events and circumstances relevant to the parent, the functional currency of the parent has been determined to be the US dollar, with each subsidiary determining its own functional currency The Group has chosen the US dollar as its presentation currency

**Foreign currency translation**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the rate of exchange ruling at the balance sheet date and non-monetary assets and liabilities at the historic rate Foreign exchange differences arising on translation are recognised in the income statement

The following exchange rates have been applied

| Currency rates (US$1) | Average 2007 | At 31 December 2007 | Average 2006 | At 31 December 2006 |
|---|---|---|---|---|
| Ukrainian hyrivna | **5 050** | **5 050** | 5 050 | 5 050 |

If the functional currency of a subsidiary is different to the functional currency of the parent as at the reporting date, the assets and liabilities of this entity are translated into the parent's functional currency at the rate ruling at the balance sheet date and the income statement is translated using the average exchange rate for the period The foreign exchange differences arising are taken directly to a separate component of equity On disposal of a foreign entity the deferred cumulative amount recognised in equity relating to the particular foreign operation is recognised in the income statement

**Use of estimates**

The preparation of historical financial information in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the historical financial information and accompanying notes These estimates are based on information available as at the date of authorising the historical financial information for issue Actual results, therefore, could differ from those estimates

In particular, information about significant areas of estimation, uncertainty and critical judgements made by management in preparing the consolidated financial information are described in the following notes

- Note 15 – Income tax expense
- Note 18 – Property, plant and equipment
- Note 21 – Available-for-sale financial assets
- Note 33 – Defined benefit pension liability
- Note 34 – Provision for site restoration
- Note 35 – Deferred income tax
- Note 41 – Commitments and contingencies

**Investments in associates**

The Group's investments in associates are accounted for under the equity method of accounting An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate The income statement reflects the share of the results of operations of the associate Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity

The reporting dates of the associate and Ferrexpo plc are identical and the associate's accounting policies conform to those used by the Group

**Financial instruments**

*Derivative financial instruments*

The Group does not hold any derivative financial instruments

*Non-derivative financial instruments*

Non-derivative financial instruments comprise investments in equity and debt securities (promissory notes), trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables Non-derivative financial instruments are recognised at fair value (being the fair value of the consideration given or received) plus any directly attributable transaction costs

All regular way purchases and sales of financial assets are recognised on the trade date i e the date that the Group commits to purchase or sell the asset Regular way purchases or sales are those that require delivery of assets within the period generally established by regulation or convention in the marketplace

The Group has not designated any financial asset as financial assets at fair value through profit or loss

*Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market Such assets are carried at amortised cost using the effective interest method Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process

*Available-for-sale financial assets*
All investments, except for investments in associates are available for sale Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as either loans or receivables, or held to maturity investments or financial assets at fair value through profit and loss After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised directly in equity

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date For investments where there is no active market, the fair value is determined using discounted cash flow analysis

*Other*
Other non-derivative financial instruments are measured at amortised cost using the effective interest method less any impairment losses

**Share capital**
*Ordinary Shares*
Ordinary Shares are classified as equity Incremental costs directly attributable to the issue of Ordinary Shares and share options are recognised as a deduction from equity, net of any tax effects

*Employee Benefit Trust reserve*
Ferrexpo plc shares held by the Group are classified in capital and reserves, as 'Employee Benefit Trust reserves' and recognised at cost Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from sale and the original cost taken to revenue reserves No gain or loss is recognised on the purchase, sale issue or cancellation of equity shares

*Shares redemption liability*
The Group's contractual obligation to purchase its own equity instruments gives rise to a financial liability for the present value of the redemption amount When the financial liability is recognised initially under IAS 39, its fair value is reclassified from equity Subsequently, the financial liability is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption

*Trade and other payables*
Trade and other payables are recognised and initially measured at cost Subsequently, instruments with a fixed maturity are remeasured at amortised cost using the effective interest rate method Amortised cost is calculated by taking into account any transaction costs and any discount or premium on settlement Financial liabilities which do not have a fixed maturity are subsequently carried at fair value

*Interest bearing loans and borrowings*
All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process

**Impairment of financial assets**
The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired

*Assets carried at amortised cost*
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i e the effective interest rate computed at initial recognition) The carrying amount of the asset shall be reduced either directly or through use of an allowance account The amount of the loss shall be recognised in the income statement

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment

# Notes to the consolidated financial information continued

**Note 2. Summary of significant accounting policies** continued
If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed Any subsequent reversal of an impairment loss is recognised in the income statement to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date

*Available-for-sale financial assets*
If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement Reversals in respect of equity instruments classified as available for sale are not recognised in the income statement

**Property, plant and equipment**
Property, plant and equipment is stated at cost or deemed cost at the date of transition to IFRS (hereinafter referred to as 'the cost') less accumulated depreciation and impairment losses The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads

Upon recognition, items of property, plant and equipment are divided into components, which represent items with a significant value that can be allocated to a separate depreciation period Overhaul costs also represent a component of an asset Assets are initially recognised in assets under construction and then transferred to the appropriate categories on completion

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

Expenditure incurred after the properties have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the income statement in the period the costs are incurred In situations where it can be clearly demonstrated that the expenditures result in future economic benefits, the expenditures are capitalised as an additional cost

Each item's estimated useful life has due regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located Estimates of remaining useful lives are made on a regular basis for all mine buildings, machinery and equipment, with annual reassessments for major items Changes in estimates, which affect unit of production calculations, are accounted for prospectively Depreciation commences when the item is available for use Neither freehold land nor assets under construction are depreciated

Except for mining assets which are depreciated using the unit of production method, depreciation is calculated on a straight-line basis over the estimated useful life of the asset, as follows

| | |
|---|---|
| Buildings | 20–50 years |
| Plant and equipment | 5–15 years |
| Vehicles | 7–15 years |
| Fixtures and fittings | 2 5–10 years |

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

**Mining assets**
Mining assets comprise of mine exploration, evaluation and development costs incurred up to the commencement of production Stripping work comprises overburden removed at the pre-production, mine extension and production stages Pre-production and mine extension related stripping work are capitalised Production stage stripping work is expensed

**Intangible assets**
*Goodwill*
Goodwill is not amortised but rather tested annually for impairment Goodwill is allocated to the cash-generating unit expected to benefit from the related business combination for the purpose of the impairment testing Where the recoverable amount of the cash-generating unit is less than its carrying amount including goodwill an impairment loss is recognised in the income statement Management consider that there is only one identifiable cash generating unit applicable to Ferrexpo plc, being the mining, production and sale of iron-ore pellets from the Ukrainian mine As such the assessment of the carrying valued and the recoverable amount is initially made with reference to the market capitalisation of the Group and Group net assets If this then shows indications of impairment a value in use calculation is made An impairment loss in respect of goodwill is not reversed

To the extent that the fair value of the acquired entity's identifiable assets and liabilities is greater than the cost of investment, a gain is recognised immediately in the income statement

*Other intangible assets*
Other intangible assets, including mineral licences, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortisation and impairment losses Mineral licence acquisition costs are amortised on a unit of production basis

**Impairment of non-financial assets**
The Group assesses at each reporting date whether there is an indication that an asset may be impaired If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset Impairment losses of continuing operations are recognised in the income statement

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased If such indication exists, the recoverable amount is estimated A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised If that is the case the carrying amount of the asset is increased to its recoverable amount That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years Such reversal is recognised in the income statement After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life

**Inventories**
Inventories are valued at the lower of cost and net realisable value

Costs incurred in bringing each product to its present location and condition are accounted for as follows
- Raw materials – cost on a first-in, first-out basis
- Finished goods and work in progress – cost of direct materials and labour and a proportion of production overheads based on normal operating capacity but excluding borrowing costs

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

**Site restoration costs**
Site restoration provisions are made in respect of the estimated future costs of closure and restoration and for environmental rehabilitation costs (determined by an independent expert) in the accounting period when the related environmental disturbance occurs The provision is discounted where material and the unwinding of the discount is included in finance costs At the time of establishing the provision, a corresponding asset is capitalised where it gives rise to a future benefit and depreciated over future production from the mine to which it relates

The provision is reviewed on an annual basis for changes in cost estimates, discount rates or the life of operations

**Pension obligations and other employee benefits**
The Group makes defined contributions to the Ukrainian state pension scheme at the statutory rates in effect during the year, based on gross salary payments, such expense is charged in the period the related salaries are earned

In addition, the Group has a legal obligation to compensate the Ukrainian State Pension Fund for additional pensions paid to certain categories of the current and former employees of the Group These obligations being unfunded are substantially similar to those typically existing under an unfunded defined benefit plan

The Group also makes contributions to the defined benefit pension fund for employees in Ferrexpo AG

Costs relating to both plans are accrued in the historical financial information using the projected unit credit method in respect of those employees entitled to such payments Management uses actuarial techniques in calculating the liability related to this retirement obligation at each balance sheet date Actual results could vary from estimates made to date

Gains and losses resulting from the use of external actuarial valuation methodologies are recognised when the cumulative unrecognised actuarial gains or losses for the scheme exceed 10% of the defined benefit obligation for unfunded plans and the lower of planned assets/obligations for funded schemes These gains or losses are recognised as income or expense over the expected average remaining working lives of the employees participating in the plan

# Notes to the consolidated financial information continued

**Note 2. Summary of significant accounting policies** continued
The past service cost is recognised as an expense on a straight-line basis over the average period until the benefits vest If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, the past service cost is recognised immediately

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognised reduced by the past service cost not yet recognised

**Revenue recognition**
Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured Revenue from sale of goods, including pellet and other sales, is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts and sales taxes Risks and rewards of the ownership of goods passes when title for the goods passes to the customer This is determined by the terms of the sales agreement Typically, sales are made FOB ('Free On Board'), CIF ('Cargo Insurance and Freight') or DAF ('Delivery At Frontier')

Other sales include the processing and sale of ore and ore concentrate, sale of parts, materials and crushed rocks and repair and rental of railway wagons

**Finance income and expense**
Finance income comprises interest income on funds invested Interest income is recognised in the income statement as it accrues using the effective interest method

Finance expense comprises interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on financial assets

Foreign exchange gains and losses are reported on a net basis

**Taxes**
*Current income tax*
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date

*Swiss tax 50/50 ruling*
Under the Swiss tax 50/50 ruling a qualifying company can distribute a percentage of its profits free of tax Ferrexpo AG (the former group holding company), under its former ownership, qualified to make such distributions The company ceased to qualify for this treatment upon reorganisation of the Group, when Ferrexpo plc became the parent company of the Group, on 24 May 2007

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

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

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

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

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

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority

*Value added tax*
Revenues, expenses and assets are recognised net of the amount of value added tax ('VAT') except
- where VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case VAT is recognised as part of the cost of acquisition of the asset or as part of expense item as applicable, and
- receivables and payables, which are stated with the amount of VAT included

The net amount of VAT recoverable from, or payable to, the taxation authority is disclosed in the notes to the financial statements (note 26)

**Earnings per share**
The earnings per share ('EPS') calculation has assumed that the number of Ordinary Shares issued pursuant to the share exchange agreements in relation to the acquisition of Ferrexpo AG by Ferrexpo plc have been in issue throughout 2007 and 2006 which is consistent with the pooling of interests method used to account for combinations of businesses under common control The Directors believe that this measure of EPS provides a more meaningful comparison with the Group's ongoing business than using the statutory EPS which would only reflect shares issued based on the actual date of issue

Basic EPS is calculated by dividing the net profit for the year attributable to ordinary equity shareholders of Ferrexpo AG by the number of Ordinary Shares as defined above The number of Ordinary Shares in issue excludes the shares held by the Ferrexpo AG Listing Bonus Trust Diluted earnings per share is calculated by adjusting the number of Ordinary Shares in issue on the assumption of conversion of all potentially dilutive Ordinary Shares All share awards are potentially dilutive and have been included in the calculation of diluted earnings per share

**Events after the balance sheet date**
Events after the balance sheet date that provide additional information on the Group's position at the balance sheet date (adjusting events) are reflected in the historical financial information Events after the balance sheet date that are not adjusting events are disclosed in the notes when material

**Share-based payments**
*Equity-settled transactions*
The cost of equity-settled transactions with employees is measured by reference to the fair value at the grant date and are recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award Fair value is determined by reference to the quoted closing share price on the grant date

In valuing equity-settled transactions, no account is taken of any vesting conditions

No expense is recognised for awards that do not ultimately vest

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity

**New Standards and interpretations not yet adopted**
**IFRS 8** 'Operating Segments' introduces the 'management approach' to segment reporting IFRS 8, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating decision maker in order to assess each segment's performance and to allocate resources to them Currently the Group presents segment information in respect of its business and geographical segments (see note 4) The management approach is not expected to change this structure of reporting significantly, however, owing to the expansionary nature of the business the Group has not yet determined the full effect of this new standard IFRS 8 will also reduce the maximum size of the cash generating unit to be used for the impairment testing of goodwill Based on current indicators management does not believe that this would impact the carrying value of goodwill

**Revised IAS 23** 'Borrowing Costs' removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset The revised IAS 23 will become mandatory for the Group's 2009 financial statements but currently does not apply to the Group In accordance with the transitional provisions the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date

**IFRIC 11 IFRS 2 – 'Group Treasury Transactions'** requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained IFRIC 11 will become mandatory for the Group's 2008 financial statements, with retrospective application required It is not expected to have any impact on the consolidated financial statements

# Notes to the consolidated financial information continued

**Note 2: Summary of significant accounting policies** continued
**IFRIC 14 IAS 19** – 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' clarifies where refunds or reductions in future contributions in relation to defined benefit assets, should be regarded as available and provides guidance on the impact of minimum funding requirements ('MFR') on such assets It also addresses when an MFR might give rise to a liability IFRIC 14 will become mandatory for the Group's 2008 financial statements, with retrospective application required It is not expected to have any impact on the consolidated financial statements

**IAS 1** 'Presentation of financial statements' (revised September 2007) – Whilst the revised IAS 1 will have no impact on the measurement of the Group's results or net assets it is likely to result in certain changes in the presentation of the Group's financial statements from 2009 onwards

**IFRS 2** 'Share-based payment' amendment to IFRS 2 – Vesting and conditions and cancellations – The amendment to IFRS 2 restricts the definition of vesting conditions to include only service conditions (requiring a specific period of service to be completed) and performance conditions (requiring the other party to achieve a personal goal or contribute to achieving a corporate target) All other features are not vesting conditions, and whereas a failure to achieve such a condition was previously regarded as a forfeiture (giving rise to a reversal of amounts previously charged to profit) it must be reflected in the grant date fair value of the award and treated as a cancellation, which results in either an acceleration of the expected charge, or a continuation over the remaining vesting period, depending on whether the condition is under control of the entity or counterparty The amendment is mandatory for periods beginning on or after 1 January 2009 and the Group is currently assessing its impact on the financial statements, although it is not expected to be material

**IFRS 3** 'Business combinations' (revised January 2008) – The Group does not anticipate early adopting the revised IFRS 3 and so will apply it prospectively to all business combinations on or after 1 January 2010 Whilst it is not possible to estimate the outcome of adoption, the key features of the revised IFRS 3 include a requirement for acquisition-related costs to be expensed and not included in the purchase price, and for contingent consideration to be recognised at fair value on the acquisition date (with subsequent changes recognised in the income statement and not as a change to goodwill) the standard also changes the treatment of non-controlling interest (formerly minority interests) with an option to recognise these at full fair value as at the acquisition date and a requirement for previously held non-controlling interests to be fair valued as at the date control is obtained, with gains and losses recognised in the income statement

**IAS 27** 'Consolidated and Separate Financial Statements' (revised January 2008) – IAS 27 revised is effective for annual periods beginning on or after 1 July 2009, with earlier application only permitted when the revised IFRS 3 is applied The revised standard applies retrospectively with some exceptions IAS 27 revised no longer restricts the allocation to minority interest of losses incurred by a subsidiary to the amount of the non-controlling equity investment in the subsidiary A partial disposal of equity interest in a subsidiary that does not result in a loss of control will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to any gain or loss Where there is loss of control of a subsidiary, any retained interest will have to be remeasured at fair value, which will impact the gain or loss on disposal The Group is currently assessing the impact on its financial statements from adopting IAS 27 revised

**Note 3 Financial risk management**
**Overview**
The Group has exposure to the following risks from its use of financial instruments
- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital Further quantitative disclosures are included throughout these consolidated financial statements

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations

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

The Group operates a centralised financial risk management structure under the management of the Executive Committee, accountable to the Board and Audit Committee The Executive Committee delegates certain responsibilities to the Chief Financial Officer ('CFO') The CFO's responsibilities include authority for approving all new physical, commercial or financial transactions that create a financial risk for the Group Additionally, the CFO delegates control and management of treasury risks within each of the business units to the Group Treasurer

**Financial instrument risk exposure and management**
Natural hedges that can be identified and the effectiveness quantified are used in preference to financial risk management instruments Derivative transactions may be executed for risk mitigation purposes only – speculation is not permitted – and are intended to have the net effect of reducing risk on underlying market or credit exposures Appropriate operational controls ensure operational risks are not increased disproportionately to the reduction in market or credit risk

The Group has not used any financial risk management instruments that are derivative in nature or any other hedging instruments in this or prior periods

**Credit risk**
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities

Trade and other receivables
The Group through its trading operations enters into binding contracts which contain certain obligations that create exposure to credit, counterparty and country risks It is the primary objective of the Group to manage such risks to reduce uncertainty of collection from buyers A secondary objective is to minimise the cost of mitigating risks within acceptable risk parameters Both objectives are achieved through the active management of the underlying portfolio of risks

Trade finance is used to balance risk and payment The greater the risks associated with the transaction, the greater the cost These risks include the creditworthiness of the buyer, and the political and economic stability of the buyer's country Trade finance generally refers to the financing of individual transactions or a series of revolving transactions and are often self-liquidating whereby the lending bank stipulates that all sales proceeds to be collected are applied to settle the loan, the remainder returned to the Group Trade finance transactions are approved by the Group Treasurer The primary objective is to ensure that the margins paid and conditions applicable should be the same or better than those which other organisations with similar credit worthiness would achieve, and compared with other alternative financing available to the Group

Credit risk is the risk associated with the possibility that a buyer will default, by failing to make required payments in a timely manner, or to comply with other conditions of an obligation or agreement Where appropriate, the Group uses letters of credit to assist in mitigating such risks

Counterparty risk is rating the risk that a party to an agreement will default In general, counterparty risk is reduced by having an organisation with a higher credit rating act as an intermediary between the Group and the buyer Where letters of credit are used, the Group uses a confirming bank with a similar or higher credit rating to mitigate country and/or credit risk of the issuing bank

Country risk is the potential volatility of foreign assets, whether receivables or investments, that is due to political and/or financial events in a given country

Approval is obtained from the Group Treasurer before acceptance of counterparty risks

Group Treasury monitors the concentration of all outstanding risks associated with any entity or country and reports to the CFO on a timely basis

Investment securities
The Group limits its exposure to credit, counterparty and country risk by only investing in liquid securities and with counterparties that are incorporated in an A+ or better (S&P) rated OECD country, and is rated from S&P or Moody's at a level to long term A (S&P) or short term A2 (S&P) or better

Recognising that the principal activities of the Group predominantly reside in Ukraine, special consideration is given for investments with Ukrainian counterparties Exceptions may be made under the following conditions
- The counterparty is resident in Ukraine
- The counterparty is included in the top 15 financial institutions in Ukraine
- The counterparty is either
  - owned and controlled by the State with its obligations guaranteed by the State, or
  - majority owned and controlled by an international financial institution capable of covering the counterparty exposure which in itself meets the criteria of an eligible counterparty, or
  - a local financial institution that has achieved a minimum investment grade rating from S&P or Moody's

# Notes to the consolidated financial information continued

**Note 3 Financial risk management** continued

Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries At 31 December 2007 Ferrexpo AG and Ferrexpo UK Ltd were joint and severally liable under a US$335 million loan agreement (31 December 2006 US$275 million)

**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation

The Group uses activity-based costing to cost its product and detailed capital expenditure forecasts, which assist it in monitoring cash flow requirements and optimising its cash return on investments Typically the Group ensures that it has sufficient cash on demand and/or lines of credit to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations, this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters The Group maintains the following lines of credit

- US$5 million overdraft facility that is unsecured Interest would be payable at the rate of weekly average LIBOR increased by 0 875% plus 225 basis points
- US$80 million and US$135 million revolving lines of credit that can be drawn down to meet short to medium term financing needs up to 180 days Interest would be payable at a fixed rate of 9 0% per annum on US$80 million revolving facility and at the rate of one month LIBOR plus 235 basis points on US$135 million revolving facility

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return on risk

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Ukrainian hyrivna, but also US dollars, Swiss francs, euro and sterling

The Group's major lines of borrowings and the majority of its sales are denominated in US dollars, with costs of production in hyrivna The hyrivna is currently pegged to the US dollar and for this reason trade receivables and trade payables denominated in US dollars are not hedged Trade receivables and trade payables in other currencies are considered immaterial and are similarly not hedged

The principal amounts of the Group's US dollar bank loans used to fund hyrivna functional currency entities are not hedged as the currency is currently pegged to the US dollar

Interest on borrowings is denominated in US dollars and is less than the US dollar cash flows generated by the underlying operations of the Group This provides an economic natural hedge and no derivatives are entered into

Appropriate hedging policies are in place to allow mitigation of currency risk were the US$/UAH peg to come to an end

Other Group monetary assets and liabilities denominated in foreign currencies are considered immaterial as the exposure to currency risk mainly relates to corporate costs within Switzerland and the United Kingdom

Owing to these conditions the Group does not consider it necessary to engage in hedging activities

Interest rate risk

The Group predominantly borrows funds that are at floating interest rates and will be exposed to interest rate movements The primary objective of interest rate risk management is to reduce uncertainty to interest rate movement through capping or fixing of funding costs However, a secondary objective is to minimise the net funding costs within acceptable risk parameters Both objectives are achieved through the active management of underlying interest rate exposures The interest rate exposure to US dollars remained relatively low during the period, and no interest rate swaps have been entered into in this or prior periods

Commodity risk

The Group does not have a commodity risk exposure to its financial assets and liabilities Trade receivables are based on a fixed contract price, and so do not fluctuate with iron ore market prices Similarly finished goods are held at cost, with revaluation to a spot price not applicable for iron ore pellets, there being no tradeable exchange in the product to ascertain its market value

Other market price risk

Equity price risk arises from available-for-sale equity securities which are not quoted

**Capital management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business The Board of Directors monitors both the demographic spread of shareholders, as well as the return on capital, which the Group defines as total shareholders' equity, excluding minority interests, and the level of dividends to ordinary shareholders

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and advantages and security afforded by a sound capital position

The Board maintains a dividend policy consistent with the Group's profile, reflecting the investment activities the Group is making on major projects for future production growth and the cash generated by existing operations, whilst maintaining a prudent level of dividend cover

The Group does not purchase its own shares on the market nor have a defined share buyback plan

There were no changes in the Group's approach to capital management during the year

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements

**Note 4: Segment information**

**Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis

**Primary reporting format – Business segments**

The Group's activity is primarily the processing and sale of iron ore and for the purpose of the consolidated financial statements only one business segment is therefore identified as a reportable segment

**Secondary reporting format – Geographical segments**

The Group operated in two distinct geographical segments for the processing and sale of iron ore for the year ended 31 December 2007

The Group's principal mining operations are based in Ukraine and the Group's chief sales office, Ferrexpo AG, is based in Switzerland

| | Year ended 31 12 07 | | |
|---|---|---|---|
| US$000 | Ukraine | Switzerland | Total |
| **Revenue** | | | |
| Sales to external customers | 136,757 | 561,459 | 698,216 |
| **Other segment information** | | | |
| Segment assets | 750,180 | 117,761 | 867,941 |
| Segment liabilities | (65,251) | (215,768) | (281,019) |
| **Capital expenditure** | | | |
| Property, plant and equipment | 94,188 | 1,182 | 95,370 |
| Intangible fixed assets | 482 | – | 482 |
| Depreciation and amortisation | 27,831 | 433 | 28,264 |

| | Year ended 31 12 06 | | |
|---|---|---|---|
| US$000 | Ukraine | Switzerland | Total |
| **Revenue** | | | |
| Sales to external customers | 79,610 | 467,700 | 547,310 |
| **Other segment information** | | | |
| Segment assets | 652,247 | 54,669 | 706,916 |
| Segment liabilities | (189,182) | (180,942) | (370,124) |
| **Capital expenditure** | | | |
| Property, plant and equipment | 53,993 | 356 | 54,349 |
| Intangible fixed assets | 156,423 | – | 156,423 |
| Depreciation and amortisation | 28,270 | 293 | 28,563 |

# Notes to the consolidated financial information continued

## Note 5 Revenue

Revenue for the year ended 31 December 2007 consisted of the following

| US$000 | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|
| Revenue from sales of ore pellets | | |
| Export | **560,805** | 467,099 |
| Ukraine | **128,731** | 73,089 |
| | **689,536** | 540,188 |
| Revenue from services provided | **3,005** | 3,158 |
| Revenue from other sales | **5,675** | 3,964 |
| | **698,216** | 547,310 |

Export sales by geographical destination were as follows

| US$000 | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|
| Austria | **160,324** | 140,286 |
| China | **103,223** | 83,258 |
| Slovakia | **81,516** | 54,143 |
| Serbia | **83,708** | 64,015 |
| Czech Republic | **55,617** | 52,775 |
| Bulgaria | **27,389** | 15,587 |
| Poland | **23,766** | 15,571 |
| Romania | **7,038** | 23,838 |
| Germany | **–** | 4,183 |
| Turkey | **9,777** | 12,302 |
| Japan | **5,029** | – |
| Italy | **3,418** | – |
| Other | **–** | 1,141 |
| | **560,805** | 467,099 |

During the year ended 31 December 2007 sales made to three customers accounted for approximately 53 9% of the net sales revenue (2006 55 3%)

## Note 6: Cost of sales

Cost of sales for the year ended 31 December 2007 consisted of the following

| US$000 | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|
| Materials | **92,449** | 62,002 |
| Purchased ore and concentrate | **17,587** | 16,703 |
| Electricity | **74,621** | 65,535 |
| Personnel costs | **47,402** | 46,231 |
| Spare parts and consumables | **14,663** | 27,072 |
| Depreciation and amortisation | **25,635** | 24,895 |
| Fuel | **28,086** | 25,798 |
| Gas | **25,576** | 20,806 |
| Royalties and levies | **8,570** | 7,678 |
| Other | **1,347** | – |
| | **335,936** | 296,720 |

Cost of sales is reconciled to 'C1' costs in the following manner

| US$000 | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|
| Cost of sales | **335,936** | 296,720 |
| Depreciation and amortisation | **(25,635)** | (24,895) |
| Purchased ore and concentrate | **(19,911)** | (19,396) |
| Production cost of gravel | **(2,101)** | (2,728) |
| Stock movement in the period | **(6,284)** | (9,930) |
| Pension current service cost | **(1,877)** | (1,784) |
| Other | **(555)** | 484 |
| C1 Cost | **279,573** | 238,471 |
| Own ore produced tonnes | **8,793,000** | 8,149,000 |
| C1 cash cost per tonnes US$ | **31 79** | 29 26 |

'C1' costs represent the cash costs of production of own ore divided by production volume of own ore, and excludes non-cash costs such as depreciation, pension costs and stock movement, and costs of purchased ore, concentrate and production cost of gravel

**Note 7 Selling and distribution expenses**

Selling and distribution expenses for the year ended 31 December 2007 consisted of the following

| US$000 | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|
| Railway transportation | **58,358** | 53,029 |
| Other transportation | **34,914** | 27,335 |
| Agent fees | **2,025** | 1,649 |
| Custom duties | **1,101** | 1,180 |
| Advertising | **1,816** | 1,096 |
| Personnel cost | **827** | 784 |
| Depreciation | **575** | 128 |
| Other | **998** | 1,175 |
| | **100,614** | 86,376 |

**Note 8 General and administrative expenses**

General and administrative expenses for the ended 31 December 2007 consisted of the following

| US$000 | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|
| Personnel costs | **20,428** | 17,489 |
| Buildings and maintenance | **1,900** | 5,697 |
| Taxes other than income tax and other charges | **3,674** | 3,138 |
| Social responsibility costs | **1,521** | 1,028 |
| Consulting and other professional fees | **6,363** | 3,168 |
| Depreciation and amortisation | **2,055** | 2,192 |
| Communication | **425** | 2,083 |
| Vehicles maintenance and fuel | **1,016** | 598 |
| Repair | **422** | 468 |
| Audit fees | **1,089** | 1,207 |
| Non-audit fees | **584** | – |
| Security | **769** | 333 |
| Research | **393** | 1,583 |
| Other | **3,669** | 2,156 |
| | **44,308** | 41,140 |

In 2006, within buildings and maintenance above of US$5,697,000 is an amount of US$3,914,000 specifically relating to Vostock Ruda LLC The Company was not in operation in 2006 but costs were incurred to maintain the mining shafts in working condition and these costs expensed The Group's holding in Vostock Ruda was reduced to 9 4% by the end of 2006, and then to 3 2% by the end of 2007
As a result expenses of this nature have not been consolidated for the year ended 31 December 2007

# Notes to the consolidated financial information continued

## Note 8 General and administrative expenses continued

### Auditor remuneration

| US$000 | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|
| **Audit** | | |
| United Kingdom | **78** | 55 |
| Overseas | **1,011** | 1,152 |
| **Other services provided by auditors** | | |
| United Kingdom | **12** | – |
| Overseas | **12,080** | – |
| **Total auditor remuneration** | **13,181** | **1,207** |

| US$000 | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|
| **Statutory audit services** | | |
| Ferrexpo plc Annual Report | **1,021** | – |
| Subsidiary entities | **68** | 1,207 |
| | **1,089** | 1,207 |
| **Non-audit services** | | |
| IPO related fees | **11,508** | – |
| Tax advisory | **134** | – |
| Assurance related services | **450** | – |
| | **12,092** | – |
| **Total auditor remuneration** | **13,181** | 1,207 |

The cost of the audit of the listing documents was netted off against share premium in the current year

## Note 9: Other income

Other income for the year ended 31 December 2007 consisted of the following

| US$000 | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|
| Sale of surplus maintenance spares | **3,643** | 1,532 |
| Other income | **1,201** | 1,051 |
| | **4,844** | 2,583 |

## Note 10 Other expenses

Other expenses for the year ended 31 December 2007 consisted of the following

| US$000 | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|
| Charitable donations | **2,971** | 1,880 |
| Loss on disposal of plant, property and equipment | **–** | 601 |
| Fines and penalties | **18** | 1,758 |
| Other | **2,107** | 839 |
| | **5,096** | 5,078 |

## Note 11 Write-offs and impairment losses

Impairment losses relate to adjustments made against the carrying value of assets where this is higher than the recoverable amount Write-offs and impairment losses for the year ended 31 December 2007 consisted of the following

| US$000 | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|
| Write-off/write-up of inventories | **(544)** | 341 |
| Write-off of property, plant and equipment | **2,112** | 814 |
| Impairment of property, plant and equipment | **–** | 729 |
| Other impairment | **–** | 321 |
| | **1,568** | 2,205 |

### Note 12 Net gain/(loss) from disposal of subsidiaries and investments

Gain/(loss) on disposal of subsidiaries and investments for the year ended 31 December 2007 consisted of the following

| US$000 | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|
| Loss on disposal of subsidiaries (note 37) | – | (3,524) |
| Gain on disposal of available-for-sale investment (note 37) | 4,714 | – |
| | 4,714 | (3,524) |

### Note 13 Initial public offering costs

Initial public offering costs during the year ended 31 December 2007 consisted of the following

| US$000 | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|
| Consultants and other professional fees | 45,496 | – |
| **Management listing bonus** | | |
| Cash | 11,332 | – |
| Share award | 9,064 | – |
| | 65,892 | – |
| Charged to | | |
| Income statement | 34,004 | – |
| Share premium reserve | 31,888 | – |
| | 65,892 | – |

In addition to the management listing bonus charge during the year a further 2,403,000 shares remain unvested at 31 December 2007 (note 43) (2006 nil)

### Note 14 Financing income/expense

Finance revenue and costs for the year ended 31 December 2007 consisted of the following

| US$000 | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|
| **Finance income** | | |
| Interest income on bank deposits | 2,457 | 2,326 |
| Other finance revenue | 785 | – |
| | 3,242 | 2,326 |
| **Finance expense** | | |
| Interest expense on financial liabilities measured at amortised cost | (21,493) | (27,425) |
| Interest on defined benefit plans | (1,462) | (1,269) |
| Bank charges | (1,642) | (3,870) |
| Other finance costs | (1,353) | (91) |
| | (25,950) | (32,655) |
| Foreign exchange loss | (3,467) | (3,784) |
| Net finance expense | (26,175) | (34,113) |

# Notes to the consolidated financial information continued

## Note 15 Income tax expense

Major components of income tax expense for the year ended 31 December 2007 consisted of the following

| US$000 | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|
| Current income tax | **31,163** | 16,371 |
| Deferred income tax | **(4,438)** | (1,613) |
| | **26,725** | 14,758 |

The Group's income was subject to taxation in Ukraine, Switzerland and the United Kingdom During the year ended 31 December 2007 the corporate income tax was levied on taxable income less allowable expenses at the following rates

- Ukraine 25% (2006 25%)
- Switzerland 9 8%–16 2% (2006 9 3%)
- UK 30% (2006 30%)

The effective income tax rate differs from the corporate income tax rates The weighted average of the statutory rates was 17 6% for 2007 (2006 13 9%) This is calculated as the average of the statutory tax rates applicable in the countries in which the Group operates, weighted by the profit/(loss) before tax of the subsidiaries in the respective countries as included in the consolidated historical financial information The effective tax rate is 16 6% (2006 18 3%)

The changes in the weighted average statutory income tax rate are largely due to a change in the weighting of profit/(loss) before tax in the various jurisdictions in which the Group operates

A reconciliation between the income tax charged in the accompanying historical financial information and income before taxes multiplied by the weighted average statutory tax rate for the year ended 31 December 2007 is as follows

| US$000 | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|
| Profit before tax | **160,760** | 80,737 |
| Notional tax computed at the weighted average statutory tax rate of 17 6% (2006 13 9%) | **28,234** | 11,186 |
| 50/50 Swiss tax ruling | **(472)** | (1,991) |
| (Recognition)/derecognition of deferred tax assets | **–** | 791 |
| Tax indexation of fixed assets | **(6,084)** | – |
| Expenses not deductible for tax purposes | **4,675** | 4,759 |
| Prior year items | **32** | 13 |
| Other | **340** | – |
| **Income tax expense** | **26,725** | 14,758 |

## Note 16 Earnings per share and dividends paid and proposed

The earnings per share ('EPS') calculation has assumed that the number of Ordinary Shares issued pursuant to the share exchange agreements in relation to the acquisition of Ferrexpo AG by Ferrexpo plc have been in issue throughout 2006 and 2007 which is consistent with the pooling of interests method used to account for combinations of businesses under common control The directors believe that this measure of EPS provides a more meaningful comparison with the Group's ongoing business than using the statutory EPS which would only reflect shares issued based on the actual date of issue Furthermore this approach provides the same results as if the Ferrexpo AG shares, outstanding between 2006 and 2007, have been multiplied by the exchange ratio shares in Ferrexpo plc

Basic EPS is calculated by dividing the net profit for the year attributable to ordinary equity shareholders of Ferrexpo plc by the number of Ordinary Shares as defined above

| | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|
| **Profit for the period attributable to equity shareholders** | | |
| Basic earnings per share (US cents) | **20 41** | 10 47 |
| Diluted earnings per share (US cents) | **20 33** | 10 47 |
| **Underlying earnings for the period** | | |
| Basic earnings per share (US cents) | **24 93** | 10 92 |
| Diluted earnings per share (US cents) | **24 84** | 10 92 |

The calculation of the basic and diluted earnings per share is based on the following data

| Thousands | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|
| **Number of shares** | | |
| Basic number of Ordinary Shares outstanding | **607,796** | 607,471 |
| Effect of dilutive potential Ordinary Shares | **2,403** | – |
| Diluted number of Ordinary Shares outstanding | **610,199** | 607,471 |

The number of Ordinary Shares in issue excludes the shares held by the Ferrexpo AG Listing Bonus Trust Diluted earnings per share is calculated by adjusting the number of Ordinary Shares in issue on the assumption of conversion of all potentially dilutive Ordinary Shares All share awards are potentially dilutive and have been included in the calculation of diluted earnings per share

'Underlying earnings' is an alternative earnings measure, which the Directors believe provides a clearer picture of the underlying financial performance of the Group's operations Underlying earnings is presented after minority interests and excludes adjusted items The calculation of underlying earnings per share is based on the following earnings data

| US$000 | Notes | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|---|
| Profit attributable to equity holders | | **124,076** | 63,578 |
| Write-offs/impairments | 11 | **1,568** | 2,205 |
| Loss on disposals | 12 | **–** | 3,524 |
| IPO costs | 13 | **34,004** | – |
| Gain on sale of available-for-sale investment | 12 | **(4,714)** | – |
| Tax on adjusting items | | **(3,217)** | (1,432) |
| Minority interests | | **(220)** | (1,213) |
| Tax on minority interests | | **48** | (303) |
| Underlying earnings | | **151,545** | 66,359 |

Adjusted items are those items of financial performance that the Group believes should be separately disclosed on the face of the income statement to assist in the understanding of the underlying financial performance achieved by the Group Adjusted items that relate to the operating performance of the Group include impairment charges and reversals and other exceptional items Non-operating adjusting items include profits and losses on disposal of investments and businesses

**Dividends paid and proposed**

| US$000 | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|
| **Dividends proposed** | | |
| Dividend proposed by subsidiary to minority interest of US$0 015 (2006 US$0 01) | **251** | 563 |
| | **251** | 563 |

| US$000 | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|
| **Dividends paid during the period** | | |
| Final dividend paid by parent company proposed in 2004 | **–** | 108 |
| Final dividend proposed in previous years to minority interest | **786** | 178 |
| | **786** | 286 |

The Directors are proposing a dividend in respect of profits generated by the Ferrexpo Group in 2007 of 3 2 US cents per Ordinary Share Based on shares eligible for dividends as at 31 December 2007 this will result in a distribution of US$19,449,000 of shareholders' funds These financial statements do not reflect this dividend payable, in accordance with UK Companies Act and IFRS, as it is still subject to shareholder approval

The Ferrexpo AG Listing Bonus Trust has waived the right to receive dividends on the shares it holds

# Notes to the consolidated financial information continued

## Note 17 EBITDA

The Group calculates EBITDA as profit from continuing operations before tax and finance, adjusted for depreciation and amortisation, non-recurring items included in other income and other costs, and the net gain/loss on disposal of subsidiaries and associates The Group presents EBITDA because it believes that EBITDA is a useful measure for evaluation of its ability to generate cash and of its operating performance

| US$000 | Notes | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|---|
| **Profit before tax and finance** | | **186,935** | 114,850 |
| Write-offs and impairment losses | 11 | **1,568** | 2,205 |
| Net loss on disposal of subsidiary | 12 | **–** | 3,524 |
| Net gain on disposal of available-for-sale investment | 12 | **(4,714)** | – |
| Initial public offering costs | 13 | **34,004** | – |
| Depreciation and amortisation | 4 | **28,264** | 28,563 |
| **EBITDA** | | **246,057** | **149,142** |

The Group has changed how it defines EBITDA from that used in prior periods which now excludes the effect of foreign exchange gains/losses because the Group believe this is a more appropriate reflection of its ability to generate cash and of its operating performance

## Note 18 Property, plant and equipment

As at 31 December 2007 property, plant and equipment comprised

| US$000 | Land | Mining assets | Buildings | Plant and equipment | Vehicles | Fixtures and fittings | Assets under con-struction | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| **As at 31 December 2005** | **2,321** | **7,439** | **128,394** | **149,195** | **63,210** | **2,082** | **31,816** | **384,457** |
| Additions | – | – | – | – | – | 364 | 53,985 | 54,349 |
| Transfers | – | 23 | 11,150 | 24,728 | 12,411 | 271 | (48,583) | – |
| Disposals | – | – | (1,069) | (2,401) | (1,272) | (25) | (583) | (5,350) |
| Disposal of subsidiary | – | (138) | (9,523) | (7,065) | (34) | (144) | (675) | (17,579) |
| **As at 31 December 2006** | **2,321** | **7,324** | **128,952** | **164,457** | **74,315** | **2,548** | **35,960** | **415,877** |
| Additions | – | 1,333 | – | 3 | – | 705 | 93,329 | 95,370 |
| Transfers | 2,563 | 2,714 | 9,086 | 18,655 | 19,581 | 402 | (53,001) | – |
| Disposals | – | – | (189) | (3,205) | (1,192) | – | (1,406) | (5,992) |
| Disposal of subsidiary | – | – | – | – | – | – | – | – |
| **As at 31 December 2007** | **4,884** | **11,371** | **137,849** | **179,910** | **92,704** | **3,655** | **74,882** | **505,255** |
| **Depreciation** | | | | | | | | |
| **As at 31 December 2005** | **–** | **349** | **14,653** | **59,082** | **16,847** | **515** | **–** | **91,446** |
| Depreciation charge | – | 164 | 5,444 | 16,329 | 5,937 | 541 | – | 28,415 |
| Disposals | – | – | (621) | (1,684) | (1,185) | (16) | – | (3,506) |
| Impairment | – | – | – | – | – | – | 729 | 729 |
| Disposal of subsidiary | – | (116) | (1,385) | (953) | (21) | (75) | – | (2,550) |
| **At as 31 December 2006** | **–** | **397** | **18,091** | **72,774** | **21,578** | **965** | **729** | **114,534** |
| Depreciation charge | – | 236 | 6,584 | 17,575 | 5,643 | 712 | – | 30,750 |
| Disposals | – | – | (351) | (2,632) | (881) | (22) | – | (3,886) |
| Impairment | – | – | – | – | – | – | (688) | (688) |
| Disposal of subsidiary | – | – | – | – | – | – | – | – |
| **At as 31 December 2007** | **–** | **633** | **24,324** | **87,717** | **26,340** | **1,655** | **41** | **140,710** |
| **Net book value as at** | | | | | | | | |
| **31 December 2006** | **2,321** | **6,927** | **110,861** | **91,683** | **52,737** | **1,583** | **35,231** | **301,343** |
| **31 December 2007** | **4,884** | **10,738** | **113,525** | **92,193** | **66,364** | **2,000** | **74,841** | **364,545** |

Mine assets constitute mine stripping costs which are accounted for under the Group s accounting policy outlined in note 2

US$114,388,000 (2006 US$127,872,000) of property plant and equipment have been pledged for security for liabilities

### Note 19 Goodwill and other intangible assets

As at 31 December 2007 goodwill and other intangible assets comprised

| US$000 | Goodwill | Other intangible assets | Total |
|---|---|---|---|
| **As at 31 December 2005** | **–** | **9,619** | **9,619** |
| Additions | – | 741 | 741 |
| Acquisition of minority interest in subsidiary | 155,682 | – | 155,682 |
| Disposals | – | (181) | (181) |
| Disposal of subsidiary | – | (8,833) | (8,833) |
| **As at 31 December 2006** | **155,682** | **1,346** | **157,028** |
| Additions | – | 482 | 482 |
| Disposals | – | (47) | (47) |
| **As at 31 December 2007** | **155,682** | **1,781** | **157,463** |
| **Accumulated amortisation and impairment** | | | |
| **As at 31 December 2005** | **–** | **355** | **355** |
| Amortisation charge | – | 148 | 148 |
| Disposals | – | (9) | (9) |
| **As at 31 December 2006** | **–** | **494** | **494** |
| Amortisation charge | – | 189 | 189 |
| Disposals | – | (47) | (47) |
| **At at 31 December 2007** | **–** | **636** | **636** |
| **Net carrying amount as at** | | | |
| **31 December 2006** | **155,682** | **852** | **156,534** |
| **31 December 2007** | **155,682** | **1,145** | **156,827** |

The major component of other intangible assets as at 31 December 2007 comprises licences in respect of the Group's mining operations The amortisation charge for the year is allocated to production expenses and administrative expenses as appropriate

**Impairment of goodwill**

Goodwill acquired through business combinations has been allocated for impairment testing purposes to one cash generating unit as the Group only has one primary operational segment which is the production and sale of iron ore This represents the lowest level within the Group at which goodwill is monitored for internal management purposes

Based on our review no impairment indications were identified as at the reporting date

### Note 20: Investments in associates

As at 31 December 2007 investments in associates comprised

| | Principal activity | Ownership % | **As at 31 12 07 US$000** | As at 31 12 06 US$000 |
|---|---|---|---|---|
| TIS-Ruda | Port development | 49 9 | **17,637** | 16,950 |
| | | | **17,637** | 16,950 |

For the year ended 31 December 2007 summarised financial information for the associate was as follows

| | Total assets | | Total liabilities | | Revenue | | Net Profit/(loss) | |
|---|---|---|---|---|---|---|---|---|
| US$000 | **As at 31 12 07** | As at 31 12 06 | **As at 31 12 07** | As at 31 12 06 | **Year ended 31 12 07** | Year ended 31 12 06 | **Year ended 31 12 07** | Year ended 31 12 06 |
| TIS-Ruda | **34,823** | 28,662 | **5,422** | 762 | **5,778** | – | **1,377** | – |

The information above is for 100% of the associate named and not as a percentage based on Group ownership The movement in the investment in the year represents the Group's share of profit of US$687,000 in TIS-Ruda

TIS-Ruda operates a port on the Black Sea which the Group uses as part of its distribution channel

# Notes to the consolidated financial information continued

## Note 21 Available-for-sale financial assets

As at 31 December 2007 available-for-sale financial assets comprised

| | Ownership % | | Carrying Value | |
|---|---|---|---|---|
| | 2007 | 2006 | As at 31 12 07 US$000 | As at 31 12 06 US$000 |
| **Current** | | | | |
| Promissory notes available for sale | – | – | – | 97 |
| Marketable Securities | – | – | 102 | – |
| Investments available for sale – equity instruments | | | | |
| Vostock Ruda | 3 20 | 9 40 | 2,839 | 1,354 |
| | | | 2,941 | 1,451 |
| **Non-current** | | | | |
| Promissory notes available for sale | – | – | 14 | 14 |
| Investments available for sale – equity instruments | | | | |
| OJSC Stahanov | 9 91 | – | 12,493 | – |
| LLC Atol | 9 95 | 9 95 | 26,720 | 26,720 |
| CJSC AMA | 9 00 | 9 00 | 3,560 | 3,560 |
| CJSC Amtek | 9 00 | 9 00 | 4,250 | 4,250 |
| First Investment Bank | 0 32 | 0 32 | 94 | 94 |
| Slavutich-Ruda Ukrania Ltd | 1 00 | 1 00 | 2 | 2 |
| Dopomoga Ltd | 19 00 | 19 00 | 1 | 1 |
| | | | 47,134 | 34,641 |

During the year ended 31 December 2007 the Group acquired 9 91% of the voting rights in OJSC Stahanov, a rail car construction plant located in the Luhansk region of Ukraine for consideration of US$11,994,000 from an entity under common control A day one gain was recognised on the difference between consideration and the closing stock price on the day of acquisition

The fair value of the unquoted equity investment in LLC Atol, CJSC AMA and CJSC Amtek, companies engaged in the exploration and development of oil and gas fields in the Poltava region of Ukraine, is determined by management using a discounted cash flow projection, having taken into account the estimated value of reserves provided by an expert third party valuer The principal assumptions used are gas selling price US$205/1,000m³ flat (2006 US$150/1,000m³ average in 2007 with growth of 10% per year converging to US$230 by 2012), Condensate selling price – US$403/ton flat (2006 US$538/ton flat) and a discount rate of 8% real after tax (2006 8% real after tax)

The fair value of Vostock Ruda was made with reference to its net realisable value, based on the sales value achieved when the Group disposed of a 6 2% interest in 2007 (refer to note 37 for more details) The gain on revaluation of US$2,384,000 was recognised in the revaluation reserve in the year

## Note 22. Other non-current assets

As at 31 December 2007 other non-current assets comprised

| US$000 | As at 31 12 07 | As at 31 12 06 |
|---|---|---|
| Prepayments for property, plant and equipment | 10,869 | 618 |
| Loan provided to associate | 4,000 | – |
| Other non-current assets | 310 | 298 |
| | 15,179 | 916 |

## Note 23 Inventories

As at 31 December 2007 inventories comprised

| US$000 | As at 31 12 07 | As at 31 12 06 |
|---|---|---|
| Raw materials and consumables | 50,678 | 36,116 |
| Finished ore pellets | 3,251 | 10,640 |
| Work in progress | 2,848 | 2,132 |
| Other | – | 49 |
| Provision for slow moving and obsolete stock | (232) | (450) |
| | 56,545 | 48,487 |

As at 31 December 2007 the rights to future proceeds from finished goods of US$nil were pledged as collateral for bank loans (note 31) (2006 US$1,215,000)

Stock is held at cost or fully provided for through the provision for slow moving and obsolete stock provision above

### Note 24. Trade and other receivables

At 31 December 2007 trade and other receivables comprised

| US$000 | As at 31 12 07 | As at 31 12 06 |
|---|---|---|
| Trade receivables | **43,976** | 38,356 |
| Other receivables owed by related parties | **–** | 19,993 |
| Allowance for uncollectability | **(401)** | (65) |
| | **43,575** | 58,284 |

Trade receivables at 31 December 2007 includes US$1,374,000 (2006 US$7,277,000) owed by related parties

Other receivables at 31 December 2006 comprised US$14,902,000 owed by an entity under common control for engineering studies undertaken on its behalf by the Group and US$5,091,000 relating to unpaid proceeds on disposal of Vostok Ruda (note 37)

The Group's exposure to credit and currency risks and impairment losses are disclosed in note 42

The movement in the allowance for uncollectability in the year was

| US$000 | As at 31 12 07 | As at 31 12 06 |
|---|---|---|
| Opening balance | **65** | 507 |
| Utilisation | **–** | (625) |
| Arising in the year | **336** | 183 |
| Reversal | **–** | – |
| Closing balance | **401** | 65 |

### Note 25: Prepayments and other current assets

As at at 31 December 2007 prepayments and other current assets comprised

| US$000 | As at 31 12 07 | As at 31 12 06 |
|---|---|---|
| Prepayments to suppliers | | |
| Electricity and gas | **3,419** | 4,502 |
| Materials and spare parts | **1,587** | 1,753 |
| Services | **2,574** | 2,607 |
| Loan provided to associate | **1,000** | – |
| Accounts receivable and prepaid expenses | **811** | 7,996 |
| Other | **1,382** | 280 |
| Allowance for uncollectability | **–** | (20) |
| | **10,773** | 17,118 |

In 2006 accounts receivable and prepaid expenses included IPO costs of US$7,767,000

### Note 26: Other taxes recoverable and prepaid

As at 31 December taxes recoverable and prepaid comprised

| US$000 | As at 31 12 07 | As at 31 12 06 |
|---|---|---|
| VAT receivable | **52,037** | 42,129 |
| Other taxes prepaid | **325** | 360 |
| | **52,362** | 42,489 |

The VAT receivable is as a result of zero rate VAT exports made from Ukraine which is recoverable under Ukrainian tax legislation

# Notes to the consolidated financial information continued

### Note 27 Short term deposits with banks

As at 31 December 2007 interest bearing term deposits with a maturity term of less than one year comprised

| US$000 | As at 31 12 07 | As at 31 12 06 |
|---|---|---|
| Short term deposits held with related parties | – | 7,941 |
| Other banks | – | 1,070 |
| Interest accrued with related parties | – | 2,032 |
| | – | 11,043 |

### Note 28. Cash and cash equivalents

| US$000 | As at 31 12 07 | As at 31 12 06 |
|---|---|---|
| Cash at bank | **78,236** | 14,718 |
| Cash held with related parties | **8,727** | 1,515 |
| Petty cash | **3** | 3 |
| | **86,966** | 16,236 |

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 42

### Note 29 Share capital and reserves

| | US$000 | Number of shares |
|---|---|---|
| Balance as at 31 December 2006 | – | 2 |
| Issue of new shares on 21 May 2007 | 99 | 49,998 |
| Subdivision of shares | – | 450,000 |
| Issue of new shares on 24 May 2007 | 105,516 | 533,043,489 |
| Initial public offering on 15 June 2007 | 14,434 | 72,527,361 |
| Issue of new shares on 25 June 2007 | 1,579 | 7,897,016 |
| **Balance as at 31 December 2007** | **121,628** | **613,967,866** |

Share capital represents the nominal value on issue of the Company's equity share capital, comprising £0 10 Ordinary Shares

At 31 December 2006 the authorised and fully paid share capital was two Ordinary Shares at a par value of £1 paid for in cash, resulting in share capital of US$4

On 21 May 2007 Ferrexpo plc allotted and issued 49,998 ordinary shares in the Company at par value of £1 each (US$98,620) Following this allotment, Ferrexpo plc's total issued and authorised share capital was subdivided into 500,000 Ordinary Shares
The Company's authorised share capital was subsequently increased to £60,050,000 divided into 600,500,000 Ordinary Shares

On 24 May 2007, Ferrexpo plc allotted and issued 533,043,489 Ordinary Shares (£53,304,349 (US$105,515,959)) to Fevamotinico Sàrl in exchange for 129,944,923 registered shares of CHF1 each in the capital of Ferrexpo AG Pursuant to such transaction, Ferrexpo plc became the sole shareholder of Ferrexpo AG

As this transaction involved the combination of businesses under common control, the pooling of interests method of accounting has been applied in the presentation of the consolidated financial statements for the year ended 31 December 2007 and 31 December 2006, which present the results of the Group as if the Ferrexpo plc had always been the parent company of the Group

On 15 June 2007, the Company's Ordinary Shares were admitted to the Official List of the Financial Services Authority and to trading on the London Stock Exchange The global offer comprised 152,097,932 Ordinary Shares at a price of £1 40, of which 72,527,361 new Ordinary Shares were issued by the Company (US$14,433,743) and 79,570,571 were Ordinary Shares sold by the existing shareholder Gross proceeds of £101,538,305 (US$202,072,000) were received by the Company following the issue of the new Ordinary Shares

The authorised and fully paid share capital of Ferrexpo plc at 31 December 2007 was 613,967,866 Ordinary Shares paid for in cash, resulting in share capital of US$121,627,585 per the balance sheet

**Share premium**
Share premium represents the premium paid by subscribers to the share capital issues, net of costs directly attributable to the share issue

**Employee benefit trust shares**
Treasury shares were originally bought back by Ferroxpo AG and then subsequently transferred to the employee benefit trust

On 25 June 2007 Ferrexpo plc allotted and issued 7,897,016 Ordinary Shares (US$1,579,263) fully paid at a premium of £1 75 to the Ferrexpo AG Listing Bonus Trust in exchange for 2,000,000 shares of CHF1 each in the share capital of Ferrexpo AG, representing the treasury shares held by Ferrexpo AG, setting up an employee benefit trust reserve The reserve is used to satisfy future grants of shares in connection with the listing bonus, as well as future senior management incentivisation schemes

**Uniting of interest reserve**
The uniting of interest reserve represents the difference between the initial investment by Ferrexpo AG in Ferrexpo Poltava GOK Corporation to gain control of the subsidiary in 2005 and the net assets acquired, which under the pooling of interests method of accounting are consolidated at their historic cost, less minority interests

The pooling of interests method of accounting is only applicable on acquisition of control of a subsidiary and therefore has not been applied in accounting for the increase in Ferrexpo AG's stake in Ferrexpo Poltava GOK Corporation in 2006 from 60 3% to 85 9% as control had already passed These subsequent increases in the stake have been accounted for using the parent extension concept method of accounting as described in the accounting policy section

**Revaluation reserve**
The revaluation reserve is used to record increases in the fair value of land and buildings, and decreases to the extent that such a decrease relates to an increase on the same asset previously recognised in equity

**Net unrealised gains reserve**
This reserve records fair value changes on available-for-sale investments

**Note 30 Shares redemption liability**
In October 2003, JSC Poltava GOK sold 15% of its shares to DCM Decometal International Trading GmbH ('DCM') subject to a deferred obligation to repurchase these shares at a fixed price of US$11 0m, payable in two instalments on 20 November 2008 and 20 December 2008 The shares redemption liability represents the present value in respect of this contractual obligation The movement in the shares redemption liability comprised

| | US$000 |
|---|---|
| Balance as at 31 December 2005 | 8,182 |
| Interest expense | 880 |
| Balance as at 31 December 2006 | 9,062 |
| Interest expense | 974 |
| **Balance as at 31 December 2007** | **10,036** |

The DCM shares of 15% have been diluted, as a result of capital increases by Ferrexpo Poltava GOK Corporation in which DCM did not participate, to 10 6% as at 31 December 2007

**Note 31 Interest bearing loans and borrowings**
This note provides information about the contractual terms of the Group's interest bearing loans and borrowings, which are measured at amortised cost For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 42

| US$000 | As at 31 12 07 | As at 31 12 06 |
|---|---|---|
| **Current** | | |
| Ukrainian banks | **738** | 73,781 |
| Other banks | **53,532** | – |
| Other entities | **–** | 7,411 |
| Promissory notes | **253** | – |
| Interest accrued | **14** | 51 |
| **Total current borrowings** | **54,537** | 81,243 |
| **Non-current** | | |
| Ukrainian banks | **2,578** | 43,708 |
| Other banks | **143,430** | 161,024 |
| Promissory notes | **83** | – |
| **Total non-current borrowings** | **146,091** | 204,732 |
| **Total interest bearing borrowings** | **200,628** | 285,975 |

# Notes to the consolidated financial information continued

**Note 31: Interest bearing loans and borrowings** continued
As at 31 December 2007 the Ukrainian bank loans are secured by property, plant and equipment with a carrying amount of US$114,388,000 (2006 US$127,872,000) and finished goods with a carrying amount of US$nil (2006 US$1,215,000) Secured Ukrainian property, plant and equipment includes pellet production equipment, locomotives, mine transport equipment, excavators and crushing equipment Non-Ukraine bank loans are secured by rights to proceeds from future export sales of US$584,218,303 (2006 US$519,794,000)

As at 31 December 2007 the Group's major bank debt facility was a US$335,000,000 pre-export finance facility with an unutilised amount of US$135,000,000

The term loan and revolving credit facilities are guaranteed and secured Ferrexpo AG has assigned the rights to revenue from certain sales contracts and Ferrexpo Poltava GOK Corporation has assigned all of its rights for 10 export contracts for the pellet sales in 2008 In addition the Group has also pledged its bank account into which all proceeds from the sale of certain iron ore pellet contracts are received Ferrexpo has pledged all its rights under certain contacts for the sale of iron ore pellets and its rights under certain related credit support documents

**Borrowings from Finance and Credit Bank**
Included in the Ukrainian bank loans are interest bearing loans, denominated in USD and UAH, from Finance and Credit Bank, a related party (note 37), with a carrying value of US$nil as at 31 December 2007 (2006 US$7,200,000)

**Note 32. Trade and other payables**
As at 31 December 2007 trade and other payables comprised

| US$000 | As at 31 12 07 | As at 31 12 06 |
|---|---|---|
| **Current trade payables** | | |
| Due for equipment | **1,664** | 9,300 |
| Materials and services | **21,108** | 9,279 |
| Letter of credit exercised by the bank | **218** | 2,178 |
| Dividends payable | **1,197** | 641 |
| Other | **940** | 94 |
| **Trade and other payables, current** | **25,127** | 21,492 |
| **Non-current payables** | | |
| Due for equipment | **2,569** | 10,462 |
| Other | **14** | 22 |
| **Trade and other payables, non-current** | **2,583** | 10,484 |

Current trade and other payables at 31 December 2007 includes US$3,284,000 (2006 US$2,485,000) due to related parties

The Group's exposure to currency and liquidity risk relating to trade and other payables is disclosed in note 42

**Note 33 Defined benefit pension liability**
**Ukrainian defined benefit plan**
The production companies of the Group have a legal obligation to compensate the Ukrainian state pension fund for additional pensions paid to certain categories of the employees and former employees who are eligible for early retirement benefits The average age at which employees become eligible to receive benefits is 56

In 2007 this defined benefit plan covered 4,098 people (2006 4,317 people)

There are no defined benefit plan assets

In addition, the Group has a legal obligation to its employees (in the form of a collective agreement) to make a one-off payment on retirement to employees with a long term of service

**Swiss defined benefit plan**
In the year we recognised a defined benefit liability in Switzerland which was previously deemed immaterial to disclose With the executive management function moving to Switzerland and the expansion of the head office function this pension liability has now been evaluated and recognised in the year The 2006 total balance does not include any items relating to the Swiss scheme

In 2007 this defined benefit plan covered 18 people (2006 9 people)

Changes in the net present value of the defined benefit obligation are as follows

| US$000 | Swiss scheme | Ukrainian scheme | Total as at 31 12 07 | As at 31 12 06 |
|---|---|---|---|---|
| Opening defined benefit obligation | – | 15,446 | 15,446 | 13,538 |
| Recognition of plan liability | 1,096 | – | 1,096 | – |
| Current service cost | 459 | 1,994 | 2,453 | 1,894 |
| Interest cost | 45 | 1,445 | 1,490 | 1,269 |
| Contribution by plan participants | 302 | – | 302 | – |
| Benefits paid | (311) | (1,972) | (2,283) | (1,681) |
| Actuarial loss | 56 | 1,940 | 1,996 | 659 |
| Scheme transfer on disposal of subsidiary | – | – | – | (233) |
| **Closing defined benefit obligation** | **1,647** | **18,853** | **20,500** | **15,446** |
| Opening assets | – | – | – | – |
| Recognition of plan assets | 832 | – | 832 | – |
| Expected return on plan assets | 27 | – | 27 | – |
| Employer contribution | 291 | – | 291 | – |
| Contribution by plan participants | 302 | – | 302 | – |
| Benefits paid | (311) | – | (311) | – |
| Actuarial loss | (102) | – | (102) | – |
| **Closing balance** | **1,039** | **–** | **1,039** | **–** |
| **Net funded status** | **608** | **18,853** | **19,461** | **15,446** |
| **Unrecognised actuarial losses** | **(417)** | **(2,875)** | **(3,292)** | **(945)** |
| **Defined benefit liability at the end of the year** | **191** | **15,978** | **16,169** | **14,501** |
| **Benefit expense** | | | | |
| Current service cost | 459 | 1,994 | 2,453 | 1,894 |
| Interest cost | 45 | 1,445 | 1,490 | 1,269 |
| Amortisation of actuarial loss | 17 | – | 17 | – |
| Expected return on plan assets | (27) | – | (27) | – |
| | **494** | **3,439** | **3,933** | **3,163** |
| **Benefit liability** | | | | |
| **Balance at beginning of the year** | **–** | **14,501** | **14,501** | **13,252** |
| Recognition of liability | (11) | – | (11) | – |
| Benefits expense | 494 | 3,439 | 3,933 | 3,163 |
| Benefits paid | – | (1,972) | (1,972) | (1,681) |
| Employer contribution | (291) | – | (291) | – |
| Scheme transfer on disposal of subsidiary | – | – | – | (233) |
| Foreign exchange translation adjustment | (1) | 10 | 9 | – |
| **Balance at the end of the year** | **191** | **15,978** | **16,169** | **14,501** |
| **Experience adjustments arising on plan liabilities** | **417** | **1,930** | **2,347** | **659** |

The asset allocation of the plan assets at fair value of the Swiss scheme is as follows

| US$000 | | As at 31 12 07 | As at 31 12 06 |
|---|---|---|---|
| Equities | 17 6% | **183** | – |
| Bonds | 53 7% | **558** | – |
| Properties | 13 8% | **143** | – |
| Other | 14 9% | **155** | – |
| | | **1,039** | – |

# Notes to the consolidated financial information continued

**Note 33 Defined benefit pension liability** continued
The principal assumptions used in determining the defined benefit obligation are shown below

| | Year ended 31 12 07 | | Year ended 31 12 06 |
|---|---|---|---|
| | **Swiss scheme** | **Ukrainian scheme** | Ukrainian scheme |
| Discount rate | **3 25%** | **10 0%** | 10 0% |
| Retail price inflation | **0 7%** | **6 5%** | 6 5% |
| Future benefit increase | **1 5%** | **7 6%** | 8 5% |
| Female mortality rate (years) | **85 50** | **74 74** | 74 74 |
| Male mortality rate (years) | **82 90** | **63 46** | 63 46 |

The experience gains and losses for the year ended 31 December 2007 were

| | **2007** | 2006 | 2005 | 2004 |
|---|---|---|---|---|
| Unrecognised gain/(loss) at start of year | **(945)** | (286) | (5) | 376 |
| Loss on experience on the liability | **(2,347)** | (659) | (855) | (380) |
| Gain on change in assumptions | **–** | – | 572 | – |
| Foreign exchange translation adjustment | **–** | – | 2 | (1) |
| **Unrecognised loss at the end of year** | **(3,292)** | (945) | (286) | (5) |

**Note 34 Provision for site restoration**
The costs of decommissioning open pit mines are based on the amounts determined by third party experts on the basis of Ukrainian legislation The provision represents the discounted value of the estimated costs to decommission and restore the mines at the dates the deposits are expected to be depleted The present value of the provision has been calculated using a discount rate of 15% per year (2006 11%) The liability becomes payable at the end of the useful life of the mine Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning and reclamation alternatives and the levels of discount and inflation rates The addition in the year represents a re-evaluation of the liability in 2007

| | US$000 |
|---|---|
| Balance as at 31 December 2005 | 339 |
| Unwind of the discount | 63 |
| Balance as at 31 December 2006 | 402 |
| Unwind of the discount | 75 |
| Arising during the year | 1,269 |
| Balance as at 31 December 2007 | 1,746 |

**Note 35 Deferred income tax**
Deferred income tax assets and liabilities at 31 December 2007 relate to the following

| US$000 | As at 31 12 07 | As at 31 12 06 |
|---|---|---|
| Interest bearing loans and borrowings | – | 6 |
| Trade and other receivables | **587** | 1,756 |
| Trade and other payables and advance receivables | **57** | 1,454 |
| Property, plant and equipment | **1,819** | – |
| IPO costs netted against share premium | **5,179** | – |
| Tax losses recognised | **1,564** | – |
| Accrued expenses | **1,557** | 591 |
| Defined benefit liability | **552** | – |
| Provision for site restoration | **436** | 101 |
| Other provisions and accruals | **72** | – |
| Other items | **35** | 25 |
| Deferred tax asset | **11,858** | 3,933 |
| Thereof netted against deferred tax liabilities | **(3,751)** | (3,933) |
| Deferred tax asset per the balance sheet | **8,107** | – |
| Inventories | **(1,232)** | (2,609) |
| Property, plant and equipment | **(295)** | (2,508) |
| Exploration rights | **(154)** | (71) |
| Advances and other current assets | **(1,803)** | (1,266) |
| Loans and borrowings | **(507)** | (14) |
| Trade and other payables and advance receivables | **(785)** | – |
| Deferred tax liability | **(4,776)** | (6,468) |
| Thereof netted against deferred tax assets | **3,751** | 3,933 |
| Deferred tax liability per the balance sheet | **(1,025)** | (2,535) |
| Net deferred tax asset/(liability) | **7,082** | (2,535) |

The movement in the deferred income tax liabilities and (assets) are as follows

| US$000 | 2007 | 2006 |
|---|---|---|
| Beginning of the year | **2,535** | 6,987 |
| Income statement charge | **(4,438)** | (1,613) |
| Transaction costs in share premium account | **(5,179)** | – |
| Disposal of subsidiary | **–** | (2,839) |
| **End of the year** | **(7,082)** | 2,535 |

**Deferred tax assets not recognised**
Deferred tax assets have not been recognised in respect of the defined benefit liability

Unrecognised deferred tax assets comprised

| US$000 | As at 31 12 07 | As at 31 12 06 |
|---|---|---|
| Defined benefit liabilities | **3,478** | 3,625 |

# Notes to the consolidated financial information continued

## Note 36 Accrued liabilities and deferred income

As at 31 December 2007 accrued liabilities and deferred income comprised

| US$000 | As at 31 12 07 | As at 31 12 06 |
|---|---|---|
| Accrued expenses | **2,162** | 2,101 |
| Accrued interest payable | **15** | 98 |
| Accrued employee costs | **11,386** | 10,802 |
| Advances from customers | **249** | 4,985 |
| | **13,812** | 17,986 |

## Note 37: Related party disclosure

During the periods presented the Group entered into various transactions with entities under common control of the majority owner of the Group, Kostyantyn Zhevago The Group also, in the normal course of business, entered into various sales, purchase and service transactions with associates and other related parties These transactions were undertaken in a transparent manner at arm's length

Management considers that the Group has appropriate procedures in place to identify and properly disclose transactions with the related parties and has disclosed all of the relationships identified and which it deemed to be significant The significant balances with related parties are disclosed in the relevant note to the accounts The significant related party transactions undertaken by the Group during the periods presented are disclosed below

| | Year ended 31 12 07 | | Year ended 31 12 06 | |
|---|---|---|---|---|
| US$000 | Entities under common control | Other related parties | Entities under common control | Other related parties |
| Iron ore pellet sales | **–** | **–** | 2,825 | – |
| Other sales | **3,013** | **4,336** | 407 | 1,855 |
| Purchase of materials | **18,417** | **13,731** | 5,002 | 11,198 |
| Purchase of services | **2,460** | **767** | 1,821 | 3,059 |
| General and administrative expenses | **361** | **19** | – | – |
| Selling and distribution | **1,801** | **1,797** | – | – |
| Other expenses | **202** | **76** | – | – |
| Finance income | **415** | **212** | 1,303 | – |
| Finance expense | **141** | **–** | 1,996 | – |
| Sale of property, plant and equipment | **690** | **–** | 280 | – |
| Purchase of property, plant and equipment | **5,450** | **62** | 1,481 | – |

Additionally the Group incurred US$1,555,000 of distribution costs with its associate, TIS-Ruda (2006 US$nil)

### Investment activity

During the year ended 31 December 2007 the Group acquired 9 91% of the voting rights in OJSC Stahanov from an entity under common control More details of this transaction are disclosed in note 21

During the year ended 31 December 2006 the Group acquired a further 25 6% of the voting rights in Ferrexpo Poltava GOK Corporation for a consideration of US$238,986,000 from entities under common control

In 2006, the Group acquired the minority interest of United Energy Company LLC from an entity under common control for consideration of US$3,609,000 increasing the Group's interest in the net assets to 100%

### Disposals relating to Vostok Ruda

In 2007 the Group sold a 6 2% interest in Vostock Ruda, an available-for-sale investment, to entities under common control for consideration of US$5,613,000, resulting in a gain on disposal of US$4,714,000 The consideration was received in full during 2007

In 2006 the Group sold a 90 6% interest in its then subsidiary Vostock Ruda to entities under common control for consideration of US$9,474,000, resulting in a loss on disposal of US$3,524,000 As at 31 December 2006, of the total consideration, US$4,383,000 was received during 2006 and US$5,091,000 remained unpaid and is included in the comparative of current assets within other receivables (note 24) As part of the disposal of Vostock Ruda loans totalling US$19,347,741 to entities under common control were disposed of

### Distributions under 50/50 tax rulings

Prior to the listing on 15 June 2007 the Group made distributions totalling US$6,569,000 (31 December 2006 US$21,190,000) under the 50/50 Swiss tax ruling to the ultimate beneficial owner The ruling allows for a qualifying company to distribute a percentage of its profits free of tax On listing the Group no longer qualifies for this tax treatment

### Share buyback

During the year ended 31 December 2007, Ferrexpo AG entered into a share buyback arrangement with its then shareholder, Collaton Limited, under which Ferrexpo AG repurchased 5,178,877 shares of CHF1 each in exchange for cash in a number of transactions which took place between 13 February and 18 May 2007 The total consideration paid under the arrangement was US$64,055,329

**Banking transactions**
The financing of the Group is principally undertaken with third party financial institutions outside of Ukraine The Group also operates transactional banking arrangements with a financial institution in Ukraine under common control which were undertaken in a transparent manner at arm's length

**Ferrexpo AG share issue**
On 24 August 2006 Ferrexpo AG issued 135,123,800 Ordinary Shares with a nominal value of CHF1 to an entity under common control at par for cash consideration of US$109,329,000

**Acquisition of minority interest in Ferrexpo Poltava GOK Corporation**
During 2006 Ferrexpo AG acquired a further 25 6% of the voting rights of Ferrexpo Poltava GOK Corporation for consideration of US$238,986,000 of which US$231,945,000 was settled in cash during 2006

**Purchase and sale of property, plant and equipment**
During 2007 land and buildings not used by the Group were disposed of to an entity under common control for US$690,000

The Group purchased 110 rail cars from OJSC Stahanov for US$4,965,000 during the year

Remuneration and benefits received by Directors is disclosed in the Directors' remuneration report Remuneration and benefits of other key management personnel is given in note 40

### Note 38 Reconciliation of profit before income tax to net cash flow from operating activities

| US$000 | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|
| Profit before income tax | **160,760** | 80,737 |
| Adjustments for | | |
| Depreciation of property, plant and equipment and amortisation of intangible assets | **28,265** | 28,563 |
| Interest expense | **24,488** | 27,425 |
| Interest income | **(3,242)** | (2,326) |
| Dividend income | **–** | (17) |
| Movement in allowance for doubtful receivables | **336** | 183 |
| Loss on disposal of property, plant and equipment | **–** | 601 |
| Write-off and impairment losses | **1,568** | 2,021 |
| Site restoration provision | **1,269** | – |
| (Gains)/losses on disposal of investments available for sale | **(4,714)** | 31 |
| Losses from disposal of subsidiaries and associates | **–** | 3,524 |
| Initial public offering costs | **34,004** | – |
| Share of income from associates | **(687)** | – |
| Defined benefit plan expense | **3,915** | 3,163 |
| Foreign exchange loss | **3,467** | 645 |
| **Operating cash flow before working capital changes** | **249,429** | 144,550 |
| Changes in working capital | | |
| Decrease/(increase) in trade accounts receivable and other receivables | **13,951** | (38,658) |
| (Increase)/decrease in inventories | **(7,840)** | 9,237 |
| Increase/(decrease) in trade and other accounts payable | **6,534** | (2,467) |
| (Increase)/decrease in other taxes receivable | **(14,411)** | – |
| **Operating cash flows after working capital changes** | **247,663** | 112,662 |
| Interest paid | **(24,525)** | (28,119) |
| Income tax paid | **(32,018)** | (14,562) |
| Post employment benefits paid | **(2,274)** | (1,681) |
| **Net cash flows from operating activities** | **188,846** | 68,300 |

### Note 39 Net financial indebtedness

| US$000 | Notes | As at 31 12 07 | As at 31 12 06 |
|---|---|---|---|
| Cash and cash equivalents | 28 | **86,966** | 16,236 |
| Term deposits | 27 | **–** | 11,043 |
| Current borrowings | 31 | **(54,537)** | (81,243) |
| Non-current borrowings | 31 | **(146,091)** | (204,732) |
| Short term due for equipment | 32 | **(1,664)** | (9,300) |
| Long term due for equipment | 32 | **(2,569)** | (10,462) |
| **Net financial indebtedness** | | **(117,895)** | (278,458) |

# Notes to the consolidated financial information continued

**Note 39 Net financial indebtedness** continued
Net financial indebtedness as defined by the Group comprises cash and cash equivalents, term deposits, interest bearing loans and borrowings and amounts payable for equipment

Payables for equipment comprised balances due to foreign suppliers for mining equipment denominated in US dollar and euros which are interest bearing

**Note 40 Employee benefits expense**

| US$000 | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|
| Wages and salaries | **65,885** | 56,178 |
| Social security costs | **17,369** | 18,373 |
| Post employment benefits | **2,417** | 1,916 |
| Other employee costs | **5,175** | 4,147 |
| | **90,846** | 80,614 |

Wages and salary costs of US$65,885,000 includes US$19,556,000 of costs included within initial public offering costs Social security costs of US$17,369,000 includes US$1,863,000 of social security costs included within initial public offering costs

**Average number of employees**

| Number | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|
| Production | **7,796** | 8,541 |
| Marketing and distribution | **185** | 185 |
| Administration | **2,131** | 2,624 |
| | **10,112** | 11,350 |

Compensation for key management was as follows

| US$000 | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|
| Wages and salaries | **15,589** | 1,420 |
| Social security costs | **2,236** | – |
| Other employee costs | **8,721** | 3,508 |
| | **26,546** | 4,928 |

**Note 41 Commitments and Contingencies**
**Commitments**

| US$000 | As at 31 12 07 | As at 31 12 06 |
|---|---|---|
| Capital commitments on purchase of property, plant and equipment | **60,904** | 11,111 |
| Guarantees provided | **335,000** | 12,185 |

**Taxation**
Ukrainian legislation and regulations regarding taxation and custom regulations continue to evolve Legislation and regulations are not always clearly written and are subject to varying interpretations and inconsistent enforcement by local, regional and national authorities, and other governmental bodies Instances of inconsistent interpretations are not unusual The uncertainty of application and the evolution of Ukrainian tax laws, including those affecting cross border transactions, create a risk of additional tax payments having to be made by the Group, which could have a material effect on the Group's financial position and results of operations The Group does not believe that these risks are any more significant than those of similar groups with operations in Ukraine Management's assessment of these risks remains unchanged from that disclosed at 31 December 2006

Management is of the opinion that the Group has applied an appropriate interpretation of relevant legislation, has complied with all regulations and paid or accrued all taxes and withholdings as applicable However, due to the complexities of the local tax legislation where the Group operates it is possible that the tax basis of certain transactions undertaken by the Group may be challenged, which may mean that the Group incurs additional tax liabilities, the quantum of which is not practical to determine

## Note 42 Financial instruments

### Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure The maximum exposure to credit risk at the reporting date was

| US$000 | As at 31 12 07 | As at 31 12 06 |
|---|---|---|
| Cash and term deposits | **86,966** | 27,279 |
| Trade receivables | **43,575** | 58,284 |
| VAT receivable | **52,037** | 42,129 |
| Other financial assets | **10,650** | 1,424 |
| Available-for-sale financial assets | **50,075** | 36,092 |
| **Total maximum exposure to credit risk** | **243,303** | 165,208 |

The Group's most significant customer accounts for US$12,437,000 (2006 US$7,845,000)

### Impairment losses

The ageing of trade and VAT receivables at the reporting date was

| | As at 31 December 2007 | | | | | |
|---|---|---|---|---|---|---|
| US$000 | Current debtors | 1 to 3 months | 3 to 6 months | 6 to 12 months | Greater than 12 months | Total |
| Trade and other receivables | **33,694** | **8,453** | **741** | **738** | **350** | **43,976** |
| Associated Impairment Provision | **–** | **–** | **(66)** | **(90)** | **(245)** | **(401)** |
| | **33,694** | **8,453** | **675** | **648** | **105** | **43,575** |
| **VAT receivable** | **37,774** | **–** | **–** | **13,555** | **708** | **52,037** |

| | As at 31 December 2006 | | | | | |
|---|---|---|---|---|---|---|
| | Current debtors | 1 to 3 months | 3 to 6 months | 6 to 12 months | Greater than 12 months | Total |
| Trade and other receivables | 41,197 | 16,421 | 683 | 24 | 24 | 58,349 |
| Associated Impairment Provision | – | – | (48) | (9) | (8) | (65) |
| | 41,197 | 16,421 | 635 | 15 | 16 | 58,284 |
| **VAT receivable** | 27,263 | – | – | 14,866 | – | 42,129 |

### Liquidity risk

The following are the contractual maturities of financial liabilities by interest type

| | As at 31 December 2007 | | | |
|---|---|---|---|---|
| US$000 | Less than 1 year | Between 1 to 2 years | Between 2 to 5 years | Total |
| **Interest bearing** | | | | |
| Ukrainian banks (fixed rate interest) | **738** | **738** | **1,840** | **3,316** |
| Other banks (floating rate interest) | **53,532** | **71,715** | **71,715** | **196,962** |
| Related party banks | **–** | **–** | **–** | **–** |
| Promissory notes (fixed rate interest) | **253** | **83** | **–** | **336** |
| Due for equipment (fixed rate interest) | **1,664** | **2,569** | **–** | **4,233** |
| Interest accrued | **14** | **–** | **–** | **14** |
| **Non-interest bearing** | | | | |
| Trade and other payables | **23,463** | **14** | **–** | **23,477** |
| Share redemption liability | **10,036** | **–** | **–** | **10,036** |
| Other financial liabilities | **7,229** | **–** | **–** | **7,229** |
| **Total cash flow maturity** | **96,929** | **75,119** | **73,555** | **245,603** |

# Notes to the consolidated financial information continued

## Note 42 Financial instruments continued

| US$000 | As at 31 December 2006 Less than 1 year | Between 1 to 2 years | Between 2 to 5 years | Total |
|---|---|---|---|---|
| **Interest bearing** | | | | |
| Ukrainian banks (fixed rate interest) | 73,781 | 30,175 | 6,333 | 110,289 |
| Other banks (floating rate interest) | 7,411 | 36,948 | 124,076 | 168,435 |
| Related party banks (fixed rate interest) | – | – | 7,200 | 7,200 |
| Promissory notes (fixed rate interest) | – | – | – | – |
| Due for equipment (fixed rate interest) | 9,300 | 7,259 | 3,203 | 19,762 |
| Interest accrued | 51 | – | – | 51 |
| **Non-interest bearing** | | | | |
| Trade and other payables | 12,192 | 22 | – | 12,214 |
| Share redemption liability | – | 9,062 | – | 9,062 |
| Other financial liabilities | 9,132 | – | – | 9,132 |
| **Total cash flow maturity** | 111,867 | 83,466 | 140,812 | 336,145 |

**Currency risk**

The Group's exposure to foreign currency risk was as follows based on notional amounts

| US$000 | As at 31 December 2007 Ukraine hyrvna | US dollar | Euro | Russian rouble | Swiss franc | Other currencies | Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | **121,220** | **121,219** | **–** | **29** | **308** | **527** | **243,303** |
| **Financial liabilities** | | | | | | | |
| Ukrainian banks | – | (3,316) | – | – | – | – | (3,316) |
| Other banks | – | (196,962) | – | – | – | – | (196,962) |
| Related party banks | – | – | – | – | – | – | – |
| Promissory notes | (336) | – | – | – | – | – | (336) |
| Interest accrued | – | (14) | – | – | – | – | (14) |
| **Borrowings** | **(336)** | **(200,292)** | **–** | **–** | **–** | **–** | **(200,628)** |
| Due for equipment | – | (690) | (3,543) | – | – | – | (4,233) |
| Trade and other payables | (12,393) | (6,266) | (3,383) | – | (589) | (846) | (23,477) |
| Share redemption liability | – | (10,036) | – | – | – | – | (10,036) |
| Other financial liabilities | (5,221) | – | – | – | (2,008) | – | (7,229) |
| **Total financial liabilities** | **(17,950)** | **(217,284)** | **(6,926)** | **–** | **(2,597)** | **(846)** | **(245,603)** |
| **Net financial assets/(liabilities)** | **103,270** | **(96,065)** | **(6,926)** | **29** | **(2,289)** | **(319)** | **(2,300)** |

| US$000 | As at 31 December 2006 Ukraine hyrvna | US dollar | Euro | Russian rouble | Swiss franc | Other currencies | Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | 114,281 | 50,693 | 4 | – | 173 | 57 | 165,208 |
| **Financial liabilities** | | | | | | | |
| Ukrainian banks | – | (109,564) | (725) | – | – | – | (110,289) |
| Other banks | – | (168,435) | – | – | – | – | (168,435) |
| Related party banks | – | (7,200) | – | – | – | – | (7,200) |
| Promissory notes | – | – | – | – | – | – | – |
| Interest accrued | – | (51) | – | – | – | – | (51) |
| **Borrowings** | – | (285,250) | (725) | – | – | – | (285,975) |
| Due for equipment | – | (16,771) | (2,991) | – | – | – | (19,762) |
| Trade and other payables | (5,625) | (5,280) | (575) | – | (93) | (641) | (12,214) |
| Shares redemption liability | – | (9,062) | – | – | – | – | (9,062) |
| Other financial liabilities | (7,166) | (1,527) | – | – | (35) | (404) | (9,132) |
| **Total financial liabilities** | (12,791) | (317,890) | (4,291) | – | (128) | (1,045) | (336,145) |
| **Net financial assets/(liabilities)** | 101,490 | (267,197) | (4,287) | – | 45 | (988) | (170,937) |

**Interest rate risk**

Profile

At the reporting date the interest rate profile of the Group's interest bearing financial instruments was

| | As at 31 December 2007 | | | | |
|---|---|---|---|---|---|
| US$000 | Floating interest | Fixed interest | Equity | Other non-interest bearing | Total |
| **Financial assets** | | | | | |
| Cash and term deposits | **78,247** | **8,702** | **–** | **17** | **86,966** |
| Available-for-sale investments | **102** | **–** | **49,973** | **–** | **50,075** |
| Trade receivables | **–** | **–** | **–** | **43,575** | **43,575** |
| VAT recoverable | **–** | **–** | **–** | **52,037** | **52,037** |
| Other financial assets | **5,304** | **–** | **–** | **5,346** | **10,650** |
| **Total financial assets** | **83,653** | **8,702** | **49,973** | **100,975** | **243,303** |
| **Weighted average interest rate (%)** | **5 0** | **1 5** | | | |
| **Financial liabilities** | | | | | |
| Borrowings | **196,045** | **4,247** | **–** | **336** | **200,628** |
| Trade and other financial liabilities | **4,233** | **–** | **–** | **40,742** | **44,975** |
| **Total financial liability exposure** | **200,278** | **4,247** | **–** | **41,078** | **245,603** |
| **Weighted average interest rate (%)** | **7 6** | **8 2** | | | |

| | As at 31 December 2006 | | | | |
|---|---|---|---|---|---|
| US$000 | Floating interest | Fixed interest | Equity | Other non-interest bearing | Total |
| **Financial assets** | | | | | |
| Cash and term deposits | 13,639 | 11,516 | – | 2,124 | 27,279 |
| Available-for-sale investments | – | – | 35,995 | 97 | 36,092 |
| Trade receivables | – | – | – | 58,284 | 58,284 |
| VAT recoverable | – | – | – | 42,129 | 42,129 |
| Other financial assets | – | – | – | 1,424 | 1,424 |
| **Total financial assets** | 13,639 | 11,516 | 35,995 | 104,058 | 165,208 |
| **Weighted average interest rate (%)** | 2 0 | 2 0 | | | |
| **Financial liabilities** | | | | | |
| Borrowings | 102,742 | 183,233 | – | – | 285,975 |
| Trade and other financial liabilities | 19,762 | – | – | 30,408 | 50,170 |
| **Total financial liability exposure** | 122,504 | 183,233 | – | 30,408 | 336,145 |
| **Weighted average interest rate (%)** | 8 3 | 9 2 | | | |

The interest rate maturity profile for financial liabilities is shown under the liquidity risk section The interest rate maturity profile for financial assets is all current for both years, except for US$4,000,000 of the floating rate loan to associate which matures between two to five years as at 31 December 2007 (2006 US$nil) and US$14,000 of promissory notes attracting no interest, which matures between one to two years (2006 US$14,000, between two to five years)

# Notes to the consolidated financial information continued

**Note 42 Financial instruments** continued

**Sensitivity analysis**

A 5% strengthening of the US dollar against the following currencies at 31 December 2007 would have increased/(decreased) equity and profit and loss by the amounts shown below This assumes that all other variables, in particular interest rates, remain constant The analysis is performed on the same basis for 2006

| US$000 | As at 31 12 07 | As at 31 12 06 |
|---|---|---|
| UAH | **(4,673)** | (3,467) |
| EUR | **(5,262)** | 215 |
| | **(9,935)** | (3,252) |

A 5% weakening of the US dollar against the above currencies would have an equal but opposite effect to the amounts shown above, on the basis that all the other variables remain constant

**Fair value sensitivity analysis for fixed rate instruments**

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, and the Group does not hold any derivatives (e g interest rate swaps) Therefore a change in interest rates at the reporting date would not affect profit or loss

**Cash flow sensitivity for fixed and variable rate instruments**

An increase of 100 basis points ('bp') in interest rates would have increased/(decreased) equity and profit or loss by the amounts shown below This analysis assumes that all other variables, in particular foreign currency rates, remain constant The analysis is performed on the same basis for 2006

| US$000 | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|
| Net finance charge | **(3,182)** | (3,391) |

A decrease of 100 bp would have an equal but opposite effect to the amounts shown above, on the basis that all the other variables remain constant

Set out below is the comparison by category of carrying amounts and fair values of all the Group's financial instruments that are carried in the consolidated balance sheet

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| US$000 | As at 31 12 07 | As at 31 12 06 | As at 31 12 07 | As at 31 12 06 |
| **Financial assets** | | | | |
| Available-for-sale investments | **50,075** | 36,092 | **50,075** | 36,092 |
| Short term deposits with banks | **–** | 11,043 | **–** | 11,043 |
| Cash and cash equivalents | **86,966** | 16,236 | **86,966** | 16,236 |
| **Financial liabilities** | | | | |
| Interest bearing loans and borrowings | **200,628** | 285,975 | **200,628** | 285,975 |

The fair values of interest bearing loans and borrowings are based on the cash flows discounted using market interest rates

The fair values of cash and cash equivalents, trade and other receivables and payables are approximately equal to their carrying amounts due to their short maturity

**Note 43 Share-based payments**

**Listing bonus share award**

Share awards were granted in the year to certain senior management following the successful listing of the Company on the London Stock Exchange in June 2007 A proportion of the award vests immediately with the remainder vesting over a period of up to four years, provided that the individual is still in the employment of the Group on the date of vesting It has been assumed that all awards will vest

The fair value of the awards were determined to be the closing share price on the date of award The weighted average fair value (WAFV) of awards granted was determined at the date of grant to be US$3 33 per share

The unvested portion of the award does not accrue dividends There are no cash settlement alternatives

The expense recognised under the scheme during the year to 31 December 2007 is US$9,124,000 (2006 US$nil), all of which arose from equity-settled share-based payment transactions

| | 2007 WAFV $ | 2006 WAFV $ | 2007 No | 2006 No |
|---|---|---|---|---|
| Beginning of the year | **–** | – | **–** | – |
| Award granted during the year | **3 33** | – | **4,166** | – |
| Vested during the year | **2 92** | – | **(1,763)** | – |
| Outstanding at end of year | **3 63** | – | **2,403** | – |

### Note 44 Operating leases

Non-cancellable operating lease rentals are payable as follows

| US$000 | 2007 | 2006 |
|---|---|---|
| Less than one year | **1,035** | 592 |
| Between one and five years | **3,617** | 3,242 |
| More than five years | **9,092** | 6,403 |
| | **13,744** | 10,237 |

During the year ended 31 December 2007 US$610,000 was recognised as an expense in the income statement in respect of operating leases (2006 US$556,000)

The Group leases land and buildings under operating leases The lease on land typically runs for 49 years, with a lease period of five to 10 years on buildings

### Note 45 Operating profit by function

| US$000 | Notes | Before adjusting items | Adjusting items | Year ended 31 12 07 | Before adjusting items | Adjusting items | Year ended 31 12 06 |
|---|---|---|---|---|---|---|---|
| Revenue | 5 | **698,216** | **–** | **698,216** | 547,310 | – | 547,310 |
| Cost of sales | 6 | **(335,936)** | **–** | **(335,936)** | (296,720) | – | (296,720) |
| Gross profit | | **362,280** | **–** | **362,280** | 250,590 | – | 250,590 |
| Selling and distribution expenses | 7 | **(100,614)** | **–** | **(100,614)** | (86,376) | – | (86,376) |
| General and administrative expenses | 8 | **(44,308)** | **–** | **(44,308)** | (41,140) | – | (41,140) |
| Other income | 9 | **4,844** | **–** | **4,844** | 2,583 | – | 2,583 |
| Other expenses | 10 | **(5,096)** | **(35,572)** | **(40,668)** | (5,078) | (2,205) | (7,283) |
| Operating profit | | **217,106** | **(35,572)** | **181,534** | 120,579 | (2,205) | 118,374 |
| Net loss on disposal of subsidiary | | **–** | **–** | **–** | – | (3,524) | (3,524) |
| Gain on disposal of available-for-sale investment | | **–** | **4,714** | **4,714** | – | – | – |
| Share of gains of associates | 20 | **687** | **–** | **687** | – | – | – |
| Total profit from operations and associates | | **217,793** | **(30,858)** | **186,935** | 120,579 | (5,729) | 114,850 |

Summary of adjusting items

| US$000 | Notes | Year ended 31 12 07 | Year ended 31 12 06 |
|---|---|---|---|
| **Operating adjusting items** | | | |
| Write-offs and impairment losses | 11 | **(1,568)** | (2,205) |
| Initial public offering costs | 13 | **(34,004)** | – |
| | | **(35,572)** | (2,205) |
| **Non-operating adjusting items** | | | |
| Net loss on disposal of subsidiary | 12 | **–** | (3,524) |
| Gain on disposal of available-for-sale investment | 12 | **4,714** | – |
| | | **4,714** | (3,524) |

Adjusting items are defined in note 16

### Note 46 Subsequent events

No material adjusting or non-adjusting events have occurred subsequent to the year end, other than the proposed dividend disclosed in note 16

# Notes to the consolidated financial information continued

## Note 47: Financial statements of the parent company
### a) Balance sheet of the company, Ferrexpo plc

| US$000 | Notes | As at 31 12 07 | As at 31 12 06 |
|---|---|---|---|
| **Assets** | | | |
| Fixed asset investments | 47c | **134,732** | – |
| Deferred income taxes | 47d | **6,743** | – |
| **Total non-current assets** | | **141,475** | – |
| Amounts due from subsidiaries | | **131,817** | – |
| Prepayments and other current assets | | **80** | – |
| Other taxes recoverable and prepaid | | **8** | – |
| Marketable securities | | **102** | – |
| Cash and cash equivalents | | **233** | – |
| **Total current assets** | | **132,240** | – |
| **Total assets** | | **273,715** | – |
| **Equity and liabilities** | | | |
| Share capital | 47b | **121,628** | – |
| Share premium | 47b | **188,566** | – |
| Employee Benefit Trust reserve | 47b | **(20,092)** | – |
| Retained loss | 47b | **(17,401)** | – |
| **Equity attributable to equity shareholders of the parent** | 47b | **272,701** | – |
| Trade and other payables | | **141** | – |
| Accrued liabilities and deferred income | | **749** | – |
| Income taxes payable | | **124** | – |
| **Total liabilities** | | **1,014** | – |
| **Total equity and liabilities** | | **273,715** | – |

The financial statements were approved by the Board of Directors on 8 April 2008

**Mike Oppenheimer**
**Chief Executive**

**Chris Mawe**
**Chief Financial Officer**

**Note 47: Financial statements of the parent company** continued

**b) Statement of changes in equity**

| US$000 | Issued capital | Share premium | Employee Benefit Trust reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **At 31 December 2006** | – | – | – | – | – |
| Profit for the period | – | – | – | (17,401) | (17,401) |
| **Items recognised directly in equity** | | | | | |
| Share issue in parent company | 121,628 | 215,275 | – | – | 336,903 |
| Transaction costs associated with issue of shares | – | (31,888) | – | – | (31,888) |
| Deferred tax on transaction costs | – | 5,179 | – | – | 5,179 |
| Treasury shares issued to Employee Benefit Trust | – | – | (29,216) | – | (29,216) |
| Share-based payment | – | – | 9,124 | – | 9,124 |
| **At 31 December 2007** | 121,628 | 188,566 | (20,092) | (17,401) | 272,701 |

The audit fee in respect of the parent company was US$7,000 (2006 US$nil)

**c) Fixed asset investments**

| US$000 | Investment in subsidiary equity |
|---|---|
| At 31 December 2005 and 2006 | – |
| Additions | 134,732 |
| At 31 December 2007 | 134,732 |

**d) Deferred tax asset**

Deferred income tax assets at 31 December 2007 relate to the following

| US$000 | **Year ended 31 12 07** | Year ended 31 12 06 |
|---|---|---|
| Deferred income tax assets | | |
| Tax loss recognised | **1,564** | – |
| IPO costs | **5,179** | – |
| | **6,743** | – |

**e) Subsequent events**

On 27 February 2008, a dividend of CHF82,000,000 (US$75,423,000) was received by the Company from its wholly owned subsidiary Ferrexpo AG

# Accounting policies

**Basis of preparation**
The parent company financial statements of Ferrexpo plc are presented as required by the Companies Act 1985 and were approved for issue on 8 April 2008 The financial statements are prepared under the historical cost convention and are prepared in accordance with applicable accounting standards No profit and loss account is presented by the Company as permitted by section 230 of the Companies Act 1985

The Company has taken advantage of the exemption in paragraph 2D of FRS 29 'Financial Instruments Disclosures' and has not disclosed information required by that standard, as the Group's consolidated financial statements, in which the Company is included, provide equivalent disclosures for the Group under IFRS 7 Financial Instruments Disclosures

**Deferred tax**
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the exceptions of tax losses, where deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

**Foreign currencies**
The Company's functional currency and presentation currency is US dollars Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined

**Financial assets**
Financial assets are recognised when the Company becomes party to the contracts that give rise to them and are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or as available-for-sale financial assets, as appropriate The Company determines the classification of its financial assets at initial recognition and where allowed and appropriate re-evaluates this designation at each financial year end When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs The Company considers whether a contract contains an embedded derivative when the entity first becomes a party to it The embedded derivatives are separated from the risk contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required The Company has no financial assets classified as available for sale, fair value through profit or loss, held for trading or held to maturity in the current or prior periods All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Company commits to purchase or sell the asset Regular way transactions require delivery of assets within the timeframe generally established by regulation or convention in the marketplace The subsequent measurement of financial assets depends on their classification, as follows

**Loans and receivables**
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available for sale Such assets are carried at amortised cost using the effective interest method if the time value of money is significant Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process

**Impairment of financial assets**
The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired

**Assets carried at amortised cost**
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i e the effective interest rate computed at initial recognition) The carrying amount of the asset is reduced, with the amount of the loss recognised in administration costs If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date

**Derecognition of financial assets and liabilities**
A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss

**Share-based payments**
*Equity-settled transactions*
The cost of equity-settled transactions with employees is measured by reference to the fair value at the date of grant and are recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award Fair value is determined by reference to the quoted closing share price on the day of grant

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described

# Accounting policies

above The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification No reduction is recognised if this difference is negative Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement

**Employee benefit trust reserve**
Ferrexpo plc shares held by the Company are classified in capital and reserves, as 'Employee Benefit Trust reserves' and recognised at cost Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from sale and the original cost taken to revenue reserves No gain or loss is recognised on the purchase, sale issue or cancellation of equity shares

# Glossary

**AGM**
The annual general meeting of the Company to be held on Thursday 15 May 2008

**Audit Committee**
The audit committee of the Company's Board

**BF**
Blast furnace

**BFP**
Blast furnace pellets

**BIP**
Business Improvement Programme

**Board**
The board of directors of the Company

**BOF**
Basic oxygen furnace

**bt**
Billion tonnes

**Capital employed**
The aggregate of equity attributable to shareholders, minority interests and borrowings

**CFR**
Delivery including cost and freight

**CI costs**
Cash costs per tonne of pellets, ex-works, excluding administrative and distribution costs

**CIF**
Delivery including cost, insurance and freight

**CIS**
The Commonwealth of Independent States

**Combined Code**
The Combined Code on Corporate Governance published by the Financial Reporting Council in June 2006

**Company**
Ferrexpo plc, a public company incorporated in England and Wales with limited liability

**Concentrate**
Material which has been processed to increase the percentage of the valuable mineral to facilitate transportation and downstream processing

**CPI**
Consumer Price Index

**CSR**
Corporate Social Responsibility

**CSR Committee**
The corporate social responsibility committee of the Board of the Company

**DAF**
Delivered at frontier

**Directors**
The directors of the Company

**Dragline excavators**
Heavy excavators used to excavate material A dragline consists of a large bucket which is suspended from a boom

**DTP**
DTP Terassement S A (France)

**EBITDA**
Earnings before interest, tax, depreciation and amortisation

**EPS**
Earnings per share

**Executive Committee**
The executive committee of the Company's Board

**Executive Directors**
The executive directors of the Company

**Fe**
Iron

**Fe yield**
A qualitative measure that is calculated by the percentage of Fe (quantity) contained in ore which results in concentrate

**Ferrexpo**
Ferrexpo plc

**Ferrexpo AG Group**
Ferrexpo AG and its subsidiaries including Ferrexpo Poltava

**Ferrexpo Poltava**
Ferrexpo Poltava GOK Corporation, a company incorporated under the laws of Ukraine

**Fevamotinico S a.r.l.**
A company incorporated with limited liability in Luxembourg

**FOB**
Free on board

**FPM**
Ferrexpo Poltava Mine

**FSU**
The former Union of Soviet Socialist Republics

**FSU Classification**
The classification system and estimation methods for reserves and resources established by FSU and last revised in 1981

**FTSE 250**
Financial Times Stock Exchange top 250 companies

**GAAP**
Generally Accepted Accounting Practice

**GDP**
Gross Domestic Product of the Republic of the Ukraine

**Global offering**
The listing of the Company's Ordinary Shares on the London Stock Exchange announced on 15 June 2007

**GPL**
Gorishne, Plavninskoye and Lavrikovskoye mine

**Group**
The Company and its subsidiaries

**HSE**
Health, safety and environmental

**IAS**
International Accounting Standards

**IASB**
International Accounting Standards Board

**IFRS**
International Financial Reporting Standards, as adopted by the EU

**IPO**
Initial public offering

**Iron ore concentrate**
Product of the flotation process with an enriched iron content

**Iron ore fines**
Fine ground iron ore

**Iron ore pellets**
Dried and hardened agglomerate of iron ore concentrate, whose physical properties are well suited for transportation and downstream processing in a blast furnace

**kg**
kilogramme

**kt**
kilotonnes

**kw**
kilowatt

**kWh**
kilowatt hour

**LIBOR**
The London Inter Bank Offered Rate

**Listing**
The admission of the Companies securities to the Main Market of the London Stock Exchange on 15 June 2007

**Listing Rules**
Rules relating to the admission to the official List maintained by the Financial Services Authority in accordance with the Financial Services and Markets Act 2000

**LLC**
Limited Liability Company

**LSE**
London Stock Exchange

**LTIFR**
Long term Injury Frequency Rate

**LTIP**
The long term incentive plan

**Lump iron ore**
In mining, the term given to naturally occurring high-grade iron ore, consists of (1) soft ore, such as porous hematite and limonite (goethite) with minor magnetite and manganese oxides, and (2) hard ores, such as compact, fine-grained, steel-gray hematite, specular hematite, magnetite, or martite

**Magnetite ore**
A form of iron ore that is metallic, black and strongly ferromagnetic, and therefore susceptible to processing using magnetic separation techniques

**mm**
millimetre

**$m^3$**
Cubic metre

**mt**
Million tonnes

**mtpa**
Million tonnes per annum

**Nominations Committee**
The nominations committee of the Company's Board

**Non-executive Directors**
Non-executive directors of the Company

**OH&S**
Occupational Health & Safety

**OHSAS 18000**
International Safety Standard 'Occupational Health & Safety Management System Specification'

**Open pit**
Surface mining in which the ore is extracted from a pit of quarry

**Ordinary Shares**
Ordinary shares of 10p each in the Company

**Ore**
A mineral or mineral aggregate containing precious or useful minerals in such quantities, grade and chemical combination to make extraction economic

**Output of weight**
A quantitative measure which is the amount of concentrate obtained from one tonne of ore

**Pig iron**
Crude iron obtained directly from the blast furnace and cast in moulds

**PPI**
Ukranian Producer Price Index

**Probable reserves**
Those measured and/or indicated mineral resources which are not yet 'proved', but of which detailed technical and economic studies have demonstrated that extraction can be justified at the time of the determination and under specific economic conditions

**Proved reserves**
Measured mineral resources of which detailed technical and economic studies have demonstrated that extraction can be justified at the time of determination and under specific economic conditions

**Relationship agreement**
The relationship agreement entered into among Fevamotinico S a r l , Kostyantyn Zhevago, The Minco Trust and the Company

# **Glossary** continued

**Remuneration Committee**
The remuneration committee of the Company's Board

**Reserves**
Those parts of mineral resources for which sufficient information is available to enable detailed or conceptual mine planning and for which such planning has been undertaken Reserves are classified as either proved or probable

**ROCE**
Return on capital employed, defined as profit before taxation, finance items and negative goodwill over capital employed

**$/t**
US dollars per tonne

**Sinter**
A porous aggregate charged directly to the blast furnace which is normally produced by firing relatively courser fine iron ore, other materials, and coke breeze as the heat source

**Slag**
Solid waste matter left when metal has been separated from ore by smelting

**Slurry**
Suspension of solids in liquid

**Smelting**
Thermal process whereby molten metal is liberated from a concentrate, with impurities separating into a lighter slag

**Spot price**
The current price of a metal for immediate delivery

**Sterling/£**
UK pound the currency of the United Kingdom

**Strip ratio**
The ratio between the volume of overburden compared to the tonnage of ore mined

**Tailings**
The waste material produced from ore after economically recoverable metals or minerals have been extracted Changes in metal prices and improvements in technology can sometimes make the tailings economic to process at a later date

**TIS-Ruda**
Ukrainian port facility on the Black Sea

**Tolling**
The process by which a customer supplies concentrate to a smelter and the smelter invoices the customer the smelting charge, and possibly a refining charge, and then returns the metal to the customer

**Ton**
A US short ton, equal to 0 9072 metric tonnes

**tonne or t**
Metric tonne

**Ukraine**
The Republic of the Ukraine

**Underlying earnings**
An alternative measure which the Directors believe provided a clearer picture of the underlying financial performance of the Group's operations Underlying earnings is presented as profit attributable to equity shareholders before adjusted items Adjusted items are those items of financial performance that the Group believes should be separately disclosed on the face of the income statement to assist in the understanding of the underlying financial performance achieved by the Group Adjusted items that relate to the operating performance of the Group include impairment charges and reversals and other exceptional items Non-operating adjusting items include profits and losses of investments and businesses as well as IPO costs

**Underlying profit**
Profit for the year after adding back items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business and their resultant tax and minority interest effects

**UAH**
Ukranian hyrivna, the currency of the Republic of the Ukraine

**UGOK**
The name of a separate management company formed temporarily to administer the three major growth projects

**UkrSEPRO**
The quality certification system in Ukraine, regulated by law to ensure conformity with safety and environmental standards

**US$ or dollars**
United States dollars, the currency of the United States of America

**Value in use**
The implied value of a material to an end user to use one material relative to other options, e g comparing performance of several types of iron ore pellets into a blast furnace, taking into account the delivered cost of a material and rates relative to other competition materials on a quality and landed cost adjusted basis

**WMS**
Wet magnetic separation

**WTO**
World Trade Organisation

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